

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your Shares in Wing Hang Bank, Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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WING HANG BANK, LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 302)

PROPOSED RENEWAL OF EMPLOYEE INCENTIVE PLAN

A notice convening the Annual General Meeting of Wing Hang Bank, Limited to be held on Thursday, 30 April 2009 at 3.30 p.m. at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong, proposing, amongst others, two ordinary resolutions relating to the renewal of the Employee Incentive Plan, has been sent to you under cover of the circular *Proposals in relation to Re-election of Directors and General Mandates to Issue and Repurchase Shares and Notice of Annual General Meeting* on 2 April 2009.

Whether or not you are able to attend the Annual General Meeting, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Investor Communications Centre of the Bank's share registrars, Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the Annual General Meeting or any adjourned meeting thereof. **Completion and return of the form of proxy shall not preclude you from attending and voting in person at the Annual General Meeting or any adjourned meeting thereof should you so wish.**

2 April 2009

RESPONSIBILITY STATEMENT

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

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DEFINITIONS

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

“Acquisition Price”	HK\$1.00 per Share;
“Annual General Meeting”	the annual general meeting of the Bank to be held at Chatham Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong, on Thursday, 30 April 2009 at 3.30 p.m. or any adjourned meeting thereof;
“Annual Report”	the annual report of the Bank for the year 2008;
“Award”	the right and obligation of a Participant to acquire Shares under the Plan;
“Bank”	Wing Hang Bank, Limited, a company incorporated in Hong Kong with limited liability whose principal business is banking and the Shares of which are listed on the main board of the Stock Exchange;
“Board”	the board of Directors of the Bank;
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the laws of Hong Kong;
“Director(s)”	the director(s) of the Bank;
“Eligible Employee”	any bona fide employee of any member of the Group who is not within six months of his normal retirement date (being the age at which he is either bound or entitled to retire in accordance with his contract of employment);
“Employee Incentive Plan” or “Plan”	the employee incentive plan adopted by the Bank by way of general meeting on 22 April 2004;
“Group”	the Bank and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	Hong Kong Special Administrative Region of The People’s Republic of China;
“Independent Board Committee”	the independent board committee consisting of independent non-executive directors formed in accordance with the Listing Rules to advise Shareholders as to whether the terms of the Proposal are fair and reasonable and whether the Proposal is in the interests of the Bank and its Shareholders as a whole;

DEFINITIONS

“Independent Shareholder(s)”	a Shareholder other than any connected person with a material interest in the renewal of the Plan in relation to executive directors and each of their respective associates;
“Invitation”	an invitation to an Eligible Employee inviting him to participate in the Plan;
“Latest Practicable Date”	25 March 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained therein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Model Code”	The Model Code for Securities Transactions by Directors of Listed Issuers;
“Participants”	an Eligible Employee to whom an Invitation has been issued and who has confirmed to the Bank in writing his intention to participate in the Plan;
“Proposal”	the renewal of the Employee Incentive Plan;
“Proposal Resolutions”	<p>the two ordinary resolutions relating to the renewal of the Employee Incentive Plan to be proposed at the Annual General Meeting to allow the Board to:</p> <p>(a) allot and issue up to 500,000 Shares (or 0.17% of the issued share capital of the Bank as at the Latest Practicable Date) at the Acquisition Price to executive directors under the Plan; and</p> <p>(b) allot and issue up to one million (1,000,000) Shares (or 0.34% of the issued share capital of the Bank as at the Latest Practicable Date) less the number of Shares issued to executive directors pursuant to paragraph (a) above, at the Acquisition Price to employees under the Plan.</p>
“Registrars”	Computershare Hong Kong Investor Services Limited whose registered office is at Rooms 1806–1807, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong;
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong;
“Share(s)”	fully paid ordinary shares of HK\$1.00 each in the share capital of the Bank;
“Shareholder(s)”	holder(s) of Shares; and
“Stock Exchange”	The Stock Exchange of Hong Kong Limited.



WING HANG BANK, LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 302)

Executive Directors:

Dr FUNG Yuk Bun Patrick JP (*Chairman & Chief Executive*)
Mr Frank John WANG (*Deputy Chief Executive*)
Mr FUNG Yuk Sing Michael

Registered Office:

161 Queen's Road Central
Hong Kong

Non-executive Directors:

Mr HO Chi Wai Louis
Mr Brian Gerard ROGAN
Mr Christopher Robert STURDY

Independent non-executive Directors:

Dr CHENG Hon Kwan GBS, JP
Mr LAU Hon Chuen Ambrose GBS, JP
Dr LEE Kwok Yin Simon MBE, JP
Mr TSE Hau Yin Aloysius
Mr TUNG Chee Chen

2 April 2009

To the Shareholders

Dear Sir or Madam,

PROPOSED RENEWAL OF EMPLOYEE INCENTIVE PLAN

INTRODUCTION

The purpose of this circular is to provide you with information regarding the two ordinary resolutions to be proposed at the Annual General Meeting to renew the Employee Incentive Plan.

The Bank adopted the Employee Incentive Plan in 2004 for the benefit of certain executive directors and key employees in recognition of their contributions and as an incentive for them to remain in employment with the Group. The adoption of the Employee Incentive Plan was approved by the Independent Shareholders at the annual general meeting of the Bank held on 22 April 2004.

Pursuant to the original terms of the Plan, it will expire in April 2009, the date which is five years after its adoption. The Bank proposes to renew the Plan for a further five years to allow the Board, at its discretion, to continue to grant Awards to executive directors and key employees who are key to the Group's business, and who the Board particularly wishes to retain and incentivise for the benefit of the Group. It is proposed the Plan be renewed on the same terms save in relation to the maximum number of Shares that may be issued (as set out below in the section entitled *Background to the Employee Incentive Plan*).

LETTER FROM THE BOARD

The two resolutions to renew the Employee Incentive Plan are to provide the Board with specific mandates, in addition to any general mandate awarded to the Board from time to time, to:

- (a) allot and issue up to 500,000 Shares (or 0.17% of the issued share capital of the Bank as at the Latest Practicable Date) at the Acquisition Price to executive directors under the Plan; and
- (b) allot and issue up to one million (1,000,000) Shares (or 0.34% of the issued share capital of the Bank as at the Latest Practicable Date) less the number of Shares issued to executive directors pursuant to paragraph (a) above, at the Acquisition Price to employees under the Plan.

The resolution to allow for the issue of new Shares to employees under the Plan is subject to approval by the Shareholders, however the issue of new Shares to executive directors under the Plan is a connected transaction under the Listing Rules and the related resolution is subject to the approval of the Independent Shareholders of the Bank only.

