



# LIU CHONG HING BANK LIMITED

(Stock Code : 1111)

## 2005 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 2005, together with the comparative figures for the corresponding year in 2004 are as follows:

	2005 HK\$'000	2004 HK\$'000 (restated)
Interest income	1,719,338	990,813
Interest expense	<u>(966,486)</u>	<u>(341,316)</u>
Net interest income	752,852	649,497
Other operating income (Note 7)	<u>217,129</u>	<u>268,053</u>
Operating income	969,981	917,550
Operating expenses (Note 8)	<u>(493,129)</u>	<u>(457,214)</u>
Operating profit before impairment allowances/provisions, fair value adjustments and disposal of long-term assets	476,852	460,336
Charge for bad and doubtful debts		
– New provisions	–	(105,170)
– Amounts released	–	53,995
Net charge for bad and doubtful debts	–	(51,175)
Impairment allowances for impaired loans		
– New allowances	(110,065)	–
– Amounts released	<u>42,258</u>	<u>–</u>
Net impairment allowances for impaired loans	(67,807)	–
Net gain on disposal of property and equipment	1,150	4,912
Net gain on disposal of available-for-sale securities	47,534	–
Net gain on disposal of other securities and an associate	–	3,863
Net gain on fair value adjustment on investment properties	7,500	–
Net loss on liquidation of a subsidiary	<u>(4)</u>	<u>–</u>
Profit from operations	465,225	417,936
Share of results of jointly controlled entities	<u>3,576</u>	<u>11,319</u>
Profit before taxation	468,801	429,255
Taxation (Note 4)		
– Hong Kong	(75,457)	(61,273)
– Overseas	(727)	(2,996)
– Deferred tax	<u>5,366</u>	<u>(5,129)</u>
Net taxation charge	(70,818)	(69,398)
Profit for the year	<u>397,983</u>	<u>359,857</u>
Dividends	<u>261,000</u>	<u>247,950</u>
Earnings per share, basic and diluted (Note 5)	<u>HK\$0.91</u>	<u>HK\$0.83</u>
Dividend per share	<u>HK\$0.60</u>	<u>HK\$0.57</u>

## CONSOLIDATED BALANCE SHEET INFORMATION

	2005 HK\$'000	2004 HK\$'000 (restated)
<b>Assets</b>		
Cash and short-term funds	11,798,479	13,606,947
Placements with banks and other financial institutions maturing between one and twelve months	2,029,416	1,544,695
Trading securities	–	234,663
Financial assets designated at fair value through profit or loss	854,767	–
Available-for-sale securities	801,769	–
Held-to-maturity securities	9,192,906	3,388,300
Other securities	–	377,847
Certificates of deposit held	–	1,309,515
Advances and other accounts (including trade bills: HK\$131,549,000; 2004: HK\$89,366,000)	24,508,061	20,246,034
Interests in jointly controlled entities	65,710	37,875
Loan to a jointly controlled entity	31,000	31,000
Investment properties	76,860	69,360
Property and equipment	196,760	190,005
Prepaid lease payments for land	300,969	306,039
Deferred tax assets	6,449	18,951
Goodwill	110,606	–
Total assets	<u>49,973,752</u>	<u>41,361,231</u>
<b>Equity and Liabilities</b>		
Deposits and balances of banks and other financial institutions	2,263,504	1,559,633
Deposits from customers (Note 9)	41,506,292	33,951,631
Other accounts and accruals	340,496	279,129
Current tax liabilities	30,324	11,187
Total liabilities	<u>44,140,616</u>	<u>35,801,580</u>
Share capital	<u>217,500</u>	<u>217,500</u>
Reserves		
Share premium	1,542,817	1,542,817
Goodwill	(182)	(182)
Investment property revaluation reserve	–	29,022
Investment revaluation reserve	163,125	130,689
General reserve	1,388,500	1,388,500
Translation reserve	(1,691)	(26)
Regulatory reserve	122,837	–
Retained profits	2,400,230	2,251,331
Total Reserves	<u>5,615,636</u>	<u>5,342,151</u>
Shareholders' funds	<u>5,833,136</u>	<u>5,559,651</u>
Total liabilities and shareholders' equity	<u>49,973,752</u>	<u>41,361,231</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	Regulatory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2005											
as originally stated	217,500	1,542,817	(182)	34,340	644,108	130,689	1,388,500	(26)	-	2,245,680	6,203,426
Effect of changes in accounting policies (see Note 3)	-	-	-	(5,318)	(644,108)	-	-	-	-	5,851	(643,775)
as restated	217,500	1,542,817	(182)	29,022	-	130,689	1,388,500	(26)	-	2,251,331	5,559,651
Effect of initial application of HKAS 39	-	-	-	-	-	-	-	-	-	96,390	96,390
Effect of initial application of HKAS 40	-	-	-	(29,022)	-	-	-	-	-	29,022	-
Effect of initial application of HKFRS 3	-	-	-	-	-	-	-	-	-	641	641
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	-	103,883*	(103,883)	-
As restated on 1 January 2005	217,500	1,542,817	(182)	-	-	130,689	1,388,500	(26)	103,883	2,273,501	5,656,682
Revaluation gains	-	-	-	-	-	55,995	-	-	-	-	55,995
Exchange differences arising from translation of foreign operations	-	-	-	-	-	-	-	(1,665)	-	-	(1,665)
Earmark of retained profits as regulatory reserve	-	-	-	-	-	-	-	-	18,954	(18,954)	-
Net income recognised directly in equity	-	-	-	-	-	55,995	-	(1,665)	18,954	(18,954)	54,330
Profit for the year	-	-	-	-	-	-	-	-	-	397,983	397,983
Reversal of reserves upon disposal	-	-	-	-	-	(23,559)	-	-	-	-	(23,559)
Total recognised income for the year	-	-	-	-	-	32,436	-	(1,665)	18,954	379,029	428,754
Interim dividend paid	-	-	-	-	-	-	-	-	-	(78,300)	(78,300)
Final dividend paid	-	-	-	-	-	-	-	-	-	(174,000)	(174,000)
At 31 December 2005	<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>-</u>	<u>-</u>	<u>163,125</u>	<u>1,388,500</u>	<u>(1,691)</u>	<u>122,837</u>	<u>2,400,230</u>	<u>5,833,136</u>
At 1 January 2004											
as originally stated	217,500	1,542,817	(182)	29,344	572,240	74,473	1,388,500	2,586	-	2,117,130	5,944,408
Effect of changes in accounting policies (see Note 3)	-	-	-	(4,707)	(572,240)	-	-	-	-	544	(576,403)
as restated	217,500	1,542,817	(182)	24,637	-	74,473	1,388,500	2,586	-	2,117,674	5,368,005
Revaluation gains	-	-	-	4,996	-	52,616	-	-	-	-	57,612
Deferred taxation arising from revaluation gains	-	-	-	(611)	-	-	-	-	-	-	(611)
Exchange differences arising from translation of foreign operations	-	-	-	-	-	-	-	953	-	-	953
Net income recognised directly in equity	-	-	-	4,385	-	52,616	-	953	-	-	57,954
Profit for the year	-	-	-	-	-	-	-	-	-	359,857	359,857
Reversal of reserves upon disposal	-	-	-	-	-	3,600	-	(3,565)	-	-	35
Total recognised income for the year	-	-	-	4,385	-	56,216	-	(2,612)	-	359,857	417,846
Interim dividend paid	-	-	-	-	-	-	-	-	-	(73,950)	(73,950)
Final dividend paid	-	-	-	-	-	-	-	-	-	(152,250)	(152,250)
At 31 December 2004	<u>217,500</u>	<u>1,542,817</u>	<u>(182)</u>	<u>29,022</u>	<u>-</u>	<u>130,689</u>	<u>1,388,500</u>	<u>(26)</u>	<u>-</u>	<u>2,251,331</u>	<u>5,559,651</u>

