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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

**If you have sold or transferred** all of your shares in **Industrial and Commercial Bank of China (Asia) Limited**, you should immediately hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for onward transmission to the purchaser or transferee.



**Industrial and Commercial Bank of China (Asia) Limited**

**中國工商銀行(亞洲)有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 349)**

**PROPOSED ADOPTION OF SHARE OPTION SCHEME  
PROPOSED SCRIP DIVIDEND SCHEME  
PROPOSED GENERAL MANDATES TO ISSUE  
AND REPURCHASE SHARES  
RE-ELECTION OF DIRECTORS**

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A notice convening an annual general meeting of Industrial and Commercial Bank of China (Asia) Limited to be held at 33/F., ICBC Tower, 3 Garden Road, Central, Hong Kong on Thursday, 10 May 2007 at 10:00 a.m. is set out on pages 192 to 195 of the annual report of the Bank for the year ended 31 December 2006. Whether or not you are able to attend the meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for such meeting. Completion and return of the form of proxy will not prevent shareholders from attending and voting at the meeting or any adjourned meeting if they so wish.

10 April 2007

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## **RESPONSIBILITY STATEMENT**

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This circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Industrial and Commercial Bank of China (Asia) Limited. The directors of Industrial and Commercial Bank of China (Asia) Limited 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.

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## DEFINITIONS

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*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 held at 33/F., ICBC Tower, 3 Garden Road, Central, Hong Kong on Thursday, 10 May 2007 at 10:00 a.m.
“Articles”	the articles of association of the Bank
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Bank”	Industrial and Commercial Bank of China (Asia) Limited, a company incorporated in Hong Kong, the shares of which are listed on the main board of the Stock Exchange
“Board”	the board of Directors
“Code”	the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules
“Companies Ordinance”	Companies Ordinance (Cap. 32 of the Laws of Hong Kong)
“Director(s)”	the director(s) of the Bank
“Group”	the Bank and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Issue Mandate”	a general and unconditional mandate proposed to be granted to the Directors to exercise the power of the Bank to allot, issue or otherwise deal with the Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal value of the share capital of the Bank in issue as at the date of the passing of the relevant resolution approving this Issue Mandate
“Latest Practicable Date”	2 April 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“Repurchase Mandate”	a general and unconditional mandate proposed to be granted to the Directors to enable them to repurchase the Shares of the Bank on the Stock Exchange, the aggregate nominal amount of which shall not exceed 10% of the aggregate nominal amount of the share capital of the Bank in issue as at the date of the passing of the relevant resolution approving this Repurchase Mandate
“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	share(s) in the capital of the Bank with a par value of HK\$2.00 each (or such other prevailing par value from time to time)
“Share Option Scheme”	the share option scheme of the Bank proposed to be adopted at the AGM, a summary of the principal terms of which is set out in Appendix III to this circular
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

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LETTER FROM THE BOARD

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中國工商銀行(亞洲)

ICBC (Asia)

**Industrial and Commercial Bank of China (Asia) Limited**

中國工商銀行(亞洲)有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 349)**

*Executive Directors:*

Mr. Zhu Qi

*(Managing Director and Chief Executive Officer)*

Mr. Wong Yuen Fai

*(Deputy General Manager & Alternate Chief Executive)*

Mr. Zhang Yi

*(Deputy General Manager & Alternate Chief Executive)*

*Registered Office:*

33/F., ICBC Tower

3 Garden Road

Central

Hong Kong

*Non-executive Directors:*

Dr. Jiang Jianqing *(Chairman)*

Ms. Wang Lili *(Vice Chairman)*

Mr. Chen Aiping

Mr. Damis Jacobus Ziengs

Professor Wong Yue Chim, Richard, S.B.S., J.P.\*

Mr. Tsui Yiu Wa, Alec\*

Mr. Yuen Kam Ho, George\*

\* *Independent Non-executive Directors*

10 April 2007

*To the Shareholders of the Bank*

Dear Sir or Madam,

**PROPOSED ADOPTION OF SHARE OPTION SCHEME  
PROPOSED SCRIP DIVIDEND SCHEME  
PROPOSED GENERAL MANDATES TO ISSUE  
AND REPURCHASE SHARES  
RE-ELECTION OF DIRECTORS**

