

4 April 2011

Dear Sirs,

**PROPOSAL TO PRIVATISE
THE ORDINARY SHARE CAPITAL OF FUBON BANK (HONG KONG) LIMITED
BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 166 OF
THE COMPANIES ORDINANCE**

**VOLUNTARY CONDITIONAL CASH OFFER BY
UBS AG, HONG KONG BRANCH ON BEHALF OF FUBON FINANCIAL HOLDING CO., LTD.
TO ACQUIRE ALL THE ISSUED PREFERENCE SHARES OF FUBON BANK (HONG KONG) LIMITED
(OTHER THAN THOSE ALREADY OWNED BY FUBON FINANCIAL HOLDING CO., LTD
OR PARTIES ACTING IN CONCERT WITH IT)**

PROPOSED WITHDRAWAL OF LISTING OF FUBON BANK (HONG KONG) LIMITED

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and (i) the Minority Shareholders as to whether or not the terms and conditions of the proposal to privatise the Company by the Offeror by way of a Scheme of Arrangement (the "Scheme Proposal"), and particularly, the cancellation consideration of HK\$5.20 in cash for every Scheme Share (the "Cancellation Consideration") is fair and reasonable so far as the Minority Shareholders are concerned and as to voting of the resolution to approve the Scheme of Arrangement at the Court Meeting and the special resolution to approve and give effect to the Scheme of Arrangement at the Extraordinary General Meeting; and (ii) the Preference Shareholders as to the terms and conditions of Preference Shares Offer is fair and reasonable so far as the Preference Shareholders are concerned and as to the acceptance of the Preference Share Offer.

This letter has been prepared for inclusion in the document dated 4 April 2011 jointly issued by the Offeror and the Company in relation to the Scheme Proposal and the Preference Share Offer (the "Scheme Document"). Capitalised terms used in this letter shall have the same meanings as defined in the Scheme Document unless the context otherwise requires.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee consists of Mr. Robert James Kenrick, Mr. Moses Tsang and Mr. Hung Shih, all being independent non-executive Directors. The Independent Board Committee is constituted to advise the Minority Shareholders in connection with the Scheme Proposal and the Preference Shareholders in connection with the Preference Share Offer. As for the other non-executive Directors, (1) Mr. Ming-Hsing (Richard) Tsai is a

director and Vice Chairman of the Offeror; (2) Mr. Ming-Chung (Daniel) Tsai is a director and Chairman of the Offeror; (3) Mr. Victor Kung is a director and president of the Offeror; (4) Mr. David Chang Kuo-Chun and Mr. Michael Chang Ming-Yuen are senior consultants of the Offeror. In compliance with Rule 2.8 of the Takeovers Code, they have not been included in the Independent Board Committee so as to avoid any or any possible conflict of interests. We have been appointed as the independent financial adviser to advise the Independent Board Committee on the Scheme Proposal and the Preference Share Offer.

BASIS OF OUR OPINION

In formulating our opinion with regard to the Scheme Proposal and the Preference Share Offer, we have relied on the information, opinions and facts supplied, and representations made, to us by the Directors and representatives of the Company (including those contained or referred to in the Scheme Document, the Announcement and the Second Announcement (defined below)). We have assumed that all such information, opinions, facts and representations which have been provided to us by the Directors and representatives of the Company, and for which they are wholly responsible, are true and accurate in all material respects. We have also relied on certain information available to the public and we have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. Further, we have relied on the representations of the Directors that they have made all reasonable inquiries, and that, to the best of their knowledge and belief, there are no other facts, the omission of which would make any statement contained in the Scheme Document, the Announcement and the Second Announcement untrue or misleading. We have also assumed that statements and representations made or referred to in the Scheme Document, the Announcement and the Second Announcement were accurate at the time they were made and continue to be accurate at the date of dispatch of the Scheme Document. Our opinion is necessarily based upon market, economic and other conditions as they existed and could be evaluated on, and on the information publicly available to us as of, the date of this letter. As a result, circumstances could develop prior to completion of the Scheme Proposal and the Preference Share Offer that, if known to us at the time we rendered our opinion, would have altered our opinion. Should there be any subsequent major changes which occur up to the date throughout the offer period and would affect or alter our opinion, we will notify the Independent Board Committee, the Minority Shareholders and the Preference Shareholders accordingly as soon as possible.

We consider that we have reviewed sufficient information to enable us to reach an informed view regarding the Scheme Proposal and the Preference Share Offer to justify our recommendation, relying on the accuracy of the information provided in the Scheme Document, the Announcement and the Second Announcement to provide a reasonable basis for our advice. As the independent financial adviser to the Independent Board Committee, we have not been involved in the negotiations in respect of the terms and conditions of the Scheme Proposal and the Preference Share Offer. Our opinion with regard to the terms and conditions thereof has been made on the assumption that all obligations to be performed by the Company and the Offeror in relation to the Scheme Proposal and the Preference Share Offer will be fully performed in accordance with the terms and conditions thereof. Further, we have no reason to suspect that any material facts or information have been omitted or withheld from the information supplied or opinions expressed to us nor to doubt the truth,

accuracy and completeness of the information, facts and representations provided, or the reasonableness of the opinions expressed, to us by the Company, the Directors and the other representatives of the Company. In line with normal practice, we have not, however, made any independent verification of the information and facts provided, representations made or opinions expressed by the Company, the Directors and the other representatives, nor have we conducted any form of independent investigation into the business affairs or assets and liabilities of the Group. Accordingly, we do not warrant the accuracy or completeness of any such information.

In rendering our opinion, we have not considered the tax implications for the Minority Shareholders and the Preference Shareholders of acceptances or non-acceptances of the Scheme Proposal and the Preference Share Offer since these are particular to their individual circumstances. The Minority Shareholders and Preference Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in any doubt, should consult their own professional advisers.

Our opinion is also subject to the following qualifications:

- (i) It is not possible to confirm whether or not the Scheme Proposal and/or the Preference Share Offer is in the interests of each individual Minority Shareholder and/or Preference Shareholder, respectively, and each Minority Shareholder should consider his/her/its vote on the merits or otherwise of the Scheme Proposal in his/her/its own circumstances and from his/her/its own point of view having regard to all the circumstances (and not only the financial perspective offered in this letter) as well as his/her/its own investment objectives;
- (ii) We express no opinion as to whether the Scheme Proposal and the Preference Share Offer will be completed nor whether it will be successful;
- (iii) Nothing contained in this letter should be construed as us expressing any view as to the trading price or market trends of any securities of the Company at any particular time; and
- (iv) Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any securities in the Company.

This letter is for the information of the Independent Board Committee solely in connection with their consideration of the Scheme Proposal and the Preference Share Offer and, except for its inclusion in the Scheme Document and for references thereto in the letter from the Independent Board Committee set out in the Scheme Document, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

CLSA is a licensed securities adviser and corporate finance adviser under the SFO and we, together with our affiliates, provide a full range of investment banking and brokerage services, which, in the course of normal trading activities, may from time to time effect transactions and hold securities, including derivative securities, of the Company, its

subsidiaries or its substantial shareholder (as defined in the Hong Kong Listing Rules) or those of the Offeror for the accounts of customers. Our parent company, Credit Agricole Corporate and Investment Bank, as part of its commercial banking activities, engages in forex hedging, structured product sales and other banking activities with certain subsidiaries of the Offeror and with the Company during the past two years. Revenues generated from these activities in the past two years were not material to Credit Agricole Corporate and Investment Bank. CLSA will receive a fee from the Company for rendering this opinion. The Company has also agreed to indemnify CLSA and certain related persons against liabilities and expenses in connection with this engagement.

BACKGROUND OF THE SCHEME PROPOSAL AND THE PREFERENCE SHARE OFFER

It was jointly announced by the Offeror and the Company on 19 January 2011 that on 10 January 2011 (i) the Offeror had requested the Board to put forward to the Scheme Shareholders the Scheme Proposal for the privatisation of the ordinary share capital of the Company which, if approved and implemented, would result in the withdrawal of listing of the Shares on the Hong Kong Stock Exchange; and (ii) the Offeror will make, through the Financial Adviser, a voluntary conditional cash offer to acquire all the issued Preference Shares (other than those already owned by the Offeror or parties acting in concert with it).

Following a meeting of the Board on 12 January 2011, the Board agreed to put forward the Scheme Proposal for consideration by the Scheme Shareholders.