- \* In compliance with Hong Kong Monetary Authority's requirements, impairment losses and allowances for impaired loans written back to retained profits amounting to HK\$103,883,000 have been transferred to regulatory reserve. The regulatory reserve is distributable to shareholders of the Bank subject to consultation with the Hong Kong Monetary Authority.
- The retained earnings include proposed/declared final dividends of HK\$182,700,000 (2004: HK\$174,000,000).

**Notes:**

**(1) Statutory Financial Statements**

The financial information in this final results announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2005 but is derived from those financial statements.

The accounting policies and methods of computation used in the preparation of these final results are consistent with those adopted in the preparation of the Group's annual statutory financial statements for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of all applicable new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (new "HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005.

**(2) Application of Hong Kong Financial Reporting Standards/Changes in Accounting Policies**

**(2A) Application of Hong Kong Financial Reporting Standards**

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity.

The application of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

**Owner-occupied leasehold interest in land**

In previous years, owner-occupied leasehold land and buildings were included in property and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably. Upon application of HKAS 17, all the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact). Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property and equipment.

**Investment properties**

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in profit or loss for the year in which they arise. In previous years, investment properties under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in the investment property revaluation reserve at 1 January 2005 has been transferred to the Group's retained profits (see Note 3 for the financial impact).

**Deferred taxes related to investment properties**

In previous years, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current year, the Group has applied HK(SIC) Interpretation 21 "Income Taxes - Recovery of Revalued Non-Depreciable Assets" which removes the presumption that the carrying amount of investment properties is to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HK(SIC) Interpretation 21, this change in accounting policy has been applied retrospectively.

## **Business combinations**

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

### *Goodwill*

In previous years, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of HK\$182,000 as at 1 January 2005 continues to be held in reserves and will be transferred to the retained earnings of the Group at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on 1 January 2005 (of which negative goodwill of HK\$641,000 was previously presented as a deduction from assets). A corresponding adjustment to the Group's retained earnings of HK\$641,000 has been made.

Goodwill arising on acquisition after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see Note 3 for the financial impact).

## **Financial Instruments**

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on how the results for the current or prior accounting years are prepared. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis.

### *Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "other securities" or "held-to-maturity securities" as appropriate. Both "trading securities" and "other securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "other securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for that period.

From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

### *Financial assets and financial liabilities other than debt and equity securities*

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

### *Debt and equity securities*

On 1 January 2005, the Group applied the relevant transitional provisions in HKAS 39 and reclassified its previous carrying amounts of trade securities of HK\$234,663,000, held-to-maturity securities of HK\$3,388,300,000, other securities of HK\$377,847,000, and certificates of deposit held of HK\$1,309,515,000 into various classes of financial assets. The reclassification resulted in the categorization and restatement into financial assets designated at fair value through profit or loss at HK\$746,084,000, available-for-sale securities at HK\$596,372,000, and held-to-maturity securities at HK\$3,973,361,000.

The effect of fair value adjustments relating to the abovementioned reclassification and restatement increased the retained profits as at 1 January 2005 by HK\$4,758,000, comprising the effect relating to financial assets designated at fair value through profit and loss amounted to HK\$2,400,000, and that relating to available-for-sale assets amounted to HK\$2,358,000.

### *Advances to customers*

In prior years, advances to customers, Group and other financial institutions and accrued interest and other accounts are stated in the balance sheet after deducting provision for estimated losses.

Provisions for bad and doubtful debts are made, having regard to both specific and general risks.

