
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

The circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of the Bank.

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Liu Chong Hing Bank Limited**, you should at once hand this circular with the accompanying form of proxy to the purchaser or transferee or to the bank or licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**LIU CHONG HING BANK LIMITED**

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1111)

DISCLOSEABLE AND CONNECTED TRANSACTION

Financial adviser to the Bank

Deloitte.

德勤

Deloitte & Touche Corporate Finance Ltd.

**Independent Financial Adviser to the Independent Director
and the Independent Shareholders**



道亨證券有限公司

DaoHengSecurities Ltd.

A letter from the Independent Director is set out on page 17 of this circular. A letter from Dao Heng Securities to the Independent Director and the Independent Shareholders is set out on pages 18 to 27 of this circular.

A notice convening an extraordinary general meeting of the Bank to be held at 11:40 a.m. or as soon as practicable after the adjournment of the AGM, whichever is earlier, on Tuesday, 26 April 2005 in The Harbour Room on Level 3, The Ritz-Carlton Hong Kong at 3 Connaught Road Central, Hong Kong is set out on pages 38 to 39 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed. If you are unable to attend and vote at the extraordinary general meeting or any adjourned meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the registered office of the Bank (currently situated at Ground Floor, New World Tower 2, 16-18 Queen's Road Central, Hong Kong) as soon as possible, but in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjourned meeting should you so wish.

4 April 2005

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“AGM”	the annual general meeting of the Bank to be convened at 11:00 a.m. on Tuesday, 26 April 2005 in The Harbour Room on Level 3, The Ritz-Carlton Hong Kong at 3 Connaught Road Central, Hong Kong;
“Adjusted Audited Net Asset Value”	the audited net asset value as at 31 December 2004 of LCH Insurance adjusted for the realisation of LCH Insurance’s investments in listed securities and the payment of dividend by LCH Insurance to LCH Investment in February 2005;
“Associate(s)”	has the same meaning as defined in the Listing Rules;
“Announcement”	the joint announcement of the Bank and LCH Investment dated 14 March 2005 in relation to the Transaction;
“Articles of Association”	the articles of association of the Bank (as adopted, amended or modified from time to time);
“Bank”	Liu Chong Hing Bank Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“Board”	the board of Directors;
“Business Day”	a day (excluding Saturdays) on which banks are generally open for business in Hong Kong;
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong;
“Completion”	completion of the Sale and Purchase Agreement in accordance with its terms;
“Conditions”	the conditions precedent for Completion;
“Conditions Fulfilment Date”	the date on which the Conditions are fulfilled (or waived, if appropriate) but in any event no later than 31 July 2005 or such later date as the Bank and LCH Investment may agree in writing;

DEFINITIONS

“Connected Person(s)”	has the meaning as ascribed to it in the Listing Rules;
“Controlling Shareholder(s)”	has the meaning as ascribed to it in the Listing Rules;
“Dao Heng Securities” or “Independent Financial Adviser”	Dao Heng Securities Limited, a deemed licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities, and the independent financial adviser appointed by the Bank to advise the Independent Director and the Independent Shareholders in respect of the Transaction;
“Director(s)”	director(s) of the Bank;
“EGM”	the extraordinary general meeting of the Bank to be held at 11:40 a.m. or as soon as practicable after the adjournment of the AGM, whichever is earlier, on Tuesday, 26 April 2005 in The Harbour Room on Level 3, The Ritz-Carlton Hong Kong at 3 Connaught Road Central, Hong Kong;
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission and any delegate of the Executive Director;
“GDP”	Gross Domestic Product;
“Group”	the Bank and its subsidiaries;
“HKMA”	the Hong Kong Monetary Authority;
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Director”	Mr. Cheng Yuk Wo, an independent non-executive Director appointed by the Board to advise the Independent Shareholders in respect of the Transaction;
“Independent Shareholders”	shareholders of the Bank who do not have any material interest in the Transaction;

DEFINITIONS

“Insurance Companies Ordinance”	the Insurance Companies Ordinance, Chapter 41 of the Laws of Hong Kong;
“Latest Practicable Date”	29 March 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained therein;
“LCH Insurance”	Liu Chong Hing Insurance Company Limited, a company incorporated in Hong Kong with limited liability and, as at the Latest Practicable Date, a wholly-owned subsidiary of LCH Investment;
“LCH Investment”	Liu Chong Hing Investment Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Sale and Purchase Agreement”	the sale and purchase agreement dated 3 March 2005 entered into between the Bank and the LCH Investment in relation to the Transaction;
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
“Subsidiary(ies)”	has the meaning as ascribed to it in the Companies Ordinance;
“Substantial Shareholder(s)”	has the meaning as ascribed to it in the Listing Rules;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Transaction”	the acquisition of the entire issued and fully paid-up share capital of LCH Insurance by the Bank from LCH Investment;
“Watson Wyatt”	Watson Wyatt Insurance Consulting Limited, an independent actuarial consulting company specialising in insurance and financial services; and
“%”	per cent.

LETTER FROM THE BOARD



LIU CHONG HING BANK LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1111)

Executive Directors:

Mr. Liu Lit Man, *GBS, JP, FIBA (Executive Chairman)*

Mr. Liu Lit Mo, *MBE, JP (Vice Chairman)*

Mr. Liu Lit Chi

(Managing Director & Chief Executive Officer)

Mr. Don Tit Shing Liu

(Deputy Chief Executive Officer)

Mr. Wilfred Chun Ning Liu

Mr. Lau Wai Man

Mr. Frank Shui Sang Jin

Mr. Kevin Wai Hung Chu

Registered office

and principal place of business:

Ground Floor

New World Tower 2

16-18 Queen's Road Central

Hong Kong

Non-executive Directors:

Dr. Robin Yau Hing Chan, *GBS, LLD, JP, EOE*

Mr. Liu Guoyuan

Mr. Timothy George Freshwater

Mr. Toshiaki Arai

Mr. Andrew Liu

Mr. Sun Jiakang

Mr. Dominic Bing Hoi Lam

Mr. Christopher Kwun Shing Liu

Mr. Alfred Cheuk Yu Chow, *JP*

Independent Non-executive Directors:

Mr. Peter Alan Lee Vine, *OBE, VRD, LLD, JP*

Mr. Wanchai Chiranakhorn

Mr. Cheng Yuk Wo

4 April 2005

To the shareholders of the Bank

Dear Sir/Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

INTRODUCTION

As set out in the Announcement, the Bank and LCH Investment entered into the conditional Sale and Purchase Agreement on 3 March 2005, pursuant to which the Bank has

LETTER FROM THE BOARD

agreed to acquire the entire issued and fully paid-up share capital of LCH Insurance from LCH Investment for a total cash consideration of HK\$212 million. Such consideration will be funded from the internal resources of the Bank.

The terms of the Sale and Purchase Agreement were negotiated on an arm's length basis and the Directors consider that the Transaction is made on normal commercial terms and in the best interests of the Bank and its shareholders as a whole.

The purpose of this circular is to provide you with (i) information on the Transaction; (ii) a letter from the Independent Financial Adviser setting out its advice to the Independent Director and the Independent Shareholders in respect of the Transaction; (iii) a letter from the Independent Director setting out its advice to the Independent Shareholders in respect of the Transaction; and (iv) a notice of the EGM at which an ordinary resolution will be proposed to seek the Independent Shareholders' approval for the Transaction.

THE SALE AND PURCHASE AGREEMENT

Date: 3 March 2005

Parties: (a) Vendor – LCH Investment

(b) Purchaser – the Bank

Pursuant and subject to the Sale and Purchase Agreement, LCH Investment agreed to sell, and the Bank agreed to purchase, 50,000,000 shares of HK\$1.00 each in the share capital of LCH Insurance, representing the entire issued and fully paid-up share capital of LCH Insurance.

Consideration

The consideration for the Transaction is HK\$212 million in cash, which will be funded from the internal resources of the Bank and payable in full at Completion. Upon Completion, LCH Insurance will become a wholly-owned Subsidiary of the Bank.

