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BEA 東亞銀行

The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)
(Stock Code: 23)

**NOTICE OF ANNUAL GENERAL MEETING,
RE-ELECTION OF DIRECTORS,
PROPOSAL INVOLVING
ADOPTION OF THE STAFF SHARE OPTION SCHEME 2007,
AMENDMENTS TO ARTICLES OF ASSOCIATION
AND
GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE SHARES**

The notice of Annual General Meeting of The Bank of East Asia, Limited to be held at the Ballroom, The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Thursday, 12th April, 2007 at 10:30 a.m. ("2007 AGM") is set out on pages 4 to 11 of this circular.

Whether or not you are able to attend the 2007 AGM, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Bank's Share Registrars, Standard Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the 2007 AGM. Completion and delivery of the form of proxy will not preclude you from attending and voting at the 2007 AGM should you so wish.

12th March, 2007

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DEFINITIONS

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

“2007 AGM”	an annual general meeting of the Bank to be held at the Ballroom, The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Thursday, 12th April, 2007 at 10:30 a.m. or any adjournment thereof;
“Articles of Association”	the articles of association from time to time adopted by the Bank;
“Adoption Date”	the date on which the Staff Share Option Scheme 2007 is conditionally adopted by resolution of the Shareholders of the Bank at the 2007 AGM;
“Allotment Date”	the date on which Shares are allotted and issued to a Grantee pursuant to the exercise of the rights attaching to an Option granted and exercised under the Staff Share Option Scheme 2007;
“Associate”	shall have the meaning ascribed to it under the Listing Rules;
“Auditors”	the auditors for the time being of the Bank;
“Bank”	The Bank of East Asia, Limited, a company incorporated in Hong Kong with limited liability;
“Board”	the board of Directors or a duly authorised committee thereof;
“Business Day”	shall have the meaning ascribed to it under the Listing Rules;
“Chief Executive”	shall have the meaning ascribed to it under the Listing Rules;
“Companies Ordinance” or “Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong);
“Connected Person”	shall have the meaning ascribed to it under the Listing Rules;
“Date of Grant”	the date on which an option letter is issued upon acceptance of an Offer provided that the option letter shall be issued within 7 days after the end of the acceptance period stipulated in the provisions of the Staff Share Option Scheme 2007;
“Director”	includes any person who occupies the position of a director, by whatever name called, of the Bank or otherwise as the context may require;
“Eligible Person”	any Employee (including executive Directors and Chief Executives), as the Directors may determine, in the service of the Bank or a Subsidiary;
“Employee”	any full-time or part-time employee of the Bank or its Subsidiaries;

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“Exercise Period”	in respect of any particular Option, the period beginning on the first anniversary of the Date of Grant and ending on the fifth anniversary of the Date of Grant during which the Option may be exercised;
“Grantee”	any Eligible Person who accepts the Offer or (where the context permits) the legal personal representative(s) entitled to any such Option in consequence of the death of the Eligible Person (being an individual);
“Group”	the Bank and its Subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong Special Administrative Region of The People’s Republic of China for the time being;
“Hong Kong”	Hong Kong Special Administrative Region of The People’s Republic of China;
“Latest Practicable Date”	5th March, 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as amended, supplemented or otherwise modified from time to time;
“Notice of Annual General Meeting”	the notice convening the 2007 AGM as set out on pages 4 to 11 of this circular;
“Offer”	an offer by the Bank to an Eligible Person to accept an Option in accordance with the Staff Share Option Scheme 2007;
“Option(s)”	a right to subscribe for Shares granted pursuant to the Staff Share Option Scheme 2007;
“Option Price”	the price per share at which a Grantee may subscribe for Shares upon the exercise of an Option pursuant to the terms and conditions of the Staff Share Option Scheme 2007;
“Ordinary Resolution”	the proposed ordinary resolution as referred to in the Notice of Annual General Meeting;
“Retirement Age”	the age from time to time specified by the Bank or the Subsidiary (as the case may be) employing the relevant Eligible Person as the age at which its employees shall normally retire from service with the Bank or the Subsidiary (as the case may be);
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);

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“Shareholders”	holders of Shares;
“Share(s)”	fully paid ordinary shares of HK\$2.50 each of the Bank (or such other nominal amount prevailing from time to time);
“Staff Share Option Scheme 2002”	the Staff Share Option Scheme 2002 for the employees of the Bank and its Subsidiaries adopted by the Bank at its annual general meeting on 26th March, 2002;
“Staff Share Option Scheme 2007”	the Staff Share Option Scheme 2007 to be adopted by the Bank pursuant to the Ordinary Resolution No. 5 as set out in the Notice of Annual General Meeting in its present or any amended form;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subsidiary” or “Subsidiaries”	a subsidiary or subsidiaries (within the meaning of the Companies Ordinance) for the time being and from time to time of the Bank; and
“Takeover Code”	the Hong Kong Code on Takeovers and Mergers.

NOTICE OF ANNUAL GENERAL MEETING

The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

Notice of Eighty-Eighth Annual General Meeting

NOTICE IS HEREBY GIVEN that the Eighty-eighth Annual General Meeting of the members of the Bank will be held in the Ballroom, The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Thursday, 12th April, 2007 at 10:30 a.m. for the following purposes:

1. To consider and adopt the Audited Accounts and the Report of the Directors and the Independent Auditor's Report for the year ended 31st December, 2006;
2. To declare a final dividend of HK\$1.03 per share (with scrip option) for the year ended 31st December, 2006;
3. To re-elect Directors:
 - (a) Mr. Stephen Charles LI Kwok-sze
 - (b) Dr. Allan WONG Chi-yun
 - (c) Mr. Aubrey LI Kwok-sing
 - (d) Mr. Winston LO Yau-lai
 - (e) Tan Sri Dr. KHOO Kay-peng
 - (f) Dr. The Hon. Sir David LI Kwok-po
4. To re-appoint KPMG as Auditors of the Bank and authorise the Directors to fix their remuneration;

As special business, to consider and, if thought fit, pass with or without amendments, the following resolutions:

Ordinary Resolution

5. "THAT subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting approval for the listing of and permission to deal in the shares to be issued and allotted pursuant to the exercise of the options in accordance with the terms and conditions of the Staff Share Option Scheme 2007 of the Bank (the "Scheme 2007"), the rules of which are contained in the document marked "A" produced to the meeting and for the purposes of identification signed by the Chairman thereof, the Scheme 2007 be and is hereby approved and adopted and the Directors of the Bank be and are hereby authorised to do all such acts and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the Scheme 2007 including but without limitation:
 - (a) to administer the Scheme 2007 under which options will be granted to eligible persons under the Scheme 2007 to subscribe for shares;
 - (b) to modify and/or amend the Scheme 2007 from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the Scheme 2007 relating to modification and/or amendment, provided always that the total number of shares subject to the Scheme 2007 shall not exceed the limits referred to therein;

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- (c) to issue and allot from time to time such number of shares in the capital of the Bank as may be required to be issued pursuant to the exercise of the options under the Scheme 2007 provided always that the total number of shares subject to the Scheme 2007, when aggregated with any shares subject to any other share option schemes, shall not exceed 5% of the relevant class of the issued share capital of the Bank as at the date of passing this Resolution, but the Bank may seek approval of its shareholders in general meeting for refreshing the 5% limit under the Scheme 2007 and the maximum number of shares in respect of which options may be granted under the Scheme 2007 and any other share option schemes of the Bank in issue shall not exceed 15% of the relevant class of the issued share capital of the Bank from time to time;
- (d) to make application at the appropriate time or times to the Stock Exchange; and any other stock exchanges upon which the issued shares of the Bank may for the time being be listed, for listing of and permission to deal in any shares which hereafter from time to time be issued and allotted pursuant to the exercise of the options under the Scheme 2007; and
- (e) to consent, if it so deems fit and expedient, to such conditions, modifications and/or variations as may be required or imposed by the relevant authorities in relation to the Scheme 2007."

Special Resolution

6. "THAT the Articles of Association be and hereby amended as follows:

- (a) Article 23 be amended by inserting the following words immediately after the words "in advance":

' , in addition to the dividend payable upon such part of the share in respect of which such advance has been made as is actually called up. The Board may at any time repay the amount so advanced upon giving to such member not less than three months' notice in writing of their intention in that behalf, unless before the expiration of such notice the amount so advanced shall have been called up on the share in respect of which it was advanced';

- (b) the following new Article 23A be inserted immediately after Article 23:

'Indemnity against claims in respect of shares

23A. Whenever any law for the time being of any country, state or place imposes or purports to impose any immediate or future or possible liability on the Company to make any payment, or empowers any government or taxing authority or government official to require the Company to make any payment, in respect of any shares held either jointly or solely by any member or in respect of any dividends, bonuses or other monies due or payable or accruing due or which may become due or payable to such member by the Company or in respect of any such shares or for or on account or in respect of any member and whether in consequence of:

- (a) the death of such member;
- (b) the non-payment of any income tax or other tax by such member;

NOTICE OF ANNUAL GENERAL MEETING

- (c) the non-payment of any estate, probate, succession, death, stamp, or other duty by the executor or administrator of such member or by or out of his estate; or
- (d) any other act or thing;

the Company in every such case:

- (i) shall be fully indemnified by such member or his executor or administrator from all liability arising by virtue of such law; and
- (ii) may recover as a debt due from such member or his executor or administrator (wherever constituted or residing) any monies paid by the Company under or in consequence of any such law, together with interest thereon at the rate of 15 per cent. per annum thereon from the date of payment by the Company to the date of repayment by such member or his executor or administrator.

Nothing contained in this Article shall prejudice or affect any right or remedy which any law may confer or purport to confer on the Company and as between the Company and every such member as aforesaid, his executor, administrator and estate wherever constituted or situated, any right or remedy which such law shall confer or purport to confer on the Company shall be enforceable by the Company.’;

- (c) Article 29 be amended by inserting the following words immediately after the words “until payment”:

‘and expenses of the Company that may have accrued by reason of such non-payment, in the same manner in all respects as if the shares had not been forfeited, and to satisfy all (if any) the claims and demands which the Company might have enforced in respect of the shares at the time of forfeiture’;

- (d) the following new Article 29A be inserted immediately after Article 29:

‘Extinction of interest and claims

29A. The forfeiture of a share shall involve the extinction at the time of forfeiture of all interest in and all claims and demands against the Company in respect of the share, and all other rights and liabilities incidental to the share as between the shareholder whose share is forfeited and the Company, except only such of those rights and liabilities as are by these Articles expressly saved, or as are by the Ordinance given or imposed in the case of past members.’;

NOTICE OF ANNUAL GENERAL MEETING

- (e) the following new Article 48A be inserted immediately after Article 48:

'Postponement of general meeting

48A. If the Board, in its absolute discretion, considers that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time or place specified in the notice calling the general meeting, it may postpone the general meeting to another date, time and/or place. The Board shall take reasonable steps to ensure that notice of the date, time and place of the postponed meeting is provided to any Member trying to attend the meeting at the original time and place. When a meeting is so postponed, notice of the date, time and place of the postponed meeting shall be given in such manner as the Board may in its absolute discretion determine. Notice of the business to be transacted at such postponed meeting shall not be required. If a meeting is postponed in accordance with this Article, the instrument of a proxy will be valid if it is delivered and received as required by these Articles not less than 48 hours before the time appointed for holding the postponed meeting. The Board may (for the avoidance of doubt) also postpone any meeting which has been rearranged under this Article.';

- (f) the following new Article 71A be inserted immediately after Article 71:

'Sending proxy with nominations

71A. The Board may at the expense of the Company send or make available, by post, electronic communication or otherwise, instruments of proxy (reply-paid or otherwise) to Members for use at any general meeting(s) or at any separate meeting(s) of the holders of any class of shares, either in blank or nominating in the alternative any one or more of the Directors or any other persons. If for the purpose of any meeting invitations to appoint as proxy a person or one of a number of persons specified in the invitations are issued at the expense of the Company, such invitations shall subject to Article 48 be issued to all (and not some only) of the Members entitled to be sent a notice of the meeting and to vote thereat by proxy.';

- (g) the following new Articles 72A and 72B be inserted immediately after Article 72:

'Proxy can demand poll, vote, etc

72A. An instrument of proxy shall be deemed (subject to any contrary direction contained in the same) to confer authority to demand or join in demanding a poll and to vote on any resolution or amendment of a resolution put to the meeting for which it is given, as the proxy thinks fit and to speak at the meeting.