The specific element of the provision relates to those loans that have been individually reviewed and specifically identified as bad or doubtful. Factors which considered include expected cash flows, financial condition of the borrower and current economic conditions. The general element of the provision relates to those losses that, although not yet specifically identified, are known from experience to be present in the Group's portfolio of loans and advances. In determining the level of the provision required, management considers numerous factors including, but not limited to, domestic and international economic condition, the composition of the loan portfolio and prior loan loss experience.

From 1 January, 2005 onwards following the adoption of HKAS 39, an impairment loss is recognised when there is objective evidence of impairment as a result of the occurrence of loss events that will impact on the estimated future cash flows.

Individual impairment allowances are assessed by a discounted cash flow method for loans and advances that are individually significant and have objective evidence of impairment. The individual impairment allowances are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate.

On collective impairment, individually insignificant advances or advances where no impairment has been identified individually are assessed on the basis of contractual cash flows and historical loss experience adjusted for current conditions.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

The Group has applied the transitional rules in HKAS 39. At 1 January, 2005, specific provision was fully reversed and individual impairment allowances were made resulting in a net increasing effect of HK\$39,118,000 on the previous carrying amount. Similarly, at 1 January, 2005, general provision was fully reversed and collective impairment allowances were made resulting in a net decreasing effect of HK\$102,102,000 on the previous carrying amount. In addition, the brought forward balance of HK\$45,931,000 in interest-in-suspense account was fully written back on 1 January, 2005. The combined effect of the above changes was a reduction of the previous carrying amount of the total provision for bad and doubtful debts or a corresponding increase of the previous carrying amount of advances and other accounts of HK\$108,915,000 with an increasing effect of the same amount on the retained profit.

In addition, a regulatory reserve has been set up in compliance with Hong Kong Monetary Authority's requirements by setting aside HK\$103,883,000 on 1 January 2005.

Due to the abovementioned full reversal of general provision of HK\$102,102,000 on adoption of HKAS 39, the related deferred tax asset amounting to HK\$17,868,000 was reversed accordingly and the retained profit was decreased by the same amount as at 1 January 2005.

### *Derivatives and hedging*

By 31 December 2004, financial derivative products, which include forward contracts, interest rate swaps and similar derivative products, are recognised on a trade-date basis and are initially measured at cost. Financial derivative products outstanding at the year end, except for those designated as hedges, are valued at fair value, with unrealised gains and losses included in the income statement. Gains and losses related to those derivative products that are designated as hedges are dealt with in accordance with the accounting treatment applicable to the position hedged and there is no offsetting of assets and liabilities until the position is closed. To qualify as a hedge, the derivative is expected to be effective in reducing the price or interest rate risk of the asset, liability or anticipated transaction to which it is linked and be designated as a hedge at inception of the derivative contract. Accordingly, changes in the market value of the derivative are expected to be highly correlated with changes in the market value of the underlying hedged item at inception of the hedge and over the life of the hedge contract. The financial derivative products of the Group are mainly used for hedging purposes.

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

On 1 January 2005, the Group applied the relevant transitional provisions in HKAS 39 and recognised the derivative financial instruments, not held for hedging purpose, as financial assets/liabilities designated at fair value through profit and loss on balance sheet. That resulted in the recognition of financial assets designated at fair value through profit or loss amounting to HK\$734,000. In addition, financial liabilities designated at fair value through profit or loss HK\$149,000 was recognised and included in other accounts and accruals.

The net effect of the abovementioned recognition of derivative financial instruments amounted to an increase in retained profits as at 1 January 2005 of HK\$585,000.

## **(2B) Change of Accounting Policy for Property and Equipment**

In the current year, the Group has elected to use the cost model to account for its buildings held for own use, consistent with the measurement basis of the Group's interest in leasehold lands. Under the cost model, the buildings are carried at cost less accumulated depreciation and accumulated impairment losses (if any).

In previous years, buildings held for own use are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent accumulated impairment losses. Buildings held under the predecessor Standard were measured at open market values, with revaluation surplus or deficits credited or charged to property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation surplus subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged.

The Group have applied this change in accounting policy has resolved to carry the buildings at cost retrospectively. As a result, the carrying amount of property and equipment and the related deferred tax liabilities have been restated (see Note 3 for the financial impact).

### (3) Summary of the effects of the changes in accounting policies

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005 HK\$'000	2004 HK\$'000
Decrease in negative goodwill released to income	(213)	–
Non-amortisation of goodwill	2,750	–
Gain on disposal of property and equipment	1,962	4,954
Gain on fair value adjustment of investment properties	7,500	–
Increase in operating expenses relating to prepaid lease payments for land	(5,063)	(5,063)
Reversal of depreciation of land and buildings	12,617	10,191
(Decrease) increase in deferred tax assets	(4,335)	772
Increase in interest income relating to impaired loans	21,224	–
Increase in impairment allowance – individual assessment	(21,955)	–
Decrease in impairment allowance – collective assessment	3,317	–
Decrease in fair value changes of derivatives	(372)	–
Increase in profit for the year	<u>17,432</u>	<u>10,854</u>

Analysis of increase in profit for the year by line items presented according to their function

	2005 HK\$'000	2004 HK\$'000
Increase in interest income	21,224	–
Decrease in other operating income	(585)	–
Decrease in operating expenses	7,554	5,128
Increase in gain on fair value adjustment on investment properties	7,500	–
Increase in gain on disposal of property and equipment	1,962	4,954
Increase in impairment allowance on loans and advances	(18,638)	–
Non-amortisation of goodwill	2,750	–
(Increase) decrease in taxation	<u>(4,335)</u>	<u>772</u>
Increase in profit for the year	<u>17,432</u>	<u>10,854</u>