On 15 March 2011, it was further announced by the Offeror and the Company jointly that the Offeror had requested the Board to put forward to the Scheme Shareholders a revised Scheme Proposal whereby the Cancellation Consideration would be increased from HK\$5.00 to HK\$5.20 but will all other terms remaining unchanged and terms of the Preference Share Offer remaining unchanged ("Second Announcement"). The Offeror also confirmed in the Second Announcement that there would be no further revision to the Cancellation Consideration.

Following a meeting held on 15 March 2011, the Board agreed to put forward the revised Scheme Proposal for consideration by the Scheme Shareholders.

As at the Latest Practicable Date, the Offeror owned 879,120,000 Shares, representing 75% of the issued Shares and 1,133,662,994 Preference Shares, representing approximately 96.72% of the issued Preference Shares. The proposed privatisation of the ordinary share capital of the Company will be implemented by way of a scheme of arrangement under Section 166 of the Companies Ordinance. Upon the Scheme of Arrangement becoming effective, the Scheme Shares will be cancelled and the New Shares will be issued as fully paid to the Offeror, and the listing of the Shares will be withdrawn from the Hong Kong Stock Exchange.

The Preference Share Offer will be subject to and conditional upon the Scheme of Arrangement becoming effective. By accepting the Preference Share Offer, the Preference Shareholders will sell their Preference Shares to the Offeror free from all liens, claims,

encumbrances and together with all rights attaching to the Preference Shares as at the Closing Date, including the right to receive all dividends accrued but unpaid and distribution identified as payable to the Preference Shareholders on the Closing Date.

Please also refer to the “Explanatory Statement” included in the Scheme Document for brief introductions of the Offeror and the Company.

THE SCHEME PROPOSAL AND THE PREFERENCE SHARE OFFER

Terms of the Scheme Proposal

As stated in the “Letter from the Board” in the Scheme Document, subject to the Conditions described in the “Explanatory Statement” in the Scheme Document being fulfilled or waived (as applicable), the proposed privatisation of the ordinary share capital of the Company will be implemented by way of the Scheme of Arrangement.

If the Scheme of Arrangement becomes effective, the Scheme Shareholders will receive from the Offeror as Cancellation Consideration HK\$5.20 in cash for every Scheme Share cancelled. Upon the Scheme of Arrangement becoming effective, all the Scheme Shares will be cancelled and the New Shares will be issued as fully paid to the Offeror. As stated in the “Letter from the Board” and the “Explanatory Statement” in the Scheme Document, the Offeror has advised that the Cancellation Consideration will not be revised in the course of the Scheme of Arrangement and the Offeror does not reserve the right to do so.

On the implementation of the Scheme of Arrangement and withdrawal of listing, the Company will be converted into a private company wholly-owned by the Offeror.

Further terms of the Scheme Proposal, including the procedures for acceptances, are set out in the “Explanatory Statement” in the Scheme Document.

Terms of the Preference Share Offer

As stated in the “Letter from the Board” in the Scheme Document, the Preference Share Offer will be made on the basis of a cash price per Preference Share in US dollars which equals the sum of (i) US\$0.10237, being the par value of each Preference Share; (ii) an amount representing the accrued but unpaid dividend calculated at the fixed rate of 9% per annum as provided for in the Articles for the period from 15 December 2010 to and including the Effective Date; and (iii) an amount representing the future dividend calculated at the fixed rate of 9% per annum as provided for in the Articles for the period from the Effective Date to and including 24 December 2013, such future dividend to be discounted by applying a discount rate of 6% per annum, with the discount calculated with reference to the dividend payment schedule provided for in the Articles.

For the avoidance of doubt, the accrued but unpaid dividend for the period from 15 December 2010 to and including the Effective Date equals the dividend that Preference Shareholders are entitled to pursuant to the Articles for such dividend less any dividend paid or payable by Fubon Bank to the Preference Shareholders at any time during such period or

in respect of such period, including the cumulative preferential dividend at the fixed rate of 9% per annum for the period from 15 December 2010 to 14 June 2011 as provided for in the Articles that will be paid to the holders of Preference Shares on 15 June 2011.

As stated in the "Letter from the Board" in the Scheme Document, assuming that (i) the Scheme of Arrangement becomes effective on 8 June 2011; and (ii) save for the cumulative preferential dividend at the fixed rate of 9% per annum for the period from 15 December 2010 to 14 June 2011 as provided for in the Articles that will be paid to the holders of Preference Shares on or before 15 June 2011 and in any event before the Closing Date, no other dividend has been or will be paid to the Preference Shareholders from the 16 December 2010 to the Closing Date, the offer price per Preference Share will be US\$0.123793.

Conditions of the Scheme Proposal and the Preference Share Offer

Scheme of Arrangement

The Scheme Proposal is subject to, and the Scheme of Arrangement will become effective and binding on the Company, the Offeror and all the Scheme Shareholders subject to the fulfilment or waiver, as applicable, of the following conditions:

- (a) the approval of the Scheme of Arrangement (by way of poll) by a majority in number of the Scheme Shareholders, representing not less than three-fourths in nominal value of the Scheme Shares, present and voting either in person or by proxy at the Court Meeting, provided that:
 - (i) the Scheme of Arrangement is approved (by way of poll) by at least 75% of the votes attaching to the Scheme Shares held by the Minority Shareholders that are cast either in person or by proxy at the Court Meeting; and
 - (ii) the number of votes cast (by way of poll) against the resolution to approve the Scheme of Arrangement at the Court Meeting is not more than 10% of the votes attaching to all the Scheme Shares held by the Minority Shareholders;
- (b) the passing of a special resolution by a majority of not less than 75% of the votes cast by the Shareholders present and voting in person or by proxy at the EGM to give effect to the Scheme of Arrangement, including the approval of the reduction of the authorised and issued share capital of the Company by cancelling and extinguishing the Scheme Shares and of the issue to the Offeror of such number of New Shares as is equal to the number of the Scheme Shares cancelled;
- (c) the sanction of the Scheme of Arrangement (with or without modifications) and the confirmation of the reduction of the authorised and issued share capital of the Company involved in the Scheme of Arrangement by the High Court and the delivery to the Registrar of Companies of a copy of the order of the High Court for registration;

- (d) the compliance with the procedural requirements of Section 61 and Section 166 of the Companies Ordinance in relation to the reduction of the authorised and issued share capital of the Company and the Scheme of Arrangement, respectively;
- (e) all necessary authorisations, consents and approvals (including approval in-principle) of any governmental or regulatory body (including the approvals from the FSC and the Investment Commission of the Ministry of Economic Affairs of Taiwan) in relation to the Scheme Proposal (including its implementation) or the Preference Share Offer having been obtained and remaining in full force and effect pursuant to the provisions of any laws or regulations in Hong Kong, Taiwan and other relevant jurisdictions;
- (f) all necessary third party consents in relation to the Scheme Proposal or the Preference Share Offer required pursuant to any agreement to which any member of the Fubon Bank Group is a party (where any failure to obtain a consent would have a material adverse effect on the business of the Fubon Bank Group taken as a whole) having been obtained or waived by the relevant party(ies);
- (g) no relevant government, governmental, quasi-governmental, statutory or regulatory body, court or agency having granted any order or made any decision that would make the Scheme Proposal or the Preference Share Offer void, unenforceable or illegal, or restrict or prohibit the implementation of, or impose any additional material conditions or obligations with respect to, the Scheme Proposal or the Preference Share Offer (other than such orders or decisions as would not have a material adverse effect on the legal ability of the Offeror to proceed with or consummate the Scheme Proposal or the Preference Share Offer);
- (h) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any of the Relevant Authorities which is not expressly provided for, or is in addition to the requirements expressly provided for, in the relevant laws, rules, regulations or codes in connection with the Scheme Proposal or the Preference Share Offer or any matters, documents (including circulars) or things relating thereto, in each case up to and at the time when the Scheme of Arrangement becomes effective;
- (i) no event having occurred which would make the Scheme Proposal, the Preference Share Offer or the cancellation of the Scheme Shares void, unenforceable or illegal or which would prohibit the implementation of the Scheme Proposal or the Preference Share Offer or impose any additional material conditions or obligations with respect to the Scheme Proposal or the Preference Share Offer or any part thereof or on the cancellation of the Scheme Shares; and
- (j) since the date of the Announcement, there having been no material adverse change in the business, financial or trading position of the Fubon Bank Group, taken as a whole.

