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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)

**ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
FORTIS BANK ASIA HK**

**DISCLOSEABLE TRANSACTION
INVOLVING ISSUE OF NEW SHARES**

Financial Advisor



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DEFINITIONS

In this circular, unless the context requires otherwise, the following terms shall bear the following meanings:

“Acquisition”	the proposed acquisition of the entire issued share capital of FBAHK by the Company subject to the conditions and on the terms of the SPA
“Acquisition Price”	the total price for the Acquisition, being 1.05 times the net asset value of the Sale Group on the Completion Date as shown in the completion accounts of the Sale Group
“Affiliates”	in relation to any party, any subsidiary undertaking or parent undertaking of that party and any subsidiary undertaking of any parent undertaking, in each case from time to time
“Agency Deed”	the deed dated 31 December 2003 entered into between Fortis and FBAHK pursuant to the Carve Out Agreement in relation to the appointment of Fortis to act as FBAHK’s agent to carry out certain duties on the terms therein
“Agreed Value”	the value assigned to the Consideration Shares in the SPA, calculated at 1.05 times the consolidated net asset value per Share of the Company on the Completion Date
“Anti-Dilution Right Threshold”	the Vendor being the beneficial owner of such number of Shares representing (a) not less than 9% of the issued Shares; or (b) such lower percentage, which is below 9% but not less than 3% resulting from an issuance of Shares in respect of which the Vendor is not entitled to exercise its anti-dilution right under the SPA or does not receive the requisite top-up Shares from the Company under an exercise of its anti-dilution right under the SPA for whatever reason
“Board”	the board of Directors
“Capital Reduction Value”	the Regulatory Tier 1 Capital Value plus the consideration received by FBAHK under the Wa Pei Finance S&P
“Carve Out Agreement”	the agreement dated 31 December 2003 entered into between FBAHK and Fortis, relating to the sale of the Excluded Assets (other than the issued share capital of Wa Pei Finance Company Limited) by FBAHK to Fortis
“Carve Out Deed”	the deed dated 31 December 2003 entered into between Fortis and FBAHK pursuant to the Carve Out Agreement relating to certain liabilities of FBAHK in respect of certain businesses to be retained by Fortis

DEFINITIONS

“Company”	Industrial and Commercial Bank of China (Asia) Limited
“Completion”	completion of the SPA in accordance with its terms
“Completion Date”	the date on which Completion takes place, as defined in the SPA
“Consideration Shares”	new Shares to be issued, credited as fully paid, representing 9% of the total issued share capital of the Company as enlarged by its issue, to the Vendor as partial consideration for the Acquisition
“CP Shares”	the 202,219,218 convertible non-cumulative preference shares issued by the Company to ICBC and constituted by resolutions passed on 16 June 2001
“Deed for Tenancy and Licence”	the deed dated 31 December 2003 entered into between Wa Pei Properties Limited, a wholly-owned subsidiary of Fortis, as landlord and FBAHK as tenant whereby Wa Pei Properties Limited will agree on the Completion Date to lease certain property and premises occupied by the Sale Group to FBAHK
“Director(s)”	the director(s) of the Company
“Excluded Assets”	<ul style="list-style-type: none">(i) the entire issued share capital held by FBAHK in Wa Pei Finance Company Limited, an investment holding company and the principal subsidiary of which involves in property investments; and(ii) certain businesses of FBAHK other than its retail and commercial banking operations which shall be retained by Fortis, namely, the global commodities business, global corporate banking business, institutional banking and funds business and private banking business
“Euro”	the single currency of a member state of the European Union that adopts or has adopted it as its lawful currency in accordance with legislation of the European Community relating to the Economic & Monetary Union
“FBAHK”	Fortis Bank Asia HK, a company organised under the laws of Belgium and an indirect wholly-owned subsidiary of Fortis
“Fortis”	Fortis Bank, a company incorporated under the laws of Belgium
“GAAP”	generally accepted accounting principles
“Group”	the Company and its subsidiaries

DEFINITIONS

“HKMA”	the Hong Kong Monetary Authority
“IBFC”	the Insurance Banking and Finance Commission (formerly the Belgian Banking and Finance Commission), being the institution established by the 1935 Royal Decree nr. 185 on the supervision of credit institutions and the rules governing the issue of securities
“ICBC”	The Industrial and Commercial Bank of China, an enterprise established under the laws of the PRC
“Indemnity Deed”	a deed to be entered into before Completion by Fortis and the Vendor in favour of the Company, pursuant to which Fortis and the Vendor will agree to indemnify the Company against certain taxation liabilities of the Sale Group (including, for example, profits tax, property tax and withholding tax)
“Latest Practicable Date”	12 January 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Outsourcing Agreement”	the agreement dated 31 December 2003 entered into between Fortis and FBAHK pursuant to the Carve Out Agreement in relation to services to be provided by Fortis to FBAHK on the terms contained therein
“PRC”	the People’s Republic of China
“Regulatory Tier 1 Capital Value”	the value of the risk weighted assets (as determined in accordance with Guideline No. 4.1.1., “Capital Adequacy”, issued by the HKMA on September 1988) as at the Transfer Date (as defined in the Carve Out Agreement) of the Carved Out Assets (as defined in the SPA) multiplied by 12 per cent.
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Group”	FBAHK and its subsidiaries comprising FBAHK’s retail and commercial banking operations, excluding the Excluded Assets
“Service Level Agreements”	the agreements to be entered into between FBAHK and Fortis, pursuant to which Fortis relating to future services to be provided by Fortis to FBAHK after Completion
“SFC”	Securities and Futures Commission

