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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

If you have sold all your shares in **China Merchants Bank Co., Ltd.**, you should hand this circular together with the forms of proxy and reply slips (which have been sent to Shareholders separately) to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities mentioned herein.

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**招商銀行股份有限公司**  
**CHINA MERCHANTS BANK CO., LTD.**

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 03968)**

- (1) PROPOSED EMPLOYEE STOCK OWNERSHIP SCHEME  
(INCLUDING THE CONNECTED ISSUE)**
- (2) PROPOSED TERMINATION OF H-SHARE APPRECIATION RIGHTS SCHEME**
- (3) EXTENSION OF THE VALIDITY PERIOD FOR THE ISSUANCE OF FINANCIAL BONDS  
AND**
- (4) GENERAL MANDATE TO ISSUE NEW SHARES AND/OR DEAL WITH SHARE OPTIONS**

**Independent Financial Advisor  
to the Independent Board Committee and Independent Shareholders**

**ALTUS CAPITAL LIMITED**

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A letter from the Board is set out on pages 7 to 30 of this circular. A letter from the Independent Board Committee of China Merchants Bank Co., Ltd. is set out on pages 31 to 32 of this circular. A letter from the Independent Financial Advisor containing its advice to the Independent Board Committee and the Independent Shareholders of China Merchants Bank Co., Ltd. is set out on pages 33 to 45 of this circular.

A notice convening the AGM and the H Shareholders Class Meeting to be held at the Conference Room, 5/F, China Merchants Bank Tower, No. 7088 Shennan Boulevard, Shenzhen, the PRC, at 9:30 a.m. on Friday, 19 June 2015 together with the proxy forms for use at the AGM and the H Shareholders Class Meeting have been sent to Shareholders separately.

Whether or not you are able to attend the AGM and/or the H Shareholders Class Meeting, you are requested to complete the proxy forms in accordance with the instructions printed thereon and return the same to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event by not later than 24 hours before the time appointed for holding such meetings or any adjournment thereof.

Completion and return of the proxy forms shall not preclude you from attending and voting in person at the AGM and the H Shareholders Class Meeting, respectively, or any adjournment thereof should you so wish.

20 May 2015

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## CONTENTS

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	<i>Page</i>
<b>DEFINITIONS</b> .....	1
 <b>LETTER FROM THE BOARD OF DIRECTORS</b>	
1. Introduction .....	8
2. Matters Relating to the Proposed Employee Stock Ownership Scheme ...	8
3. Proposed Termination of H-Share Appreciation Rights Scheme .....	25
4. Extension of the Validity Period for the Issuance of Financial Bonds ....	26
5. General Mandate to Issue New Shares and/or Deal with Share Options...	26
6. AGM and H Shareholders Class Meeting .....	28
7. Closure of Register of Members .....	29
8. Responsibility Statement .....	30
9. Recommendation .....	30
10. Additional Information .....	30
 <b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE</b> .....	 31
 <b>LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR</b> .....	 33
 <b>APPENDIX I – 2015 FIRST PHASE EMPLOYEE STOCK OWNERSHIP SCHEME (DRAFT) OF CHINA MERCHANTS BANK CO., LTD. (BY WAY OF SUBSCRIBING A SHARES IN PRIVATE PLACEMENT)</b> .....	          AppI-1
 <b>APPENDIX II – GENERAL INFORMATION</b> .....	 AppII-1

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## DEFINITIONS

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

“A Share(s)”	domestic share(s) of par value of RMB1.00 each in the capital of the Company which is(are) denominated in RMB and listed in the Shanghai Stock Exchange
“A Shareholders”	holders of the A Shares
“A Shareholders Class Meeting”	the first class meeting of the A Shareholders for 2015 to be convened at the Conference Room, 5/F., China Merchants Bank Tower, No. 7088 Shennan Boulevard, Shenzhen, the PRC, at 9:30 a.m. (or immediately after the conclusion or adjournment of the AGM) on Friday, 19 June 2015 to consider and, if thought fit, approve, among other matters, the matters referred to in this circular
“AGM”, “2014 AGM” or “General Meeting”	the 2014 Annual General Meeting of the Company to be held at the Conference Room, 5/F., China Merchants Bank Tower, No. 7088 Shennan Boulevard, Shenzhen, PRC at 9:30 a.m. on Friday, 19 June 2015
“Announcement”	the announcement of the Company dated 10 April 2015 in relation to, among other things, the proposed Employee Stock Ownership Scheme and the Private Placement to be carried out for the purpose of implementing the Employee Stock Ownership Scheme
“Articles of Association”	the Articles of Association and the Rules of Procedures for the Meetings of the Company, as amended, modified or otherwise supplemented from time to time
“Asset Management Agency” or “GF Securities”	GF Asset Management (Guangdong) Co., Ltd., a third-party institution with asset management qualifications as required by the laws and regulations and which accepts the entrustment of the Scheme for the provision of asset management service

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## DEFINITIONS

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“Asset Management Agreement”	the asset management contract with respect to “GF Securities – China Merchants Bank ESOP” Designated Asset Management Scheme (廣發原馳•招商銀行1號定向資產管理計劃) entered into between the Company (on behalf of the Scheme and in its capacity as the custodian) and the Asset Management Agency on 22 April 2015 with respect to the management of and investment in the relevant Asset Management Scheme
“Asset Management Scheme”	“GF Securities – China Merchants Bank ESOP” Designated Asset Management Scheme (廣發原馳•招商銀行1號定向資產管理計劃), which is to be established by the Asset Management Agency entrusted by the Scheme
“associate(s)”	has the meaning ascribed to it in the Hong Kong Listing Rules
“Board of Directors” or “Board”	the board of Directors of the Company
“CBRC”	China Banking Regulatory Commission
“Class Meetings”	collectively, the A Shareholders Class Meeting and the H Shareholders Class Meeting
“Company Law”	the Company Law of the People’s Republic of China (as amended from time to time)
“Company” or “China Merchants Bank”	China Merchants Bank Co., Ltd. (招商銀行股份有限公司), a joint stock limited company incorporated in the PRC, the H Shares of which are listed on the Main Board of the Hong Kong Stock Exchange and the A Shares of which are listed on the Shanghai Stock Exchange
“Connected Issue”	the proposed issue of no more than 7,070,000 new A Shares (in the form of Scheme Entitlements) to be granted to (among others) the Connected Participants pursuant to the Scheme

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## DEFINITIONS

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“Connected Participants”	certain Directors (i.e. Zhang Guanghua, Tian Huiyu, Li Yinquan, Sun Yueying, Su Min, Fu Junyuan, Li Hao, Fu Gangfeng and Hong Xiaoyuan) and certain Supervisors (i.e. Liu Yuan, Zhu Genlin, An Luming, Liu Zhengxi, Xiong Kai and Huang Dan) (participation of non-executive Directors and shareholder Supervisors in the Scheme is required to be reported to the relevant authorities for approval and independent non-executive Directors as well as external Supervisors shall not participate in the Scheme) who will participate in the Scheme
“connected person(s)”	has the meaning ascribed to it in the Hong Kong Listing Rules
“CSDC”	China Securities Depository and Clearing Corporation Limited
“CSRC”	China Securities Regulatory Commission
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“H-Share Appreciation Rights Scheme”	the H-share appreciation rights scheme for senior management members of the Company, as approved at the 2007 first extraordinary general meeting held by the Company on 22 October 2007
“H Share(s)”	overseas listed foreign share(s) of par value of RMB1.00 each in the capital of the Company on the Hong Kong Stock Exchange
“H Shareholder(s)”	the holder(s) of H Shares
“H Shareholders Class Meeting”	the first class meeting of the H Shareholders for 2015 to be convened at the Conference Room, 5/F., China Merchants Bank Tower, No. 7088 Shennan Boulevard, Shenzhen, the PRC, at 9:30 a.m. (or immediately after the conclusion or adjournment of the AGM and the A Shareholders Class Meeting) on Friday, 19 June 2015 to consider and, if thought fit, approve, among other matters, matters referred to in this circular

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## DEFINITIONS

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“Holder(s)”	holder(s) of the Scheme
“Holders’ Meeting”	meeting of all Scheme Holders
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Independent Board Committee”	a committee of the Board comprising Leung Kam Chung Antony, Wong Kwai Lam, Pan Chengwei, Pan Yingli, Guo Xuemeng, and Zhao Jun, each being an independent non-executive Director, established to advise the Independent Shareholders on whether the terms of the Connected Issue are fair and reasonable
“Independent Financial Advisor”, “Altus Capital Limited”	Altus Capital Limited, a licensed corporation carrying on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO, acting as the independent financial advisor to the Independent Board Committee and the Independent Shareholders in respect of the Connected Issue
“Independent Non-executive Director(s)” or “Independent Director(s)”	independent non-executive director(s) of the Company
“Independent Shareholders”	the Shareholders who are not prohibited from voting under the Listing Rules to approve the Connected Issue
“Latest Practicable Date”	13 May 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Management Committee”	a body to be elected by the Holders’ Meeting of the Scheme for the daily administration of the Scheme

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## DEFINITIONS

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“PRC” or “China”	the People’s Republic of China, excluding, for the purpose of this circular only, Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan
“Private Placement”, “Private Placement of A Shares” or “Placement”	the private placement of no more than 434,782,608 A Shares to be carried out for the purpose of implementing the Scheme and the details of which are set out under the section headed “Major Terms of Private Placement” in this circular
“RMB”	Renminbi, the lawful currency of the PRC
“Scheme” or “Employee Stock Ownership Scheme”	the 2015 First Phase Employee Stock Ownership Scheme of China Merchants Bank Co., Ltd. and the full text of 2015 First Phase Employee Stock Ownership Scheme (Draft) of China Merchants Bank Co., Ltd. (by way of shares in Private Placement) is set out in Appendix I
“Scheme Entitlement(s)”	refer to the equal portions of the Scheme divided in accordance with the amount of Underlying Shares held, while each entitlement corresponds to one Underlying Share (such one share of Underlying Share included the cash assets (if any) corresponding to the Scheme), the scheme entitlement(s) include(s) the initial entitlements and the vested entitlements which shall be recorded by the Asset Management Agency entrusted by the Company
“Scheme Holder(s)” or “Holder(s)”	qualified employee(s) who choose(es) at his/her own accord to participate in the Scheme
“SFO”	Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“Shanghai Stock Exchange” or “SSE”	Shanghai Stock Exchange
“Share(s)”	the H Shares and A Shares of the Company

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## DEFINITIONS

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“Share Subscription Agreement”	the conditional share subscription agreement for the Private Placement entered into between the Company (as issuer) and the Asset Management Agency (on behalf of the entrusted Asset Management Scheme) (as subscriber) on 22 April 2015 for purpose of subscribing for the A Shares under the Private Placement
“Shareholder(s)”	holder(s) of the Share(s) of the Company
“Supervisor(s)”	supervisor(s) of the Company
“trading day(s)”	the day on which the SSE opens for trading of or dealing in the securities for A Shares and the day on which the Hong Kong Stock Exchange opens for trading of or dealing in the securities for H Shares
“Underlying Share(s)”	underlying share(s) to comprise the following three portions of shares: (1) A Shares of the Company to be subscribed for by the Scheme in the Private Placement to be carried out for the purpose of implementing the Scheme; (2) bonus shares arising from payment of dividend and capital conversion during the term of the Scheme with respect to the foregoing shares; and (3) additional A Shares of the Company held as a result of the Scheme’s participation of the follow-on offering of the Company
“%”	per cent



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LETTER FROM THE BOARD OF DIRECTORS

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招商銀行股份有限公司  
**CHINA MERCHANTS BANK CO., LTD.**

*(a joint stock company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 03968)**

*Executive Directors:*

Tian Huiyu  
Zhang Guanghua  
Li Hao

*Registered address:*

China Merchants Bank Tower  
No. 7088 Shennan Boulevard  
Shenzhen 518040  
PRC

*Non-executive Directors:*

Li Jianhong  
Ma Zehua  
Li Xiaopeng  
Li Yinquan  
Fu Gangfeng  
Sun Yueying  
Su Min  
Fu Junyuan  
Hong Xiaoyuan

*Principal place of business*

*in Hong Kong:*  
21st Floor, Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

*Independent Non-executive Directors:*

Leung Kam Chung, Antony  
Wong Kwai Lam  
Pan Chengwei  
Pan Yingli  
Guo Xuemeng  
Zhao Jun

20 May 2015

*To the Shareholders*

Dear Sir or Madam,

- (1) PROPOSED EMPLOYEE STOCK OWNERSHIP SCHEME  
(INCLUDING THE CONNECTED ISSUE)  
(2) PROPOSED TERMINATION OF H-SHARE APPRECIATION RIGHTS SCHEME  
(3) EXTENSION OF THE VALIDITY PERIOD FOR THE ISSUANCE OF FINANCIAL BONDS  
AND  
(4) GENERAL MANDATE TO ISSUE NEW SHARES AND/OR DEAL WITH SHARE OPTIONS

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## LETTER FROM THE BOARD OF DIRECTORS

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### 1. INTRODUCTION

References are made to the Announcement, the announcement of the Company dated 22 April 2015 regarding, among other things, further terms of the proposed Employee Stock Ownership Scheme and the notice of the AGM and H Shareholders Class Meeting dated 30 April 2015.

Letter from the Independent Board Committee to the Independent Shareholders has been included in the circular. Altus Capital Limited has been appointed as the independent financial advisor to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Connected Issue and whether the Connected Issue is in the interests of the Company and its Shareholders as a whole. The letter from the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders is also included in this circular.

The purpose of this circular is, among other things, to provide you with further information on the proposed Employee Stock Ownership Scheme and the Private Placement (comprising the Connected Issue) to be carried out for the purpose of implementing the Employee Stock Ownership Scheme, and to set out the letter from the Independent Financial Advisor to the Independent Shareholders and the recommendation of the Independent Board Committee as advised by the Independent Financial Advisor and other information relevant to the proposals to be tabled at the AGM and A Shareholders Class Meeting (where applicable) and H Shareholders Class Meeting (where applicable) as required under the Hong Kong Listing Rules, in order to enable you to make an informed decision on whether to vote for or against the resolutions at the AGM and A Shareholders Class Meeting (where applicable) and H Shareholders Class Meeting (where applicable).

### 2. MATTERS RELATING TO THE PROPOSED EMPLOYEE STOCK OWNERSHIP SCHEME

#### I. Introduction

To further improve the Company's legal entity governance structure, stabilize management and key personnel team, establish a sound mid and long-term incentive mechanism combining incentives and restraints, and promote the long-term, sustained and healthy development of the Company, the relevant resolution(s) regarding the Scheme (in preliminary form) was/were considered and approved at the 31st Meeting of the Ninth Session of the Board of the Company held on 10 April 2015. The 32nd Meeting of the Ninth Session of the Board of the Company held on 22 April 2015 further considered the matters relating to the Scheme and approved thereat the Scheme, and the implementation of the Scheme by way of subscribing A Shares in Private Placement. The Private Placement shall be subject to obtaining the approval at the Company's general meetings (including class meetings), obtaining the approval from authorities such as CBRC and CSRC as well as filing with the Hong Kong Stock Exchange.

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## LETTER FROM THE BOARD OF DIRECTORS

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According to the resolutions, the Board of the Company intends to establish and implement the Scheme by way of subscribing A Shares in the Private Placement where the funds of employees of the Company participating in the Scheme shall be derived from the legitimate salary of the employees as well as funds raised by them through other legal means as examined and approved by the Board. Other than the above means, the Company confirms that it will not provide funding to employees for purpose of subscribing A Shares in the Private Placement. The number of A Shares to be issued under the Private Placement will not be more than 434,782,608 Shares (in the event of dividend distribution, bonus issue, capitalization of capital reserves or rights issue, during the period from the pricing reference date to the first day of the issuance period, the number of the A shares to be issued under the Private Placement shall be adjusted according to the issue price subsequent to such ex-rights or ex-dividend events), and the gross proceeds to be raised will not be more than RMB6 billion.

In principle, an employee stock ownership scheme will be launched once every year in the next two years, namely, the second phase employee stock ownership scheme and the third phase employee stock ownership scheme. The total amount of funds involved in the second phase and third phase of the employee stock ownership schemes shall not exceed RMB2 billion respectively. Details of the second phase and third phase of the employee stock ownership schemes shall be separately formulated by the Company and filed with the Board and the shareholders' general meeting for approval. Shares shall be derived from shares purchased in the secondary market or shares subscribed for in a private placement. In the event that any subscription of shares in a private placement is involved, it needs to separately obtain the approval of the Company's Board and shareholders' general meeting (including the shareholders' class meeting(s)) and has to be reported to relevant regulatory departments for examination and approval and filing. The total amount of funds involved in the three phases of the employee stock ownership scheme shall not exceed RMB10 billion.