NOTICE OF ANNUAL GENERAL MEETING

Validity not affected

72B. A vote given in accordance with the terms of an instrument of proxy shall be valid, notwithstanding the death or insanity of the principal or the revocation of the instrument of proxy, or of the authority under which the instrument of proxy was executed, or the transfer of the share in respect of which the instrument of proxy is given, provided that no intimation in writing of such death, insanity, revocation or transfer shall have been received by the Company at the Office before the commencement of the meeting or adjourned meeting at which the instrument of proxy is used.’;

(h) the following new Article 98A be inserted immediately after Article 98:

‘Chairman to sign minute

98A. Any such minute if purporting to be signed by the chairman of the meeting at which the proceedings were held or by the chairman of the next succeeding meeting of the Company or the Board or the committee of the Board (as the case may be) shall be sufficient evidence of the proceedings thereat and until the contrary is proved every meeting of the Company or of the Board or of a committee of the Board in respect of the proceedings whereat minutes have been so made shall be deemed to have been duly convened and held and all resolutions and proceedings stated in the said minutes to have been passed and held thereat shall be deemed to have been duly passed and held.’;

(i) Article 106 be amended by inserting the words “(with power to sub-delegate)” immediately after the word “discretions” in the first sentence, inserting the words “for such time on such terms and subject to such conditions” immediately after the words “such other persons” in the first sentence, inserting the words “confer such powers either concurrently with, or to the exclusion of and in substitution for, all of the powers of the Board in that respect and may” immediately after the words “The Board may” in the second sentence, and inserting the sentence “Insofar as any power, authority or discretion is so delegated, any reference in these Articles to the exercise by the Board of such power, authority or discretion shall be construed as if it were a reference to the exercise of such power, authority or discretion by such committee.” immediately after the last sentence;

(j) the following new Article 106A be inserted immediately after Article 106:

‘Powers of committees

106A. All acts done by such committee in conformity with such regulations and in fulfilment of the purposes for which it is appointed, but not otherwise, shall have the like force and effect, as if done by the Directors.’;

NOTICE OF ANNUAL GENERAL MEETING

(k) the following new sub-articles be inserted immediately after Article 118(C):

'(D) The Company may upon the recommendation of the Board by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the provisions of paragraph (A) of this Article a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

(E) The Board may on any occasion when it makes a determination pursuant to paragraph (A) of this Article, resolve that no allotment of shares or rights of election for shares to be issued pursuant to such determination shall be made available or made to any members with registered addresses in any particular territory or territories where the allotment of shares or the circulation of an offer of such rights of election would or might, in the opinion of the Board, be unlawful or would or might, in the opinion of the Board, be unlawful in the absence of a registration statement or other special formalities, and in such event the provision aforesaid shall be read and construed subject to such determination.';

(l) Article 121 be amended by deleting its heading "Scrip dividends" and substituting therefor the heading "Dividends in specie"; and

(m) the following new Articles 132A and 132B be inserted immediately after Article 132:

'Deemed receipt of notice

132A. Any member present, either personally or by proxy, at any meeting of the Company shall for all purposes be deemed to have received due notice of such meeting, and, where requisite, of the purposes for which such meeting was convened.

Transferee bound by notice given to transferor

132B. Every person who, by operation of law, transfer or by any other means becomes entitled to a share shall be bound by any notice in respect of that share which, before his name is entered in the Register, has been duly given to a person from whom he derives his title.'."

NOTICE OF ANNUAL GENERAL MEETING

Ordinary Resolutions

7. "THAT

- (a) a general mandate be and is hereby unconditionally given to the Directors to exercise during the Relevant Period all the powers of the Bank to allot, issue and dispose of additional shares of the Bank and to make or grant offers, agreements, options or warrants which would or might require the exercise of such powers either during or after the Relevant Period, not exceeding 10% of the aggregate nominal amount of the issued share capital of the Bank as at the date of this Resolution, otherwise than any shares which may be issued pursuant to the following events:
- (i) a rights issue;
 - (ii) any option scheme or similar arrangement for the time being adopted for the grant or issue to the employees of the Bank and its subsidiaries of shares or rights to acquire shares of the Bank; or
 - (iii) any scrip dividend or similar arrangement in accordance with the Articles of Association of the Bank; and
- (b) for the purposes of this Resolution:

'Relevant Period' means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next Annual General Meeting of the Bank;
- (ii) the expiration of the period within which the next Annual General Meeting of the Bank is required by law to be held; and
- (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the members in general meeting."

8. "THAT

- (a) a general mandate be and is hereby unconditionally granted to the Directors to exercise during the Relevant Period all the powers of the Bank to repurchase ordinary shares of HK\$2.50 each in the capital of the Bank in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from time to time provided however that the aggregate nominal amount of the shares to be repurchased pursuant to the approval in this paragraph shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Bank as at the date of this Resolution; and

NOTICE OF ANNUAL GENERAL MEETING

(b) for the purposes of this Resolution:

'Relevant Period' means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next Annual General Meeting of the Bank;
- (ii) the expiration of the period within which the next Annual General Meeting of the Bank is required by law to be held; and
- (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the members in general meeting."

9. "THAT, conditional on the passing of Resolutions in item 7 and item 8 of the Notice of this Meeting, the general mandate granted to the Directors to allot shares pursuant to the Resolution set out in item 7 of the Notice of this Meeting be and is hereby extended by the addition to the aggregate nominal amount of the share capital which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate an amount representing the aggregate nominal amount of the share capital of the Bank repurchased by the Bank under the authority granted pursuant to the Resolution set out in item 8 of the Notice of this Meeting."

By Order of the Board

Molly HO Kam-lan

Company Secretary

Hong Kong, 12th March, 2007

Notes:

- (a) *For the purpose of determining Shareholders who qualify for final dividend, the Register of Members of the Bank will be closed from Wednesday, 14th March, 2007 to Friday, 16th March, 2007, both days inclusive. In order to qualify for the final dividend, all transfer documents should be lodged for registration with Standard Registrars Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, by 4:00 p.m. Tuesday, 13th March, 2007.*
- (b) *For the purpose of determining Shareholders who are entitled to attend and vote at the 2007 AGM, the Register of Members of the Bank will be closed from Wednesday, 11th April, 2007 to Thursday, 12th April, 2007, both days inclusive. In order to qualify for attending and voting at the 2007 AGM, all transfer documents should be lodged for registration with Standard Registrars Limited, 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, by 4:00 p.m. Tuesday, 10th April, 2007.*
- (c) *For good corporate governance practice, the Chairman of the Board has indicated that he would direct that each of the resolutions set out in the notice of the Meeting be voted on by poll.*
- (d) *A member entitled to attend and vote at the above Meeting may appoint a proxy to attend and vote in his place. A proxy need not be a member.*
- (e) *The Memorandum and Articles of Association of the Bank is written in English. The Chinese version of the Resolution as set out in item 6 above on amendments of Articles of Association is a translation for reference only. Should there be any discrepancies, the English version will prevail.*

LETTER FROM THE CHAIRMAN

The Bank of East Asia, Limited

(Incorporated in Hong Kong with limited liability in 1918)

Executive Directors:

Dr. The Hon. Sir David LI Kwok-po (*Chairman and Chief Executive*)
Mr. Joseph PANG Yuk-wing (*Deputy Chief Executive*)
Mr. CHAN Kay-cheung (*Deputy Chief Executive*)

Registered Office:

10 Des Voeux Road Central
Hong Kong

Non-executive Directors:

Dr. LI Fook-wo
Mr. Aubrey LI Kwok-sing
Dr. William MONG Man-wai
Tan Sri Dr. KHOO Kay-peng
Mr. Richard LI Tzar-kai
Mr. Eric LI Fook-chuen
Mr. Stephen Charles LI Kwok-sze

Independent Non-executive Directors:

Mr. WONG Chung-hin
Dr. LEE Shau-kee
Dr. Allan WONG Chi-yun
Mr. Winston LO Yau-lai
Mr. Thomas KWOK Ping-kwong
Mr. TAN Man-kou
Mr. Kenneth LO Chin-ming

12th March, 2007

To the Shareholders

Dear Sir or Madam,

INTRODUCTION

The purpose of this circular is to provide you with information in connection with the convening of the 2007 AGM and explanation in connection with the matters to be dealt with at the 2007 AGM. For good corporate governance practice, I would direct that each of the resolutions set out in the notice of the 2007 AGM be voted on by poll.

A notice convening the 2007 AGM is set out on pages 4 to 11 of this circular.

The procedure by which Shareholders may demand a poll at any general meeting of the Bank is set out in Appendix 1 to this circular.

LETTER FROM THE CHAIRMAN

A proxy form for use at the 2007 AGM is enclosed. Whether or not you are able to attend the 2007 AGM, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Bank's Share Registrars, Standard Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the 2007 AGM. Completion and delivery of the form of proxy will not preclude you from attending and voting at the 2007 AGM should you so wish.

RESOLUTION (1) — ADOPTION OF THE AUDITED ACCOUNTS AND THE REPORT OF THE DIRECTORS AND THE INDEPENDENT AUDITOR'S REPORT

Annual Report 2006 incorporating the audited accounts, the Report of the Directors and the Independent Auditor's Report for the year ended 31st December, 2006 was sent together with this circular to Shareholders on the same date. The audited accounts have been reviewed by the Audit Committee.

RESOLUTION (2) — DECLARATION OF FINAL DIVIDEND WITH SCRIP OPTION

The Board has recommended a final dividend of HK\$1.03 per share for the year 2006 in cash with an option to receive new, fully paid Shares in lieu of cash. Subject to the passing of Resolution (2), such final dividend will be paid on or about Friday, 13th April, 2007. The scrip dividend scheme is also conditional upon the Listing Committee of the Stock Exchange granting approval to the listing of and permission to deal in the new Shares to be issued under the scrip dividend scheme.

A circular containing details of scrip dividend scheme and the election form will be sent to Shareholders on or about Friday, 16th March, 2007.

