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

If you have sold or transferred all your shares in Fubon Bank (Hong Kong) Limited, you should at once hand this circular to the purchaser(s) or transferee(s) or to the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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This circular is for information purposes only and does not constitute an offer or invitation to subscribe for or purchase any securities, nor is it calculated to invite any such offer or invitation.

 **Fubon Bank**
富邦銀行
FUBON BANK (HONG KONG) LIMITED
(Incorporated in Hong Kong under the Companies Ordinance)
(Stock Code: 636)

PROPOSED OPEN OFFER OF 1,172,160,000 PREFERENCE SHARES
AT US\$0.10237 PER PREFERENCE SHARE PAYABLE
IN FULL ON ACCEPTANCE
(ON THE BASIS OF ONE PREFERENCE SHARE
FOR EVERY ORDINARY SHARE HELD)

A letter from the Board is set out on pages 5 to 12 of this circular.

The conditions to the Open Offer are set out in the section entitled “Conditions to the Open Offer” in the letter from the Board. If the conditions to the Open Offer are not fulfilled by Wednesday, 10 December 2008, the Open Offer will not proceed.

The Open Offer is not underwritten. However, the Company’s substantial shareholder, Fubon Financial, has irrevocably undertaken to the Company to apply for not less than 879,120,000 Preference Shares (subject only to the prior approval of the Financial Supervisory Commission and of the Investment Commission, Ministry of Economic Affairs of Taiwan), representing its entire assured entitlement to Preference Shares under the Open Offer.

The Company also understands that Fubon Financial intends to apply for the excess of 293,040,000 Preference Shares (being the maximum number of Preference Shares issuable by the Company pursuant to the Open Offer less the number of Preference Shares for which Fubon Financial has irrevocably undertaken to apply), which will be allocated on a fair and equitable basis pro rata to the number of excess Preference Shares applied for by each Shareholder.

Ordinary Shares will be dealt with on an ex-offer basis from Friday, 14 November 2008. Dealings in the Ordinary Shares will take place while the conditions to which to Open Offer is subject remained unfulfilled. Shareholders and potential investors are advised to exercise caution when dealing in the Ordinary Shares and are recommended to consult their professional adviser(s).

A notice convening an EGM (as defined in this circular) of the Company to be held in the Conference Room, 12th Floor, Central Tower, 28 Queen’s Road Central, Hong Kong on Friday, 21 November 2008, at 10:00 a.m. is set out on pages 40 to 46 of this circular. Whether or not you are able to attend the EGM, please complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the office of the Company’s share registrar at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, as soon as possible and in any event, not later than 48 hours before the time appointed for holding the EGM or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or at any adjourned meeting if you so wish.

29 October 2008

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EXPECTED TIMETABLE

The expected timetable for the Open Offer set out below is for indicative purposes only and it has been prepared on the assumption that all the conditions of the Open Offer will be fulfilled. The expected timetable may be subject to change and any changes will be announced in a separate announcement by the Company as and when appropriate.

2008

Last day of dealings in Ordinary Shares on a cum-offer basis	Thursday, 13 November
Commencement of dealings in Ordinary Shares on an ex-offer basis	Friday, 14 November
Latest time for lodging transfers of Ordinary Shares	4:30 p.m. on Monday, 17 November
Latest time for lodging proxy forms for the EGM	10:00 a.m. on Wednesday, 19 November
Closure of register of members to determine eligibility for the Open Offer (both dates inclusive)	Tuesday, 18 November to Friday, 21 November
Expected date of the EGM	10:00 a.m. on Friday, 21 November
Record Date for the Open Offer	Friday, 21 November
Announcement of the results of the EGM	Monday, 24 November
Register of members re-opens	Monday, 24 November
Despatch of Prospectus Documents	Tuesday, 25 November
Latest time for acceptance of and payment for Preference Shares	4:00 p.m. on Tuesday, 9 December
Latest time for the Open Offer to become unconditional	4:00 p.m. on Wednesday, 10 December
Announcement of results of the Open Offer	Friday, 12 December
Despatch of certificates for Preference Shares	Monday, 15 December

Note: If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong on the latest date for acceptance for the offer of Preference Shares at any time between 12:00 noon and 4:00 p.m., the latest acceptance time for the offer of the Preference Shares will be postponed to the next business day which does not have either of those warnings in force in Hong Kong at any time between 12:00 noon and 4:00 p.m.

DEFINITIONS

In this circular, the following expressions have the meanings set out below, unless the context requires otherwise:

“Application Form”	the provisional allotment letter and the excess application form to be despatched together with the Prospectus to Qualifying Shareholders
“Assets”	the unconsolidated gross assets (including contingencies) of the Company
“Banking (Capital) Rules”	Cap.155L of the Laws of Hong Kong
“Company”	Fubon Bank (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability, the Ordinary Shares of which are listed on the Stock Exchange. Fubon Financial holds 75 per cent of the issued Ordinary Shares of the Company
“Computershare”	Computershare Hong Kong Investor Services Limited
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company for approving certain matters in relation to the Open Offer
“Excluded Overseas Shareholders”	the Overseas Shareholder(s) whose address is in a place outside Hong Kong where the Directors, based on legal opinions provided by legal advisers of the Company, consider it necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place not to offer the Preference Shares to such Shareholders
“Fubon Financial”	Fubon Financial Holding Co., Ltd, a company incorporated in Taiwan, with its shares listed on the Taiwan Stock Exchange
“Group”	the Company and its subsidiaries
“HKMA”	the Hong Kong Monetary Authority
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	Monday, 27 October, 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

DEFINITIONS

“Liabilities”	the unconsolidated gross liabilities of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Open Offer”	the proposed issue by way of an open offer of Preference Shares at a price of US\$0.10237 per Preference Share on the basis of one Preference Share for every Ordinary Share then held on the Record Date
“Ordinary Share(s)”	ordinary share(s) of HK\$1.00 each in the capital of the Company
“Overseas Shareholders”	Shareholders whose names appear on the register of members of the Company as at the close of business on the Record Date and whose addresses as shown on such register are outside Hong Kong
“PRC”	the People’s Republic of China
“Preference Shares”	1,172,160,000 new fully paid-up non-participating cumulative preference shares of US\$0.10237 each in the capital of the Company to be issued pursuant to the Open Offer
“Prospectus”	the prospectus to be issued by the Company in relation to the Open Offer
“Prospectus Documents”	the Prospectus and Application form
“Qualifying Shareholders”	Shareholders other than the Excluded Overseas Shareholders
“Record Date”	Friday, 21 November 2008, being the date on which entitlements to the Preference Shares will be determined
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“SFO”	Securities and Futures Ordinance (Cap.571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Ordinary Share(s)
“Solvent”	means that the Company is able to pay its debts as they fall due and has Assets that exceed its Liabilities

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price for the Preference Shares, being US\$0.10237 per Preference Share

LETTER FROM THE BOARD



FUBON BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock Code: 636)

Executive Directors:

Jin-Yi Lee (*Managing Director and
Chief Executive Officer*)

Michael Chang Ming-Yuen

James Yip

Registered Office:

Fubon Bank Building
38 Des Voeux Road Central
Hong Kong

Non-executive Directors:

Ming-Hsing (Richard) Tsai (*Chairman*)

Ming-Chung (Daniel) Tsai (*Vice Chairman*)

Victor Kung

David Chang Kuo-Chun

Independent Non-executive Directors:

Robert James Kenrick

Moses Tsang

Hung Shih

29 October 2008

To the Shareholders

Dear Sir or Madam,

**PROPOSED OPEN OFFER OF 1,172,160,000 PREFERENCE SHARES
AT US\$0.10237 PER PREFERENCE SHARE PAYABLE
IN FULL ON ACCEPTANCE
(ON THE BASIS OF ONE PREFERENCE SHARE
FOR EVERY ORDINARY SHARE HELD)**

INTRODUCTION

On 29 October, 2008, the Company announced that it proposes to raise approximately US\$120 million before expenses by issuing 1,172,160,000 Preference Shares at a price of US\$0.10237 per Preference Share. The Company will offer for subscription 1,172,160,000 Preference Shares in the proportion of one Preference Share for every Ordinary Share held by the Qualifying Shareholders on the Record Date. Qualifying Shareholders may also apply for Preference Shares in excess of their assured entitlements.

LETTER FROM THE BOARD

The estimated net proceeds of the Open Offer will be approximately US\$120 million (after deducting all necessary expenses of less than US\$0.5 million) which will be used for general banking and other corporate purposes and, in particular, for strengthening the capital base of the Company and providing sufficient surplus capital to support future business growth and any potential asset acquisitions. It is intended that the Preference Shares will constitute “supplementary capital” of the Company for the purpose of the Banking (Capital) Rules. The Company’s intended use of proceeds will not change according to the level of acceptances received in respect of the Open Offer.

The purpose of this circular is (i) to provide Shareholders with further information in relation to the Open Offer and (ii) to give notice of the EGM to be convened for the purpose of approving the resolutions necessary to implement the Open Offer. Subject to the Open Offer being approved at the EGM, the Prospectus Documents will be despatched to all Qualifying Shareholders on or about Tuesday, 25 November 2008.

REASONS FOR THE OPEN OFFER

The Directors are proposing that the Company issue the Preference Shares in order to strengthen the capital base of the Company and to provide sufficient surplus capital to support future business growth and any potential asset acquisitions. The Directors believe that it is the best interests of the Company and the Shareholders as a whole to enlarge the capital base of the Company through the issuance of the Preference Shares. It is intended that the Preference Shares, when issued, will qualify as “supplementary capital” for the purposes of the Banking (Capital) Rules.

UNDERTAKING FROM FUBON FINANCIAL

The Open Offer is not underwritten. However, the Company’s substantial shareholder, Fubon Financial, has irrevocably undertaken to the Company to apply for not less than 879,120,000 Preference Shares, representing its entire assured entitlement to Preference Shares under the Open Offer (subject only to the prior approval of the Financial Supervisory Commission and of the Investment Commission, Ministry of Economic Affairs of Taiwan).

The Company also understands that Fubon Financial intends to apply for the excess of 293,040,000 Preference Shares (being the maximum number of Preference Shares issuable by the Company pursuant to the Open Offer less the number of Preference Shares for which Fubon Financial has irrevocably undertaken to apply), which will be allocated on a fair and equitable basis pro rata to the number of excess Preference Shares applied for by each Shareholder.

TERMS OF THE OPEN OFFER

The Subscription Price of US\$0.10237 per Preference Share is payable in full when a Qualifying Shareholder accepts the relevant assured entitlements under the Open Offer or applies for excess Preference Shares.

LETTER FROM THE BOARD

The terms of the Open Offer have been determined with reference to the prevailing market prices of comparable securities prior to the Latest Practicable Date and the current financial position of the Group.