The Offeror reserves the right to waive all or any of the conditions (except for the conditions referred to in paragraphs (a) to (e), (g) and (i) above) in whole or in part. The Company does not have the right to waive any of the conditions. All of the above conditions will have to be fulfilled or waived, as applicable, on or before 30 September 2011 (or such later date as the Offeror and the Company may agree or (to the extent applicable) as the High Court may direct and as may be permitted under the Takeovers Code), otherwise the Scheme of Arrangement will lapse. If the Scheme of Arrangement is withdrawn, not approved or lapses, the listing of the Shares on the Hong Kong Stock Exchange will not be withdrawn. The Offeror has applied for a waiver from compliance with Rule 15.7 of the Takeovers Codes in relation to the Scheme Proposal.

As stated in the “Explanatory Statement” in the Scheme Document, none of the conditions set out above has been satisfied as of the Latest Practicable Date, save that the approval from the FSC in respect of the condition referred to in paragraph (e) above has been obtained, and, save that the conditions referred to in paragraphs (g) to (j) above are continuing conditions, none of the conditions set out above is capable of being revoked. As of the Latest Practicable Date, there are no agreements or arrangements to which the Offeror is a party which relate to the circumstances in which it may or may not invoke or seek to invoke a condition to the Scheme Proposal, the Scheme of Arrangement or the Preference Share Offer.

Preference Share Offer

As stated in the “Letter from the Board” in the Scheme Document, the Preference Shares are not listed on any stock exchange. The Preference Share Offer is only subject to and conditional upon the Scheme of Arrangement becoming effective. The Preference Share Offer is not conditional upon the Offeror having received any pre-determined level of acceptances in respect of the Preference Share Offer.

As stated in the “Letter from UBS” in the Scheme Document, the Preference Shareholders who do not accept the Preference Share Offer will continue to hold the Preference Shares they own and will be entitled to the rights, including the right to receive a cumulative preferential dividend at the fixed rate of 9% per annum, attached to the Preference Shares. However, if the Scheme of Arrangement becomes effective, the Offeror intends to seek the prior consent of the HKMA and conditional upon the Company being able to redeem the Preference Shares and remain solvent immediately thereafter, the Offeror intends to procure the Company to redeem the Preference Shares on or shortly after 24 December 2013.

Please also refer to the “Letter from the Board”, “Letter from UBS” and “Explanatory Statement” included in the Scheme Document for further details.

PRINCIPAL FACTORS CONSIDERED

In arriving at our recommendation to the Independent Board Committee with regard to the Scheme Proposal and the Preference Share Offer, we have taken into consideration, inter alia, the following factors:

1. Background and Historical Financial Performance of the Company

The Company is a licensed bank incorporated in Hong Kong, the Shares of which are listed on the Hong Kong Stock Exchange. The Company is principally engaged in a wide range of financial services encompassing wealth management, consumer and wholesale banking, financial markets, securities brokerage and investment services. The Company offers banking services in Hong Kong through 24 retail distribution outlets, including 22 branches and 2 securities services centres.

In 2004, Fubon Financial acquired International Bank of Asia Limited through a voluntary conditional cash offer at a consideration of HK\$3.68 per share, represented a price to the latest published audited net asset value prior to announcement of the offer of approximately 1.15 times. After completion of the offer, International Bank of Asia Limited changed its name to "Fubon Bank (Hong Kong) Limited", the Company.

The financial information relating to the Company is set out in Appendix I to the Scheme Document.

Set out below is a summary of the published audited consolidated financial results of the Fubon Bank Group for the two financial years ended 31 December 2009 and 2010 and a brief review of the financial performance of the Fubon Bank Group during the period.

	Financial year ended	
	31 December	
	2009	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net interest income	1,142,504	852,520
Net fee and commission income	210,368	257,192
Revaluation loss on collateralised debt obligations	(681)	(13,673)
Other operating income	<u>68,476</u>	<u>42,074</u>
Operating income	<u>1,420,667</u>	<u>1,138,113</u>
Operating profit before gains and impairment losses	466,371	281,961
Impairment losses	(546,958)	(46,719)
Profit before taxation	26,651	312,541
Profit for the year	22,534	266,293
Profit attributable to:		
– Equity holders of the Company	22,995	266,966
– Non-controlling interests	<u>(461)</u>	<u>(673)</u>
(Loss) / Earnings per Share (Hong Kong cents)	<u>(5.16)</u>	<u>15.62</u>

Operating income

Operating income decreased from approximately HK\$1,420.7 million in 2009 to approximately HK\$1,138.1 million in 2010 mainly attributable to (i) the decrease in net interest income from approximately HK\$1,142.5 million to approximately HK\$852.5 million; (ii) the increase in revaluation loss on collateralised debt obligations from approximately HK\$681,000 to approximately HK\$13.7 million; (iii) the decrease in other operating income from approximately HK\$68.5 million to approximately HK\$42.1 million; and (iv) partially offset by an increase in net fee and commission income from approximately HK\$210.4 million to approximately HK\$257.2 million.

As stated in the published 2010 annual report of the Company, the decline in net interest income was attributed to lower average interest-earnings assets, resulting from the gradual depletion of the high-yield hire purchase portfolio and the Fubon Bank Group taking a more cautious stance in loan underwriting during the first half of 2010. In addition, fierce price competition among peers for lending (especially in the residential mortgage business) and the switch from higher yield prime-based loans to HIBOR-based loans under the low interest rate environment had adversely impacted the Fubon Bank Group's loan yield in 2010. Moreover, credit spread tightening since the fourth quarter of 2009 caused assets to be priced at lower spreads.

As stated in the published 2010 annual report of the Company, the Fubon Bank Group had investments in collateralised debt obligations with a nominal value of US\$30 million (2009: US\$30 million). Embedded derivatives in the collateralised debt obligations are bifurcated and marked to market. The Fubon Bank Group recorded a revaluation loss of HK\$13.7 million on the embedded derivatives during 2010.

Increase in net fee and commission income was due to higher business volumes across consumer finance, wealth management and corporate banking segments.

Operating profit before gains and impairment losses

Operating profit before gains and impairment losses decreased by 39.5% to approximately HK\$282.0 million in 2010 as compared to HK\$466.4 million in 2009 as a result of the decrease in operating income by approximately 19.9% whereas the operating expense decreased by 10.3%.

Impairment losses

Impairment losses decreased from approximately HK\$547.0 million in 2009 to approximately HK\$46.7 million in 2010. Impairment losses on advances to customers decreased from approximately HK\$484.9 million in 2009 to approximately HK\$9.7 million. As stated in the published 2010 annual report of the Company, such decline was mainly resulted from lower individual impairment losses charged on SME and hire purchase loans. In addition, improved credit quality in commercial lending led to release of collective impairment loss in 2010 compared to a charge for collective impairment loss in 2009.

Profit attributable to equity holders of the Company

Profit attributable to equity holders of the Company increased from approximately HK\$23.0 million in 2009 to approximately HK\$267.0 million in 2010. After deducting the dividend for Preference Shares of approximately HK\$83.9 million, the profit attributable to ordinary shareholders of the Company was approximately HK\$183.1 million (2009: loss attributable to ordinary shareholders of the Company of HK\$60.5 million).

Earnings / (Loss) per Share

In 2010, the Company generated earnings per Share of 15.62 Hong Kong cents as opposed to a loss per Share of 5.16 Hong Kong cents in 2009 after accounting for the dividend for Preference Shares.

Recent development relating to Lehman Brothers Minibonds

As stated in the section headed "5. Litigation" in Appendix II of the Scheme Document, the Banks and the Receivers separately announced on 28 March 2011 a final resolution proposal for the Relevant Minibonds. If the proposal is implemented, it is expected that there will be a net overall positive financial impact to the financial

performance of the Company. This is due to an updated expected rate of recovery from the Collateral which is higher than the expected rate of recovery reflected in the accounts of the Company. The effect of this positive financial impact will to some extent be reduced because of the drawdowns that may be made under the funding arrangements described in the section.

If the payment obligations under the funding arrangements are fully utilised in the next six years, it is estimated that there would be an overall positive financial impact to the financial performance of the Company from the proposal of around HK\$4 million over the next six years. If, on the other hand, none of the contingent obligations under the funding arrangements is drawn down and utilised during the next six years, the overall positive financial impact to the financial performance over the next six years will increase to around HK\$30 million. The actual overall positive financial impact to the Company is likely to be between these two amounts.

Based on our discussion with the Company, the Directors estimate that the potential impact on the book value per Share is between 0.3 Hong Kong cents and 2.6 Hong Kong cents over the next six years, calculated based on the total issued ordinary share capital of the Company of 1,172.2 million Shares according to its latest published annual report, which is not material in relation to our analyses of the Cancellation Consideration in this letter.