DEFINITIONS

“SFO”	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of nominal value HK\$2.00 each in the capital of the Company
“Shareholders”	holder(s) of the Shares
“Side Letter”	the letter to be issued by ICBC to the Vendor pursuant to which ICBC will undertake to exercise the voting rights held by it so as to procure that one person nominated by the Vendor be appointed as a non-executive Director to the Board on the terms and subject to the conditions set out therein
“SPA”	the sale and purchase agreement dated 31 December 2003 entered into between the Company, the Vendor and Fortis, pursuant to which the Company has conditionally agreed to acquire from the Vendor the entire issued share capital of FBAHK
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Code on Takeovers and Mergers issued by the SFC as amended from time to time
“Vendor”	Generale Belgian Holding B.V., a company incorporated under the laws of the Netherlands and wholly-owned by Fortis
“Wa Pei Finance S&P”	the agreement dated 18 December 2003 entered into between FBAHK and Fortis relating to the disposal of Wa Pei Finance Company Limited to Fortis
“HK\$”	Hong Kong dollars

LETTER FROM THE BOARD



中國工商銀行(亞洲)
I C B C (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)

Chairman:
Dr. Jiang Jianqing

Directors

Ms. Wang Lili (*Vice Chairman*)
Mr. Zhu Qi (*Managing Director & Chief Executive Officer*)
Mr. Chen Aiping (*Non-executive Director*)
Mr. Kwok Kin Hung
(Executive Director & Deputy General Manager)
Mr. Wang Yan (*Executive Director & Deputy General Manager*)
Professor Wong Yue Chim, Richard, SBS, JP*
Mr. Tsui Yiu Wa, Alec*
Mr. Yuen Kam Ho, George*

** Independent Non-executive Director*

Registered office:
ICBC Tower
122-126 Queen's Road Central
Hong Kong

17 January 2004

To the Shareholders

Dear Sir or Madam,

**ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF
FORTIS BANK ASIA HK**

DISCLOSEABLE TRANSACTION INVOLVING ISSUE OF NEW SHARES

It was announced on 31 December 2003 that the Company had entered into the SPA with the Vendor and Fortis on the same day, pursuant to which the Vendor has agreed to sell, and the Company has agreed to purchase, the entire issued share capital of FBAHK, following a carve-out of the Excluded Assets, subject to the conditions and on the terms of the SPA.

The purpose of this circular is to give you further information regarding the Acquisition and other information required by the Listing Rules.

LETTER FROM THE BOARD

SALE AND PURCHASE AGREEMENT

Date: 31 December 2003

Parties

- (1) The Company as the purchaser;
- (2) The Vendor; and
- (3) Fortis as co-warrantor and guarantor of certain of the Vendor's obligations.

Assets to be acquired

The Company will acquire the entire issued share capital of FBAHK, following a carve-out of the Excluded Assets. Following such carve-out, the principal businesses and assets remaining in FBAHK will be its retail and commercial banking operations. Neither the Vendor nor Fortis and their beneficial owner(s) is a connected person (as defined in the Listing Rules) of the Company as at the Latest Practicable Date. Fortis has confirmed that to the best knowledge of its management, neither Fortis nor the Vendor has any beneficial shareholding in the Company as at the Latest Practicable Date.

Consideration

The Acquisition Price is HK\$2,157.0 million, subject to adjustment based on the net asset value of the Sale Group to be determined in accordance with Belgium GAAP as at the Completion Date. The consideration for the Acquisition will be satisfied by:

- (1) the allotment and issue to the Vendor of the Consideration Shares, which will represent 9% of the issued share capital of the Company (rounded up to the nearest board lot) as at the Completion Date, as enlarged by such issuance and assuming full conversion of the CP Shares prior to Completion, to be issued at an Agreed Value per Share equal to 1.05 times the consolidated net asset value per Share as at the Completion Date. The allotment and issue of the Consideration Shares, which will rank pari passu in all respects with the Shares then in issue at the date of issue of the Consideration Shares, will be made pursuant to the general mandate granted to the Board at the annual general meeting of the Company held on 16 April 2003 or, if necessary, any renewed general mandate granted to the Board by Shareholders in general meeting. As at the Latest Practicable Date, the general mandate granted to the Board on 16 April 2003 has not been used; and
- (2) a cash payment of a sum equal to the balance of the Acquisition Price after deduction of the Agreed Value of the Consideration Shares as stated in (1) above.

The Acquisition Price and other terms of the Acquisition have been determined through arms' length negotiations taking into account the reasons for the acquisition as set out in the paragraph headed "Reasons for the Acquisition".

LETTER FROM THE BOARD

The accounts of the Sale Group and the Company as at the Completion Date will be prepared by the Vendor and the Company within 60 days from the Completion Date.

The Company currently intends that the cash portion of the consideration will be financed by a combination of alternatives, including internal resources, issuance of subordinated debt and/or equity financing. The Company is still in the course of evaluating financing alternatives, and has not, as at the Latest Practicable Date, finalised any proposal in respect of any fund raising exercise.

Initial settlement on the Completion Date

Based on net asset value of HK\$2,054.3 million of the Sale Group as shown in the unaudited pro forma consolidated management accounts of the Sale Group as at 30 June 2003 which have been prepared under Belgium GAAP, the Acquisition Price is initially estimated to be HK\$2,157.0 million. Based on the number of Shares currently in issue of 624,374,304 Shares and assuming full conversion of the CP Shares (subject to any adjustment to the conversion price of the CP Shares under the terms of their issue) and no issuance of new Shares prior to Completion, a total of 81,752,000 Consideration Shares would be issued to the Vendor upon Completion. Based on the Company's net asset value of HK\$5,893.6 million as shown in the Company's published unaudited consolidated accounts as at 30 June 2003, the Agreed Value of each of such Consideration Shares is estimated at HK\$7.49 per Share, representing a 37.6% discount to the closing price of HK\$12.0 per Share as at the Latest Practicable Date, and the aggregate Agreed Value of the Consideration Shares would be HK\$612.0 million. The cash portion of the consideration would be HK\$1,545.0 million.

