



LIU CHONG HING BANK LIMITED

(Stock Code : 1111)

UNAUDITED CONSOLIDATED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

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 2005, 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 2005 HK\$'000	6 months ended 30 June 2004 HK\$'000 (restated)
Interest income	668,178	502,493
Interest expense	(313,501)	(149,202)
Net interest income	354,677	353,291
Other operating income (Note 5)	102,498	122,148
Operating income	457,175	475,439
Operating expenses (Note 6)	(238,355)	(223,222)
Operating profit before impairment allowances	218,820	252,217
Impairment losses and impairment allowances for impaired assets		
– New allowances	(32,209)	(84,966)
– Amount released	18,440	33,149
Net impairment losses and impairment allowances for impaired assets	(13,769)	(51,817)
Net losses from disposal of property and equipment	(800)	(15)
Gains less losses from disposal of available-for-sale securities	22,353	–
Gains less losses from disposal of other securities and an associate	–	1,176
Profit from operations	226,604	201,561
Share of results of jointly controlled entities	568	5,500
Profit from ordinary activities before taxation	227,172	207,061
Taxation (Note 2)		
– Hong Kong	(33,704)	(38,077)
– Overseas	(177)	(1,031)
– Deferred tax	(1,302)	7,905
Net taxation charge	(35,183)	(31,203)
Profit for the period	191,989	175,858
Dividends	78,300	73,950
Earnings per share, basic and diluted (Note 3)	HK\$0.44	HK\$0.40
Dividend per share	HK\$0.18	HK\$0.17

CONSOLIDATED BALANCE SHEET INFORMATION

	30 June 2005 HK\$'000	31 December 2004 HK\$'000 (restated)
Assets		
Cash and short-term funds	12,041,176	13,606,947
Placements with banks and other financial institutions maturing between one and twelve months	2,325,839	1,544,695
Certificates of deposit held	1,227,486	1,309,515
Trading securities	–	234,663
Securities measured at fair value through profit or loss	971,534	–
Advances and other accounts (including trade bills: HK\$115,533,000; 2004 : HK\$89,366,000)	22,207,914	20,246,034
Held-to-maturity securities	4,966,565	3,388,300
Other securities	–	377,847
Available-for-sale securities	640,119	–
Goodwill	113,865	–
Interest in jointly controlled entities	90,443	68,875
Investment properties	69,360	69,360
Property and equipment	1,262,652	1,264,640
Total assets	<u>45,916,953</u>	<u>42,110,876</u>
Equity and Liabilities		
Deposits and balances of banks and other financial institutions	1,194,556	1,559,633
Deposits from customers (Note 7)	37,717,697	33,951,631
Other accounts and provisions	537,745	279,129
Deferred tax liabilities	107,083	106,109
Taxation	29,894	11,187
Total liabilities	<u>39,586,975</u>	<u>35,907,689</u>
Share capital	<u>217,500</u>	<u>217,500</u>
Reserves		
Share premium	1,542,817	1,542,817
Goodwill	(182)	(182)
Land and buildings revaluation reserve	642,178	643,724
Investment revaluation reserve	124,177	130,689
General reserve	1,388,500	1,388,500
Translation reserve	(480)	(26)
Regulatory reserve	110,682	–
Dividend reserve	78,300	174,000
Retained profits	2,112,797	2,000,120
Current period / year profit	113,689	106,045
Total Reserves	<u>6,112,478</u>	<u>5,985,687</u>
Shareholders' funds	<u>6,329,978</u>	<u>6,203,187</u>
Total liabilities and capital resources	<u>45,916,953</u>	<u>42,110,876</u>