2. Hong Kong Banking Environment

According to the 2009 annual report of the Hong Kong Monetary Authority, Hong Kong economy emerged from recession in second half of 2009 and continued to strengthen in 2010. GDP rose to 6.8% in 2010, according to the Census and Statistics Development in Hong Kong, and labour market conditions stabilised with unemployment rate moderated.

Local banks' financial performance started to improve. Although net interest margin narrowed due to low interest rate environment, the normalisation of capital market activities resulted in higher income from trading investment, foreign exchange operations and derivatives. The operating costs of retail banks rose mainly due to the expenses related to settlement of cases involving Lehman investment products reported by some retail banks in 2009 and increase in staff and retail expenses in 2010. The balance sheets grew notably, with asset quality registered a broad-based improvement. However, there remains significant challenges for the industry due to uncertainty in the European and United States markets. At the same time, Hong Kong banking industry continues to be competitive, in particular with net interest income constrained by a reduction in the net interest margin due to intense competition amid the low interest rate environment and the price competition in the mortgage market which continues to exert pressure on banks' profitability at least in the near term.

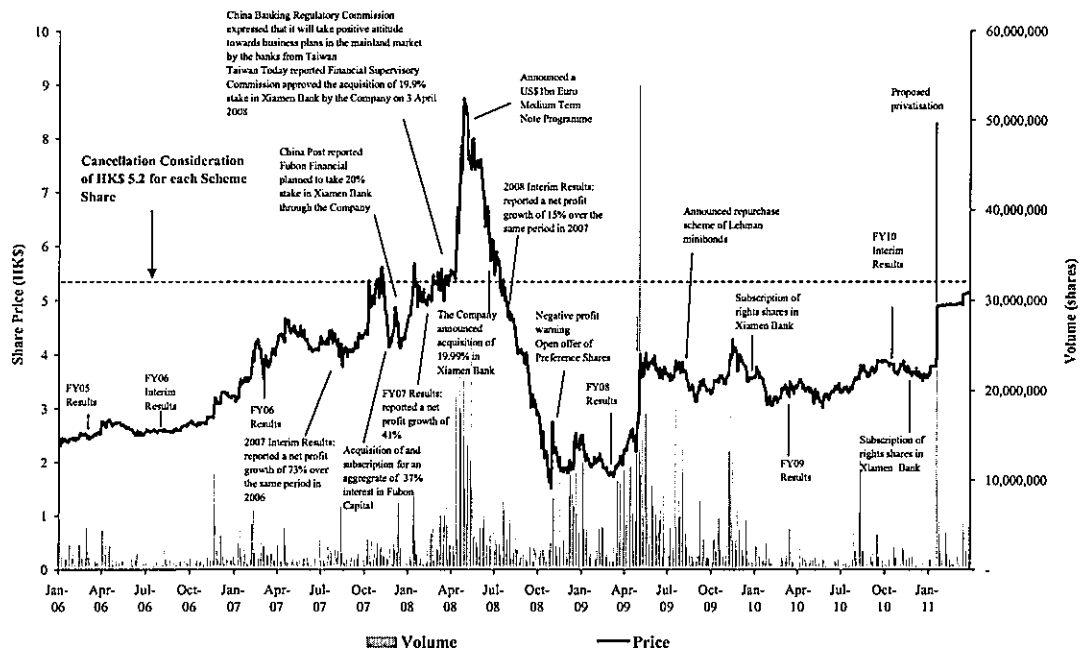
3. Scheme Proposal

3.1 Historical Market Price of the Shares

In accessing the fairness and reasonableness of the Cancellation Consideration, we have (i) reviewed the historical share price of the Company; (ii) computed the premium represented by the Cancellation Consideration to the Company's historical share price performance; and (iii) compared the historical share price of the Company to the Hang Seng Financial Index and the Hang Seng Index.

Market price of the Shares

The following chart sets out the historical daily closing prices and trading volumes of the Shares traded on the Hong Kong Stock Exchange from 1 January 2006 to the Latest Practicable Date (the "Review Period"):



Source: Bloomberg, Company announcement, news publication

As set out in the chart above, the daily closing price of the Shares during the Review Period was consistently below the Cancellation Consideration of HK\$5.20 per Scheme Share except during the last quarter in 2007 and first seven months of 2008. We have indicated in the chart above certain announcements and news published during the Review Period. As indicated in the above chart, we note that during the first half in 2008, there was various market news regarding the potential acquisition of equity interest in Xiamen City Commercial Bank by the Company. From 1 January 2006 up to and including 11 October 2007, the closing price of the Shares remained below HK\$5.20. Closing price of the Shares reached HK\$5.359 on 12 October 2007. During 1 January 2006 up to and including 11 October 2007, closing price of the Shares ranged from HK\$2.324 to

HK\$4.717 and the Cancellation Consideration represented a premium which ranges from 10.2% to 123.8% of the close price of the Shares. The closing price reached its highest of HK\$8.745 on 28 April 2008, represented a premium of 68.2% to the Cancellation Consideration. During the period from 12 October 2007 up to 27 April 2008, the closing price of Shares ranged from HK\$4.121 to HK\$7.861 and the Cancellation Consideration represented a premium from 26.2% to a discount of 33.9% to the close price of the Shares. Closing price of the Shares declined to the lowest of HK\$1.519 on 31 October 2008 and the Cancellation Consideration represented a premium of 242.3% to the closing price of the Shares. Since 31 October 2008, the closing price remained below HK\$5.20. From 1 November 2008 up to and including the Latest Practicable Date, the Cancellation Consideration represented a premium which ranges from 0.8% to 201.4% of the close price of the Shares.

Premium of the Cancellation Consideration to the historical market price of the Shares

The table below states the closing price of the Shares as at 1 April 2011, being the Latest Practicable Date, as at 7 January 2011, being the Last Trading Day on which the Shares were traded prior to the publication of the Announcement, and the average closing price for the 30, 60, 90 and 180 trading day up to and including the Last Trading Day and the premium which the Cancellation Consideration represents over such closing prices:

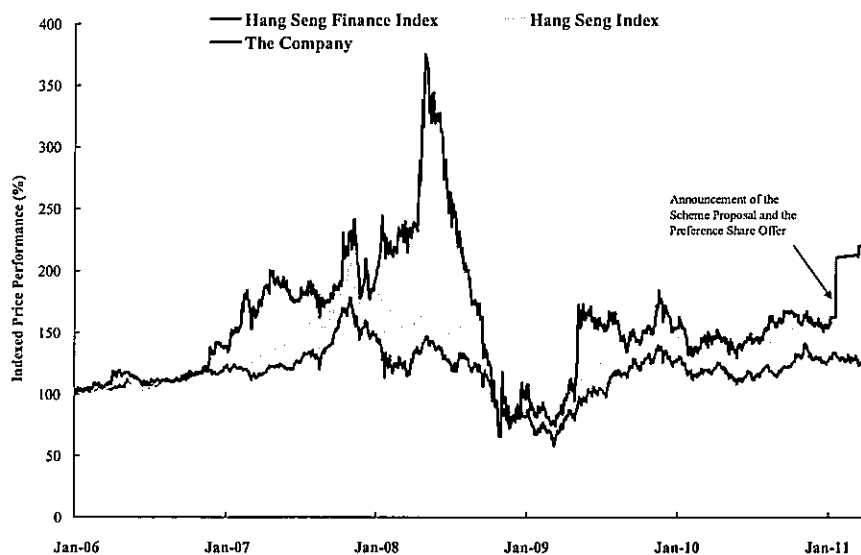
	Closing price/ Average closing price (HK\$)	Approximate premium of the Cancellation Consideration to the closing price/average closing price (%)
1 April 2011 – Latest Practicable Date	5.15	1.0%
Last Trading day	3.78	37.6%
30 trading days up to and including the Last Trading Day	3.63	43.3%
60 trading days up to and including the Last Trading Day	3.69	40.9%
90 trading days up to and including the Last Trading Day	3.73	39.4%
180 trading days up to and including the Last Trading Day	3.55	46.3%

As shown in the table above, the premiums represented by the Cancellation Consideration to the closing price as at the Last Trading Day and the average closing price for the respective periods prior to and including the Last Trading Day range from approximately 37.6% to approximately 46.3%.