Based on the closing price of HK\$12.0 per Share as at the Latest Practicable Date, the aggregate market value of the Consideration Shares would amount to approximately HK\$981.0 million, and the aggregate value of the total consideration for the Acquisition would amount to HK\$2,526.0 million.

Post-completion adjustment

Under the SPA, the Acquisition Price and the Agreed Value of the Consideration Shares are subject to adjustment to reflect the changes in the net asset value of the Sale Group and the Company from 30 June 2003 to the Completion Date based on the completion accounts of the Sale Group and the Company respectively as at the Completion Date to be prepared by the Vendor and the Company and delivered to the other party within 60 days from the Completion Date. Such completion accounts of the Sale Group and the Company will be prepared under Belgium GAAP and Hong Kong GAAP, respectively. The completion accounts of the Company will comprise the audited consolidated balance sheet of the Company as at the Completion Date. As a result of such an adjustment, any overpayment or underpayment of the cash portion to the Vendor will be settled in cash by the Vendor to the Company or by the Company to the Vendor (as the case may be) within 3 business days of the date on which the completion accounts of the Sale Group and the Company have been agreed and finalised.

Payment on Completion and any post-completion adjustment shall be made in Euro, except for any post-completion adjustment payable by the Vendor to the Company, which shall be made in Hong Kong dollars.

LETTER FROM THE BOARD

The parties have agreed that the shareholder's equity (including share capital, retained earnings and reserves) of FBAHK at Completion shall not be more than the amount of shareholder's equity of FBAHK as at 30 June 2003 as shown in the unaudited accounts of FBAHK except for any increase in such shareholder's equity as a result of profits and income arising in the ordinary course of business.

Other terms of the SPA

(1) Restriction on Shareholding

Effective from the Completion Date, neither the Vendor nor Fortis shall, and they shall procure their Affiliates shall not, without the prior written consent of the Company, individually or together become the beneficial owner (whether directly or indirectly) of more than 9 per cent. of the total issued Shares. However, such restriction does not apply if any increase of the Vendor's and Fortis's beneficial shareholding interest to more than 9 per cent. is a result of a repurchase or redemption of issued Shares effected without the prior agreement of Fortis. In addition, in the event of an increase of the Vendor's and Fortis's shareholding interest in such circumstances, the percentage of the beneficial shareholding interest of the Vendor and Fortis in the Company to which the restriction applies shall become the percentage above 9 per cent. which has resulted from such repurchase or redemption of Shares. However, such restriction shall cease to apply if the Company issues Shares to any person (other than ICBC) such that the percentage of such person's holding in the issued Shares exceeds that beneficially owned by the Vendor and Fortis as at the date of such issue of Shares, in which event the Vendor and Fortis shall be at liberty to acquire further Shares above the 9 per cent. limit.

(2) Restriction on Transfer

Effective from the Completion Date until the expiry of three years thereafter, neither the Vendor nor Fortis may, without the prior written consent of the Company, dispose of any beneficial shareholding interest of the Shares held by any of them without the prior consent of the Company. However, such restriction shall be terminated in the event that the Company is indemnified by the Vendor and Fortis to the extent as covered by the Indemnity Deed.

(3) Anti-dilution Right

Assuming that Fortis and the Vendor maintain the Anti-Dilution Right Threshold, the Vendor has anti-dilution rights under any one or more of the following three scenarios:

Scenario 1: Placing and top-up

In the event of an issuance of new Shares under any general mandate in force from time to time of the Company effected through a placing and top-up involving ICBC in compliance with Rule 14.24(6)(a) of the Listing Rules (or equivalent provisions succeeding the same) and (if applicable) Note 6 to the 'Notes on Dispensations from Rule 26' of the Takeovers Code, the Vendor would be given the right to participate in the placing and top-up under the same general

LETTER FROM THE BOARD

mandate on a pro rata basis and on the same terms such that it could subscribe for sufficient Shares to top it back up to the same percentage shareholding in the issued Shares as that immediately prior to such placing and top-up (or such lower number of Shares as may be permitted under the Listing Rules in force at the time).

Scenario 2: Acquisition of assets from ICBC through share consideration

In the event of an acquisition of assets by the Company from ICBC through an issuance of new Shares as consideration, the Directors would exercise any general mandate in force from time to time and offer to the Vendor for subscription sufficient Shares to enable the Vendor to top back up to the same percentage shareholding in the issued Shares as that immediately prior to such issue of new Shares to ICBC and at the same price at which such new Shares are issued to ICBC.

Scenario 3: Acquisition of assets from third party through share consideration

In the event of an acquisition of assets by the Company from any third parties through issuance of new Shares as consideration, the Directors would also exercise any general mandate in force from time to time and offer to the Vendor for subscription sufficient Shares to enable the Vendor to top back up to the same percentage shareholding in the issued Shares as that immediately prior to such issue of new Shares to such third party and at the same price at which such new Shares are issued to such third party.

The above three scenarios are not an exhaustive list of the circumstances in which the Vendor could exercise the anti-dilution right.