The Company considers that the terms of the Open Offer, including the Subscription Price, are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

QUALIFYING SHAREHOLDERS

The Company will offer the Preference Shares for subscription to Qualifying Shareholders only. A Qualifying Shareholder must at the close of business on the Record Date:

1. be registered as a member of the Company; and
2. not be an Excluded Overseas Shareholder.

In order to be registered as a member of the Company on the Record Date and to qualify for the Open Offer, Shareholders must lodge any transfer of Ordinary Shares (together with the relevant share certificates) with the Company's share registrar in Hong Kong by 4:30 p.m. on Monday, 17 November 2008.

The Company's share registrar is Computershare of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

The register of members of the Company will be closed from Tuesday, 18 November 2008 to Friday, 21 November 2008 (both dates inclusive). No transfer of Ordinary Shares will be registered during this period.

OVERSEAS SHAREHOLDERS

The Company will comply with Rule 13.36(2)(a) of the Listing Rules and make enquiries regarding the feasibility of extending the offer of the Preference Shares to Overseas Shareholders. If, based on legal opinions provided by the legal advisers to the Company, the Directors consider that it is necessary or expedient not to offer the Preference Shares to the Overseas Shareholders on account either of the legal restrictions under the laws of the place of their registered addresses or the requirements of the relevant regulatory body or stock exchange in that place, the Directors will exercise their discretion given to them under the articles of association of the Company to exclude such Overseas Shareholders from the Open Offer. The Company will not send the Prospectus Documents to the Excluded Overseas Shareholders. However, the Excluded Overseas Shareholders will be entitled to attend and vote at the EGM.

LETTER FROM THE BOARD

Any Preference Shares which would otherwise have been in assured entitlements of the Excluded Overseas Shareholders will be available for application by any Qualifying Shareholders who wish to apply for Preference Shares in excess of their own entitlements. The basis for excluding the Excluded Overseas Shareholders, if any, from the Open Offer will be set out in the Prospectus.

APPLICATION FOR PREFERENCE SHARES IN EXCESS OF ENTITLEMENTS

Qualifying Shareholders will have the right to apply for any Preference Shares in excess of their own entitlements but are not assured of being allocated any Preference Shares in excess of such entitlements. The Company will allocate the Preference Shares in excess of entitlements at its discretion on a fair and equitable basis, pro rata to the number of excess Preference Shares applied for by each Shareholder. Each application for excess Preference Shares will be subject to a maximum of 293,040,000 Preference Shares (being the maximum number of Preference Shares issuable by the Company pursuant to the Open Offer less the number of Preference Shares for which Fubon Financial has irrevocably undertaken to apply).

NO APPLICATION FOR LISTING

The Company will not be applying for the listing of, or permission to deal in, the Preference Shares on the Stock Exchange or any other stock exchange.

TERMS OF THE PREFERENCE SHARES

Description:	It is intended that the Preference Shares will constitute “supplementary capital” of the Company for the purpose of the Banking (Capital) Rules. Accordingly, any redemption, purchase or cancellation of the Preference Shares will be subject to the prior consent of the HKMA at the relevant time. Further, in compliance with section 37(2)(a) of the Banking (Capital) Rules, the money raised by the issue of Preference Shares will be available to meet losses without the Company being obliged to cease trading. This means that the amount paid up on the Preference Shares will not form part of the distributable profits of the Company but will instead form part of the permanent capital of the Company which will enable the Company to carry on trading in times of economic adversity
Issue Size:	Approximately US\$120 million
Issue Price per Preference Share:	US\$0.10237
Issue Date:	15 December 2008

LETTER FROM THE BOARD

Maturity:	Perpetual (no maturity date). The Preference Shares are not subject to any early mandatory redemption or repayment by either the Company or the holder(s) of the Preference Shares
Preference Dividend:	If declared, the Preference Dividend will be payable, in priority to the payment of dividends to holders of Ordinary Shares, at a fixed dividend rate of 9% per annum, calculated on 30/360 day count basis, and payable semi-annually on any Preference Dividend Payment Date
Deferral of Preference Dividend:	<p>The Company may elect not to declare or pay the Preference Dividend if, during the 12 calendar months preceding a date on which the Preference Dividend is due to be paid in respect of the Preference Shares, no dividend or distribution or other payment has been declared or paid on any class of the share capital of the Company</p> <p>Any undeclared or unpaid Preference Dividend is collectively referred to as a “Deferred Preference Dividend”. Any Deferred Preference Dividend will be cumulative</p> <p>The Deferred Preference Dividends will not themselves bear interest and the terms of the Preference Shares will not provide for payment of any form of compensation to the Preference Shareholders other than payment of the Preference Dividend</p>
Preference Dividend periods:	The six-monthly periods prior to 15 June and 15 December each year
Preference Dividend Payment Date:	15 June and 15 December
Optional Early Redemption:	Subject always to the prior consent of the HKMA and conditional upon the Company being able to redeem the Preference Shares and remain Solvent immediately thereafter, the Preference Shares will be redeemable at the option of the Company on the first working day after the fifth anniversary of the Issue Date, and on every Preference Dividend Payment Date thereafter. The Preference Shares will be redeemed at a price of US\$0.10237 plus any cumulative unpaid Preference Dividends
Voting rights:	Holders of the Preference Shares will not have voting rights

LETTER FROM THE BOARD

- Ranking: For purposes of the payment of dividends and repayment of share capital upon the winding-up of the Company, the Preference Shares will rank in priority to the Ordinary Shares and any other class of shares in the capital of the Company. Preference Shareholders rank after depositors and creditors (including subordinated creditors) of the Company in the event of the winding-up of the Company
- Listing: The Preference Shares will not be listed

CONDITIONS OF THE OPEN OFFER

The Open Offer is conditional upon fulfilment of the following conditions:

- (i) resolutions of the Shareholders of the Company being passed to increase the authorised share capital of the Company, to create the Preference Shares and to amend the articles of association of the Company to reflect the terms of the Preference Shares;
- (ii) the registration of the Prospectus Documents, together with all other relevant consents and documents required to be endorsed on or attached to the Prospectus Documents with the Registrar of Companies in Hong Kong (as required);
- (iii) the HKMA granting its approval that the Preference Shares may be treated as “supplementary capital” of the Company for the purposes of the Banking (Capital) Rules; and
- (iv) the Company having received valid applications for at least 879,120,000 Preference Shares under the Open Offer.

As Fubon Financial has irrevocably undertaken to accept its full entitlement in the Open Offer, being 879,120,000 Preference Shares (subject only to the prior approval of the Financial Supervisory Commission and of the Investment Commission, Ministry of Economic Affairs of Taiwan), condition (iv) above is expected to be satisfied upon the commencement of the Open Offer. **If the above conditions have not been fulfilled by 4:00 pm on Wednesday, 10 December 2008, the Open Offer will not proceed.**

WARNING OF THE RISKS IN TRADING OF ORDINARY SHARES

Ordinary Shares will be dealt with on an ex-offer basis from Friday, 14 November 2008. Any dealings in the Ordinary Shares will take place while the conditions to which to Open Offer is subject remained unfulfilled. If the conditions of the Open Offer (see paragraph headed “Conditions of the Open Offer”) are not fulfilled by 4:00 p.m. on Wednesday, 10 December 2008, the Open Offer will not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Ordinary Shares and are recommended to consult their professional adviser(s).

LETTER FROM THE BOARD

EGM

An EGM of the Company will be held on Friday, 21 November 2008 at 10:00 a.m. in the Conference Room, 12th Floor, Central Tower, 28 Queen's Road Central, Hong Kong during which resolutions will be proposed to the Shareholders of the Company to: (i) increase the authorised share capital of the Company by US\$119,994,019.20 specifically to cater for the issue of the Preference Shares; (ii) create the Preference Shares; and (iii) amend the articles of association of the Company to reflect the terms of the Preference Shares. Any vote of the shareholders at the EGM will be taken by poll. If the resolutions to be proposed at the EGM are passed and the conditions of the Open Offer are fulfilled, all of the increased authorised share capital denominated in US dollars will be used in the issue of Preference Shares.

Under the articles of association of the Company, a poll can be demanded by:

- (a) the chairman of the meeting; or
- (b) at least three Shareholders present in person or by proxy and entitled to vote; or
- (c) any Shareholder or Shareholders present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all Shareholders having the right to attend and vote at the meeting; or
- (d) any Shareholder or Shareholders 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.

The Company is not aware of any Shareholders or the associates of any Shareholders who have a material interest in the Open Offer and would therefore be required to abstain from voting at the EGM. Fubon Financial, a substantial shareholder of the Company, has undertaken to vote in favour of the resolutions proposed at the EGM.

A form of proxy for use by the Shareholders at the EGM is enclosed. Shareholders are advised to read the notice and to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare, of Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event, not later than 48 hours before the time appointed for holding the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting if they so wish.

RECOMMENDATION

The Directors believe that the Open Offer and the amendments to the articles of association of the Company are in the interests of the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders vote in favour of the resolutions to be proposed at the EGM.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

Yours faithfully,
for and on behalf of
FUBON BANK (HONG KONG) LIMITED
MING-HSING (RICHARD) TSAI
Chairman



FUBON BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock Code: 636)

Selected Financial Information

The summary financial information set forth below has been extracted without material adjustment from the Group audited financial results for each of the three years ended 31 December 2007 and the unaudited results for the first six months ended 30 June 2008 and should be read in conjunction with the information included elsewhere in this circular where the relevant figures are available.