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

Balance Sheet Items	As at				As at				As at 1 January 2005 HK\$'000
	31 December 2004 HK\$'000 (originally stated)	HKAS 16 HK\$'000	HKAS 17 HK\$'000	HK (SIC) - Int 21 HK\$'000	31 December 2004 HK\$'000 (restated)	HKFRS 3 HLS'000	HKAS 39 HK\$'000	HKAS 40 HK\$'000	
Trading securities	234,663	–	–	–	234,663	–	(234,663)	–	–
Financial assets designated at fair value through profit or loss	–	–	–	–	–	–	745,350	–	745,350
Available-for-sale securities	–	–	–	–	–	–	596,372	–	596,372
Held-to-maturity securities	3,388,300	–	–	–	3,388,300	–	585,061	–	3,973,361
Other securities	377,847	–	–	–	377,847	–	(377,847)	–	–
Certificates of deposit held	1,309,515	–	–	–	1,309,515	–	(1,309,515)	–	–
Advances and other accounts	20,246,034	–	–	–	20,246,034	641	109,649	–	20,356,324
Property and equipment	1,264,949	(16,984)	(1,057,960)	–	190,005	–	–	–	190,005
Prepaid lease payments for land	–	–	306,039	–	306,039	–	–	–	306,039
Other accounts and accruals	(279,129)	–	–	–	(279,129)	–	(149)	–	(279,278)
Deferred tax (liabilities) assets	(106,179)	(2,093)	132,433	(5,210)	18,951	–	(17,868)	–	1,083
<b>Total effect on assets and liabilities</b>	<u>26,436,000</u>	<u>(19,077)</u>	<u>(619,488)</u>	<u>(5,210)</u>	<u>25,792,225</u>	<u>641</u>	<u>96,390</u>	<u>–</u>	<u>25,889,256</u>
Retained profits	2,245,680	(28,991)	34,534	108	2,251,331	641	(7,493)	29,022	2,273,501
Investment property revaluation reserve	34,340	–	–	(5,318)	29,022	–	–	(29,022)	–
Land and buildings revaluation reserve (in relation to leasehold land)	644,108	9,914	(654,022)	–	–	–	–	–	–
Regulatory reserve	–	–	–	–	–	–	103,883	–	103,883
<b>Total effect on equity</b>	<u>2,924,128</u>	<u>(19,077)</u>	<u>(619,488)</u>	<u>(5,210)</u>	<u>2,280,353</u>	<u>641</u>	<u>96,390</u>	<u>–</u>	<u>2,377,384</u>



- (4) Hong Kong profits tax is calculated at 17.5% (2004: 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.
- (5) The calculation of earnings per share, basic and diluted, is based on the profit attributable to shareholders of HK\$397,983,000 (2004 (restated): HK\$359,857,000) and on 435,000,000 (2004: 435,000,000) ordinary shares in issue during the year.

## (6) 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 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, autopay 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, insurance, other investment advisory services and property investment.

(a) Segment information about these businesses for the year ended 31 December 2005 is presented below:

### INCOME STATEMENT

	Corporate and retail banking	Treasury and foreign exchange activities	Other business activities	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income from external customers	997,780	721,558	–	–	1,719,338
Interest expense to external customers	(914,949)	(51,537)	–	–	(966,486)
Inter-segment income (Note)	333,259	–	–	(333,259)	–
Inter-segment expense (Note)	–	(333,259)	–	333,259	–
Net interest income	416,090	336,762	–	–	752,852
Other operating income	74,945	27,737	114,447	–	217,129
Operating income	491,035	364,499	114,447	–	969,981
Impairment allowances for impaired loans	(67,807)	–	–	–	(67,807)
Net (loss) gain on disposal of property and equipment	(909)	–	2,059	–	1,150
Net gain on disposal of available-for-sale securities	–	–	47,534	–	47,534
Net loss on liquidation of a subsidiary	–	–	(4)	–	(4)
Net gain on fair value adjustment on investment properties	–	–	7,500	–	7,500
Operating expenses	(324,108)	(19,445)	(27,890)	–	(371,443)
Segment profit	98,211	345,054	143,646	–	586,911
Unallocated corporate expenses					(121,686)
Profit from operations					465,225
Share of results of jointly controlled entities			3,576		3,576
Profit before taxation					468,801
Taxation					(70,818)
Profit for the year					397,983

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

(a) Segment information about these businesses as at 31 December 2005 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
<b>Assets</b>				
Segment assets	25,043,584	23,035,716	1,568,108	49,647,408
Interests in jointly controlled entities	–	–	65,710	65,710
Loan to a jointly controlled entity	–	–	31,000	31,000
Unallocated corporate assets				229,634
Consolidated total assets				<u>49,973,752</u>
<b>Liabilities</b>				
Segment liabilities	42,035,905	1,733,891	92,061	43,861,857
Unallocated corporate liabilities				278,759
Consolidated total liabilities				<u>44,140,616</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	17,092	118	1,955	26,236	45,401
Depreciation	18,438	312	2,009	14,846	35,605
Amortisation	3,751	–	–	1,312	5,063

(b) 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 (restated)
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 interest 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 (loss) gain on disposal of property and equipment	(122)	–	5,034	–	4,912
Net gain on disposal of other securities and an associate	–	–	3,863	–	3,863
Operating expenses	(285,129)	(19,094)	(27,695)	–	(331,918)
Segment profit	<u>162,662</u>	<u>254,816</u>	<u>125,754</u>	–	543,232
Unallocated corporate expenses					(125,296)
Profit from operations					417,936
Share of results of jointly controlled entities			11,319		11,319
Profit before taxation					429,255
Taxation					(69,398)
Profit for the year					<u>359,857</u>

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

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 (restated)
<b>Assets</b>				
Segment assets	20,728,257	19,649,998	686,045	41,064,300
Interests in jointly controlled entities	–	–	37,875	37,875
Loan to a jointly controlled entity	–	–	31,000	31,000
Unallocated corporate assets				228,056
Consolidated total assets				<u>41,361,231</u>
<b>Liabilities</b>				
Segment liabilities	33,988,496	1,522,769	99,159	35,610,424
Unallocated corporate liabilities				191,156
Consolidated total liabilities				<u>35,801,580</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 (restated)
Capital additions	31,600	103	373	23,462	55,538
Depreciation	17,488	647	4,268	16,381	38,784
Amortisation	<u>3,751</u>	<u>–</u>	<u>–</u>	<u>1,312</u>	<u>5,063</u>

### (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 years 2004 and 2005, more than 90% of the Group's revenue and profit 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.