The Vendor shall lose its anti-dilution right if the percentage of its beneficial ownership in the issued Shares (a) falls below 5% as a result of an issue of new Shares by the Company in respect of which the Vendor has failed to exercise its anti-dilution right and does not otherwise restore its shareholding to 5% or above within 6 months from being entitled to exercise its anti-dilution right; or (b) falls below 3%.

Conditions to Completion

Completion is conditional on the following conditions having been fulfilled or (if applicable) waived by the relevant parties:

- (1) (a) the IBFC having confirmed in writing to FBAHK, the Vendor and the Company that it does not object to the Acquisition; and (b) the IBFC not having limited or prohibited the proposed transfer of the shares of FBAHK;

LETTER FROM THE BOARD

- (2) the banking license granted to FBAHK pursuant to the applicable provisions of the 1993 Banking Law of Belgium continuing to be in force;
- (3) if required, the obtaining of approval from the Shareholders (in accordance with the Listing Rules and as otherwise required by the Stock Exchange) to approve the allotment and issue of the Consideration Shares, the SPA and/or any of the transactions contemplated under the SPA (as applicable);
- (4) the Listing Committee of the Stock Exchange granting or agreeing to grant listing of, and permission to deal in, the Consideration Shares;
- (5) execution of the Indemnity Deed, Service Level Agreements, the Deed for Tenancy and Licence (and completion thereof), the Agency Deed, the Carve Out Deed and the Outsourcing Agreement;
- (6) execution by Fortis and FBAHK of the relevant agreements to effect the transfer of the Excluded Assets and completion of such transfer;
- (7) the Company having received clearances in terms reasonably satisfactory to the Company from the HKMA and the SFC in respect of the transactions contemplated by the SPA and the fulfillment of any conditions to which such clearances are subject and which are required to be satisfied prior to Completion;
- (8) the Company and any holding company or other controller of the Company having been approved by the SFC as a substantial shareholder of Fortis Securities Asia HK Limited;
- (9) consent, approval or clearance for the transactions contemplated under the SPA, being obtained from the China Banking Regulatory Commission;
- (10) there being on the Completion Date, no breaches of the representations and warranties given by Fortis and the Vendor which would materially and adversely affect the business and financial condition of the Sale Group taken as a whole;
- (11) there being on the Completion Date, no breaches of the representations and warranties given by the Company which would materially and adversely affect the business and financial condition of the Company and its subsidiaries taken as a whole;
- (12) there being on the Completion Date, no breaches of certain of the pre-completion undertakings in the SPA which would materially and adversely affect the business and financial condition of the Sale Group taken as a whole;
- (13) the Company having arrangements in place to ensure that on the Completion Date, the Sale Group shall cease to use or display any of the trade or service marks, trade or service names registered designs or logos used or held by the Vendor and its Affiliates, save as provided in the SPA;

LETTER FROM THE BOARD

- (14) the Side Letter being executed by the parties thereto;
- (15) a capital reduction in FBAHK of an amount equals to the Capital Reduction Value being effected in accordance with Belgium Law to the satisfaction of the Vendor and Fortis; and
- (16) conversion of the CP Shares.

The Company shall be entitled in its absolute discretion, by written notice to the Vendor, to waive condition (10) and (12) either in whole or in part. Fortis and the Vendor shall be entitled in its absolute discretion, by written notice to the Company, to waive condition (11) and (16) either in whole or in part. If the conditions precedent of the SPA are not fulfilled (or waived) by 30 June 2004, the SPA shall save as otherwise provided in the SPA, lapse, and none of the parties shall have any claim of any nature whatsoever against any other party under the SPA.

Completion shall take place on 30 April 2004, or if the conditions have not been satisfied or waived by 30 April 2004, on the third business day after the first business day on or by which, prior to 4 p.m., all of the conditions (except the conditions under paragraphs (1)(b), (2), (5), (10), (11) and (12) above) have been satisfied (or waived, as applicable), or such other date as may be agreed otherwise by the parties (but which shall be no later than 30 June 2004).

As at the Latest Practicable Date, other than the signing of the Deed for Tenancy and Licence, the obtaining of consent, approval or clearance from the China Banking Regulatory Commission as referred to in condition (9) above, the execution of the relevant agreements for the transfer of the Excluded Assets, the Agency Deed, the Carve Out Deed and the Outsourcing Agreement, and completion of the disposal of Wa Pei Finance Company Limited, which is part of the Excluded Assets, as referred to in condition (6) above, none of the other conditions precedent have been fulfilled.

INFORMATION ABOUT FBAHK

FBAHK is a company organized under the laws of Belgium and is headquartered in Brussels, with principally all of its businesses conducted through its branch operation in Hong Kong. FBAHK is indirectly wholly owned by Fortis, the banking arm of Fortis, one of the largest European financial institutions engaged in banking, insurance and asset management.

FBAHK's history goes back to 1902, when as Banque Sino-Belge — later called Belgian Bank — the company opened an office in Shanghai. Later it opened branches in Tianjin, Beijing and Hankow (now known as Hankou). FBAHK was amongst the first European banks to open an office and to conduct business in China.

LETTER FROM THE BOARD

The Excluded Assets comprise certain operations of FBAHK in Hong Kong which are to be retained by Fortis, namely, the global commodities business, global corporate banking business, institutional banking and funds business and the private banking business, as well as the entire issued share capital of Wa Pei Finance Company Limited. Following such carve-out of the Excluded Assets, the principal businesses to be acquired by the Company will be the retail and commercial banking operations of FBAHK primarily targeted at serving retail customers and small-to-medium sized enterprises in Hong Kong.