CONSOLIDATED CASH FLOW STATEMENT

	6 months ended 30 June 2005 HK\$'000	6 months ended 30 June 2004 HK\$'000 (restated)
OPERATING ACTIVITIES		
Profit from operations	226,604	201,561
Adjustments for:		
(Increase) decrease in interest receivable and other accounts	(13,832)	167,115
Increase (decrease) in other accounts and provisions	230,789	(92,700)
Net losses from disposal of property and equipment	800	15
Net gains from disposal of other securities	–	(242)
Net gains from disposal of available-for-sale securities	(22,353)	–
Net gains from disposal of an associate	–	(934)
Decrease in impairment allowance against advances and other accounts	(27,843)	(68,205)
Decrease in interest in suspense	–	(7,939)
Dividend income on equity securities	(53,429)	(19,939)
Depreciation	22,820	20,923
Interest income on certificates of deposit held	(10,843)	–
Interest income on investment in securities	(64,304)	(46,904)
Operating cash flows before movements in working capital	<u>288,409</u>	<u>152,751</u>
(Increase) decrease in placements with banks and other financial institutions (with original maturity over three months)	(155,426)	77,645
(Increase) decrease in bills receivable	(77,696)	58,818
Increase in trade bills	(26,167)	(4,421)
Increase in other advances to customers	(1,679,698)	(542,544)
Decrease (increase) in advances to banks and other financial institutions	685	(5,915)
(Increase) decrease in securities measured at fair value through profit and loss	(228,584)	5,023
Increase (decrease) in deposits from customers	3,766,066	(192,938)
Exchange adjustments	(1,401)	2,587
Cash generated from (used in) operations	<u>1,886,188</u>	<u>(448,994)</u>
Hong Kong profits tax paid	(15,296)	(6,479)
Overseas tax paid	(177)	(1,031)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	<u>1,870,715</u>	<u>(456,504)</u>
INVESTING ACTIVITIES		
Interest received on certificates of deposit held	7,952	5,403
Interest received on investment in securities	50,021	32,401
Dividends received on equity securities	53,429	19,939
Purchase of held-to-maturity securities	(3,319,602)	(665,676)
Purchase of certificates of deposit held	(459,950)	(152,377)
Purchase of other securities	–	(63,177)
Purchase of available-for-sale securities	(84,715)	–
Purchase of property and equipment	(22,872)	(16,860)
Purchase of a subsidiary	(122,959)	422
Repayment from (advances to) an associate	–	392,878
Proceeds from disposal of an associate	–	939
Proceeds from disposal of other securities	–	73,000
Proceeds from disposal of available-for-sale securities	61,377	–
Proceeds from redemption of held-to-maturity securities	1,021,641	553,733
Proceeds from redemption of certificates of deposit held	541,979	326,770
Proceeds from disposal of property and equipment	2,008	5,803
NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES	<u>(2,271,691)</u>	<u>513,198</u>
FINANCING		
Ordinary dividend paid	(174,000)	(152,250)
CASH USED IN FINANCING ACTIVITIES	<u>(174,000)</u>	<u>(152,250)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(574,976)</u>	<u>(95,556)</u>
CASH AND CASH EQUIVALENTS AT 1 JANUARY	<u>13,592,009</u>	<u>12,132,622</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE	<u>13,017,033</u>	<u>12,037,066</u>

Notes:

- (1) The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") and Interpretations, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the new HKFRSs and HKASs in the interim financial statements for the period end up to 30 June 2005 and these are as follows:

• HKAS 17 Leases

Leasehold properties were previously stated in the balance sheet at their revalued amounts less subsequent accumulated depreciation and impairment losses, if any. In accordance with HKAS 17, where leasehold properties are held for own use and where the land and buildings elements can be allocated reliably at the inception of the leases, the land element should be treated as an operating lease. Where the two elements cannot be allocated reliably, leasehold properties should continue to be accounted for as finance leases and carried at fair value. As the total costs of acquiring most of the leasehold properties cannot be allocated reliably, they continue to be classified as finance leases. As such, the impact of adopting of HKAS 17 is insignificant.

