

DIRECTORS' REPORT

The directors have pleasure in submitting their annual report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Bank is engaged in the provision of banking and related financial services. The principal activities of its subsidiaries are set out in note 17 to the financial statements.

BUSINESS

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

	2005 HK\$'000	2004 HK\$'000
Corporate and retail banking	491,035	499,088
Treasury and foreign exchange activities	364,499	273,910
Other business activities	<u>114,447</u>	<u>144,552</u>
	<u><u>969,981</u></u>	<u><u>917,550</u></u>

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.

MAJOR CUSTOMERS

The directors believe that the five largest customers of the Group accounted for less than 30% of the total of interest income and other operating income of the Group for the year.

RESULTS AND STATE OF AFFAIRS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 39.

The state of affairs of the Group and the Bank as at 31 December 2005 are set out in the balance sheets on pages 40 and 41 respectively.

DIVIDENDS

An interim dividend of HK\$0.18 per share amounting to HK\$78,300,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend for the year ended 31 December 2005 of HK\$0.42 per share amounting to HK\$182,700,000 to the shareholders on the Register of Members on 21 April 2006 and the retention of the remaining profit for the year.

SHARE CAPITAL

Details of the Bank's share capital are set out in note 23 to the financial statements. There was no movement in the Bank's share capital during the year.

RESERVES

Movements in the reserves of the Group and the Bank during the year are set out in the consolidated statement of changes in equity on page 42 and note 24 to the financial statements respectively.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at 31 December 2005. The net increase in fair value arising on the revaluation, which has been credited directly to the income statement, amounted to HK\$7,500,000. Details of the investment properties of the Group and the Bank are set out in note 19 to the financial statements.

PROPERTY AND EQUIPMENT

Details of the movements in the property and equipment of the Group and the Bank are set out in note 20 to the financial statements.

SHARE OPTION SCHEME

The Bank's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25 April 2002. Particulars of the Scheme are set out in note 26 to the financial statements. No options have been granted under the above-mentioned scheme since the Scheme was adopted.

DIRECTORS' REPORT

DIRECTORS

The directors of the Bank at the date of this report are:

Executive Directors

Mr LIU Lit Man, GBS, JP, FIBA	<i>(Executive Chairman)</i>
Dr LIU Lit Mo, LLD, MBE, JP	<i>(Vice Chairman)</i>
Mr LIU Lit Chi	<i>(Managing Director and Chief Executive Officer)</i>
Mr Don Tit Shing LIU	<i>(Deputy Chief Executive Officer)</i>
Mr Wilfred Chun Ning LIU	
Mr LAU Wai Man	
Mr Frank Shui Sang JIN	
Mr Andrew Chiu Wing TSANG	
Mr George Har Kar WONG	

Non-executive Directors

Mr Timothy George FRESHWATER
Mr Toshiaki ARAI
Mr Andrew LIU
Mr SUN Jiakang
Mr Christopher Kwun Shing LIU
Mr Alfred Cheuk Yu CHOW, JP
Mr WANG Zhi

Independent Non-executive Directors

Dr Robin Yau Hing CHAN, GBS, LLD, JP, EOE
Mr Wanchai CHIRANAKHORN
Mr CHENG Yuk Wo

DIRECTORS - continued

Mr Andrew Chiu Wing Tsang, Mr George Har Kar Wong (both were appointed executive directors on 17 August 2005) and Mr Wang Zhi (who was appointed a non-executive director on 16 November 2005) shall retire and offer themselves for re-election at the forthcoming annual general meeting in accordance with Article 85 of the Bank's Articles of Association.