The Register of Members will be closed from Wednesday, 14th March, 2007 to Friday, 16th March, 2007. In order to qualify for the proposed final dividend, all transfer documents should be lodged for registration with Standard Registrars Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, by 4:00 p.m. on Tuesday, 13th March, 2007.

RESOLUTION (3) — RE-ELECTION OF DIRECTORS

In accordance with Article 75 of the Articles of Association, Mr. Stephen Charles LI Kwok-sze who was appointed on 1st May, 2006 will retire at the 2007 AGM and, being eligible, offers himself for re-election. In accordance with Articles 74A, 80, and 82 of the Articles of Association, Dr. Allan WONG Chi-yun, Mr. Aubrey LI Kwok-sing, Mr. Winston LO Yau-lai, Tan Sri Dr. KHOO Kay-peng and Dr. The Hon. Sir David LI Kwok-po will retire at the 2007 AGM and, being eligible, offer themselves for re-election. Details of the Directors who are proposed to be re-elected at the 2007 AGM are set out in Appendix 2 to this circular.

The re-appointment of Directors has been reviewed by the Nomination Committee which made recommendation to the Board that the re-election be proposed for shareholders' approval at the 2007 AGM. The Nomination Committee has also assessed the independence of all the Bank's Independent Non-executive Directors including those to be re-elected at the 2007 AGM.

LETTER FROM THE CHAIRMAN

RESOLUTION (4) — RE-APPOINTMENT OF AUDITORS

The Board (which agreed with the view of the Audit Committee) recommended that, subject to the approval of Shareholders at the 2007 AGM, KPMG be re-appointed as the external auditors of the Bank for 2007.

RESOLUTION (5) — ADOPTION OF THE STAFF SHARE OPTION SCHEME 2007

The Staff Share Option Scheme 2002 was adopted by the Bank on 26th March, 2002. As the Staff Share Option Scheme 2002 will expire on 25th March, 2007, the Directors propose to recommend to Shareholders at the 2007 AGM to approve the adoption of the Staff Share Option Scheme 2007. As at the Latest Practicable Date, the Bank has not adopted any share option scheme other than the Staff Share Option Scheme 2002.

The Staff Share Option Scheme 2002 will expire on 25th March, 2007 (such that no further options could thereafter be offered under the Staff Share Option Scheme 2002 but in all other respects the provisions of the Staff Share Option Scheme 2002 shall remain in full force and effect). It is proposed that, subject to the approval of the Shareholders of its adoption at the 2007 AGM and the Stock Exchange granting the necessary approvals for the listing of and dealing in the Shares to be issued and allotted pursuant to the exercise of Options to be granted thereunder in accordance with the terms and conditions thereof, the Staff Share Option Scheme 2007 shall take effect on the date of its adoption at the 2007 AGM. Operation of the Staff Share Option Scheme 2007 will commence after all conditions precedent have been fulfilled.

The Directors consider that in order to enable the Group to attract and retain Eligible Persons of appropriate qualifications and with the necessary experience to work for the Group, it is important that the Group should continue to provide such Eligible Persons with an additional incentive by offering them an opportunity to obtain an ownership interest in the Bank and to reward them for contributing to the long term success of the business of the Group. By offering the Options to the Eligible Persons upon such terms as may be permitted under the Staff Share Option Scheme 2007, such Eligible Persons may exercise their Options at any time within the Exercise Period (where applicable, subject to any terms of the grant of such Options) to acquire a monetary gain or ownership interest in the Bank which may in turn provide a further incentive to them for advancing their performance. It is therefore proposed that the Staff Share Option Scheme 2007 for the benefit of the Eligible Persons be adopted at the 2007 AGM. The terms of the Staff Share Option Scheme 2007 is set out in Appendix 3 to this circular.

Under the Staff Share Option Scheme 2002, a total of 56,305,000 options had been granted, out of which 31,090,000 options had been exercised, 2,695,000 options have lapsed, no options have been cancelled and 22,520,000 options remain outstanding as at the Latest Practicable Date. The 22,520,000 outstanding options under the Staff Share Option Scheme 2002 are subject to different exercise periods but shall all lapse by 4th May, 2011 if unexercised. Save as aforesaid and up to the Latest Practicable Date, no other options which remain exercisable have been granted under the Staff Share Option Scheme 2002 or any other schemes. The Directors confirm that between the date of this circular and the 2007 AGM, they will not grant any further option under the Staff Share Option Scheme 2002.

As at the Latest Practicable Date, the Bank has 1,551,682,050 Shares in issue. Assuming that there is no change in the Shares in issue between the period from the Latest Practicable Date and the date of the adoption of the Staff Share Option Scheme 2007, the number of Shares that may be issued upon exercise of all Options which may be granted under the Staff Share Option Scheme 2007 and options to be granted under

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any other schemes of the Bank will be 77,584,102 Shares, being 5 per cent. of the Shares in issue as at the Latest Practicable Date. Such 5 per cent. limit under the Staff Share Option Scheme 2007 is lower than the 10 per cent. limit allowable under the Listing Rules and is set voluntarily by the Bank, as the Bank does not intend or anticipate the need to grant Options beyond the 5 per cent. limit.

In respect of the operation of the Staff Share Option Scheme 2007, the Bank will comply with all relevant requirements under Chapter 17 of the Listing Rules.

VALUE OF THE OPTIONS

The estimated fair value of all Options that can be granted under the Scheme 2007, calculated on the basis of the trinomial lattice model, was HK\$620,672,816.00 as at 5th March, 2007, being the Latest Practicable Date. The assumptions used in such calculation include an exercise price of HK\$45.15 per Share, a share price of HK\$40.25 per Share, a risk-free interest rate of 4.10 per cent. (being the rate prevailing on the Exchange Fund Notes for 5 years), an expected dividend rate of 10.51 per cent. (based on historical dividends), an expected volatility rate of 33.58 per cent. based on the historic volatility (calculated based on the weighted average remaining life of the Options), adjusted for any expected changes to future volatility due to publicly available information. Shareholders should note that such estimated fair value of all Options is subject to a number of subjective assumptions including the key assumptions as described above and that, more importantly, the above estimation is solely based on an application of the trinomial lattice model. The trinomial lattice model was developed to estimate the fair value of publicly traded options that have no vesting restrictions and are fully transferable. Although the Bank has taken professional advice for the purpose of determining the above estimated fair value, it is an estimate provided for information only in order to comply with the requirements of the Listing Rules. Shareholders should be warned that the estimate may not reflect the actual value of the Options given that changes in the subjective assumptions used in the calculation could materially affect the estimated fair value of Options, and hence the actual value could vary significantly from the estimated fair value. In addition, Shareholders should also be warned that the amount stated only relates to the estimated fair value as at 5th March, 2007 and the valuation of the Options after that date may and is subject to change. However, in compliance with the Listing Rules, estimated fair valuations will be provided based on the trinomial lattice model or other model in accordance with the relevant applicable accounting standards as at the end of the relevant financial period for any interim or final results of the Bank.

CONDITIONS PRECEDENT OF THE STAFF SHARE OPTION SCHEME 2007

The adoption of the Staff Share Option Scheme 2007 is subject to the following conditions:

- (a) the approval of the Shareholders for the adoption of the Staff Share Option Scheme 2007; and
- (b) the Listing Committee of the Stock Exchange granting approval for the listing of and permission to deal in the Shares to be issued and allotted pursuant to the exercise of the Options to be granted thereunder in accordance with the terms and conditions of the Staff Share Option Scheme 2007.

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Subject to satisfaction of the above conditions, the total number of Shares which may be issued upon exercise of all Options to be granted under the Staff Share Option Scheme 2007 and options to be granted under any other schemes of the Bank shall not, in aggregate, exceed 5 per cent. of the Shares in issue as at the date of approval of the Staff Share Option Scheme 2007. Under the terms of the Staff Share Option Scheme 2007, the Bank may obtain approval from its Shareholders to refresh the 5 per cent. limit. However, the maximum number of Shares which may be issued upon exercise of all options outstanding and yet to be exercised under the Staff Share Option Scheme 2007 and any other schemes shall not exceed 15 per cent. of the Shares in issue from time to time.

An application has been made to the Stock Exchange for obtaining the approval above-mentioned.

The Staff Share Option Scheme 2007 may be altered in any respect by resolution of the Board except that the terms referred to in Rule 17.03 of the Listing Rules shall not be altered to the advantage of Grantees or prospective Grantees except with the prior approval of the Shareholders in general meeting. Once the Staff Share Option Scheme 2007 is adopted, any alterations to the terms and conditions thereof, which are of a material nature, must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Staff Share Option Scheme 2007. The amended terms of the Staff Share Option Scheme 2007 and all Options must continue to comply with the relevant requirements of Chapter 17 of the Listing Rules.

RESOLUTION (6) — AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The proposed amendments to the Articles of Association mainly serve to clarify existing practices of the Bank and codify certain existing requirements under the law. The Directors have proposed these amendments with a view to increasing the flexibility of certain internal matters of the Bank and to bring them more in line with market practices. The proposal also contains some housekeeping amendments.

Details of the proposed amendments to the Articles of Association are set out in Appendix 4 to this circular.

RESOLUTIONS (7), (8) AND (9) — GENERAL MANDATES TO ISSUE SHARES AND REPURCHASE SHARES

At the annual general meeting of the Bank held on 7th April, 2006, approval was given by Shareholders for the granting of, inter alia, the general mandates to the Directors (i) to allot, issue and otherwise deal with Shares not exceeding 10% of the aggregate nominal amount of the issued share capital of the Bank; and (ii) to repurchase Shares on the Stock Exchange up to 10% of the aggregate nominal amount of the issued share capital of the Bank, as at the date of passing the relevant resolutions. In accordance with the terms of the approval, these general mandates will shortly expire on 12th April, 2007 upon the conclusion of the 2007 AGM. To keep in line with the current corporate practice, the grant of fresh general mandates for the same purposes is being sought from Shareholders and the ordinary resolutions to grant these mandates to the Directors will be proposed at the 2007 AGM.

Based on the 1,551,682,050 Shares in issue as at the Latest Practicable Date (and assuming that there is no change in respect of the issued share capital of the Bank after the Latest Practicable Date and up to the passing of the relevant resolution), the Bank will therefore be allowed under the mandate to issue a maximum of 155,168,205 Shares.

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The Explanatory Statement required by the Listing Rules to be sent to Shareholders in connection with the proposed share repurchase resolution is set out in Appendix 5 to this circular.

Conditional upon the passing of the Resolutions (7) and (8), an ordinary resolution to authorise the Directors to exercise the powers to allot, issue and dispose of additional Shares of the Bank under the general mandate to issue shares in respect of the aggregate nominal amount of the share capital in the Bank repurchased by the Bank will also be proposed for approval by Shareholders at the 2007 AGM.

RECOMMENDATION

Your Directors consider that the above proposals are in the interests of the Bank and its Shareholders and accordingly recommend that all Shareholders vote in favour of the resolutions to be proposed at the 2007 AGM.