### **II. The Scheme and the Private Placement**

On 22 April 2015, the 32nd Meeting of the Ninth Session of the Board of the Company further considered the matters relating to the employee stock ownership scheme and at which meeting the Board considered and approved the Employee Stock Ownership Scheme, and the implementation of the Scheme shall be by way of Private Placement of A Shares.

A full text of the Scheme is set out in Appendix I.

The number of A Shares to be issued under the Private Placement will not be more than 434,782,608 Shares (in the event of dividend distribution, bonus issue, capitalization of capital reserves or rights issue, during the period from the pricing reference date to the first day of the issuance period, the number of the A shares to be issued under the Private Placement shall be adjusted according to the issue price subsequent to such ex-rights or ex-dividend events), and the gross proceeds to be raised will not be more than RMB6 billion. The Private Placement shall be targeted at the Scheme and the entrusted Asset Management Agency under the Scheme shall be the specific targeted subscriber of the Private Placement. The Asset Management Agency will establish and manage the Asset Management Scheme to hold the relevant interest in assets on behalf of the Scheme and subscribe the A Shares under the Private Placement in the capacity of subscriber.

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## LETTER FROM THE BOARD OF DIRECTORS

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### Major terms of Private Placement

Class and par value of the shares to be issued	A Shares to be issued under the Private Placement are RMB denominated ordinary shares (A Shares) with a nominal value of RMB1.00 per share, provided that prior to such A Shares being vested in and transferred to the Holders pursuant to the Employee Stock Ownership Scheme, the Holders and Scheme shall have no right and power to vote; whereas when the A Shares are vested in and transferred to the Holders, Holders are entitled to the right and power to vote and other shareholders' rights on par with other A shareholders of the Company as far as the A Shares are concerned.
Method and time of issue	All A Shares will be issued to target subscribers by way of Private Placement at appropriate time within six months from the date of approval from the CSRC.
Target of issue and method of subscription	The Private Placement is targeted at the Employee Stock Ownership Scheme of the Company. The A Shares to be issued under the Private Placement shall be subscribed for in cash. Funds shall be derived from the legitimate salary of the employees as well as funds raised by them through other legal means as examined and approved by the Board.
Issue price and pricing principles	<p>The pricing reference date of the Private Placement shall be the date of announcement of resolutions of the 31st Meeting of the Ninth Session of the Board of the Company (i.e. 11 April 2015). The issue price of the Private Placement shall be RMB13.80 per A Share and shall be no less than 90% of the average trading price of the Company's A Shares over 20 trading days before the pricing reference date (i.e. RMB13.7927 per A Share). In the event of any ex-rights or ex-dividend event, such as dividend distribution, bonus issue, capitalization of capital reserves or rights issue, during the period from the pricing reference date to the first day of the issuance period, the issue base price and issue price shall be adjusted accordingly.</p> <p>Of which, the average trading price of the A Shares over 20 trading days before the pricing reference date = the total trading amount of the A Shares over 20 trading days before the pricing reference date ÷ the total trading volume of the A Shares over 20 trading days before the pricing reference date.</p>

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## LETTER FROM THE BOARD OF DIRECTORS

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The issue price represents (i) a discount of approximately 11.88% to the closing price of RMB15.66 per A Share on 2 April 2015 (i.e. the last trading day immediately prior to the date of the Announcement); and (ii) a discount of approximately 11.48% of the average closing price of RMB15.59 per A Share for the last five trading days from and including 2 April 2015.

Number of Shares to be  
issued and amount

The number of Shares to be issued under the Private Placement will not exceed 434,782,608 A Shares with total proceeds of no more than RMB6 billion. If any ex-right or ex-dividend event, such as dividend distribution, bonus issue, capitalization of capital reserves or rights issue, occurs during the period from the pricing reference date to the first day of the issuance period, the number of A Shares to be issued under the Private Placement will be adjusted with reference to the total proceeds from the issuance and the post ex-right or ex-dividend base price of the issuance. The actual number of A Shares to be issued shall be decided by the Board or its designated delegate(s) subject to the negotiation between the Board and the lead arranger(s) within the scope of the authorization conferred by the shareholders' general meeting based on the actual subscription.

Assuming full subscription of no more than 434,782,608 A Shares in the Private Placement, the A Shares issued under the Private Placement shall account for (i) approximately 2.11% of the existing issued A Shares and approximately 1.72% of the total existing issued share capital of the Company as at the date of the Announcement; and (ii) approximately 2.06% of the enlarged issued A Shares and approximately 1.69% of the total enlarged issued share capital of the Company upon completion of the Private Placement and subscription.

Upon completion of the Private Placement and in the event that up to 434,782,608 A Shares are subscribed by the Asset Management Agency, the total number of issued A Shares of the Company will be increased from 20,628,944,429 A Shares to 21,063,727,037 A Shares and the total issued share capital of the Company will be increased from 25,219,845,601 Shares to 25,654,628,209 Shares.

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## LETTER FROM THE BOARD OF DIRECTORS

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In the event that up to 434,782,608 new A Shares are subscribed, the gross proceeds from the Private Placement of A Shares to be carried out for the purpose of implementing the Scheme are expected to be no more than RMB6 billion.

Lock-up period

The lock-up period of A Shares to be subscribed under the Employee Stock Ownership Scheme in the Private Placement shall be 36 months, starting from the time when the Company makes an announcement on the registration of such A Shares in the Private Placement under the Scheme. A Shares derived from the foregoing A Shares as a result of stock dividend distribution and capitalization of capital reserves shall also comply with the above lock-up arrangements.

Upon conclusion of the above lock-up period, the entitlements of the A Shares under the Employee Stock Ownership Scheme that can be vested in the individual account may be determined according to corporate performance targets and individual performance.

Place of listing

An application will be made for the listing and trading of the A Shares under the Private Placement on the Shanghai Stock Exchange.

Use of proceeds

The total proceeds from the Private Placement of A Shares shall not exceed RMB6 billion. The final total proceeds are subject to the total amount of the Employee Stock Ownership Scheme participated in by the employees of the Company and will all be used to replenish the core tier-1 capital of the Company after deducting the issuing expenses.

The proceeds of the Company will be managed according to the “Administrative Measures on Deposit and Utilization of Proceeds of China Merchants Bank Co., Ltd.” to be formulated by the Company.

The Private Placement shall be subject to obtaining the approval at the Company’s general meetings (including class meetings), obtaining the approval from authorities such as CBRC and CSRC as well as filing with the Hong Kong Stock Exchange.

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## LETTER FROM THE BOARD OF DIRECTORS

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### III. The Asset Management of the Scheme

In order to manage the assets under the Scheme, on 22 April 2015, the Company (on behalf of the Scheme and in its capacity as the custodian) and Asset Management Agency entered into the Asset Management Agreement. Pursuant to the Asset Management Agreement, the Asset Management Agency will establish and manage the Asset Management Scheme to hold the relevant interest in assets on behalf of the Scheme. The Asset Management Scheme is to be funded by the Scheme for the sole purpose of subscribing the Underlying Shares to be issued under the Private Placement, where the total subscription amount shall not be more than RMB6 billion.

Upon receiving the payment by the target participants of the Scheme, the Company will collect the fund and transfer the whole amount into a special entrustment account of the Asset Management Scheme, and the Custodian will issue a receipt notice to the Asset Management Agency after verifying the amount received. After confirming that all entrusted assets are duly received, the Manager will issue a commencement notice with respect to the entrusted assets to the Company, and the commencement date of the Asset Management Scheme shall be the date on which the Manager issues such notice.

#### Principal Terms of the Asset Management Agreement

Date	:	22 April 2015
Parties	:	(i) the Company (on behalf of the Scheme) (as trustor) (“Trustor”);  (ii) GF Asset Management (Guangdong) Co., Ltd. (as asset manager) (“Asset Management Agency” or “Manager”); and  (iii) the Company (as asset custodian) (“Custodian”).
Asset management	:	The Manager shall establish the Asset Management Scheme, participate in the Private Placement pursuant to the terms of the Asset Management Agreement, and invest and manage the entrusted assets pursuant to the Trustor’s investment mandate, including but not limited to, the realization/reduction of A Shares vested to the Holders of the Scheme upon the expiry of the 36-month lock-up period, or if not prohibited by the then prevailing laws and regulations and with the support of the system and rules of CSDC, the transferring of the Underlying Shares vested in the relevant Holders of interest under the Scheme to the Holders’ personal accounts.

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## LETTER FROM THE BOARD OF DIRECTORS

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During the lock-up period, the Manager is prohibited from dealing with any Underlying Shares or shares derived from them which are held under the Scheme on the listing market or in any way transfer the foregoing shares, and is also prohibited from transferring the Underlying Shares to Holders of the Scheme. The privately placed A Shares of the Company acquired by the Asset Management Scheme through the Private Placement or shares derived from events such as share dividend distribution and capitalization of capital reserves shall also comply with the aforementioned lock-up arrangements. Shares obtained through other means shall be subject to the relevant national laws, rules and regulations.

Entrusted assets : Entrusted assets are capital entrusted by the Trustor to the Manager for management and utilization. Properties acquired by the Manager as a result of the management, utilization, handling of such entrusted capital or otherwise will also be assigned to the entrusted assets. The preliminary form of the entrusted assets can be cash assets or non-cash assets. The preliminary entrusted amount is the amount of preliminary entrusted capital received in the designated account of the entrusted assets. Entrusted assets shall primarily invest in the Underlying Shares; and, in compliance with the laws and regulations, the other types of investment designated in writing by the Trustor (being the Management Committee of the Scheme or the authorized representatives of the Trustor).

Entrusted asset are fixed assets independent of the Manager and the Custodian, and which are to be held by the Custodian. The Manager and the Custodian shall not allocate the entrusted assets into its fixed assets.

Voting right : Pursuant to the Scheme, prior to the Underlying Shares being vested in and transferred to the Holders under the Scheme, the Holders and the Scheme shall not be entitled to the right and power to vote attached to the Underlying Shares. As a result, the Manager shall not exercise any voting right attached or resulted from the entrusted assets.

Responsibilities of Custodian : Custodian shall manage the entrusted assets on behalf of the Trustor and fulfill obligations such as safekeeping of the entrusted assets, handle receipt and payment of funds and supervise the investment activities of the Manager.



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## LETTER FROM THE BOARD OF DIRECTORS

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- Expenses : The expenses relating to the asset management included:
- (1) management fee of the Manager;
  - (2) custodian fee of the Custodian;
  - (3) bank charges required in the appropriation and transfer of entrusted assets and the fees incurred from opening the relevant accounts;
  - (4) security trading fee, of which the share trading commission will be charged by the Manager based on the relevant broker service standard;
  - (5) tax related to the operation and investment of entrusted assets; and
  - (6) other expenses that may be charged under entrusted assets in accordance with the laws and regulations and the agreements of the contract.

Of which, the Manager shall charge RMB1,000,000 per year as the fixed management fee, while the Custodian shall charge RMB300,000 per year as the fixed custodian fee.

- Term : No fixed term has been set for the Asset Management Agreement. The Asset Management Scheme can be terminated through written notice by the Trustor. Unless otherwise agreed under the Asset Management Agreement, the Manager shall not terminate the contract unilaterally.

- Effective date of the Asset Management Agreement : The Asset Management Agreement shall come into force on the date of receipt of the CSRC's approval of the Private Placement relating to the Scheme.

### **Information of the Asset Management Agency**

The Asset Management Agency is a company established in the PRC with limited liability, having a registered capital of RMB500 million. It is mainly engaged in security asset management business (including Qualified Domestic Institutional Investors' foreign security investment management business) and is a wholly-owned subsidiary of GF Securities Co., Ltd.

### **Information of the Group**

The Company is a joint stock company incorporated in the PRC, the A Shares and the H Shares of which are listed on the Shanghai Stock Exchange and the Hong Kong Stock Exchange respectively. The Company and its subsidiaries provide customers with various wholesale and retail banking products and services, and maintain treasury business with proprietary purposes on behalf of customers.

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## LETTER FROM THE BOARD OF DIRECTORS

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### **Confirmation of Directors**

None of the Directors have material interest in the Asset Management Agreement. The Directors (including independent non-executive Directors) considered that the terms of the Asset Management Agreement are fair and reasonable and on normal commercial terms and are in the interest of the Company and the Shareholders of the Company as a whole.

### **Implications under the Hong Kong Listing Rules**

To the best of the Directors' knowledge and their beliefs, having made all reasonable enquiries, the Asset Management Agency and its ultimate beneficial owner is an independent third party of the Group and its connected persons. Furthermore, the target participants of the Scheme, which number is limited to 8,500, are core personnel playing a crucial role in the Company's overall performance and mid and long-term development who can participate in this Scheme with equal opportunities, including certain Directors, certain Supervisors, certain senior management personnel, middle-level cadres and key employees of the Company as well as senior management personnel of the Company's wholly-owned subsidiaries, of which Li Jianhong (Chairman), Ma Zehua (Vice Chairman) and Li Xiaopeng (Director) will not participate in the Scheme while the participation of other non-executive Directors and shareholder Supervisors in the Scheme is required to be reported to the relevant authorities for approval, and independent non-executive Directors and external Supervisors will not participate in the Scheme. The total amount of Scheme Entitlements to be subscribed by the Connected Participants as well as senior management personnel under the Connected Issue in aggregate (the Initial Entitlements) shall be no more than 7,070,000 new A shares (in the form of the Scheme Entitlements) pursuant to the Scheme, representing not more than 1.63% of the Scheme Entitlements (Initial Entitlements). Pursuant to Rule 14A.12 of the Hong Kong Listing Rules, as the Scheme is an "employees' share scheme established for a wide scope of participants", and the aggregate interest of connected persons in the Scheme will be less than 30%, the Asset Management Agency is not deemed as an associate of the Company's connected person. As a result, the entering into of the Asset Management Agreement by the Company (on behalf of the Scheme) shall not constitute a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

### **IV. Subscription of the A shares under the Private Placement**

On 22 April 2015, the Company (as the issuer) and the Asset Management Agency (on behalf of the entrusted Asset Management Scheme) (as subscriber) entered into the Share Subscription Agreement. According to the Share Subscription Agreement, the Asset Management Agency (on behalf of the entrusted Asset Management Scheme) proposes to subscribe for the A Shares under the Private Placement in accordance with the agreed condition, quantity, amount and price under the Share Subscription Agreement.

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## LETTER FROM THE BOARD OF DIRECTORS

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### Principal Terms of the Share Subscription Agreement

- Date : 22 April 2015
- Parties : (i) the Company (as issuer); and  
(ii) the Asset Management Agency (on behalf of the entrusted Asset Management Scheme) (as subscriber).
- Amount of shares to be subscribed, subscription price and method of subscription : The subscriber agreed to subscribe for up to 434,782,608 A Shares under the Private Placement by the Company (as the issuer) with a subscription amount of not more than RMB6 billion.
- The pricing reference date of the Private Placement shall be the date of announcement of resolutions of the 31st Meeting of the Ninth Session of the Board of the Company (i.e. 11 April 2015). The issue price of the A Shares under the Private Placement shall be RMB13.80 per share and shall be no less than 90% of the average trading price of the Company's A Shares over 20 trading days before the pricing reference date (i.e. RMB13.7927 per share). In the event of any ex-rights or ex-dividend event, such as dividend distribution, bonus issue, capitalization of capital reserves or rights issue, during the period from the pricing reference date to the first day of the issuance period, the issue base price and issue price shall be adjusted accordingly.
- The subscriber agreed to subscribe for the A Shares under the Private Placement with RMB cash in accordance with the aforementioned price.
- Class and par value of the shares to be issued : The par value per share of the A Shares under the Private Placement is RMB1.

