

# DIRECTORS' REPORT

## 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 Insurance Company Limited, provided insurance agency and underwriting services to members of the Group. In addition, Liu Chong Hing Investment Limited through another 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 the Share and Debt Purchase Agreement dated 16 March 2004 between the Bank and Liu Chong Hing Investment Limited, the Bank sold to Liu Chong Hing Investment Limited the entire share capital and the shareholder's loan made to Alain Limited, the Bank's associate, at a consideration of HK\$132 million. As it is considered as a connected transaction under the Listing Rules, the Bank and Liu Chong Hing Investment Limited made a joint announcement. The balance of advances to the associate was fully repaid in March 2004.

Messrs Liu Lit Man, Liu Lit Mo, Liu Lit Chi, Don Tit Shing Liu, Peter Alan Lee Vine, Robin Yau Hing Chan, Timothy George Freshwater, Andrew Liu and Dominic Bing Hoi Lam 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.

# DIRECTORS' REPORT

## **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.

## **DECLARATION OF INTERESTS**

No directors (other than the independent non-executive directors, and Mr Toshiaki Arai (Director, Regional Head for Hong Kong and General Manager of The Bank of Tokyo-Mitsubishi, Ltd, Hong Kong Branch) and Dr Robin Yau Hing Chan (Chairman of Asia Commercial Bank Limited), both of whom are non-executive directors of the Bank) are interested in any business which may or may not compete, either directly or indirectly, with the business of the Bank.

## **ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES**

Other than the share option scheme disclosed in note 25 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\$1,081,000 (2003: HK\$231,000).

## **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 FD-1 "Financial Disclosure by Locally Incorporated Authorised Institutions" which was issued by the Hong Kong Monetary Authority in November 2002.

# DIRECTORS' REPORT

## **CORPORATE GOVERNANCE**

The Bank has complied throughout the year ended 31 December 2004 with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Bank has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct regarding securities transactions by directors adopted by the Bank.

The Bank has received, from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Bank considers all of the independent non-executive directors are independent.

## **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 2004.

## **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*

3 March 2005