• HKAS 32 Financial Instruments: Disclosure and Presentation

• HKAS 39 Financial Instruments: Recognition and Measurement

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, de-recognition and disclosure of financial instruments, in particular, loans and advances and securities investment.

Loans and Advances

Provisions for bad and doubtful debts were made in prior periods having regard to both specific and general risks. The specific element of the provisions related to those loans and advances that were individually reviewed and specifically identified as bad or doubtful. The general element of the provisions related to those losses that, although not yet specifically identified, were known from experience to be present in the Bank's portfolio of loans and advances. On adoption of HKAS 32 and HKAS 39, impairment allowances for loans and advances are based on individual and collective impairment assessments. Where objective evidence of impairment exists, the recoverable amount of a loan is calculated as the present value of the expected future cash flows discounted using the original effective interest rate. The difference between the carrying amount and the recoverable amount is recognised as impairment and is charged to profit and loss. The individual impairment assessment applies to those loans that are reviewed individually for impairment. In determining the expected future cash flows of an impaired account that is reviewed individually, due considerations are given to the financial position of the borrower, current economic conditions and the value of the collateral in the open market. The collective impairment assessment applies to losses inherent in the portfolio of loans and advances the impairment of which cannot be individually identified yet. Evaluation is made on a portfolio basis by reference to credit risk characteristics that are indicative of borrowers' ability to pay all amounts in accordance with the contractual terms. Expected future cash flows of loans and advances that are assessed collectively for impairment are estimated on the basis of prior loan loss experience.

Securities Investment

Securities investment were classified into trading securities, held-to-maturity securities and other securities and were stated at fair value or amortised cost. On adoption of HKAS 32 and HKAS 39, securities are now classified into securities measured at fair value through profit and loss, held-to-maturity securities and available-for-sale securities. These securities should be accounted for on a fair value basis except for held-to-maturity securities which are carried at amortised cost. Gains and losses arising from changes in fair value for securities measured at fair value through profit and loss and available-for-sale securities are recognised in the profit and loss account and reserve account respectively.

The changes in accounting policy on adoption of HKAS 39 are applied with effect from 1 January 2005. The opening balance sheet has been restated with net increases in total assets of HK\$117,448,000, retained profits of HK\$4,758,000, and regulatory reserves of HK\$112,690,000. The relevant financial assets and liabilities are re-classified to suit the new definition and requirements of the accounting standard and disclosure requirements. Profit from operation for the current period is increased by HK\$281,000.

• HKAS 40 Investment Property

The adoption of HKAS 40 has resulted in a change in accounting policy for investment property. Changes in valuation of investment properties dealt with in an investment properties revaluation reserve previously are now recognised in the profit and loss account after the adoption of HKAS 40. The change in accounting policy was applied retrospectively. At 31 December 2004, the balance of investment properties revaluation reserves of HK\$34,340,000 was transferred to retained profits. The revaluation movement for the current period is insignificant.

- (2) Hong Kong profits tax is calculated at 17.5% (2004: 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.

- (3) The calculation of earnings per share, basic and diluted, is based on the profit attributable to shareholders of HK\$191,989,000 (2004: HK\$175,858,000) and on 435,000,000 (2004: 435,000,000) ordinary shares in issue during the period.

(4) Business and geographical segments

(i) 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.

(a) Segment information about these businesses for the period ended 30 June 2005 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	384,202	283,886	–	–	668,178
Interest expense to external customers	(298,584)	(14,917)	–	–	(313,501)
Inter-segment income (Note)	109,311	–	–	(109,311)	–
Inter-segment expense (Note)	–	(109,311)	–	109,311	–
Net income	195,019	159,658	–	–	354,677
Other operating income	47,243	12,118	43,137	–	102,498
Operating income	242,262	171,776	43,137	–	457,175
Impairment losses and impairment allowances for impaired assets	(13,769)	–	–	–	(13,769)
Net (losses) gains from disposal of property and equipment	(831)	–	31	–	(800)
Net gain from disposal of available-for-sale securities	–	–	22,353	–	22,353
Operating expenses	(151,696)	(9,251)	(10,346)	–	(171,293)
Segment profit	75,966	162,525	55,175	–	293,666
Unallocated corporate expenses					(67,062)
Profit from operations					226,604
Share of results of jointly controlled entities			568		568
Profit from ordinary activities before taxation					227,172
Net taxation charge					(35,183)
Profit for the period					191,989