Yours faithfully,

David LI Kwok-po

Chairman and Chief Executive

Article 57 of the Articles of Association sets out the procedure by which Shareholders may demand a poll:

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. Subject to the Ordinance, a poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least five Members present in person or by proxy and entitled to vote; or
- (c) any Member or Members present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all Members having the right to attend and vote at the meeting; or
- (d) any Member or Members present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

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

The following are the particulars of the six Directors proposed to be re-elected at the 2007 AGM:

1. **Mr. Stephen Charles LI Kwok-sze**

BSc (Hons.), ACA, Non-Executive Director

Mr. Li, aged 47, was appointed a Director in 2006. He is a member of the Institute of Chartered Accountants in England and Wales. He currently holds directorships in several funds managed by INTL Consilium, LLC. He has over 16 years experience in investment banking, having held senior capital markets positions with international investment banks in London and Hong Kong. Mr. Li holds a Bachelor of Science (Hons.) Degree in Mathematics from King's College, University of London, U.K. Save as disclosed above, Mr. Li has not held any directorship in other listed public companies during the last three years.

Save as disclosed above, Mr. Li does not hold any position with the Bank or with other members of the Group. Mr. Li has not entered into any service contract with the Bank. In accordance with the Articles of Association, Mr. Li shall retire as a Director at the 2007 AGM and, being eligible, shall be re-elected for a term of not more than approximately three years expiring at the conclusion of the annual general meeting of the Bank held in the third year following the year of his appointment and on expiration of his term he shall be deemed a retiring Director and eligible for re-appointment. The fees payable to Directors are determined by the Board with reference to market trends. With effect from 2007, Mr. Li will receive a director's fee of HK\$200,000 (previously HK\$100,000) per annum.

Mr. Li is the cousin of Dr. The Hon. Sir David LI Kwok-po, Chairman and Chief Executive of the Bank, and also the cousin of Mr. Aubrey LI Kwok-sing, a Non-executive Director of the Bank. He is also the nephew of Dr. LI Fook-wo and Mr. Eric LI Fook-chuen, both are Non-executive Directors of the Bank. Save as disclosed, Mr. Li is not or was not connected with any Directors and the senior management of the Bank. The Bank does not have a substantial or controlling shareholder (as defined in the Listing Rules) as at the Latest Practicable Date.

As at the Latest Practicable Date, Mr. Li was the beneficial owner of 11,365,240 Shares (0.73%), and he was deemed to be interested in 446,066 Shares (0.03%) through the interests of his children under the age of 18. Of the remaining 1,832,842 Shares (0.12%), (i) 1,681,400 Shares (0.11%) were held by a discretionary trust of which Mr. Li, his spouse and his children under the age of 18 were beneficiaries and (ii) 151,442 Shares (0.01%) were held by a discretionary trust of which his children under the age of 18 were beneficiaries.

There is no information relating to Mr. Li that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

Save as disclosed herein, there are no other matters relating to his re-election that need to be brought to the attention of the Shareholders.

2. Dr. Allan WONG Chi-yun

SBS, MBE, BSc, MSEE, Hon. DTech, JP, Independent Non-executive Director, Chairman of the Remuneration Committee, Member of the Audit Committee and the Nomination Committee

Dr. Wong, aged 56, was appointed a Director in 1995. Dr. Wong is the Chairman and Group Chief Executive Officer of VTech Holdings Limited and is also an independent non-executive director of China-Hongkong Photo Products Holdings Ltd. and Li & Fung Ltd. and the Vice Chairman of Oasis Airlines Hong Kong Limited. Save as disclosed above, Dr. Wong has not held any directorship in other listed public companies during the last three years.

Dr. Wong holds a Bachelor of Science degree in electrical engineering from the University of Hong Kong, a Master of Science degree in electrical and computer engineering from the University of Wisconsin and an honorary degree of Doctor of Technology from the Hong Kong Polytechnic University. He is the Chairman of the Hong Kong Applied Science and Technology Research Institute and a member of the Council of Advisors on Innovation and Technology.

Save as disclosed above, Dr. Wong does not hold any position with the Bank or with other members of the Group. Dr. Wong has not entered into any service contract with the Bank. In accordance with the Articles of Association, Dr. Wong shall retire as a Director at the 2007 AGM and, being eligible, shall be re-elected for a term of not more than approximately three years expiring at the conclusion of the annual general meeting of the Bank held in the third year following the year of his appointment and on expiration of his term he shall be deemed a retiring Director and eligible for re-appointment. The fees payable to Directors are determined by the Board with reference to market trends. With effect from 2007, Dr. Wong will receive a director's fee of HK\$200,000 (previously HK\$100,000) per annum. He will also receive a Remuneration Committee Chairman's fee of HK\$50,000 (previously HK\$20,000) per annum; an Audit Committee member's fee of HK\$60,000 (previously HK\$10,000) per annum and a Nomination Committee member's fee of HK\$30,000 (previously HK\$10,000) per annum.

Dr. Wong is the nephew of Mr. WONG Chung-hin, an Independent Non-executive Director of the Bank. Saved as disclosed, Dr. Wong is not or was not connected with any Directors and the senior management of the Bank. The Bank does not have a substantial or controlling shareholder (as defined in the Listing Rules) as at the Latest Practicable Date.

As at the Latest Practicable Date, Dr. Wong was deemed to be interested in 124 Shares through the interests of his spouse, Ms. Margaret KWOK Chi-wai. He was also deemed to be interested in 10,482,901 (0.68%) Shares held by a discretionary trust, The Wong Chung Man 1984 Trust, of which Dr. Wong was a founder.

There is no information relating to Dr. Wong that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

Save as disclosed herein, there are no other matters relating to his re-election that need to be brought to the attention of the Shareholders.

3. Mr. Aubrey LI Kwok-sing

BSc, MBA, Non-executive Director, Member of the Nomination Committee and the Remuneration Committee

Mr. Li, aged 57, was appointed a Director in 1995. He is a director of Management Capital Limited. Mr. Li possesses extensive experience in the fields of investment banking, merchant banking and capital markets. Mr. Li is also a director of ABC Communications (Holdings) Limited, Cafe de Coral Holdings Limited, China Everbright International Limited, CNPC (Hong Kong) Limited, Kowloon Development Co. Ltd, Pokfulam Development Company Limited and Value Partners China Greenchip Fund Limited. He is the Chairman of Atlantis Asian Recovery Fund plc. Mr. Li was also a director of Chinney Alliance Group Limited. Save as disclosed above, Mr. Li has not held any directorship in other listed public companies during the last three years.

Save as disclosed above, Mr. Li does not hold any position with the Bank or with other members of the Group. Mr. Li has not entered into any service contract with the Bank. In accordance with the Articles of Association, Mr. Li shall retire as a Director at the 2007 AGM and, being eligible, shall be re-elected for a term of not more than approximately three years expiring at the conclusion of the annual general meeting of the Bank held in the third year following the year of his appointment and on expiration of his term he shall be deemed a retiring Director and eligible for re-appointment. The fees payable to Directors are determined by the Board with reference to market trends. With effect from 2007, Mr. Li will receive a director's fee of HK\$200,000 (previously HK\$100,000) per annum. He will also receive a Remuneration Committee member's fee of HK\$30,000 (previously HK\$10,000) per annum and a Nomination Committee member's fee of HK\$30,000 (previously HK\$10,000) per annum.

Mr. Li is the son of Dr. LI Fook-wo, a Non-executive Director of the Bank. He is the cousin of Dr. The Hon. Sir David LI Kwok-po, Chairman and Chief Executive of the Bank, and Mr. Stephen Charles LI Kwok-sze, a Non-executive Director of the Bank. He is also the nephew of Mr. Eric LI Fook-chuen, a Non-executive Director of the Bank. Saved as disclosed, Mr. Li is not or was not connected with any Directors and the senior management of the Bank. The Bank does not have a substantial or controlling shareholder (as defined in the Listing Rules) as at the Latest Practicable Date.

As at the Latest Practicable Date, Mr. Li was the beneficial owner of 23,391 Shares (0.002%) and he was deemed to be interested in 15,738 Shares (0.001%) through the interests of his spouse, Ms. Elizabeth WOO. 30,655,378 Shares (1.98%) were held by The Fook Wo Trust, a discretionary trust in which Mr. Li was one of the discretionary beneficiaries.

There is no information relating to Mr. Li that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

Save as disclosed herein, there are no other matters relating to his re-election that need to be brought to the attention of the Shareholders.

4. Mr. Winston LO Yau-lai

SBS, BSc, MSc, Independent Non-executive Director, Chairman of the Audit Committee and Member of the Remuneration Committee

Mr. Lo, aged 65, was appointed a Director in 2000. Mr. Lo is the Executive Chairman of Vitasoy International Holdings Limited. He is a director of Ping Ping Investment Company Ltd. Save as disclosed above, Mr. Lo has not held any directorship in other listed public companies during the last three years.

Mr. Lo is a Member of the National Committee of the Chinese People's Political Consultative Conference and a Member to the Court of the Hong Kong University of Science and Technology. He is also the Vice President of the Council of Outward Bound Trust of Hong Kong.

Save as disclosed above, Mr. Lo does not hold any position with the Bank or with other members of the Group. Mr. Lo has not entered into any service contract with the Bank. In accordance with the Articles of Association, Mr. Lo shall retire as a Director at the 2007 AGM and, being eligible, shall be re-elected for a term of not more than approximately three years expiring at the conclusion of the annual general meeting of the Bank held in the third year following the year of his appointment and on expiration of his term he shall be deemed a retiring Director and eligible for re-appointment. The fees payable to Directors are determined by the Board with reference to market trends. With effect from 2007, Mr. Lo will receive a director's fee of HK\$200,000 (previously HK\$100,000) per annum. He will also receive an Audit Committee Chairman's fee of HK\$100,000 (previously HK\$20,000) per annum and a Remuneration Committee member's fee of HK\$30,000 (previously HK\$10,000) per annum.

Mr. Lo is not or was not connected with any Directors and the senior management of the Bank. The Bank does not have a substantial or controlling shareholder (as defined in the Listing Rules) as at the Latest Practicable Date.

As at the Latest Practicable Date, Mr. Lo is not interested in any Shares of the Bank within the meaning of Part XV of the SFO.

There is no information relating to Mr. Lo that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

Save as disclosed herein, there are no other matters relating to his re-election that need to be brought to the attention of the Shareholders.

5. Tan Sri Dr. KHOO Kay-peng

PSM, DPMJ, KMN, JP, Hon. DLitt, Hon. LLD, Non-executive Director

Tan Sri Dr. Khoo, aged 68, was appointed a Director in 2001. Dr. Khoo is the Chairman and Chief Executive of Malayan United Industries Berhad Group ("The MUI Group"), a Malaysia-based corporation with diversified business operations in the Asia Pacific, the United States of America ("USA") and the United Kingdom ("UK"). He also holds directorships in Pan Malaysian Industries Berhad and MUI Properties Berhad in Malaysia. Dr. Khoo is also the Chairman of Laura Ashley Holdings Plc and Corus Hotels plc in UK, and Morning Star Resources Limited in Hong Kong. He is also a director of SCMP Group Limited in Hong Kong. Save as disclosed above, Dr. Khoo has not held any directorship in other listed public companies during the last three years.