**INTRODUCTION**

The purpose of this circular is to provide you with information regarding the proposals relating to (i) the proposed adoption of the Share Option Scheme; (ii) the authorization for the Directors to offer a scrip dividend alternative in respect of some or all of the dividends declared or paid up to and including the fifth financial year of the Bank after the passing of the resolution to approve the same; (iii) the granting of the Issue Mandate; (iv) the granting

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## LETTER FROM THE BOARD

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of the Repurchase Mandate; (v) the granting of a general and unconditional mandate to the effect that the total number of Shares which may be allotted and issued under the Issue Mandate be increased by the additional number of Shares actually repurchased by the Bank under the Repurchase Mandate; and (vi) the re-election of Directors who are due to retire at the AGM.

### **PROPOSED ADOPTION OF THE SHARE OPTION SCHEME**

At the AGM, an ordinary resolution will be proposed for the Bank to approve the adoption of the Share Option Scheme pursuant to which the eligible participants may be granted options to subscribe for Shares upon and subject to the terms and conditions of the Share Option Scheme. As at the Latest Practicable Date, no share option scheme has been adopted by the Bank.

The Directors consider that in order to provide incentive or reward to eligible participants for their contribution to, and continuing efforts to promote the interests of, the Bank and to enable the Group to recruit and retain high-calibre employees, it is important that the Group provides such eligible participants with an additional incentive by offering them an opportunity to obtain an ownership interest in the Bank. The Directors therefore propose to recommend to the Shareholders at the AGM to approve the adoption of the Share Option Scheme.

Under the rules of the Share Option Scheme, the Directors have discretion, among other things, to set a minimum period for which an option has to be held before the exercise of the subscription rights attaching thereto. This discretion allows the Directors to provide incentive to eligible participants to remain as eligible participants and thereby enable the Group to continue to benefit from the services and contributions of the eligible participants. This discretion, coupled with the power of the Directors to impose any performance targets or other restrictions as they consider appropriate before the option can be exercised, enable the Group to provide incentives to the eligible participants to use their best endeavours in assisting the growth and development of the Group. The Directors are of the view that the flexibility given to the Directors in granting options to eligible participants and to impose minimum period for which the options have to be held and performance targets and other conditions that have to be achieved before the options can be exercised, will place the Group in a better position to attract personnel that are valuable to the growth and development of the Group as a whole.

A summary of the principal terms of the rules of the Share Option Scheme is set out in Appendix III to this circular. A copy of the Share Option Scheme is available for inspection at the registered office of the Bank at 33/F., ICBC Tower, 3 Garden Road, Central, Hong Kong during normal business hours from the date hereof up to and including 10 May 2007.

The Share Option Scheme is conditional upon:

- (a) the Shareholders passing an ordinary resolution at the AGM to approve the adoption of the Share Option Scheme; and

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## LETTER FROM THE BOARD

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- (b) the Listing Committee granting approval to the listing of, and permission to deal in, the new Shares on the main board of the Stock Exchange, which new Shares may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

Under the Share Option Scheme, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Bank, if any, (excluding, for this purpose, options lapsed in accordance with the terms of the Share Option Scheme) must not in aggregate exceed 10% of the Shares in issue as at the date of the passing of the relevant resolution approving the Share Option Scheme. Based on the existing issued share capital of 1,121,259,215 Shares as at the Latest Practicable Date and assuming that no further Shares will be issued or repurchased by the Bank on or before the AGM, up to 112,125,921 Shares may be issued to eligible participants under the Share Option Scheme under Rule 17.03(3) of the Listing Rules should the Share Option Scheme be adopted.

The Bank may however obtain approval from Shareholders to refresh the said 10% limit, provided that the maximum number of Shares to be issued upon exercise of all outstanding options under the Share Option Scheme and any other share option schemes of the Bank, if any, must not exceed 30% of the issued share capital of the Bank from time to time.

The Directors consider that it is not appropriate to state the value of all options that can be granted pursuant to the Share Option Scheme as if they had been granted on the Latest Practicable Date as a number of variables which are crucial for the calculation of the value of the option have not been determined. Such variables include the exercise price, exercise period, any lock up period, any performance targets set and other variables. The Directors believe that any calculation of the value of the options as at the Latest Practicable Date based on a great number of speculative assumptions would not be meaningful and would be misleading to the Shareholders.