Following the release of the Announcement on 19 January 2011, the trading price increased and has remained at a higher level up to the Latest Practicable Date. The closing price of the Shares increased by 29.1% to HK\$4.88 on 20 January 2011. From 20 January 2011 to the Latest Practicable Date, the closing prices of the Shares were within the range of HK\$4.88 to HK\$5.16. However, the Minority Shareholders should note that the past trading performance of the Shares should not in any way be relied upon as an indication of its future trading performance. Further, there is no assurance that the trading price of the Shares will remain at current levels if the Scheme of Arrangement does not proceed to completion and the trading price of the Shares may revert to its historical trading range before the Announcement, which may be below the Cancellation Consideration.

Rebased historical share price performance of the Company, Hang Seng Financial Index and Hang Seng Index

The following chart sets out the rebased historical closing price of the Shares, Hang Seng Financial Index and Hang Seng Index during the Review Period.



Source: Bloomberg

As set out in the chart above, except for the first half in 2008, the price performance of the Shares during the Review Period was generally in line with the performance of Hang Seng Financial Index and the Hang Seng Index. At the Cancellation Consideration, the implied increase in Share price from 1 January 2006 up to the Last Trading Date is 123.8% as compared to the Hang Seng Finance Index of 30.2% and the Hang Seng Index of 59.2% during the same period and the implied increase in Share price from 1 January 2009 to the Last Trading Date is 112.2% as compared to the Hang Seng Finance Index of 58.9% and the Hang Seng Index of 64.6% during the same period.

3.2. Comparable Companies Trading and Operating Analysis

We have calculated the Price/Earnings (“P/E”) and Price/Book Value (“P/BV”) ratios for commercial banks that we consider to be comparable (the “Comparable Companies”) to the Company, based on (i) closing share price of each of these Comparable Companies as quoted on the Hong Kong Stock Exchange as at the Latest Practicable Date; (ii) the latest published annual earnings; and (iii) the latest published book value. We have identified and chosen all the commercial banks that are listed on the Hong Kong Stock Exchange and have operation mainly in and derived majority of their revenue from Hong Kong. We have also considered the P/BV ratio of the Company based on the closing Share price as at the Latest Practicable Date, and as implied by the Cancellation Consideration, and based on the latest published book value of the Company. The result of our calculation is set out in the table below.

Bank	Market Data		Net	Book	Market Value		Operating	
	Price	Market	Income	Value	P/E ¹	P/BV ²	ROAE ³	ROAA ⁴
	(HK\$)	Capitalisation (HK\$m)	2010 (HK\$m)	2010 (HK\$m)	2010 (x)	2010 (x)	2010 (%)	2010 (%)
Bank of East Asia	32.90	67,281	4,224	44,243	15.93x	1.52x	10.61%	0.87%
Hang Seng Bank	124.40	237,833	14,917	70,012	15.94x	3.40x	22.57%	1.71%
Bank of China Hong Kong	25.05	264,848	16,196	115,181	16.35x	2.30x	14.77%	1.13%
Wing Hang Bank	91.10	26,901	1,626	14,279	16.54x	1.88x	12.14%	1.06%
Dah Sing Banking Group	12.06	14,749	1,074	14,528	13.73x	1.09x	8.84%	0.88%
Chong Hing Bank	20.05	8,722	476	6,578	18.32x	1.33x	7.47%	0.66%
Public Financial Holdings	4.85	5,325	450	6,065	11.82x	0.88x	7.57%	1.13%
Maximum					18.32x	3.40x	22.57%	1.71%
Minimum					11.82x	0.88x	7.47%	0.66%
Median					15.94x	1.52x	10.61%	1.06%
Average					15.52x	1.77x	12.00%	1.06%
The Company ^{5, 6, 7} (at Cancellation Consideration)	5.20	6,095	183	4,167	33.29x	1.46x	4.48%	0.30%
The Company ^{5, 6, 7} (price as at the Latest Practicable Date)	5.15	6,037	183	4,167	32.97x	1.45x	4.48%	0.30%

Source: Published audited financial statements, Bloomberg

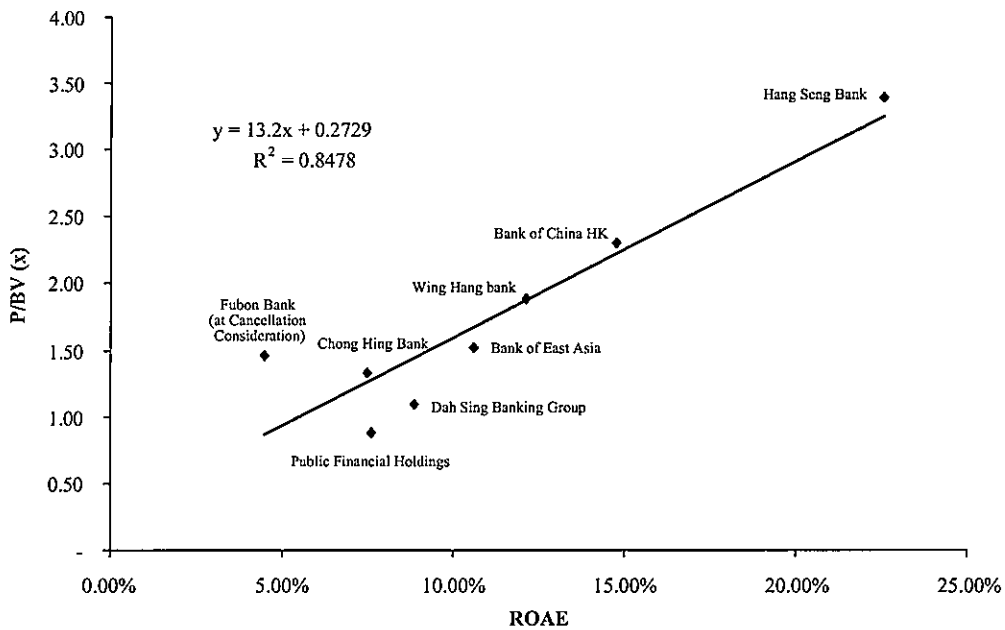
Note:

1. P/E is calculated based upon (i) the closing share price of each of the Comparable Companies as quoted on the Hong Kong Stock Exchange as at the Latest Practicable Date; and (ii) the earnings of the Comparable Company as extracted from the latest published audited annual financial statements.
2. P/BV is calculated based upon (i) the closing share price of each of the Comparable Companies as quoted on the Hong Kong Stock Exchange as at the Latest Practicable Date; and (ii) the book value of the Comparable Company as extracted from the latest published audited annual financial statements.
3. ROAE is calculated based upon (i) the profit attributable to equity holders; and (ii) the average total equity at the beginning and end of the year, as extracted from the latest published audited annual financial statements.
4. ROAA is calculated based upon (i) the profit attributable to equity holders; and (ii) the average total assets at the beginning and end of the year, as extracted from the latest published audited annual financial statements.
5. P/E of the Company is calculated based upon (i) the closing price of the Shares as at the Latest Practicable Date or Cancellation Consideration, where applicable; ; and (ii) the earnings of the Company less dividend on Preference Shares of approximately HK\$83.9 million as extracted from the latest published audited annual financial statements.
6. P/BV of the Company is calculated based upon (i) the closing price of the Shares as at the Latest Practicable Date or the Cancellation Consideration, where applicable; and (ii) the book value of the Company less Preference Shares capital as extracted from the latest published audited annual financial statements.
7. ROAE and ROAA of the Company are calculated based upon (i) the profit attributable to ordinary shareholders for the year ended 31 December 2010 after deducting the dividend for Preference Shares of approximately HK\$83.9 million; and (ii) the average total equity less Preference Shares capital/average total assets (where appropriate) at the beginning and end of the year, as extracted from the latest published audited annual financial statements.

As shown in the table above, the P/E ratio of the Company implied by the Cancellation Consideration are the highest among the Comparable Companies, which suggest that, insofar as the P/E ratio is concerned, the Cancellation Consideration appears attractive as compared to the share price of the Comparable Companies relative to their respective earnings, and P/BV ratio of the Company implied by the Cancellation Consideration are within the range of P/BV ratio of the Comparable Companies. When compare with the median and average P/E ratios of the Comparable Companies, we note that the P/E ratio of the Company implied by the Cancellation Consideration is 17.35x and 17.77x higher than the median and average P/E ratios, respectively, of the Comparable Companies but the P/BV ratio of the Company implied by the Cancellation Consideration is 0.06x and 0.31x lower than the median and average P/BV ratios, respectively, of the Comparable Companies.