Dr. Khoo is a board member of Northwest University, Seattle, USA and serves as a Council Member of the Malaysian-British Business Council, the Malaysia-China Business Council and the Asia Business Council. Previously, Tan Sri Dr. Khoo had served as the Chairman of the Malaysian Tourist Development Corporation (a Government Agency), the Vice Chairman of Malayan Banking Berhad (Maybank), a trustee of the National Welfare Foundation, Malaysia, and a trustee of the Regent University, Virginia, USA.

Save as disclosed above, Dr. Khoo does not hold any position with the Bank or with other members of the Group. Dr. Khoo has not entered into any service contract with the Bank. In accordance with the Articles of Association, Dr. Khoo shall retire as a Director at the 2007 AGM and, being eligible, shall be re-elected for a term of not more than approximately three years expiring at the conclusion of the annual general meeting of the Bank held in the third year following the year of his appointment and on expiration of his term he shall be deemed a retiring Director and eligible for re-appointment. The fees payable to Directors are determined by the Board with reference to market trends. With effect from 2007, Dr. Khoo will receive a director's fee of HK\$200,000 (previously HK\$100,000) per annum.

Dr. Khoo is not or was not connected with any Directors and the senior management of the Bank. The Bank does not have a substantial or controlling shareholder (as defined in the Listing Rules) as at the Latest Practicable Date.

As at the Latest Practicable Date, Dr. Khoo was deemed to be interested in 1,000,000 (0.06%) Shares which were held through Bonham Industries Limited, a company in which he held 99.9% of the issued capital.

There is no information relating to Dr. Khoo that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

Save as disclosed herein, there are no other matters relating to his re-election that need to be brought to the attention of the Shareholders.

6. Dr. The Hon. Sir David LI Kwok-po

GBS, OBE, MA, Hon. LLD (Cantab), Hon. DSocSc, Hon. LHD, Hon. DBA, FCA, FCPA, FCPA (Aust.), FCIB, FHKIB, FBCS, CITP, FCI Arb, JP, Grand Officer of the Order of the Star of Italian Solidarity, The Order of the Rising Sun, Gold Rays with Neck Ribbon, Officier de la Légion d'Honneur, Chairman and Chief Executive and Member of the Nomination Committee

Sir David, aged 67, joined the Bank in 1969. He was appointed a Director in 1977, Chief Executive in 1981, Deputy Chairman in 1995 and Chairman in 1997. Sir David is also a director of various members of the Group. He is the Chairman and a Member of various Committees appointed by the Board.

Sir David is a Member of both the Executive Council and the Legislative Council of Hong Kong. He is a Member of the Banking Advisory Committee and a Member of the Council of the Treasury Markets Association. Sir David is the Pro-Chancellor of the University of Hong Kong, an Honorary Adviser of the Business and Economics Association of HKUSU and an Advisory Committee Member of the Chinese University of Hong Kong S.H. Ho College.

Sir David is the Chairman of The Chinese Banks' Association, Limited, and the Chairman of the Council and Executive Committee of the Hong Kong Management Association. He is the Honorary Advisor of The International Chamber of Commerce — Hong Kong, China and the First Honorary Chairman of Hong Kong Chamber of Commerce in China. He is also the Honorary Chairman of the Chamber of Hong Kong Listed Companies. Sir David is the Vice President of the Council of the Hong Kong Institute of Bankers, the Chairman of Saint Joseph's College Foundation Limited and a Member of the Advisory Council to the Australian International School Board. He is also an Emeritus Trustee of the Cambridge Foundation and a Trustee of the Cambridge Overseas Trust. Sir David is the Chairman of the Advisory Board of The Salvation Army, Hong Kong and Macau Command, the Chairman of the Executive Committee of St. James' Settlement and he also serves on Hong Kong Red Cross Advisory Board.

Sir David is a Director of China Merchants China Direct Investments Limited, China Overseas Land & Investment Limited, COSCO Pacific Limited, Dow Jones & Company, Inc., Guangdong Investment Limited, The Hong Kong and China Gas Company Limited, The Hongkong and Shanghai Hotels, Limited, Hong Kong Interbank Clearing Limited, The Hong Kong Mortgage Corporation Limited, PCCW Limited, San Miguel Brewery Hong Kong Limited, SCMP Group Limited and Vitasoy International Holdings Limited. He was a director of AviChina Industry & Technology Company Limited, Chelsfield Plc., Henderson Cyber Limited and Sime Darby Berhad. Save as disclosed above, Sir David has not held any directorship in other listed public companies during the last three years.

Sir David is a member of the Board of Trustees of Asia Society International Council and Asia Business Council. He serves on the advisory board of Capital magazine and the international advisory boards of Carlos P. Romulo Foundation for Peace and Development, Federal Reserve Bank of New York's International Advisory Committee, Hospital for Special Surgery, Lafarge, Scripps International Network and Sirocco Aerospace International SAE. Sir David is the Chairman of INSEAD East Asia National Council, the Non-executive Chairman for Edelman Asia-Pacific and a Senior Adviser of Metrobank.

Sir David is employed as the Chief Executive of the Bank, whose service contract is on a five-year term commencing 1st April, 2004. In accordance with the Articles of Association, Sir David shall retire as a Director at the 2007 AGM and, being eligible, shall be re-elected for a term of not more than approximately three years expiring at the conclusion of the annual general meeting of the Bank held in the third year following the year of his appointment and on expiration of his term he shall be deemed a retiring Director and eligible for re-appointment. The fees payable to Directors are determined by the Board with reference to market trends. With effect from 2007, as Chairman of the Board, Sir David will receive a director's fee of HK\$300,000 (previously HK\$200,000) per annum. He will also receive a Nomination Committee member's fee of HK\$30,000 (previously HK\$10,000) per annum.

Sir David is the nephew of Dr. LI Fook-wo and Mr. Eric LI Fook-chuen, both are Non-executive Directors of the Bank. He is also the cousin of Mr. Aubrey LI Kwok-sing and Mr. Stephen Charles LI Kwok-sze, both are Non-executive Directors of the Bank. Save as disclosed, Sir David is not or was not connected with any Directors and the senior management of the Bank. The Bank does not have a substantial or controlling shareholder (as defined in the Listing Rules) as at the Latest Practicable Date.

As at the Latest Practicable Date, Sir David was the beneficial owner of 28,813,037 Shares (1.86%) and he was deemed to be interested in 1,247,929 Shares (0.08%) through the interests of his spouse, Ms. Penny POON Kam-chui, in addition to the share options being granted to him to subscribe for 4,850,000 (0.31%) Shares pursuant to the Staff Share Option Schemes of the Bank (details of such share options were disclosed in the Annual Report 2006 under the section heading "Information on Share Options" in the Report of the Directors).

There is no information relating to Sir David that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules.

Save as disclosed herein, there are no other matters relating to his re-election that need to be brought to the attention of the Shareholders.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. 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 material facts not contained herein the omission of which would make any statement contained in this circular misleading.

THE STAFF SHARE OPTION SCHEME 2007

The following are the terms of the Staff Share Option Scheme 2007 to be submitted to the Shareholders for adoption at the 2007 AGM:

1. Purpose of the Staff Share Option Scheme 2007

- 1.1 The Staff Share Option Scheme 2007 is a share incentive scheme and is established to recognise and acknowledge the contributions that Eligible Persons (as defined below) had made or may make to the Group.
- 1.2 The Staff Share Option Scheme 2007 will provide the Eligible Persons with an opportunity to have a personal stake in the Bank with the view to motivating the Eligible Persons to optimise their performance and efficiency for the benefit of the Group.

2. Conditions of the Staff Share Option Scheme 2007

- 2.1 The Staff Share Option Scheme 2007 shall take effect subject to the passing of the necessary resolution to adopt the Staff Share Option Scheme 2007 by the Shareholders in the 2007 AGM of the Bank and is conditional upon the Stock Exchange granting approval for the listing of and permission to deal in any Shares to be issued and allotted by the Bank pursuant to the exercise of Options to be granted thereunder in accordance with the terms and conditions of the Staff Share Option Scheme 2007.
- 2.2 If any of the above conditions are not satisfied on or before 12th May, 2007, the Staff Share Option Scheme 2007 shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Staff Share Option Scheme 2007.
- 2.3 References in clause 2.1 to the Stock Exchange granting the approval referred to therein shall include where such approval is granted subject to conditions.

3. Duration and Administration

- 3.1 Subject to clauses 2 and 13, the Staff Share Option Scheme 2007 shall be valid and effective for a period of 5 years commencing on the Adoption Date, after which no further Options will be issued but the provisions of the Staff Share Option Scheme 2007 shall remain in full force and effect to the extent necessary to give effect to the exercise of any Options granted prior thereto or otherwise as may be required in accordance with the provisions of the Staff Share Option Scheme 2007.

- 3.2 The Staff Share Option Scheme 2007 shall be subject to the administration of the Board whose decision (save as otherwise provided herein) shall be final and binding on all parties. Without prejudice to the generality of the foregoing, the Board shall have the absolute discretion to:
- (a) interpret and construe the provisions of the Staff Share Option Scheme 2007;
 - (b) subject to clauses 4, 5, 6 and 8, determine the persons who will be awarded Options under the Staff Share Option Scheme 2007, and the number and Option Price of Options awarded thereto;
 - (c) determine the Exercise Period and other relevant terms and conditions for each Option;
 - (d) subject to clauses 10 and 13, make such appropriate and equitable adjustments to the terms of Options granted under the Staff Share Option Scheme 2007 as it deems necessary;
 - (e) subject to clause 13, adopt rules and regulations for carrying out the Staff Share Option Scheme 2007;
 - (f) prescribe the form or forms of instruments to be issued as evidence of any Options granted under the Staff Share Option Scheme 2007; and
 - (g) make such other decisions or determinations as it shall deem appropriate in the administration of the Staff Share Option Scheme 2007.

4. Eligibility Criteria

The Board may at its discretion grant Options to any Employee (including executive Directors and Chief Executives) of the Group.

5. Grant of Options

- 5.1 On and subject to the terms of the Staff Share Option Scheme 2007, the Board shall be entitled at any time on a Business Day within 5 years commencing on the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select in accordance with clause 4.
- 5.2 No fee shall be payable upon acceptance of an Offer. For value received, an Offer of the grant of an Option shall be accepted when the Bank receives the duly signed offer letter from the Grantee but in any event no later than 14 days after the date of the offer letter. Upon acceptance of the Offer, the Bank shall on the Date of Grant issue an option letter in such form as the Board may from time to time determine.
- 5.3 Subject to the provisions of the Staff Share Option Scheme 2007, the Listing Rules and other applicable rules and regulations, the Board may, on a case by case basis and at its discretion when offering the grant of an Option, impose any conditions, restrictions or limitations (other than generally applicable conditions, restrictions or limitation on the exercise of Option relating to the achievement of operating or financial targets) in relation thereto additional to those expressly set forth in the Staff Share Option Scheme 2007 as it may think fit (but which shall be stated in the letter containing the

Offer of the grant of the Option). These additional conditions, restrictions and limitations include (without prejudice to the generality of the foregoing), the continuing compliance of such terms and conditions that may be attached to the grant of the Option, failing which the Option (to the extent that it has not already been exercised) shall lapse unless otherwise resolved to the contrary by the Board. The Bank does not and will not impose any generally applicable conditions, restrictions or limitations on the exercise of Options relating to the achievement of operating or financial targets.