Summary income statement data:

	HK\$'000, except percentages			
	Audited 31-Dec-05	Audited 31-Dec-06	Audited 31-Dec-07	Unaudited 30-Jun-08
Operating profit before impairment allowance and gains	227,795	410,646	586,704	317,257
Profit before taxation	273,815	391,497	517,067	282,281
Profit attributable to shareholders	241,441	327,168	460,998	250,359
Net interest income	503,771	696,779	853,673	532,413
Net operating income	227,795	410,646	586,704	317,257
Dividends declared and proposed	(199,268)	(210,989)	(222,711)	(70,330)
Interim dividend (Hong Kong cents per share)	6	6	6	6
Final dividend (Hong Kong cents per share)	11	12	13	N/A

Summary balance sheet data and related ratios:

	(HK\$'000, except percentages)			
	Audited 31-Dec-05	Audited 31-Dec-06	Audited 31-Dec-07	Unaudited 30-Jun-08
Total assets	49,803,538	53,346,876	60,622,879	62,656,115
Advances to customers less impairment	21,375,566	25,751,160	31,478,804	33,741,507
Deposits and balances of banks and other financial institutions	1,195,791	961,515	1,457,845	2,626,768
Customer deposits and medium-term funding	36,348,451	38,748,342	45,228,818	45,830,463
Shareholders' equity	3,748,916	3,979,030	4,117,754	4,193,773
Loan to deposit ratio ⁽¹⁾⁽²⁾	58.8%	66.5%	69.6%	73.6%
Return on average equity ⁽¹⁾⁽²⁾	6.5%	8.5%	11.4%	12.3%
Return on average assets ⁽¹⁾⁽²⁾	0.5%	0.6%	0.8%	0.9%
Average liquidity ratio (for December/ June) ⁽¹⁾	47.5%	46.4%	44.1%	40.4%
Capital adequacy ratio ⁽¹⁾	15.0%	16.6%	14.4%	13.5%
Earnings per share (Hong Kong cents)	20.6	27.9	39.3	21.4

Notes:

(1) Unaudited

(2) Loan to deposit ratio = $\frac{\text{Advances to customers less impairment}}{\text{Deposits from customers} + \text{Certificates of deposits issued} + \text{Debt securities issued}}$

Return on average equity = $\frac{\text{Profit attributable to shareholders}}{\text{Average beginning \& ending balances of shareholders' funds}}$

Return in average assets = $\frac{\text{Profit attributable to shareholders}}{\text{Average beginning \& ending balances of total assets}}$

BUSINESS OVERVIEW

The Group are principally engaged in the provision of banking and related financial services. Its operations comprise three principal lines of business: retail banking, wholesale banking and financial markets.

The profit contribution from the respective business divisions of the Group:

Operating Income

	Audited 31-Dec-05		Audited 31-Dec-06		Audited 31-Dec-07		Unaudited 30-Jun-08	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Retail Banking	489,157	58.9	452,310	40.1	646,108	45.5	276,870	35.2
Wholesale Banking	242,366	29.2	337,913	30.0	490,256	34.5	311,245	39.6
Financial Markets	84,884	10.2	333,918	29.6	281,535	19.8	203,022	25.8
Real Estate	(3,012)	(0.4)	(3,171)	(0.3)	(2,625)	(0.2)	(610)	(0.1)
Unallocated ⁽¹⁾	52,848	6.4	46,356	4.1	50,194	3.5	14,388	1.9
Inter-segment elimination	(35,682)	(4.3)	(39,971)	(3.5)	(43,991)	(3.1)	(18,906)	(2.4)
Total	830,561	100.0	1,127,355	100.0	1,421,477	100.0	786,009	100.0

Notes:

- (1) Unallocated items mainly comprise the central management unit, management of investments in securities, premises and property management and other activities which cannot be reasonably allocated to specific business segments.

Profit/(loss) before taxation

	Audited 31-Dec-05		Audited 31-Dec-06		Audited 31-Dec-07		Unaudited 30-Jun-08	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Retail Banking	173,735	63.4	87,953	22.5	238,460	46.1	58,074	20.6
Wholesale Banking	131,593	48.1	141,564	36.2	316,036	61.1	206,780	73.3
Financial Markets	(8,997)	(3.3)	273,331	69.8	84,246	16.3	56,547	20.0
Real Estate	11,088	4.1	(5,420)	(1.4)	773	0.1	1,891	0.7
Unallocated ⁽¹⁾	(33,604)	(12.3)	(105,931)	(27.1)	(122,448)	(23.6)	(41,011)	(14.6)
Total	273,815	100.0	391,497	100.0	517,067	100.0	282,281	100.0

Notes:

- (1) Unallocated items mainly comprise the central management unit, management of investments in securities, premises and property management and other activities which cannot be reasonably allocated to specific business segments.

Loan Portfolio

The composition of the Group's loan portfolio was as follows:

	Audited 31-Dec-05		Audited 31-Dec-06		Audited 31-Dec-07		Unaudited 30-Jun-08	
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
Loans for use in Hong Kong								
Industrial, commercial and financial								
Property development	28,135	0.1	29,392	0.1	59,453	0.2	78,994	0.2
Property investment	3,923,769	18.2	4,900,296	18.9	5,874,005	18.6	7,391,707	21.9
Financial concerns	313,227	1.5	484,250	1.9	678,349	2.1	619,126	1.8
Stockbrokers	159,616	0.7	157,371	0.6	144,323	0.5	78,963	0.2
Wholesale and retail trade	99,242	0.5	202,404	0.8	221,630	0.7	162,252	0.5
Manufacturing	1,710,819	7.9	1,059,535	4.1	1,634,110	5.2	1,841,554	5.4
Transport and transport equipment	683,299	3.2	756,247	2.9	699,036	2.2	689,994	2.1
Others	2,017,055	9.4	3,247,433	12.5	2,663,999	8.4	3,125,900	9.2
Trade finance	601,902	2.8	943,406	3.6	2,169,800	6.8	2,244,738	6.6
Sub-total	9,537,064	44.3	11,780,334	45.4	14,144,705	44.7	16,233,228	47.9
Individuals								
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,461	0.0	3,275	0.0	7,300	0.0	11,884	0.0
Loans for the purchase of other residential properties	7,503,104	34.8	6,946,882	26.8	7,272,919	23.0	7,495,168	22.2
Credit card advances	478,553	2.2	504,157	2.0	533,187	1.7	488,669	1.4
Others	952,404	4.4	1,299,707	5.0	894,852	2.8	959,362	2.8
Sub-total	8,935,522	41.4	8,754,021	33.8	8,708,258	27.5	8,955,083	26.4
Loans for use outside Hong Kong	3,071,796	14.3	5,379,996	20.8	8,780,049	27.8	8,714,831	25.7
Gross Advances	21,544,382	100.0	25,914,351	100.0	31,633,012	100.0	33,903,142	100.0
Allowances for impaired loans								
Collective impairment allowance	(76,115)		(81,404)		(82,126)		(70,071)	
Individual impairment allowance	(92,701)		(81,787)		(72,082)		(91,564)	
Total Provisions	(168,816)		(163,191)		(154,208)		(161,635)	
Net loan balance	21,375,566		25,751,160		31,478,804		33,741,507	

The tables below set out summaries of the Group's consolidated overdue, impaired and rescheduled advances:

(a) *Overdue advances to customers*

	Audited 31-Dec-05		Audited 31-Dec-06		Audited 31-Dec-07		Unaudited 30-Jun-08	
	HK\$'000	% of Gross Advances	HK\$'000	% of Gross Advances	HK\$'000	% of Gross Advances	HK\$'000	% of Gross Advances
Overdue advances to customers								
6 months or less but over 3 months	38,953	0.2	22,120	0.1	32,948	0.1	59,266	0.2
1 year or less but over 6 months	17,514	0.1	24,958	0.1	32,926	0.1	42,669	0.1
Over 1 year	105,754	0.5	108,084	0.4	47,703	0.2	61,269	0.2
	<u>162,221</u>	<u>0.8</u>	<u>155,162</u>	<u>0.6</u>	<u>113,577</u>	<u>0.4</u>	<u>163,204</u>	<u>0.5</u>
Amount of collateral held in respect of overdue advances	82,369		96,270		53,811		100,804	
Secured overdue advances	77,392		95,015		50,859		75,087	
Unsecured overdue advances	<u>84,829</u>		<u>60,147</u>		<u>62,718</u>		<u>88,117</u>	
	<u>162,221</u>		<u>155,162</u>		<u>113,577</u>		<u>163,204</u>	
Amount of individual impairment allowance made against overdue advances	<u>85,400</u>		<u>63,612</u>		<u>58,642</u>		<u>75,936</u>	

(b) *Impaired Loans to customers*

	Audited 31-Dec-05		Audited 31-Dec-06		Audited 31-Dec-07		Unaudited 30-Jun-08	
	HK\$'000	% of Gross Advances	HK\$'000	% of Gross Advances	HK\$'000	% of Gross Advances	HK\$'000	% of Gross Advances
Impaired Loans	<u>213,133</u>	<u>0.99</u>	<u>239,884</u>	<u>0.93</u>	<u>172,403</u>	<u>0.55</u>	<u>201,838</u>	<u>0.60</u>
Amount of individual impairment allowance held against these advances	92,701		81,787		72,082		91,564	

Impaired loans are those advances where full repayment of principal and/or interest is considered unlikely and are so classified as soon as such a situation becomes apparent. Impairment allowances are made to write down the carrying value of the advances to the discounted value of future recoverable amounts, including the realisation of collateral.

(c) *Rescheduled Loans (net of those which have been overdue for over three months and reported in item (a) above)*

	Audited 31-Dec-05		Audited 31-Dec-06		Audited 31-Dec-07		Unaudited 30-Jun-08	
	% of Gross Advances		% of Gross Advances		% of Gross Advances		% of Gross Advances	
	HK\$'000		HK\$'000		HK\$'000		HK\$'000	
Rescheduled advances to customers	108,227	0.5	52,792	0.2	42,779	0.1	16,698	0.1

The table below summarises the changes in the Group's allowance for possible loan losses:

	Audited 31-Dec-05		Audited 31-Dec-06		Audited 31-Dec-07		Unaudited 30-Jun-08	
	% of Total Advances		% of Total Advances		% of Total Advances		% of Total Advances	
	HK\$'000		HK\$'000		HK\$'000		HK\$'000	
Allowance for possible loan losses								
Beginning balance	81,896	0.4	92,701	0.3	81,787	0.2	72,082	0.2
Provisions for loan impairment charged/ (recovered) during the year	9,694	0.0	44,593	0.2	36,891	0.1	30,136	0.1
Bad debt recoveries	42,963	0.2	22,319	0.1	21,040	0.1	10,981	0.1
Loans written-off	(41,852)	(0.2)	(77,826)	(0.3)	(67,636)	(0.2)	(21,635)	(0.1)
Closing balance	92,701	0.4	81,787	0.3	72,082	0.2	91,564	0.3
Total loans at year end	21,544,382	100.0	25,914,351	100.0	31,633,012	100.0	33,903,142	100.0
Total gross impaired loans at year end	213,133	1.0	239,884	0.9	172,403	0.6	201,838	0.6

Investment in securities

The Group's investment in securities includes listed and unlisted equity and debt securities.