Application has been made to the Listing Committee for approval to the listing of, and permission to deal in, the new Shares which may fall to be issued pursuant to the exercise of the subscription rights attaching to the options that may be granted under the Share Option Scheme.

### **SCRIP DIVIDEND SCHEME**

For the purpose of allowing the Directors to offer scrip dividend alternatives in the future, a resolution will be proposed at the AGM to authorize the Directors to exercise the power contained in Article 142 to offer a scrip dividend alternative in respect of some or all of the dividends declared or paid in any period up to and including the Bank's annual general meeting held in the fifth financial year after the date on which the resolution is passed.

The Directors consider that the scrip dividend alternative will give Shareholders the opportunity to increase their investment in the Bank at market value without incurring brokerage fees, stamp duty and related dealing costs. The scrip dividend alternative will also benefit the Bank because, to the extent that Shareholders elect to receive new Shares, in whole or in part in lieu of cash dividend, the cash which would otherwise have been paid to the Shareholders will be retained for use by the Bank.

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## LETTER FROM THE BOARD

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The scrip dividend alternative may not be made to those Shareholders whose registered addresses as shown in the register of members of the Bank at the relevant times are outside Hong Kong in the event that, in compliance with the requirements under the Listing Rules, the Directors, upon making enquiry, consider such exclusion to be necessary or expedient on account of either of the legal restrictions under the laws of the relevant places or the requirements of the relevant regulatory body or stock exchange in those places.

### **Proposed final scrip dividend alternative for the year ended 31 December 2006**

On 20 March 2007, it was announced that the Directors recommended the payment of a final dividend of HK\$0.46 per Share for the year ended 31 December 2006 (the “**Final Dividend**”) payable on or about 8 June 2007 to the Shareholders whose names appear on the register of members of the Bank on 10 May 2007. Subject to the approval of the Scrip Dividend Scheme at the AGM, Shareholders would be able to exercise their option of electing to receive an allotment of new Shares in the capital of the Bank (the “**New Shares**”) credited as fully paid in lieu of cash for the Final Dividend (the “**Scrip Dividend Scheme**”).

The Scrip Dividend Scheme is subject (i) the approval of the Shareholders at the AGM; and (ii) to the granting by the Stock Exchange of the listing of, and the permission to deal in, the New Shares to be issued pursuant to the Scrip Dividend Scheme. Application will be made to the Listing Committee for a listing of and permission to deal in the New Shares. Subject to the approval of the Scrip Dividend Scheme at the AGM, a circular containing further details of the Scrip Dividend Scheme together with the forms of election will be sent to the Shareholders as soon as practicable after the AGM.

### **GENERAL MANDATES TO ISSUE AND TO REPURCHASE SHARES**

At the annual general meeting of the Bank on 27 April 2006, ordinary resolutions were passed granting a general mandate authorizing the Directors to allot, issue and deal with Shares not exceeding 20% of the aggregate nominal amount of the issued share capital of the Bank as at that date (“**Existing Issue Mandate**”) and a general mandate authorizing the Directors to repurchase Shares not exceeding 10% of the issued share capital of the Bank as at that date (“**Existing Repurchase Mandate**”).

The Existing Issue Mandate and the Existing Repurchase Mandate will expire upon the conclusion of the AGM.

The Issue Mandate and the Repurchase Mandate, being the new general mandates to allot, issue and deal with Shares up to 20% and to repurchase Shares up to 10% of the issued share capital of the Bank as at the date of the resolutions as set out in Resolutions 7 and 8 respectively, will be proposed at the AGM. Resolution authorizing the extension of the Issue Mandate to include the aggregate nominal amount of such Shares (if any) repurchased under the Repurchase Mandate will be proposed as Resolution 9 at the AGM.

With reference to the proposed new general mandates, the Directors wish to state that they have no immediate plan to issue or repurchase any securities of the Bank pursuant to the relevant mandates.