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

(b) 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 (restated)
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
Impairment losses and impairment allowances for impaired assets	(51,817)	–	–	–	(51,817)
Net (losses) gains from disposal of property and equipment	(46)	–	31	–	(15)
Net gain from disposal of other 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					(69,553)
Profit from operations					201,561
Share of results of jointly controlled entities			5,500		5,500
Profit from ordinary activities before taxation					207,061
Net taxation charge					(31,203)
Profit for the period					175,858

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

(ii) **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 2004 and 2005, 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.

(5) **Other operating income**

	6 months ended 30 June 2005 HK\$'000	6 months ended 30 June 2004 HK\$'000
Fees and commission income	58,497	64,822
Less: Fees and commission expenses	(1,157)	(1,557)
Net fees and commission income	57,340	63,265
Dividend income	5,972	19,939
Gains less losses from dealing in foreign currencies	12,118	11,703
Gross rental income from properties	2,243	2,140
Less: Outgoings	(322)	(338)
Net rental income	1,921	1,802
Safe deposit box rentals	10,524	10,184
Other banking services income	14,416	14,329
Others	207	926
	<u>102,498</u>	<u>122,148</u>

(6) **Operating expenses**

	6 months ended 30 June 2005 HK\$'000	6 months ended 30 June 2004 HK\$'000
Staff costs		
Salaries and other costs	119,412	111,868
Retirement benefits scheme contributions	9,093	7,653
Total staff costs	128,505	119,521
Depreciation and amortisation	22,820	20,923
Premises and equipment expenses, excluding depreciation		
Rentals and rates for premises	20,868	20,166
Others	7,264	5,324
Other operating expenses	58,898	57,288
	<u>238,355</u>	<u>223,222</u>

(7) **Deposits from customers**

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Demand deposits and current accounts	2,280,945	2,803,982
Savings deposits	7,447,859	8,954,061
Time, call and notice deposits	27,988,893	22,193,588
	<u>37,717,697</u>	<u>33,951,631</u>

(8) Purchase of a subsidiary

On 27 June 2005, the Group acquired 100% of the issued share capital of Chong Hing Insurance Company Limited (formerly known as "Liu Chong Hing Insurance Company Limited"), engaged in general insurance business, for the consideration and other cost of acquisition of HK\$213,369,000. The net assets acquired are as follow:

	6 months ended 30 June 2005 HK\$'000	6 months ended 30 June 2004 HK\$'000
Placements with banks and other financial institutions maturing between one and twelve months	90,410	8,387
Advances and other accounts less provisions	9,473	3,326
Available for sale securities	5,979	–
Interest in jointly controlled entities	21,000	–
Property and equipment	768	6,319
Deferred tax liabilities	–	(232)
Provision for taxation	(299)	–
Other accounts and provisions	(27,827)	(1,142)
Shareholder's loan	–	(15,000)
Share of net assets before acquisition	–	(552)
	<u>99,504</u>	<u>1,106</u>
Goodwill (Negative goodwill) arising on consolidation	113,865	(641)
Shareholder's loan	–	7,500
Total purchase price paid, satisfied in cash	213,369	7,965
Less: Cash and cash equivalents acquired	(90,410)	(8,387)
Net outflow (inflow) of cash and cash equivalents in respect of the purchase of a subsidiary	<u>122,959</u>	<u>(422)</u>