LETTER FROM THE BOARD

Conditions

Completion of the Sale and Purchase Agreement is conditional upon the following:

- (a) the conduct of a due diligence investigation covering, among other things, the business, affairs, operations, assets, financial condition, prospects and records of LCH Insurance by the Bank, and the results of such due diligence investigation being satisfactory to the Bank at its sole and absolute discretion;
- (b) satisfaction of paragraph (b) of Section 13B(2) of the Insurance Companies Ordinance (as in force as at the date of the Sale and Purchase Agreement) or such other form of prior approval (if any) as may from time to time be required to be obtained from the Insurance Authority to effect Completion and if any of such approval shall be subject to conditions, on conditions acceptable to the Bank;
- (c) all consents, approvals, permits, authorisations or clearances (as the case may be) that LCH Investment reasonably considers necessary pursuant to applicable laws, regulations or rules (including but not limited to the Listing Rules and the Insurance Companies Ordinance) for its execution, implementation and completion of the Sale and Purchase Agreement, having been obtained, and all such consents, approvals, permits, authorisations or clearances not having been revoked or withdrawn at any time up to and including the Conditions Fulfilment Date;
- (d) the warranties given by LCH Investment in favour of the Bank under the Sale and Purchase Agreement in relation to LCH Insurance remaining true and accurate in all aspects and not misleading in any aspects on the Conditions Fulfilment Date; and
- (e) all consents, approvals, permits and authorisations that the Bank at its absolute discretion considers necessary pursuant to applicable laws, regulations or rules (including but not limited to the Listing Rules and the Insurance Companies Ordinance and other requirements of HKMA) for its execution, implementation and completion of the Sale and Purchase Agreement having been obtained, including but not limited to the obtaining of the prior approval of the Independent Shareholders in general meeting approving the Sale and Purchase Agreement and the Transaction, and all such consents, approvals, permits and authorisations not having been revoked or withdrawn at any time up to and including the Conditions Fulfilment Date.

In the event that the Conditions set out above have not been fulfilled/waived on or before 5:00 p.m. (Hong Kong time) on the Conditions Fulfilment Date, the Bank may at its option by notice to LCH Investment elect to:

- (a) waive any of the Conditions set out in (a) and (d) above and proceed to Completion;

LETTER FROM THE BOARD

- (b) postpone Completion to a date (being a Business Day) to be agreed by the Bank and LCH Investment or, failing agreement, the 30th day after the Conditions Fulfilment Date; or
- (c) rescind the Sale and Purchase Agreement, in which case such agreement shall be null and void and no party to the Transaction shall have any claim against the other, save and except in respect of any antecedent breach of the Sale and Purchase Agreement.

As at the Latest Practicable Date, none of the conditions has been waived or fulfilled. In the event that any of the Conditions is waived, an appropriate announcement will be made by both the Bank and LCH Investment.

Basis for determination of the consideration

The consideration for the Transaction was determined after arm's length negotiations between the Bank and LCH Investment, with reference to:

- (a) the actuarially-based appraisal value of LCH Insurance (within the range between HK\$153.1 million and HK\$196.6 million) as at 31 December 2004 using the discounted cash flow model as reflected in the report of the same conducted by Watson Wyatt, an independent third party not connected with the respective Directors, chief executive officer or Substantial Shareholders of the Bank and LCH Investment, or any of their respective Subsidiaries or respective Associates;
- (b) the prospects of LCH Insurance after completion of the Transaction, including the joint efforts of the Bank and LCH Insurance to expand their respective client bases and create new business opportunities;
- (c) the synergy of grouping LCH Insurance with the Bank; and
- (d) the price/earnings multiple of approximately 8.2 times for the Transaction.

Completion

Completion shall take place on the third Business Day after the satisfaction (or, if appropriate, the waiver) of the Conditions (or at such later date as the Bank and LCH Investment may agree in writing) by the Bank and LCH Investment. It is currently expected that Completion will take place on or before 31 July 2005.

LETTER FROM THE BOARD

REASONS FOR THE TRANSACTION

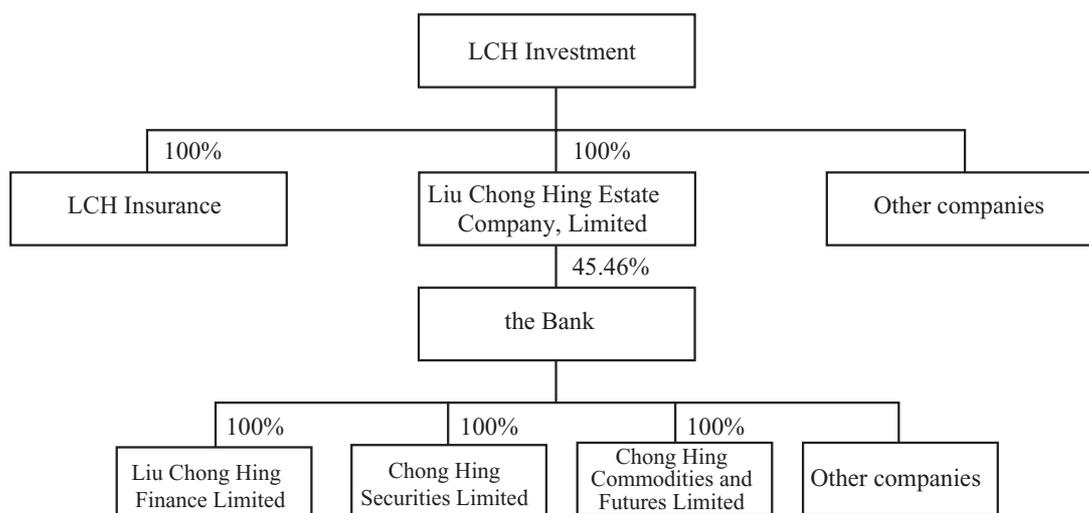
LCH Investment is the Controlling Shareholder of the Bank, by virtue of its equity interest of approximately 45.46% of the Bank. LCH Investment is principally engaged in property investment, property development, property management, treasury investment, banking (through its investment in the Bank), insurance, trading and manufacturing, whereas the Bank is principally engaged in the provision of banking and related financial services.

The purpose of the Transaction is to improve the operation efficiency of both the Bank and LCH Investment, and further provide a clear delineation of businesses between the two companies, such that the financial service-related businesses (including banking and insurance) will be centralised under the Bank. The grouping of LCH Insurance with the Bank will also expand the financial services provided by the Bank by encompassing insurance services under the banking group and create synergies for their existing businesses, improve efficiencies, and reduce operation and administration costs for both the Bank and LCH Insurance. In view of the synergies of the businesses and client bases of the Bank and LCH Insurance, and the market environment that a number of international and local banks in Hong Kong also have an insurance arm, the Directors believe that the Transaction will benefit both the Bank and LCH Insurance in terms of shareholders' value, business development and corporate image.

After the completion of the Transaction, it is the intention of the Bank that it will continue to utilise the internal resources of LCH Insurance, including but not limited to, the premiums written from its policies to invest in listed and/or non-listed assets with earning potential.