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## LETTER FROM THE BOARD

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An explanatory statement containing the particulars required by the Listing Rules and the Companies Ordinance to enable the Shareholders to make an informed view on whether to vote for or against Resolutions 7, 8 and 9 to be proposed at the AGM in relation to the proposed Repurchase Mandate is set out in Appendix II to this circular.

### RE-ELECTION OF DIRECTORS

In accordance with Articles 94(1) and 94(2) of the Articles, Dr. Jiang Jianqing (Chairman), Ms. Wang Lili (Vice Chairman) and Mr. Chen Aiping (Non-executive Director) will retire from directorship by rotation and being eligible, have offered themselves for re-election at the AGM.

The re-election of the retiring Directors at the AGM will not be for any specific term of office, but they will be subject to retirement by rotation and re-election at annual general meetings in accordance with the Articles and the retirement requirement under the Code. The particulars of the retiring Directors offering for re-election, which are required to be disclosed pursuant to the Listing Rules, are set out in Appendix I to this circular.

### RECOMMENDATION

The Directors consider that the proposed resolutions in respect of (i) the proposed adoption of the Share Option Scheme; (ii) the authorization for the Directors to offer a scrip dividend alternative in respect of some or all of the dividends declared or paid up to and including the fifth financial year of the Bank after the passing of the resolution to approve the same; (iii) the granting of the Issue Mandate; (iv) the granting of the Repurchase Mandate; (v) the granting of a general and unconditional mandate to the effect that the total number of Shares which may be allotted and issued under the Issue Mandate be increased by the additional number of Shares actually repurchased by the Bank under the Repurchase Mandate; and (vi) the re-election of Directors who are due to retire at the AGM are each in the best interests of the Bank, and accordingly, recommend all Shareholders to vote in favour of the resolutions relating to these matters to be proposed at the AGM.

### GENERAL INFORMATION

Your attention is drawn to the appendices to this circular.

Yours faithfully,  
**Dr. Jiang Jianqing**  
*Chairman*

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## APPENDIX I PARTICULARS OF DIRECTORS TO BE RE-ELECTED

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*This appendix contains the particulars of the Directors proposed to be re-elected at the AGM.*

### **Dr. Jiang Jianqing** (*Chairman*)

Dr. Jiang, aged 54, was appointed as the Chairman and a Director of the Bank in June 2000. Dr. Jiang graduated from Shanghai University of Finance and Economics, and received a Master's Degree in engineering and a Doctorate Degree in management, respectively after finishing postgraduate and doctorate courses at Shanghai Jiaotong University. Dr. Jiang has over 28 years of banking experience and he is the Chairman of Industrial and Commercial Bank of China Limited. Save as disclosed herein, Dr. Jiang has not held any directorships in other listed public companies during the last three years.

As at the Latest Practicable Date, Dr. Jiang had interests in 14,000 Shares of the Bank within the meaning of Part XV of the SFO. Save as disclosed herein, Dr. Jiang does not have any relationship with any other Directors, senior management, substantial or controlling shareholders of the Bank.

Dr. Jiang does not have a service contract with the Bank or its subsidiaries. No terms have been fixed or proposed for Dr. Jiang's length of service with the Bank, although he is subject to retirement by rotation and re-election at an annual general meeting of the Bank in accordance with the Articles. For the year ended 31 December 2006, Dr. Jiang is entitled to a Director's fee of HK\$190,000. The fees payable to the Directors are determined by the Board with reference to his duties, responsibilities, performance, the Bank's results and prevailing market conditions.

There is no other information required to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules.

### **Ms. Wang Lili** (*Vice Chairman*)

Ms. Wang, aged 55, was appointed as the Vice Chairman and a Director of the Bank in December 2002. Ms. Wang is the Vice President of Industrial and Commercial Bank of China Limited, primarily responsible for matters relating to the assets and liabilities management, corporate banking business, international business, financial market business and legal affairs. Ms. Wang graduated from Nankai University and received a MBA Degree from the University of Birmingham of United Kingdom. Ms. Wang has over 31 years of banking experience and was awarded a Certificate of Competence for Professor in the banking field. She is also the Chairman of the Board of Directors of ICBC (London) Limited. Save as disclosed herein, Ms. Wang has not held any directorships in other listed public companies during the last three years.