In order to assess whether a lower than median and average P/BV ratios is justifiable, we have further looked at the current profitability of the Company and the Comparable Companies and the relationship between the Return on Average Equity (“ROAE”) ratio and P/BV ratio. As stated in the chart above, we note that the ROAE ratio and the Return on Average Assets (“ROAA”) ratio of the Company are the lowest among the Comparable Companies which imply the Company is relatively less efficient

in generating profit as compared to the Comparable Companies. We then compare the ROAE ratios and P/BV ratios of the Comparable Companies and the Company using a regression analysis. The graph below illustrates a strong correlation between the P/BV ratios and ROAE ratios of the Comparable Companies and the Company, which indicate a lower ROAE ratio would statistically correspond to a lower P/BV. The chart below also shows that the P/BV ratio of the Company, implied by the Cancellation Consideration, is at a premium to (i.e. above) the regression line, taking into account its ROAE level. Based on the above, taking into account that the Company is less efficient in generating profit as compared to the Comparable Companies, i.e. lower ROAE ratio and ROAA ratio, we consider that a lower P/BV ratio as implied by the Cancellation Consideration is justifiable.



3.3. Comparison with Privatisation Precedents in Hong Kong

As identified from the information publicly available on the Hong Kong Stock Exchange website, set out in the table below are all the privatisation proposals that (i) involve companies listed on the Hong Kong Stock Exchange; (ii) were announced since 1 January 2008 and up to the Latest Practicable Date; and (iii) have been successfully completed (the “Privatisation Precedents”). The table illustrates the range of premiums/discounts to the then prevailing market prices prior to the announcement of the privatisation over the periods indicated.

Date of initial announcement	Company	offer/cancellation price	Premium/(discount) of offer/cancellation price over/(to) the average share price prior to announcement of privatisation				Principal business of targets	Transaction background ¹
			Last trading day	30 trading days	90 trading days	180 trading days		
28-Feb-08	Mirabell International Holdings Limited (1179)	6.00	15.2%	17.7%	15.0%	36.8%	Retail, wholesale and manufacturing of footwear	b
02-Jun-08	Wing Lung Bank Limited (96)	156.50	6.2%	9.7%	35.8%	58.0%	Banking and financial services	c
02-Jun-08	China Netcom Group Cooperation (Hong Kong) Limited (906)	27.87	3.0%	17.3%	18.3%	22.2%	Telecommunication	a
10-Jun-08	CITIC International Financial Holdings Limited (183)	7.60	33.3%	46.1%	71.3%	51.1%	Banking and financial services	a
03-Dec-08	GST Holdings Limited (416)	3.38	77.9%	93.5%	52.5%	43.9%	Development, manufacturing, sale and installation of intelligent fire detection and control systems, automatic and intelligent security systems for residential, commercial and industrial uses	b
22-Dec-08	Shaw Brothers (Hong Kong) Limited (80)	13.35	64.2%	69.9%	19.6%	-13.4%	Investment holding and making investments in media and entertainment industries	a
12-Mar-09	Delta Networks, Inc. (722)	2.20	43.8%	80.3%	96.4%	32.7%	Design and manufacturing of a wide range of networking products, such as switches, broad bands access products, wireless adaptors and routers	a
19-May-09	Nam Tai Electronic & Electrical Products Limited (2633)	1.52	2.0%	6.3%	68.2%	60.4%	Consumer electric and communication products, telecommunication component assembly and LCD products	b

Date of initial announcement	Company	offer/cancellation price	Premium/(discount) of offer/cancellation price over/(to) the average share price prior to announcement of privatisation				Principal business of targets	Transaction background ¹
			Last trading day	30 trading days	90 trading days	180 trading days		
22-May-09	The Ming An (Holdings) Company Limited (1389)	1.30	44.4%	55.1%	60.8%	64.1%	Property and casualty insurance companies in Hong Kong and the PRC	a
25-May-09	Stone Group Holdings Limited (409)	0.48	39.1%	48.1%	69.5%	68.9%	Distribution of a range of healthcare products and the manufacture, distribution and selling of electronic and electrical products, office equipment and the operation of an internet cafe chain in the PRC	a
08-Jan-10	Hutchison Telecommunications International Limited (2332)	2.20	36.6%	38.5%	37.2%	32.4%	Telecommunication	a
27-Apr-10	Wheelock Properties Limited (49)	13.00	143.9%	162.3%	162.2%	155.2%	Real estate development	a
19-May-10	Denway Motors Limited (203)	5.42	18.9%	27.4%	21.5%	28.5%	Manufacturing, assembly and trading of motor vehicles and the manufacturing and trading of automotive equipment and parts of the PRC	a
13-Aug-10	Integrated Distribution Services Group Limited (2387)	21.00	36.2%	45.1%	51.1%	60.7%	Provision of logistics services, and distribution of fast moving consumer goods and healthcare products and manufacturing	a
10-Aug-10	ICBC Asia (349)	29.45	27.8%	41.2%	48.7%	59.1%	Banking and financial services	a
Maximum			143.9%	162.3%	162.2%	155.2%		
Minimum			2.0%	6.3%	5.0%	-13.4%		
Median			36.2%	45.1%	51.1%	51.1%		
Average			43.0%	54.0%	58.7%	53.0%		
Adjusted Average ²			32.0%	42.6%	47.6%	43.2%		
10-Jan-11	The Company (636)	5.20	37.6%	43.3%	39.4%	46.3%		a

Source: Announcements and scheme documents dispatched by the relevant companies, Bloomberg

Notes:

1. a means “scheme of arrangement”; b means “voluntary conditional offer” and c means “unconditional mandatory offer”.
2. The adjusted average is calculated after excluding the privatisation of Wheelock Properties Limited as an outlier as the cancellation price represented significant premiums to the market closing prices over the average of the premiums of the other Privatisation Precedents.

As set out in the table above, the premiums represented by the Cancellation Consideration, being approximately 37.6%, 43.3%, 39.4% and 46.3% for the Last Trading Day and for the periods of 30, 90 and 180 trading days up to and including the Last Trading Day respectively, are within the range of premiums observed from the Privatisation Precedents.

When compared to the adjusted average price premiums for the Privatisation Precedents, the premium represented by the Cancellation Consideration over the Share’s closing price is 5.6%, 0.7% and 3.1% higher than the adjusted average price premium for the Last Trading Day, for the period of 30 trading days and 180 trading days up to and including the Last Trading Date, but is slightly lower than the adjusted average price premium for the periods of 90 trading days up to and including the Last Trading Date by approximately 8.2%. It should be noted that the Privatisation Precedents were conducted under various market conditions and the companies involved are engaged in a variety of industry sectors. Accordingly, the premiums of offer/cancellation price of the Privatisation Precedents may be affected by factors different from those applying to the Scheme Proposal. As such, we consider that the above comparison table can only provide a general reference of the offer prices of the general offers involving general offers and privatisation proposals announced previously but should not be used in isolation in determining the fairness and reasonableness of the Cancellation Consideration.

3.4 Precedent Transactions in the Banking Sector

We have also reviewed a number of acquisition transactions since 2006 involving commercial banks that operate in Hong Kong where the target companies were listed on the Hong Kong Stock Exchange at the time of the acquisition (“Comparable Bank Transactions”). The following table sets out our findings:

Announcement Date	Acquirer	Target	% of Shares Acquired	Transaction Value (HK\$ <i>m</i>)	P/BV ¹ (x)	P/E ² (x)	ROAE ³ (%)	ROAA ⁴ (%)
11/23/2006	BBVA	CITIC International Financial Holdings	14.6	4,872	3.53x	30.30x	12.40%	1.30%
08/24/2007	COSCO (HK)	Chong Hing Bank	20.0	2,088	1.73x	20.70x	8.46%	0.89%
11/19/2007	Bank of China (HK)	Bank of East Asia	4.9	3,952	2.89x	23.30x	13.30%	1.29%
12/27/2007	ICBC	ICBC Asia	8.2	1,905	2.09x	18.60x	0.90%	1.00%
03/25/2008	Bank of Tokyo-Mitsubishi UFJ	Dah Sing Financial	3.3	472	1.13x	13.27x	10.20%	0.90%
06/02/2008	China Merchants Bank	Wing Lung Bank	100.0	36,338	2.91x	26.48x	11.50%	1.50%
06/10/2008	CITIC Group Ltd and BBVA ⁵	CITIC International Financial Holdings	30.3	13,272	1.66x	23.13x	7.40%	1.60%
06/11/2009	Criteria CaixaCorp SA	Bank of East Asia	5.2	3,698	2.20x	1,530.00x	0.12%	0.01%
08/13/2009	Dah Sing Financial	Dah Sing Banking	11.2	1,000	1.09x	40.00x	2.17%	0.17%
08/10/2010	ICBC	ICBC Asia	27.2	10,829	2.14x	15.10x	16.10%	1.20%
Maximum					3.53x	1,530.00x	16.10%	1.60%
Minimum					1.09x	13.27x	0.12%	0.01%
Median					2.12x	23.21x	9.33%	1.10%
Average					2.14x	174.09x	8.26%	0.99%
Adjusted average ⁶					2.13x	23.43x	9.16%	1.09%
01/10/2011	Fubon Financial	The Company ^{7, 8, 9}	25.0	1,524	1.46x	33.29x	4.48%	0.30%

Source: Published audited financial statements, announcements and scheme documents dispatched by the relevant companies, Bloomberg

Note:

1. P/BV is calculated based upon (i) the consideration paid to acquire the relevant equity interests in the respective acquisition target; and (ii) the book value of the respective acquisition target as extracted from the latest published audited annual financial statements prior to the acquisition.