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## LETTER FROM THE BOARD OF DIRECTORS

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- Payment and Method of Subscription Fees : Upon the Private Placement being approved by the CBRC and CSRC and filed with the Hong Kong Stock Exchange, the principal arranger(s) engaged by the Company shall issue a “Subscription and Payment Notice” to the subscriber in accordance with the placement proposal of the Private Placement of A Shares finally approved by the CSRC. The subscriber shall comply with the requirements set out in the “Subscription and Payment Notice” received from the principal arranger(s), and prior to the payment date fixed in such notice, credit the subscription remittance into the account designated by the principal arranger(s) in one-off payment.
- Delivery of the Shares : The Company shall, within ten working days after the full payment of the subscription fund by the subscriber as agreed under the Share Subscription Agreement, register the Underlying Shares actually subscribed by the subscriber through the share registration system of share registration institutions under the share account opened by the subscriber for the Scheme pursuant to the procedures required by the CSRC and the SSE and the share registration institutions in order to facilitate the delivery of the Underlying Shares.
- Underlying Shares and Lock-up Arrangement : The lock-up period of Underlying Shares to be subscribed shall be thirty-six (36) months, commencing from the time when the Company makes an announcement on the registration of Underlying Shares in the Private Placement under the Scheme. Shares derived from the foregoing Underlying Shares as a result of share dividend distribution and capitalization of capital reserves shall also comply with the above lock-up arrangements. The subscriber further undertakes that, during the aforementioned lock-up period, the subscriber shall not deal with any Underlying Shares or shares derived from them on the listing market or in any way transfer the foregoing shares, and is also prohibited from vesting or transferring the Underlying Shares to Holders of the Scheme.

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## LETTER FROM THE BOARD OF DIRECTORS

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Upon the completion of the Private Placement, the subscriber, based on its shareholding proportion in the Company, shall be entitled to the cumulative retained earnings before the share record date along with other existing and new Shareholders of the Company. However, the Underlying Shares held by the subscriber shall have no voting right and power attached, prior to the vesting and transferring of the Underlying Shares to the Holders of the Scheme upon the expiration of the aforementioned lock-up period, neither the subscriber nor the Scheme enjoys the voting right and power in respect of the Underlying Shares. After the vesting and transferring of the Underlying Shares to the Holders of the Scheme upon the expiration of the aforementioned lock-up period, the Holders shall, in respect of the Underlying Shares, enjoy equal voting right, power and other Shareholder's right with other Shareholders of the Company.

Conditions precedent : The Share Subscription Agreement will become effective upon fulfillment of all of the following conditions:

- (1) the approval of the Private Placement by the Board and at the general meeting, A Share class meeting and H Share class meeting of the Company and the approval of the Share Subscription Agreement by the Board and at the general meeting of the Company;
- (2) the approval of the Private Placement from the CBRC;
- (3) the approval of the Private Placement from the CSRC;
- (4) the filing of the Private Placement with the Hong Kong Stock Exchange;
- (5) the approvals of the relevant resolutions of the Scheme by the Board and at the general meeting of the Company; and
- (6) the establishment of the Asset Management Scheme in accordance with laws.

Obligation on Default : In the event of a material breach of the Share Subscription Agreement by any party and within 30 days after the non-defaulting party issued a written notice to require the defaulting party to take immediate remedial measure and failing which, the non-defaulting party shall be entitled to terminate the Share Subscription Agreement unilaterally through written notice.

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## LETTER FROM THE BOARD OF DIRECTORS

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### Confirmation of Directors

The Directors (including independent non-executive Directors) considered that the Scheme is in compliance with the relevant laws, regulation, rules and normative documents and there is no circumstance where the relevant laws and regulations restrict or may prejudice the interest of the Company and the Shareholders as a whole and there is no circumstance where employees are forced to participate in the Scheme by way of apportionment, mandatory distribution and other methods. The implementation of the Scheme can boost the corporate governance, further improve the Company's incentive and restraint mechanism, increase the cohesiveness of employees and the competitiveness of the Company, which is beneficial to the effective alignment of Shareholders' interest, the Company's interest and the employees' interest and the healthy and sustainable development of the Company; furthermore, the terms of the Share Subscription Agreement are fair and reasonable and on normal commercial terms and are in the interest of the Company and the Shareholders of the Company as a whole.

The Private Placement, and related transactions (including the Connected Issue) are in compliance with the principles of open, fair and just, with a fair pricing, in the long-term interest of the Company and all Shareholders as a whole and under which there is no circumstance where the interests of the minority or mid-sized shareholders are prejudiced; the voting procedures on the related connected transactions under the Private Placement are legal. The related connected Directors of the Company, namely Zhang Guanghua, Tian Huiyu, Li Yinquan, Sun Yueying, Su Min, Fu Junyuan, Li Hao, Fu Gangfeng and Hong Xiaoyuan had abstained from voting on the Board resolution to consider and approve the passing of the issue of A Shares to the Scheme by way of Private Placement (including, among others, the Connected Issue, the Share Subscription Agreement and the transactions contemplated thereunder), and the resolutions were voted for by the other nine unrelated Directors. Save as disclosed above, none of the Directors have material interest in the related resolutions of the Share Subscription Agreement or were required to abstain from voting on the Board resolutions to consider and approve the passing of the issue of A Shares to the Scheme by way of Private Placement (including, among others, the Connected Issue, the Share Subscription Agreement and the transactions contemplated thereunder) pursuant to the Hong Kong Listing Rules and/or the Articles of Association of the Company.

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## LETTER FROM THE BOARD OF DIRECTORS

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### **Implications under the Hong Kong Listing Rules and the Connected Issue**

The subscription targets in the Private Placement of A Shares are core personnel playing a crucial role in the Company's overall performance and mid and long-term development, including, among others, the Connected Participants, i.e. certain Directors (i.e. Zhang Guanghua, Tian Huiyu, Li Yinquan, Sun Yueying, Su Min, Fu Junyuan, Li Hao, Fu Gangfeng and Hong Xiaoyuan) and certain Supervisors (i.e. Liu Yuan, Zhu Genlin, An Luming, Liu Zhengxi, Xiong Kai and Huang Dan), while participation of non-executive Directors and shareholder Supervisors in the Scheme is required to be reported to the relevant authorities for approval (independent non-executive Directors as well as external Supervisors shall not participate in the Scheme). The Group's Directors and Supervisors constitute the connected persons of the Company within the meaning of the Hong Kong Listing Rules, the Connected Issue and the participation of the Connected Participants in the Scheme to subscribe for the A Shares under the Private Placement shall constitute a connected transaction of the Company under the Hong Kong Listing Rules which are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The total amount of Scheme Entitlements to be subscribed by the Connected Participants as well as senior management personnel under the Connected Issue in aggregate (the Initial Entitlements) shall be no more than 7,070,000 new A shares (in the form of the Scheme Entitlements) pursuant to the Scheme, representing not more than 1.63% of the Scheme Entitlements (Initial Entitlements). The specific total amount of Scheme Entitlements to be subscribed by the Connected Participants and senior management personnel shall be determined in accordance with the approval of the relevant authorities and the actual payment made by the aforementioned parties.

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## LETTER FROM THE BOARD OF DIRECTORS

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### Effect of the shareholding structure of the Company at the Latest Practicable Date and immediately upon completion of the transactions contemplated under the Share Subscription Agreement

The share capital and shareholding structure of the Company at the Latest Practicable Date and immediately upon completion of the transactions contemplated under the Share Subscription Agreement (assuming that (1) there are no other changes to the shareholding structure of the Company from the Latest Practicable Date up to the date of the completion of the Share Subscription Agreement; (2) the number of A Shares to be issued under the Private Placement will not be more than 434,782,608 Shares and there are no event of dividend distribution, bonus issue, capitalization of capital reserves or rights issue, during the period from the pricing reference date to the first day of the issuance period; and (3) the total amount of Scheme Entitlements to be subscribed by the Connected Participants as well as senior management personnel under the Connected Issue in aggregate (the Initial Entitlements) shall be no more than 7,070,000 new A shares (in the form of the Scheme Entitlements) pursuant to the Scheme) are as follows:

	<b>Shareholding as at the Latest Practicable Date</b>		<b>Shareholding immediately upon completion of the transactions contemplated under the Share Subscription Agreement</b>	
	<i>Number of issued Shares</i>	<i>Approximate percentage of issued Shares (%)</i>	<i>Number of issued Shares</i>	<i>Approximate percentage of issued Shares (%)</i>
<b>Substantial Shareholders</b>				
China Merchants Group Ltd. and its associates				
A Shares	4,887,794,287	19.38	4,887,794,287	19.05
H Shares	156,178,923	0.62	156,178,923	0.61
Anbang Property & Casualty Insurance Company Limited – traditional products				
A Shares	2,704,596,216	10.72	2,704,596,216	10.54
Supervisor (who is not a Connected Participant)				
A Shares	65,800	0.00026	65,800	0.00025
Asset Management Agency				
A Shares	–	–	434,782,608 <i>(Note 1)</i>	1.69
<b>Public Shareholders</b>				
A Shares	13,036,488,126	51.69	13,036,488,126	50.82
H Shares	4,434,722,249	17.58	4,434,722,249	17.29
	<u>25,219,845,601</u>	<u>100</u> <i>(Note 2)</i>	<u>25,654,628,209</u>	<u>100</u> <i>(Note 2)</i>

*Notes:*

- (1) The shares included the total amount of 7,070,000 new A Shares (in the form of the Scheme Entitlements) to be subscribed by the Connected Participants as well as senior management personnel under the Connected Issue.
- (2) Numbers in percentage may not add up to a total figure due to rounding.



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## LETTER FROM THE BOARD OF DIRECTORS

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### **V. Cumulative retained earnings before the Private Placement**

The cumulative retained earnings before the Private Placement shall be attributable to both existing and new Shareholders.

### **VI. Effective period of the resolution(s)**

To ensure the smooth implementation of the Employee Stock Ownership Scheme (by way of subscribing A shares in the Private Placement), the Board proposes to seek approval from Shareholders at the AGM and Class Meetings of the Company the grant of authority to authorise the Board of Directors, which will then delegate the authority to any two of the four Directors (namely Li Jianhong, Tian Huiyu, Li Xiaopeng and Li Hao), to handle with full discretion the matters regarding the Private Placement under the framework and principles as approved at the AGM and Class Meetings of the Company and within the effective period of the resolution(s) on the Private Placement, the scope and the authority of the authorisation include but are not limited to those set out below:

1. To apply to, register and file with and obtain approvals and consents from the relevant governmental departments, regulatory authorities and stock exchanges within or outside the PRC in respect of the Private Placement;
2. To formulate, revise and implement the specific proposal for the Private Placement based on actual circumstances, including, without limitation to, those terms on the timing of the Private Placement, the size of the Private Placement, the amount of proceeds to be raised, the pricing of the Private Placement, the savings account for such proceeds, and other matters relating to the Private Placement;
3. To execute, implement, revise, supplement, complete, deliver and issue all the documents, the agreements relating to the Private Placement and other relevant documents (including, without limitation to, announcements, circulars, listing documents, sponsor and underwriting agreements, subscription agreements, etc.) to the relevant regulatory departments and authorities, stock exchanges, organizations and individuals within or outside the PRC, and make relevant information disclosures in accordance with the applicable laws and regulations;
4. To apply for approval from the relevant PRC regulatory authorities in respect of the Private Placement, revise and supplement the relevant application documents and make appropriate adjustments to the specific plan for the Private Placement in accordance with the feedback from the relevant PRC regulatory authorities;
5. To handle the matters relating to the listing on Shanghai Stock Exchange of the shares to be issued in the Private Placement after completion of the Private Placement;
6. To approve and execute all the legal documents relating to the Private Placement and the listing of the shares to be issued in the Private Placement, and make appropriate information disclosures;

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## LETTER FROM THE BOARD OF DIRECTORS

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7. To revise the relevant articles of the Articles of Association of the Company based on the results of the Private Placement and complete the relevant procedures for alteration of registration with the administration for industry and commerce; and
8. To the extent permitted by the relevant laws and regulations, to handle all such other matters which may be deemed as necessary, desirable or appropriate for the Private Placement.

The effective period of the resolution(s) shall be 12 months from the consideration and approval for such resolution(s) at the AGM and the Class Meetings of the Company.

### **VII. Equity fundraising activities in the past twelve months**

Within the past 12 months immediately prior to the date of the Announcement, the Company did not conduct any equity fundraising activities.

### **VIII. Impacts of the Private Placement on the Operational Management and Financial Conditions of the Company**

#### **(1) Impacts on shareholding structure and control**

As at the Latest Practicable Date, the Company had no controlling shareholder or de facto controller. Upon implementation of the Employee Stock Ownership Scheme by way of Private Placement, the Company will remain to have no controlling shareholder or de facto controller. The Private Placement of A Shares will not result in any changes to the controlling rights of the Company nor any non-compliance of the shareholding distribution of the Company with the relevant requirements of the Listing Rules.

#### **(2) Impacts on capital adequacy ratio**

The proceeds from the Private Placement, after deducting the issuing expenses, will all be used to replenish the core tier-1 capital, which is conducive to enhancing the core tier-1 capital adequacy ratio, tier-1 capital adequacy ratio and capital adequacy ratio so as to increase the capital capabilities and strengthen the risk resistance abilities.

#### **(3) Impacts on profitability**

The Private Placement will further consolidate the capital base of the Company, which can facilitate the sustainable development of various lines of business and the sound profit growth. While driving the steady expansion of assets and business scale, it also enhances the overall profitability and core competitiveness of the Company.

Based on the foregoing, the application of the proceeds from the Private Placement to replenish the core tier-1 capital aligns with the capital regulatory requirements and long-term strategic development direction of the Company, which is conducive to improving the long-term incentive and restraint mechanism of the Company, thus providing capital support

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## LETTER FROM THE BOARD OF DIRECTORS

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for the sustainable and healthy development of the business and creating sustainable investment returns for shareholders. In the meantime, the Company is well positioned for the Private Placement and the relevant procedures are in compliance with the laws and regulations. The Company also adopts effective measures to continuously push ahead the business development and strategic transformation, providing sound protection for the reasonable utilization of the proceeds and maximizes the returns on the utilization of the proceeds. Accordingly, the proceeds from the Private Placement are necessary and feasible.

### **IX. Risks associated with Dilution of Earnings per Share and Return on Equity within a short period of time upon completion of the Private Placement**

As at the end of 2014, the share capital of the Company comprised 25,219,845,601 Shares; earnings per Share was RMB2.22; and weighted average return on equity was 19.28%. Based on the plan on Private Placement, the Company plans to place not more than 434,782,608 A Shares in the amount of not exceeding RMB6 billion to the current employee stock ownership scheme and, when it is completed, the size of the Company's share capital and equity is expected to expand. In the short run, a certain period of time is still needed for asset size expansion after the completion of placement and the earnings and benefits directly generated cannot be reflected immediately. As a result, when the proceeds are received, the earnings per Share and return on equity of the Company may fall slightly in the near term.

Shareholders can also refer to the announcement published by the Company on 22 April 2015 regarding its analysis on the dilutive impact of Private Placement of A Shares on immediate returns and stopgap measures.

### **3. PROPOSED TERMINATION OF H-SHARE APPRECIATION RIGHTS SCHEME**

Given that the purpose of the proposed implementation of the Employee Stock Ownership Scheme is line with the purpose of the existing H-Share Appreciation Rights Scheme of the Company, the Board has agreed that, upon obtaining the approval for the Employee Stock Ownership Scheme at the General Meeting of the Company, the H-Share appreciation rights yet to be granted shall be suspended immediately; subject to the approvals (these approvals include: (1) the Employee Stock Ownership Scheme being approved at the General Meeting of the Company and the Private Placement of the A Shares to be carried out for the purpose of implementing the Employee Stock Ownership Scheme being approved at the General Meeting of the Company (including class general meetings); (2) the Private Placement of the A Shares to be carried out for the purpose of implementing the Employee Stock Ownership Scheme being approved by the CBRC; (3) the Private Placement of the A Shares to be carried out for the purpose of implementing the Employee Stock Ownership Scheme being approved by the CSRC; and (4) the Private Placement of the A Shares to be carried out for the purpose of implementing the Employee Stock Ownership Scheme being filed with the Hong Kong Stock Exchange) and implementation of the Employee Stock Ownership Scheme, the H-Share Appreciation Rights Scheme shall be terminated officially and automatically and the grant of the share appreciation rights yet to be granted shall also be terminated, and the implementation of the related specific matters will be arranged for by the Board.

The above proposal shall be submitted to the AGM as an ordinary resolution for consideration and approval by the Shareholders.