The table below summarises the carrying values of the Group's investment securities portfolio:

	Audited 31-Dec-05 <i>HK\$'000</i>	Audited 31-Dec-06 <i>HK\$'000</i>	Audited 31-Dec-07 <i>HK\$'000</i>	Unaudited 30-Jun-08 <i>HK\$'000</i>
Other financial instruments designated at fair value through profit or loss				
Debt securities at fair value				
– Listed in Hong Kong	571,392	484,068	486,932	480,219
– Listed outside Hong Kong	<u>75,315</u>	<u>74,723</u>	<u>392,023</u>	<u>233,856</u>
	<u>646,707</u>	<u>558,791</u>	<u>878,955</u>	<u>714,075</u>
Available for sale securities at fair value				
Debt securities				
– Listed in Hong Kong	1,541,072	3,536,368	2,868,782	2,534,365
– Listed outside Hong Kong	1,688,178	477,808	3,626,868	4,383,462
– Unlisted	<u>2,898,895</u>	<u>5,134,353</u>	<u>5,224,503</u>	<u>3,554,350</u>
	<u>6,128,145</u>	<u>9,148,529</u>	<u>11,720,153</u>	<u>10,472,177</u>
Treasury bills – unlisted	6,924,752	4,827,763	4,863,805	4,249,511
Certificates of deposits – unlisted	373,175	86,741	268,901	148,402
Equity shares				
– Listed in Hong Kong	88,098	68,173	138,442	139,948
– Unlisted	<u>9,591</u>	<u>125,948</u>	<u>239,140</u>	<u>413,053</u>
	<u>97,689</u>	<u>194,121</u>	<u>377,582</u>	<u>553,001</u>
Sub-total	<u>13,523,761</u>	<u>14,257,154</u>	<u>17,230,441</u>	<u>15,423,091</u>
Trading securities at fair value				
Debt securities				
– Listed in Hong Kong	3,482	2,548	5,266	6,023
– Unlisted	23,234	10,914	11,948	7,273
Treasury bills..	368,365	455,568	14,981	538,645
Equity shares – listed in Hong Kong	<u>–</u>	<u>–</u>	<u>349</u>	<u>103</u>
Sub-total	<u>395,081</u>	<u>469,030</u>	<u>32,544</u>	<u>552,044</u>
Total	<u>14,565,549</u>	<u>15,284,975</u>	<u>18,141,940</u>	<u>16,689,210</u>

The table below sets forth a summary of the Group's deposits and other borrowed funds by type:

	Audited 31-Dec-05		Audited 31-Dec-06		Audited 31-Dec-07		Unaudited 30-Jun-08	
	HK\$,000	%	HK\$,000	%	HK\$,000	%	HK\$,000	%
Deposits from customers								
Demand deposits and current accounts	3,646,745	9.7	5,410,210	13.1	6,438,831	13.3	5,745,306	11.4
Savings deposits	674,688	1.8	833,204	2.0	957,426	2.0	928,446	1.8
Call deposits	1,767,760	4.7	2,247,328	5.4	2,881,912	5.9	2,826,233	5.6
Time deposits	26,453,917	70.5	25,320,091	61.4	31,195,822	64.3	32,838,774	65.5
Total customer deposits	<u>32,543,110</u>	<u>86.7</u>	<u>33,810,833</u>	<u>81.9</u>	<u>41,473,991</u>	<u>85.5</u>	<u>42,338,759</u>	<u>84.3</u>
Deposits and balances of banks	1,195,791	3.2	961,515	2.3	1,457,845	3	2,626,768	5.2
Certificates of deposits	3,805,341	10.1	3,523,347	8.6	2,161,650	4.4	1,337,323	2.7
Debt securities	–	–	1,414,162	3.4	1,593,177	3.3	2,154,381	4.3
Total deposits	<u>37,544,242</u>	<u>100.0</u>	<u>39,709,857</u>	<u>96.2</u>	<u>46,686,663</u>	<u>96.2</u>	<u>48,457,231</u>	<u>96.5</u>
Subordinated notes issued	–	–	1,570,155	3.8	1,622,652	3.3	1,622,484	3.2
Zero coupon bond issued	–	–	–	–	220,446	0.5	155,152	0.3
Total deposits, subordinated notes and zero coupon bond issued	<u>37,544,242</u>	<u>100.0</u>	<u>41,280,012</u>	<u>100.0</u>	<u>48,529,761</u>	<u>100.0</u>	<u>50,234,867</u>	<u>100.0</u>

Maturity Profile of Assets and Liabilities

The table below sets forth the contractual maturity breakdown of major Group's assets and liabilities:

As at 31 December 2005 (Audited)

	Repayable on demand	Within 1 month	Over 1 month but within 3 months	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Trading securities	–	114,880	254,132	12,308	10,267	3,494	–	395,081
Advances to customers (less impairment)	733,196	1,989,306	1,933,127	2,472,134	6,893,361	7,325,111	29,331	21,375,566
Available-for-sale securities	–	19,990	3,025,549	7,933,154	2,010,760	404,839	129,469	13,523,761
Liabilities								
Deposits and balances of banks	284,094	911,697	–	–	–	–	–	1,195,791
Demand deposits, current accounts, savings, call and time deposits of customers	6,089,193	21,024,420	3,888,269	776,611	632,780	131,837	–	32,543,110
Certificates of deposit issued	–	361,091	717,300	1,347,650	1,379,300	–	–	3,805,341

As at 31 December 2006 (Audited)

	Repayable on demand	Within 1 month	Over 1 month but within 3 months	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Trading securities	–	29,993	228,582	197,641	9,804	3,010	–	469,030
Advances to customers (less impairment)	860,688	3,551,279	2,197,170	3,847,986	7,547,045	7,656,293	90,699	25,751,160
Available-for-sale securities	–	305,181	1,406,414	6,629,624	4,474,611	1,217,280	224,044	14,257,154
Liabilities								
Deposits and balances of banks	101,024	488,220	372,271	–	–	–	–	961,515
Demand deposits, current accounts, savings, call and time deposits of customers	8,490,742	20,588,746	2,829,347	1,018,763	743,222	140,013	–	33,810,833
Certificates of deposit issued	–	344,197	703,650	1,983,600	491,900	–	–	3,523,347

As at 31 December 2007 (Audited)

	Repayable on demand <i>HK\$'000</i>	Within 1 month <i>HK\$'000</i>	Over 1 month but within 3 months <i>HK\$'000</i>	1 year or less but over 3 months <i>HK\$'000</i>	5 years or less but over 1 year <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Undated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets								
Trading securities	–	14,981	156	8,975	3,873	4,210	349	32,544
Advances to customers (less impairment)	1,101,486	4,845,212	2,660,556	4,610,404	9,749,840	8,479,364	31,942	31,478,804
Available-for-sale securities	–	230,967	255,233	7,115,365	5,614,917	3,611,927	402,032	17,230,441
Liabilities								
Deposits and balances of banks	380,113	1,077,732	–	–	–	–	–	1,457,845
Demand deposits, current accounts, savings, call and time deposits of customers	10,278,169	25,208,409	4,033,857	1,280,682	510,012	162,862	–	41,473,991
Certificates of deposit issued	–	306,450	243,300	1,611,900	–	–	–	2,161,650

As at 30 June 2008 (Unaudited)

	Repayable on demand <i>HK\$'000</i>	Within 1 month <i>HK\$'000</i>	Over 1 month but within 3 months <i>HK\$'000</i>	1 year or less but over 3 months <i>HK\$'000</i>	5 years or less but over 1 year <i>HK\$'000</i>	Over 5 years <i>HK\$'000</i>	Undated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Assets								
Trading securities	–	93,040	349,547	103,980	5,374	–	103	552,044
Advances to customers (less impairment)	1,099,908	5,169,193	3,502,248	4,061,762	10,467,468	9,375,479	65,449	33,741,507
Available-for-sale securities	–	–	712,263	4,979,786	7,835,993	1,317,602	577,447	15,423,091
Liabilities								
Deposits and balances of banks	68,998	1,136,040	822,290	599,440	–	–	–	2,626,768
Demand deposits, current accounts, savings, call and time deposits of customers	9,499,985	20,583,479	9,489,098	2,310,139	120,787	335,271	–	42,338,759
Certificates of deposit issued	–	–	541,450	795,873	–	–	–	1,337,323

Capital Adequacy and Liquidity Ratios

The following table sets out a summary of the Group's consolidated capital adequacy and liquidity ratios:

	Audited 31-Dec-05	Audited 31-Dec-06	Audited 31-Dec-07	Unaudited 30-Jun-08
Capital adequacy ratio	15.0	16.6	14.4	13.5
Core capital adequacy ratio	14.9	12.8	9.8	9.4
Liquidity ratio (average for the year/period)	44.7	44.5	44.4	40.4

New approaches are used in the calculation of the regulatory capital and capital charges following the adoption of the Banking (Capital) Rules effective from 1 January 2007. Accordingly, the capital adequacy ratio for the year ended 31 December 2006 is not directly comparable with that for financial periods beginning on or after 1 January 2007.

The capital adequacy ratio and core capital adequacy ratio are computed on a consolidated basis based on guidelines issued by the HKMA and the Banking (Capital) Rules.

In accordance with the Banking (Capital) Rules, the Group has adopted the "standardised approach" for the risk-weighted assets for credit risk and market risk and the "basic indicator approach" for the calculation of operational risk.

The average liquidity ratio for each year or period is computed as the simple average of each calendar month's average liquidity ratio in accordance with the Fourth Schedule of the Banking Ordinance.

The capital base of the Group, after deductions, used in the calculation of the above capital adequacy ratios as at reported to the HKMA was as follows:

	Audited 31-Dec-05 <i>HK\$'000</i>	Audited 31-Dec-06 <i>HK\$'000</i>	Audited 31-Dec-07 <i>HK\$'000</i>	Unaudited 30-Jun-08 <i>HK\$'000</i>
Core capital				
Paid up ordinary share capital	1,172,160	1,172,160	1,172,160	1,172,160
Reserves (including retained earnings)	1,550,802	1,651,057	1,762,784	1,905,093
Share premium	<u>749,778</u>	<u>749,778</u>	<u>749,778</u>	<u>749,778</u>
Total deduction from core capital	<u>–</u>	<u>–</u>	<u>(116,355)</u>	<u>(94,771)</u>
Total core capital	3,472,740	3,572,995	3,568,367	3,732,260
Eligible supplementary capital				
Reserve on revaluation of land and interests in land	36,868	36,868	23,701	23,701
Reserve on revaluation of holding of available-for-sale securities	(72,476)	3,118	(87,656)	(148,761)
Collective impairment allowance for impaired loans	76,115	81,404	82,126	70,071
Term subordinated notes	–	1,555,700	1,559,980	1,559,760
Regulatory reserve	<u>107,722</u>	<u>129,572</u>	<u>213,447</u>	<u>175,210</u>
Total deduction from eligible supplementary capital	<u>–</u>	<u>–</u>	<u>(93,633)</u>	<u>(45,496)</u>
Total eligible supplementary capital	<u>148,229</u>	<u>1,806,662</u>	<u>1,697,965</u>	<u>1,634,485</u>
Total capital base before deductions	3,620,969	5,379,657	–	–
Deductions from total capital base	<u>(65,036)</u>	<u>(701,967)</u>	<u>–</u>	<u>–</u>
Total capital base after deductions	<u><u>3,555,933</u></u>	<u><u>4,677,690</u></u>	<u><u>5,266,332</u></u>	<u><u>5,366,745</u></u>

SUMMARY FINANCIAL INFORMATION

The summary financial information set forth below has been extracted without material adjustment from the Group's audited consolidated financial results for each of the three years ended 31 December 2007 and the unaudited results for the six months ended 30 June 2008 and should be read in conjunction with the information contained elsewhere in this circular.

