

EXPLANATORY STATEMENT

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LIU CHONG HING BANK LIMITED
(Incorporated in Hong Kong with limited liability)

15 March 2001

Dear Shareholders,

GENERAL MANDATES FOR THE REPURCHASE BY THE BANK OF ITS OWN SHARES AND ISSUE OF NEW SHARES

1. At the annual general meeting of Liu Chong Hing Bank Limited (the “Bank”) held on 27 April 2000, ordinary resolutions were passed giving general and unconditional mandates to the directors of the Bank to exercise all powers of the Bank (i) to allot, issue and deal with, otherwise than by way of rights issue or pursuant to the exercise of options granted under the Share Option Scheme of the Bank adopted on 10 June 1994 or pursuant to any scrip dividend or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend on shares of the Bank in accordance with the Articles of Association of the Bank, Shares (as defined in the Appendix) with an aggregate nominal value not exceeding the sum of (a) 20 per cent of the aggregate nominal amount of the issued share capital of the Bank as at the date of the passing of the relevant resolution and (b) the aggregate nominal amount of the share capital of the Bank repurchased under the authority referred to under (ii); and (ii) to repurchase up to 10 per cent of the share capital of the Bank as at the date of resolution granting the general mandate, such authority relating only to repurchases made on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which Shares may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose and otherwise in accordance with the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”); such mandates shall remain in effect from the date of the passing of the resolutions in question until the conclusion of the next annual general meeting or the expiration of the period within which the next annual general meeting is required by law or the Articles of Association of the Bank to be held or when revoked or varied by ordinary resolution(s) of shareholders in general meeting of the Bank, whichever occurs first (“Relevant Period”) and shall not extend beyond the Relevant Period save that the directors may during the Relevant Period make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period. No Shares have been allotted, issued, repurchased or otherwise dealt with under the mandates in question.

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2. Under the terms of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) and the Listing Rules, these general mandates lapse at the conclusion of the annual general meeting for 2001 (the “2001 AGM”), unless renewed at that meeting. Resolutions will be proposed to renew these mandates and the explanatory statement (“Explanatory Statement”) required by the Listing Rules to be sent to shareholders in connection with the proposed share repurchase resolution is set out in the Appendix. The Explanatory Statement also constitutes the memorandum required under section 49BA of the Companies Ordinance.
3. Notice of the 2001 AGM is set out on pages 13 to 15 of the Bank’s Annual Report 2000, accompanied by a proxy form at the center page. Whether or not you intend to be present at the 2001 AGM, you are requested to complete the form of proxy and return it to the Bank in accordance with the instructions printed thereon not less than 48 hours before the time fixed for holding that meeting or any adjournment thereof.
4. The completion and return of a form of proxy to the Bank will not preclude you from attending and voting in person at the meeting or poll concerned and, in such event, the appointment of the proxy will be deemed to be revoked.
5. With reference to Resolutions 5, 6 and 7 set out in the Notice of the 2001 AGM, the directors wish to state that they have no immediate plans to repurchase any existing Shares or to allot and issue any new Shares pursuant to the relevant mandates.
6. Your directors believe that the general mandates are in the interests of the Bank and its shareholders and accordingly recommend you to vote in favour of all of the relevant resolutions to be proposed at the 2001 AGM.

Yours faithfully,

Liu Lit Man

Chairman & Managing Director

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Appendix

The following is the Explanatory Statement required to be sent to shareholders under the Listing Rules in connection with the proposed general mandate for repurchase of shares and also constitutes the memorandum required under section 49BA of the Companies Ordinance. References in this Appendix to “Shares” mean share(s) of all classes in the capital of the Bank and include, where the context so requires, Shares of HK\$0.50 each of the Bank:

- (i) It is proposed that up to 10 per cent of the Shares in issue, at the date of the passing of the resolution to approve the general mandate, may be repurchased. On the basis of 435,000,000 Shares in issue on 15 March 2001 (being the latest practicable date for determining such figure) and assuming no further Shares will be issued between 16 March 2001 and the date of the passing of such resolution, the directors would be authorised to repurchase up to 43,500,000 Shares.
- (ii) The directors believe that the ability to repurchase Shares is in the interests of the Bank and its shareholders. Repurchases may, depending on the circumstances, result in an increase in net assets and / or earnings per share. The directors are seeking the grant of a general mandate to repurchase Shares to give the Bank the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the directors at the relevant time having regard to the circumstances then prevailing.
- (iii) It is envisaged that the funds required for any repurchase would be derived from the distributable profits of the Bank which shall be funds legally available for such purpose in accordance with the Listing Rules and the laws of Hong Kong.
- (iv) There could be a material adverse impact on the working capital or gearing position of the Bank (as compared with the position disclosed in its latest published audited accounts) in the event that the proposed share repurchases were to be carried out in full at any time during the proposed repurchase period. However, the directors do not propose to exercise the general mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Bank or the gearing levels which in the opinion of the directors are from time to time appropriate for the Bank.

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- (v) There are no directors or (to the best of the knowledge of the directors, having made all reasonable enquiries) any associates (as defined in the Listing Rules) of directors of the Bank who have a present intention, in the event that the general mandate is granted by shareholders, to sell Shares to the Bank.
- (vi) The directors have undertaken to the Stock Exchange to exercise the power of the Bank to make repurchases pursuant to the general mandate in accordance with the Listing Rules and the laws of Hong Kong.
- (vii) The directors are not aware of any consequences which would arise under the Hong Kong Code on Takeovers and Mergers (the “Code”) as a result of any repurchases under the general repurchase mandate in question other than the restriction that the controlling shareholding of Liu Chong Hing Estate Company, Limited (which currently stands at 45.11 percent of the Bank’s Shares in issue) should not rise more than 5 percentage points for a 12-month period thereafter. Neither should that of Liu Chong Hing Estate Company, Limited and those persons acting in concert within the meaning of the Code (which currently stands at 46.91 percent of the Bank’s Shares in issue). If the general repurchase mandate were to be fully exercised, the above shareholdings would exceed the limit concerned and move up to 50.12 percent and 52.12 percent respectively, thereby triggering Rule 26 of the Code in respect of mandatory offer. The directors, however, have no present intention of exercising the general repurchase mandate in such a way (if it were to be exercised at all) that would trigger any such mandatory offer.
- (viii) No repurchase has been made by the Bank of its Shares in the six months prior to the date of this document.
- (ix) No connected persons (as defined in the Listing Rules) of the Bank have notified it of a present intention to sell Shares to the Bank and no such persons have undertaken not to sell such Shares to the Bank in the event that the general mandate is granted by shareholders.

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- (x) The highest and lowest unit prices at which shares of the Bank had been traded on the Stock Exchange in each of the previous twelve months are as follows:

	Highest HK\$	Lowest HK\$
March 2000	7.500	6.300
April 2000	6.800	5.950
May 2000	6.400	5.650
June 2000	6.600	5.650
July 2000	7.200	6.100
August 2000	8.300	6.850
September 2000	8.900	7.000
October 2000	7.900	6.850
November 2000	8.650	7.600
December 2000	9.200	8.050
January 2001	10.000	8.950
February 2001	9.800	8.800