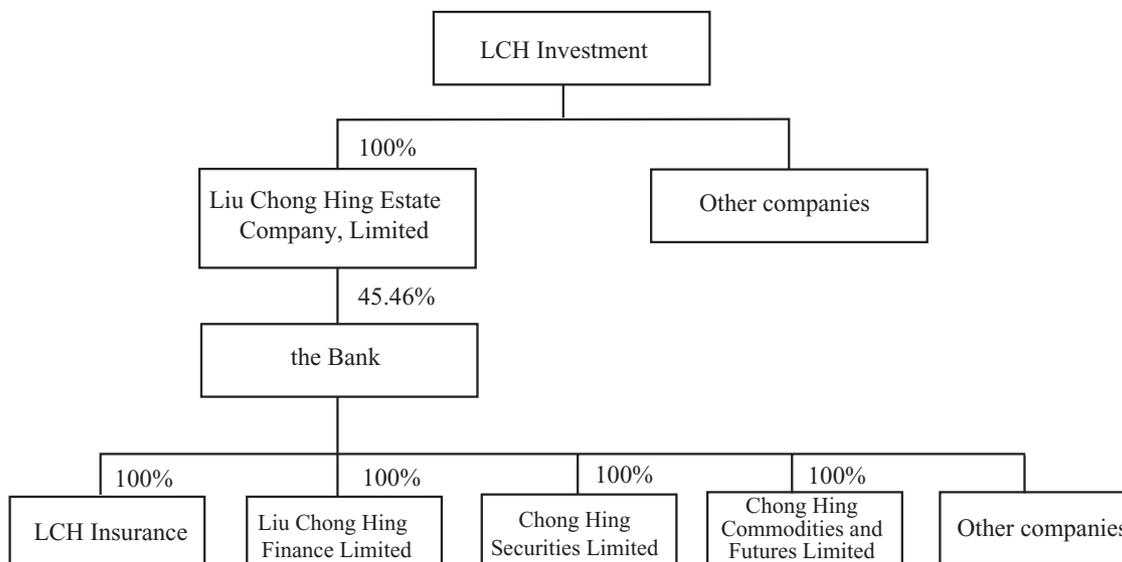
The following charts summarise the corporate structures of the Bank and LCH Investment immediately before and after the Completion:

Corporate structure immediately before Completion



LETTER FROM THE BOARD

Corporate structure immediately after the Completion



The Directors consider that the Transaction is made on normal commercial terms and is in the best interests of the Bank and its shareholders as a whole.

FINANCIAL EFFECT OF THE ACQUISITION OF LCH INSURANCE

Earnings

With the acquisition of the entire equity interests in LCH Insurance, it will become a wholly owned subsidiary of the Bank.

Based on the audited profit and loss accounts of LCH Insurance for the year ended 31 December 2004, LCH Insurance recorded earnings of approximately HK\$25.9 million, representing approximately 7.4% of the audited consolidated results of the Bank and its subsidiaries of approximately HK\$349.0 million for the year ended 31 December 2004.

Assets and liabilities

Given the Adjusted Audited Net Asset Value of LCH Insurance as at 31 December 2004 amounted to approximately HK\$95.9 million, and the consideration of the Transaction of HK\$212 million exceed the Adjusted Audited Net Asset Value of LCH Insurance by approximately HK\$116.1 million.

LETTER FROM THE BOARD

INFORMATION ON LCH INSURANCE

LCH Insurance is a private company duly incorporated under the laws of Hong Kong having an authorised share capital of HK\$50,000,000 divided into 50,000,000 ordinary shares of HK\$1.00 each, all of which have been issued, are fully paid-up and are beneficially owned by LCH Investment. LCH Insurance is principally engaged in the business of underwriting insurance policies on fire, marine, theft, accident, motor car, workers' compensation, contractors' all risks, and shipment for import and export cargoes. It is also an agent for life insurance and staff retirement provident fund insurance. LCH Insurance is registered under the Insurance Companies Ordinance as an authorised insurer. The Adjusted Audited Net Asset Value of LCH Insurance as at 31 December 2004 amounted to approximately HK\$95.9 million. For the year ended 31 December 2004, the audited net profit before and after taxation of LCH Insurance amounted to approximately HK\$30.8 million and HK\$25.9 million respectively. For the year ended 31 December 2003, the audited net profit before and after taxation of LCH Insurance amounted to approximately HK\$29.4 million and HK\$23.2 million respectively.

APPRAISAL VALUATION FOR LCH INSURANCE

Watson Wyatt has conducted an appraisal valuation for LCH Insurance as at 31 December 2004 based on illustrative discount rates of 10% per annum, 12% per annum and 14% per annum, representing a valuation of approximately HK\$196.6 million, HK\$170.7 million, and HK\$153.1 million respectively. The economic values of LCH Insurance consist of two components, namely net worth and net value of future profits.

Deloitte Touche Tohmatsu, the reporting accountants of LCH Insurance, has confirmed that the calculations of the net worth, net value of future profits and economic values contained in the appraisal valuation report are arithmetically accurate and the accounting policies are consistent with those accounting policies normally adopted by LCH Insurance, except that in determining the net worth as at 31 December 2004:

- (i) recognition has been given to the profit as arising on the disposal of investments of LCH Insurance in listed securities in February 2005 as if such disposal had been taken place by 31 December 2004;
- (ii) recognition has been given to the payment of an interim dividend for 2005 in February 2005 as if such dividend had been announced or paid by 31 December 2004; and
- (iii) insurance provisions have been estimated based on best estimates of unexpired liabilities as opposed to those based on the 1/24th approach to estimating unearned premium reserve normally adopted by LCH Insurance.

The directors of LCH Insurance are of the view that items (i) and (ii) above are the post balance sheet events occurred in February 2005 for the financial year ended 31 December 2004

LETTER FROM THE BOARD

and should be taken into account in the valuation in order to reflect the true value of LCH Insurance. The net worth as at 31 December 2004 appeared in the audited accounts did not reflect the effect of those items for accounting purpose.

For item (iii) above, the generally accepted accounting policies are prudent in some instances. For purposes of valuation however, it may be more appropriate to use a truly realistic approach. According to the directors of LCH Insurance, it has currently used one such prudent method, the 1/24th approach, to calculate the unearned premium reserves. In conducting their valuation, Watson Wyatt has estimated the unearned liabilities which are significantly lower than the unearned premium reserves, reflecting the anticipated profitability of this unearned business.

Principal bases and assumptions of the actuarial report

Watson Wyatt has adopted, amongst others, the following underwriting and financial assumptions in the scenario analysis of the possible value of future profitability of LCH Insurance's business. The economic value of LCH Insurance's business is driven by the assessment of the recent performance of LCH Insurance together with its estimated future performance.

(i) Future underwriting performance assumptions

Premium growth

In assessing the potential growth in future gross written premium, Watson Wyatt has considered the combined impact of a number of factors on each class of business, namely:

- the growth in the size of the market in real terms due to GDP growth;
- increased insurance market penetration in Hong Kong above GDP growth;
- the impact of price inflation on premiums and sums insured; and
- projected increases in LCH Insurance's market share.

Watson Wyatt's financial model assumes an overall growth in gross written premium of 10.3% per annum during the first 5 years, 7.4% per annum from years 6 to 10 and 5.5% per annum from years 11 to 30. The financial model, which has a projection horizon of 40 years, assumes no premium growth beyond year 30.

Watson Wyatt has assumed that net retained premiums in future will be maintained at around current levels in percentage terms for each class of business.

LETTER FROM THE BOARD

The appraisal valuation assumes that the future business of LCH Insurance and the market (including regulatory environment) will remain broadly similar to that experienced over recent years.

(ii) *Financial assumptions*

(a) Risk discount rates

- the risk discount rate is a key item affecting the economic value of LCH Insurance;
- valuation model uses illustrative risk discount rates of 10% per annum, 12% per annum and 14% per annum;

(b) Investment earnings

- the assets supporting the technical liabilities (outstanding claims and unearned premiums) and cash flows will be invested in fixed interest deposits and current account deposits earning an overall return of 2.0% per annum;
- for assets supporting shareholders' capital, an earning rate of 4.4% per annum has been used based on an investment strategy similar to that which will apply for LCH Insurance's investment assets after the recent announced share disposal and dividend distribution (ie. around 25% in equities and the balance in fixed interest deposits and cash);

(c) Capital requirements

- in projecting future business, capital requirements equivalent to the greater of HK\$20 million and 10% above the current minimum solvency basis applicable in Hong Kong (which is the greater of 20% of net written premium or 20% of the average of the previous three years' net incurred claims) have been assumed;
- any additional capital held would be available to be released to shareholders as at 31 December 2004 and it has therefore been excluded from the calculation of cost of capital in the assessed appraisal value;
- it is possible that the insurance regulator in Hong Kong may in future, implement changes to the capital requirements for general insurance companies. Any such changes may impact on LCH Insurance's capital requirements (and hence cost of capital) in future;

LETTER FROM THE BOARD

- assumed future capital requirements for LCH Insurance will be similar to those set out above. To the extent that there are any differences, it will impact on the net value of future business;
- (d) Economic assumptions
- assumed a long-term GDP growth of 4.0% per annum;
 - assumed a short-term Consumer Price Index inflation of 1.0% per annum for the next five years and 1.5% per annum thereafter; and
- (e) Tax rate:
- assumed all future profits will be subject to the standard Hong Kong company tax at 17.5%.