- 5.4 Without prejudice to the generality of the foregoing and subject to the Listing Rules and clause 6, the Board may grant Options in respect of which the Option Price is fixed at different prices for different periods during the Exercise Period.
- 5.5 The Board shall not offer the grant of an Option to any Eligible Person (i) after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the relevant requirements of the Listing Rules; or (ii) within such period (as the Listing Rules may require from time to time) immediately preceding the earlier of the date of the Board meeting for the approval of the Bank's results and the deadline for the Bank to publish its results announcement under the Listing Rules, until such information has been announced pursuant to the relevant requirements of the Listing Rules.
- 5.6 Without prejudice to clauses 5.1 to 5.5 above, any grant of Options to an executive Director, Chief Executive or substantial shareholder (as defined in the Listing Rules) of the Bank must be approved by the independent non-executive Directors. Where Options are proposed to be granted to a substantial shareholder (as defined in the Listing Rules) of the Bank or any of their respective Associates, which will result in the total number of Shares issued and to be issued upon exercise of the share options granted or to be granted to such person under the Staff Share Option Scheme 2007 and any other schemes of the Bank (including exercised, cancelled and outstanding share options) in the 12-month period immediately preceding and including the date of such grant to such person exceeding 0.1% of the Shares in issue as at the date of such grant and HK\$5 million in value in aggregate, based on the closing price of the Shares at the date of each grant, then the proposed grant must be subject to the approval by the Shareholders at a general meeting taken on a poll. All Connected Persons of the Bank must abstain from voting in favour of the proposed grant at such general meeting. A circular must be despatched to the Shareholders explaining the proposed grant, disclosing the number and terms of the Options to be granted and containing a recommendation from the independent non-executive Directors on whether or not to vote in favour of the proposed grant.
- 5.7 For the avoidance of doubt, the requirements for the granting of Options to an executive Director or Chief Executive of the Bank do not apply where the Eligible Person is only a proposed executive Director or Chief Executive of the Bank.

6. Option Price

6.1 The Option Price shall be a price determined by the Board and notified to each Grantee (in the letter containing the Offer of the grant of the Option) and shall not be less than the highest of:

- (a) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant Option, which must be a Business Day;
- (b) an amount equivalent to the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the 5 Business Days immediately preceding the date of grant of the relevant Option; and
- (c) the nominal value of a Share.

6.2 The Option Price shall also be subject to any adjustments made in a situation contemplated under clause 10.

7. Exercise Of Options

7.1 An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option, failing which the Option (to the extent it has not already been exercised) shall lapse.

7.2 Subject to the relevant Exercise Period and the other terms and conditions of the grant, an Option shall be exercised in whole or in part by the Grantee (but only in respect of such multiples of Shares as may be determined by the Bank in the Offer) by giving notice in writing to the Bank stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the Option Price for the Shares in respect of which the notice is given. Any notice given without such relevant remittance shall be invalid. Within the period from the 6th to 12th Business Days (excluding any period(s) of closure of the Bank's share registers) after receipt of the notice together with remittance of the relevant Option Price in full and, where appropriate, receipt of the Auditors' certificate or the independent financial adviser's certificate pursuant to clause 10, the Bank shall allot the relevant number of Shares to the Grantee credited as fully paid and issue to the Grantee a share certificate in respect of the Shares so allotted.

- 7.3 Subject as hereinafter provided, an Option may be exercised by the Grantee at any time during the applicable Exercise Period, provided that:
- (a) in the event of death of the Grantee before exercising the Option in full, his legal personal representatives may exercise the Option up to the Grantee's entitlement (to the extent exercisable as at the date of his death and not exercised) within the period of 12 months following his death or such longer period as the Board may determine;
 - (b) where the Grantee's employment is terminated on the ground of disability due to physical injury, the Grantee may exercise the Option (to the extent exercisable as at the date on which such Grantee ceases to be an Employee and not exercised) within 6 months following such cessation or such longer period as the Board may determine;
 - (c) if the Grantee ceases to be an Employee by reason of retirement in accordance with his contract of employment, then he may exercise all his Options within 12 months after such cessation or, if the Directors in their absolute discretion determine, 12 months after the date of his reaching the Retirement Age where the retirement takes effect prior to such date. Any Options not so exercised shall lapse and determined at the end of the relevant 12-month period;
 - (d) if the Grantee ceases to be an Employee by reason of termination of his employment by the Bank or the Subsidiary (as the case may be) employing him upon any of the following grounds, then all his Options shall lapse and terminate on the date of such cessation:
 - (i) wilfully disobeying a lawful and reasonable order;
 - (ii) misconducting himself, such conduct being inconsistent with the due and faithful discharge of his duties;
 - (iii) being guilty of fraud or dishonesty;
 - (iv) being habitually neglectful in his duties; or
 - (v) upon any other grounds on which the Bank or the Subsidiary (as the case may be) employing him would be entitled to terminate the contract of employment without notice at common law;
 - (e) if the Grantee ceases to be an Employee by resignation, all of his Options (to the extent not already exercised) shall lapse on the date of actual termination of employment;
 - (f) if any of the following events occurs, all of the Grantee's Options shall lapse immediately (to the extent not already exercised):
 - (i) any liquidator, provisional liquidator, receiver or any person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the asset or undertaking of the Grantee;

- (ii) there is unsatisfied judgment, order or award outstanding against the Grantee or the Bank has reason to believe that the Grantee is unable to pay or have no reasonable prospect of being able to pay his debts;
 - (iii) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in sub-clauses (i) and (ii) above;
 - (iv) a bankruptcy order has been made against the Grantee in any jurisdiction; or
 - (v) a petition for bankruptcy has been presented against the Grantee in any jurisdiction;
- (g) if the Grantee ceases to be an Employee for any reason other than as described in sub-clauses (a), (b), (c), (d), (e) and (f) above, then any Options exercisable at the date he so ceases may be exercised to the extent then exercisable within 3 months of the date he so ceases (but shall otherwise lapse and determine) provided that in any such case the Directors in their absolute discretion may otherwise determine subject to such conditions or limitations as the Directors may decide;
- (h) if a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional (within the meaning of the Takeover Code), the Grantee shall be entitled to exercise the Option (to the extent exercisable as at the date on which the general offer becomes or is declared unconditional and not exercised) in full or in part at any time within one month after the date on which the offer becomes or is declared unconditional (within the meaning of the Takeover Code);
- (i) in the event notice is given by the Bank to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up the Bank, the Bank shall forthwith give notice thereof to the Grantee and the Grantee may, by notice in writing to the Bank accompanied by the remittance for the total Option Price payable in respect of the exercise of the relevant Option (such notice to be received by the Bank not later than two Business Days (excluding any period(s) of closure of the Bank's share registers) prior to the proposed meeting) exercise the Option (to the extent exercisable as at the date of the notice to the Grantee and not exercised) either in full or in part and the Bank shall, as soon as possible and in any event no later than the Business Day (excluding any period(s) of closure of the Bank's share registers) immediately prior to the date of the proposed Shareholders' meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise; and

- (j) in the event of a compromise or arrangement between the Bank and its Shareholders or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Bank (other than any relocation schemes as contemplated in Rule 7.14(3) of the Listing Rules), the Bank shall give notice thereof to all Grantees on the same date as it gives notice of the meeting to its Shareholders or creditors to consider such a scheme of arrangement, and thereupon the Grantee may, by notice in writing to the Bank accompanied by the remittance for the total Option Price payable in respect of the exercise of the relevant Option (such notice to be received by the Bank not later than two Business Days (excluding any period(s) of closure of the Bank's share registers) prior to the proposed meeting) exercise the Option (to the extent exercisable as at the date of the notice to the Grantee and not exercised) either in full or in part and the Bank shall, as soon as possible and in any event no later than the Business Day (excluding any period(s) of closure of the Bank's share registers) immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise credited as fully paid and registered the Grantee as holder thereof.

7.4 The Shares to be allotted upon the exercise of an Option shall be subject to all the provisions of the Articles of Association in force as at the Allotment Date and shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the Allotment Date and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made after the Allotment Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the Allotment Date. A Share allotted upon the exercise of an Option shall not carry voting rights until the name of the Grantee has been duly entered into the register of Shareholders as the holder thereof.

7.5 Without prejudice to the generality of the foregoing, the Grantee may only exercise an Option subject to any restrictions as may be reasonably imposed by the Board from time to time with a view to ensure or facilitate compliance with any relevant law, mandatory rules and/or regulations binding the Bank, particularly those relating to insider dealing and other prohibitions under the Listing Rules.

8. Lapse Of Option

8.1 An Option (to the extent such Option has not already been exercised) shall lapse and not be exercisable on the earliest of:

- (a) the expiry of the Exercise Period;
- (b) the expiry of any of the periods referred to in clauses 7.3(a), (b), (c), (d), (e) and (f);
- (c) the date on which a situation as contemplated under clause 7.3(g) arises;
- (d) in respect of the situation contemplated in clause 7.3(h), the expiry of the period referred to therein;
- (e) the date of the commencement of the winding-up of the Bank in respect of the situation contemplated in clause 7.3(i);

- (f) the date when the proposed compromise or arrangement becomes effective in respect of the situation contemplated in clause 7.3(j);
- (g) the date on which a situation as contemplated under clause 7.1 arises; or
- (h) the date on which the Grantee commits a breach of any terms or conditions attached to the grant of the Option, unless otherwise resolved to the contrary by the Board.

9. Maximum Number Of Shares

- 9.1 Subject to clauses 9.2, 9.3 and 9.4, the maximum number of Shares in respect of which Options may be granted under the Staff Share Option Scheme 2007 and any other schemes involving the issue or grant of options or similar rights over Shares or other securities by the Bank shall not, in aggregate, exceed 5 per cent. of the Shares in issue as at the date of approval of the Staff Share Option Scheme 2007 (the "Scheme Mandate Limit") unless such issue or grant is approved by the Shareholders pursuant to clause 9.3.
- 9.2 Subject to clauses 9.3 and 9.4, the Scheme Mandate Limit may be refreshed by the Shareholders in general meeting from time to time provided always that the Scheme Mandate Limit so refreshed must not exceed 5 per cent. of the Shares in issue as at the date of approval of such refreshment by Shareholders in general meeting. Upon such refreshment, all Options granted under the Staff Share Option Scheme 2007 and any other share options schemes of the Bank (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Staff Share Option Scheme 2007 or any other share option schemes of the Bank) prior to the approval of such refreshment shall not be counted for the purpose of calculating whether the refreshed Scheme Mandate Limit has been exceeded. A circular must also be sent to the Shareholders containing such information from time to time required by the Stock Exchange.
- 9.3 Subject to clause 9.4, the Board may seek separate Shareholders' approval in general meeting to grant Options beyond the Scheme Mandate Limit provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Persons specified by the Bank before such approval is sought and the Bank must issue a circular to the Shareholders containing such information from time to time required by the Stock Exchange in relation to any such proposed grant to such Eligible Persons.
- 9.4 The maximum number of Shares which may be issued upon the exercise of all outstanding Options granted and yet to be exercised under the Staff Share Option Scheme 2007 and any other schemes involving the issue or grant of options or similar rights over Shares or other securities by the Bank must not, in aggregate, exceed 15 per cent. of the Shares in issue from time to time. Notwithstanding anything contrary to the terms of the Staff Share Option Scheme 2007, no options may be granted under any schemes of the Bank (including the Staff Share Option Scheme 2007) if this will result in the said 15 per cent. limit being exceeded.