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## LETTER FROM THE BOARD OF DIRECTORS

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#### **4. EXTENSION OF THE VALIDITY PERIOD FOR THE ISSUANCE OF FINANCIAL BONDS**

The resolution regarding “Expanding the Scope of Mandate to Issue Financial Bonds” was considered and passed at the 2011 annual general meeting of the Company. The resolution approved the plan on issuing financial bonds of the Company within a three-year period and granted relevant mandate in this respect, including the mandate to issue bonds and certificates of deposit (CD) denominated in RMB in the offshore markets. The mandate shall remain valid until 30 June 2015. Currently, the mandate remains valid. The issuance of financial bonds plays an important role in strengthening the stability of liabilities of the Company and enhancing the diversification of sources of liabilities of the Company. In this regard, the Board of Directors of the Company seeks to obtain approval from its Shareholders at the AGM to consider and approve the following:

1. to approve the plan on issuing financial bonds of the Company: as of 30 June 2018 or before, the balance of the financial bonds in issue shall not exceed 10% of the balance of liabilities of the Company, which is determined based on the liabilities (denominated in RMB) as at the end of the previous year. The variety of financial bonds shall include the bonds and certificates of deposit (CD) denominated in RMB and the bonds and certificates of deposit (CD) denominated in foreign currencies in issue in domestic, overseas and offshore markets, but shall not include large-amount deposit slips issued to corporate and individual customers.
2. to authorize the management of the Company to decide on the types of markets, currencies, timing, issuing size, types of interest rates, duration, method of issue and use of proceeds from the issuance of bonds, in accordance with the need for assets/liabilities allocation and market conditions. Such mandate shall remain valid until 30 June 2018.

The above proposal to extend the validity period for the issuance of financial bonds shall be submitted to the AGM as a special resolution for consideration and the passing of such resolution shall be by more than two-thirds of the votes of the Shareholders (including their proxies) attending the AGM.

#### **5. GENERAL MANDATE TO ISSUE NEW SHARES AND/OR DEAL WITH SHARE OPTIONS**

The Company seeks to obtain approval from its Shareholders for the general mandate to issue new Shares and/or deal with Shares. Specific terms of the proposal are set out below:

1. Subject to the conditions set out in these paragraphs (1), (2) and (3) and in accordance with all applicable laws and regulations of the PRC, relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as may be amended from time to time) and the articles of association of the Company, the Company proposed to grant the general mandate to the Board of Directors to allot, issue and/or deal with, separately or concurrently, additional A Shares and/or H Shares (together the “Shares”) and to

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## LETTER FROM THE BOARD OF DIRECTORS

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make or grant offers, agreements and options (including warrants, convertible bonds and other securities which carry rights to subscribe for or are convertible into Shares) that need or might need allotment of Shares during the Relevant Period (as defined below);

- (1) such mandate shall not extend beyond the Relevant Period save that the Board of Directors during the Relevant Period make or grant offers, agreements, options or conversion rights which might require the exercise of such offers, agreements, options or conversion rights upon or after the end of the Relevant Period;
  - (2) the respective number of the A Shares and/or H Shares to be allotted, issued and/or dealt with or agreed conditionally or unconditionally to be allotted, issued and/or dealt with (including warrants, convertible bonds and other securities which carry rights to subscribe for or are convertible into Shares) by the Board of Directors shall not exceed 20% of the respective number of each of the A Shares and/or H Shares of the Company in issue as at the date of passing of the proposal at the general meeting;
  - (3) the Board of Directors will only exercise its power under such mandate in accordance with the PRC Company Law (as may be amended from time to time), the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or any applicable laws, regulations and rules of any other government or regulatory bodies, and only if all necessary approvals from China Securities Regulatory Commission and/or other relevant PRC government authorities are obtained.
2. For the purpose of the proposal, “Relevant Period” means the period from the passing of the proposal at the general meeting until the earliest of:
- (1) the conclusion of the next annual general meeting of the Company; or
  - (2) the expiration of twelve months following the date of passing of the proposal; or
  - (3) the date on which the authority granted to the Board of Directors set out in the proposal is revoked or varied by a special resolution of the Company in a general meeting.
3. Contingent on the Board of Directors resolving to issue shares pursuant to paragraph 1 of the proposal, the Board of Directors is authorized to increase the registered capital of the Company to reflect the number of shares to be issued under paragraph 1 of the proposal; and to make amendments to the articles of association of the Company it deems appropriate and necessary so as to reflect the increase in registered capital; and to do all such acts and to enter into all such arrangements as may be necessary or expedient in order to give effect to the issue of shares under paragraph 1 of the proposal and the increase of the registered capital of the Company.

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## LETTER FROM THE BOARD OF DIRECTORS

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4. The proceeds (after deduction of the issuing expenses) from the issue of shares pursuant to the general mandate granted at the general meeting shall, with the approval of the relevant authorities of the PRC, be used to replenish the capital of the Company.
5. For the purpose of enhancing efficiency of the decision making process and ensuring the success of any issue, the Board of Directors may delegate such authorization to one or more directors to take charge of all matters related to the issue of shares or share options (including warrants, convertible bonds and other securities which carry rights to subscribe for or are convertible into Shares).

No shareholders' class meeting shall be required to be convened by the Company when the Board of Directors exercises the general mandate to issue A Shares. If, as required by the relevant domestic laws and regulations in the PRC, a general meeting needs to be convened even if the general mandate to issue Shares is obtained, then it is still subject to the approval by Shareholders at the general meeting.

As at the Latest Practicable Date, the Company had in issue 25,219,845,601 Shares comprising 20,628,944,429 A Shares and 4,590,901,172 H Shares. Subject to the passing of the proposed resolution for the approval of the general mandate and in accordance with the terms therein, the Company will be allowed to allot, issue and deal with up to a maximum of 4,125,788,885 A Shares and/or 918,180,234 H Shares on the basis that no further A Shares and/or H Shares will be issued by the Company prior to the General Meeting.

The above proposal shall be submitted to the AGM as a special resolution for consideration and the passing of such resolution shall be by more than two-thirds of the votes of the Shareholders (including their proxies) attending the AGM.

### **6. AGM AND H SHAREHOLDERS CLASS MEETING**

The Company proposes to convene the AGM, A Shareholders Class Meeting and H Shareholders Class Meeting in sequence at the Conference Room, 5/F., China Merchants Bank Tower, No. 7088 Shennan Boulevard, Shenzhen, the PRC on Friday, 19 June 2015 at 9:30 a.m.. The Company has sent the notice of AGM and H Shareholders Class Meeting to Shareholders.

So far as the Company is aware, none of the Shareholders is materially interested in the Connected Issue and that none of the Connected Participants is a shareholder of the Company. As such, no Shareholder under the Hong Kong Listing Rules is required to abstain from voting in respect of the resolutions (which comprises the Connected Issue) to be proposed at the AGM and the H Shareholders Class Meeting.

All votes of resolutions at the AGM and H Shareholders Class Meeting will be taken by poll pursuant to the Hong Kong Listing Rules.

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## LETTER FROM THE BOARD OF DIRECTORS

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### 7. CLOSURE OF REGISTER OF MEMBERS

#### **Closure of register of members for the AGM and the H Shareholders Class Meeting**

In order to determine the shareholders of H shares who will be entitled to attend the AGM and the H Shareholders Class Meeting, the Company will suspend registration of transfer of shares from Tuesday, 19 May 2015 to Friday, 19 June 2015 (both days inclusive).

In order to qualify to attend the AGM and the H Shareholders Class Meeting, non-registered holders of H shares of the Company whose transfer documents have not been registered must deposit the transfer documents accompanied by relevant share certificates to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Monday, 18 May 2015. Shareholders of H Shares whose names are recorded in the register of members of the Company on Friday, 12 June 2015 are entitled to attend the AGM and the H Shareholders Class Meeting.

#### **Closure of register of members for payment of final dividend of 2014**

In order to determine the shareholders of H Shares entitled to receive the final dividend for the year ended 31 December 2014, the Company will suspend registration of transfer of shares from Friday, 26 June 2015 to Thursday, 2 July 2015 (both days inclusive).

In order to qualify to receive the final dividend, non-registered holders of H shares of the Company who have not had their transfer documents registered must deposit the transfer documents accompanied by relevant share certificates to the Company's H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by no later than 4:30 p.m. on Thursday, 25 June 2015. Shareholders of H Shares whose names are recorded in the register of members of the Company on Thursday, 2 July 2015 are entitled to receive the final dividend for the year 2014.

A reply slip and a form of proxy for use at each of the AGM and the H Shareholders Class Meeting have been sent to Shareholders separately and are also published on the websites of the Hong Kong Stock Exchange ([www.hkex.com.hk](http://www.hkex.com.hk)) and the Company ([www.cmbchina.com](http://www.cmbchina.com)). Shareholders who intend to attend the AGM and/or the H Shareholders Class Meeting in person or by proxy shall complete and return the relevant reply slip in accordance with the instructions printed thereon on or before 29 May 2015. Shareholders who intend to appoint a proxy to attend the AGM and/or the H Shareholders Class Meeting shall complete and return the form(s) of proxy in accordance with the instructions printed thereon not less than 24 hours before the time fixed for holding the AGM and/or the H Shareholders Class Meeting or any adjournment thereof (as the case may be). Completion and return of the form(s) of proxy will not preclude you from attending the AGM and/or the H Shareholders Class Meeting and voting in person if you so wish.

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## LETTER FROM THE BOARD OF DIRECTORS

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### 8. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Hong Kong Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular misleading.

### 9. RECOMMENDATION

The Directors believes that the resolutions set out in the Notice of AGM and H Shareholders Class Meeting are in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend that Shareholders should vote in favour of the resolutions to be proposed at the AGM and the H Shareholders Class Meeting as set out in the Notice of AGM and H Shareholders Class Meeting.

### 10. ADDITIONAL INFORMATION

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

Yours faithfully,  
By order of the Board of Directors  
**China Merchants Bank Co., Ltd.**  
**Li Jianhong**  
*Chairman*



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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of the letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in connection with the Connected Issue in accordance with the Hong Kong Listing Rules.*



招商銀行股份有限公司

**CHINA MERCHANTS BANK CO., LTD.**

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 03968)**

*Executive Directors:*

Tian Huiyu  
Zhang Guanghua  
Li Hao

*Registered address:*

China Merchants Bank Tower  
No. 7088 Shennan Boulevard  
Shenzhen 518040  
PRC

*Non-executive Directors:*

Li Jianhong  
Ma Zehua  
Li Xiaopeng  
Li Yinquan  
Fu Gangfeng  
Sun Yueying  
Su Min  
Fu Junyuan  
Hong Xiaoyuan

*Principal place of business*

*in Hong Kong:*  
21st Floor, Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

*Independent Non-executive Directors:*

Leung Kam Chung, Antony  
Wong Kwai Lam  
Pan Chengwei  
Pan Yingli  
Guo Xuemeng  
Zhao Jun

20 May 2015

*To the Independent Shareholders*

Dear Sir or Madam,

**CONNECTED ISSUE RELATING TO  
PROPOSED EMPLOYEE STOCK OWNERSHIP SCHEME**

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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We, the Independent Board Committee of China Merchants Bank Co., Ltd., are advising the Independent Shareholders in connection with the Connected Issue pursuant to the Scheme, details of which are set out in the letter from the Board contained in the circular (“Circular”) of the Company to the Shareholders dated 20 May 2015, of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Under the Hong Kong Listing Rules, the Connected Issue constitutes a connected transaction of the Company. Accordingly, the Connected Issue will require the approval of the Independent Shareholders at the AGM and the Class Meetings. We wish to draw your attention to the letter of advice from the Independent Financial Advisor set out on pages 33 to 45 of the Circular, which contains advice and recommendation in respect of the Connected Issue.

Having considered, inter alia, the terms of the Scheme and the Connected Issue and reasons considered by, and the recommendation of, the Independent Financial Advisor, as stated in its aforementioned letter, we consider the terms of the Connected Issue are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We are of the view that the Connected Issue is in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders vote in favour of the resolution(s) regarding the Private Placement of A Shares by the Company to designated placees as set out in the Notice of AGM and the Class Meetings to be proposed at the AGM and the H Shareholders Class Meeting to be held on 19 June 2015 and thereby approve the Connected Issue.

Yours faithfully,  
**Leung Kam Chung, Antony, Wong Kwai Lam,**  
**Pan Chengwei, Pan Yingli,**  
**Guo Xuemeng and Zhao Jun**  
*Independent Directors*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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*The following is the text of a letter of advice from the Altus Capital Limited, the Independent Financial Advisor to the Independent Board Committee and the Independent Shareholders in respect of the Connected Issue relating to the proposed Employee Stock Ownership Scheme, which has been prepared for the purpose of incorporation in the Circular.*

### **ALTUS CAPITAL LIMITED**

21 Wing Wo Street  
Central, Hong Kong

20 May 2015

*To the Independent Board Committee and the Independent Shareholders*

### **China Merchants Bank Co., Ltd.**

21st Floor  
Bank of America Tower  
12 Harcourt Road  
Central, Hong Kong

Dear Sirs,

## **CONNECTED ISSUE RELATING TO THE PROPOSED EMPLOYEE STOCK OWNERSHIP SCHEME**

### **INTRODUCTION**

We refer to our appointment as the Independent Financial Advisor to advise the Independent Board Committee and the Independent Shareholders in respect of the Connected Issue and the participation of the Connected Participants to subscribe for the A Shares under the Private Placement pursuant to the proposed Employee Stock Ownership Scheme. Details of the terms of the proposed Employee Stock Ownership Scheme are set out in the “Letter from the Board of Directors” contained in the circular of the Company dated 20 May 2015 (the “**Circular**”). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

As set out in the announcement of the Company dated 10 April 2015, the Board held the 31st Meeting of the Ninth Session of the Board of Directors on 10 April 2015, whereby relevant resolution(s) regarding the Scheme (in preliminary form) was/were considered and approved.

On 22 April 2015, the Board held the 32nd Meeting of the Ninth Session of the Board of Directors, whereby the matters relating to the Scheme were further considered. At the aforesaid board meeting, the Scheme was approved and the implementation of the Scheme will be by way of subscribing A Shares in Private Placement. The number of A Shares to be issued

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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under the Private Placement will not exceed 434,782,608 A Shares (in the event of dividend distribution, bonus issue, capitalisation of capital reserves or rights issue, during the period from the pricing reference date to the first day of the issuance period, the number of the A Shares to be issued under the Private Placement shall be adjusted according to the issue price subsequent to such ex-rights or ex-dividend events), and the gross proceeds to be raised will not be more than RMB6 billion.

The entrusted Asset Management Agency under the Scheme shall be the subscriber of the Private Placement. The Asset Management Agency will establish and manage the Asset Management Scheme to hold the relevant interest in the A Shares on behalf of the Scheme and subscribe the A Shares under the Private Placement in the capacity of the subscriber. As the Scheme is an “employees’ stock holding scheme established for a wide scope of participants” and the aggregate interests in the Scheme are less than 30%, the Asset Management Agency is not deemed as an associate of the Company’s connected person pursuant to Rule 14A.12 of the Hong Kong Listing Rules. As such, the entering into of the Asset Management Agreement by the Company (on behalf of the Scheme) would not constitute a connected transaction of the Company under Chapter 14A of the Hong Kong Listing Rules.

As the subscription targets of the Private Placement pursuant to the Scheme include, among others, the Connected Participants (i.e. certain Directors and certain Supervisors), and such Connected Participants constitute connected persons of the Company within the meaning of the Hong Kong Listing Rules. The Connected Issue and the participation of the Connected Participants in the Scheme to subscribe for the A Shares under the Private Placement constitute a connected transaction under the Hong Kong Listing Rules and shall be subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The related connected Directors, namely Zhang Guanghua, Tian Huiyu, Li Yinquan, Sun Yueying, Su Min, Fu Junyuan, Li Hao, Fu Gangfeng and Hong Xiaoyuan had abstained from voting on the Board resolution to consider and approve the passing of the issue of A Shares to the Scheme by way of Private Placement (including, among others, the Connected Issue, the Share Subscription Agreement and the transactions contemplated thereunder), and the resolutions were voted for by the other nine unrelated Directors. Save as disclosed above, none of the Directors have any material interests in the related resolutions of the Share Subscription Agreement or were required to abstain from voting on the Board resolutions to consider and approve the passing of the issue of A Shares to the Scheme by way of Private Placement (including, among others, the Connected Issue, the Share Subscription Agreement and the transactions contemplated thereunder) pursuant to the Hong Kong Listing Rules and/or the Articles of Association of the Company.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the Independent Non-executive Directors, namely Mr. Leung Kam Chung, Anthony, Mr. Wong Kwai Lam, Mr. Pan Chengwei, Dr. Pan Yingli, Ms. Guo Xueming and Mr. Zhao Jun has been established to advise the Independent Shareholders in connection with the Connected Issue pursuant to the Scheme, in particular, as to (i) whether the Connected Issue is in the interests of the Company and the Shareholders as a whole; and (ii) whether the terms of the Connected Issue are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) regarding the Private Placement of A Shares by the Company to designated places as set out in the Notice of AGM and the H Shareholders Class Meeting to be proposed at the AGM and the Class Meetings to be held on 19 June 2015 to consider and thereby approve the Connected Issue.