GENERAL

Implications under the Listing Rules

The Transaction constitutes a discloseable transaction for the Bank under the Listing Rules. As LCH Investment is a Connected Person of the Bank, the Transaction also constitutes a connected transaction for the Bank under Chapter 14A of the Listing Rules. As the consideration for the Transaction is more than HK\$10,000,000 and the relevant percentage ratios are greater than 2.5%, the Transaction will be subject to the approval of the Independent Shareholders at the EGM in accordance with Rule 14A.48 of the Listing Rules.

As Mr. Liu Lit Man, Mr. Liu Lit Mo, Mr. Liu Lit Chi, Mr. Andrew Liu, Mr. Christopher Kwun Shing Liu and Mr. Peter Alan Lee Vine are also directors of LCH Investment, they and their respective Associates will abstain from voting on the resolution to approve the Transaction.

As Mr. Peter Alan Lee Vine and Mr. Wanchai Chiranakhorn, two of the three independent non-executive Directors, are also an independent non-executive director of LCH Investment and LCH Insurance respectively, they are not considered sufficiently independent to give any advice or recommendation to the Independent Shareholders in relation to the Transaction. Accordingly, Mr. Cheng Yuk Wo, the remaining independent non-executive Director, has been appointed as the Independent Director to advise the Independent Shareholders. Dao Heng Securities has been appointed as the Independent Financial Advisor to advise the Independent Director and the Independent Shareholders in connection with the Transaction.

LETTER FROM THE BOARD

EGM

A notice convening the EGM is set out on pages 38 to 39 of this circular. An ordinary resolution will be proposed at the EGM for the Independent Shareholders to approve the Transaction. Votes of the Independent Shareholders will be taken by way of a poll in accordance with the Listing Rules, and the poll results of the EGM will be published after the EGM.

A form of proxy is enclosed for use at the EGM. If you are unable to attend and vote at the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Bank's registered office (currently situated at Ground Floor, New World Tower 2, 16-18 Queen's Road Central, Hong Kong) as soon as possible, but in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

PROCEDURES FOR DEMANDING AND CONDUCTING A POLL

Pursuant to the Articles of Association, at any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is required. The Articles of Association has set forth the relevant provisions as follows:

- (i) At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or the withdrawal of any other demand for a poll) a poll is demanded by:
 - (a) the chairman of the meeting; or
 - (b) at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
 - (c) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
 - (d) by a member or members present in person or by proxy and holding shares in the Bank conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that rights.

LETTER FROM THE BOARD

Unless a poll be so demanded and the demand is not withdrawn, a declaration by the chairman of the meeting that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.

- (ii) A poll demanded on the election of the chairman of a meeting, or on the question of adjournment of a meeting, shall be taken forthwith. A poll demanded on any other question shall be taken in such manner and at such time and place, not being more than thirty days from the date of the meeting or adjourned meeting at which the poll was demanded, as the chairman of the meeting directs. No written notice need be given of a poll not taken immediately. The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The demand for a poll may be withdrawn with the consent of the chairman of the meeting, at any time before the close of the meeting or the taking of the poll, whichever is the earlier.
- (iii) In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded, shall be entitled to a second or casting vote.
- (iv) The demand of a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which a poll has been demanded.

RECOMMENDATION

The Independent Financial Adviser considers that the terms of the Transaction are fair and reasonable and that the Transaction on such terms is in the best interest of the Bank and the Independent Shareholders as a whole. The text of the letter of advice from the Independent Financial Adviser containing its recommendation in respect of the Transaction is set out on pages 18 to 27 of this circular.

The Independent Director, having taken into account the advice of the Independent Financial Adviser, also considers the terms of the Transaction are fair and reasonable and that the Transaction on such terms is in the best interest of the Bank and the Independent Shareholders as a whole.

Accordingly, both the Independent Financial Adviser and the Independent Director recommend that the Independent Shareholders vote in favour of the ordinary resolution set out in the notice of the EGM to approve the Transaction. The full text of the letter from the Independent Director is set out on page 17 of this circular.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendix to this circular.

By Order of the Board
Michael K W Yeung
Company Secretary
Liu Chong Hing Bank Limited

LETTER FROM THE INDEPENDENT DIRECTOR



LIU CHONG HING BANK LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1111)

4 April 2005

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

I am an independent non-executive director of the Bank. I have been appointed as the Independent Director to advise you in connection with the Transaction, details of which are set out in the Bank's circular to its shareholders dated 4 April 2005 (the "Circular"), of which this letter forms a part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Dao Heng Securities has been appointed as the independent financial adviser to advise me and the Independent Shareholders on the Transaction. Details of its advice is set out on pages 18 to 27 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 4 to 16 of the Circular.

Having considered the advice and recommendation of Dao Heng Securities, I consider that the terms of Transaction are fair and reasonable and that the Transaction on such terms is in the best interests of the Bank and the Independent Shareholders as a whole. I therefore recommend that the Independent Shareholders vote in favour of the ordinary resolution to be proposed at the EGM to approve the Transaction.

Yours faithfully,

Cheng Yuk Wo

Independent Non-executive Director

Liu Chong Hing Bank Limited

LETTER FROM DAO HENG SECURITIES

Set out below is the text of the letter of advice from Dao Heng Securities to the Independent Director and the Independent Shareholders prepared for inclusion in this circular.



4 April 2005

The Independent Director and the Independent Shareholders
Liu Chong Hing Bank Limited
Ground Floor
New World Tower 2
16-18 Queen's Road Central
Hong Kong

Dear Sirs,

DISCLOSEABLE AND CONNECTED TRANSACTION

We refer to our engagement to advise the Independent Director and the Independent Shareholders in relation to the Transaction, details of which are set out in the letter from the Board in a circular dated 4 April 2005 to the Shareholders (the "Circular"), of which this letter forms part. Terms defined in the Circular shall bear the same meanings herein unless the context otherwise requires.

The Bank entered into the conditional Sale and Purchase Agreement with LCH Investment on 3 March 2005, pursuant to which the Bank has agreed to acquire the entire issued and fully paid-up share capital of LCH Insurance from LCH Investment for a total cash consideration of HK\$212 million. As at the Latest Practicable Date, LCH Investment is the Controlling Shareholder of the Bank, by virtue of its indirect equity interest of approximately 45.46% in the Bank. LCH Insurance is a wholly-owned Subsidiary of LCH Investment. As a result, the Transaction constitutes a discloseable and connected transaction for the Bank under the Listing Rules.

As Mr. Peter Alan Lee Vine and Mr. Wanchai Chiranakhorn, being independent non-executive Directors, are also an independent non-executive director of LCH Investment and LCH Insurance respectively, they are not considered sufficiently independent to give any advice to the Independent Shareholders in relation to the Transaction. Accordingly, the remaining independent non-executive Director, namely Mr. Cheng Yuk Wo, has been appointed to make a recommendation to the Independent Shareholders in relation to the Transaction. We have been appointed as the Independent Financial Adviser to advise the Independent Director and the Independent Shareholders in this regard.

LETTER FROM DAO HENG SECURITIES

In formulating our recommendations, we have relied on the accuracy of the information and representations contained in the Circular and as provided to us by the Directors. We have assumed that all information and representations made or referred to in the Circular and all information and representations which have been provided by the Directors, are true and accurate in all material respects and that all expectations and intentions of the Bank or the Directors will be met or carried out as the case may be. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and referred to in the Circular, and we have been advised by the Directors that no material facts have been omitted from the information provided to us and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view. We have not, however, conducted any form of independent investigation into the businesses and affairs or the financial position or the prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion, we have taken into consideration the following principal factors and reasons. Our conclusions are based on the results of all the analyses taken as a whole.

1. Principal business and structure of the Group

The Bank is principally engaged in the provision of banking and other related financial services, offering a range of retail and wholesale financial banking products. The Bank operates a network of over 30 branches locally as well as in the PRC, Macau and the USA. It is one of the strategies of the Bank to expand its business horizon to maximize returns for its shareholders.