Consolidated Profit and Loss Account⁽¹⁾:

	Audited 31-Dec-05 <i>HK\$</i> <i>millions</i>	Audited 31-Dec-06 <i>HK\$</i> <i>millions</i>	Audited 31-Dec-07 <i>HK\$</i> <i>millions</i>	Unaudited 30-Jun-08 <i>HK\$</i> <i>millions</i>
Interest income	1,571.9	2,523.1	2,826.1	1,158.4
Interest expense	(1,068.1)	(1,826.3)	(1,972.4)	(626.0)
Net interest income	503.8	696.8	853.7	532.4
Fee and commission income	129.7	194.2	362.8	180.1
Fee and commission expense	(28.4)	(51.4)	(77.0)	(43.0)
Net fees and commission income	101.3	142.8	285.8	137.1
Revaluation loss on collateralised debt obligations	–	–	(90.4)	(78.1)
Other operating income	225.5	287.7	372.4	194.6
Operating income	830.6	1,127.3	1,421.5	786.0
Operating expenses	(602.8)	(716.7)	(834.8)	(468.7)
Operating profit before gains and impairment losses	227.8	410.6	586.7	317.3
Write back/(charge) of impairment losses on advances to customers	20.2	(65.5)	(37.6)	(18.1)
Impairment losses on available-for-sale securities	–	–	(162.4)	(96.2)
Write back of/(charge for) impairment losses on investment in associated company	–	–	(8.3)	2.8
Write back of/(charge for) impairment losses on assets acquired under lending agreements	4.6	(0.5)	3.3	3.1
Impairment losses	24.8	(66.0)	(205.0)	(108.4)
Net gains on disposals of available-for-sale securities	(17.8)	46.9	132.5	43.8
Net gains on disposals of fixed assets	39.0	–	2.9	29.6
Profit before taxation	273.8	391.5	517.1	282.3
Taxation	(32.4)	(64.3)	(56.2)	(32.2)
Profit for the period	241.4	327.2	460.9	250.1
Dividends declared and proposed	199.3	211.0	222.7	70.3

Consolidated Balance Sheet:

	Audited 31-Dec-05 <i>HK\$</i> <i>millions</i>	Audited 31-Dec-06 <i>HK\$</i> <i>millions</i>	Audited 31-Dec-07 <i>HK\$</i> <i>millions</i>	Unaudited 30-Jun-08 <i>HK\$</i> <i>millions</i>
Assets				
Cash and short-term funds	10,157.0	7,818.7	7,024.6	7,832.3
Placements with banks maturing between one and twelve months	1,573.9	1,684.2	741.0	–
Trading securities	395.1	469.0	32.5	552.0
Financial assets designated as at fair value through profit or loss	646.7	558.8	879.0	714.1
Derivative financial instruments	330.4	537.9	955.9	1,353.3
Advances to customers less impairment	21,375.5	25,751.2	31,478.8	33,741.5
Accrued interest and other accounts	641.1	1,141.7	1,115.6	1,871.7
Available-for-sale securities	13,523.8	14,257.2	17,230.4	15,423.1
Investments in associated company	6.5	6.5	–	1.9
Fixed assets	1,150.8	1,119.3	1,142.3	1,116.9
Deferred tax assets	2.7	2.5	22.7	49.3
	<u>49,803.5</u>	<u>53,346.8</u>	<u>60,622.8</u>	<u>62,656.1</u>
Liabilities				
Deposits and balances of banks	1,195.8	961.5	1,457.8	2,626.8
Deposits from customers	32,543.1	33,810.8	41,474.0	42,338.7
Trading liabilities	1,125.5	445.7	11.7	508.3
Financial liabilities designated as at fair value through profit or loss	–	–	220.4	155.2
Certificates of deposit issued	3,805.4	3,523.3	2,161.6	1,337.3
Debt securities issued	–	1,414.2	1,593.2	2,154.4
Derivative financial instruments	355.1	425.0	804.7	1,253.3
Other accounts and liabilities	7,029.7	7,208.2	7,155.2	6,462.3
Deferred tax liabilities	–	8.9	–	0.1
Subordinated notes issued	–	1,570.2	1,622.7	1,622.5
	<u>46,054.6</u>	<u>49,367.8</u>	<u>56,501.3</u>	<u>58,458.9</u>
Equity				
Share capital	1,172.2	1,172.2	1,172.2	1,172.2
Share premium	749.8	749.8	749.8	749.8
Reserves	1,826.9	2,057.0	2,195.8	2,271.8
	<u>3,748.9</u>	<u>3,979.0</u>	<u>4,117.8</u>	<u>4,193.8</u>
Equity attributable to equity holders of the Bank	3,748.9	3,979.0	4,117.8	4,193.8
Minority interests	–	–	3.7	3.4
	<u>3,748.9</u>	<u>3,979.0</u>	<u>4,121.5</u>	<u>4,197.2</u>
	<u><u>49,803.5</u></u>	<u><u>53,346.8</u></u>	<u><u>60,622.8</u></u>	<u><u>62,656.1</u></u>

CAPITALISATION AND INDEBTEDNESS OF FUBON BANK (HONG KONG) LIMITED

The following table sets forth the Group's consolidated capitalisation and indebtedness:

	Audited 31-Dec-05 <i>HK\$'000</i>	Audited 31-Dec-06 <i>HK\$'000</i>	Audited 31-Dec-07 <i>HK\$'000</i>	Unaudited 30-Jun-08 <i>HK\$'000</i>
Short-term borrowings (less than 1 year)				
Customer deposit accounts	31,703,802	32,489,565	40,735,077	41,831,312
Certificates of deposit in issue	2,426,041	3,031,447	2,161,650	1,337,323
Debt securities issued	–	42,010	92,200	1,693,396
Securities sold but not yet purchased	4,983,729	6,027,467	6,087,313	4,589,389
Securities sold under repurchase agreement	766,245	–	–	–
Deposits from banks	1,195,791	961,515	1,457,845	2,626,768
Amounts due to immediate holding company and fellow subsidiary companies	75,249	438,428	85,915	84,352
Total short-term borrowings	<u>41,150,857</u>	<u>42,990,432</u>	<u>50,620,000</u>	<u>52,162,540</u>
Long-term borrowings (more than 1 year)				
Customer deposit accounts	764,617	883,235	672,874	456,058
Certificates of deposit in issue	1,379,300	491,900	–	–
Debt securities issued	–	1,372,152	1,500,977	460,985
Securities sold but not yet purchased	1,979,585	612,870	4,638	672,579
Subordinated notes issued	–	1,570,155	1,622,652	1,622,484
Zero coupon bond issued	–	–	220,446	155,152
Total long-term borrowings	<u>4,123,502</u>	<u>4,930,312</u>	<u>4,021,587</u>	<u>3,367,258</u>
Capital resources				
Share capital and premium	1,921,938	1,921,938	1,921,938	1,921,938
Reserves	429,881	553,945	526,535	464,948
Retained earnings	1,397,097	1,503,147	1,669,281	1,806,887
Shareholders' funds	<u>3,748,916</u>	<u>3,979,030</u>	<u>4,117,754</u>	<u>4,193,773</u>
Total capitalisation and indebtedness	<u>49,023,275</u>	<u>51,899,774</u>	<u>58,759,341</u>	<u>59,723,571</u>

INDEBTEDNESS STATEMENT

At the close of business on the Latest Practicable Date, the Group had outstanding borrowings of approximately HK\$3.7 billion, comprising debt securities and subordinated debt issued.

In addition to the outstanding borrowings described above, the Company, in its ordinary course of business, has: (i) deposits from customers and other banks; (ii) certificates of deposit in issue; and (iii) securities sold under repurchase agreements. Please refer to the liabilities section of the consolidated balance sheet on page 26 and the capitalisation and indebtedness table on page 27 for more details on these short-term and long-term borrowings.

Save as disclosed above, and apart from intra-group liabilities and normal trade payables in the ordinary course of the business, as at the Latest Practicable Date, the Group had no other outstanding mortgages, charges, debentures or other loan capital, bank overdrafts or loans, other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptance or acceptance credits, guarantees or other material contingent liabilities.

WORKING CAPITAL

The Directors are satisfied after due and careful enquiry and taking into account the present internal financial resources of the Group that the Group, after the issuance of the Preference Shares, will have sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular.

SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date are:

Authorised capital: 1,406,592,000 ordinary shares of HK\$1.00 each

Issued capital: 1,172,160,000 ordinary shares of HK\$1.00 each

Immediately following the issue of the Preference Shares pursuant to the Open Offer, the Company expects that the authorised and issued share capital of the Company will be increased to:

Authorised capital: 1,406,592,000 ordinary shares of HK\$1.00 each; and 1,172,160,000 non-participating cumulative preference shares of US\$0.10237 each

Issued capital: 1,172,160,000 ordinary shares of HK\$1.00 each; and 1,172,160,000 non-participating cumulative preference shares of US\$0.10237 each

The Company has not issued any equity securities in the 12 months immediately preceding the date of this circular.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The strategy of the Company is to improve returns on assets and equity through organic growth in established and new markets, entry into new businesses, and exploiting opportunities offered by the Company's substantial shareholder, Fubon Financial and the Fubon Financial group generally to transform itself from a local Hong Kong bank into a regional financial institution.

The Company intends to grow its Hong Kong franchise through its existing business model, which is focused on corporate and SME banking, wealth management, financial markets and consumer finance. The Company aims to achieve service and product differentiation through its specific business values of customer centricism, teamwork, innovation, people and professionalism. The Company also intends to establish new businesses in asset management and hire-purchase leasing in mainland China in the short term to broaden the range of services and products offered to its customers.

The Company is also looking to enter regional markets outside of Hong Kong, particularly the mainland China market.

The Company raised its interim earnings in the first half of 2008 to HK\$250 million. Compared with the interim earnings of the Company in the first half of 2007, interim earnings increased by 15% in the first half of 2008, mainly due to an increase of 30% (or HK\$123 million) in net interest income and an increase of 22% (or HK\$60 million) in operating income. However, this was partly offset by an increase of 16% (or HK\$64 million) in operating expenses and mark-to-market losses of HK\$78 million in the Company's portfolio of collateralised debt obligations.