As the independent financial advisor to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion as to (i) whether the Connected Issue is in the interests of the Company and the Shareholders as a whole; and (ii) whether the terms of the Connected Issue are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in respect of the resolution(s) regarding the Private Placement of A Shares by the Company to designated places, as set out in the Notice of AGM and the H Shareholders Class Meeting to be proposed at the AGM and the Class Meetings to be held on 19 June 2015 to consider and thereby approve the Connected Issue.

### BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion are untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us are untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and recommendations with regards to the Connected Issue, we have considered the following principal factors and reasons:

#### 1. The proposed Employee Stock Ownership Scheme

To consider whether the Connected Issue relating to the Scheme is in the interests of the Company and the Shareholders as a whole and whether the terms of the Connected Issue are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, we have reviewed the terms of the Scheme as well as other market comparables. A full text of the Scheme is set out in Appendix I to the Circular.

As described in the “Letter from the Board of Directors”, the objective of the Scheme is to establish an incentive mechanism for the Management and key personnel team to promote the long-term and sustainable growth of the Company.

Also described in the “Letter from the Board of Directors”, the aggregate amount of funds to be raised from the subscription of A Shares in the Private Placement under the Scheme shall not be more than RMB6 billion and such funds shall be derived from the legitimate salary of Scheme Holders as well as funds raised through other legal means as approved by the Board. It is noted that other than the abovementioned means, the Company will not provide funding to employees for the purpose of subscribing A Shares in the Private Placement. The eligible employees are those who play crucial roles in the Company and are limited to 8,500.

The Directors (including independent non-executive Directors) considered that the Scheme is in compliance with the relevant laws, regulation, rules and normative documents and there is no circumstance where the relevant laws and regulations restrict or may prejudice the interests of the Company and the Shareholders as a whole and there is no circumstance where employees are forced to participate in the Scheme by way of apportionment, mandatory distribution and other methods.

We noted that during the term of the Scheme, if the Company raises funds through corporate actions such as rights issue and issuance of convertible bonds, Scheme Holders may participate in the fund raising, subject to the results of the Holders’ Meeting. If the Scheme Holders participate in the aforementioned events, they shall contribute further capital with their own funds.

It is noted that the purpose of the proposed implementation of the Scheme is in line with the purpose of the existing H-Share Appreciation Rights Scheme of the Company. The Board agrees that, upon obtaining the approval for the Scheme at the General Meeting of the Company, the H-Share appreciation rights yet to be granted under the Company’s existing H-Share Appreciation Rights Scheme shall be suspended immediately; and subject to the approvals (as set out in the Circular) and the implementation of the Scheme, the H-Share

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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Appreciation Rights Scheme shall be terminated officially and automatically and the grant of the share appreciation rights yet to be granted shall also be terminated, and the implementation of the related specific matters will be arranged for by the Board. When considering the nature of the Scheme, we have compared it with share option schemes within the meaning of Chapter 17 of the Hong Kong Listing Rules which are generally adopted by many companies listed on the Hong Kong Stock Exchange. We concluded that the principles under the Scheme are generally in line with those of Chapter 17 of the Hong Kong Listing Rules, and as a matter of fact certain terms of the Scheme as elaborated below are more stringent than those of Chapter 17 of the Hong Kong Listing Rules, which are in the interests of the Company and the Shareholders as a whole.

Specifically, with regards to share option schemes, Rule 17.03(6) and 17.03(7) of the Hong Kong Listing Rules suggest that it is not required to (i) have a fixed period for which an option must be held before it can be exercised; and (ii) have performance targets attached to the options respectively. By comparison, pursuant to the proposed Scheme, the Underlying Shares are subject to a lock-up period of 36 months. During such period, the Asset Management Agency entrusted by the Scheme shall not dispose or transfer the Underlying Shares to the Scheme Holders. Subsequent to the lock-up period there is a further post-lock up period of 36 months where the vesting is not only subject to the personal performance of the Scheme Holder but also to the targeted results of the Company. In short, the aforesaid lock up requirement encourages longer term commitment by the participating employees.

We noted that the Scheme is a practical alternative to share option schemes generally adopted by listed companies on the Hong Kong Stock Exchange (being those governed under Chapter 17 of the Hong Kong Listing Rules), which are implemented with the intention of incentivising employees over the medium to long-term. In the case of the Company which business operations and employee base are predominantly in the PRC, it is logical that the Scheme targets A Shares, which are not listed on the Hong Kong Stock Exchange. H Shares which are listed on the Hong Kong Stock Exchange cannot be generally owned or bought by employees who are nationals of the PRC. Since the publication of “CSRC Announcement 2014 No. 33” issued by the CSRC in June 2014 which promotes PRC corporations to adopt employee stock ownership schemes with a view to provide greater flexibility as to how companies can design employee compensation packages, we noted that to-date over 70 PRC listed companies had adopted such schemes, including two companies with both A share and H share listings. The Scheme is therefore a common format adopted by PRC companies with listed A shares in stock markets in the PRC and is promoted by the PRC government.

Having considered that (i) a sound medium to long-term incentive mechanism combining incentives and restraints could be established; (ii) the Scheme is a practical alternative to share option schemes generally adopted by listed companies on the Hong Kong Stock Exchange as elaborated above and its principles are in line, if not, certain terms are more stringent; (iii) capital could be raised by the Company immediately once the Private Placement is completed and capital may further increase through future corporate actions due to the increase in number of Shares, we consider that the terms of the Scheme are on normal commercial terms and in the interests of the Company and the Shareholders as a whole. As the Connected Issue

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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forms a part of the Scheme, we therefore also consider that the terms of the Connected Issue are on normal commercial terms and in the interests of the Company and the Independent Shareholders as a whole.

### 2. The implementation of the Scheme by way of Private Placement of A Shares

As described in the “Letter from the Board of Directors”, the implementation of the Scheme shall be by way of Private Placement of A Shares. Set out below are the key terms of the Private Placement of A Shares.

Key terms:

Class of shares to be issued:	A Shares
Number of shares to be issued:	Not more than 434,782,608 A Shares
Issue price:	RMB13.80 per A Share
Method of issue and method of subscription:	The A Shares are to be issued by way of the Private Placement and shall be subscribed in cash

#### *Number of A Shares to be issued*

As set out in the “Letter from the Board of Directors”, the number of A Shares to be issued under the Private Placement will not exceed 434,782,608 A Shares (subject to adjustment as mentioned in the paragraph headed “Introduction” above). Assuming full subscription, the entirety of the A Shares issued under the Private Placement will account for (i) approximately 2.11% of the existing issued A Shares and approximately 1.72% of the total share capital of the Company as at 10 April 2015, and (ii) approximately 2.06% of the enlarged issued A Shares and approximately 1.69% of the total enlarged issued share capital of the Company upon completion of the Private Placement and subscription.

As set out in the Group’s 2014 annual report, the Company currently has one share-based employee benefit scheme, namely the H-Share Appreciation Rights Scheme. The H-Share Appreciation Right Scheme is proposed to be terminated, subject to relevant approvals. The terms of the Scheme, as set out in Appendix I to the Circular, stipulates that the total number of Underlying Shares held under the Scheme must not amount to more than 10% of the Company’s total share capital. We noted that the abovementioned term, as set out in the employee stock ownership guideline in relation to the “CSRC Announcement 2014 No. 33” issued by the CSRC in June 2014, is similar to the requirements under Chapter 17 of the Hong Kong Listing Rules and similar to the corresponding terms set out by other comparable listed issuers. As such, we are of the view that the number of A Shares to be issued under the Private Placement is acceptable and fair and reasonable.



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### *Number of A Shares to be issued under the Connected Issue*

Pursuant to the Scheme, the number of A Shares to be issued under the Connected Issue will not exceed 7,070,000 A Shares (in the form of Scheme Entitlements). Assuming full subscription of the Connected Issue, the entirety of the Shares issued under the Connected Issue will account for (i) approximately 0.034% of the existing issued A Shares and approximately 0.028% of the total share capital of the Company as at 10 April 2015 (being the date of the Announcement), and (ii) approximately 0.033% of the enlarged issued A Shares and approximately 0.027% of the total enlarged issued share capital of the Company upon completion of the Private Placement and subscription.

As set out above, the H-Share Appreciation Rights Scheme is proposed to be terminated, subject to relevant approvals. There is currently no other share-based employee benefits scheme held by any Connected Participants. The terms of the Scheme, as set out in the Appendix I to the Circular, stipulates that the total number of Underlying Shares corresponding to the Scheme Entitlements allotted to individual holders must not amount to more than 1% of the Company's total share capital. We noted that the abovementioned term, as set out in the employee stock ownership guideline in relation to the "Announcement 2014 No. 33" issued by the CSRC in June 2014, is similar to the requirements under Chapter 17 of the Hong Kong Listing Rules and similar to the corresponding terms set out by other comparable listed issuers. As such, we are of the view that the number of A Shares to be issued under the Connected Issue is acceptable and fair and reasonable.

### *Lock-up period*

As set out in the "Letter from the Board of Directors", the A Shares subscribed under the Scheme in the Private Placement will be subject to a lock-up period of 36 months, starting from the time when the Company makes an announcement on the registration of such A Shares in the Private Placement under the Scheme. After the lock-up period, the entitlements of the A Shares under the Scheme that can be vested in the individual Scheme Holders may be determined according to the corporate performance targets and individual performance of the Scheme Holders. We are of the view that the lock-up arrangement in relation to the Scheme is in the interests of the Company and the Shareholders as a whole having taken into account that (i) the lock-up arrangement applies to all participants of the Scheme (including the Connected Participants); (ii) the lock-up arrangement may help to prevent unnecessary volatile movements to the Share price and trading volume of the Company; and (iii) the lock-up arrangements are similar to the corresponding terms of schemes adopted by other comparable listed issuers.

### *Issue price*

The issue price of the Private Placement is set at RMB13.80 per A Share, in accordance with the administrative measures issued by the CSRC for the issuance of securities by A share listed companies that the aforementioned issue price shall not be less than 90% of the average trading price of the Company's A Shares over 20 trading days (being 6 March 2015 to 2 April 2015) before the reference date.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

The issue price determination date is based on a reference date which is the day the Scheme was considered and approved by the Board of the Company. We noted that this date has been determined on a transparent manner and is in line with the requirements of Chapter 17 of the Hong Kong Listing Rules. The basis of determining the issue price under the Scheme of 20 trading days, while being slightly longer than stipulated under Chapter 17 of the Hong Kong Listing Rules, which requires that the exercise price of options must be at least the higher of: (i) the closing price of the securities as stated in the Hong Kong Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (ii) the average closing price of the securities as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of options, serves to take into consideration the trading pattern of the A Shares. In addition, the abovementioned 20 trading day basis is similar to other comparable schemes. Hence, we are of the view that overall, the basis of determining the issue price of the A Shares under the Private Placement for the Scheme is fair and reasonable.

With regard to private placings of new shares by means of the general mandate, Rule 13.29 of the Hong Kong Listing Rules permits a discount of up to 20% to the immediate closing price per share prior to the private placement agreement.

We have based on a list of 75 companies listed on the Shenzhen Stock Exchange or Shanghai Stock Exchange (including the Company) which have adopted employee stock ownership schemes since the regulations became effective in June 2014 and identified four main board listed companies which have (i) announced the adoption of the employee stock ownership scheme since January 2015; (ii) implemented by way of a private placement of A shares; and (iii) included identified participants who are connected persons (the “**Comparables**”). We believe the list below to be exhaustive. The time period was chosen as we believe that the four companies which have undertaken such an exercise since January 2015 are sufficient to provide a reasonably well informed view of the Comparables. The result of our analysis are as follows:

Date of announcement relating to the adoption of the employee stock ownership scheme and determination of the issue price per A share	Company name	Stock market and class of shares	Stock code	Approximate size of the scheme	Issue price per A share	Approximate percentage of discount to the 20-day average trading price of the A shares prior to the date of announcement relating to the adoption of the employee stock ownership scheme
13 January 2015	廣州白雲山醫藥集團股份有限公司 Guangzhou Baiyunshan Pharmaceutical Holdings Co. Ltd.	Shanghai Stock Exchange A shares	SHA:600332	RMB505 million	RMB23.84	5%
		The Hong Kong Stock Exchange H shares	HK:874			

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

Date of announcement relating to the adoption of the employee stock ownership scheme and determination of the issue price per A share	Company name	Stock market and class of shares	Stock code	Approximate size of the scheme	Issue price per A share	Approximate percentage of discount to the 20-day average trading price of the A shares prior to the date of announcement relating to the adoption of the employee stock ownership scheme
15 January 2015	武漢武商集團股份有限公司 Wuhan Department Store Group Co., Ltd.	Shenzhen Stock Exchange A shares	SZ:000501	RMB844 million	RMB13.57	10%
22 January 2015	浙江南洋科技股份有限公司 Zhejiang Nanyang technology Co., Ltd	Shenzhen Stock Exchange A shares	SZ:002389	RMB79 million	RMB8.82	10%
10 April 2015	招商銀行股份有限公司 China Merchants Bank Co., Ltd.	Shanghai Stock Exchange A shares	SHA:600036	RMB6,000 million	RMB13.80	10%
		Hong Kong Stock Exchange H Shares	HK:3968			

We note that the issue price of RMB13.80 per A Share, represents a discount of approximately 10% to the 20-day average trading price of the A Shares prior to the date of announcement relating to the adoption of the Scheme. Such percentage discount falls within the range of approximately 5% to 10% of the Comparables.

Taking into account that (i) the issue price of the Private Placement is the same for all participants of the Scheme (i.e. applies also to the Connected Participants under the Connected Issue); (ii) the basis of issue price determination of the A Shares under the Private Placement for the Scheme is similar to other comparable schemes; (iii) the issue price of the Private Placement is in compliance with the administrative measures issued by the CSRC; (iv) the issue price of the Private Placement falls within the generally permissible discount rate under Rule 13.29 of the Hong Kong Listing Rules; (v) the issue price of RMB13.80 per A Share, which is 90% of the average trading price of the Company's A Shares over 20 trading days, would help to incentivise employees over the medium to long-term; and (vi) the abovementioned percentage discount to the 20-day average trading price of the Company's A Shares falls within the range of approximately 5% to 10% of the Comparables, we are of the view that the terms of the Scheme is on normal commercial terms, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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In summary, the implementation of the Scheme will not have significant impact on the share capital and shareholding structure of the Company and the issue price of the Private Placement had also been fairly determined. In particular, all participating employees, including the Connected Participants under the Connected Issue, will be subject to identical terms such as issue price, lock-up arrangements as well as performance targets. Based on the above, we are of the view that from these perspectives, the terms of the Scheme and the Connected Issue have been fairly and reasonably determined.

### **3. Use of proceeds from the Private Placement**

Subject to the level of participation in the Scheme by the Company's employees, the Company will receive proceeds of up to RMB6 billion from the Private Placement. The abovementioned proceeds, after deducting the issue expenses, will be used to replenish the Company's core tier-1 capital.

As set out in "Letter from the Board of Directors", the Management is of the view that the enlarged core tier-1 capital will have a positive impact on, among others, the capital capabilities and risk resistance abilities of the Company as well as facilitating the sustainable development, profit growth and creating sustainable investment returns for shareholders.

We therefore are of the view that the use of proceeds from the Private Placement is in the interests of the Company and the Shareholders as a whole. We also wish to highlight that capital will be raised immediately once the Private Placement pursuant to the Scheme is completed. In contrast, capital will only be raised from a share option scheme under Chapter 17 of the Hong Kong Listing Rules when the relevant options are exercised.

### **4. Possible dilutive impact of the Private Placement on earnings per share and immediate returns**

Although the size of the Company's share capital and equity is expected to expand after completion of the Private Placement, the Management believes, and we concur, that the Company may have to take some time to implement the expansion plan and to contribute to the earnings and benefits directly generated from the use of proceeds from the Private Placement.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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As set out in the announcement of the Company dated 22 April 2015, without taking into consideration the use of the Private Placement's proceeds to produce benefits, that the impact of the Private Placement on the Company's key financial indicators based on the audited financial figures of the Group for the year ended 31 December 2014 ("FY") on a static basis will be as follows:

Indicators	FY2014	FY2014	Variance
	before the Private Placement	immediately after completion of the Private Placement	
Total share capital (in 100 million shares)	252.2	256.5	4.3
Net assets (in RMB100 million)	3,144.0	3,204.0	60.0
Weighted average return on net assets	19.28%	19.09%	-0.20%
Fully diluted return on net assets	17.78%	17.45%	-0.33%
Basic earnings per share (RMB)	2.22	2.18	-0.04
Diluted earnings per share (RMB)	2.22	2.18	-0.04

We noted that in the short-term and based on historical financial performance (i) the increase in share capital will result in an approximately RMB0.04 dilution of earnings per share of the Company (representing approximately 2%) due to the issuance of the 434,782,608 A Shares and (ii) that the RMB6 billion increase in net assets of the Company resulting from the Private Placement will lead to a slight reduction of approximately 0.20% to the weighted average return on net assets and approximately 0.33% to the fully diluted return on net assets.