### (7) Other operating income

	2005 HK\$'000	2004 HK\$'000
Fees and commission income	118,679	129,811
Less: Fees and commission expense	(2,231)	(3,197)
Net fees and commission income	116,448	126,614
Dividend income	10,243	53,429
Net gains on dealing in foreign currencies	27,737	27,562
Net gains on sale of trading securities	–	562
Net gains on financial assets designated at fair value through profit or loss		
– net realised losses	(52)	–
– net unrealised gains	703	–
Gross rents from properties	4,384	4,349
Less: Outgoings	(649)	(592)
Net rental income	3,735	3,757
Safe deposit box rentals	22,255	22,310
Insurance underwriting	5,671	–
Other banking services income	30,528	33,259
Others	(139)	560
	<u>217,129</u>	<u>268,053</u>

**(8) Operating expenses**

	2005 HK\$'000	2004 HK\$'000 (restated)
Amortisation of prepaid lease payments for land	5,063	5,063
Auditors' remuneration	2,442	2,004
Staff costs		
Salaries and other costs	251,349	225,979
Retirement benefits scheme contributions	18,901	17,249
Total staff costs	270,250	243,228
Depreciation	35,605	38,784
Premises and equipment expenses, excluding depreciation/amortisation		
Rentals and rates for premises	42,054	40,741
Others	12,207	12,622
Other operating expenses	125,508	114,772
	<u>493,129</u>	<u>457,214</u>

**(9) Deposits from customers**

	2005 HK\$'000	2004 HK\$'000
Demand deposits and current accounts	2,144,820	2,803,982
Savings deposits	6,462,001	8,954,061
Time, call and notice deposits	32,899,471	22,193,588
	<u>41,506,292</u>	<u>33,951,631</u>

**(10) Acquisition 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") for consideration of HK\$213,369,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$110,606,000.

	2005 HK\$'000
Net assets acquired at fair value	110,606
Placements with banks and other financial institutions maturing between one and three months	90,410
Advances and other accounts less impairment	9,473
Available-for-sale securities	30,238
Property and equipment	768
Current tax liabilities	(299)
Other accounts and accruals	(27,827)
	<u>102,763</u>
Goodwill arising on acquisition	110,606
Total purchase price paid, satisfied in cash	213,369
Less: Cash and cash equivalents acquired	(90,410)
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>122,959</u>

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

	2005 HK\$'000	2004 HK\$'000
Advances to customers	24,296,644	20,290,219
Advances to banks and other financial institutions	57,209	58,212
Interest receivable and other accounts	340,781	246,801
Impairment allowances for impaired assets		
– Individual assessment	(54,640)	–
– Collective assessment	(131,933)	–
Provision for bad and doubtful debts		
– Specific	–	(101,391)
– General	–	(201,876)
Interest in suspense	–	(45,931)
	<u>24,508,061</u>	<u>20,246,034</u>

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

	2005 HK\$'000	2004 HK\$'000
Loans for use in Hong Kong		
– Industrial, commercial and financial		
– Property development	1,609,344	1,908,862
– Property investment	5,853,131	4,535,567
– Financial concerns	1,229,845	1,710,024
– Stockbrokers	321,693	332,380
– Wholesale and retail trade	569,231	703,129
– Manufacturing	839,950	1,028,883
– Transport and transport equipment	210,865	188,054
– Others	4,461,475	2,901,625
– Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	790,925	902,046
– Loans for the purchase of other residential properties	3,403,990	2,547,051
– Credit card advances	125,134	75,928
– Others	1,222,148	1,039,947
Trade finance	653,624	521,789
Loans for use outside Hong Kong	<u>3,005,289</u>	<u>1,894,934</u>
	<u>24,296,644</u>	<u>20,290,219</u>

**(3) Advances 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	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong	21,712,908	18,770,951	510,679	795,319
People's Republic of China	346,814	299,049	165,146	17,299
Macau	1,131,352	256,263	–	–
America	554,673	469,864	–	–
Others	550,897	494,092	–	–
Total	<u>24,296,644</u>	<u>20,290,219</u>	<u>675,825</u>	<u>812,618</u>

**(4) Impaired/non-performing advances to customers**

	2005 HK\$'000	% to total advances	2004 HK\$'000	% to total advances
Gross impaired loans	642,788	2.65	–	
Gross non-performing loans	–		790,980	3.90
Less: Impairment allowances under individual assessment	(54,640)		–	
Less: Specific provisions	–		(95,142)	
Net impaired/non-performing loans	<u>588,148</u>		<u>695,838</u>	
Interest in suspense	–		45,931	
Market value of collateral pledged	<u>617,345</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:

	<b>2005</b>			
	<b>Banks and other financial institutions</b>	<b>Public sector entities</b>	<b>Others</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Asia Pacific excluding Hong Kong	6,544,341	63,428	1,188,122	7,795,891
– of which – Australia	3,053,656	1,077	102,101	3,156,834
North and South America	1,490,869	16,235	991,315	2,498,419
Europe	11,244,111	2,259	383,957	11,630,327
– of which – United Kingdom	2,696,447	1,099	356,529	3,054,075
– of which – Germany	<u>3,666,446</u>	<u>999</u>	<u>8,603</u>	<u>3,676,048</u>
	<b>2004</b>			
	<b>Banks and other financial institutions</b>	<b>Public sector entities</b>	<b>Others</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
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**

	<b>2005</b>		<b>2004</b>	
	<b>Gross amount of advances</b>	<b>% to total advances</b>	<b>Gross amount of advances</b>	<b>% to total advances</b>
	<b>HK\$'000</b>		<b>HK\$'000</b>	
Advances overdue for				
– 6 months or less but over 3 months	62,520	0.3	19,391	0.1
– 1 year or less but over 6 months	24,381	0.1	52,108	0.3
– Over 1 year	<u>588,924</u>	<u>2.4</u>	<u>741,119</u>	<u>3.6</u>
Total overdue advances	675,825	2.8	812,618	4.0
Rescheduled advances	<u>300,473</u>	<u>1.2</u>	<u>438,149</u>	<u>2.2</u>
Total overdue and rescheduled advances	<u>976,298</u>	<u>4.0</u>	<u>1,250,767</u>	<u>6.2</u>
Secured overdue amounts	<u>655,448</u>	<u>2.7</u>	<u>727,534</u>	<u>3.6</u>
Unsecured overdue amounts	<u>20,377</u>	<u>0.1</u>	<u>85,084</u>	<u>0.4</u>
Market value of securities held against secured overdue advances	<u>977,315</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 31 December 2005 and 31 December 2004, nor were there any rescheduled advances to banks and other financial institutions.

Repossession assets held by the Group as at 31 December 2005 amounted to HK\$146,822,000 (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:

	2005			
	US\$	MOP	RMB	Total
Equivalent in thousands of HK\$				
Spot assets	10,218,181	84,168	302,187	10,604,536
Spot liabilities	(10,120,222)	(74,005)	(294,232)	(10,488,459)
Forward purchases	72,533	–	–	72,533
Forward sales	(156,901)	(4,004)	–	(160,905)
Net long position	<u>13,591</u>	<u>6,159</u>	<u>7,955</u>	<u>27,705</u>
Net structural position				<u>MOP</u> <u>48,545</u>

  

	2004			
	US\$	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>
Net structural position				<u>MOP</u> <u>48,545</u>

## (8) Contingent Liabilities and Commitments

	2005	2004
	HK\$'000	HK\$'000
Contingent liabilities and commitments – contractual amounts		
– Direct credit substitutes	972,847	1,023,725
– Trade-related contingencies	371,150	351,095
– Other commitments	7,896,143	7,106,729
– Capital commitments	<u>369,588</u>	<u>50,291</u>
	<u>9,609,728</u>	<u>8,531,840</u>
Derivatives – notional amounts		
– Exchange rate contracts	<u>111,566</u>	<u>135,335</u>
– Interest rate swap contracts	<u>657,654</u>	<u>387,760</u>

The replacement cost and credit risk weighted amounts of the above contingent liabilities, commitments and derivatives exposures are as follows:

	2005		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	2,820,689	n/a	2,272,921
Exchange rate contracts	451	514	1,015	1,461
Interest rate contracts	<u>45,607</u>	<u>17,490</u>	<u>8,972</u>	<u>3,941</u>
	<u>46,058</u>	<u>2,838,693</u>	<u>9,987</u>	<u>2,278,323</u>

The derivative financial instruments including exchange rate contracts and interest rate contracts have been recognised on balance sheet at fair value.

Replacement cost is the cost of replacing all contracts that have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking contracts to market. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet dates.

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

	2005 %	2004 % (restated)
Capital adequacy ratio at 31 December		
– Unadjusted	<u>15.20</u>	<u>18.84</u>
– Adjusted	<u>15.19</u>	<u>18.81</u>
Average liquidity ratio for the year	<u>49.13</u>	<u>52.34</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 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 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:**

	2005 HK\$'000	2004 HK\$'000 (restated)
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>3,266,501</u>	<u>3,214,131</u>
	<u>5,026,818</u>	4,974,448
Eligible supplemental capital		
Reserves on revaluation of land and interests in land	24,722	19,263
Reserves on revaluation of holding of securities not held for trading purposes	40,646	27,771
Impairment allowances under collective assessment and regulatory reserve	254,770	–
General provisions for doubtful debt	–	201,873
Total capital base before deductions	<u>5,346,956</u>	5,223,355
Deductions from total capital base	<u>(493,223)</u>	<u>(281,833)</u>
Total capital base after deductions	<u>4,853,733</u>	<u>4,941,522</u>



## **COMPLIANCE WITH THE SUPERVISORY POLICY MANUAL “FINANCIAL DISCLOSURE BY LOCALLY INCORPORATED AUTHORISED INSTITUTIONS”**

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

## **FINAL DIVIDEND**

The Directors will recommend at the forthcoming Annual General Meeting to be held on Wednesday, 26 April 2006 the payment of the final dividend for 2005 of HK\$0.42 per share. This final dividend, if approved, will be paid on Thursday, 27 April 2006 to shareholders whose names are on the Register of Members on Friday, 21 April 2006.

## **REVIEW OF FINANCIAL REPORT**

This financial report has been reviewed by the Bank's Audit Committee.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Bank will be closed from Wednesday, 19 April 2006 to Friday, 21 April 2006 (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 Tuesday, 18 April 2006.