As at the Latest Practicable Date, Ms. Wang had no interest in the securities of the Bank within the meaning of Part XV of the SFO. Save as disclosed herein, Ms. Wang does not have any relationship with any other Directors, senior management, substantial or controlling shareholders of the Bank.

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## APPENDIX I PARTICULARS OF DIRECTORS TO BE RE-ELECTED

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Ms. Wang does not have a service contract with the Bank or its subsidiaries. No terms have been fixed or proposed for Ms. Wang's length of service with the Bank, although she is subject to retirement by rotation and re-election at an annual general meeting of the Bank in accordance with the Articles. For the year ended 31 December 2006, Ms. Wang is entitled to a Director's fee of HK\$140,000. The fees payable to the Directors are determined by the Board with reference to her duties, responsibilities, performance, the Bank's results and prevailing market conditions.

There is no other information required to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules.

**Mr. Chen Aiping** (*Non-executive Director*)

Mr. Chen, aged 48, was appointed as a Director of the Bank in December 2002. Mr. Chen holds a Bachelor of Arts Degree from Wuhan University and a Master of Business Administration (International) Degree from The University of Hong Kong. He has over 21 years of banking experience and is the General Manager of the International Business Department of Industrial and Commercial Bank of China Limited. He is also the Chairman of Industrial and Commercial Bank of China Luxembourg S.A. and a Director of Xiamen International Bank and ICEA Finance Holdings Limited. Save as disclosed herein, Mr. Chen has not held any directorships in other listed public companies during the last three years.

As at the Latest Practicable Date, Mr. Chen had no interest in the securities of the Bank within the meaning of Part XV of the SFO. Save as disclosed herein, Mr. Chen does not have any relationship with any other Directors, senior management, substantial or controlling shareholders of the Bank.

Mr. Chen does not have a service contract with the Bank or its subsidiaries. No terms have been fixed or proposed for Mr. Chen's length of service with the Bank, although he is subject to retirement by rotation and re-election at an annual general meeting of the Bank in accordance with the Articles. For the year ended 31 December 2006, Mr. Chen is entitled to a Director's fee of HK\$90,000. The fees payable to the Directors are determined by the Board with reference to his duties, responsibilities, performance, the Bank's results and prevailing market conditions.

There is no other information required to be disclosed pursuant to any of the requirements of Rule 13.51(2) of the Listing Rules.

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## **APPENDIX II EXPLANATORY STATEMENT ON REPURCHASE OF SHARES**

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*The information set out in this appendix serves as the explanatory statement required under Rule 10.06(1)(b) of the Listing Rules in connection with the Repurchase Mandate and also constitutes the memorandum required under Section 49BA(3) of the Companies Ordinance.*

### **SHARE CAPITAL**

It is proposed that the Repurchase Mandate will authorize the repurchase by the Bank of up to 10 per cent. of the total number of issued shares of the Bank as at the date of passing the Resolution. As at the Latest Practicable Date, the number of shares in issue was 1,121,259,215 Shares. On the basis of 1,121,259,215 Shares in issue and exercise in full of the Repurchase Mandate (and assuming no further Shares will be issued or repurchased after the Latest Practicable Date and up to the date of passing the Resolution), the Bank would be authorized under the Repurchase Mandate to repurchase a maximum of 112,125,921 Shares during the Relevant Period as referred to in the Ordinary Resolution No. 8 in the notice of AGM. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid-up.

### **REASONS FOR REPURCHASES**

The Directors believe that it is in the best interests of the Bank and the Shareholders to have a general authority from Shareholders to enable the Bank to repurchase Shares on the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Bank and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Bank and the Shareholders.

### **FUNDING OF REPURCHASES**

For repurchasing securities, the Directors may only apply funds legally available for such purpose in accordance with the Bank's Memorandum of Association and the Articles, the Listing Rules and the Companies Ordinance.

### **IMPACT ON WORKING CAPITAL OR GEARING POSITION**

There might be a material adverse impact on the working capital or gearing position of the Bank (as compared with the position disclosed in its most recent published audited accounts) in the event that the Repurchase Mandate is exercised in full at any time during the proposed repurchase period.