As at the date of this Circular, LCH Insurance is wholly-owned by LCH Investment. LCH Investment is the Controlling Shareholder of the Bank, by virtue of its indirect equity interest of approximately 45.46% in the Bank. Upon completion of the Transaction, LCH Insurance will become a wholly-owned Subsidiary of the Bank.

2. Reasons for and benefits of the Transaction

We have considered the reasons for and benefits of the Transaction as highlighted in the Letter from the Board and we concur with the Board's view that:

(1) Improve operation efficiency

- As at the date of this Circular, LCH Investment is engaged in a broad range of businesses, including property investment, property development, property management, treasury investment, banking (through its investment in the Bank), insurance, trading and manufacturing.

LETTER FROM DAO HENG SECURITIES

- The Transaction will enable a clear delineation of businesses between the Bank and LCH Investment, such that the financial service-related businesses (including banking and insurance) will be centralized under the Bank while the other businesses will remain under LCH Investment. The resulted delineation of businesses is expected to improve the operation efficiency of both the Bank and LCH Investment.

(2) *Expand the scope of financial services*

- By grouping LCH Insurance with the Bank, it will expand the financial services provided by the Bank by encompassing insurance services under the banking group, which in turn optimizes the quality of services provided to the Bank's customers.
- Both the Bank and LCH Insurance are expected to expand their respective client bases and create new business opportunities as a result of the Transaction.

(3) *Create synergies*

- The Transaction will create synergy effects for the existing businesses of both the Bank and LCH Insurance, from which the Bank and LCH Insurance can achieve better efficiencies and operation and administration cost savings.

3. Climate for general insurance business in Hong Kong

According to global insurance statistics, non-life insurance business in South and East Asia increased significantly in 2003. Real premium (calculated using premium in local currencies adjusted for inflation) grew by 8.8% in 2003, thus improving profitability, particularly as there were no exceptionally large losses. For 2003, the premiums per capita of Hong Kong was USD1,833 which was below those of Switzerland, United Kingdom, Japan, Ireland and United States which were all over USD3,000. Based on the economic growth forecasts as referred to in the Budget Speech delivered by the Financial Secretary on 16 March 2005, together with the relatively low penetration rate of general insurance in Hong Kong compared to other developed nations, we believe that the long-term growth prospects for general insurance business in Hong Kong are favourable. Indeed, during the previous years, the growth rates of premium income for general insurance business were 8.1% for year 2000, 8.8%

LETTER FROM DAO HENG SECURITIES

for year 2001, 20.6% for year 2002 (which we understand was due to a substantial increase in premium rates in the statutory employee compensation insurance class) and 5.3% for year 2003 according to the Annual Report 2004 issued by the Hong Kong Office of Commission of Insurance.

The world economy will continue to grow in 2005 and China will be the driving force of economic development in Asia. The rapid economic growth of China and the opening of the China market will create enormous business opportunities for Hong Kong. Driven by rapid economic growth, China ranked fourth in terms of average non-life premium growth between 1998 and 2003 among the emerging non-life insurance markets according to global insurance statistics.

Following the opening of the mainland insurance market, Hong Kong insurance companies and insurance practitioners will be allowed to enter into this huge potential market. The scope and territories of insurance business will further expand. Moreover, under the CEPA, Hong Kong insurance agents are permitted to conduct business in China. In March 2004, fifty Hong Kong insurance agents with professional insurance agent qualifications in China have started to conduct business under CEPA.

4. Performance of LCH Insurance in the industry

LCH Insurance is licensed to provide general insurance in Hong Kong and it wrote different classes of insurance policies in Hong Kong including, inter alia, (a) accident and health, (b) motor vehicle, (c) marine, (d) property, (e) general liability (including statutory employee compensation) and (f) pecuniary loss. Property insurance business accounted for approximately 42% of the whole portfolio in 2004, followed by general liability insurance (including statutory employee compensation).

Based on the statistics released by the Hong Kong Office of Commission of Insurance, LCH Insurance ranked 67th among all the non-life insurance companies operating in Hong Kong in terms of gross written premium by the end of 2003, representing a market share of 0.16% only. Despite the small market share occupied by LCH Insurance, it outperformed many larger players in the industry in terms of underwriting results in recent years.

LETTER FROM DAO HENG SECURITIES

The following table shows the underwriting results of certain underwriting profit-making non-life insurers in Hong Kong for 2003 according to the statistics released by the Hong Kong Office of Commission of Insurance:-

Name of company	Percentage of underwriting profit/ net earned premium
LCH Insurance	22%
BOC Group Insurance	7%
Bankers Alliance	21%
BUPA	5%
CGU	5%
Chevalier	14%
China Overseas Insurance	40%
China Pacific	2%
Dah Sing General	22%
Federal	12%
Hang Seng Insurance	23%
Ming An	1%
ING General	5%
Pacific Insurance	2%
PICC (HK)	10%
Royal & SA (HK)	19%

Note:

- (1) Based on the statistics available on the website of the Hong Kong Office of Commission of Insurance as at the Latest Practicable Date, the latest official data in relation to the general insurance business in Hong Kong only updated to the year 2003.

As shown in the above table, LCH Insurance recorded an underwriting profit-to-net earned premium ratio of approximately 22% in 2003 and stayed in the upper range of the comparables between 1% and 40%. If we take into account of the underwriting loss-making non-life insurers, the whole non-life insurance industry in Hong Kong recorded an underwriting profit-to-net earned premium ratio of approximately 8% in 2003.

The management of LCH Insurance attributed the good underwriting results to the conservative underwriting philosophy, with a focus on underwriting profitable business rather than on pursuing aggressive growth in business volume and market share. We understand from the management of LCH Insurance that many of its customers are referred by the Bank and have long standing relationship with the Bank. In fact, LCH Insurance demonstrated lower net loss ratio than the overall industry in many classes of general insurance policies for 2003. The following table shows the net loss ratios for different classes of insurance business of LCH

LETTER FROM DAO HENG SECURITIES

Insurance and the general insurance industry in Hong Kong for 2003 according to the statistics released by the Hong Kong Office of Commission of Insurance and the annual returns of LCH Insurance filed to the Hong Kong Office of Commission of Insurance provided by the management of LCH Insurance:—

Class of business	Net Loss Ratio	
	LCH Insurance	Industry
Accident & Health	10.5%	62.9%
Motor vehicle	16.7%	63.8%
Marine	49.4%	64.0%
Property	7.4%	35.4%
General liability	81.5%	69.1%
Pecuniary loss	21.8%	41.4%
Total	30.0%	59.2%

Notes:

- (1) Net loss ratio is the ratio of net claims incurred to net earned premium.
- (2) The class of marine insurance business includes insurance on ships and goods in transit according to the classification of Hong Kong Office of Commission of Insurance.
- (3) The class of general liability insurance business covers statutory employee compensation insurance against liability described in section 40 of the Employees' Compensation Ordinance (Cap.282) of Hong Kong according to the classification of Hong Kong Office of Commission of Insurance.

The net loss ratio is a better yardstick against which the underwriting performance of an insurance company is measured. Unlike underwriting results, the net loss ratio takes no account of the management and administrative expenses, and so it makes comparison among players of different size more meaningful, as small players normally incur comparatively higher overhead costs relative to premiums written.

Based on the above table, it is obvious that LCH Insurance performed well compared to the overall Hong Kong general insurance industry in 2003, especially for the class of property insurance business.

LETTER FROM DAO HENG SECURITIES

5. Basis of the consideration

As stated in the Letter from the Board in the Circular, the terms of the Sale and Purchase Agreement was negotiated on an arm's length basis and the Directors consider that the Transaction is made on normal commercial terms and in the interests of the Bank and its shareholders as a whole. The consideration of the Transaction is arrived at after arm's length negotiations between the Bank and LCH Investment, with reference to the following factors:

(a) Price/earnings multiple of comparable listed companies in Hong Kong

The consideration of the Transaction represents a price to earnings ratio ("PER", calculated by dividing a company's market value per share by its earnings per share) of approximately 8.2 times for the Transaction, using the audited net profit after taxation of LCH Insurance for the year ended 31 December 2004 of approximately HK\$25.9 million.