Under the Listing Rules, the Bank is required to provide you with all information necessary to allow you to make a properly informed decision as to whether to vote for or against the Proposal Resolutions at the Annual General Meeting. This circular is prepared for such a purpose.

BACKGROUND TO THE EMPLOYEE INCENTIVE PLAN

Under the Employee Incentive Plan, certain executive directors and key employees are invited to participate in the Plan and if they accept they may acquire a number of Shares on the vesting date of an Award. Awards will vest between the sixth and the tenth year after the date of grant of an Award. Under the Employee Incentive Plan, the Shares will be acquired by the Participants at the par value of the Shares under award (being HK\$1 per share).

It is proposed that the Plan be renewed on the same terms save that the total number of Shares that may be granted under the renewed Plan may not exceed one million (1,000,000) Shares (or 0.34% of the issued share capital of the Bank as at the Latest Practicable Date) rather than the limit of 1% of the issued share capital of the Bank as per the Plan originally adopted in 2004. Of the total one million (1,000,000) Shares that may be issued under the Plan, no more than 500,000 Shares (or 0.17% of the issued share capital of the Bank as at the Latest Practicable Date) may be issued to executive directors and no more than one million (1,000,000) Shares (or 0.34% of the issued share capital of the Bank as at the Latest Practicable Date) less the number of Shares issued to executive directors under the Plan, may be issued to employees.

As at the Latest Practicable Date, the outstanding Awards under the Employee Incentive Plan comprise 2,195,000 Shares with the fair value of the Awards at the date of grant being HK\$122,102,000. Of the total 2,195,000 Shares that will be issued under the outstanding Awards, Awards comprising 1,380,000 Shares have been granted to such Directors as disclosed in Appendix III (*General Information*) of this circular and Awards comprising 815,000 Shares have been granted to ten employees who are not on the Board of the Bank.

LETTER FROM THE BOARD

REASONS FOR THE RENEWAL OF THE EMPLOYEE INCENTIVE PLAN

The Group's success is critically dependent on its ability to retain able executive directors and key employees, and to ensure that their compensation terms are competitive. The principal objectives of the Employee Incentive Plan are to recognise the contribution of such persons and to incentivise them to remain in employment with the Group. The Employee Incentive Plan also seeks to encourage executive directors and key employees to make and retain investments in the Bank's Shares. The Board is of the opinion that the existing Employee Incentive Plan has achieved these objectives and shall therefore be renewed.

GRANT OF AWARDS AND LIMIT ON NUMBER OF SHARES

After the Proposal is approved by the Independent Shareholders, the Board may, within five years of such approval, at its discretion invite executive directors and employees who are key to the Group's business and who the Board particularly wishes to retain and incentivise for the benefit of the Group to participate in the Employee Incentive Plan. If such executive director or key employee notifies the Bank that he wishes to participate in the Employee Incentive Plan, he will be issued with further details specifying the date of grant of the Award, the number of Shares over which the Award is granted, the percentages in which Awards shall vest at each anniversary of the date of grant and the aggregate Acquisition Price payable on vesting.

A maximum number of one million (1,000,000) Shares (or 0.34% of the issued share capital of the Bank as at the Latest Practicable Date) may be issued under the renewed Plan of which up to 500,000 Shares in aggregate may be issued to such executive directors as named below, although none of the executive directors listed below may receive more than 200,000 Shares individually:

Director	Proposed maximum allocation of Shares	As a percentage of total Shares proposed to be issued under the Plan (%)	As a percentage of total issued share capital ^{Note (1)} (%)
FUNG Yuk Bun Patrick	200,000	20	0.068
FUNG Yuk Sing Michael	200,000	20	0.068
Frank John WANG	200,000	20	0.068

Note:

(1) Information is as of the Latest Practicable Date

No Award will be granted to the extent that the result of that grant would be that the aggregate number of Shares that could be issued on the vesting of that Award and any other Award granted under the Employee Incentive Plan would exceed one million (1,000,000) Shares (or 0.34% of the ordinary share capital of the Bank as at the Latest Practicable Date) or where the Shares to be issued to any individual Director exceed the limits set out above.

LETTER FROM THE BOARD

VESTING OF AWARDS

Under the Employee Incentive Plan, Awards will vest in respect of the percentages shown in the right-hand column below on the dates shown in the left-hand column below:

Date	Percentage of Award vesting
Sixth anniversary of the date of grant	5%
Seventh anniversary of the date of grant	10%
Eighth anniversary of the date of grant	15%
Ninth anniversary of the date of grant	20%
Tenth anniversary of the date of grant	50%

Within 28 days of each tranche of Awards vesting, the Participant is required to pay to the Bank the aggregate Acquisition Price for the number of Shares vested to the Participant. Shares will be issued to the Participant (or his nominee) within 28 days of the Bank receiving the Acquisition Price.

A Participant does not have the right to opt for cash instead of Shares on the date of vesting. However, instead of issuing Shares to a Participant, the Board may determine in its absolute discretion to pay to a Participant an amount equivalent to the market value of the Shares in respect of which the Award has vested less the Acquisition Price. The market value of the Shares will be determined by reference to the average closing price for such Shares as quoted on the Stock Exchange for the five trading days immediately preceding the date of vesting.

In the event of a takeover, compromise or arrangement or winding-up of the Bank, Awards will vest in full on the date of the relevant event, unless the Board determines, in the case of a takeover or compromise or arrangement, that the prescribed vesting schedule will apply or unless the transaction is part of an internal reorganisation to create a new holding company.

In the event of any variation in the share capital or reserves of the Bank (including, without limitation, by way of capitalisation issue, rights issue, sub-division, consolidation or reduction), the Board may adjust the number of Shares that is subject to an Award granted and the Acquisition Price.

BASIS OF AWARDS

Due to the lengthy period over which Awards will vest, the Board considers it appropriate that Awards will vest on the basis of continuing employment and that Awards will not be subject to performance conditions.

Awards will lapse if a Participant ceases to be an Eligible Employee of the Group prior to the Award vesting. However, where a Participant ceases to be an Eligible Employee of the Group prior to an Award vesting by reason of death, injury, disability, ill-health, retirement or for any other reason at the discretion of the Board, the Award will vest in full on the vesting date or if the Board so determines, at the date of the cessation of employment.

