

CIRCULAR ON SHARE OPTION SCHEME AND GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

LETTER FROM THE CHAIRMAN



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

Directors

Executive Directors:

Mr LIU Lit Man, GBS, JP, FIBA

Mr LIU Lit Mo, MBE, JP

Mr LIU Lit Chi

Mr Dominic Bing Hoi LAM

Mr Don Tit Shing LIU

Mr Wilfred Chun Ning LIU

Mr LAU Wai Man

Mr Frank Shui Sang JIN

Non-executive Directors:

Dr Robin Yau Hing CHAN, GBS, LLD, JP, EOE

Mr LIU Guoyuan

Mr Tatsuo TANAKA

Dr LIU Lit Chung, MB, BS (London), MRCP (UK)

Mr Andrew LIU

Mr SHI Qin

Mr Christopher Kwun Shing LIU

(Alternate director to Dr LIU Lit Chung)

Independent Non-executive Directors:

Mr Peter Alan Lee VINE, OBE, VRD, LLD, JP

Mr Timothy George FRESHWATER

Mr CHANG Ying Kuang

Mr Wanchai CHIRANAKHORN

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LETTER FROM THE CHAIRMAN

14 March 2002

To the Shareholders

Dear Sir or Madam,

PROPOSED ADOPTION OF A NEW SHARE OPTION SCHEME, TERMINATION OF THE EXISTING SHARE OPTION SCHEME AND GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

BACKGROUND

The Board announced on 14 March 2002 that the Board proposes that the New Scheme be adopted by the Company to replace the Existing Scheme (under which no options have ever been granted) so that Directors, employees, shareholders, customers, suppliers and professional advisers of the Company may be given incentives by way of options to subscribe for Shares. The terms of the New Scheme will be in line with the current provisions of the Listing Rules relating to share schemes of listed companies.

At the annual general meeting of the Company held on 26 April 2001, a general mandate was given to the Directors to exercise the powers of the Company to repurchase Shares up to a maximum of 10 per cent of the then issued share capital of the Company. At the same time, other general mandates were given to the Directors to issue Shares up to 20 per cent of the then issued share capital of the Company and to extend the general mandate to issue Shares by adding to it the number of Shares repurchased under the share repurchase mandate granted at the said annual general meeting. All mandates will lapse at the conclusion of the AGM unless renewed at that meeting. Ordinary resolutions will therefore be proposed at the AGM to approve the general mandates to repurchase Shares and to issue Shares.

The purpose of this circular is to provide the Shareholders with additional information relevant to the New Scheme and the proposed general mandates to issue and repurchase shares.

NEW SCHEME

The Existing Scheme was adopted by the Company on 10 June 1994 by way of shareholders' resolution and will expire on 10 June 2004. In view of the recent changes to Chapter 17 of the Listing Rules which governs the operation of share option schemes, the Directors propose to recommend to shareholders at the AGM to approve the adoption of the New Scheme and simultaneously terminate the operation of the Existing Scheme. As at the Latest Practicable Date, the Company has not adopted any share option scheme other than the Existing Scheme.

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It is proposed that subject to the approval of the shareholders of the Company of the adoption of the New Scheme at the AGM, the operation of the Existing Scheme shall be terminated with effect from the conclusion of the AGM (such that no further options could thereafter be offered under the Existing Scheme but in all other respects the provisions of the Existing Scheme shall remain in full force and effect) and the New Scheme will take effect, subject to the Stock Exchange granting the necessary approvals for the listing of and dealing in the Shares to be issued and allotted pursuant to the exercise of Options in accordance with the terms and conditions of the New Scheme, on the date of its adoption at the AGM. Operation of the New Scheme will commence after all conditions precedent have been fulfilled.

A summary of the principal terms of the New Scheme is set out in Appendix I.

For the better development of the Group, it is important that the Group is able to recruit, retain and motivate high caliber and good quality employees and officers to serve the Group on a long term basis as well as to maintain good relationship with its suppliers, customers and professional advisers. The Directors believe that having a share option scheme in place is one of the most attractive means to attract and retain those persons to contribute to the continuous development of the Group. It is also in line with general commercial practice that executives and employees of the Group be given incentives and rewards for their contribution to the Group in the form of options to subscribe for Shares. The purpose of the New Scheme is to enable the Directors to grant options to the eligible participants as incentives or rewards for their commitment and/or contribution to the Group and as incentive for such eligible participants to render improved services and/or patronage to the Group on a long-term basis. In addition, the terms of the New Scheme will be in line with the existing provisions of the Listing Rules with regard to share schemes of listed companies.

Any persons belonging to any of the following classes have been determined by the Directors to be eligible to be granted options under the New Scheme (“**Eligible Participant(s)**”):

- (a) any employee or proposed employee (whether full-time or part-time), any director (whether executive, non-executive or independent non-executive director) or any shareholder of any member of the Group;
- (b) any supplier of goods or services to any member of the Group;
- (c) any customer of any member in the Group;
- (d) any professional adviser to any member of the Group; and
- (e) any company wholly-owned by any one or more persons belonging to any of the above classes of persons.

The eligibility of a participant to the New Scheme shall be determined by the Directors at their sole discretion on the basis of any one or more of the following factors :

- (a) the length of service of the eligible participant with the Group;
- (b) the job performance of the eligible participant; and
- (c) the contribution made or expected to be made by the eligible participant to the Group.