Article 101 of the Bank's Articles of Association stipulates that, among other things, one-third of the directors for the time being, who have been longest in office since their last election, shall be subject to retirement by rotation and re-election at each annual general meeting. Accordingly, Mr Liu Lit Man, Mr Timothy George Freshwater, Mr Sun Jiakang, Mr Christopher Kwun Shing Liu and Mr Alfred Cheuk Yu Chow shall retire and offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract, which is not determinable by the Bank within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

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

As at 31 December 2005, the interests and short positions of the directors (including the chief executive officer) in the securities and underlying securities of the Bank and its associated corporations (under Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO, were as follows:

Interests in securities

Director's name	Number of ordinary shares in the Bank				Percentage of issued share capital
	Personal interests	Spousal interests	Corporate interests	Total interests	
Liu Lit Man	3,447,928	—	239,145,628 <i>Note (1)</i>	242,593,556	55.76863
Liu Lit Mo	1,009,650	—	239,145,628 <i>Note (1)</i>	240,155,278	55.20811
Liu Lit Chi	313,248	—	241,408,839 <i>Notes (1) & (2)</i>	241,722,087	55.56830
Don T S Liu	15,000	—	—	15,000	0.00345
Robin Y H Chan	48,400	—	1,018,000 <i>Note (3)</i>	1,066,400	0.24515
Timothy G Freshwater	396	—	—	396	0.00009
Andrew Liu	60,000	—	—	60,000	0.01379

Notes:

- (1) 239,145,628 shares in the Bank are attributed as follows:
 - (i) 199,145,628 shares held by public listed Liu Chong Hing Investment Limited's wholly-owned subsidiary, Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate"), in which each of Messrs Liu Lit Man, Liu Lit Mo and Liu Lit Chi is deemed under the SFO to be interested through Liu's Holdings Limited, a private company holding approximately 45 percent of Liu Chong Hing Investment Limited's issued and fully-paid share capital; and
 - (ii) 40,000,000 shares held by The Bank of Tokyo-Mitsubishi, Ltd ("Bank of Tokyo-Mitsubishi"). Pursuant to an agreement in 1994, Bank of Tokyo-Mitsubishi has granted an option to Liu Chong Hing Estate exercisable at any time during the term of that agreement to purchase all such shares and Bank of Tokyo-Mitsubishi is required to offer to sell all such shares to Liu Chong Hing Estate in certain circumstances. By virtue of the interests of Messrs Liu Lit Man, Liu Lit Mo and Liu Lit Chi in Liu Chong Hing Estate through Liu's Holdings Limited, each of them is deemed under the SFO to be interested in such shares.
- (2) 2,263,211 shares in the Bank are held by Alba Holdings Limited, shareholders of which include Mr Liu Lit Chi and his associates. Accordingly, Mr Liu Lit Chi is deemed under the SFO to be interested in such shares.
- (3) 1,018,000 shares in the Bank are held collectively by Asia Panich Investment Company (Hong Kong) Limited and United Asia Company Limited. These corporations or their directors are accustomed to acting in accordance with Dr Robin Y H Chan's directions or instructions.

DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE OFFICER'S) INTERESTS AND SHORT POSITIONS IN SECURITIES - continued

Other interests and short positions in securities

Under the SFO, other than those interests disclosed above, as at 31 December 2005, none of the directors (including the chief executive officer), nor their respective associates, had any other interests (nor any short positions) in any securities (nor in any underlying securities) in the Bank and its associated corporations. Moreover, as at 31 December 2005, none of the directors (including the chief executive officer), nor their respective spouses and children under 18 years of age, had been granted any rights to subscribe for the securities in the Bank and its associated corporations, much less had any such rights exercised.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2005, the register maintained under Section 336 of the SFO showed that, other than the interests disclosed above in respect of certain directors (including the chief executive officer), the following parties had interests and short positions in the securities and underlying securities in the Bank:

Name	Capacity	Number of ordinary shares	Percentage of issued share capital
Liu Chong Hing Estate Company, Limited	Beneficial owner	199,145,628 <i>Notes (1) and (3)</i>	45.78
Liu Chong Hing Investment Limited	Interest of a controlled corporation	199,145,628 <i>Notes (1) and (3)</i>	45.78
Liu's Holdings Limited	Interest of a controlled corporation	199,145,628 <i>Notes (1) and (3)</i>	45.78
Bauhinia 97 Ltd	Beneficial owner	87,000,000 <i>Note (2)</i>	20.00
COSCO Pacific Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
COSCO Pacific Investment Holdings Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
China COSCO Holdings Company Limited	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
China Ocean Shipping (Group) Company	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
The Bank of Tokyo-Mitsubishi, Ltd	Beneficial owner	42,000,000 <i>Note (3)</i>	9.66
Mitsubishi UFJ Financial Group, Inc (formerly known as "Mitsubishi Tokyo Financial Group, Inc")	Interest of a controlled corporation	42,000,000 <i>Note (3)</i>	9.66
Third Avenue Management LLC	Investment manager	26,241,000 <i>Note (4)</i>	6.03