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

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Advances to customers	22,058,301	20,290,219
Advances to banks and other financial institutions	57,527	58,212
Accrued interest and other accounts	256,827	246,801
Impairment loss allowances		
– Individual	(53,831)	–
– Collective	(110,910)	–
Provision for bad and doubtful debts		
– Specific	–	(101,391)
– General	–	(201,876)
Interest in suspense	–	(45,931)
	<u>22,207,914</u>	<u>20,246,034</u>

(2) Gross amount of advances by significant industry sectors

	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Loans for use in Hong Kong		
– Industrial, commercial and financial		
– Property development	2,023,971	1,908,862
– Property investment	4,840,718	4,535,567
– Financial concerns	1,625,490	1,710,024
– Stockbrokers	354,517	332,380
– Wholesale and retail trade	648,723	703,129
– Manufacturing	1,016,718	1,028,883
– Transport and transport equipment	121,332	188,054
– Others	3,642,589	2,901,625
– Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	820,898	902,046
– Loans for the purchase of other residential properties	2,662,410	2,547,051
– Credit card advances	72,550	75,928
– Others	1,150,961	1,039,947
Trade finance	643,428	521,789
Loans for use outside Hong Kong	<u>2,433,996</u>	<u>1,894,934</u>
	<u>22,058,301</u>	<u>20,290,219</u>

(3) Advance to customers and overdue advances - 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		Advances overdue for over three months	
	30 June 2005 HK\$'000	31 December 2004 HK\$'000	30 June 2005 HK\$'000	31 December 2004 HK\$'000
Hong Kong	20,031,693	18,770,951	587,580	795,319
People's Republic of China	382,904	299,049	174,700	17,299
Macau	747,210	256,263	-	-
America	470,557	469,864	-	-
Others	425,937	494,092	-	-
	<u>22,058,301</u>	<u>20,290,219</u>	<u>762,280</u>	<u>812,618</u>

(4) Impaired / non-performing advances to customers

	30 June 2005 HK\$'000	% to total advances	31 December 2004 HK\$'000	% to total advances
Gross impaired advances to customers	651,343	2.95	-	-
Gross non-performing advances to customers	-	-	790,980	3.90
Individual impairment loss allowances	(49,948)	-	-	-
Specific provisions	-	-	(95,142)	-
	<u>601,395</u>	-	<u>695,838</u>	-
Interest in suspense	-	-	45,931	-
Market value of collateral pledged	<u>616,764</u>	-	<u>704,626</u>	-

There were no impaired advances to banks and other financial institutions.

(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:

	30 June 2005			
	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Asia Pacific excluding Hong Kong	5,931,622	271,049	1,236,221	7,438,892
Europe	10,025,299	3,775	310,449	10,339,523
– of which – Germany	3,409,296	2,397	6,192	3,417,885
– United Kingdom	<u>2,668,891</u>	<u>1,231</u>	<u>285,954</u>	<u>2,956,076</u>
	31 December 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>

(6) Overdue and rescheduled advances

	30 June 2005		31 December 2004	
	Gross advances	% to total	Gross advances	% to total
	HK\$'000	advances	HK\$'000	advances
Advances overdue for				
– 6 months or less but over 3 months	112,412	0.5	19,391	0.1
– 1 year or less but over 6 months	43,316	0.2	52,108	0.3
– Over 1 year	<u>606,552</u>	<u>2.7</u>	<u>741,119</u>	<u>3.6</u>
Total overdue advances	762,280	3.4	812,618	4.0
Rescheduled advances	<u>321,864</u>	<u>1.5</u>	<u>438,149</u>	<u>2.2</u>
Total overdue and rescheduled advances	<u>1,084,144</u>	<u>4.9</u>	<u>1,250,767</u>	<u>6.2</u>
Secured overdue amounts	<u>728,336</u>	<u>3.3</u>	<u>727,534</u>	<u>3.6</u>
Unsecured overdue amounts	<u>33,944</u>	<u>0.1</u>	<u>85,084</u>	<u>0.4</u>
Market value of securities held against secured overdue advances	<u>1,024,110</u>		<u>845,862</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 30 June 2005 and 31 December 2004, nor were there any rescheduled advances to banks and other financial institutions.