Assuming the carve-out of the Excluded Assets and the capital reduction in FBAHK (as mentioned in item (15) of the Conditions to Completion) were completed on 1 January 2001 and on a unaudited pro forma basis, the financial position of the Sale Group prepared under the Belgium GAAP is as follows:

- (1) consolidated net profit before tax amounted to HK\$140.9 million and HK\$120.0 million for the years ended 31 December 2002 and 2001, respectively.
- (2) consolidated net profit after tax amounted to HK\$98.7 million and HK\$46.4 million for the years ended 31 December 2002 and 2001, respectively.
- (3) consolidated net tangible asset value was HK\$1,762.3 million and HK\$1,391.9 million as at 31 December 2002 and 2001, respectively.
- (4) in respect of the six months ended 30 June 2003, consolidated net profit before tax amounted to HK\$119.7 million, consolidated net profit after tax amounted to HK\$58.2 million and the consolidated net tangible asset value as at 30 June 2003 was HK\$2,047.3 million.

Retail banking business

FBAHK's retail banking business comprises three customer segments: individuals, professionals and small enterprises. It provides a complete range of consumer banking products and services adapted to the needs of the retail market. A bancassurance partnership has been entered into with Eagle Star, which is part of the Zurich Financial Services Group. The retail business has different distribution channels, namely bricks (branches) and non-bricks (internet banking, phone banking, automatic teller machines). Currently FBAHK has a network of 22 retail branches and a personal banking and investment center which offers services to higher-end customers. A securities department offers securities dealing services to customers via different channels. The business units are closely supported by a marketing, sales support and business intelligence unit.

LETTER FROM THE BOARD

The following table outlines certain business figures of FBAHK's retail banking business as of 30 June 2003 or for the six months ended 30 June 2003 (as applicable) as compared with those of the Company as of the same date or for the same period (as applicable):

Retail banking	FBAHK	the Company	Pro forma Combined
Total loans* (HK\$ bn)	5.2	11.2	16.4
Total deposits* (HK\$ bn)	14.7	12.1	26.8
Net interest income (HK\$ mn)	116.9	102.8	219.7
Other income (HK\$ mn)	28.8	15.2	44.0
Other income/Total income (%)	19.8	12.9	16.7
Number of customers (thousands)	82	39	121
Number of accounts (thousands)	131	45	176
Number of branches	22	20	42

* Please note that the loans and deposits of FBAHK's retail banking operation does not include the loans and deposits recorded under FBAHK's treasury operation

Commercial banking business

The commercial banking business is mainly targeted at medium sized enterprises. It provides a complete range of commercial banking products and services. It operates 5 business centers in Hong Kong which located at: Central, Hong Kong Island, Kowloon East, Kowloon West and New Territories. The organization also includes a techno-commercial unit and specialized teams such as an international desk, business development unit, hire purchase & leasing team and commercial finance team which provide specialized product expertise in support of the front line personnel.

The following table outlines certain business figures of FBAHK's commercial banking business as of 30 June 2003 or for the six months ended 30 June 2003 (as applicable) as compared with those of the Company as of 30 June 2003 or for the six months ended 30 June 2003 (as applicable).

Commercial banking	FBAHK	the Company	Pro forma Combined
Total loans* (HK\$ bn)	8.7	4.3	13.0
Total deposits* (HK\$ bn)	5.6	6.6	12.2
Net interest income (HK\$ mn)	124.1	41.1	165.2
Other income (HK\$ mn)	65.9	14.5	80.4
Other income/Total income (%)	34.7	26.1	32.7
Number of customers (thousands)	5	2	7

* Please note that the loans and deposits of FBAHK's commercial banking operation does not include the loans and deposits recorded under FBAHK's treasury operation

LETTER FROM THE BOARD

Based on the unaudited pro forma management accounts of FBAHK as of 30 June 2003, assuming the carve-out of the Excluded Assets and the capital reduction in FBAHK (as mentioned in item (15) of the paragraph headed “Conditions to Completion”), FBAHK’s tier 1 capital ratio, total capital adequacy ratio, non-performing loan ratio and non-performing loan coverage ratio were 13.9%, 14.4%, 5.5% and 92.0%, respectively.

INFORMATION ON THE COMPANY

The Company is a full licensed bank incorporated in Hong Kong and whose Shares are listed on the Stock Exchange. The Company is principally engaged in banking and financial services with a focus on commercial and retail banking businesses as well as corporate banking business. As at the Latest Practicable Date, it has 20 branches and one wealth management center in Hong Kong, and an overseas branch established in the Cayman Islands. The Company is the flagship of ICBC’s banking business in Hong Kong. The financial position of the Company prepared under Hong Kong GAAP is as follows:

- (i) According to the 2002 annual report of the Company, the audited consolidated net profit before tax of the Company amounted to HK\$570.8 million and HK\$331.6 million for the years ended 31 December 2002 and 2001, respectively.
- (ii) According to the 2002 annual report of the Company, the audited consolidated net profit after tax amounted to HK\$482.4 million and HK\$330.4 million for the years ended 31 December 2002 and 2001, respectively.
- (iii) According to the 2002 annual report of the Company, the audited consolidated net tangible asset value of the Company was HK\$5,228.4 million and HK\$4,378.5 million as at 31 December 2002 and 2001, respectively.

Based on published unaudited consolidated accounts of the Company in respect of the six months ended 30 June 2003, consolidated net profit before tax amounted to HK\$280.9 million, consolidated net profit after tax amounted to HK\$231.9 million and the consolidated net tangible asset value was HK\$5,190.1 million.