LETTER FROM THE BOARD

NO DIVIDEND OR VOTING RIGHTS

Prior to Awards vesting, the Bank will pay to Participants a cash amount equal to the dividends that would have been paid if the Shares which are the subject of the Awards had been in issue. A Participant will not be entitled to such cash amount (i) after he resigns or (ii) after the relevant Shares which are the subject of the Awards or its cash equivalent have been vested in or paid to him, whichever is the earlier.

Shares issued under an Award will rank *pari passu* with other Shares in issue.

Participants will not be entitled to any dividend or voting rights in respect of the Shares which are the subject of the Awards until the Shares have been issued to him or his nominee.

THE RULES OF THE EMPLOYEE INCENTIVE PLAN

The Board may alter the rules of the Employee Incentive Plan provided that the prior approval of the Independent Shareholders is obtained for alterations to the advantage of Participants. The requirement to obtain prior Independent Shareholders' approval will not, however, apply to any alteration which is necessary or desirable to take account of new or existing relevant legislation or which benefits the administration of the Employee Incentive Plan.

A copy of the draft rules of the Employee Incentive Plan will be available for inspection at the registered office of the Bank at No.161 Queen's Road Central, Hong Kong during normal business hours on any business day up to and including 29 April 2009 and at the Annual General Meeting.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

Pursuant to the Listing Rules, the Bank has established the Independent Board Committee consisting of independent non-executive directors who have no material interest in the Proposal to advise Shareholders as to whether the terms of the Proposal are fair and reasonable and whether the Proposal is in the interests of the Bank and its Shareholders as a whole. None of the independent non-executive directors has any material interest in the Proposal, but for logistical reasons, the only members of the Independent Board Committee are Dr. Cheng Hon Kwan GBS, JP and Mr Lau Hon Chuen Ambrose GBS, JP. In accordance with the Listing Rules, the Independent Board Committee has prepared a letter of advice to the Shareholders. A copy of this letter is set out in Appendix I.

Pursuant to the Listing Rules, the Bank has also appointed Somerley Limited as an independent financial adviser acceptable to the Stock Exchange to make recommendations to the Independent Board Committee and the Independent Shareholders as to whether the terms of the Proposal are fair and reasonable and whether the Proposal is in the interests of the Bank and its Shareholders as a whole. In accordance with the Listing Rules, the independent financial adviser has prepared a letter of recommendation to the Independent Board Committee and the Independent Shareholders. A copy of this letter is set out in Appendix II.

LETTER FROM THE BOARD

VOTING ON THE PROPOSAL RESOLUTIONS

At the Annual General Meeting, the Proposal Resolutions will be proposed to approve the renewal of the Employee Incentive Plan.

Pursuant to the Listing Rules, any connected person with a material interest in the resolution to renew the Plan for the benefit of executive directors, and its associates must abstain from voting on the relevant resolution at the Annual General Meeting. As such the following executive directors and their associates will abstain from voting on the resolution to renew the Plan for the benefit of executive directors in respect of the Shares listed below:

Name of Executive Director/Associate ^{Note (1)}	Personal interest	Family interest	Corporate interest	Total	Percentage of Issued Share Capital
FUNG Yuk Bun Patrick	2,982,000	–	–	2,982,000 <i>(Note 2)</i>	1.01
FUNG Yuk Sing Michael	3,000,000	60,000	–	3,060,000 <i>(Note 2)</i>	1.04
YKF Holding Corporation	–	–	24,394,900	24,394,900 <i>(Note 3)</i>	8.27
Po Ding Company Limited	–	–	24,156,000	24,156,000	8.19
Tessel Inc	–	–	10,639,200	10,639,200	3.61
Majestic Investment Company Limited	–	–	4,628,000	4,628,000	1.57

Notes:

- (1) This table excludes any interests in shares held by Dr Fung Yuk Bun Patrick, Mr Fung Yuk Sing Michael and Mr. Frank J. Wang under existing share option or awards schemes, as such interests do not, as at the Latest Practicable Date, carry any right to vote at the Annual General Meeting.
- (2) Dr Fung Yuk Bun Patrick and Mr Fung Yuk Sing Michael are also, together with other parties, eligible beneficiaries of the trusts of Po Ding Company Limited, YKF Holding Corporation, Tessel Inc and beneficiaries of Majestic Investment Company Limited.
- (3) YKF Holding Corporation is the beneficial owner of 24,394,900 Shares. It holds 1,016,500 Shares directly and 23,378,400 Shares through its nominee, Wing Hang Bank (Nominees) Limited.

As at the Latest Practicable Date, the total number of Shares in respect of which the executive directors and their associates listed above will abstain from voting is 69,860,100 Shares (or 23.68% of the issued share capital of the Bank as at the Latest Practicable Date).

Voting on the Proposal Resolutions will be by poll. Each Shareholder present in person or by proxy will be entitled to vote on the resolution in relation to the renewal of the Plan for employees. Each Independent Shareholder (not including the connected persons and their associates referred to in the immediately preceding paragraph and table) present in person or by proxy will be entitled to one vote for each Share held in relation to the renewal of the Plan for executive directors.

LETTER FROM THE BOARD

ACTION TO BE TAKEN

Whether or not you are able to attend the Annual General Meeting in person, you are requested to complete and return the form of proxy despatched to you on 2 April 2009 in accordance with the instructions printed thereon as soon as possible and, in any event not later than 48 hours before the time for the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Annual General Meeting or any adjournment thereof should you so wish.

BOOK CLOSURE

The register of members will be closed from Monday, 27 April 2009 to Thursday, 30 April 2009 (both dates inclusive) for the purposes of determining entitlements to vote at the Annual General Meeting.

In order for any transfers of Shares to be registered in time to qualify for a right to vote at the Annual General Meeting, such transfers (accompanied by the relevant share certificates) must be lodged with the Registrars by no later than 4.30 p.m. on Friday, 24 April 2009.

RECOMMENDATION

The Directors believe that the terms of the Employee Incentive Plan are fair and reasonable and in the interests of the Bank and the Shareholders as a whole.

Accordingly, the Directors recommend that the Shareholders and Independent Shareholders (as relevant) vote in favour of the Proposal Resolutions at the Annual General Meeting.

The Bank will disclose any Awards granted and any vesting of Awards under the Employee Incentive Plan and any decision to satisfy an Award in Shares or in cash in its annual report, including the market value of any Awards granted as at the date of grant, accounting treatments and any dilutive effect (had Awards been issued at market value), with separate disclosure on the impact to the Bank's employee costs based on the market value of any Awards granted as at the date of grant in the next and each successive annual report until the end of the Employee Incentive Plan.

GENERAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Wing Hang Bank, Limited
Patrick Y.B. Fung
Chairman and Chief Executive



WING HANG BANK, LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 302)

Members:

Dr CHENG Hon Kwan GBS, JP

Mr LAU Hon Chuen Ambrose GBS, JP

Registered Office:

161 Queen's Road Central
Hong Kong

2 April 2009

To the Shareholders

Dear Sir/Madam

RENEWAL OF EMPLOYEE INCENTIVE PLAN

We are the Independent Board Committee established by the Bank to advise Shareholders as to whether the terms of the Employee Incentive Plan are fair and reasonable and whether the renewal of the Employee Incentive Plan for executive directors and key employees is in the interests of the Bank and its Shareholders as a whole.

We believe that the Employee Incentive Plan provides an incentive for executive directors and key employees to remain with the Bank on the basis of a competitive level of compensation through an award of Shares or by way of cash payment in lieu of Shares.

Somerley Limited, appointed by the Bank as independent financial advisers in relation to the Employee Incentive Plan, has also recommended to the Independent Board Committee and the Independent Shareholders that terms of the Employee Incentive Plan are fair and reasonable and in the interests of the Bank and its Shareholders as a whole.

In the circumstances and taking into account the recommendations of Somerley Limited, we advise Shareholders that the terms of the Employee Incentive Plan are fair and reasonable and that the renewal of the Employee Incentive Plan for both executive directors and key employees is in the interests of the Bank and its Shareholders as a whole. Accordingly, we advise that the Shareholders and Independent Shareholders (as relevant) vote in favour of the Proposal Resolutions at the Annual General Meeting for the renewal of the Employee Incentive Plan.

Yours faithfully,

Dr CHENG Hon Kwan GBS, JP

Mr LAU Hon Chuen Ambrose GBS, JP

Independent Board Committee

The following is the text of a letter of advice from Somerley to the Independent Board Committee prepared for the purpose of inclusion in this circular.



SOMERLEY LIMITED

10th Floor

The Hong Kong Club Building
3A Chater Road

Central

Hong Kong

2 April 2009

*To: the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

PROPOSED RENEWAL OF THE EMPLOYEE INCENTIVE PLAN

INTRODUCTION

We refer to our appointment to advise the independent board committee and the independent shareholders of the Bank in connection with the renewal of the Employee Incentive Plan as announced by the Bank on 25 March 2009. Details of the New Employee Incentive Plan (as defined below) are set out in the circular of the Bank dated 2 April 2009 (the "Circular"), of which this letter forms a part. Unless otherwise defined, capitalised terms used in this letter shall have the same meaning as defined in the Circular.

As the New Employee Incentive Plan involves the possible issue of new Shares to selected executive directors and employees of the Bank, the New Employee Incentive Plan constitutes a connected transaction for the Bank under the Listing Rules and is subject to the approval of Independent Shareholders at the upcoming Annual General Meeting to be held on 30 April 2009. Accordingly, an independent board committee comprising Dr Cheng Hon Kwan and Mr Lau Hon Chuen Ambrose has been established by the Bank to make a recommendation to the Independent Shareholders in respect of the renewal of the Employee Incentive Plan and on how they should vote. We, Somerley Limited, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our advice, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Bank and have assumed that they are true, accurate and complete at the time they were made and will remain so up to the time of the Annual General Meeting. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to give the advice and recommendation as set out in this letter. However, we have not conducted any independent investigation into the business and affairs of the Bank.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion on the New Employee Incentive Plan, we have taken the following principal factors into consideration:

1. Background to and reasons for renewing the Employee Incentive Plan

On 22 April 2004, the Bank adopted an employee incentive plan (the "2004 Employee Incentive Plan") in addition to its share option scheme adopted at the annual general meeting held on 24 April 2003 pursuant to Chapter 17 of the Listing Rules (the "2003 Scheme"). Pursuant to the 2004 Employee Incentive Plan, the Board may at its discretion grant Awards up to the prescribed limit at any time during the first five years commencing from 22 April 2004, when the 2004 Employee Incentive Plan was approved by the then Independent Shareholders. As the 2004 Employee Incentive Plan will expire on 21 April 2009, the Board therefore proposes to seek Independent Shareholders' approval of a new Employee Incentive Plan (the "New Employee Incentive Plan"). The New Employee Incentive Plan, if approved by the Independent Shareholders at the upcoming Annual General Meeting on 30 April 2009, shall entitle the Board to grant Awards during the 5-year period expiring on 29 April 2014.

Although the Bank already has the 2003 Scheme, the Board considers it useful, for the purpose of staff retention, to "renew" the Employee Incentive Plan. The New Employee Incentive Plan has different features (as described below) from the 2003 Scheme. In particular, awards granted under the New Employee Incentive Plan will be vested in stages between the sixth and tenth anniversary of the date of grant and 50% of the granted awards will not vest until the tenth anniversary of the date of grant. This contrasts with the 2003 Scheme where options over Shares are granted to grantees on terms that they can be exercised on the first anniversary of the date of grant. This feature of the New Employee Incentive Plan is, in the view of the Board, an effective way to retain senior management for medium to long term. On this basis, the Board considers it beneficial to the Bank to renew the Employee Incentive Plan since it is believed that the Bank's success is critically dependent on its ability to retainable executive Directors and key employees and to ensure that their compensation is competitive.

We agree that the stability of the senior management team is an important ingredient for success in the banking industry. The industry is particularly subject to the effect of economic cycles. Experience of the senior management team in managing the business of a bank during both an upmarket, when lending policies can become overly expansionary, and a downmarket, when tight credit control may be needed, is in our opinion a critical factor in implementing sound long-term policies. In light of the current economic turmoil, an experienced management team is even more crucial in helping the Bank to overcome the potential crisis that might be hitting the banking industry as a whole in the forthcoming years. Experience of management over a full banking cycle, by its nature, takes a number of years to accumulate. We therefore concur with the Directors' rationale for renewing the Employee Incentive Plan and note that awards will only vest in stages, beginning on the sixth anniversary after the date of grant.

2. Existing share incentive schemes of the Bank

Share option scheme

The Bank's existing share option scheme, the 2003 Scheme, was adopted on 24 April 2003. On the same day, the share option scheme of the Bank adopted on 9 June 1993 was terminated (the "1993 Scheme") and ceased to have any further effect, except that the options granted would remain valid and exercisable until expiry of their exercisable periods. As at the Latest Practicable Date, 350,000 and 560,000 options remained valid and exercisable under the 1993 Scheme and the 2003 Scheme respectively.