9.5 No Option may be granted to any Eligible Persons which if exercised in full would result in the total number of Shares issued and to be issued upon exercise of the share options already granted or to be granted to such Eligible Person under the Staff Share Option Scheme 2007 and any other schemes of the Bank (including exercised, cancelled and outstanding share options) in the 12-month period up to and including the date of such new grant exceeding 1 per cent. of the Shares in issue as at the date of such new grant. Any grant of further Options above this limit shall be subject to the following requirements:

- (a) approval of the Shareholders at general meeting, with such Eligible Person and its Associates abstaining from voting;
- (b) a circular in relation to the proposal for such further grant having been sent by the Bank to its Shareholders with such information from time to time required by the Listing Rules;
- (c) the number and terms (including the Option Price) of the Options to be granted to such proposed Grantee shall be fixed before the Shareholders' approval mentioned in sub-clause (a) above; and
- (d) for the purpose of calculating the Option Price for the Shares in respect of the further Options proposed to be so granted as described under clause 6, the date of Board meeting for proposing such grant of further Options shall be taken as the Date of Grant.

9.6 The maximum number of Shares referred to in clause 9 shall be adjusted, in such manner as the Auditors shall certify as fair and reasonable in accordance with clause 10.

10. Reorganisation Of Capital Structure

10.1 In the event of any alteration in the capital structure of the Bank while an Option remains exercisable, and such event arises from a capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of capital of the Bank, such corresponding alterations (if any) shall be made in:

- (a) the number or nominal amount of Shares subject to the Option so far as unexercised; and/or
- (b) the Option Price; and/or
- (c) the maximum number of Shares referred to in clause 9.

10.2 The Auditors or the independent financial adviser of the Bank shall certify in writing to the Board the alterations, and according to their opinion based on fairness and reasonableness either generally or as regards any particular Grantee (except in the case of a capitalisation issue where no such certification shall be required unless otherwise expressly required by the Board) and satisfy the requirement that such alterations give the Grantee the same proportion of the equity capital as that to which that the Grantee was previously entitled, provided that:

- (a) any such alterations shall be made on the basis that the relevant total Option Price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event;
- (b) no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and
- (c) no such alterations shall be made the effect of which would be to increase the proportion of the Shares in issue for which any Grantee is entitled to subscribe pursuant to the Options held by him.

10.3 For the avoidance of doubt, the issue of securities as consideration in a transaction to which the Bank is a party shall not be regarded as a circumstance requiring any such alterations.

10.4 The costs of the Auditors or the independent financial adviser of the Bank relating to the Staff Share Option Scheme 2007 shall be borne by the Bank.

10.5 In giving any certificate under this clause 10, the Auditors or the independent financial adviser of the Bank shall be deemed to be acting as experts and not as arbitrators and their certificate shall, in the absence of manifest error, be final, conclusive and binding on the Bank and all persons who may be affected thereby.

11. Share Capital

The exercise of any Option shall be subject to the Shareholders in a general meeting approving any necessary increase in the share capital of the Bank. Subject thereto the Board shall make available sufficient authorised but unissued share capital of the Bank to meet subsisting requirements on the exercise of Options.

12. Disputes

Any dispute arising in connection with the Staff Share Option Scheme 2007 (whether as to the number of Shares, the subject of an Option, (where applicable) whether all or part of an Option has been vested, the amount of the Option Price or otherwise) shall be referred to the decision of the Auditors or the independent financial adviser of the Bank who shall act as experts and not as arbitrators and whose decision shall be final and binding on the Grantee.

13. Alteration Of The Staff Share Option Scheme 2007

13.1 The Staff Share Option Scheme 2007 may be altered in any respect by resolution of the Board except that the following matters shall require Shareholders' approval at general meeting:

- (a) the provisions of the Staff Share Option Scheme 2007 as to the definitions of "Eligible Person", "Grantee" and "Exercise Period" and the provisions of clauses 1, 3.1, 4, 5.2, 5.3, 6, 7.1, 7.3, 7.4, 8, 9, 10, 13, 14 and 15 shall not be altered to the advantage of Grantees or prospective Grantees except with the prior approval of the Shareholders in general meeting;
- (b) any alterations to the terms and conditions of the Staff Share Option Scheme 2007 which are of a material nature, except where such alterations take effect automatically under the existing terms of the Scheme 2007; and
- (c) any change to the authority of the Board in relation to any alteration to the terms of the Staff Share Option Scheme 2007,

provided always that the amended terms of the Staff Share Option Scheme 2007 must continue to comply with the relevant provisions of the Listing Rules as may be amended from time to time.

13.2 Subject to clause 13.1, the Board may at any time alter, amend or modify the terms and conditions of the Staff Share Option Scheme 2007 such that the provisions of the Staff Share Option Scheme 2007 would comply with all relevant legal and regulatory requirements in all relevant jurisdictions to the extent as considered necessary by the Board to implement the terms of the Staff Share Option Scheme 2007.

14. Termination

The Bank by resolution in general meeting or the Board may at any time terminate the operation of the Staff Share Option Scheme 2007 and in such event, no further Options will be offered but the provisions of the Staff Share Option Scheme 2007 shall remain in force in all other respects.

15. Cancellation

The Board shall have the absolute discretion to cancel any Options granted but not exercised at any time at the request of the Grantee provided that where an Option is cancelled and a new Option is proposed to be issued to the same Grantee, the issue of such new Option may only be made with available Shares in the authorised but unissued share capital of the Bank, and available and ungranted Options within the limits referred to in clause 9 (but excluding for this purpose all cancelled Options).

16. Miscellaneous

- 16.1 The Staff Share Option Scheme 2007 shall not confer on any person any legal or equitable rights (other than those constituting the Options themselves) against the Bank directly or indirectly or give rise to any cause of action at law or in equity against the Bank.
- 16.2 The Bank shall bear the costs of establishing and administering the Staff Share Option Scheme 2007.
- 16.3 A Grantee shall be entitled to receive copies of all notices and other documents sent by the Bank to holders of Shares.
- 16.4 Any notice or other communication between the Bank and a Grantee may be given by sending the same by prepaid post or by personal delivery to, in the case of the Bank, its registered office in Hong Kong from time to time and, in the case of the Grantee, his address or fax number or e-mail address as notified to the Bank from time to time.
- 16.5 Any notice or other communication served:
- (a) by the Bank shall be deemed to have been served 24 hours after the same was put in the post or delivered by hand or by courier or by fax or by internet to the e-mail address of the Grantee as notified to the Bank from time to time; and
 - (b) by the Grantee shall not be deemed to have been received until the same shall have been received by the Bank.
- 16.6 A Grantee shall be responsible for obtaining any governmental or other official consent that may be required by any country or jurisdiction in order to permit the grant or exercise of his Option. The Bank shall not be responsible for any failure by a Grantee to obtain any such consent or for any tax or other liability to which a Grantee may become subject as a result of his participation in the Staff Share Option Scheme 2007.
- 16.7 By accepting an Option, a Grantee shall be deemed irrevocably to have accepted the grant subject to the provisions of the Staff Share Option Scheme 2007 and to have waived any entitlement, by way of compensation for loss of office or otherwise howsoever, to any sum or other benefit to compensate him for loss of any rights under the Staff Share Option Scheme 2007.
- 16.8 The Staff Share Option Scheme 2007 and all Options granted hereunder shall comply with the requirements of the Listing Rules, and be governed by and construed in accordance with the laws of Hong Kong.

This appendix sets out the proposed amendments to the Articles of Association.

Summary of the major proposed changes to the existing Articles of Association include the following:

- (a) whilst the Articles of Association already allowed the Board to receive payments made by the Shareholders in advance of any call on Shares, the Board shall also be given the power to repay any amount paid by a Shareholder in advance of call on Shares (Article 23);
- (b) without prejudice to any right or remedy that the Bank has under the law, in the event that the Bank is made liable by any authority to make any payment such as tax or duty as a result of the death of a Shareholder, the non-payment of duty in respect of the estate of a Shareholder after his death or the non-payment of tax by a Shareholder, the Bank shall be fully indemnified by the relevant Shareholder or the administrator of his estate against such payment made by the Bank (Article 23A);
- (c) it is proposed to clarify that upon the forfeiture of Shares held by a Shareholder, subject to certain exceptions, the interests, claims and demands of such Shareholder against the Bank shall be extinguished (Article 29A);
- (d) the Board shall be given the power to postpone a general meeting if it is impractical or unreasonable to hold the meeting on the designated date (Article 48A);
- (e) the Board shall be given the power to send proxy in blank or nominating any one or more Directors or any other persons to act as proxy (Article 71A);
- (f) it is proposed to clarify that a proxy shall have the power to demand a poll at a general meeting and to vote on a resolution proposed at a general meeting as he thinks fit and speak at a general meeting (Article 72A);
- (g) it is proposed to clarify that an instrument of proxy shall remain to be valid notwithstanding (i) the death or insanity of the Shareholder who appointed the proxy; or (ii) the revocation of a proxy or the transfer of the Shares in respect of which the proxy was appointed if such death, insanity, revocation or transfer was not notified to the Bank before the commencement of the general meeting at which the instrument of proxy will be used (Article 72B);
- (h) it is proposed to clarify that minutes of a general meeting or Board meeting signed by the chairman of such meeting or the next succeeding meeting shall constitute sufficient evidence of the holding of the meeting and the matters passed at the meeting, until the contrary is proved (Article 98A);
- (i) in respect of payment of dividend by the Bank, in addition to providing a right to the Shareholders to elect to receive scrip dividend or cash payment, the Shareholders may instead resolve that only scrip dividend will be made without the right to elect (Article 118(D));

- (j) in order to bring the Bank's practice more in line with market practices and the requirements of the Listing Rules, the Board shall have the power to exclude, from the entitlement to receive scrip dividend or a right to elect to receive scrip dividend or cash payment, Shareholders in jurisdictions where the allotment of Shares might in the opinion of the Board be unlawful or would require registration formalities to be carried out. Instead, such Shareholders would only be entitled to receive cash payment for the dividend (Article 118(E)); and
- (k) it is proposed to clarify that any person who becomes entitled to a Share by way of transfer, operation of law or any other means shall be bound by the notice given to the person from whom he derived his title at a time before his name is entered into the register of Shareholders of the Bank (Article 132B).

The proposed amendments to the Articles of Association have been marked up for ease of reference as follows:

Article 23 — Payments in advance of call

23. The Board may, if it thinks fit, receive from any Member willing to advance the same all or any part of the moneys uncalled and unpaid upon any shares held by him and upon all or any of the moneys so advanced may (until the same would, but for such advance, become presently payable) pay interest at such rate, not exceeding (unless the Company by ordinary resolution shall otherwise direct) 15 per cent. per annum, as may be agreed upon between the Board and the Member paying such sum in advance, in addition to the dividend payable upon such part of the share in respect of which such advance has been made as is actually called up. The Board may at any time repay the amount so advanced upon giving to such member not less than three months' notice in writing of their intention in that behalf, unless before the expiration of such notice the amount so advanced shall have been called up on the share in respect of which it was advanced.