However, the Directors do not propose to exercise the Repurchase 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 level which in the opinion of the Directors is, from time to time, appropriate for the Bank.

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## **APPENDIX II EXPLANATORY STATEMENT ON REPURCHASE OF SHARES**

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### **DISCLOSURE OF INTERESTS**

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) has any present intention, in the event that the Repurchase Mandate is approved by the Shareholders, to sell Shares to the Bank.

No connected person of the Bank (as defined in the Listing Rules) has notified the Bank that he/she has a present intention to sell Shares to the Bank, or has undertaken not to sell any of the Shares held by him/her to the Bank in the event that the Bank is authorized to make purchases of Shares.

### **UNDERTAKING OF THE DIRECTORS**

The Directors have undertaken to the Stock Exchange to exercise the power of the Bank to make purchases pursuant to the proposed Resolution in accordance with the Listing Rules and all applicable laws of Hong Kong, and in accordance with the regulations set out in the Articles.

### **EFFECT OF TAKEOVERS CODE**

If, on the exercise of the power to repurchase Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Bank increases, such an increase will be treated as an acquisition for the purposes of the Takeovers Code. As a result, a Shareholder or a group of Shareholders acting in concert, could obtain or consolidate control of the Bank and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

The Directors are not aware of any consequence which would arise under the Takeovers Code as a consequence of any purchases pursuant to the Repurchase Mandate.

### **SHARE REPURCHASES MADE BY THE BANK**

During the six months immediately preceding the Latest Practicable Date, the Bank has not repurchased any of its Shares.

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**APPENDIX II EXPLANATORY STATEMENT ON REPURCHASE OF SHARES**

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**SHARE PRICES**

During each of the twelve months immediately preceding the Latest Practicable Date, the highest and lowest prices at which the Shares were traded on the Stock Exchange were as follows:

**Ordinary Shares**

<b>Month</b>	<b>Highest traded price (HK\$)</b>	<b>Lowest traded price (HK\$)</b>
<b>2006</b>		
April	12.45	11.15
May	12.25	10.55
June	11.80	10.90
July	13.20	11.45
August	13.38	12.40
September	13.68	12.24
October	14.70	13.02
November	14.40	12.72
December	15.00	13.54
<b>2007</b>		
January	17.78	14.98
February	17.94	15.60
March	17.70	14.74

*The following is a summary of the principal terms of the Share Option Scheme to be approved at the AGM. It does not form part of, nor is it intended to be part of, the rules of the Share Option Scheme and it should not be taken as affecting the interpretation of the rules of the Share Option Scheme. The Directors reserve the right at any time prior to the AGM to make such amendments to the Share Option Scheme as they may consider necessary or appropriate provided that such amendments do not conflict with any material aspects with the summary of the principal terms of the Share Option Scheme set out in this appendix.*

## **1 PURPOSE**

The purpose of the Share Option Scheme is to provide incentive or reward to eligible participants for their contribution to, and continuing efforts to promote the interests of, the Bank and to enable the Group to recruit and retain high-calibre employees.

## **2 WHO MAY JOIN**

The Directors may, at their absolute discretion, invite the chief executive officer of the Bank, the Directors and any full-time employees of the Bank or its subsidiaries, to take up options to subscribe for Shares at a price calculated in accordance with paragraph 6 below.

## **3 MAXIMUM NUMBER OF SHARES**

- (i) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Bank must not, in aggregate, exceed 30% of the issued share capital of the Bank from time to time.
- (ii) The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Bank (excluding, for this purpose, options lapsed in accordance with the terms of the Share Option Scheme and any other share option schemes of the Bank) must not in aggregate exceed 10% of the total number of Shares in issue as at the date of the passing of the relevant resolution approving the Share Option Scheme (“**General Mandate Limit**”).
- (iii) Subject to (i) above and without prejudice to (iv) below, the Bank may seek approval of its Shareholders in general meeting to refresh the General Mandate Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Bank must not exceed 10% of the Shares in issue as at the date of approval of the Refreshing of the General Mandate Limit and for the purpose of calculating such limit, options previously granted under the Share Option Scheme or any other share option schemes of the Bank (including those outstanding, cancelled or lapsed in accordance with the Share Option Scheme or other share option schemes or exercised options) will not be counted.