Details of the outstanding options granted under the 2003 Scheme and the 1993 Scheme are as follows:

	Outstanding options as at the Latest Practicable Date	Date of grant	Exercise Price per Share HK\$
Directors			
FUNG Yuk Bun Patrick	50,000	10/03/2001 ⁽¹⁾	23.60
	40,000	15/03/2002 ⁽¹⁾	26.30
	40,000	14/03/2003 ⁽¹⁾	26.50
	50,000	21/05/2004 ⁽²⁾	43.80
	50,000	14/01/2005 ⁽²⁾	51.25
FUNG Yuk Sing Michael	40,000	10/03/2001 ⁽¹⁾	23.60
	30,000	15/03/2002 ⁽¹⁾	26.30
	30,000	14/03/2003 ⁽¹⁾	26.50
	40,000	21/05/2004 ⁽²⁾	43.80
	40,000	14/01/2005 ⁽²⁾	51.25
Frank John WANG	40,000	21/05/2004 ⁽²⁾	43.80
	40,000	14/01/2005 ⁽²⁾	51.25
Other employees			
	60,000	10/03/2001 ⁽¹⁾	23.60
	20,000	15/03/2002 ⁽¹⁾	26.30
	40,000	14/01/2003 ⁽¹⁾	25.80
	170,000	21/05/2004 ⁽²⁾	43.80
	50,000	14/01/2005 ⁽²⁾	51.25
	80,000	28/01/2005 ⁽²⁾	50.25
	<u>910,000</u>		

(1) Options were granted under the 1993 Scheme.

(2) Options were granted under the 2003 Scheme.

The share options granted pursuant to the 2003 Scheme were accounted for at fair values as at the dates of grant, which were estimated based on the binominal model after taking into account the exercise price and the lives of the options with assumptions including the risk-free interest rate, expected volatility and dividend yield of the Shares. The fair values of the options were amortised to profit and loss account as staff expense and credited to share premium account of the Bank on a straight line basis over a 1-year period ending on the vesting of the share options.

Employee incentive plan

As at the Latest Practicable Date, the following Awards have been granted pursuant to the 2004 Employee Incentive Plan:

	Date of grant	Number of Shares subject to Awards granted as at the Latest Practicable Date	Fair value of the Award in respect of one Share as at the date of grant HK\$
Directors			
FUNG Yuk Bun Patrick	21/05/2004	200,000	42.80
	23/01/2006	450,000	56.20
FUNG Yuk Sing Michael	21/05/2004	100,000	42.80
	23/01/2006	225,000	56.20
HO Chi Wai Louis	21/05/2004	10,000	42.80
Frank John WANG	21/05/2004	125,000	42.80
	23/01/2006	270,000	56.20
Other employees	21/05/2004	60,000	42.80
	23/01/2006	615,000	56.20
	29/01/2007	140,000	94.60
		2,195,000	

Under the 2004 Employee Incentive Plan, Awards are expected to be satisfied by the Bank issuing new Shares in consideration for the Participant paying HK\$1 per Share, which is equivalent to the par value. The Awards may, at the discretion of the Board (to be discussed in detail below), also be satisfied in cash based on the 5-day average closing price immediately preceding the date of vesting. In accounting for the Awards, the closing market price of the Shares as at the date of grant of the Awards was used for the purpose of determining the fair value of the Awards. For example, assuming the closing market price of a Share as at the date of grant of the Awards is HK\$38, the difference between the closing market price and the acquisition price for each Share of HK\$1 payable by the Participant will be taken to be the fair value of the Award in respect of one Share as at the date of

grant. The fair values of the Awards will be debited to the profit and loss account as a staff expense and credited to the share premium account of the Bank in accordance with the vesting period (to be discussed below). For example, 5% of the fair value will be amortised in the accounts of the Bank on a straight line basis over the 6-year period after the date of grant of the relevant Awards. For the year ended 31 December 2008, a total of HK\$13.87 million was charged to the profit and loss account as a staff expense and credited to the share premium account of the Bank with regard to Awards granted under the 2004 Employee Incentive Plan. This sum represents approximately 0.89% of the operating expenses of the Group in the same year.

3. Summary of terms of the New Employee Incentive Plan

Except for the limit of the awards that may be granted and the inclusion of the maximum number of awards that may be made to individual Participants (to be discussed in detail below), the rules of the New Employee Incentive Plan are the same as that of the 2004 Employee Incentive Plan. The terms have been drawn up by the Bank's solicitors, Freshfields Bruckhaus Deringer, with input from the Bank. BNY International Financing Corporation, which is a wholly owned subsidiary of The Bank of New York Mellon Corporation, has an approximately 20.28% interest in the Bank and the rules have been influenced by practice in the US market. A draft of the full rules proposed to be adopted at the Annual General Meeting is on display at the registered office of the Bank. The following is a summary of the main terms:

(i) *Limit and timing of grant of awards*

Under the 2004 Employee Incentive Plan, the Board may, within five years after adoption of the plan, grant Awards up to 1% of the Bank's issued share capital, which amounts to approximately 2.9 million Shares. As at the Latest Practicable Date, Awards in respect of a total of 2,195,000 Shares have been granted under the 2004 Employee Incentive Plan. The proposed limit under the New Employee Incentive Plan is 1,000,000 Shares, which is significantly lower than the maximum number of Shares that may be awarded subject to the 2004 Employee Incentive Plan. The period over which awards may be granted is also five years under the New Employee Incentive Plan.

In contrast, the 2003 Scheme covered up to 5% of the issued Share capital at the time when the scheme was adopted i.e. 14,678,000 Shares, which is significantly more than what the Bank now proposes to grant pursuant to the New Employee Incentive Plan.

(ii) *Acquisition Price*

Under the New Employee Incentive Plan, the price for the subscription of the Shares is HK\$1 per Share, which is equivalent to the par value. Participants are required to pay the Acquisition Price within 28 days of the vesting of the awards. If the Board, at its discretion, decides to pay cash in lieu of Shares, eligible Participants will not need to pay the Acquisition Price, and the cash payment made by the Bank will be equal to the market value of the Shares less the Acquisition Price. The market value of the Shares is determined by reference to the average closing price of the Shares as quoted on the Stock Exchange for the five trading days immediately preceding the date of vesting. An eligible Participant does not have the right to elect for cash instead of Shares. Such discretion allows the Bank to have the flexibility to pay cash or to issue Shares based on the then circumstances which we consider is in the interests of the Bank.