2. P/E is calculated based upon (i) the consideration paid to acquire the relevant equity interests in the respective acquisition target; and (ii) the earnings of the respective acquisition target as extracted from the published audited annual financial statements prior to the acquisition.
3. ROAE is calculated based upon (i) the profit attributable to equity holders of the respectively target; and (ii) the average total equity at the beginning and end of the year, as extracted from the latest published audited annual financial statements of the respectively target prior the acquisition.
4. ROAA is calculated based upon (i) the profit attributable to equity holders of the respectively target; and (ii) the average total assets at the beginning and end of the year, as extracted from the latest published audited annual financial statements of the respectively target prior to the acquisition.
5. The transaction in relation to CITIC International Financial Holdings Limited (“CIFH”) comprised two transactions where after acquisition of an additional 30.34% interest in and privatisation of CIFH, CITIC Group transferred 15.16% of CIFH to BBVA.
6. The adjusted average is calculated after excluding the acquisition of Bank of East Asia by Criteria CaixaCorp SA. The earnings of Bank of East Asia during 2008 was substantially lower than 2007. According to the 2008 annual report of Bank of East Asia, mainly due to a decrease in the bank’s non-interest income by HK\$3,173 million as a result of a decrease in net trading profits and disposing of or writing down to zero value its entire collateralised debt obligation portfolio, the profit after taxation of Bank of East Asia decreased substantially to approximately HK\$104 million as compared to approximately HK\$4.2 billion in 2007. In particular, it incurred a net loss on securities, foreign currencies and other trading activities of approximately HK\$1.3 billion in 2008 as compared to a profit generated from these activities of approximately HK\$1.4 billion in 2007. As a result of substantially lower earnings, the P/E ratio is at 1,530x which we considered as an outlier.
7. P/BV of the Company is calculated based upon (i) the total consideration pursuant to the Scheme Proposal; and (ii) the book value of the Company less Preference Shares capital as extracted from the latest published audited annual financial statements.
8. P/E of the Company is calculated based upon (i) the total consideration pursuant to the Scheme Proposal; and (ii) the earnings of the Company less dividend on Preference Shares of approximately HK\$83.9 million as extracted from the published audited annual financial statements.
9. ROAE and ROAA of the Company are calculated based upon (i) the profit attributable to ordinary shareholders for the year ended 31 December 2010 after deducting the dividend on Preference Shares of approximately HK\$83.9 million; and (ii) the average total equity less Preference Shares capital/average total assets (where appropriate) at the beginning and end of the year, as extracted from the latest published audited annual financial statements.

As shown in the table above, the P/E ratio of the Company implied by the Cancellation Consideration is the highest among the Comparable Bank Transactions (except for acquisition of Bank of East Asia by Criteria CaixaCorp SA which we considered as an outlier with reason stated in note 6 of the table above) and is 10.08x and 9.86x higher than the median and adjusted average P/E ratios of the Comparable Bank Transactions. The P/BV ratio implied by the Cancellation Consideration is within the range of P/BV ratios of the Comparable Bank Transactions but is 0.66x and 0.68x lower than the median and average P/BV ratios of the Comparable Bank Transactions, respectively. We further compare the P/BV ratios to the ROAE ratios and ROAA ratios of the Company and the targets of the Comparable Bank Transactions. We note that the ROAE ratio and ROAA ratio of the Company of 4.48% and 0.30% are substantially lower than the median and average ROAE ratio and ROAA ratio of the Comparable

Bank Transactions of 9.33% and 8.26%, and 1.10% and 0.99%, respectively, which imply the Company is relevantly less efficient in generating profit as compared to the Comparable Bank Transactions. Based on the above, taking into account that the Company is less efficient in generating profit (i.e. a lower ROAE ratio and ROAA ratio) as compared to the targets of the Comparable Bank Transactions, we consider that a lower P/BV ratio as implied by the Cancellation Consideration is justifiable.

4. Analysis of Consideration of the Preference Share Offer

Subject to and conditional upon the Scheme of Arrangement becoming effective, the Preference Share Offer will be made on the basis of a cash price per Preference Share in US dollars which equals the sum of (i) US\$0.10237, being the par value of each Preference Share, (ii) an amount representing the accrued but unpaid dividend calculated at the fixed rate of 9% per annum as provided for in the Articles for the period from 15 December 2010 to and including the Effective Date, and (iii) an amount representing the future dividend calculated at the fixed rate of 9% per annum as provided for in the Articles for the period from the Effective Date to and including 24 December 2013, such future dividend to be discounted by applying a discount rate of 6% per annum, with the discount calculated with reference to the dividend payment schedule provided for in the Articles. Assuming that (i) the Scheme of Arrangement becomes effective on 8 June 2011; and (ii) save for the cumulative preferential dividend at the fixed rate of 9% per annum for the period from 15 December 2010 to 14 June 2011 as provided for in the Articles that will be paid to the holders of Preference Shares on or before 15 June 2011 and in any event before the Closing Date, no other dividend has been or will be paid to the Preference Shareholders from 16 December 2010 to the Closing Date, the offer price per Preference Share will be US\$0.123793.

As the Preference Shares are not listed on any stock exchange, there is no market value for the Preference Shares to compare against the offer price under the Preference Share Offer.

As stated in the "Letter from UBS" included in the Scheme Document, if the Scheme of Arrangement becomes effective, the Offeror intends to seek the prior consent of the HKMA and conditional upon the Company being able to redeem the Preference Shares and remain solvent immediately thereafter, the Offeror intends to procure the Company to redeem the Preference Shares on or shortly after 24 December 2013. If the Scheme Proposal does not proceed, the Offeror has no intention to procure the Company to redeem the Preference Shares on or shortly after 24 December 2013.

We have reviewed a number of instruments (the "Comparable Instruments") issued by commercial banks that have operation mainly in Hong Kong and compared the yield to call to the discount rate of 6% applied by the Offeror to discount the further dividend to be paid to the Preference Shareholders. Yield to call is the rate of return that an investor would earn if the bond or note is held until the call date. It represents the discount rate which equates the discounted value of an instrument's future cash flows to its current market price on the basis that the instrument is called on the call date.

Issuer	Issue Date	Call Date	Coupon	Yield to Call	Trading Price as at the Last Trading Date
CITIC Ka Wah Bank	May-02	May-12	9.125%	4.21%	106.2500
Dah Sing Bank	Feb-07	Feb-17	6.253%	7.21%	95.3750
Bank of East Asia	Mar-07	Mar-12	6.125%	7.60%	98.3808
Wing Hang Bank	Apr-07	Apr-17	6.000%	6.40%	97.9583
Wing Hang Bank	Sep-08	Sep-13	9.375%	4.60%	111.8500
				Median	6.40%
				Average	6.00%

Source: Dealogic, Bloomberg

We note from the table above, that the yield to call of Comparable Instruments ranges from 4.21% to 7.60%. Yield to call of financial instrument differs depending on credit profile, call date, coupon, and listing status. The Preference Shares are not listed on any stock exchange whereas the Comparable Instruments are listed. All other factors being equal, a higher rate of return is usually required for financial instrument which has no established market as compared to financial instrument which is readily marketable. A high rate of return would result in a lower valuation of non-marketable financial instrument. When comparing to the yield to call of Comparable Instruments, we note that the discount rate of 6% to be applied to discount the future dividend to be paid to the Preference Shares, is within the range of the yield to call of the Comparable Instruments and is comparable to the median and average yield to call of the Comparable Instruments of 6.40% and 6.00%, respectively.