For non-life insurance companies (in particular property and casualty insurance companies, where in this case the core business of the company), price to earnings ratio is often used as the primary basis when conducting valuations due to the short-term nature of these businesses. In other words, it is in general difficult to estimate whether a property and casualty insurance policy will be renewed in subsequent years.

The PER of the insurance companies listed on the Stock Exchange of Hong Kong are set out in the table below:

Stock code	Name of company	PER (As at 14 March 2005)
65	Pacific Century Insurance Holdings Ltd.	15.00
966	China Insurance Int'l Holdings Co., Ltd.	32.08
2318	Ping An Insurance (Group) Company of China, Ltd.	12.85
2328	PICC Property and Casualty Co., Ltd.	15.98
2628	China Life Insurance Co., Ltd.	—

The PER of 8.2 for the Transaction is lower than each of the four insurance companies listed above with a PER (namely the companies with stock codes 65, 966, 2318 and 2328). It is also lower than the average PER of the abovementioned four insurance companies of 18.98 by approximately 56.8%.

LETTER FROM DAO HENG SECURITIES

Among the above-mentioned four insurance companies, Pacific Century Insurance Holdings Ltd. (“Pacific Century”) and PICC Property and Casualty Co., Ltd. (“PICC”) are considered as more appropriate comparisons to the operation of LCH Insurance. Pacific Century is locally owned and managed, while PICC is specialized in non-life insurance business. Together they serve as reasonable comparisons to LCH Insurance both in terms of geographical location and scope of business. When compared to the PER of Pacific Century and PICC, the PER of 8.2 for the Transaction represents a discount of approximately 45.3% and 48.7% respectively.

We consider that the respective discounts to the PER of Pacific Century and PICC are reasonable given the fact that LCH Insurance is a non-listed insurance company.

(b) Synergy of grouping LCH Insurance with the Bank

The grouping of LCH Insurance with the Bank will create synergy effects to the Bank in terms of expanding the existing range of financial services provided to customers, improving efficiencies, and reducing operation and administration costs.

The concept of the distribution of insurance products through banking networks (i.e. bancassurance) was introduced in 2002 in the market and became popular in 2003. By grouping LCH Insurance with the Bank, the Bank can thus achieve more effective use of its branch network by enabling LCH Insurance to distribute its products through the physical banking system. This arrangement not only allows the Bank to offer more value-added services to its customers, but also keeps distribution and marketing costs for insurance products at a lower level.

(c) Discount rate/valuation methodology

We have reviewed the actuarial report prepared by Watson Wyatt, an actuary appointed by the Bank to provide a reference valuation of the policy liabilities (outstanding claims and unexpired premiums) together with a scenario analysis of possible appraisal valuation of LCH Insurance as at 31 December 2004. Pursuant to the terms of the engagement, Watson Wyatt reviewed scenarios of possible appraisal valuations for LCH Insurance as at 31 December 2004 based on illustrative risk discount rates of 10% per annum, 12% per annum and 14% per annum. Although Watson Wyatt mentioned in their report that the risk discount rate is fundamental in the determination of the appraisal valuation, we also note that other assumptions adopted by Watson Wyatt are also crucial in the determination of the economic value of LCH Insurance. Such other assumptions include investment earning rates, inflation and economic growth rates, company tax rate, previous performance of LCH Insurance and its estimated future business growth rate.

LETTER FROM DAO HENG SECURITIES

The corresponding appraisal value, using the above illustrative risk discount rates of 10% per annum, 12% per annum and 14% per annum, is in the range from HK\$153.1 million to HK\$196.6 million. Watson Wyatt also prepared a sensitivity analysis that if any of the above mentioned assumptions changes (including the risk discount rates), its corresponding effects on the net value of future profits. We are advised by the Board of Directors that the actuary was engaged to provide a second opinion on the valuation of LCH Insurance, who would look at the valuation from a more technical aspect.

We note that the consideration of the Transaction, being HK\$212 million payable to LCH Investment, falls beyond the range of the actuarial valuation prepared by Watson Wyatt between HK\$153.1 million and HK\$196.6 million, using the above-mentioned illustrative risk discount rates. However, we have also discussed the assumptions adopted by Watson Wyatt and was informed that the following factors have not been considered in the assumptions:

- (i) the potential ample opportunities for Hong Kong insurance brokers to develop PRC business in the future as referred to in the section headed “Climate for general insurance business in Hong Kong” above; and
- (ii) the synergy effects of increasing the business of LCH Insurance following the acquisition.

Furthermore, as referred to in the paragraph headed “Price/earnings multiple of comparable listed companies in Hong Kong” above, we consider that it is more appropriate to adopt the PER methodology as a yardstick to determine whether the consideration payable to LCH Investment is fair and reasonable.

6. Financial effects of the Transaction

(a) Effect on earnings

Upon completion of the Transaction, LCH Insurance will become a wholly owned Subsidiary of the Bank. As a result, the Bank will enjoy 100% of future profit and loss of LCH Insurance upon Completion. For information purposes only, the audited net profit after taxation of LCH Insurance for the year ended 31 December 2004 amounted to approximately HK\$25.9 million based on its audited profit and loss accounts, , representing approximately 7.4% of the audited consolidated results of the Bank and its subsidiaries of approximately HK\$349.0 million for the year ended 31 December 2004.

LETTER FROM DAO HENG SECURITIES

As confirmed by the Directors and the auditors of the Bank, positive goodwill will be measured after initial recognition at cost less any accumulated impairment losses according to the accounting policy of the Bank. Accordingly, the positive goodwill arising from the Transaction will be tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired. In the event the recoverable amount of the positive goodwill is estimated to be less than its carrying amount, the carrying amount of the goodwill will be reduced to its recoverable amount and impairment loss will be recognized as expense immediately.

(b) Effect on net asset value

As advised by the Directors, given the Adjusted Audited Net Asset Value of LCH Insurance as at 31 December 2004 amounted to approximately HK\$95.9 million as stated in the Letter from the Board, and the consideration of the Transaction of HK\$212.0 million exceed the Adjusted Audited Net Asset Value of LCH Insurance by approximately HK\$116.1 million. The difference represents the positive goodwill of approximately HK\$116.1 million that will arise and therefore the net tangible asset value of the Bank will be reduced by the impaired amount of the positive goodwill (if any) subsequent to the Transaction. We consider the impact on the net tangible assets of the Bank insignificant in view of its large net asset value of approximately HK\$6,203.4 million as at 31 December 2004 as reflected in the audited accounts of the Bank for the year ended 31 December 2004.

(c) Effect on gearing

The consideration of the Transactions will be funded by the internal resources of the Bank and the effect on the gearing ratio shall therefore be minimal.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the terms of the Transaction are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Bank and its shareholders as a whole. Accordingly, we advise the Independent Director to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Transaction.

Yours faithfully,

For and on behalf of

Dao Heng Securities Limited

Venus Choi
Executive Director

Frankie Yan
Director

LETTER FROM DELOITTE & TOUCHE CORPORATE FINANCE LIMITED

Set out below are the texts of letter received from Deloitte & Touche Corporate Finance Limited in connection with the Economic Values of LCH Insurance.

Deloitte.
德勤

DELOITTE & TOUCHE CORPORATE FINANCE LIMITED

4 April 2005

The Board of Directors
Liu Chong Hing Bank Limited
Ground Floor, New World Tower 2
16-18 Queen's Road Central
Hong Kong

Dear Sirs,

We refer to the acquisition of the entire issued and fully paid-up share capital of Liu Chong Hing Insurance Company Limited ("LCH Insurance") by Liu Chong Hing Bank Limited from Liu Chong Hing Investment Limited, and the requirements under Rule 14.62 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The actuarially-based appraisal value of LCH Insurance as at 31 December 2004 (the "Economic Values") as reflected in the report of the same conducted by Watson Wyatt Insurance Consulting Limited which uses the discounted cash flow model, is based on, amongst others, the annual general business returns of LCH Insurance to the Insurance Authority for the years ended 31 December 1997 to 2004 inclusively. On the basis of the information deriving the Economic Values and the calculations in the valuation report reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Economic Values, for which the management of LCH Insurance is solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Deloitte & Touche Corporate Finance Limited
Lawrence Chia
Managing Director

LETTER FROM DELOITTE TOUCHE TOHMATSU

Set out below are the texts of letter received from Deloitte Touche Tohmatsu in connection with the Economic Values of LCH Insurance.