The Acquisition Price contrasts with the traditional basis of market price for the issue of Shares pursuant to the 2003 Scheme. Pursuant to the Listing Rules, the exercise price of any issue of Shares under the 2003 Scheme shall not be less than the highest of the closing price of the Shares on the date of grant and the average closing price of Shares for the five business days immediately preceding the date of grant.

As at the Latest Practicable Date, the closing market price of the Shares was HK\$38.15 and the average closing price of Shares for the five business days immediately preceding the Latest Practicable Date was HK\$37.25.

(iii) *Identity of Participants*

We are informed that no decision has been made as to the identity of and the number of Directors or employees who will receive awards. It is intended, however, that awards will be restricted to executive Directors and employees in senior positions capable of having a significant influence on the performance of the Bank.

The 2004 Employee Incentive Plan contains no limit on the proportion of the Awards which may be made to an individual Participant. However, under the New Employee Incentive Plan, a limit will be included. It is proposed that under the New Employee Incentive Plan, not more than 500,000 Shares in aggregate may be issued to the following executive Directors and that none of them may receive more than 200,000 Shares individually:

	Maximum allocation of Shares pursuant to the New Employee Incentive Plan	As a percentage of total Shares proposed to be issued under the New Employee Incentive Plan %	As a percentage of total issued share capital of the Bank %
Directors			
FUNG Yuk Bun Patrick	200,000	20	0.068
FUNG Yuk Sing Michael	200,000	20	0.068
Frank John WANG	200,000	20	0.068

As regards the three executive Directors, Dr. Fung Yuk Bun Patrick is the chairman and chief executive of the Bank and has been contributing to the Bank for more than 32 years. Mr. Fung Yuk Sing Michael is the senior general manager of the Bank and has been serving in the Bank for more than 30 years. Mr. Frank John Wang is the deputy chief executive of the Bank and joined the Bank in 1999. Given their long term commitment to the Bank and their significant contributions in the past, the fair value of the maximum Shares which could be allocated to each executive Director, based on the closing market price of a Share as at the Latest Practicable Date would amount HK\$7.43 million. We consider this figure as an additional remuneration for the contribution of the above named executive Directors a reasonable sum, bearing in mind that this amount will be spread over the next ten years. Such allocations are the maximum amounts. The grant of awards to the executive

Directors pursuant to the New Employee Incentive Plan in the future will be subject to the determination of the remuneration committee of the Bank, which comprises two independent non-executive Directors.

The 2003 Scheme also prescribes, in accordance with the Listing Rules, certain limits on the maximum number of share options that may be granted to an individual grantee. For example, any further grant of share options to a substantial Shareholder or an independent non-executive Director under the 2003 Scheme would require independent Shareholders' approval if such grant would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted to such person in a 12-month period: (a) representing in aggregate over 0.1% of the total issued Share capital; and (b) having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million.

(iv) Date of vesting

As with the 2004 Employee Incentive Plan, awards under the New Employee Incentive Plan do not become effective immediately, but only in stages between the sixth and the tenth anniversary of the date of grant. Awards will "vest" according to the following schedule:

Years after date of grant	Percentage of award vesting
Sixth anniversary	5%
Seventh anniversary	10%
Eighth anniversary	15%
Ninth anniversary	20%
Tenth anniversary	50%

This formula is equivalent to a weighted average vesting date of approximately nine years after the date of grant.

This contrasts with the 2003 Scheme where the options granted can be exercised on the first anniversary of the date of grant. In a bull market, such options may be exercised on the first anniversary of the date of grant and the resulting Shares would be sold while the market is strong. This brings a short-term benefit to the grantee but removes the long-term incentive effect.

(v) Payment of an equivalent amount to dividends

Prior to the vesting of the awards, the Bank will pay to the Participants a cash amount equal to the dividends that would have been paid if the Shares which are the subject of the awards had been in issue. This puts them in the same position, from an income perspective, as if they were Shareholders. In addition, due to the long term nature of the New Employee Incentive Plan, the cash amount also acts as an incentive to eligible Participants for their contribution to the development of the Bank in the period (minimum 6 years) prior to the vesting of the awards.

This feature is unusual in Hong Kong. Under the 2003 Scheme, no payments are made until the relevant rights are exercised.

Had the awards in respect of a maximum of 1,000,000 Shares been granted under the New Employee Incentive Plan, the Bank would have had to pay a total of HK\$1.06 million (or HK\$1.06 per Share) bonuses to the Participants based on the dividends of HK\$1.06 per Share for the financial year of 2008.

(vi) *Conditions*

As one of the main purposes of the New Employee Incentive Plan is to encourage long service and in view of the lengthy period over which awards will vest, the Board considers it appropriate that awards will vest on the basis of continuing employment. Vesting will not be subject to any specific performance conditions.

Awards will in normal circumstances lapse if the Participant ceases to be an employee of the Bank prior to the awards becoming vested. Certain exceptions are set out in the letter from the Board.

4. Financial implications

(i) *Possible dilution effect to the Shareholders*

Assuming the Bank issues Shares to satisfy the vested Awards, there will be dilution to the existing shareholders of the Bank upon vesting of the Awards. As the maximum number of Shares to be issued during the 5-year period under the New Employee Incentive Plan would be limited to 1,000,000 Shares, or approximately 0.34% of the total issued share capital of the Bank as at the Latest Practicable Date, the dilution effect to the issued Share capital will be limited to approximately 0.34%. Based on the audited financial statements for the year ended 31 December 2008, the earnings per Share of HK\$3.94, dividends per Share of HK\$1.06 and Shareholders' funds per Share of HK\$35.88 would also be potentially diluted by up to approximately 0.34% accordingly.

(ii) *Effective cost of New Employee Incentive Plan*

Based on the acquisition price of HK\$1 and the current market price as at the Latest Practicable Date of HK\$38.15, the fair value of each award under the New Employee Incentive Plan is estimated to be HK\$37.15. Based on the maximum number of one million Shares that may be awarded under the New Employee Incentive Plan, the effective opportunity cost to the Bank of the New Employee Incentive Plan over its life is a maximum of approximately HK\$37.15 million. This assumes that instead of issuing the Shares to Participants, the Bank could have issued them to third parties, say under its general mandate, at the current market price.

Assuming the Bank grants options over a maximum of 5% of the issued Shares under the 2003 Scheme, which is equivalent to approximately 14.678 million Shares, at an exercise price equivalent to the market price as at the Latest Practicable Date of HK\$38.15, the value of each option, which is exercisable over a 9-year period, as estimated by reference to the Black-Scholes Option Pricing Model, one of the commonly used models to compute the fair (or theoretical) price of a call option, is approximately HK\$17.61. The overall effective cost of the share option scheme would, on this basis, be approximately HK\$258.48 million, which is significantly higher than the cost of the New Employee Incentive Plan.