## **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.

## **CORPORATE GOVERNANCE**

The directors confirm that, for the financial year ended 31 December 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 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 financial year ended 31 December 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 Annual Report 2005, as well as this announcement of annual 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.

## EXECUTIVE CHAIRMAN'S STATEMENT

### Economic Review

Despite a slackening growth rate compared with that of 2004, the global economy still continued to grow in 2005, as demonstrated especially by the outstanding performance in both the American and the Japanese economies. The US economy benefited mainly from the sharp increase in personal consumption and the long-term interest rates which have continued to stay rather low. The real estate market continued to prosper. The Japanese economy rebounded from the trough primarily because internal demand increased substantially and the banks' bad debt crisis was resolved. Moreover, the deflationary situation that has plagued Japan for years is beginning to ease off. As to the performance of the euro zone, its growth rate has been rather slow because of problems with the abrupt surge of the euro, the increase in oil prices, the slackening of internal demand, etc. Overall growth, however, has been steady. The global economy is improving as a whole alongside the good performance of these three major economies. The economies of such developing countries as China and India have grown rapidly for many consecutive years and their growth rates are still leading the pack. Surges in oil prices have improved the Russian economy as well as the economies of countries as such those in West Africa. In short, the outlook for the global economy is generally optimistic.

The Hong Kong economy continued to perform well last year. Its gross domestic product, which grew more than generally expected at the outset, increased to 7.3 percent thanks to increases in exports and personal consumption. With the improvement of the economy, the number of unemployed people gradually dropped to below 200,000, a 4-year new low. Investment and consumption sentiments continued to improve bit by bit. Hong Kong registered a slight inflation rate of nearly 2 percent at the end of last year after a long period of deflation. However, frequent new highs in oil prices and successive interest rate increases by banks to mirror those in the United States have cast a shadow on the interest rate-sensitive industries. It is, therefore, inevitable that the stock and the property markets showed signs of slackening in the second half of last year.

As to the banking industry, fierce competition is still ever-increasing. Although the interest rate-hiking cycle started in the United States in mid-2004, banks in Hong Kong have put off raising interest rates for some time because of the rather high account balances in the banking system brought about by the perpetual huge influx of funds into Hong Kong speculating on the appreciation of the renminbi. It was not until March 2005 that Hong Kong formally began its interest rate-hiking cycle, a 9-month lag compared with that in the United States. Interest expenses of borrowers were thus temporarily lessened. Banks' lending activities are normally bound to benefit from the recovery of the economy. However, for the first half of last year, other than mortgage business generated by the active property market, the general demand for other commercial and industrial loans showed no conspicuous increase. The various initial public offerings of new shares have also generated some short-term fund raising and margin financing activities. Considering the amount of surplus liquidity, this is not much help because real profit is minimal.

### Results Announcement

The Bank's results for 2005 show a rather satisfactory improvement. For the financial year of 2005, on an audited, consolidated basis, profit attributable to shareholders amounted to HK\$397.983 million, an increase of 10.59 percent over that for the year before. Total customers' deposits soared 22.25 percent to HK\$41.506 billion. Total loans to customers (after accounting for impairment allowances for bad and doubtful debts as well as interest accrued) increased 21.36 percent to HK\$24.306 billion. On 31 December 2005, the Bank's loan portfolios were made up as follows: property developments and investments (30.71 percent), personal real estate purchases (17.27 percent), financial and securities concerns (6.39 percent), trade finance (2.69 percent), wholesale and retail trade (2.34 percent), manufacturing, transportation and other businesses (22.69 percent), loans outside Hong Kong (12.37 percent), and others (5.54 percent). Adjusted capital adequacy ratio dropped 19.25 percent to 15.19 percent at the end of 2005, while average liquidity ratio for 2005 decreased 6.13 percent to 49.13 percent. Loan-to-deposit ratio increased 1.35 percent to 50.88 percent. During the period in question, the Bank's loan portfolios grew considerably, while customers' deposits also increased admirably. Loan-to-deposit ratio has therefore remained more or less the same. Total assets, having increased 20.82 percent to HK\$49.974 billion, have already exceeded the minimum asset requirement for setting up branches in the mainland under the Mainland and Hong Kong Closer Economic Partnership Arrangement. Shareholders' funds (after final dividend), compared with the restated shareholders' funds for the previous year, increased 4.9 percent to HK\$5.65 billion. The local economy continued to grow last year and most sectors have started to recover. The pace of growth of the economy has, however, been affected by the triggering off of the interest rate-hiking cycle as well as the persistent fierce competition among the banks. The results of the performance of the Bank may therefore be regarded as satisfactory because, under the circumstances, they still manage to sustain a good momentum. Your board has recommended paying the final dividend of HK\$0.42 per share for the financial year of 2005 to shareholders whose names appear in the Register of Members at the close of business on Friday, 21 April 2006. Total dividends for the financial year of 2005 (including the interim dividend of HK\$0.18 per share paid earlier) amounted to HK\$0.60 per share.

### Profit Analysis

On an audited, consolidated basis, net interest income rose 15.91 percent from that of 2004 to HK\$752.852 million in 2005. Interest spread increased 0.04 percent to 1.65 percent. After accounting for the other operating income, which amounted to HK\$217.129 million, total operating income was HK\$969.981 million and total operating expenditure was HK\$493.129 million. Cost-to-income ratio rose 2.03 percent to 50.84 percent. Operating profit before provisions and disposal of long-term assets increased 3.59 percent to HK\$476.852 million. In order to maintain good credit quality, the Bank made impairment allowances for bad and doubtful debts in the amount of HK\$67.807 million for 2005, an increase of 32.50 percent against those made for 2004. After accounting for the impairment allowances for bad and doubtful debts as well as the charge for taxation, profit attributable to shareholders amounted to HK\$397.983 million (an increase of 10.59 percent), translating into earnings of HK\$0.91 per share. Net asset value per share (after final dividend), compared with the restated net asset value per share for the previous year, rose 4.9 percent to HK\$12.99.