The Company expects that net earnings for the second half of 2008 will be significantly affected by the negative impact of the recent global financial crisis and economic slowdown. The Company anticipates that these factors will impact on the Company's credit quality, investment portfolio value and operating income. In addition, the Company has agreed to the Hong Kong SAR Government's recent proposal to purchase certain notes issued by Pacific International Finance Limited and arranged by Lehman Brothers group companies (commonly known as "Minibonds") from certain of its customers. It is anticipated that the purchase of the Minibonds will have a negative impact on the Company's overall earnings in the near future, although it is hard to quantify the impact at this point in time. As a result of the above factors, the profits of the Company for the year ending 31 December 2008 are expected to decline substantially as compared with the profits for the year ended 31 December 2007.

1. RESPONSIBILITY STATEMENT

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

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the Directors and the chief executive of the Company do not have any interests and short positions in the Company's Ordinary Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), other than the following:

Name	Ordinary shares in Fubon Financial of NT\$10 each			Total number of shares held	Percentage of total issued shares %
	Personal	Family	Corporate		
Ming-Hsing (Richard) Tsai	209,591,280	23,736,564	1,792,181,232 ⁽¹⁾	2,025,509,076	26.24
Ming-Chung (Daniel) Tsai	229,536,304	33,174,166	1,792,181,232 ⁽¹⁾	2,054,891,702	26.62
Jin-Yi Lee	450,000 ⁽²⁾	–	–	450,000	0.01
Victor Kung	460,571	–	–	460,571	0.01
David Chang Kuo-Chun	750,000	–	–	750,000	0.01

Notes:

- (1) 1,792,181,232 shares were held through corporations in which Mr. Ming-Hsing (Richard) Tsai, Mr. Ming-Chung (Daniel) Tsai and other Tsai family members have beneficial interests.
- (2) The shares were acquired during 2004 pursuant to Fubon Financial's treasury shares programme which invited the directors and certain senior management of the Fubon Financial group to acquire Fubon Financial's shares at a discounted price.

Apart from the foregoing, none of the Directors and chief executive of the Company or any of their spouses or children under eighteen years of age has any interests or debentures of the Company, its holding company, subsidiaries or fellow subsidiaries.

3. SHARE OPTIONS

As at the Latest Practicable Date, the Directors and chief executive of the Company mentioned below held unlisted physically settled options to acquire the number of ordinary shares of par value NT\$10 each in Fubon Financial set against their respective names. These options were granted for nil consideration by Fubon Financial during the year.

Details of the share options granted and outstanding as at the Latest Practicable Date are as follows:

Name	No. of options outstanding at the beginning of the year	No. of options granted during the year	No. of shares acquired on exercise of options during the year	No. of options forfeited during the year	No. of options outstanding at the Latest Practicable Date	Date granted	Period during which options are exercisable	Exercise price per share (NT\$)
Jin-Yi Lee	1,400,000	-	-	-	1,400,000	31 Jul 2007	31 Jul 2009 to 30 Jul 2012*	30.5
	2,825,000	-	-	-	2,825,000	7 Dec 2007	7 Dec 2009 to 6 Dec 2012#	28.2
					4,225,000			
Michael Chang Ming-yuen	1,085,000	-	-	-	1,085,000	31 Jul 2007	31 Jul 2009 to 30 Jul 2012*	30.5
	1,416,000	-	-	-	1,416,000	7 Dec 2007	7 Dec 2009 to 6 Dec 2012#	28.2
					2,501,000			
James Yip	1,085,000	-	-	-	1,085,000	31 Jul 2007	31 Jul 2009 to 30 Jul 2012	30.5
	1,411,000	-	-	-	1,411,000	7 Dec 2007	7 Dec 2009 to 6 Dec 2012#	28.2
					2,496,000			
Victor Kung	1,410,000	-	-	-	1,410,000	31 Jul 2007	31 Jul 2009 to 30 Jul 2012*	30.5
	2,830,000	-	-	-	2,830,000	7 Dec 2007	7 Dec 2009 to 6 Dec 2012#	28.2
					4,240,000			

Name	No. of options outstanding at the beginning of the year	No. of options granted during the year	No. of shares acquired on exercise of options during the year	No. of options forfeited during the year	No. of options outstanding at the Latest Practicable Date	Date granted	Period during which options are exercisable	Exercise price per share (NT\$)
David Chang Kuo-Chun	1,400,000	–	–	–	1,400,000	31 Jul 2007	31 Jul 2009 to 30 Jul 2012*	30.5
	2,820,000	–	–	–	2,820,000	7 Dec 2007	7 Dec 2009 to 6 Dec 2012 [#]	28.2
					4,220,000			

* 50% of granted options are exercisable between 31 July 2009 and 30 July 2010,
75% of granted options are exercisable between 31 July 2010 and 30 July 2011,
100% of granted options are exercisable between 31 July 2011 and 30 July 2012

50% of granted options are exercisable between 7 December 2009 and 6 December 2010
75% of granted options are exercisable between 7 December 2010 and 6 December 2011
100% of granted options are exercisable between 7 December 2011 and 6 December 2012

All the interests in shares disclosed above under this section represent long positions in the shares and underlying shares of the Company or its associated corporations (within the meaning of the SFO). Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of Company had or was deemed to have any interest or short position in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of the SFO) which has been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO and have been recorded in the register maintained by the Company pursuant to section 352 of the SFO or which has been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

The Company has no outstanding options, convertible securities or warrants which confer the right to subscribe for the Shares as at the date of this circular.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, the register of substantial shareholders showed that the Company had been notified of the following interests, being 5% or more of the Company's issued share capital:

Name of Shareholder	Number of Company Shares beneficially held	% of shareholding
Fubon Financial Holding Co., Ltd	879,120,000	75

All the interests in shares disclosed under this section represent long positions in the Company Shares. Save as disclosed above, as at the Latest Practicable Date, the Company was not aware of any other person (other than the Directors and the chief executive of the Company) who had an interest or a short position in the Company Shares or underlying shares of the Company which was required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and had been recorded in the register kept by the Company pursuant to section 336 of the SFO.

5. DIRECTORS' SERVICE CONTRACTS

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

6. MATERIAL CONTRACTS

On 10 June 2008, the Company entered into a share subscription agreement to subscribe to newly issued shares representing 19.99% of the enlarged issued share capital of Xiamen City Commercial Bank ("XCCB") for a cash consideration of approximately RMB230 million (approximately HK\$260 million). In addition, the Company further agreed to give its share of future dividends from XCCB of up to RMB20 million as deferred payment of part of the consideration. This transaction is an important breakthrough for a Taiwanese owned bank to obtain a substantial ownership and assume an active management role in a PRC commercial banking institution. The signing of the agreement underscores the Group's commitment to making the PRC a key market for growth and reinforces the Company's vision in becoming the regional financial platform for Fubon Financial. The strategic partnership with XCCB will provide the Company with an established banking franchise and knowledge of the PRC market, instant RMB access and a distribution network to better serve the banking and wealth management needs of Taiwanese and Hong Kong businessmen and their families in the PRC.

Save as described above, no material contracts (not being contracts entered into in the ordinary course of business) have been entered into by any member of the Group within the two years immediately preceding the date of this circular which are or may be material.

7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

8. MATERIAL ADVERSE CHANGE

Save as disclosed in the section entitled “Financial and Trading Prospects of the Group” on page 29 of this circular, the Directors are not aware of any material adverse change to the Group since 31 December 2007 (the date to which the latest published audited financial statements of the Group were made up).

9. MATERIAL INTEREST

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

10. PARTICULARS OF DIRECTORS

Ming-Hsing (Richard) TSAI

Chairman

Aged 51. Mr. Tsai joined the Fubon Group in 1982. He is Vice Chairman of Fubon Financial Holding Co., Ltd. Mr. Tsai also acts as Chairman for Fubon Life Assurance Co., Ltd. and has over 20 years of experience in these businesses. He is currently also Chairman of Taiwan Fixed Network Co., Ltd and Taiwan Mobile Co., Ltd., a provider of telecommunication services. Prior to this, Mr. Tsai was also Chairman of Fubon Securities Co., Ltd. Mr. Tsai holds a Master of Business Administration Degree (1981) from New York University and a Bachelor of Business Administration Degree (1979) from National Taiwan University. Mr. Tsai is the brother of Mr. Ming-Chung (Daniel) Tsai. He became a Director of the Company in February 2004. Save as disclosed above, Mr. Tsai did not hold any other directorships in other listed public companies during the last three years.

Mr. Tsai has personal interest of 209,591,280 shares, family interest of 23,736,564 shares and corporate interest of 1,792,181,232 shares in the Company's substantial shareholder, Fubon Financial Holding Co., Ltd within the meaning of Part XV of the SFO.

Ming-Chung (Daniel) TSAI

Vice Chairman

Aged 52. Mr. Tsai joined the Fubon Group in 1981. He is currently Chairman of Fubon Financial Holding Co., Ltd. as well as Chairman of Taipei Fubon Commercial Bank Co., Ltd. Mr. Tsai is also Vice Chairman of Taiwan Mobile Co., Ltd. and Taiwan Fixed Network Co., Ltd. Mr. Tsai has extensive experience in banking and telecommunication services, as well as the land development, construction management and building leasing business. He holds a Master of Law Degree (1979) from Georgetown University and a Bachelor of Law Degree (1978) from National Taiwan University. Mr. Tsai is the brother of Mr. Ming-Hsing (Richard) Tsai. He became a Director of the Company in February 2004. Save as disclosed above, Mr. Tsai did not hold any other directorships in other listed public companies during the last three years.

Mr. Tsai has personal interest of 229,536,304 shares, family interest of 33,174,166 shares and corporate interest of 1,792,181,232 shares in the Company's substantial shareholder, Fubon Financial Holding Co., Ltd within the meaning of Part XV of the SFO.

Jin-Yi LEE

Executive Director

Aged 51. Mr. Lee was appointed Managing Director and Chief Executive Officer of the Company in July 2004. He is currently a director of Fubon Financial Holding Co., Ltd. Mr. Lee has extensive experience in the banking industry. Before joining the Company, he was the Managing Director, Corporate Finance and Advisory, Asia Pacific of The Hongkong and Shanghai Banking Corporation Limited. Prior to that, he was the Head of Corporate Finance, Asia and a member of the Management Committee of BNP Paribas Peregrine, the Managing Director and China Senior Country Officer of J.P. Morgan Chase & Co., the Managing Director and Chairman of Hong Kong Management Committee of J.P. Morgan & Co. and Chief Executive of Morgan Guaranty Trust Co. of New York, Hong Kong Branch. Mr. Lee was also a committee member of the Hong Kong Association of Banks from 1998 to 2000. Mr. Lee graduated from National Taiwan University and obtained his MBA Degree from Harvard University. Save as disclosed above, Mr. Lee did not hold any other directorships in other listed public companies during the last three years.