Deloitte.
德勤

4 April 2005

The Board of Directors
Liu Chong Hing Bank Limited
Ground Floor, New World Tower 2
16-18 Queen's Road Central
Hong Kong

Dear Sirs,

REPORT OF FACTUAL FINDINGS

In accordance with our engagement letter dated 28 February 2005, we have performed the procedures agreed with you and enumerated below in relation to the scenario analysis of appraisal valuations dated 4 March 2005 (the "Scenario Analysis") prepared by Watson Wyatt Insurance Consulting Limited ("Watson Wyatt") in respect of Liu Chong Hing Insurance Company Limited ("LCH Insurance").

Our engagement was undertaken and conducted in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The procedures were performed solely to assist the directors of Liu Chong Hing Bank Limited (the "Bank") to evaluate whether the Scenario Analysis was compiled properly so far as the calculations are concerned.

LETTER FROM DELOITTE TOUCHE TOHMATSU

Our procedures are summarised as follows:

1. We obtained the Scenario Analysis provided by the Bank which comprises the following economic values of LCH Insurance as at 31 December 2004 (the “Economic Values”) under three different risk discount rate assumptions:

Economic Values as at 31 December 2004 (*in HKD millions*)

	10% p.a.	12% p.a.	14% p.a.
Net worth (<i>note i</i>)	104.0	104.0	104.0
Net value of future profits (<i>note ii</i>)	92.7	66.8	49.2
Economic Values	196.6	170.7	153.1

- (i) the net worth of HK\$104 million which represents the Adjusted Audited Net Assets (as defined in the joint announcement of the Bank and Liu Chong Hing Investment Limited dated 14 March 2005) as at 31 December 2004, as further adjusted to take into account the independent assessment of the insurance policy liabilities by Watson Wyatt as at the valuation date; and
 - (ii) the net value of future profits which represents the present value of estimated future after tax distributable profits of LCH Insurance.
2. We checked the arithmetical accuracy of the calculations of the net worth, net value of future profits and Economic Values contained in the Scenario Analysis.
3. We compared the accounting policies (“Accounting Policies”) underlying the Economic Values as at 31 December 2004 with the accounting policies normally adopted by LCH Insurance.

We report our findings below:

- A. With respect to procedure 1, we obtained the Scenario Analysis containing the calculations of the Economic Values.
- B. With respect to procedure 2, we found that the calculations of the net worth, net value of future profits and Economic Values contained in the Scenario Analysis are arithmetically accurate.

LETTER FROM DELOITTE TOUCHE TOHMATSU

- C. With respect to procedure 3, we found that the Accounting Policies are consistent with those accounting policies normally adopted by LCH Insurance except that in determining the net worth as at 31 December 2004:
- (i) recognition has been given to the profit arising on the disposal of investments of LCH Insurance in listed securities in February 2005 as if such disposal had been taken place by 31 December 2004;
 - (ii) recognition has been given to the payment of an interim dividend for 2005 in February 2005 as if such dividend had been announced or paid by 31 December 2004; and
 - (iii) insurance provisions have been estimated based on best estimates of unexpired liabilities as opposed to those based on the 1/24th approach to estimating unearned premium reserve normally adopted by LCH Insurance.

Because the above procedures do not constitute either an audit or a review made in accordance with the Statements of Auditing Standards issued by the HKICPA, we do not express any such assurance. For the avoidance of doubt, we further clarify that the above procedures do not constitute any valuation of LCH Insurance.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Bank. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

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

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive officer of the Bank in the shares, underlying shares and debentures of the Bank or any of its associated corporation(s) (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) which were required to be notified to the Bank and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules (“Model Code”), to be notified to the Bank and the Stock Exchange, were as follows:

Interests in securities of the Bank

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	–	237,764,628 <i>Note (1)</i>	241,212,556	55.45116
Liu Lit Mo	1,009,650	–	237,764,628 <i>Note (1)</i>	238,774,278	54.89064
Liu Lit Chi	313,248	–	240,027,839 <i>Notes (1) & (2)</i>	240,341,087	55.25082
Don T S Liu	15,000	–	–	15,000	0.00345
Peter A L Vine	1,200	–	–	1,200	0.00028
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
Dominic B H Lam	50,000	600	–	50,600	0.01163

Notes:

- (1) 237,764,628 shares in the Bank are attributed as follows:
 - (i) 197,764,628 shares held by public listed LCH Investment'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 LCH Investment'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.

Other interests and short positions in securities

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive officer of the Bank had any interests or short positions in the shares, underlying shares and debentures of the Bank or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Bank and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code to be notified to the Bank and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at the Latest Practicable Date, so far as known to any Directors or the chief executive officer of the Bank, the following parties (other than the interests disclosed above in respect of certain Directors including the chief executive officer of the Bank) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Bank which would fall to be disclosed to the Bank and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

Name	Capacity	Number of Ordinary shares in the Bank	Percentage of issued share capital
Liu Chong Hing Estate	Beneficial owner	197,764,628 <i>Notes (1) and (3)</i>	45.46
LCH Investment	Interest of a controlled corporation	197,764,628 <i>Notes (1) and (3)</i>	45.46
Liu's Holdings Limited	Interest of a controlled corporation	197,764,628 <i>Notes (1) and (3)</i>	45.46
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 Ocean Shipping (Group) Company	Interest of a controlled corporation	87,000,000 <i>Note (2)</i>	20.00
Bank of Tokyo-Mitsubishi	Beneficial owner	42,000,000 <i>Note (3)</i>	9.66
Mitsubishi Tokyo Financial Group, Inc	Interest of a controlled corporation	42,000,000 <i>Note (3)</i>	9.66

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 is a wholly-owned subsidiary of LCH Investment, a public company listed on the Stock Exchange. Liu’s Holdings Limited, a private company, had interest in about 45 percent of LCH Investment’s issued and fully-paid share capital. The references to the 197,764,628 shares in question all relate to the same block of 197,764,628 shares registered in the name of Liu Chong Hing Estate.
- (2) China Ocean Shipping (Group) Company is the holding company of COSCO Pacific Investment Holdings Limited, which is in turn the holding company of COSCO Pacific Limited, a public company 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 Limited.
- (3) Bank of Tokyo-Mitsubishi is a wholly-owned subsidiary of 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.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or the chief executive officer of the Bank, no other person (not being a Director or the chief executive officer of the Bank) who had any interests or short positions in shares or underlying shares of the Bank which would fall to be disclosed to the Bank and the Stock Exchange, under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or held any option in respect of such capital.

4. LITIGATION

As at the Latest Practicable Date, neither the Bank nor any of its Subsidiaries are engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Bank or any of its Subsidiaries.

5. DIRECTORS’ INTERESTS IN COMPETING BUSINESSES

As at the Latest Practicable Date, none of the Directors or their respective Associates had any interest in a business which competes or may compete with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them were a Controlling Shareholder).

6. DIRECTORS' INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been, since 31 December 2004 (the date to which the latest published audited accounts of the Bank were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) are proposed to be acquired or disposed of by; or (iv) are proposed to be leased to any member of the Group.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Bank or any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

8. QUALIFICATIONS OF THE EXPERTS

The qualifications of the experts who have been named in this circular or have given advice or opinions contained in this circular are as follows:

Name	Qualification
Dao Heng Securities	a deemed licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities
Deloitte & Touche Corporate Finance Limited	a deemed licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities
Deloitte Touche Tohmatsu	Certified Public Accountants

Dao Heng Securities, Deloitte & Touche Corporate Finance Limited and Deloitte Touche Tohmatsu have given and have not withdrawn their written consent to the issue of this circular with the inclusion herein of their letters or their names in the form and context in which they respectively appear.