Repossessed assets held by the Group as at 30 June 2005 amounted to HK\$110,380,000 (2004: HK\$141,850,000).

(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 2005						
	US\$	MOP	JPY	RMB	AUD	CAD	CHF
Equivalent in thousands of HK\$							
Spot assets	9,273,848	268,272	148,828	276,488	1,626,680	334,493	37,810
Spot liabilities	(8,974,181)	(289,113)	(146,860)	(271,904)	(1,948,545)	(332,531)	(36,657)
Forward purchases	128,052	–	6,207	657	321,272	–	1,560
Forward sales	(420,388)	–	(5,998)	–	–	(1,557)	(1,062)
Net long (short) position	<u>7,331</u>	<u>(20,841)</u>	<u>2,177</u>	<u>5,241</u>	<u>(593)</u>	<u>405</u>	<u>1,651</u>
		EUR	GBP	NZD	SGD	Others	Total
Equivalent in thousands of HK\$							
Spot assets		154,204	472,103	986,123	1,323	2,559	13,582,731
Spot liabilities		(149,016)	(474,630)	(1,018,143)	(9)	–	(13,641,589)
Forward purchases		–	2,808	29,956	–	–	490,512
Forward sales		(2,359)	–	–	–	–	(431,364)
Net long (short) position		<u>2,829</u>	<u>281</u>	<u>(2,064)</u>	<u>1,314</u>	<u>2,559</u>	<u>290</u>
							MOP
Net structural position							<u>48,545</u>
					31 December 2004		
		USD	MOP	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>
							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:

	30 June 2005	31 December 2004
	HK\$'000	HK\$'000
Contingent liabilities and commitments		
– Direct credit substitutes	961,483	1,023,725
– Trade-related contingencies	319,152	351,095
– Other commitments	7,434,450	7,106,729
– Forward assets purchases	38,495	50,291
	<u>8,753,580</u>	<u>8,531,840</u>
Derivatives		
– Exchange rate contracts - hedging	<u>48,258</u>	<u>135,335</u>
– Exchange rate contracts - trading	<u>81,805</u>	<u>–</u>
– Interest rate swap contracts - hedging	<u>201,027</u>	<u>387,760</u>
– Interest rate swap contracts - trading	<u>412,112</u>	<u>–</u>

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

	30 June 2005		31 December 2004	
	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	2,418,203	n/a	2,272,921
Exchange rate contracts	429	478	1,015	1,461
Interest rate contracts	<u>47,862</u>	<u>18,473</u>	<u>8,972</u>	<u>3,941</u>
	<u>48,291</u>	<u>2,437,154</u>	<u>9,987</u>	<u>2,278,323</u>

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

(9) Capital adequacy and liquidity ratio

	30 June 2005	31 December 2004
	%	%
Capital adequacy ratio	<u>17.99</u>	<u>19.96</u>
	30 June 2005	30 June 2004
	%	%
Average liquidity ratio for the period	<u>48.73</u>	<u>53.23</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 Banking Corporation, Cayman, Right Way Investments Limited, and Gallbraith 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 Banking Corporation, Cayman, Right Way Investments Limited, and Gallbraith Limited.