Mr. Lee does not have any relationships with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Lee has personal interest of 450,000 shares and was granted options to acquire 4,225,000 shares in the Company's substantial shareholder, Fubon Financial.

Michael CHANG Ming-Yuen

Executive Director

Aged 52. Mr. Chang joined the Company in August 2004. He is the Executive Vice President and Head of Channel and Risk Management Group, responsible for managing the distribution channels and risk management of the Company. He is an Independent Director of Hua Xia Bank Co., Limited. He is also an appointed member of the Deposit-Taking Companies Advisory Committee of the Hong Kong Monetary Authority. Mr. Chang is an experienced professional in banking management and has solid international exposures. He started his career in J.P. Morgan & Co. in New York as Vice President in Corporate Finance and Global Credit Risk Management. Before joining the Company, Mr. Chang also worked for China International Capital Corporation in charge of its capital markets operations. Mr. Chang was also a Managing Director in charge of the Investment Banking Division and Chief Administration Officer and Acting Chief Financial Officer while with BOC International Holdings Limited. Mr. Chang obtained his Bachelor Degree from National Taiwan University and Master of Business Administration Degree from the University of Chicago. He is also a Chartered Financial Analyst. He became a Director of the Company in April 2006. Save as disclosed above, Mr. Chang did not hold any other directorships in other listed public companies during the last three years.

Mr. Chang does not have any relationships with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Chang was granted options to acquire 2,501,000 shares in the Company's substantial shareholder, Fubon Financial.

James YIP

Executive Director

Aged 55. Mr. Yip joined the Company in March 2006. He is the Executive Vice President and Head of Financial Markets Group of the Company. He was previously the Regional Treasurer, Regional Head of Capital Markets at KBC Bank, NatWest Markets, Chemical Bank and Bank of America. He has over 25 years of senior management experience in Asian treasury and capital markets with major international banks in the Asia-Pacific region; as a result, Mr. Yip has lived and worked in Tokyo, Singapore and Sydney in addition to Hong Kong. Mr. Yip was a President of the Hong Kong Financial Markets Association. He was also the Asia-Pacific Representative for the Committee for Professionalism of the Association Cambiste Internationale from 1985 to 1990. Prior to joining the Company, he was the Chief Executive Officer and the co-founder of iMarkets Limited. Mr. Yip holds a Master of Applied Finance Degree

from Macquarie University, Australia. He became a Director of the Company in July 2006. Save as disclosed above, Mr. Yip did not hold any other directorships in other listed public companies during the last three years.

Mr. Yip does not have any relationships with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Yip was granted options to acquire 2,496,000 shares in the Company's substantial shareholder, Fubon Financial.

Victor KUNG

Non-executive Director

Aged 52. Mr. Kung joined the Fubon Group in 2000, currently serves as Director and President of Fubon Financial Holding Co., Ltd. He first joined Fubon Insurance Co., Ltd. as a Director and Senior Advisor before becoming President of Fubon Financial Holding Co., Ltd. Prior to this, he was the Executive Vice President of Walden International Investment Group, specialising in private equity investments, and an Executive Director at the private equity investment arm of Citicorp Capital Asia. He is also Chairman of Fubon Asset Management Co., Ltd. and Director of Taipei Fubon Commercial Bank Co., Ltd. and Fubon Insurance Co., Ltd. Mr. Kung holds both a Master of Business Administration in Finance (1988) and a Master in Economics Degree (1982) from New York University. He became a Director of the Company in February 2004. Save as disclosed above, Mr. Kung did not hold any other directorships in other listed public companies during the last three years.

Mr. Kung does not have any relationships with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Kung has personal interest of 460,571 shares and was granted options to acquire 4,240,000 shares in the Company's substantial shareholder, Fubon Financial.

David CHANG Kuo-Chun

Non-executive Director

Aged 49. Mr. Chang is the Head of Financial Markets Group and Co-Head of Wealth Management Group of Fubon Financial Holding Co., Ltd. He is also the President and Director of Fubon Securities Co., Ltd. since June 2006. Before joining Fubon Financial Holding Co., Ltd, Mr Chang was responsible for the overall business of Goldman Sachs in Taiwan. He was appointed Regional Manager for Private Wealth Management Department of Goldman Sachs in Hong Kong in 1997 and became a Managing Director in 1998. Mr. Chang became the Head of Investment Banking and Branch Manager for Goldman Sachs Taipei office in June 2000. Mr. Chang is currently a Director of Taipei Fubon Commercial Bank Co., Ltd and The Taiwan Stock Exchange Inc. Mr. Chang holds a Master of Business Administration Degree from Columbia Business School. He became a Director of the Company in January 2008. Save as disclosed above, Mr. Chang did not hold any other directorships in other listed public companies during the last three years.

Mr. Chang does not have any relationships with any other directors, senior management, substantial or controlling shareholders of the Company. Mr. Chang has personal interest of 750,000 shares and was granted options to acquire 4,220,000 shares in the Company's substantial shareholder, Fubon Financial.

Robert James KENRICK

Independent Non-executive Director

Aged 60. Mr. Kenrick was a partner of the international accounting firm KPMG from 1988 to 1998 and a member of the Financial Accounting Standards Committee of the Hong Kong Institute of Certified Public Accountants from 1992 to 2001. He holds a Master of Arts and Bachelor of Arts Degree (1969) from Cambridge University and is a Certified Public Accountant (Hong Kong) and Chartered Accountant (England & Wales). He became a Director of the Company in April 1999. Mr. Kenrick did not hold any directorships in other listed public companies during the last three years.

Mr. Kenrick does not have any relationships with any other directors, senior management, substantial or controlling shareholders of the Company, and he does not have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Moses K. TSANG

Independent Non-executive Director

Aged 59. Mr. Tsang is the Chairman and Managing Partner of Ajia Partners and the Chairman and Chief Executive Officer of EC Investment Services Limited. Prior to that, he was a General Partner of Goldman Sachs Group where he led the establishment of the Fixed Income Group in Tokyo and headed the Debt Syndicate Group in London, and served as the Chairman of Goldman Sachs (Asia) L.L.C. between 1989 and 1994. Mr. Tsang is also an Independent Non-Executive Director of China Central Properties Limited, a trustee of the Hong Kong Centre for Economic Research of the University of Hong Kong, a member of The Nature Conservancy's Asia Pacific Council and Trustee Council, and a councilor of the Copenhagen Climate Council. Mr Tsang serves as the Chairman of Brown University Parents' Council (Hong Kong), a member of Brown University Advisory Council in Asia. He has special interests in the Hong Kong Children's Cancer Foundation and the Hong Kong International School, and is a member of the World President Organization – Hong Kong Chapter. He became a Director of the Company in February 2004. Save as disclosed above, Mr. Tsang did not hold any other directorships in other listed public companies during the last three years.

Mr. Tsang does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company nor have any interests in the shares of the Company within the meaning of Part XV of the SFO.

Hung SHIH*Independent Non-executive Director*

Aged 54. Mr. Shih is the Managing Director of China Renaissance Capital Investment Limited. He was previously a Managing Director and the China Country Head of UBS AG. Mr. Shih holds both a Master of Business Administration Degree (1982) and a Master of Law Degree (1980) from the University of Michigan, as well as a Bachelor of Law Degree (1976) from National Taiwan University. He became a Director of the Company in February 2004. Mr. Shih was an Independent Non-executive Director of Yue Yuen Industrial Holdings Limited before 1 March 2006.

Mr. Shih does not have any relationships with any directors, senior management, substantial or controlling shareholders of the Company nor have any interests in the shares of the Company within the meaning of Part XV of the SFO.

11. DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder).

12. MISCELLANEOUS

- (a) The Company was incorporated in Hong Kong on 27 January 1970. Its registered office is at 38 Des Voeux Road Central, Hong Kong, which is also the business address of each of the Directors.
- (b) The qualified accountant of the Company is David Lam Yiu Chau who is a member of the Hong Kong Institute of Certified Public Accountants.
- (c) The company secretary of the Company is Juliana Chiu Yuk Ching who is a member of The Hong Kong Institute of Chartered Secretaries.
- (d) The English language text of this circular shall prevail over the Chinese language text.

NOTICE OF EXTRAORDINARY GENERAL MEETING



FUBON BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)

(Stock Code: 636)

NOTICE IS HEREBY GIVEN THAT an extraordinary general meeting (the “**Meeting**”) of Fubon Bank (Hong Kong) Limited (the “**Company**”) will be held in the Conference Room, 12th Floor, Central Tower, 28 Queen’s Road Central, Hong Kong on Friday 21 November 2008 at 10:00 a.m. to consider and, if thought fit, pass (with or without amendments) the following resolutions:

ORDINARY RESOLUTION

1. “**THAT** conditional upon (i) the filing with and registration of all relevant documents to be issued by the Company relating to the Open Offer (as hereinafter defined) by the Registrar of Companies in Hong Kong in compliance with the Companies Ordinance; and (ii) the Hong Kong Monetary Authority granting its approval that the Preference Shares (as hereinafter defined) may be treated as “supplementary capital” of the Company for the purposes of the Banking (Capital) Rules (Cap. 155L of the Laws of Hong Kong):
 - (a) the authorised share capital of the Company be and is hereby increased from HK\$1,406,592,000 comprising 1,406,592,000 ordinary shares of HK\$1.00 each to HK\$1,406,592,000 and US\$119,994,019.20 comprising 1,406,592,000 ordinary shares of HK\$1.00 each and 1,172,160,000 non-participating cumulative preference shares of US\$0.10237 each;
 - (b) the issue, by way of open offer, of 1,172,160,000 new non-participating cumulative preference shares of par value of US\$0.10237 each in the issued share capital of the Company (the “**Open Offer**”), such new shares (the “**Preference Shares**”) to be issued at a price of US\$0.10237 per Preference Share (the “**Subscription Price**”) to the Shareholders whose names appear on the register of members of the Company on the date by reference to which entitlements under the Open Offer will be determined (other than those Shareholders (the “**Excluded Shareholders**”) with registered addresses outside Hong Kong and whom the Board of Directors, after making relevant enquiry, considers their exclusion from the Open Offer to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or any requirements of the relevant regulatory body or stock exchange in that place) in the proportion of one Preference Share for every existing Share then held and otherwise pursuant to and in accordance with the terms and conditions set out in the circular issued by the Company dated 29 October 2008 be and is hereby approved; and
 - (c) the Directors be and are hereby authorised to allot and issue the Preference Shares pursuant to or in connection with the Open Offer and, in particular, the Directors be and are hereby authorised to make such exclusions or other arrangements in

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relation to Excluded Shareholders as they may, at their absolute discretion, deem necessary or expedient or appropriate, and the Preference Shares shall not be issued to the Excluded Shareholders.”