Further, we note that as stated in the "Letter from the Board" included in the Scheme Document, the offer price per Preference Share of US\$0.123793 represents a premium of approximately 20.9% over the par value of US\$0.10237 each of the Preference Share, which takes into account an estimated present value of the dividend to be paid to the Preference Share holders up to and including 24 December 2013.

5. Reasons for the Scheme Proposal and the Preference Share Offer

As stated in the "Explanatory Statement" included in the Scheme Document, the Scheme Proposal will facilitate business integration between Fubon Financial and Fubon Bank and will provide Fubon Financial with greater flexibility to support the future business development of Fubon Bank. The privatisation of Fubon Bank will simplify the shareholding structure of Fubon Bank. Upon completion of the Scheme Proposal, the listing of the Shares will be withdrawn from the Hong Kong Stock Exchange and thus the Company would no longer need to bear listing-related costs and expenses.

As further stated in the “Explanatory Statement” included in the Scheme Document, Fubon Financial believes that the Cancellation Consideration represents a premium to the market price and provides an opportunity for the Scheme Shareholders to realise their investments immediately. Further, as stated in the “Letter from UBS” included in the Scheme Document, the Preference Share Offer provides an opportunity to the Preference Shareholders to exit Fubon Bank and have their investments realised immediately should they so wish, instead of waiting for Fubon Bank to redeem the Preference Shares at its discretion (subject to the prior consent of the HKMA) and by December 2013 at the earliest.

Please also refer to the “Letter from UBS” and “Explanatory Statement” contained in the Scheme Document for further details regarding the reasons for the proposals.

6. Funding of the Scheme Proposal and the Preference Share Offer

The total consideration payable by the Offeror under the Scheme Proposal will be approximately HK\$1,523.8 million.

Assuming that (i) the Scheme of Arrangement becomes effective on 8 June 2011; (ii) all Preference Shareholders accept the Preference Share Offer; and (iii) save for the cumulative preference dividend at the fixed rate of 9% per annum for the period from 15 December 2010 to 14 June 2011 as provided for in the Articles that will be paid to the Preference Shareholders on or before 15 June 2011 and in any event before the Closing Date, no other dividend has been or will be paid to the Preference Shareholders from 16 December 2010 to the Closing Date, the total cash consideration payable under the Preference Share Offer will be approximately US\$4.8 million (equivalent to approximately HK\$37.3 million).

As stated in the “Letter from the Board” in the Scheme Document, the consideration payable under the Scheme Proposal and the Preference Share Offer will be funded from the internal resources of and existing credit facility available to the Offeror. Further, as at the Latest Practicable Date, UBS AG, Hong Kong Branch, the financial adviser to the Offeror, is satisfied that sufficient financial resources are available to the Offeror to implement the Scheme Proposal and the Preference Share Offer in accordance with their terms.

7. Other Considerations

As stated in the “Explanatory Statement” in the Scheme Document, after the successful privatisation of the Company, the Offeror intends to continue the development of the existing business of Fubon Bank in banking and financial services in Hong Kong. It is also the intention of Fubon Financial to develop a better business integration between Fubon Financial and Fubon Bank so as to achieve an efficient allocation of resources and business development.

We are further advised by the Directors that there will be no material impact on the Company’s operation if the Scheme of Arrangement does not become effective. In particular, even if the Scheme Proposal is not to proceed, the Offeror has advised that it has no intention of disposing any of its shareholdings in the Company. The Director has also confirmed to us that, save for the Scheme Proposal, they have not received any other offer

concerning the Shares starting from 8 September 2003¹ up to the Latest Practicable date, nor are they aware of any potential offer that may be made in the future. We are further advised by the Offeror that they have not received any offer to acquire all or part of its equity interest in the Company since the closing of the above-mentioned offer up to the Latest Practicable date.

CONCLUSION AND OPINION

In reaching our opinion (on the bases set out at the beginning of this letter), we have considered the above principal factors and reasons and, in particular, have taken into account the following in arriving at our opinion:

- The Cancellation Consideration represents a premium of 37.6%, 43.3%, 40.9%, 39.4% and 46.3%, respectively, over the closing price of the Shares as at the Last Trading Day and the average closing prices for 30, 60, 90 and 180 trading days up to and including the Last Trading Day;
- The historical share performance of the Company was generally in line with the trading performance of the Hang Seng Financial Index and the Hang Seng Index, and at the Cancellation Consideration, the implied increase in Share price from 1 January 2006 up to the Last Trading Date is 123.8%, which is higher as compared to the Hang Seng Financial Index of 30.2% and the Hang Seng Index of 59.2% and the implied increase in Share price from 1 January 2009 to the Last Trading Date is 112.2% as compared to the Hang Seng Finance Index of 58.9% and the Hang Seng Index of 64.6% during the same period;
- The P/E ratio of the Company implied by the Cancellation Consideration is the highest among the Comparable Companies, which suggest that, insofar as the P/E ratio is concerned, the Cancellation Consideration appears attractive to the share price of Comparable Companies relative to its respective earnings, and is above the median and average P/E ratios of the Comparable Companies as at the Latest Practicable Date;
- The P/BV ratio implied by the Cancellation Consideration is within the range of P/BV ratios and is 0.06x and 0.31x lower than the median and average P/BV ratios of the Comparable Companies as at the Latest Practicable Date, which is considered justifiable taking into account the low ROAE ratio and ROAA ratio of the Company as compared to the Comparable Companies which imply that the Company is relatively less efficient in generating profit as compared to the Comparable Companies;
- When comparing the Cancellation Consideration to the closing price of the Shares as at the Last Trading Day and the average closing prices of the Shares over the last 30, 90 and 180 trading days, up to and including the Last Trading Day, the

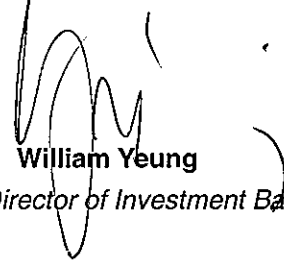
¹ On 8 September 2003, an announcement was made in relation to the voluntary conditional offer to be made by Fubon Financial to acquire the shares of International Bank of Asia Limited (the predecessor company of the Company). Fubon Financial became the controlling shareholder of the Company upon completion of the offer in March 2004.

premiums represented by the Cancellation Consideration are within the range of those corresponding premiums observed from the Privatisation Precedents and, saved for the small differences in relation to the adjusted average premiums of the Privatisation Precedents over the indicated periods, are generally in line with the corresponding adjusted average premiums of the privatisation Precedents;

- The P/E ratio of the Company implied by the Cancellation Consideration is the highest among the Comparable Bank Transactions (except for acquisition of Bank of East Asia by Criteria CaixaCorp SA which we considered as an outlier with reason stated in note 6 of the table in section 3.4 of this letter) and is above the median and adjusted average P/E ratios of the Comparable Banking Transactions;
- The P/B ratio of the Company implied by the Cancellation Consideration is within the range of P/BV ratio of the Comparable Banking Transactions and is 0.66x and 0.68x lower than the median and average P/BV ratios of the Comparable Banking Transactions, which is considered justifiable taking into account the low ROAE ratio and ROAA ratio of the Company as compared to the targets of the Comparable Bank Transactions which imply the Company is relatively less efficient in generating profit as compared to the Comparable Bank Transactions; and
- The discount rate applied by the Offeror pursuant to the Preference Share Offer is within the range of the yield to call of the Comparable Instruments and is comparable to the median and average yield to call of the Comparable Instruments.

Having considered the above, we are of the opinion that the terms and conditions of the Scheme Proposal, in particular the Cancellation Consideration, are fair and reasonable so far as the Minority Shareholders are concerned and the terms and conditions of the Preference Share Offer are fair and reasonable so far as the Preference Shareholders are concerned. Our conclusion is based on the results of all the analyses taken as a whole. Accordingly, we advise the Independent Board Committee to (i) recommend to the Minority Shareholders to vote in favor of the resolution to approve the Scheme of Arrangement at the Court Meeting and to vote in favour of the special resolution to approve and give effect to the Scheme of Arrangement at the Extraordinary General Meeting to be convened on 29 April 2011; and (ii) recommend to the Preference Shareholders to accept the Preference Share Offer.

Yours faithfully,
For and on behalf of
CLSA Equity Capital Markets Limited



William Yeung
Managing Director of Investment Banking