(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 2005 HK\$'000	31 December 2004 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>3,307,342</u>	<u>3,208,021</u>
	<u>5,067,659</u>	<u>4,968,338</u>
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	473,563	474,092
Reserves on revaluation of holding of securities not held for trading purposes	37,988	27,771
Collective impairment allowance for impaired assets and regulatory reserve / general provision for doubtful debt	<u>221,592</u>	<u>201,873</u>
Total capital base before deductions	<u>5,800,802</u>	<u>5,672,074</u>
Deductions from total capital base	<u>(456,122)</u>	<u>(281,833)</u>
Total capital base after deductions	<u>5,344,680</u>	<u>5,390,241</u>

COMPLIANCE WITH THE SUPERVISORY POLICY MANUAL "INTERIM FINANCIAL DISCLOSURE BY LOCALLY INCORPORATED AUTHORISED INSTITUTIONS"

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

INTERIM DIVIDEND

The Directors have declared an interim cash dividend for 2005 of HK\$0.18 per share, payable on Thursday, 22 September 2005 to shareholders whose names are on the Register of Members on Friday, 16 September 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Monday, 12 September 2005 to Friday, 16 September 2005 (both days inclusive), during which period no transfer of shares can be registered. In order to qualify for the 2005 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, 9 September 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 six months ended 30 June 2005.

CORPORATE GOVERNANCE

The directors confirm that, for the accounting period for the six months ended 30 June 2005, the Bank has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Corporate Governance Code") except, under the Bank's Articles of Association, one-third (or, if the quotient resulting from the division of the number of directors by three is not a whole number, the number nearest 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. As between persons who became directors on the same day, those to retire shall (unless they otherwise agree between themselves) be determined by drawing lots. And as to those persons additionally appointed as directors or appointed as directors to fill casual vacancies by the board, they shall hold office only until the next following annual general meeting and shall then be eligible for re-election (but not to be taken into account in determining the directors or the number of directors who are to retire by rotation) at that annual general meeting. The directors consider the Bank's practice to be an appropriate alternative to that recommended under A.4.1 and A.4.2 of the Corporate Governance Code in respect of the appointment of non-executive directors for a specific term and the retirement by rotation of directors.

Furthermore, the Bank has adopted a code for securities transactions by directors with terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers under Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Model Securities Transactions Code"). After specific enquiry by the Bank, all of the directors confirmed that, for the accounting period for the six months ended 30 June 2005, they had complied with the required standards as set out in both the Model Securities Transactions Code and the Bank's own code in question.

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

The Bank's Interim Report 2005, as well as this announcement of interim results, containing the relevant information required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

REVIEW AND PROSPECTS

The Hong Kong economy rebounded significantly last year, with the gross domestic product attaining a growth of 8.1 percent over that of the year before - being the highest level since 2000. Market conditions remained strong as 2005 began to unfold. Various economic indicators continued to register conspicuous growth. Export and re-export trades maintained their growth momentum. The Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") effect has gradually attracted those who had earlier moved north to return and set up shops here. The expanded scope of the arrangement for individual travels further promoted the tourism and related industries. The continued growth of domestic demand has facilitated the robust development of the retail and consumption industries. The smooth introduction of immigration measures to attract foreign investments has absorbed considerable migrant capital and new business talents. The increasing desire to invest has further boosted the stock and property markets. Employment conditions have progressively improved and the political climate has tended to have gradually stabilized, hence the marked optimism about the general business environment.

Although Hong Kong was still awash with liquidity during the first quarter of this year, the absorption of large amounts of capital by the frequent large initial public offering exercises and the continual raising of interest rates by the US Federal Reserve Board finally prompted the announcement of interest rate increase by the local banks on 19 May. Funding costs soared in the light of the protracted tightening of the interbank market. Banks raised their mortgage rates and reduced their preferential offers such as cash rebates in droves, thereby moderating the intense competition over the years somewhat. It is expected that this would be conducive to the overall profitability of the industry this year.