As mentioned in paragraph 3 above, the net proceeds from the Private Placement will be used to replenish the Company's core tier-1 capital. The Directors believe, and we concur, that the enlarged core tier-1 capital will facilitate the sustainable development and profit growth of the Group.

We are of the view that the dilution set out above is not significant. Also, taking into account the short term nature of the dilution and the measures which will be taken to ensure the effective use of proceeds of the Private Placement as set out in the announcement of the Company dated 22 April 2015, we concur with the Management that such dilution arising from the implementation of the Scheme and the Private Placement to the earnings per share and immediate returns, are acceptable. It is therefore reasonable to put into place the Scheme, which will have long-term benefits to the Company while providing performance-related incentives to key employees of the Company, as these are in the interests Company and the Shareholders as a whole.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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### 5. Dilution effect on the Shareholders

Due to the potential issuance of new A Shares pursuant to the Private Placement, we have also considered the possible dilution effects to the Shareholders.

Below is a table setting out the share capital and shareholding structure of the Company at the Latest Practicable Date and immediately upon completion of the transactions contemplated under the Share Subscription Agreement (assuming that (i) there are no other changes to the shareholding structure of the Company from the Latest Practicable Date up to the date of the completion of the Share Subscription Agreement; (ii) the number of A Shares to be issued under the Private Placement will not be more than 434,782,608 A Shares and there are no event of dividend distribution, bonus issue, capitalisation of capital reserves or rights issue, during the period from the pricing reference date to the first day of the issuance period; and (iii) the total amount of Scheme Entitlements to be subscribed by the Connected Participants as well as senior management personnel under the Connected Issue in aggregate (the Initial Entitlements) shall be no more than 7,070,000 new A Shares (in the form of the Scheme Entitlements) pursuant to the Scheme)) are as follows:

	<b>Shareholding as at the Latest Practicable Date</b>		<b>Shareholding immediately upon completion of the transactions contemplated under the Share Subscription Agreement</b>	
	<i>Number of issued shares</i>	<i>Approximate percentage of issued Shares (%)</i>	<i>Number of issued Shares</i>	<i>Approximate percentage of issued Shares (%)</i>
China Merchants Group Ltd. and its associates				
A Shares	4,887,749,287	19.38	4,887,749,287	19.05
H Shares	156,178,923	0.62	156,178,923	0.61
Anbang Property & Casualty Insurance Company Limited – Traditional products				
A Shares	2,704,596,216	10.72	2,704,596,216	10.54
Supervisor (who is not a Connected Participant)				
A Shares	65,800	0.00026	65,800	0.00025
Scheme Holders (excluding Connected Participants)				
A Shares	–	–	427,712,608	1.667
Connected Participants				
A Shares	–	–	7,070,000	0.027
<b>Public Shareholders</b>				
A Shares	13,036,488,126	51.69	13,036,488,126	50.82
H Shares	4,434,722,249	17.58	4,434,722,249	17.29
Total	25,219,845,601	100.00	25,654,628,209	100.00
		<i>(Note 1)</i>		<i>(Note 1)</i>

*Note 1:* Numbers in percentage may not add up to a total figure due to rounding.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISOR

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As set out in the above table that the shareholding of the existing public A Shareholders will be diluted from approximately 51.69% to approximately 50.81% while the shareholding of the existing public H Shareholders will be diluted from approximately 17.58% to approximately 17.28%. Based on the aforesaid percentage changes, the Private Placement of the entirety of the Scheme will cause only insignificant dilution to the existing public Shareholders' interest and we believe is acceptable in view of the overall benefits of the Scheme. We are of the view that the Scheme will have long-term benefits to the Company by providing performance-related incentives to key employees of the Company which in turn can bring about long-term sustainable development and profit growth, which is in the interests of the Company and the Shareholders as a whole.

### RECOMMENDATION

Having considered the above principal factors and reasons; in particular the fact that the terms of the Scheme are on normal commercial terms and are fairly and reasonably determined, and that all participating employees under the Scheme (including the Connected Participants) will be subject to identical terms and conditions, we are of the view that the terms of the Connected Issue are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned. We are also of the view that the Connected Issue is in the interests of the Company and its Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution(s) regarding the Private Placement of A Shares by the Company to designated places as set out in the Notice of AGM and the H Shareholders Class Meeting to be proposed at the AGM and the Class Meetings to be held on 19 June 2015 and thereby approve the Connected Issue.

Yours faithfully  
For and on behalf of  
**Altus Capital Limited**  
**Chang Sean Pey**  
*Executive Director*

*Mr. Chang Sean Pey ("Mr. Chang") is a Responsible Officer of Altus Capital Limited licensed to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and permitted to undertake work as a sponsor. He is also a Responsible Officer of Altus Investments Limited licensed to carry on type 1 (dealing in securities) regulated activity under the SFO. Mr. Chang has over 15 years of experience in banking, corporate finance and advisory, and investment management. In particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

*Pursuant to Rule 13.84 of the Listing Rules, Altus Capital Limited is independent of the Group. Altus Capital Limited has not acted as an independent financial adviser for the Group's other transactions in the last two years from the date of the Circular.*

**China Merchants Bank Co., Ltd.**

**2015 First Phase Employee Stock  
Ownership Scheme (Draft)  
(by way of subscribing A Shares in  
Private Placement)**



**Statement**

The Board of Directors of China Merchants Bank Co., Ltd. (the “Company”) and all Directors thereof guarantee that the information contained in this Scheme does not contain any false representations, misleading statements or material omissions, and jointly and severally accept responsibility for the truthfulness, accuracy and completeness of its content.

**Special Reminder**

- (I) To further improve the Company's legal entity governance structure, stabilize management and key personnel team, establish a sound mid and long-term incentive mechanism combining incentives and restraints, and promote the long-term, sustained and healthy development of the Company, the First Phase Employee Stock Ownership Scheme of China Merchants Bank Co., Ltd. for 2015 (the "Scheme") has been established based on the principles of "legal compliance, voluntary participation, self-bearing of risks and the combination of incentives and restraints".
- (II) The Scheme has been formulated in accordance with the *Company Law of the People's Republic of China*, the *Securities Law of the People's Republic of China*, the *Guiding Opinion on the Pilot Implementation of Employee Stock Ownership Scheme by Listed Companies*, other relevant laws, rules and regulations and normative documents as well as provisions of the *Articles of Association*.
- (III) The Scheme may only be implemented upon proposal by the Company's Board of Directors, subject to the fulfillment of the following conditions: (1) the Scheme being approved by the Company's shareholders' general meeting and the Private Placement of A Shares to be carried out for the purpose of implementing the Scheme being approved by the shareholders' general meeting of the Company (including shareholders' class meetings); (2) the obtaining of approval from China Banking Regulatory Commission for matters of the Private Placement of A Shares to be carried out for the purpose of implementing the Scheme; (3) the obtaining of approval from China Securities Regulatory Commission for matters of the Private Placement of A Shares to be carried out for the purpose of implementing the Scheme; and (4) the filing of the Private Placement of A Shares to be carried out for the purpose of implementing the Scheme with the Hong Kong Stock Exchange.
- (IV) The funds of the Company's employees participating in the Scheme shall be derived from the legitimate salary of the employees as well as funds raised by them through other legal means as examined and approved by the Board. Shares of the Scheme shall be derived from A Shares to be subscribed under the Company's Private Placement (the "Private Placement"). The total amount of funds used in the subscription of A Shares in the Company's Private Placement shall not exceed RMB6 billion and the number of shares to be subscribed under the Private Placement shall not exceed 434,782,608 shares. If the issue price of the Private Placement was adjusted due to any ex-rights or ex-dividend issue occur(s) during the period from the pricing reference date to the issue date, the number of shares issued under the Private Placement shall be adjusted accordingly. After the Scheme was implemented, the total number of Underlying Shares held under all effective employee stock ownership schemes of the Company shall not exceed 10% of the Company's total share capital and the total number of Underlying Shares corresponding to Scheme Entitlements granted to individual employees shall not, in aggregate, exceed 1% of the Company's total share capital. Target participants of the Scheme shall not be more than 8,500, including certain Directors, certain Supervisors, certain senior management personnel, middle-level cadres and key employees of the Company as well as senior management personnel of the Company's wholly-owned subsidiaries, of which Li Jianhong (Chairman), Ma Zehua (Vice Chairman) and Li Xiaopeng (Director) will not participate in the Scheme, while participation of other non-executive Directors and

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**APPENDIX I      2015 FIRST PHASE EMPLOYEE STOCK OWNERSHIP SCHEME (DRAFT)  
OF CHINA MERCHANTS BANK CO., LTD. (BY WAY OF SUBSCRIBING  
A SHARES IN PRIVATE PLACEMENT)**

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shareholder Supervisors in the Scheme is required to be reported to the relevant authorities for approval while independent non-executive Directors and external Supervisors shall not participate in the Scheme. The total amount of Scheme Entitlements under the Stock Ownership Scheme to be subscribed by the Directors, Supervisors and senior management personnel participating in the Scheme (the initial entitlements) shall be no more than 7,070,000 units, representing not more than 1.63% of the Scheme Entitlements (initial entitlements). The specific amount shall be determined in accordance with the approval of the relevant authorities and the actual payment made by the aforementioned parties.

- (V) The subscription price of the shares to be subscribed for under the Scheme in the Company's Private Placement is RMB13.80 per share and such issue price shall not be less than 90% of the average trading price of the Company's A shares over 20 trading days before the date of announcement of resolutions of the 31st Meeting of the Ninth Session of the Board of Directors of the Company (the reference date). If any ex-rights or ex-dividend issue occurs during the period from the pricing reference date to the issue date, the issue price and issue base price shall be adjusted accordingly.
- (VI) The lock-up period of Underlying Shares allotted to the Scheme in the Private Placement shall be 36 months<sup>1</sup>, commencing from the time when the Company makes an announcement on the registration of such Underlying Shares under the Scheme.
- (VII) The management of the Scheme shall be entrusted to GF Securities Asset Management (Guangdong) Co., Ltd. through its specifically established GF Securities – China Merchants Bank ESOP Designated Asset Management Scheme. The Scheme shall subscribe for the shares to be issued under the Private Placement through such Asset Management Scheme.
- (VIII) Upon implementation, this Scheme will not lead to any corporate equity distribution not in compliance with the listing conditions and requirements.
- (IX) The term of the Scheme is six years.
- (X) The Scheme is the Company's First Phase Employee Stock Ownership Scheme in 2015. In principle, an employee stock holding scheme will be launched once every year in the next two years in principle, namely, the second phase employee stock ownership scheme and the third phase employee stock ownership scheme. The total amount of funds involved in the three phases of employee stock ownership scheme shall not exceed RMB10 billion.
- (XI) The total amount of funds involved in the coming second phase and third phase employee stock ownership schemes shall not exceed RMB2 billion respectively. Details of the second phase and third phase employee stock ownership schemes shall be separately formulated by the Company and filed with the Board and the shareholders' general meeting for approval. Shares shall be derived from shares purchased in the secondary market or shares subscribed for in a private placement. In the event that any subscription of shares in a private placement is involved, it needs to separately obtain the approval of the Company's Board and shareholders' general meeting (including the shareholders' class meetings) and has to be reported to the relevant regulatory departments for approval and filing.

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<sup>1</sup> In the event of any change in the regulatory policy in the future, the regulatory policy requirement shall prevail.

**Contents**

<b>I. Definition</b> .....	AppI-6
<b>II. Purpose and Principle of the Scheme</b> .....	AppI-8
<b>III. Target Participants of the Scheme</b> .....	AppI-9
<b>IV. Source of Funds, Source of Shares and Lock-up Period</b> .....	AppI-10
<b>V. Term, Modification and Termination of the Scheme</b> .....	AppI-12
<b>VI. Vesting and Disposal of the Scheme Entitlements</b> .....	AppI-15
<b>VII. Holders' Meeting and its Convening and Voting Procedures</b> .....	AppI-18
<b>VIII. Management Committee and its Responsibilities</b> .....	AppI-21
<b>IX. Management of the Scheme</b> .....	AppI-22
<b>X. Procedures Required for Performing the Scheme</b> .....	AppI-26
<b>XI. Specific Matters Authorized by the Shareholders'</b> <b>General Meeting to the Board of Directors</b> .....	AppI-27
<b>XII. Others</b> .....	AppI-28

**APPENDIX I      2015 FIRST PHASE EMPLOYEE STOCK OWNERSHIP SCHEME (DRAFT)  
OF CHINA MERCHANTS BANK CO., LTD. (BY WAY OF SUBSCRIBING  
A SHARES IN PRIVATE PLACEMENT)**

**I. DEFINITION**

Unless otherwise specified, the following terms used herein have the meanings set out below:

<b>Terms</b>	<b>Meaning</b>
Scheme	<i>2015 First Phase Employee Stock Ownership Scheme of China Merchants Bank Co., Ltd.</i>
Company	China Merchants Bank Co., Ltd.
Underlying Share(s)	shall comprise shares under the following three categories: (1) A Shares of the Company privately placed by the Company to implement the Scheme and being subscribed by the Scheme; (2) the share yield generated by the aforementioned shares from dividend distribution and capitalization during the term of the Scheme; and (3) the increased shareholding of the Company's A Shares as a result of the participation of the Scheme in the subsequent share placing of the Company
Target participants	core personnel of the Company being confirmed by the Company to be eligible to participate in the Scheme
Scheme Entitlement(s)	the equal portions of the Scheme divided in accordance with the amount of Underlying Shares held, while each Scheme Entitlement corresponds to one Underlying Share (such one share of Underlying Share included the corresponding cash assets (if any) of the Scheme); the Scheme Entitlements included initial entitlements and vesting entitlements which shall be recorded by the Asset Management Agency engaged by the Company
Holders' Meeting	meeting of all Scheme Holders
Initial Entitlements	the Scheme Entitlements prior to the vesting by the Company
Board	the Board of Directors of the Company
Senior Management Personnel	senior management personnel of the Company as stipulated in the Articles of Association
<i>Company Law</i>	<i>Company Law of the People's Republic of China</i>
<i>Articles of Association</i>	<i>Articles of Association of China Merchants Bank Co., Ltd.</i>
Shareholders' General Meeting	Shareholders' General Meeting of the Company

**APPENDIX I      2015 FIRST PHASE EMPLOYEE STOCK OWNERSHIP SCHEME (DRAFT)  
OF CHINA MERCHANTS BANK CO., LTD. (BY WAY OF SUBSCRIBING  
A SHARES IN PRIVATE PLACEMENT)**

<b>Terms</b>	<b>Meaning</b>
Management Committee	a body elected at the Scheme Holders' Meeting for the daily administration of the Scheme
Vest	action by the Company to confirm the actual Entitlements of the Scheme actually entitled to the Scheme Holders based on a performance-linked assessment mechanism
Vesting Entitlements	The balance of the Scheme Entitlement after vesting by the Company. For the avoidance of doubt, when calculating the Vesting Entitlements, shares sold or transferred to the Scheme Holders according to the Scheme are excluded
Scheme Holders	Target Participants who make actual contribution to participate in the Scheme
SSE	Shanghai Stock Exchange
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Yuan and Yuan (hundred million)	Renminbi and Renminbi (hundred million)
Asset Management Agency or Asset Manager	GF Securities Asset Management (Guangdong) Co., Ltd.
Asset Management Scheme	the asset management scheme dedicated for employees' shareholdings, namely GF Securities – China Merchants Bank ESOP Designated Asset Management Scheme, which is to be established by the Asset Management Agency engaged by the Scheme
<i>Securities Law</i>	<i>Securities Law of the People's Republic of China</i>
CSDC	China Securities Depository and Clearing Corporation Limited Shanghai Branch
CBRC	China Banking Regulatory Commission
CSRC	China Securities Regulatory Commission

**II. PURPOSE AND PRINCIPLE OF THE SCHEME**

(I) Purpose of the Scheme

1. Further improve the Company's legal entity governance structure and establish a sound mid and long-term incentive mechanism combining incentives and restraints;
2. Effectively stabilize management and key personnel team and mobilize the initiative of management and key employees to promote the long-term, sustained and healthy development of the Company;
3. Implementing the Scheme by the way of private placement is beneficial to the Company's capital replenishment.