REASONS FOR THE ACQUISITION

Since its acquisition by ICBC in 2000, with the capital and business support from ICBC, the Company has experienced rapid development through organic growth and acquisitions. From end of 2000 to June 2003, the Company’s total assets grew from HK\$20.7 billion to HK\$66.2 billion and total profits grew from HK\$150 million in 2000 to HK\$482 million in 2002. The Company has developed particular strength in corporate banking business focused on large corporate clients, such business

LETTER FROM THE BOARD

contributing approximately 40% of the Company's pre-tax profits in the first half of 2003. The Directors are of the view that the Acquisition, if successfully concluded, is expected to bring, among others, the following benefits to the Group:

- (1) **Larger and stronger banking operation.** Based on the unaudited management accounts of FBAHK, assuming the carve-out of the Excluded Assets and the capital reduction in FBAHK (as mentioned in item (15) of the paragraph headed "Conditions to Completion"), and of the Company as at the end of 30 June 2003, total assets of the combined group would increase from approximately HK\$66.2 billion to approximately HK\$94.5 billion, and customer deposits would increase from approximately HK\$38.0 billion to approximately HK\$59.7 billion. The branch network will expand to 42 branches and 5 SME business centres with the number of retail customers increasing three fold from the current level of approximately 39,000 to approximately 121,000. In terms of total assets, the Company is expected to be ranked sixth among the local banks in Hong Kong from its current position of tenth by reference to the financial information as at June 2003. The Directors are of the view that a larger and stronger operation is important to improving the Company's marketing and financial position, leading to enhanced revenue potential.
- (2) **Improved business structure and customer mix.** FBAHK, as compared with the Company, is more focused on commercial and retail banking businesses targeting small to medium sized enterprises and retail customers. Within the commercial and retail businesses, the products offered by FBAHK and the Company are also complementary to each other, and the customer bases have little overlap. For example, in retail banking, FBAHK offers more personal wealth management products and bancassurance products to local middle class individuals and institutional customers, while the Company has developed products (such as HK\$/RMB dual currency credit cards) targeted as customers with cross-border needs, leveraging on the network and resources of ICBC. Based on the unaudited 30 June 2003 numbers of FBAHK, assuming the carve-out of the Excluded Assets and the capital reduction in FBAHK (as mentioned in item (15) of the paragraph headed "Conditions to Completion") and of the Company, following the transaction, loan/deposit ratio will be reduced from 93.0% to 86.1%. The Directors are of the view that the Acquisition will improve the Company's business structure, reduce business risks and enhance revenue potential through the ability to cross-sell more products to an enlarged and more diversified customer base.
- (3) **Cost synergies.** The Directors believe that cost synergies can be realized from consolidating support functions and rationalizing the branch networks of the two organizations and by redeploying personnel to areas where the Company expects growth such as front line offices and client service functions. Cost synergies can also be achieved through the ability to deploy new technology over a larger operational base. Based on unaudited financial information for the first half of 2003, the cost/income ratios of FBAHK, assuming the carve-out of the Excluded Assets and the capital reduction in FBAHK (as mentioned in item (15) of the paragraph headed "Conditions to Completion"), and of the Company for the first half of 2003 were 61.3% and 29.4%, respectively.

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- (4) **Tax savings.** The majority of FBAHK's profits are originated in Hong Kong and subject to Hong Kong and Belgium double taxation. Given current Hong Kong profits tax rate of 17.5% and Belgian tax rate of 33.99% after deducting Hong Kong profits tax, such profits would be subject to a combined tax rate of approximately 44.5%. It is the current intention of the Directors to merge the operations of FBAHK into that of the Company by way of a private ordinance following the Acquisition. Upon completion of such a merger, the profits contributed by the operation of FBAHK will be subject to Hong Kong profits tax only. In addition, a double tax treaty was signed between Belgium and the Hong Kong SAR on 10 December 2003, which, when ratified by the two governments, is expected to reduce the tax burden of FBAHK before the merger into the Company, although the exact impact on FBAHK is yet to be confirmed.

Taking into account the above benefits, the Directors believe that the Acquisition will be beneficial to the Company and its Shareholders. The Acquisition will form a major milestone for the Company in implementing its long-term strategy of growing its business organically and through appropriate mergers and acquisitions.

FUTURE INTENTIONS

Upon completion of the Acquisition, expected on 30 April 2004, it is intended that FBAHK will resume its original name of Belgian Bank, and will operate as a wholly-owned subsidiary of the Company, until its merger into the Company by way of a private ordinance. The Company intends to effect the merger as soon as practicable by working closely with the HKMA, the Legislative Council and other relevant authorities.

A joint integration team comprising representatives from various business lines and functions of the Company and FBAHK will be formed to prepare for the integration of the businesses, operations and systems of the two organizations. External consultants may be hired to facilitate the integration process. It is the Company's priority to maintain quality of service and customer satisfaction throughout the whole transitional period.

ICBC'S UNDERTAKING

Following the execution of the SPA, ICBC, the controlling shareholder of the Company, will undertake under the Side Letter to the Vendor that, conditional upon Completion taking place and for so long as the Vendor group shall remain the beneficial owner of not less than 9 per cent. (or such lower percentage as (a) shall enable the Vendor group to continue to be entitled to its anti-dilution rights under the terms of the SPA; or (b) a percentage above 5% which shall have resulted from an issue of Shares by the Company and the Vendor does not exercise its anti-dilution rights, but in no event less than 3 per cent.) of the Company's total issued Shares, then, subject to any restrictions imposed by the Stock Exchange and so long as ICBC shall beneficially own not less than 51 per cent. of the total issued Shares, ICBC shall exercise the voting rights attached to the Shares held by it so as to procure that one person nominated by the Vendor be appointed as a non-executive Director to the board of Directors, which currently comprises 3 executive Directors, 3 non-executive Directors and 3 independent non-executive Directors. No nomination has been made by the Vendor as at the

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Latest Practicable Date. The Vendor has confirmed that neither it nor Fortis will be an associate (as defined under the Listing Rules) of any person to be appointed as such a non-executive Director. The Vendor will lose such Board seat entitlement in the same circumstances as when it would lose its anti-dilution right as referred to above.