SPECIAL RESOLUTION

1. “**THAT** the articles of association of the Company be and are hereby amended to include Article 5A (the form of which is enclosed as the annex to this notice) immediately after Article 5 of the articles of association and such amended articles of association be and are hereby adopted as the new articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association.”

For the purposes of the above resolutions:

- (i) “Shareholder” means holder of ordinary share(s) of HK\$1.00 each in the share capital of the Company; and
- (ii) “Shares” means ordinary share(s) of HK\$1.00 each in the share capital of the Company.

Notes:

1. A form of proxy for use at the meeting is enclosed herewith.
2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her attorney duly authorised in writing or, if the appointer is a corporation, either under its seal or under the hand of any officer or attorney authorised to sign the same.
3. Any member entitled to attend and vote at the above meeting may appoint a proxy to attend and, on a poll, vote instead of him/her. The number of proxies so appointed shall not exceed two. A proxy need not be a member of the Company.
4. In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarised copy of such power of attorney or authority, must be lodged at the office of the Company’s share registrar, Computershare Hong Kong Investor Services Limited, Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting thereof (as the case may be).
5. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting thereof (as the case may be) should they so wish and, in such event, the form of proxy shall be deemed to be revoked.
6. Where there are joint registered holders of any share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she was solely entitled thereto, but if more than one of such joint holders are present at the meeting, whether in person or by proxy, the joint registered holder present whose name stands first on the register of members in respect of the shares shall be accepted to the exclusion of the votes of the other registered holders.

By order of the Board of
Fubon Bank (Hong Kong) Limited
Juliana CHIU Yuk Ching
Company Secretary

Hong Kong, 29 October 2008

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“IRREDEEMABLE CUMULATIVE NON-VOTING PREFERENCE SHARES

5A. The irredeemable cumulative non-voting preference shares shall rank pari passu with each other in all respects. The ordinary shares shall rank pari passu with each other in all respects. The irredeemable cumulative non-voting preference shares shall rank in priority to the ordinary shares with respect to payment of dividends and any return of capital by the Company as provided in these Articles. The rights and restrictions attaching to the irredeemable cumulative non-voting preference shares are as follows:

(A) Distributions

- (i) Each irredeemable cumulative non-voting preference share shall entitle the holder thereof to receive out of the profits of the Company available for distribution and permitted by law to be distributed, in priority to the payment of any dividend to the holders of ordinary shares, a cumulative preferential dividend at a fixed rate of 9 per cent. per annum (the “Preference Dividend”) and payable semi-annually on their nominal amount exclusive of any applicable tax credit and without withholding or deduction for or on account of any present or future tax, duty or charge of whatsoever nature imposed or levied by or on behalf of Hong Kong or any authority having the power to levy tax in Hong Kong, unless such withholding or deduction is required by law. In that event, the Company shall pay such additional amounts as will result (after such withholding or deduction) in the receipt by the holders of such irredeemable cumulative non-voting preference shares of the sums which would have been receivable (in the absence of such withholding or deduction) from it in respect of the irredeemable cumulative non-voting preference shares. The Preference Dividend will be payable in arrear on 15 June and 15 December in each year (each a “Preference Dividend Payment Date”) or, if 15 June or 15 December is not a day on which commercial banks are open for business in Hong Kong, the dividend will be paid on the next day on which commercial banks are open for business in Hong Kong (other than Saturday) when, as and if declared by the Board. The amount of dividend accruing in respect of a period other than a full year will be calculated on an “30/360” basis as that term is defined in the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc.).
- (ii) The Board may elect not to pay any Preference Dividend if, during the 12 calendar months preceding a date on which the Preference Dividend is due to be paid in respect of the irredeemable cumulative non-voting preference shares, no dividend or distribution or other payment has been declared or paid on any class of the share capital of the Company. Such due date is referred to as an “Optional Preference Dividend Payment Date”. Any undeclared or unpaid Preference Dividend is referred to as a “Deferred Preference Dividend”.

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- (iii) The Deferred Preference Dividends will be cumulative but will not bear any interest against the Company; and subject to Article 5A(B), the holders of the irredeemable cumulative non-voting preference shares shall not be entitled to receive any payment or other form of compensation in respect of the irredeemable cumulative non-voting preference shares other than payment of the Preference Dividend.

(B) Rights on a Winding-up etc.

- (i) On a winding-up or other return of capital (other than a redemption, reduction or purchase by the Company of any of its issued shares), the assets of the Company available to shareholders shall be applied, in priority to any payment to the holders of ordinary shares and in priority to or pari passu with the holders of any other class of shares in issue (other than shares which may be issued by the Company and which may by their terms rank in priority to the irredeemable cumulative non-voting preference shares in a winding-up or other return of capital), in payment to the holders of the irredeemable cumulative non-voting preference shares of a sum equal to the aggregate of:
 - (a) an amount equal to the Deferred Preference Dividends accrued thereon;
 - (b) an amount equal to dividends accrued thereon for the then current dividend period to the date of the commencement of the winding-up or other return of capital;
 - (c) an amount equal to any dividend thereon which has been resolved to be paid on or after the date of commencement of the winding-up or other return of capital but which is payable in respect of a dividend period ending on or before such date; and
 - (d) the amount paid up or credited as paid up in respect of the nominal value of such irredeemable cumulative non-voting preference shares together with an amount equal to the premium (if any) paid to the Company on the issue of such irredeemable cumulative non-voting preference shares.
- (ii) Subject to Article 5A(B)(i), the balance (if any) of the assets of the Company available to shareholders on a winding-up or other return of capital (other than a redemption, reduction or purchase by the Company of any of its issued shares) shall be applied in payment to the holders of the irredeemable cumulative non-voting preference shares (on a pari passu basis) in proportion to the amounts paid up or credited as paid up on the irredeemable cumulative non-voting preference shares held by them.

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(C) Redemption

- (i) Subject always to the prior consent of the Hong Kong Monetary Authority and conditional upon the Company being able to redeem the irredeemable cumulative non-voting preference shares and remain Solvent immediately thereafter, the irredeemable cumulative non-voting preference shares will be redeemable at the option of the Company on the first working day after the fifth anniversary of the issue date, and on every Preference Dividend Payment Date thereafter upon giving not less than 30 nor more than 60 days' notice to the holders of the irredeemable cumulative non-voting preference shares. There shall be paid on each irredeemable cumulative non-voting preference share so redeemed a sum equal to the aggregate of:
 - (a) an amount equal to the nominal amount thereof;
 - (b) the premium (if any) credited as paid up on such share;
 - (c) an amount equal to the Deferred Preference Dividends accrued thereon; and
 - (d) an amount equal to dividends accrued thereon for the then current dividend period to the date fixed for redemption.

For the purposes of this Article:

- (a) "Solvent" means that the Company:
 - (1) is able to pay its debts as they fall due; and
 - (2) has Assets that exceed its Liabilities; and
- (b) (1) "Assets" means the unconsolidated gross assets (including contingencies) of the Company; and
- (2) "Liabilities" means the unconsolidated gross liabilities of the Company,

all as shown in the latest balance sheet of the Company having the benefit of an unqualified Auditors' report, but with such adjustments as the Auditors or, if the Company is in winding-up, the liquidator shall determine.

- (ii) Redemption shall take place at the registered office of the Company. At the time so fixed, the registered holders of the irredeemable cumulative non-voting preference shares shall be bound to deliver to the Company the certificates thereof for cancellation and thereupon the Company shall pay to such holders the redemption moneys payable in respect of such irredeemable

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cumulative non-voting preference shares and the Company shall issue to such holders a new certificate for the balance (if any) of the irredeemable cumulative non-voting preference shares then held.

- (iii) No irredeemable cumulative non-voting preference shares shall be redeemed unless the Preference Dividend immediately preceding the service of notice by the Company calling for redemption together with all arrears accumulated as at the date of redemption (whether earned or declared or not) have been paid.

(D) Voting

The holders of irredeemable cumulative non-voting preference shares shall not be entitled to receive notice of, or to attend or vote, in person, by representation or by proxy, at any general meeting unless the business of the meeting includes the consideration of:

- (a) a resolution for varying or abrogating any of the rights, preferences, privileges, limitations or restrictions attached to any class of shares of which such share forms part; or
- (b) a resolution for winding-up the Company proposed by any holders of ordinary shares,

in which case the holders of the irredeemable cumulative non-voting preference shares shall be entitled to speak upon any such resolution and shall have one vote for each irredeemable cumulative non-voting preference share which they hold.

(E) Variation of Rights and Further Issues

- (i) Save with the written consent of the holders of not less than three-quarters in nominal value of the irredeemable cumulative non-voting preference shares then in issue, or with the sanction of a special resolution passed at a separate general meeting of the holders of irredeemable cumulative non-voting preference shares then in issue, the Board shall not authorise or create, or increase the amount of, any shares of any class or any security convertible into shares of any class ranking as regards participation in the profits or assets of the Company (other than on a redemption or purchase by the Company of any such share) in priority to the irredeemable cumulative non-voting preference shares.
- (ii) The Company shall be entitled at any time and from time to time and without any consent or sanction of the holders of the irredeemable cumulative non-voting preference shares to create and issue further preference share capital ranking as regards participation in the profits and assets of the Company after or *pari passu* with the irredeemable cumulative non-voting preference shares. Such creation and issue shall be deemed not to alter, vary, affect, modify or abrogate any of the rights attaching to the

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irredeemable cumulative non-voting preference shares and for the avoidance of doubt such rights shall not be deemed to be varied by the alteration of any of the provisions, other than provisions as to pari passu ranking, set out in these Articles in respect of any unissued preference shares. Any further series of preference shares ranking, as regards participation in profits or assets, pari passu with the irredeemable cumulative non-voting preference shares may, without their creation or issue being deemed to vary the special rights attaching to the irredeemable cumulative non-voting preference shares, either carry identical rights in all respects with the irredeemable cumulative non-voting preference shares or carry rights differing therefrom in any respect including, but without prejudice to the foregoing, in that:

- (a) the rate and/or basis of calculating dividends may differ and the dividend may be cumulative or non-cumulative;
- (b) such shares may rank for dividends as from such date as may be provided by the terms of issue thereof and the dates for payment of dividend may differ;
- (c) such shares may be denominated in any currency or, if permitted by law, any basket of currencies;
- (d) a premium may be payable on return of capital or there may be no such premium;
- (e) such shares may be redeemable at the option of the Company or may be non-redeemable;
- (f) such shares may carry a right to additional shares by way of capitalisation of profits or reserves similar to that attaching to the irredeemable cumulative non-voting preference shares; and
- (g) such shares may be convertible into ordinary shares or any other class of shares ranking as regards participation in the profits and assets of the Company pari passu with or after the irredeemable cumulative non-voting preference shares, in each case on such terms and conditions as may be prescribed by the terms of issue thereof.”