(II) Formulation of the Principles of the Scheme

1. Legal compliance: procedures are performed in strict accordance with the laws, administrative regulations and rules as well as the provisions of normative documents of regulatory departments;
2. Voluntary participation: based on the principle of voluntary participation and acting according to one's ability, apportionment, mandatory distribution and other methods are not used by the Company to force employees to participate;
3. Self-bearing of risks: participants assume responsibility for their profits and losses at their own risk;
4. Combination of incentives and restraints: to encourage the fulfillment of long-term results, performance is linked to assessment indicators to strengthen a common goal, and to tie up the long-term interests of core employees and shareholders.

### III. TARGET PARTICIPANTS OF THE SCHEME

- (I) Target participants of the Scheme, which number is limited to 8,500, are core personnel playing a crucial role in the Company's overall performance and mid and long-term development, including certain Directors, certain Supervisors, certain senior management personnel, middle-level cadres and key employees of the Company as well as senior management personnel of the Company's wholly-owned subsidiaries, of which Li Jianhong (Chairman), Ma Zehua (Vice Chairman) and Li Xiaopeng (Director) will not participate in the Scheme, while participation of other non-executive Directors and shareholder Supervisors in the Scheme is required to be reported to the relevant authorities for approval while independent non-executive Directors and external Supervisors shall not participate in the Scheme.
- (II) The total amount of Scheme Entitlements subscribed by the Directors, Supervisors and senior management personnel participating in the Scheme (Initial Entitlements) shall be no more than 7,070,000 units, representing not more than 1.63% of the total Scheme Entitlements (Initial Entitlements).
- (III) The specific total amount Scheme Entitlements subscribed by the Directors, Supervisors and senior management personnel shall be determined in accordance with the approval of the relevant authorities and the actual payment made by the aforementioned parties, while the final number of participants of other schemes and their Initial Entitlements shall be determined in accordance with the actual payment made by the participating targets. The final number of Scheme Holders in the Scheme and the its Initial Entitlements shall be determined according to the actual contribution of the Target Participants.
- (IV) In the event of any of the following circumstances, an employee shall fail to become a Scheme Holder:
1. the employee was publicly condemned or declared as inappropriate candidate by a securities exchange in the past three years;
  2. the employee was charged with administrative penalty by the CSRC for major violation of laws and regulations in the past three years;
  3. the employee had caused severe damage to the Company's interests, reputation and image due to the leakage of national or corporate secrets, corruption, theft, embezzlement, bribe-taking, bribe-giving, negligence, malfeasance and other acts in violation of national laws and regulations or acts in violation of public order, good morals as well as professional ethics and conduct in the past three years;
  4. a situation which is deemed by the Board that the employee fails to be become a holder of the Scheme;
  5. other situations as stipulated by relevant laws, regulations or normative documents that the employee fails to become a Holder of the Scheme.



**IV. SOURCE OF FUNDS, SOURCE OF SHARES AND LOCK-UP PERIOD**

(I) Source of funds of the Scheme

The total amount of funds used in the subscription of shares in the Private Placement under the Scheme shall not exceed RMB6 billion. Funds of the Scheme shall be derived from the legitimate salary of Scheme Holders as well as funds raised through other legal means as approved by the Board.

(II) Source of shares of the Scheme

Shares to be subscribed for by the Scheme shall be derived from A Shares in the Company's Private Placement and the number of shares to be subscribed for shall not exceed 434,782,608 shares. If the issue price of the Private Placement was adjusted due to any ex-rights or ex-dividend issue occur(s) during the period from the pricing reference date to the issue date, the number of shares subscribed under the Scheme shall be adjusted accordingly.

The total number of Underlying Shares held under the Scheme must be in compliance with the provisions of relevant laws and administrative regulations and amounting to not more than 10% of the Company's total share capital; the total number of Underlying Shares corresponding to the Scheme Entitlements allotted to individual holders shall not, in aggregate, exceed 1% of the Company's total share capital. The total number of Underlying Shares held under the Scheme shall not include shares received by the holders prior to the Company's initial public offering, shares purchased by them in the secondary market and shares received through equity incentive plans. In the event of any change in relevant laws, administrative regulations, rules or normative documents in the future, the new requirements shall prevail.

(III) Price of Underlying Shares

The subscription price of the shares to be subscribed for under the Scheme in the Company's Private Placement is RMB13.80 per share and such issue price shall not be less than 90% of the average trading price of the Company's A shares over 20 trading days before the pricing reference date (the date of announcement of resolutions of the 31st Meeting of the Ninth Session of the Board of the Company) (the average trading price of the shares over 20 trading days before the pricing reference date = the total trading amount of shares over 20 trading days before the pricing reference date ÷ the total trading volume of shares over 20 trading days before the pricing reference date).

If any ex-rights or ex-dividend issue occurs during the period from the pricing reference date to the issue date, the issue price and issue base price shall be adjusted accordingly.

(IV) No shares of the Company shall be disposed of under the Scheme during the following periods:

1. the period starting from 60 days prior to the convening of the Company's Board meeting for the consideration of annual report to the date of disclosure of the annual report (both days inclusive);
2. the period starting from one month (preceding 30 days in the case of February) prior to the convening of the Company's Board meeting for the consideration of quarterly or interim report to the date of disclosure of the quarterly or interim report (both days inclusive);
3. ten days prior to the release of the Company's results preview or preliminary report (both days inclusive);

Any disposal of the Company's shares is prohibited during the periods referred to in the above 1-3, including the extension of period for announcement of the Company's results;

4. the period starting from the date when a material issue that may significant affect the Company's share price is known to two trading days after the issue is disclosed according to law.

In the event of any disposal of the Company's shares by the Scheme within six months after the shares are purchased or any purchase of the Company's shares by the Scheme within six months after the shares are disposed of, the proceeds shall belong to the Company.

In the event of any change in the relevant laws and administrative regulations in the future, the new requirements shall prevail.

**V. TERM, MODIFICATION AND TERMINATION OF THE SCHEME**

- (I) The term of the Scheme is six years, commencing from the date when the Company makes an announcement on the registration of Underlying Shares under the Scheme; the lock-up period is the first 36 months of the term, and after the expiry of the lock-up period is the post-lock-up period. Upon obtaining the Board's approval of the proposal submitted by the Management Committee, the term can be extended.
- (II) During the lock-up period, the Scheme and the Asset Management Agency entrusted by the Scheme shall not dispose or transfer the Underlying Shares, whereas during the post-lock-up period, the Company shall determine whether the Scheme Holders is eligible to vesting and the actual amount that ultimately could be vested to such Scheme Holders according to the level of accomplishment of the result target of the Company for the year during the lock-up period<sup>2</sup> and the personal performance of the Scheme Holders.
- (III) During the post-lock-up period, when all assets corresponding to the Vesting Entitlements under the Scheme are currency funds, the Scheme may be terminated in advance upon being passed at the Holders' Meeting and approval by the Board.
- (IV) When there is a modification, merger or division of the Company's de facto control, the Scheme remains unchanged and continues to be implemented, except where the decision to modify or terminate the Scheme is reached at the Holders' Meeting and approved by the Board.
- (V) In the event of any one of the following circumstances, the Scheme shall be terminated in accordance with the provisions of the relevant laws, regulations, rules and normative documents:
1. the term of the Scheme has expired;
  2. the Company has applied for bankruptcy, liquidation or dissolution;
  3. the continued implementation of the Scheme will lead to conflict with the then national laws, regulations, rules or normative documents;
  4. the Company faces serious operating difficulties or other important matters have occurred to the Company;
  5. other circumstances that the termination of the Scheme is required as stipulated by the relevant laws, regulations, rules and normative documents.

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<sup>2</sup> The result target shall become effective after being proposed to and passed by the Board.

(VI) After the Scheme was terminated, the procedures as required by the section VI of the Scheme (Vesting and Disposal of the Scheme Entitlements) shall be taken.

(VII) In the event of the retirement, death, incapacity, resignation, violation of law and regulation of the Scheme Holders, the following different measures shall be applied:

1. Retirement

Scheme Holder who retires due to reaching the age of retirement as set out by the State requirement and has accepted the obligation of non-competition, no change shall be made to his/her Scheme Entitlements. For Scheme Holder who retires during the lock-up period and refuses to assume the obligation of non-competition, the Company shall determine its Vesting Entitlements upon expiry of the lock-up period.

2. Death or incapacity

In the event of Scheme Holder leaving his/her original post due to reasons such as death or incapacity, no change shall be made to his/her Scheme Entitlements. Of which, the Scheme Entitlements of Scheme Holder who passed away shall be inherited by his/her lawful successor. In case where the aforementioned event occurs during the lock-up period, the Company shall determine his/her (or his/her lawful successor's) Vesting Entitlements upon expiry of the lock-up period.

3. Resignation

If during the lock-up period, the Scheme Holder tenders resignation voluntarily or chooses not to renew the labor contract upon the expiry of the labor contract, and has accepted the obligation of non-competition, no change shall be made to his/her Scheme Entitlements. For Scheme Holder who resigns or chooses not to renew the labor contract during the lock-up period, the Company shall determine his/her Vesting Entitlements upon expiry of the lock-up period.

4. Non-compliance with law and regulation

If any of the following circumstances occurs to the Scheme Holder during the term of the Scheme, his/her right to participate in the Scheme shall be terminated automatically and such Scheme Holder shall withdraw from the Scheme automatically:

- (1) Violation of law and criminal offense by the Scheme Holder, or serious misconduct or fraudulent acts by him/her which caused material damage to the Company;
- (2) Violation of requirement in the regulation and policy of the Company such as labor contract, non-disclosure, obligation of non-competition or Employee Handbook by the Scheme Holder, whose action constitute a circumstance where the Company can directly terminate his/her labor contact.

In the event of the any of the above circumstances, the Company shall be entitled to dispose of the Scheme Entitlements and the corresponding Underlying Shares of such Scheme holder.

**VI. VESTING AND DISPOSAL OF THE SCHEME ENTITLEMENTS**

- (I) Vesting and Disposal of the Scheme Entitlements after the expiry of the lock-up period
1. The Scheme Holder shall enjoy the Initial Entitlements under the Scheme based on his/her contribution. After the expiry of the lock-up period of the Scheme, in respect of the Initial Entitlements of each Scheme Holder and the corresponding cash portion of the assets (if any) which are eligible for vesting under the performance-linked assessment mechanism, the corresponding cash portion of the assets (if available) will be transferred by the Company to the bank account of the Scheme Holder in one-off, while for the corresponding Underlying Share in the portion of the assets, the Scheme Holder shall make application to choose one of the following handling methods:
    - (1) The Company makes application to the Asset Management Agency, the SSE and the CSDC on his/her behalf for transferring all the Underlying Shares to an individual account of the Scheme Holder in one-off, provided that it is supported by the then prevailing systems and rules of the SSE and the CSDC;
    - (2) The Asset Management Agency is entrusted by the Company on his/her behalf to dispose of all the Underlying Shares in one-off during the term of the Scheme and to deliver proceeds from the disposal to the Scheme Holder; the Scheme Holder shall specify the range of selling price and the time slot to sell in his/her application. If the time slot selected by the Scheme Holder falls into the period when selling of the shares of the Company is prohibited by laws and regulations, the *Articles of Association* or the Scheme, the Company is entitled to require the Scheme Holder to revise his/her choice, otherwise the application shall be invalid.
  2. If no application is proposed by the Scheme Holder in accordance with the aforementioned sub-clause 1, the Scheme Holder is deemed to agree to entrust the Asset Management Agency to continue to hold the aforementioned Underlying Shares during the term of the Scheme.
  3. After all Underlying Shares corresponding to the Scheme Entitlements entitled to the Scheme Holder are transferred to an account under the name of the Scheme Holder in accordance with the above item (1) of sub-clause 1 or are fully disposed of in accordance with item (2) of sub-clause 1 with proceeds being delivered to Scheme Holders in its entirety, the Scheme Holder shall withdraw from the Scheme automatically.
  4. Scheme Entitlements which cannot be vested to Scheme Holder as a result of performance assessment or any other reasons as stipulated under the Scheme shall be disposed of in compliance with laws and rules upon decision by the Board.

(II) The disposal of Scheme Entitlements upon termination of the Scheme

1. Upon termination of the Scheme, if the lock-up period has expired, the Scheme Holder shall apply for disposal of his/her Scheme Entitlements pursuant to the method in the aforementioned sub-clause 1 of clause (I). If the Scheme Holder fails to apply in a timely manner, the Company is entitled to choose one of the methods to carry out the disposal;
2. Upon termination of the Scheme, if the lock-up period has not expired, the Company shall organize to determine the vesting of equity interest in advance, and the Scheme Holder shall apply thereafter for disposal of his/her Scheme Entitlements of the Scheme pursuant to the method in the aforementioned sub-clause 1 of clause (I). If the Holder fails to apply in a timely manner, the Board is entitled to choose one of the methods to carry out the disposal.

(III) Rights attached to the Underlying Shares

1. Prior to the vesting pursuant to the Scheme and the Underlying Shares corresponding to the Vesting Entitlements pursuant to the requirements of the aforementioned clauses (I) or (II), neither the Scheme Holder nor the Scheme enjoys the voting right and power in respect of such Underlying Shares; after the transferring of Underlying Shares to the Scheme Holder or the selling of the Underlying Shares to third party, the Scheme Holder or the third party shall, in respect of the Underlying Shares, enjoy equal voting right, power and other shareholder's right with other shareholders of the Company.
2. During the term, in the event of dividend distribution and capitalization by the Company, the Scheme shall hold the additional shares derived from the Underlying Shares it held, and shall update the status of Scheme Entitlements based on the original Scheme Entitlements of each of the Scheme Holders and increase the number of Underlying Shares corresponding to their Scheme Entitlements.
3. During the term, the Scheme shall hold the cash dividend of the Company derived from the Underlying Share it held, which shall be first applied to pay for the relevant management fees charged by the entrusted Asset Management Agency and custodian bank. The remaining portion of the proceeds shall be used in increasing the amount of cash assets corresponding to the Scheme Entitlements of each of the Scheme Holders based on their original Scheme Entitlements.

(IV) Transfer Restriction of the Scheme Entitlements

Unless otherwise stipulated in the relevant provisions of the Scheme, the transfer of the Scheme Entitlements to which the Scheme Holder is entitled shall be prohibited.

(V) Way of participation by the Scheme at the time of the Company's fund raising

When the Company raises funds through rights issue, issue of additional share, convertible bonds or other means during the term of the Scheme, the Management Committee shall submit the matter to the Holders' Meeting for determining if the Scheme shall participate in such fund raising or not; if the Scheme participates in the fund raising, Scheme Holders shall separately contribute capital with their own funds.



**VII. HOLDERS' MEETING AND ITS CONVENING AND VOTING PROCEDURES**

(I) Rights and obligations of Scheme Holders

Holders of the Scheme shall have the following rights:

1. participate in Holders' Meetings;
2. entitled to the Scheme Entitlements and the corresponding property interests in accordance with the requirements of the Scheme;
3. other rights as stipulated by laws and regulations and the requirements of the Scheme.

Holders of the Scheme shall have the following obligations:

1. contribute capital within the agreed period in accordance with their amount of subscription in the Scheme;
2. assume the risks of the Scheme in accordance with the Scheme Entitlements they are entitled to;
3. other obligations as stipulated by the laws and regulations and the requirements of the Scheme.

(II) Functions and powers of the Holders' Meeting

The Holders' Meeting comprises all Scheme Holders and shall be entitled to exercise the following functions and powers:

1. decide on whether to participate in the Company's refinancing;
2. nominate and remove members of the Committee;
3. authorize the Management Committee to supervise the daily administration of the Scheme;
4. replace the Asset Management Agency and submit to the Board for approval;
5. other functions and powers that may be exercised by the Holders of the Scheme as stipulated by laws and regulations or the CSRC.