- (iv) Subject to (i) above and without prejudice to (iii) above, the Bank may issue a circular to its Shareholders and seek separate Shareholders' approval in general meeting to grant options beyond the General Mandate Limit or, if applicable, the limit referred to in (iii) above to participants specifically identified by the Bank before such approval is sought.

#### 4 MAXIMUM ENTITLEMENT OF EACH PARTICIPANT AND CONNECTED PERSONS

- (i) Unless approved by Shareholders, the total number of Shares issued and to be issued upon exercise of all options (granted and to be granted, whether exercised, cancelled or outstanding) under the Share Option Scheme and any other share option schemes of the Bank to each participant in any 12-month period must not exceed 1% of the share capital of the Bank then in issue ("**Individual Limit**").
- (ii) Any further grant of options to a participant which would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such participant (including exercised, cancelled and outstanding options) in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be separately approved by Shareholders in general meeting with such participant and his associates abstaining from voting. The Bank will send a circular to the Shareholders and the circular must disclose, among other terms, the identity of the participant, the number and terms of the options to be granted (and options previously granted to such participant) and must contain all the information required under the Listing Rules.
- (iii) Notwithstanding the aforesaid, each grant of options under the Share Option Scheme to a Director, chief executive or Substantial Shareholder, or any of their respective associates, must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee).
- (iv) If any proposed grant to a Substantial Shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled or outstanding) under the Share Option Scheme to such person in the 12-month period:
- (a) exceeding 0.1% of the share capital of the Bank then in issue; and
  - (b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options must be approved by the Shareholders of the Bank. The Bank must send a circular to the Shareholders setting out all the information required under the Listing Rules and explaining the proposed grant. Parties that are required to abstain from voting in favor at such general meeting pursuant to

the Listing Rules may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such option must be taken on a poll.

#### **5 MINIMUM PERIOD OF HOLDING AN OPTION AND PERFORMANCE TARGET**

The Directors may, at their absolute discretion, fix any minimum period for which an option must be held, any performance targets that must be achieved and any other conditions that must be fulfilled before the options can be exercised upon the grant of an option to a participant.

#### **6 SUBSCRIPTION PRICE FOR SHARES**

The subscription price of a Share in respect of any option granted under the Share Option Scheme shall, subject to any adjustments made pursuant to paragraph 16 below, be at the discretion of the Directors, save that subscription price must be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant of the option, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of the Shares. A consideration of HK\$1.00 is payable on acceptance of the offer of the grant of an option.

#### **7 RIGHTS ARE PERSONAL TO GRANTEE**

An option granted under the Share Option Scheme shall not be assignable and is personal to the grantee.

#### **8 TIME OF EXERCISE OF OPTION**

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

An option may be exercised and the payment for the subscription price be made in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, and in the absence of such determination from the date upon which the offer for the grant of the option is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof.

#### **9 RIGHTS ON CEASING EMPLOYMENT OR DEATH**

If the grantee of an option ceases to be an employee of the Group by reason other than death before exercising the option in full, the option (to the extent not already exercised) may be exercised within three months after the date of cessation or termination and not exercisable.

If the grantee of an option ceases to be an employee of the Group by reason of death before exercising the option in full, the grantee or his or her lawful personal representative(s) may exercise the option in whole or in part (to the extent not already exercised) within a period of twelve months following the date of death.

**10 RIGHTS ON DISMISSAL**

If the grantee of an option leaves the service of the Group by the reason of termination of his employment for misconduct or other breach of the terms of employment or other contract constituting him an eligible participant, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally or has been convicted of any criminal offence involving his integrity or honesty, his option will thereupon lapse automatically on the date of cessation to be an employee.

**11 RIGHTS ON A GENERAL OFFER, A COMPROMISE OR ARRANGEMENT**

If a general offer by way of a take-over is made to all the Shareholders, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, and such offer becomes or is declared unconditional, a grantee (or his personal representative(s)) shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice in writing to the Bank in accordance with the provisions of the Share Option Scheme at any time within 21 days after such offer becomes or is declared unconditional.