Dao Heng Securities, Deloitte & Touche Corporate Finance Limited and Deloitte Touche Tohmatsu do not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Dao Heng Securities, Deloitte & Touche Corporate Finance Limited and Deloitte Touche Tohmatsu do not have any direct or indirect interests in any assets which have been, since 31 December 2004 (being the date to which the latest published audited accounts of the Bank were made up), acquired or disposed of by or leased to any member of the Group, or which are proposed to be acquired or disposed of by or leased to any member of the Group.

9. QUALIFIED ACCOUNTANT AND COMPANY SECRETARY OF THE BANK

Mr. Frank Shui Sang Jin, the qualified accountant of the Bank, is the executive director in charge of the Bank's Finance and Treasury Management Division. Mr. Jin holds a Master of Business Administration degree from the City University in London and is a certified public accountant (practising) registered in Hong Kong.

Mr. Michael Kin Wah Yeung, the company secretary of the Bank, obtained a Bachelor of Arts degree in legal studies, political science and philosophy from Rice University (Texas, USA) in 1980 and a Doctor of Jurisprudence degree from the School of Law of the University of Texas at Austin (Texas, USA) in 1983. Mr. Yeung is a United States lawyer.

10. MATERIAL CHANGE

The Directors are not aware of, as at the Latest Practicable Date, any material adverse change in the financial or trading position of the Group since 31 December 2004, being the date to which the latest published audited financial statements of the Group were made up.

11. MISCELLANEOUS

- The share registrar of the Bank is Computershare Hong Kong Investor Services Limited of 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- The English text of this circular prevails over the Chinese text in case of any inconsistency.
- The Sale and Purchase Agreement is available for inspection during normal business hours at Deacons, 5/F Alexandra House, Chater Road, Central, Hong Kong, from the date of this circular up to and including 18 April 2005.

NOTICE OF THE EGM



LIU CHONG HING BANK LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 1111)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“EGM”) of the members of Liu Chong Hing Bank Limited (the “Bank”) will be held at The Harbour Room on Level 3, The Ritz-Carlton Hong Kong at 3 Connaught Road Central, Hong Kong on Tuesday, 26 April 2005 at 11:40 a.m. or as soon as practicable after the adjournment of the Bank’s annual general meeting (held at the same place on the same day), whichever is earlier, for the purpose of considering and if thought fit, passing, with or without modification, the following resolution as an ordinary resolution of the Bank .

ORDINARY RESOLUTION

“THAT:

- (A) the conditional sale and purchase agreement dated 3 March 2005 and made between the Bank and Liu Chong Hing Investment Limited (“LCH Investment”) (a copy of which has been produced to this meeting marked “A” and initialled by the Chairman of this meeting for the purpose of identification) (“Agreement”) pursuant to which the Bank would, subject to the terms and conditions therein contained, acquire from LCH Investment the entire issued share capital of Liu Chong Hing Insurance Company Limited (“Transaction”) for an aggregate consideration of HK\$212 million be and is hereby approved, confirmed and ratified; and
- (B) the directors of the Bank be and are hereby authorised to take all necessary actions to implement and give effect to the proposals, arrangements, terms and transactions contemplated in the Transaction, the Agreement, and to do all acts and things and to execute all documents which may in their opinion be necessary or desirable for the purpose of implementing and giving effect to the Transaction.”

By Order of the Board

Michael K W Yeung

Company Secretary

Liu Chong Hing Bank Limited

4 April 2005

NOTICE OF THE EGM

Registered office:

Ground Floor
New World Tower 2
16-18 Queen's Road Central
Hong Kong

Notes:

- (1) A member of the Bank entitled to attend and vote at the EGM is entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Bank but must be present in person to represent the member. A form of proxy for use at the EGM is enclosed herewith.
- (2) To be valid, the form of proxy together with any power of attorney or other authority under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the Bank's registered office (currently situated at Ground Floor, New World Tower 2, 16-18 Queen's Road Central, Hong Kong) not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
- (3) In the case of joint registered holders of any share in the capital of the Bank (each a "Share"), any one of such persons may vote at the EGM, either personally or by proxy, in respect of such Shares as if he/she was solely entitled thereto, but if more than one of such joint registered holders is present at the EGM, either personally or by proxy, that one of the said persons so present whose name stands first on the registrar of the members of the Bank in respect of such Shares shall alone be entitled to vote in respect thereof.
- (4) Completion and return of the form of proxy will not preclude members from attending and voting at the EGM or any adjourned meeting if you so wish. If a member attends the EGM after having deposited the form of proxy, his/her form of proxy will be deemed to have been revoked.
- (5) The ordinary resolution will be voted upon by way of a poll in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.



LIU CHONG HING BANK LIMITED

(Incorporated in Hong Kong with limited liability)

PROXY FORM FOR EXTRAORDINARY GENERAL MEETING

¹ Number of shares to which this proxy form relates	
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I/We², _____
of _____,
shareholder(s) of Liu Chong Hing Bank Limited (the "Bank"), hereby appoint³ the Chairman of the Meeting or, failing him,
_____ of _____

to be my/our proxy(ies) to attend, act and vote for me/us and on my/our behalf at **the Extraordinary General Meeting of Shareholders of the Bank to be held in The Harbour Room on Level 3, The Ritz-Carlton Hong Kong at 3 Connaught Road Central, Hong Kong on Tuesday, 26 April 2005 at 11:40 am or as soon as practicable after the adjournment of the 2005 Annual General Meeting of Shareholders of the Bank to be held at 11:00 am at the same place on the same day, whichever is earlier⁴, and at any adjournment thereof** on the resolution set forth in the Notice of the Extraordinary General Meeting (with or without modification) as an ordinary resolution as follows:

RESOLUTION	FOR ⁵	AGAINST ⁵	ABSTAIN ⁵
<p>A. To approve, confirm and ratify the conditional Sale and Purchase Agreement dated 3 March 2005 and made between the Bank and Liu Chong Hing Investment Limited (the "Agreement") pursuant to which the Bank would, subject to the terms and conditions therein contained, acquire from Liu Chong Hing Investment Limited the entire issued share capital of Liu Chong Hing Insurance Company Limited (the "Transaction") for an aggregate consideration of HK\$212 million; and</p> <p>B. To authorise the directors of the Bank to take all necessary actions to implement and give effect to the proposals, arrangements, terms and transactions contemplated in the Transaction and the Agreement, and to do all acts and things and to execute all documents which may in their opinion be necessary or desirable for the purpose of implementing and giving effect to the Transaction.</p>			

Dated this _____ day of _____ 2005 Signature(s)⁶ _____

NOTES:

1. Please insert the number of shares registered in your name(s). If no number is inserted (or if a number larger than your registered shareholding is inserted), this form of proxy shall be deemed to relate to all the shares in the Bank registered in your name(s).
2. Please insert full name(s) and address(es) in **BLOCK LETTERS**.
3. If any proxy other than the Chairman of the Meeting is preferred, strike out the relevant reference and insert the name and address of the proxy desired in the space provided. A member may appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Bank. **ANY ALTERATIONS MADE TO THIS FORM OF PROXY MUST BE DULY SIGNED.**
4. To be valid, this form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited with the Bank's Registered Office which is currently situated at Ground Floor, New World Tower 2, 16-18 Queen's Road Central, Hong Kong not less than 48 hours before the time appointed for the Meeting or any adjournment thereof. Delivery of this form appointing a proxy shall not preclude a shareholder from attending and voting in person at the Meeting or poll concerned, in which event this proxy form shall be deemed to be revoked.
5. **IMPORTANT : IF YOU WISH TO VOTE OR ABSTAIN FROM VOTING, PLEASE PLACE AN "X" IN THE APPROPRIATE BOX.** If you do not indicate how you wish your proxy to vote, your proxy shall exercise his discretion as to whether to vote for or against the resolution or to abstain from voting. Your proxy shall be entitled to vote at his discretion on any other resolutions properly put to the Meeting besides that set forth in the Notice convening the Meeting.
6. This form of proxy must be signed under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a corporation, either under its seal or under the hand of its duly authorised officer or attorney. In the case of joint shareholders, the vote of the senior who tenders a vote, whether in person or by proxy, shall prevail over the vote(s) of the other joint shareholder(s). For this purpose, seniority shall be determined by the order in which the names stand in the Register of Members, the first named being the senior.