ICBC shall have the right to require the Vendor to procure the immediate resignation of the Director nominated by the Vendor if its beneficial ownership in the issued Shares (a) falls below 5% as a result of an issue of new Shares by the Company in respect of which the Vendor has failed to exercise its anti-dilution right and does not otherwise restore its shareholding to 5% or above within 6 months from being entitled to exercise its anti-dilution right; or (b) falls below 3%.

EFFECT OF THE CONVERSION OF CP SHARES AND ISSUANCE OF CONSIDERATION SHARES

ICBC has undertaken to convert the CP Shares into Shares prior to Completion Date. The effect on the shareholdings structure of the Company pursuant to the conversion of the CP Shares and the issuance of Consideration Shares is as follows:

	As at the Latest Practicable Date		Immediately after conversion of the CP Shares (Note 1) but before issuing the Consideration Shares (Note 2)		Immediately after conversion of the CP Shares (Note 1) and issuing the Consideration Shares (Note 2)	
	Number of Shares (‘000)		Number of Shares (‘000)		Number of Shares (‘000)	
ICBC	398,489	63.8%	600,708	72.7%	600,708	66.1%
Vendor	—	—	—	—	81,752	9.0%
Other Shareholders	<u>225,885</u>	<u>36.2%</u>	<u>225,885</u>	<u>27.3%</u>	<u>225,885</u>	<u>24.9%</u>
Total	<u><u>624,374</u></u>	<u><u>100.0%</u></u>	<u><u>826,593</u></u>	<u><u>100.0%</u></u>	<u><u>908,345</u></u>	<u><u>100.0%</u></u>

(1) the number of Shares to be issued upon conversion of the CP Shares may increase in the event an adjustment to the conversion price of the CP Shares arises under the terms of the issue of the CP Shares.

(2) The number of Consideration Shares to be issued to the Vendor would increase if new Shares are issued by the Company prior to Completion and/or if more than 202,219,218 new Shares are issued upon conversion of the CP Shares as a result of any adjustment to the conversion price of such CP Shares. In any event, the Consideration Shares shall be equal to 9% of the issued share capital of the Company as enlarged by such issuance.

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GENERAL

Application will be made to the Listing Committee of the Stock Exchange for the granting of listing of, and permission to deal in, the Consideration Shares.

The SPA is subject to a number of conditions which may or may not be fulfilled and the Acquisition may or may not be completed. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

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

Yours faithfully,
On behalf of the Board
Dr. Jiang Jianqing
Chairman

APPENDIX I**UNAUDITED PRO FORMA CONSOLIDATED
MANAGEMENT ACCOUNTS OF SALE GROUP**

The following unaudited pro forma consolidated management accounts of FBAHK is prepared in accordance with Belgium GAAP and assumes the carve-out of the Excluded Assets and the capital reduction in FBAHK (as mentioned in item (15) of the Conditions to Completion in the Letter from the Board) were completed on 1 January 2001:

Unaudited Pro Forma Consolidated Profit and Loss Statement

	Year ended 31 Dec 2001			Year ended 31 Dec 2002			For the six months ended 30 June 2003		
	Retail & Commercial	Treasury	Total	Retail & Commercial	Treasury	Total	Retail & Commercial	Treasury	Total
	<i>(in HKD millions)</i>								
Net interest income	605.1	42.0	647.1	518.1	72.6	590.8	241.0	50.1	291.1
Net commission & fees	172.4	6.3	178.7	167.7	(0.1)	167.6	84.2	0.7	84.8
Treasury income	17.1	(4.6)	12.5	15.1	20.1	35.2	8.5	10.6	19.1
Sale Bonds	—	92.1	92.1	—	8.0	8.0	2.1	42.4	44.4
Operating Income	794.6	135.9	930.4	700.9	100.6	801.5	335.7	103.8	439.4
Staff expenses	(301.2)	(19.1)	(320.3)	(285.0)	(13.0)	(298.1)	(143.6)	(6.8)	(150.4)
Operating expenses	(167.2)	(26.6)	(193.7)	(137.5)	(11.1)	(148.6)	(68.5)	(4.4)	(72.9)
Others	(44.3)	(3.0)	(47.2)	(43.1)	(1.8)	(44.8)	(17.9)	(0.8)	(18.7)
Total Expenses	(512.6)	(48.6)	(561.2)	(465.6)	(25.9)	(491.5)	(230.0)	(12.0)	(242.1)
Operating Profit	281.9	87.2	369.2	235.3	74.7	310.0	105.6	91.7	197.4
Dividend income	1.3	0.0	1.4	1.8	—	1.8	1.2	—	1.2
Net Provisions	(234.8)	—	(234.8)	(183.4)	—	(183.4)	(78.0)	—	(78.0)
Exceptional	(15.2)	(0.5)	(15.7)	(0.5)	13.0	12.4	(0.9)	—	(0.9)
Profit before Tax	33.2	86.8	120.0	53.2	87.7	140.9	27.9	91.7	119.7
Tax	(63.4)	(10.2)	(73.6)	(26.7)	(15.4)	(42.1)	(42.9)	(18.5)	(61.4)
Net Profit	(30.1)	76.6	46.4	26.5	72.3	98.7	(15.0)	73.2	58.2