### **Additional Branches**

For the past few years, the Bank has slowed down its plan to open more branches because the economic environment was cloudy. With the current stabilization of the economy and the upturn of the market, the Bank will actively develop its branch network. It is expected that eight to ten additional branches will be opened within the year. The Bank will also continue to provide its staff with professional training while further enhancing its management to improve service quality and develop new products to broaden its customer base.

### **New Headquarters**

The Bank's head office building at 24 Des Voeux Road Central, which is being redeveloped, will be topped out in March this year. It is expected that the Bank will be able to move its operations back to the new head office building by the end of this year. Quality service will then be continually provided to the community by the Bank with fresh looks.

### **Directorate Changes**

Mr Andrew Chiu Wing Tsang and Mr George Har Kar Wong, senior managers of the Bank, were both appointed executive directors by the board on 17 August 2005. Mr Liu Guoyuan resigned as a non-executive director of the Bank on 16 November 2005 for personal reasons. Mr Wang Zhi was appointed a non-executive director of the Bank on that same day.

### **Economic Prospects**

It is expected that the growth of the Hong Kong economy this year will continue to be dependent on external trade and driven by internal consumption. The movement of the interest rates would, after all, be the decisive factor for economic performance. Although the new chairman has assumed his office at the United States Federal Reserve Board, he has yet to express a clear stance on monetary policy directions. Recent economic data from the United States signal mixed messages. The expectation that the interest rate-hiking cycle will peak soon is generally believed to be unrealizable for now. Interest rates will hover at high levels for a longer period of time. Besides, repercussions from such other unfavourable factors as stubbornly high oil prices and the yet-to-be fully accomplished warfare against terrorism continue to exist. It is expected that, for the first half of this year, the economy can only stroll along and take a wait-and-see attitude.

The local political and economic arenas are rather harmonious at the moment. The early resolution of the fiscal deficit problem, the timely launching of the various major public projects, the engaged cooperation between Hong Kong and Guangzhou, and the endless supportive measures made available to Hong Kong by the mainland are all conducive to improving Hong Kong's employment situation and long-term economic development.

After a round of consolidations, some new life has recently been breathed into the property market. Developers have seized upon the opportunity by launching their new property developments packaged with various preferential terms in tandem with the massive offers made by the banks to cut mortgage interest rates. This has a certain stimulating effect on the turnover of the property market. On the other hand, the market for initial public offerings of new shares is very active this year, attracting large numbers of mainland enterprises, state-owned or otherwise, to the territory. This is conducive to the development of the stock market and it is expected that more than HK\$200 billion may be raised. With the opening of the Hong Kong Disneyland in September last year, the local tourism industry has witnessed the coming to Hong Kong large numbers of visitors from both the mainland and foreign countries. Moreover, the prosperity of the tourism industry benefited such other industries as the hotel, restaurant, entertainment and retail businesses. The prospects for the tourism industry are expected to be even brighter this year.

The prospects for the banking industry this year are still laden with numerous hidden worries. On the whole, however, Hong Kong has its many blessings, backed up by the tremendous support of the motherland and the diversity of the international market. There are indeed endless business opportunities and progress can be strove for when such opportunities are seized upon in a timely manner.

Finally, on behalf of your board, I would like to wholeheartedly thank our customers, friends and shareholders for their long-standing trust in and support for the Bank, not to mention my fellow directors for the exercise of their wise judgment and all of our staff members for their dedication.

### **BOARD OF DIRECTORS**

As of the date of this announcement, the executive directors of the Bank are Mr Liu Lit Man (Executive Chairman), Dr 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, Mr Andrew Chiu Wing Tsang and Mr George Har Kar Wong; the non-executive directors are Mr Timothy George Freshwater, Mr Toshiaki Arai, Mr Andrew Liu, Mr Sun Jiakang, Mr Christopher Kwun Shing Liu, Mr Alfred Cheuk Yu Chow and Mr Wang Zhi; and the independent non-executive directors are Dr Robin Yau Hing Chan, Mr Wanchai Chiranakhorn and Mr Cheng Yuk Wo.

By Order of the Board

**Liu Lit Man**

*Executive Chairman*

10 March 2006

# 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 2006 will be held in The Harbour Room on Level 3 of The Ritz-Carlton at 3 Connaught Road Central, Hong Kong on Wednesday, 26 April 2006 at 11 am for the purposes of conducting 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 2005.
2. To declare the final dividend for the year ended 31 December 2005.
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 auditors' 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*

10 March 2006

## **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 Wednesday, 19 April 2006 to Friday, 21 April 2006 (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 Tuesday, 18 April 2006.
- iii. The Bank's Annual Report 2005 (including an Explanatory Statement on the above-mentioned items 5 through 7, information on the retiring directors to be re-elected at the 2006 annual general meeting, and the procedures for demanding and conducting a poll) will be sent to shareholders by Friday, 31 March 2006.

As of the date of this notice, the executive directors of the Bank are Mr Liu Lit Man (Executive Chairman), Dr 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, Mr Andrew Chiu Wing Tsang and Mr George Har Kar Wong; the non-executive directors are Mr Timothy George Freshwater, Mr Toshiaki Arai, Mr Andrew Liu, Mr Sun Jiakang, Mr Christopher Kwun Shing Liu, Mr Alfred Cheuk Yu Chow and Mr Wang Zhi; and the independent non-executive directors are Dr Robin Yau Hing Chan, Mr Wanchai Chiranakhorn and Mr Cheng Yuk Wo.

Please also refer to the published version of this announcement in SCMP.