The Bank's unaudited, consolidated results for the first half of this year improved markedly in comparison with those of the corresponding period last year. Net interest income rose 0.39 percent to HK\$354.677 million. Operating profit before impairment allowances decreased 13.24 percent to HK\$218.82 million. Impairment allowances newly made for bad and doubtful debts for the first half of this year dropped significantly by 62.09 percent to HK\$32.209 million from HK\$84.966 million for the corresponding period last year. However, the impairment allowances written back during the period fell 44.37 percent to HK\$18.44 million from HK\$33.149 million for the corresponding period last year. As such, impairment allowances for bad and doubtful debts for the first half of this year decreased substantially by 73.43 percent to HK\$13.769 million. Profit attributable to shareholders amounted to HK\$191.989 million, an increase of 9.17 percent. As of 30 June 2005, total customers' deposits increased 11.09 percent to HK\$37.718 billion compared with the corresponding figure as of 31 December 2004. Total loans and advances to customers (after impairment allowances for bad and doubtful debts) increased 9.92 percent to HK\$22.014 billion. Total assets amounted to HK\$45.917 billion, an increase of 9.04 percent. As of 30 June 2005, unadjusted capital adequacy ratio fell 9.87 percent to 17.99 percent against the corresponding ratio of 31 December 2004. Average liquidity ratio for the first half of 2005 dropped 8.45 percent to 48.73 percent against the corresponding ratio for the first half of 2004. As of 30 June 2005, loan-to-deposit ratio stood at 51.64 percent, a slight decrease of 0.02 percent against the corresponding ratio as of 31 December 2004. Earnings per share for the first half of 2005 amounted to HK\$0.44, an increase of HK\$0.04 per share over the corresponding figure for the first half of 2004. The increase in profit is due mainly to the continual rebound of the economy as a whole, the maintenance of the upward momentum of the property market, the decent performance of the mortgage and commercial credit businesses, not to mention the significant reduction in impairment allowances for bad and doubtful debts brought about by the progressive improvement in loan quality.

Looking ahead, although the ushering in of Hong Kong's interest rate hiking cycle in tandem with that of the United States has affected investment sentiments somewhat, real interest rates are still low compared with their record highs. It is generally believed that the pace of rate hikes will crest early next year and interest rates can be expected to start resuming a falling track come the second quarter or the mid-year. Currently, the active yet highly speculative property market and the rapid expansion of the economy have created an overheated environment. The increase in interest rates should therefore be looked upon as a means of timely consolidation which is conducive to the long-term healthy development of the market in the future.

The swift recovery of the Hong Kong economy has accounted for the increase in government revenue, thereby significantly easing the pressure of fiscal deficit. With the successful election of the new Chief Executive, the political scene has become clearer. In order to clinch the advantages for Hong Kong's long-term development, the Central Government is continuing to introduce such supportive measures as CEPA, relaxation of restrictions for individual travels as well as investments by mainland companies in Hong Kong, and plans to foster closer cooperation in the Pan Pearl River Delta area (comprising nine provinces and two Special Administrative Regions). The people of Hong Kong should therefore seize this critical moment and stride forward by continuing to live up to the unfailing "Hong Kong spirit" of perseverance, untiring hard work and incessant self-improvement.

In view of traditional bank credit's evernarrowing interest margins, which threaten to a certain extent the profit prospects for the industry, the Bank has thus endeavoured to actively look for opportunities to increase non-interest income. Having successfully acquired Chong Hing Insurance Company Limited from its parent company, Liu Chong Hing Investment Limited, on 27 June, the Bank will continue to look for the best possible investment opportunities, while further enhancing the development of its different business lines.

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 Lin, Mr Andrew Chiu Wing Tsang and Mr George Har Kar Wong; the non-executive directors are Mr Liu Guoyuan, Mr Timothy George Freshwater, Mr Toshiaki Arai, Mr Andrew Liu, Mr Sun Jiakang, Mr Christopher Kwun Shing Liu and Mr Alfred Cheuk Yu Chow; and the independent non-executive directors are Dr Robin Yau Hing Chan, Mr Wanchai Chiranakhom and Mr Cheng Yuk Wo.

By Order of the Board
Liu Lit Man
Executive Chairman

17 August 2005

Please also refer to the published version of this announcement in the South China Morning Post.