(iii) *Benefits of a stable management team*

The benefits of a stable management team are by their nature difficult to quantify. As discussed above, we accept that continuity and experience of the management team is important, particularly in a cyclical industry such as banking. Given the current economic turmoil, the forthcoming period is likely to be particularly challenging for top management in the banking industry.

DISCUSSION AND CONCLUSIONS

The New Employee Incentive Plan has a somewhat different structure from a typical share option scheme in Hong Kong, which follows the guidelines set out in Chapter 17 of the Listing Rules. Consequently, the New Employee Incentive Plan requires a separate approval from the Independent Shareholders. There are three major features of the 2003 Scheme, which are (i) options can only be exercised on the first anniversary of the date of grant; (ii) grants may be made for up to 5% of the issued Share capital and (iii) the exercise price is determined with reference to current market prices at the date of grant.

Unlike the 2003 Scheme, the New Employee Incentive Plan has certain more restrictive features; in particular, (i) the Awards only “vest” between the sixth and the tenth anniversary after the date of grant; and (ii) the total number of new Shares issued pursuant to the New Employee Incentive Plan cannot exceed one million Shares. In contrast to the restrictive features of the New Employee Incentive Plan, the subscription price is more favourable to the Participants, being equivalent to the par value of the share of the Bank at HK\$1, whereas the closing market price as at the Latest Practicable Date was HK\$38.15 and the 2009 high/low from 1 January 2009 up to the Latest Practicable Date was HK\$47.5/HK\$32.9. Earnings, dividends and Shareholders’ funds per Share may all be diluted by up to approximately 0.34%. However, we consider this level of dilution is relatively immaterial and acceptable in view of the expected benefits of the New Employee Incentive Plan.

Share option schemes adopted pursuant to Chapter 17 of the Listing Rules, where options can be exercised immediately may, in our opinion, sometimes fail in the objective of incentivising and retaining the key employees and senior management. Where the share price of the relevant company drops significantly after the date of grant, the option may become of little interest to the grantee. Where the share price rises sharply on the other hand, the exercise of options and sale of the resulting shares may bring a short-term reward to management at the time of a stock market boom, which may induce agency cost to the company where the management would only focus on short-term, rather than long-term, development of the company so that the positive impact on the share price would be immediate. As such, “incentive” schemes, in these circumstances, can even become “disincentive” schemes, with management benefiting from short-term windfall gains but no longer effectively motivated in the longer term. The distinguishing feature of the New Employee Incentive Plan is that Awards only start to vest (in normal circumstances) if the employee stays for at least six years from the date of grant. In addition, although the cost to the Participants is very low at HK\$1 per Share, this at least means that the incentive effect is much less vulnerable to volatile market conditions.

The New Employee Incentive Plan takes a long-term perspective. In our view, it should prove and has already proved effective in retaining an experienced management team. It is equivalent to paying a deferred bonus of a maximum of HK\$37.15 million (excluding amounts paid by the Bank equal to dividends paid prior to the vesting of the awards). This is a substantial sum but it may be regarded as the maximum effective cost (payable over a number of years starting in six years’ time) of maintaining management stability over the relatively long period of 6 to 10 years. In line with the long-term nature

of the New Employee Incentive Plan, the Bank will also make cash payments to the Participants equivalent to dividends receivable as if the Shares which are the subject of the awards had been in issue. On the basis of the Bank's interim and final dividends for 2008, such payment would have amounted to a maximum of HK\$1.06 million. We consider that such additional payment, as an additional incentive for senior management's on-going contribution, is not substantial in absolute amount and is therefore acceptable.

OPINION

Having taken into account the above principal factors, we consider that the terms of the New Employee Incentive Plan are fair and reasonable and the adoption of the New Employee Incentive Plan is in the ordinary and usual course of business of the Bank and in the interests of the Bank and the Shareholders as a whole. We therefore advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Annual General Meeting to approve the New Employee Incentive Plan.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M. N. Sabine
Chairman

1. SHARE CAPITAL

Set out below are details of the authorised and issued share capital of the Bank as at the Latest Practicable Date:

<i>Authorised:</i>		<i>HK\$</i>
<u>450,000,000</u> Shares		<u>450,000,000</u>
<i>Issued and fully paid:</i>		
<u>295,044,380</u> Shares		<u>295,044,380</u>

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors and the chief executive of the Bank in the Shares, underlying shares and debentures of the Bank or any associated corporation (as defined in Part XV of the SFO), which were required to be notified to the Bank and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Bank referred to therein, or which were required to be notified to the Bank and the Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Interests in Shares						Total	Percentage of Issued Share Capital
	Personal interest	Family interest	Corporate interest	Option Note (1)	Award Note (2)	Others		
FUNG Yuk Bun Patrick	2,982,000	-	-	230,000	650,000	Note (3)	3,862,000	1.31
FUNG Yuk Sing Michael	3,000,000	60,000	-	180,000	325,000	Note (3)	3,565,000	1.21
HO Chi Wai Louis	304,000	100,000	-	-	10,000	Note (3)	414,000	0.14
LAU Hon Chuen Ambrose	73,026	-	-	-	-	-	73,026	0.02
LEE Kwok Yin Simon	-	-	310,000	-	-	505,581 Note (4)	815,581	0.28
Frank John WANG	-	-	-	80,000	395,000	-	475,000	0.16

All the interests stated above represent long positions.

Name	Interests in Subordinated Notes of the Bank (US\$)				Total
	Personal	Family	Corporate	Others	
FUNG Yuk Bun Patrick	2,000,000	-	-	4,000,000 <i>Note (5)</i>	6,000,000
FUNG Yuk Sing Michael	-	400,000	3,000,000	4,000,000 <i>Note (5)</i>	7,400,000
HO Chi Wai Louis	980,000	-	-	4,000,000 <i>Note (5)</i>	4,980,000
LEE Kwok Yin Simon	-	500,000	-	12,000,000 <i>Note (4)</i>	12,500,000

Notes:

- (1) Share options were granted to the Directors pursuant to the share option scheme adopted by the Bank on 9 June 1993 and 24 April 2003.
- (2) Share awards were granted to the Directors pursuant to the Employee Incentive Plan.
- (3) Dr Fung Yuk Bun Patrick, Mr Fung Yuk Sing Michael and the spouse of Mr Ho Chi Wai Louis are also, together with other parties, eligible beneficiaries of the trusts of Po Ding Company Limited, YKF Holding Corporation and Tessel Inc.
- (4) These interests were held through Dr Simon K Y Lee's family trust.
- (5) These interests represent USD2,000,000 held by Po Ding Co. Ltd., and USD2,000,000 held by YKF Holding Corporation. Both of Po Ding Co. Ltd., and YKF Holding Corporation are trusts of which Dr Fung Yuk Bun Patrick, Mr Fung Yuk Sing Michael and the spouse of Mr Ho Chi Wai Louis are amongst the eligible beneficiaries.