If a general offer by way of a scheme of arrangement is made to all of the Shareholders and the Scheme has been approved by the necessary number of Shareholders at the requisite meetings, a grantee (or his personal representatives) may thereafter (but before such time as shall be notified by the Bank) by notice in writing to the Bank exercise the option to its full extent or to the extent specified in such notice.

**12 RIGHTS ON WINDING-UP**

In the event of an effective resolution being proposed for the voluntary winding up of the Bank during the option period, the grantee of an option (or his personal representative(s)) may by notice in writing to the Bank elect to exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice within two business days prior to the proposed general meeting of the Bank considering such winding up, whereupon the grantee will be entitled to participate in the distribution of assets available in the liquidation *pari passu* with the holders of Shares.

**13 RANKING OF SHARES**

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles for the time being in force and will rank pari passu in all respects with the then existing fully-paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with reference to a record date falling before the date of allotment.

**14 PERIOD OF THE SHARE OPTION SCHEME**

Subject to early termination, the Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Share Option Scheme is adopted by resolutions of the Shareholders in general meeting.

**15 ALTERATION OF THE SHARE OPTION SCHEME**

The Share Option Scheme may be altered in any respect by resolution of the Board except that any material alteration to its terms and conditions (except for alterations which automatically take effect under the existing terms of the Share Option Scheme) and the matters contained in the relevant provisions of the Listing Rules shall not be altered to the advantage of the grantees or the prospective grantees without the prior sanction of a Shareholders' resolution in general meeting. The amended terms of the Share Option Scheme or the options must still comply with the relevant requirements under the Listing Rules. Any change to the authority of the Directors in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

**16 EFFECT OF ALTERATIONS TO CAPITAL**

In the event of any alteration in the capital structure of the Bank whilst any option remains exercisable or the Share Option Scheme remains in effect, and such event arises from a capitalization of profits or reserves, rights issue, consolidation, sub-division or reduction of the share capital of the Bank or otherwise, such corresponding alterations (if any) certified by the auditors for the time being or an independent financial adviser to the Bank as being fair and reasonable will be made to the number of Shares being the subject matter of the Share Option Scheme and/or the subscription price of any unexercised option provided that (i) any such adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event; (ii) no such adjustment shall be made the effect of which would be enable a Share to be issued at less than its nominal value; (iii) no such adjustment shall be made the effect of which would be to increase the proportion of the issued share capital of the Bank for which any grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment; and (iv) the issue of Shares or other securities of the Bank as

consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment. In addition, in respect of any such adjustments, other than any made on a capitalization issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements that they give a participant the same proportion (or rights in respect of the same proportion) of the equity capital as that to which that person was previously entitled.

**17 CANCELLATION OF OPTIONS**

The Directors may effect the cancellation of any options granted but not exercised on such terms as may be agreed with the relevant grantee, as the Directors may in their absolute discretion see fit and in a manner that complies with all applicable legal requirements for cancellation. Where the Bank cancels any options granted and offers to grant or grants new options to the same grantee, the offer or grant of such new options may only be made under the Share Option Scheme if there are available unissued options (excluding the cancelled options) within each of the limits referred to in paragraph 3 above.

**18 CONDITIONS OF THE SHARE OPTION SCHEME**

The Share Option Scheme is conditional on (i) the Shareholders passing an ordinary resolution to adopt the Share Option Scheme; and (ii) the Listing Committee granting approval for the listing of, and permission to deal in, the new Shares to be issued pursuant to the exercise of options.

**19 TERMINATION OF THE SHARE OPTION SCHEME**

The Bank may by resolution in general meeting terminate the operation of the Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme.

Article 70(1) of the Articles sets out the procedure by which the Shareholders may demand a poll.

At every general meeting, a resolution put to the vote of a meeting shall be decided on a show of hands, unless (before or upon the declaration of the result of the show of hands) a poll is demanded by:

- (a) the chairman of such meeting; or
- (b) at least three members present in person or by proxy having the right to vote on the resolution; or
- (c) a member or members present in person or by proxy representing in aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (d) a member or members present in person or by proxy holding Shares conferring a right to attend and vote at the meeting on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all Shares conferring that right;

and a demand for a poll by a person as proxy for a member shall be as valid as if the demand were made by the member himself.