Article 23A — Indemnity against claims in respect of shares (new Article)

- 23A. Whenever any law for the time being of any country, state or place imposes or purports to impose any immediate or future or possible liability on the Company to make any payment, or empowers any government or taxing authority or government official to require the Company to make any payment, in respect of any shares held either jointly or solely by any member or in respect of any dividends, bonuses or other monies due or payable or accruing due or which may become due or payable to such member by the Company or in respect of any such shares or for or on account or in respect of any member and whether in consequence of:

- (a) the death of such member;
- (b) the non-payment of any income tax or other tax by such member;
- (c) the non-payment of any estate, probate, succession, death, stamp, or other duty by the executor or administrator of such member or by or out of his estate; or
- (d) any other act or thing;

the Company in every such case:

- (i) shall be fully indemnified by such member or his executor or administrator from all liability arising by virtue of such law; and
- (ii) may recover as a debt due from such member or his executor or administrator (wherever constituted or residing) any monies paid by the Company under or in consequence of any such law, together with interest thereon at the rate of 15 per cent. per annum thereon from the date of payment by the Company to the date of repayment by such member or his executor or administrator.

Nothing contained in this Article shall prejudice or affect any right or remedy which any law may confer or purport to confer on the Company and as between the Company and every such member as aforesaid, his executor, administrator and estate wherever constituted or situated, any right or remedy which such law shall confer or purport to confer on the Company shall be enforceable by the Company.

Article 29 — Remaining liability for payment

29. A person whose shares have been forfeited shall thereupon cease to be a Member in respect of the forfeited shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were presently payable by him to the Company in respect of the shares with interest thereon at the rate fixed by the terms of issue of the shares or, if no such rate is fixed, at the rate of 15 per cent. per annum (or such lower rate as the Board may determine) from the date of forfeiture until payment and expenses of the Company that may have accrued by reason of such non-payment, in the same manner in all respects as if the shares had not been forfeited, and to satisfy all (if any) the claims and demands which the Company might have enforced in respect of the shares at the time of forfeiture, and the Company may enforce payment without being under any obligation to make any allowance for the value of the shares forfeited or for any consideration received on their disposal.

Article 29A — Extinction of interest and claims (new Article)

- 29A. The forfeiture of a share shall involve the extinction at the time of forfeiture of all interest in and all claims and demands against the Company in respect of the share, and all other rights and liabilities incidental to the share as between the shareholder whose share is forfeited and the Company, except only such of those rights and liabilities as are by these Articles expressly saved, or as are by the Ordinance given or imposed in the case of past members.

Article 48A — Postponement of general meetings (new Article)

48A. If the Board, in its absolute discretion, considers that it is impractical or unreasonable for any reason to hold a general meeting on the date or at the time or place specified in the notice calling the general meeting, it may postpone the general meeting to another date, time and/or place. The Board shall take reasonable steps to ensure that notice of the date, time and place of the postponed meeting is provided to any Member trying to attend the meeting at the original time and place. When a meeting is so postponed, notice of the date, time and place of the postponed meeting shall be given in such manner as the Board may in its absolute discretion determine. Notice of the business to be transacted at such postponed meeting shall not be required. If a meeting is postponed in accordance with this Article, the instrument of a proxy will be valid if it is delivered and received as required by these Articles not less than 48 hours before the time appointed for holding the postponed meeting. The Board may (for the avoidance of doubt) also postpone any meeting which has been rearranged under this Article.

Article 71A — Sending proxy with nominations (new Article)

71A. The Board may at the expense of the Company send or make available, by post, electronic communication or otherwise, instruments of proxy (reply-paid or otherwise) to Members for use at any general meeting(s) or at any separate meeting(s) of the holders of any class of shares, either in blank or nominating in the alternative any one or more of the Directors or any other persons. If for the purpose of any meeting invitations to appoint as proxy a person or one of a number of persons specified in the invitations are issued at the expense of the Company, such invitations shall subject to Article 48 be issued to all (and not some only) of the Members entitled to be sent a notice of the meeting and to vote thereat by proxy.

Article 72A — Proxy can demand poll, vote, etc. (new Article)

72A. An instrument of proxy shall be deemed (subject to any contrary direction contained in the same) to confer authority to demand or join in demanding a poll and to vote on any resolution or amendment of a resolution put to the meeting for which it is given, as the proxy thinks fit and to speak at the meeting.

Article 72B — Validity not affected (new Article)

72B. A vote given in accordance with the terms of an instrument of proxy shall be valid, notwithstanding the death or insanity of the principal or the revocation of the instrument of proxy, or of the authority under which the instrument of proxy was executed, or the transfer of the share in respect of which the instrument of proxy is given, provided that no intimation in writing of such death, insanity, revocation or transfer shall have been received by the Company at the Office before the commencement of the meeting or adjourned meeting at which the instrument of proxy is used.

Article 98A — Chairman to sign minutes (new Article)

98A. Any such minute if purporting to be signed by the chairman of the meeting at which the proceedings were held or by the chairman of the next succeeding meeting of the Company or the Board or the committee of the Board (as the case may be) shall be sufficient evidence of the proceedings thereat and until the contrary is proved every meeting of the Company or of the Board or of a committee of the Board in respect of the proceedings whereat minutes have been so made shall be deemed to have been duly convened and held and all resolutions and proceedings stated in the said minutes to have been passed and held thereat shall be deemed to have been duly passed and held.

Article 106 — Power to delegate to committees

106. The Board may delegate any of its powers, authorities and discretions (with power to sub-delegate) to any committee, consisting of such Directors of the Company and such other persons for such time on such terms and subject to such conditions as it thinks fit. The Board may confer such powers either collaterally with, or to the exclusion of and in substitution for, all of the powers of the Board in that respect and may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes. Any committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations which may be imposed on it by the Board. Insofar as any power, authority or discretion is so delegated, any reference in these Articles to the exercise by the Board of such power, authority or discretion shall be construed as if it were a reference to the exercise of such power, authority or discretion by such committee.

Article 106A — Powers of committees (new Article)

106A. All acts done by such committee in conformity with such regulations and in fulfilment of the purposes for which it is appointed, but not otherwise, shall have the like force and effect, as if done by the Directors.

Article 118 (D) and (E) (new sub-Articles)

(D) The Company may upon the recommendation of the Board by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the provisions of paragraph (A) of this Article a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

(E) The Board may on any occasion when it makes a determination pursuant to paragraph (A) of this Article, resolve that no allotment of shares or rights of election for shares to be issued pursuant to such determination shall be made available or made to any members with registered addresses in any particular territory or territories where the allotment of shares or the circulation of an offer of such rights of election would or might, in the opinion of the Board, be unlawful or would or might, in the opinion of the Board, be unlawful in the absence of a registration statement or other special formalities, and in such event the provision aforesaid shall be read and construed subject to such determination.

Article 121 — ~~Scrip Dividends~~ Dividends in specie

Article 132A — Deemed receipt of notice (new Article)

132A. Any member present, either personally or by proxy, at any meeting of the Company shall for all purposes be deemed to have received due notice of such meeting, and, where requisite, of the purposes for which such meeting was convened.

Article 132B — Transferee bound by notice given to transferor (new Article)

132B. Every person who, by operation of law, transfer or by any other means becomes entitled to a share shall be bound by any notice in respect of that share which, before his name is entered in the Register, has been duly given to a person from whom he derives his title.

The following is the Explanatory Statement required to be sent to Shareholders under the Listing Rules in connection with the proposed general mandate for repurchase of Shares and also constitutes the Memorandum required under Section 49BA of the Companies Ordinance:

- (i) At the 2007 AGM a resolution will be proposed that the Directors be given a general mandate to exercise all powers of the Bank to repurchase on the Stock Exchange fully paid-up Shares representing up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Bank as at the date of passing the resolution (the "Repurchase Mandate"). Based on the 1,551,682,050 Shares in issue as at the Latest Practicable Date (and assuming that there is no change in respect of the issued share capital of the Bank after the Latest Practicable Date and up to the passing of the relevant resolution), the Bank will therefore be allowed under the Repurchase Mandate to repurchase a maximum of 155,168,205 Shares.
- (ii) Although the Directors have no present intention of repurchasing any Shares, they believe that the flexibility afforded by the Repurchase Mandate will be beneficial to the Bank and its Shareholders. Trading conditions on the Stock Exchange have sometimes been volatile in recent years and if there are occasions in the future when depressed market conditions arise and Shares are trading at a discount to their underlying value, the ability of the Bank to repurchase Shares will be beneficial to those Shareholders who retain their investment in the Bank since their percentage interests in the assets of the Bank will increase in proportion to the number of Shares repurchased by the Bank. Furthermore, the Directors' exercise of the mandate granted under the Repurchase Mandate may lead to an increased volume of trading in Shares on the Stock Exchange.
- (iii) The Directors propose that repurchases of Shares under the Repurchase Mandate will be financed from the available cash flow or working capital facilities of the Bank and its subsidiaries. In repurchasing Shares, the Bank may only apply funds legally available for such purpose in accordance with its Memorandum and Articles of Association and the laws of Hong Kong.
- (iv) There may be material adverse impact on the working capital or gearing position of the Bank (as compared with the position disclosed in its most recent published audited accounts) in the event that the proposed share repurchases are to be carried out in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as will, in the circumstances, have a material adverse effect on the working capital requirements of the Bank or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Bank.
- (v) There are no Directors or (to the best of the knowledge of the Directors, having made all reasonable enquiries) any associates of the Directors of the Bank who have a present intention, in the event that the Repurchase Mandate is granted by Shareholders, to sell Shares to the Bank.
- (vi) The Directors have undertaken to the Stock Exchange to exercise the power of the Bank to make purchases pursuant to the Repurchase Mandate in accordance with the Listing Rules and the laws of Hong Kong.

(vii) If as a result of a share repurchase a Shareholder's proportionate interest in the voting rights of the Bank increases, such increase will be treated as an acquisition of voting rights for purpose of the Takeover Code. As a result, a Shareholder, or group of Shareholders acting in concert, would obtain or consolidate control of the Bank and thereby become obliged to make a mandatory offer in accordance with Rule 26 of the Takeover Code. As at the Latest Practicable Date, the Bank does not have a substantial shareholder (as defined in the Listing Rules).

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

(viii) No purchases have been made by the Bank of its Shares in the six months prior to the date of this circular.

(ix) No connected persons (as defined in the Listing Rules) of the Bank have notified it of a present intention to sell Shares to the Bank and no such persons have undertaken not to sell any such Shares to the Bank in the event that the Repurchase Mandate is granted by Shareholders.

(x) The highest and lowest prices at which Shares had traded on the Stock Exchange in each of the previous twelve months were as follows:

	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2006: February	26.80	23.40
March	28.70	24.80
April	32.65	28.05
May	33.50	28.50
June	32.15	27.65
July	32.75	30.25
August	35.00	32.25
September	37.00	33.35
October	38.65	35.15
November	44.50	36.35
December	44.50	40.10
2007: January	48.40	41.60