APPENDIX I**UNAUDITED PRO FORMA CONSOLIDATED
MANAGEMENT ACCOUNTS OF SALE GROUP****Unaudited Pro Forma Consolidated Balance Sheet**

	As at year ended 31 Dec 01	As at year ended 31 Dec 02	As at 6 months ended 30 Jun 03
	<i>(in HKD Million)</i>		
Cash	73.2	76.1	73.1
Loans	16,634.3	14,998.0	14,604.7
Due from Banks, Exchange Fund & Reverse Repo	3,585.4	1,977.4	2,128.1
NCD, Commercial Paper, Notes & Bonds	7,784.9	9,214.8	10,556.0
Acceptance and Bills of Exchange Held	313.2	323.3	599.4
Investments	9.3	7.6	7.3
Goodwill	—	8.2	7.0
Other Assets	336.4	493.3	618.5
Total Assets	28,736.7	27,098.7	28,594.1
Less: Provisions	(233.9)	(232.4)	(257.3)
Total Assets	<u>28,502.8</u>	<u>26,866.3</u>	<u>28,336.8</u>
Deposits	21,867.2	20,532.4	21,673.4
Due to Banks & Amount Payable under Repos	2,690.9	3,711.0	3,139.4
FRCB Issued	1,900.0	500.0	1,000.0
Other Liabilities	652.7	352.4	469.7
<i>Capital & Reserves:</i>			
Capital & Reserve	1,392.0	1,770.5	2,054.3
Total Equity and Liabilities	<u>28,502.8</u>	<u>26,866.3</u>	<u>28,336.8</u>

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company.

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 contained in this circular misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and following the issue of the Consideration Shares will be, as follows:

<i>Authorised share capital:</i>	<i>HK\$</i>
1,000,000,000 ordinary shares of HK\$2 each	2,000,000,000
232,000,000 convertible non-cumulative preference shares of HK\$5 each	1,160,000,000
 <i>Issued and fully paid or credited as fully paid shares:</i>	 <i>HK\$</i>
624,374,304 ordinary shares of HK\$2 each	1,248,748,608
202,219,218 convertible non-cumulative preference shares of HK\$5 each	1,011,096,090
 <i>To be issued and fully paid or credited as fully paid shares:</i>	 <i>HK\$</i>
81,752,000 ordinary shares of HK\$2 each as Consideration Shares*	163,504,000

* The number of Consideration Shares to be issued to the Vendor would increase if new Shares are issued by the Company prior to Completion and/or if more than 202,219,218 new Shares are issued upon conversion of the CP Shares as a result of any adjustment to the conversion price of such CP Shares. In any event, the Consideration Shares shall be equal to 9% of the issued share capital of the Company as enlarged by such issuance.

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive officer of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in 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 to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Shares in the Company

Name of Director	Personal Interest
Zhu Qi	50,000 Shares

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive officer of the Company had, or was deemed to have any interest or short positions in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which is required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which is required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

4. SUBSTANTIAL SHAREHOLDINGS

As at 15 January 2004, so far as is known to any Director or the chief executive officer of the Company, the following are persons, other than a Director or the chief executive officer of the Company, who had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under section 336 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.

Name	Number of Shares held [^]	% shareholding in that class
The Industrial and Commercial Bank of China	398,489,478 Shares 202,219,218 CP Shares	63.8%* 100%
Fortis N.V. (Note 2)	56,193,687 Shares (Note 1)	9% (Note 2)
Fortis SA/NV (Note 2)	56,193,687 Shares (Note 1)	9% (Note 2)
Fortis Brussels SA/NV (Note 2)	56,193,687 Shares (Note 1)	9% (Note 2)
Fortis Bank SA/NV (Note 2)	56,193,687 Shares (Note 1)	9% (Note 2)
Vendor (Note 2)	56,193,687 Shares (Note 1)	9% (Note 2)

* *approximately*

[^] *corporate interest*

Notes:

- Under the terms of the SPA, the Vendor would receive, as part of the consideration, Shares representing 9% of the issued ordinary share capital of the Company as enlarged by the issue of the Consideration Shares. The 56,193,687 Shares stated above reflects the number of Shares in which each of Fortis N.V., Fortis SA/NV, Fortis Brussels SA/NV and Fortis Bank SA/NV is deemed to be interested as disclosed by them to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and represents 9 per cent. of the total issued Shares as at the date on which the SPA was entered into (i.e. 31 December 2003) but does not represent the actual number of Shares which the Vendor would receive under the SPA on Completion.
- Each of Fortis N.V. and Fortis SA/NV is entitled to exercise, or control the exercise of, one-third or more of the voting power at general meetings of Fortis Brussels SA/NV, which in turn is entitled to exercise, or control the exercise of, one-third or more of the voting power at general meetings of Fortis Bank SA/NV, and which in turn is entitled to exercise, or control the exercise of, one-third or more of the voting power at general meetings of the Vendor.

Save as disclosed above, the Directors and the chief executive officer of the Company are not aware of any person (other than a Director or the chief executive officer of the Company) who, as at the Latest Practicable Date, had an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company 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 the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

5. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance to the Group and so far the Directors are aware, no litigation or claims of material importance are pending or threatened by or against any member of the Group.

6. DIRECTOR'S SERVICE CONTRACT

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

7. MISCELLANEOUS

- (a) The secretary of the Company is Ms. Lai Wing Nga, an associate member of The Institute of Chartered Secretaries and Administrators and an associate member of the Hong Kong Institute of Company Secretaries.
- (b) The registered office of the Company is situated at ICBC Tower, 122-126 Queen's Road Central, Hong Kong.
- (c) The share registrars of the Company is Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over its Chinese text.