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES - continued

Notes:

- (1) These interests are the same as those of certain directors (including the chief executive officer) disclosed above under the heading "DIRECTORS' (INCLUDING THE CHIEF EXECUTIVE OFFICER'S) INTERESTS AND SHORT POSITIONS IN SECURITIES" Note (1)(i). Liu Chong Hing Estate Company, Limited ("Liu Chong Hing Estate") is a wholly-owned subsidiary of Liu Chong Hing Investment Limited, a public company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Liu's Holdings Limited, a private company, had interest in about 45 percent of Liu Chong Hing Investment Limited's issued and fully-paid share capital. The references to the 199,145,628 shares in question all relate to the same block of 199,145,628 shares held by Liu Chong Hing Estate.
- (2) China Ocean Shipping (Group) Company has a 63.5 percent interest in China COSCO Holdings Company Limited ("COSCO Holdings"), which in turn wholly owns COSCO Pacific Investment Holdings Limited ("COSCO Pacific Investment Holdings"). COSCO Pacific Investment Holdings has a 52.18 percent interest in COSCO Pacific Limited ("COSCO Pacific"). Both COSCO Holdings and COSCO Pacific are public companies listed on the Stock Exchange. The references to the 87,000,000 shares in question all relate to the same block of 87,000,000 shares registered in the name of Bauhinia 97 Ltd, which is a company wholly-owned by COSCO Pacific.
- (3) The Bank of Tokyo-Mitsubishi, Ltd ("Bank of Tokyo-Mitsubishi") is a wholly-owned subsidiary of Mitsubishi UFJ Financial Group, Inc (formerly known as "Mitsubishi Tokyo Financial Group, Inc). The references to the 42,000,000 shares in question both relate to the same block of 42,000,000 shares registered in the name of Bank of Tokyo-Mitsubishi.

Pursuant to an agreement in 1994, Bank of Tokyo-Mitsubishi has granted an option to Liu Chong Hing Estate exercisable at any time during the term of that agreement to purchase 40,000,000 of the 42,000,000 shares in question and Bank of Tokyo-Mitsubishi is required to offer to sell all such 40,000,000 shares to Liu Chong Hing Estate in certain circumstances.

- (4) Third Avenue Management LLC ("Third Avenue Management"), a United States based Registered Investment Adviser, acts as adviser to various portfolios held for the benefit of mutual funds, private partnerships, institutions, individuals, etc. Third Avenue Management has investment advisory authority over portfolios holding in the aggregate of 26,241,000 shares in the Bank.

Other than those interests and short positions in the securities and underlying securities in the Bank as disclosed above under Section 336 of the SFO, the Bank had not been notified of any other interests and short positions in its securities and underlying securities as at 31 December 2005.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Other than those interests disclosed above under the heading "CONNECTED TRANSACTIONS", no contracts of significance to which the Bank or any of its subsidiaries was a party and in which a director of the Bank had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

The connected transactions between the Group, Liu Chong Hing Investment Limited and its subsidiaries ("Liu Chong Hing Investment Group") and COSCO Pacific Limited, its subsidiaries, its holding companies and/or its fellow subsidiaries ("COSCO Group") during the year are as follows:

- A. The Bank handled routine banking transactions for the members of the Liu Chong Hing Investment Group. Services provided by the Bank are cheque clearing, current, savings and deposit accounts, remittances, and other banking facilities.
- B. Members of the Group provided securities and futures brokerage, nominee and data processing services to members of the Liu Chong Hing Investment Group.
- C. Liu Chong Hing Investment Limited through its wholly-owned subsidiary, Liu Chong Hing Property Management and Agency Limited, provided property management, property consultancy and property maintenance services to the Bank.
- D. The Bank leased office premises of the Western Harbour Centre, a property owned by the Liu Chong Hing Investment Group. On the other hand, Liu Chong Hing Investment Limited subleased office premises of the Liu Chong Hing Bank Building from the Bank.
- E. The Bank and its subsidiaries provided banking and related financial services to the COSCO Group including cheque clearing, current and savings accounts and fixed deposits in a number of currencies, foreign exchange, remittances, stockbroking and nominee services. The Bank also provided loan facilities to the COSCO Group on a bilateral basis or through participating in syndicated loans.
- F. In accordance with a conditional Sale and Purchase Agreement dated 3 March 2005 between the Bank and Liu Chong Hing Investment Limited (which then had a beneficial shareholding interest of about 45.46 percent in the Bank), the Bank had agreed to acquire from Liu Chong Hing Investment Limited the entire issued and fully paid-up share capital of its then wholly-owned subsidiary, Chong Hing Insurance Company Limited (then known as "Liu Chong Hing Insurance Company Limited"), for a total cash consideration of HK\$212 million. The purpose of the transaction is to improve the operation efficiency of both the Bank and Liu Chong Hing Investment Limited. Particulars of the transaction, a discloseable and connected transaction for the Bank under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, were published in both the local newspapers on 15 March 2005 and the Bank's circular dated 4 April 2005. The transaction was completed on 27 June 2005 and Chong Hing Insurance Company Limited became a wholly-owned subsidiary of the Bank on that day.

DIRECTORS' REPORT

CONNECTED TRANSACTIONS - continued

Messrs Liu Lit Man, Liu Lit Mo, Liu Lit Chi, Don Tit Shing Liu, Robin Yau Hing Chan, Timothy George Freshwater and Andrew Liu are interested, directly or indirectly, in the respective share capitals of Liu Chong Hing Investment Limited and/or the Bank.

The independent non-executive directors confirm that the transaction has been entered into by the Bank in the ordinary course of its business, on normal commercial terms, and in accordance with the terms which are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

Pursuant to Rule of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited, the board of directors engaged the auditors of the Bank to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the board of directors. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Bank in the ordinary course of its business, on normal commercial terms, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Bank as a whole.

DECLARATION OF INTERESTS

No directors (other than the independent non-executive directors and Mr Toshiaki Arai, a non-executive director) are interested in any business which may or may not compete, either directly or indirectly, with the business of the Bank.

Mr Toshiaki Arai is the Director, Regional Head for Hong Kong and General Manager of The Bank of Tokyo-Mitsubishi UFJ, Limited, Hong Kong Branch.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

Other than the share option scheme disclosed in note 26 to the financial statements, at no time during the year was the Bank or any of its subsidiaries a party to any arrangements to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in, or debentures of, the Bank or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF THE BANK'S LISTED SECURITIES

Neither the Bank nor any of its subsidiaries purchased, sold or redeemed any of the Bank's listed securities during the year.

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$910,000 (2004: HK\$1,081,000).

COMPLIANCE WITH THE SUPERVISORY POLICY MANUAL FD-1 “FINANCIAL DISCLOSURE BY LOCALLY INCORPORATED AUTHORISED INSTITUTIONS”

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

EMOLUMENT POLICY

The Bank has set up a Remuneration Committee, responsibilities of which include the reviewing and approving the performance-based remuneration packages payable to directors and senior management, if any, by reference to the Bank’s corporate goals and objectives.

SUFFICIENCY OF PUBLIC FLOAT

The Group has maintained a sufficient public float throughout the year ended 31 December 2005.

AUDITORS

Messrs Deloitte Touche Tohmatsu shall retire at the conclusion of the Bank’s forthcoming annual general meeting. Being eligible, they shall offer themselves for re-appointment as the Bank’s auditors at that meeting.

On behalf of the Board

Liu Lit Man

Executive Chairman

10 March 2006