Save as disclosed above, and for certain Directors holding non-beneficial interests in the share capital of some of the subsidiaries of the Bank as nominee shareholders, as at the Latest Practicable Date, none of the Directors had or was deemed to have any interests or short positions in the Shares, underlying shares and debentures of the Bank or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which were required to be notified to the Bank and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests which they are deemed or taken to have under Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance) or which are required, pursuant to section 352 of the Securities and Futures Ordinance to be entered in the register referred to therein or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Bank and the Hong Kong Stock Exchange.

No contract or arrangement of significance to which the Bank, or any of its subsidiaries was a party, and in which a Director of the Bank had a material interest, whether directly or indirectly, subsisted at the date hereof.

None of the Directors has or has had any direct or indirect material interest in any assets acquired or disposed of by or leased to, or proposed to be acquired, disposed of by or leased to, the Bank or its subsidiaries since 31 December 2008, the date to which the latest published audited consolidated accounts of the Bank were made up.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or the chief executive of the Bank, persons known to the Directors (other than the Directors of the chief executive of the Bank as disclosed above), who had interests or short positions in the Shares or underlying shares of the Bank which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or recorded in the register kept by the Bank pursuant to Section 336 of the SFO were as follows:

Name	Capacity and Nature	Number of Shares	Percentage of Issued Share Capital
The Bank of New York Mellon Corporation	Interest in controlled corporation	59,825,053 <i>Note (1)</i>	20.28
The Bank of New York	Interest in controlled corporation	59,825,053 <i>Note (1)</i>	20.28
BNY International Financing Corporation	Beneficial owner	59,825,053 <i>Note (1)</i>	20.28
Federal Trust Company Limited	Trustee	35,034,100 <i>Notes (2) & (4)</i>	11.87
YKF Holding Corporation	Trustee	24,394,900 <i>Notes (2) & (4)</i>	8.27
Po Ding Company Limited	Trustee	24,156,000 <i>Notes (3) & (4)</i>	8.19
GZ Trust Corporation	Trustee	24,156,000 <i>Notes (3) & (4)</i>	8.19
Wing Hang Bank (Nominees) Limited	Nominee	23,378,400 <i>Notes (2) & (4)</i>	7.92
Aberdeen Asset Management Asia Limited	Investment manager	22,815,000 <i>Note (5)</i>	7.73
Aberdeen Asset Management Plc and its subsidiaries	Investment manager	20,622,739 <i>Note (5)</i>	6.99
Penta Investment Advisers Limited	Investment manager	14,648,000 <i>Note (6)</i>	4.96
John ZWAANSTRA	Interest in controlled corporation	16,648,000 <i>Note (6)</i>	4.96
Tessel Inc.	Trustee	10,639,200 <i>Notes (2) & (4)</i>	3.61

Notes:

- (1) BNY International Financing Corporation is a wholly-owned subsidiary of The Bank of New York. The Bank of New York is a wholly-owned subsidiary of The Bank of New York Mellon Corporation.
- (2) Federal Trust Company Limited is the trustee for Tessel Inc. and YKF Holding Corporation. Wing Hang Bank (Nominees) Limited is the registered holder of certain shares on behalf of YKF Holding Corporation.
- (3) Po Ding Company Limited is wholly-owned by GZ Trust Corporation.
- (4) Each of Po Ding Co. Ltd., YKF Holding Corporation and Tessel Inc. are trusts in which Dr Fung Yuk Bun Patrick, Mr Fung Yuk Sing Michael and the spouse of Mr Ho Chi Wai Louis (together with other parties) are eligible beneficiaries.
- (5) Aberdeen Asset Management Asia Limited is a wholly-owned subsidiary of Aberdeen Asset Management Plc.
- (6) Penta Investment Advisers Limited is wholly-owned by Mr John ZWAANSTRA.

Save as disclosed, as at the Latest Practicable Date, so far as known to the Directors or the chief executive of the Bank, there is no person (other than the Directors of the chief executive of the Bank) who had interests or short positions in the Shares or underlying shares of the Bank which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who is 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 members of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Bank or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

5. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2008, being the date of the latest published audited financial statements of the Bank.

6. CONSENTS

Somerley Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, and references to its name in the form and context in which they respectively appear.

Somerley Limited is not beneficially interested in the share capital of any member of the Group and does not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any member of the Group. Somerley Limited does not have any interest, direct or indirect, in any assets which have been, since 31 December 2008, being the date to which the last published audited accounts of the Bank were made up, acquired or disposed of by or leased to any member of the Group.

7. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the independent financial advisers who have given their opinion or advice contained in this circular:

Names	Qualifications
Somerley Limited	Licensed to conduct Type 1, 4, 6 and 9 (dealing in securities, advising on securities and corporate finance and asset management) regulated activities under the Securities and Futures Ordinance

8. MISCELLANEOUS

- (a) The Company Secretary is Leung Chiu Wah.
- (b) The registered office and head office of the Bank is 161 Queen's Road Central, Hong Kong.
- (c) Computershare Hong Kong Investor Services Limited, the share registrar of the Bank, is located at Shops 1712-1716, 17/F Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection from the date of this circular at the registered office of the Bank at No. 161 Queen's Road Central, Hong Kong during normal business hours on any business day up to and including 29 April 2009 (being not less than 14 days from the date of this circular) and at the Annual General Meeting:

- (a) the draft rules of the Employee Incentive Plan;
- (b) the memorandum and articles of association of the Bank;
- (c) the consolidated audited accounts of the Group for each of the two financial years ended 31 December 2007 and 31 December 2008 together with all notes, certificates or information required by the Companies Ordinance;
- (d) the letter from the Independent Board Committee dated 2 April 2009, the text of which is set out in Appendix I to this circular; and
- (e) the letter from the independent financial adviser dated 2 April 2009, the text of which is set out in Appendix II to this circular.