(III) Procedures for convening Holders' Meetings

1. The first Holders' Meeting shall be convened and presided over by the president of the Company or his authorized person and subsequent Holders' Meetings shall be convened by the Management Committee and presided over by the director of the Management Committee; when the director of the Management Committee fails to perform his duties, he shall appoint a Holder to preside over the meeting.
2. In the event of any of the following situations, a Holders' Meeting shall be convened:
  - (1) more than three member of the Management Committee cease to continue the committee duty or fail to perform his/her duties for three consecutive months or otherwise are unfit for the job of a member of the Management Committee;
  - (2) other matters having significant impact on the rights and obligations of the Holders of the Scheme that a Holders' Meeting needs to be convened.
3. In convening a Holders' Meeting, the convener of the meeting shall issue a notice of meeting three days prior to the meeting and send it to all Holders by direct delivery, post, facsimile, electronic mail, SMS messages, WeChat or other means.
4. The notice of meeting shall at least include the following details:
  - (1) time and place (if applicable) of the meeting;
  - (2) way of holding the meeting;
  - (3) matters (proposals) to be considered in the meeting;
  - (4) the convener and chairman of the meeting or the proposer of interim meeting and his written proposals;
  - (5) meeting materials required for voting;
  - (6) requirements for Scheme Holders to attend the meeting in person or appoint other Scheme Holders to attend the meeting on his behalf;

(7) contact person and contact information;

(8) date of issuance of the notice.

(IV) Voting procedures of the Holders' Meeting

Voting procedures of the Holders' Meeting:

1. After each proposal has been fully discussed, the chairman shall timely submit it to Holders attending the meeting for voting. The chairman may also decide to submit all proposals to Holders attending the meeting for voting upon discussion of all proposals of the meeting. Voting is carried out by show of hands or paper ballot, through telecommunication means or other effective voting methods.
2. During a voting of Holders' Meeting, Scheme Holders shall have one vote for each share held corresponding to the Scheme Entitlements of Scheme Holders;
3. When electing members of the Management Committee, persons receiving the highest number of votes in descending order shall be elected; for other resolutions, those that were approved by Holders attending the meeting having half or more of the votes are deemed to be adopted. However, decisions on matters in respect of participation of the Scheme in the Company's refinancing shall only be valid upon passing by more than two-thirds of the effective voting rights held by Scheme Holders (and proxies) attending the meeting;
4. In the event that a resolution of Holders' Meeting must be reported to the Company's Board of Directors or shareholders' general meeting for consideration, it shall be submitted to the Company's Board of Directors or shareholders' general meeting for consideration in accordance with the requirements of the Articles of Association.

(V) Network Meeting

Notwithstanding the above requirements, with the decision of the Management Committee and issuance of materials like notice of meeting and resolution by the management Committee to all the Scheme Holders as stipulated by the method for convening meetings in the above section III, the Holders' Meeting can also be convened through the network. The Company shall provide operational system support to the online voting by the Scheme Holders. The first Holders' Meeting shall convene through physical (including video) conference.

**VIII. MANAGEMENT COMMITTEE AND ITS RESPONSIBILITIES**

- (I) The Scheme shall establish a Management Committee as the daily supervisory and administrative body of the Scheme to exercise the rights of shareholders on behalf of Holders.
- (II) The Management Committee comprises 5 members. All members of the Management Committee shall be assumed by Scheme Holders upon election at the Holders' Meeting. The Management Committee shall have one director whom shall be elected by more than half of all members of the Management Committee. The term of office of members of the Management Committee shall be the term of the Scheme (including extension period).
- (III) The Management Committee shall have the following functions and responsibilities:
  - (1) responsible for convening Holders' Meetings;
  - (2) supervise the daily administration of the Scheme on behalf of all Scheme Holders;
  - (3) responsible for the coordination with the Asset Management Agency;
  - (4) other responsibilities as authorized by the Holders' Meeting.
- (IV) The director of the Management Committee shall have the following functions and powers:
  - (1) preside over Holders' Meetings and convene and preside over meetings of the Management Committee;
  - (2) supervise and inspect the implementation of resolutions of the Holders' Meeting and the Management Committee;
  - (3) other functions and powers as granted by the Management Committee.
- (V) Meetings of the Management Committee shall be convened at least once a year and may be convened in an irregular manner and that they shall be convened by the director of the Management Committee. Notice of meeting shall be sent to all members of the Management Committee two working days prior to the meeting by post, telephone, facsimile, SMS messages, WeChat and other means.
- (VI) Meetings of the Management Committee may only be held when more than three members are present. Meetings of the Management Committee shall implement a one-person one-vote system and meeting resolutions may only be valid upon passing by more than half (including one-half) of the members of the Management Committee.
- (VII) Meetings of the Management Committee shall be attended by the members in person; if a member fails to attend the meeting for any reason, he may, in writing, appoint any other member to attend the meeting on his behalf.

**IX. MANAGEMENT OF THE SCHEME**

(I) Management model

The Scheme is entrusted to the third party Asset Management Agency for management.

(II) The Asset Management Agency of the Scheme

The Company (on behalf of the Scheme) shall entrust GF Securities Asset Management (Guangdong) Co., Ltd. as the Asset Management Agency of the Scheme and enter into an Asset Management Contract with it.

The Asset Management Agency shall carry out bookkeeping in respect of the Scheme Entitlements held by the Scheme Holders (including its corresponding number of Underlying Share and amount of cash asset) and events such as adjustment and movement incurred according to the Scheme.

(III) Major provisions of the Asset Management Contract

1. The Asset Management Agency shall establish the GF Securities – China Merchants Bank ESOP Designated Asset Management Scheme. Such Asset Management Scheme shall receive the subscription proceeds from the Scheme Holders and use such proceeds to subscribe for A Shares under the Private Placement of the Company. The Company shall serve as the Asset Custodian of such Asset Management Scheme.

2. Scope of investment of the Asset Management Scheme:

- (1) A Shares to be issued by the Company through Private Placement;
- (2) other types of investment designated by the Company in writing in compliance with laws and regulations.

The investment ratio for the above assets are 0 – 100%.

3. Major investment restrictions

- (1) The Asset Manager shall rely only on the Trustor’s Investment Mandate issued by the Company (Management Committee or authorized representatives of the Company) to invest and to realize the Underlying Shares upon the expiration of the lock-up period; without Trustor’s Investment Mandate, the Asset Manager shall not carry out any investment, except otherwise agreed in the Asset Management Contract.

- (2) The lock-up period of the Underlying Shares to be subscribed through the Asset Management Scheme shall be 36 months, commencing from the time when the Company makes an announcement on the transferring of Underlying Shares to the Scheme. During the lock-up period, the subscriber shall not deal with any Underlying Shares or shares derived from them on the listing markets or in any way transfer the foregoing shares, and is also from transferring to transfer the Underlying Shares to Scheme Holders. Privately placed shares acquired through this transaction and shares derived from stock dividend distribution and capitalization of capital reserves shall also comply with the above lock-up arrangements.

4. Investment Procedures

- (1) With respect to the shares acquired by the Asset Manager through participating in the Private Placement of the Company, it is not necessary for the Company to dispatch the Trustor's Investment Mandate separately, but the Asset Manager shall enter into a conditional Share Subscription Agreement with the Company.
- (2) Other than obtaining share(s) by the agreed manner as stipulated in item (1), unless with the written consent of the Company (or Management Committee of the authorized representatives of the Company), the Asset Manager shall not acquire any share and shall not carry out any other investment.
- (3) The selling of Underlying Share(s) and its yield shall be carried out in accordance with the following procedures:
  - a. The Company (Management Committee or authorized representatives of the Company) shall dispatch Trustor's Investment Mandate to the Asset Manager, which shall be stamped by the Management Committee or signed (stamped) by the authorized representatives of the Company prior to actual dispatch to the Asset Management Agency.
  - b. Upon reviewing and confirming the Trustor's Investment Mandate by the Asset Manager, the Asset Manager shall carry out transactions in accordance with the entrusted duties established thereunder.
  - c. The Asset Manager shall not carry out any investment operation or disposal in respect of the entrusted asset until the Company dispatches the Trustor's Investment Mandate.

5. Transfer of Underlying Share and its yield

Subject to the then prevailing relevant laws and regulations and the supporting system and rules of CSDC, the Company (on behalf of the Scheme) is entitled to request the Asset Manager to transfer the Underlying Shares vested to the Scheme Holder to such Scheme Holder.

(IV) Asset management expenses

1. Expenses relating to the asset management include:

- (1) management fee of the Asset Manager;
- (2) custodian fee of the custodian;
- (3) bank charges required in the appropriation and transfer of entrusted assets and the fees incurred from opening the relevant accounts;
- (4) security trading fee, of which the share trading commission will be charged by the Asset Manager based on the relevant broker service standard;
- (5) tax related to the investment activities of entrusted assets;
- (6) other expenses that may be charged under entrusted assets in accordance with the laws and regulations and the agreements of the Asset Management Contract.

2. The expense accrual method and payment methods

(1) Management fee of the Asset Manager

The Asset Manager shall charge RMB1,000,000 per year as the fixed manager's fee, the payment shall be made once every 12 months starting from the date which the Asset Management Contract becomes effective, the date of payment shall be the last day of such month. The asset custodian shall paid to the Asset Manager in one-off from the entrusted assets pursuant to the instruction of the Asset Manager. If the date of payment is a holiday, the payment shall be postponed to the first working day after the holiday; if on the date of payment, all of the entrusted assets are Underlying Shares, the payment shall be postponed to the date when cash asset is available for the share dividend payment of the Underlying Shares or in the entrusted assets. If the subsequent date of payment is less than 1 year apart from the last date of payment, the manager fee charged in that year = days of the term of the entrusted asset for that year ÷ 365 × management fee per year (RMB1,000,000).

If the cash under the Asset Management Scheme at the time is insufficient to pay for the current management fee, the insufficient portion shall be paid along with the subsequent management fee payment, until the insufficient portion is fully paid up.

(2) Custodian fee of the asset custodian

The asset custodian shall charge RMB300,000 per year as the fixed custodian fee, the payment shall be made once every 12 months starting from the effective date of the Asset Custodian Contract (if any) or Asset Management Contract, the date of payment shall be the last day of such month. The asset custodian shall charge in one-off from the custodian account. If the date of payment is a holiday, the payment shall be postponed to the first working day after the holiday; if on the date of payment, the amount in the custodian account is insufficient, the payment of the insufficient portion shall be postponed to the date when cash asset is available in the custodian account. If the subsequent date of payment is less than 1 year apart from the last date of payment, the custodian fee charged in that year = days of term of the entrusted assets for that year  $\div$  365  $\times$  custodian fee per year.

If the cash under the Asset Management Scheme at the time is not sufficient to pay for the current custodian fee, the insufficient portion shall be paid along with the subsequent custodian fee, until the insufficient portion is fully paid up.

- (3) Other fees shall be paid based on the amount of charge expenses and shall be charged or allocated to the current operation expense of the entrusted assets pursuant to the requirements of relevant laws and regulations and the corresponding agreements.
- (4) Expenses or loss of entrusted property due to the failure of the Asset Management Agency and the asset custodian to perform or fully perform their obligations as well as costs incurred in the processing of matters irrelevant to the entrusted activities shall neither be included into the entrusted property operating expenses nor the asset management expenses.



**X. PROCEDURES REQUIRED FOR PERFORMING THE SCHEME**

- (I) Independent Directors of the Company express their independent opinion on the Scheme.
- (II) The board of supervisors of the Company expresses its opinion on the Scheme.
- (III) The Company appoints a law firm to issue a legal opinion on the Scheme.
- (IV) The Board of Directors considers and approves the Scheme and makes an announcement on the board resolutions, the draft of the Scheme, the views of independent Directors and the board of supervisors, the legal opinion, etc.
- (V) The Company convenes a staff congress to fully solicit the views of employees on the Scheme.
- (VI) The Company issues a notice on the convening of shareholders' general meeting and at the same time makes an announcement on the opinion soliciting status in the staff congress and the relevant resolutions.
- (VII) Filing of the Scheme by the Company with the Hong Kong Stock Exchange.
- (VIII) The shareholders' general meeting considers the Scheme and shareholders of the Company vote onsite or online to approve the implementation of the Scheme.
- (IX) After the Scheme is considered and approved at the shareholders' general meeting of the Company and matters relating to the Private Placement of A shares are considered and approved at the shareholders' general meeting (including shareholders' class meetings) of the Company and are examined and approved by the CBRC and the CSRC and are filed with the Hong Kong Stock Exchange, the Company shall implement the Scheme.

**XI. SPECIFIC MATTERS AUTHORIZED BY THE SHAREHOLDERS' GENERAL MEETING TO THE BOARD OF DIRECTORS**

After the Scheme is considered and approved, the shareholders' general meeting shall authorize and consent to the Board to delegate to the relevant external agency(ies) or person(s) to process the relevant matters of the Scheme. Specific matters to be authorized are set out as follows:

- (I) to consider the amendment, termination (including termination in advance) or extension of the Scheme;
- (II) to determine and modify the Company and personal performance assessment requirements for vesting, and pursuant to the agreement in the Scheme, to organize a performance assessment on the Scheme Holders and determine the Vesting Entitlements based on the assessment;
- (III) to determine the essential matters concerning the participation by the Directors, Supervisors and senior management personnel in the Scheme throughout the term of the Scheme;
- (IV) to determine on the changes of Asset Management Agency and asset management contract relating to the Scheme;
- (V) other specific matters to be authorized to the Board for management of the Scheme.

**XII. OTHERS**

- (I) The Company shall implement the financial, accounting, taxation and other matters of the Scheme in accordance with the relevant laws, regulations, rules and normative documents.
  
- (II) The Scheme shall be in force after it has been considered and approved at the shareholders' general meeting of the Company and that matters in respect of the Private Placement of shares have been considered and approved at the shareholders' general meeting (including shareholders' class meetings) of the Company and have been examined and approved by the CBRC and the CSRC and have been filed with the Hong Kong Stock Exchange.
  
- (III) The power of interpretation of the Scheme shall be vested in the Board of the Company.

## 1. DISCLOSURE OF INTEREST

## (a) Interests and short positions of Directors, Supervisors and chief executives under Hong Kong laws and regulations

As at the Latest Practicable Date, the interests and short positions of the Directors, Supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (as defined in the SFO), which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors, Supervisors and chief executives of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept pursuant to Section 352 of the SFO or as otherwise required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code set out in Appendix 10 to the Hong Kong Listing Rules, were as follows:

Name	Position	Class of shares	Long/short position	Capacity	No. of shares	Percentage of the relevant class of shares in issue (%)	Percentage of all the issued shares (%)
Jin Qingjun	Supervisor	A Share	Long position	Beneficial Owner	65,800	0.00032	0.00026

## (b) Substantial shareholders' and other persons' interests and short positions in shares and underlying shares under Hong Kong laws and regulations

As at the Latest Practicable Date, as far as the Company is aware, the following persons (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) had interests and short positions in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of all issued shares (%)
China Merchants Group Ltd.	A	Long	Interest of controlled corporation	4,887,794,287	1	23.69	19.38
	H	Long	Interest of controlled corporation	156,178,923	1	3.40	0.62
China Merchants Steam Navigation Company Ltd.	A	Long	Beneficial owner	3,162,424,323			
		Long	Interest of controlled corporation	58,147,140	1		
					3,220,571,463		15.61
	H	Long	Interest of controlled corporation	156,178,923	1	3.40	0.62

Name of Substantial Shareholder	Class of shares	Long/short position	Capacity	No. of shares	Notes	Percentage of the relevant class of shares in issue (%)	Percentage of all issued shares (%)
China Merchants Finance Investment Holdings Co. Ltd.	A	Long	Beneficial owner	266,497,479			
		Long	Interest of controlled corporation	1,400,725,345	1		
				1,667,222,824		8.08	6.61
Shenzhen Yan Qing Investment and Development Company Ltd.	A	Long	Beneficial owner	747,589,686	1		
		Long	Interest of controlled corporation	653,135,659	1		
				1,400,725,345		6.79	5.55
China Ocean Shipping (Group) Company	A	Long	Beneficial owner	1,574,729,111		7.63	6.24
Anbang Property & Casualty Insurance Company Ltd. – traditional products	A	Long	Beneficial owner	2,704,596,216		13.11	10.72
JPMorgan Chase & Co.	H	Long	Beneficial owner	84,294,492			
		Long	Investment manager	218,725,312			
		Long	Custodian	157,433,928			
				460,453,732	2		10.03
		Short	Beneficial owner	27,375,116	2	0.60	0.11
BlackRock, Inc	H	Long	Interest of controlled corporation	339,254,543	3	7.39	1.35
		Short	Interest of controlled corporation	12,000	3	0.0003	0.00005
Templeton Asset Management Ltd.	H	Long	Investment manager	273,706,314		5.96	1.09

## Notes:

- (1) China Merchants Group Ltd. was deemed to hold interests in a total of 4,887,794,287 A shares (Long position) in the Company by virtue of its control over the following corporations, which held direct interests in the Company:
- (1.1) China Merchants Steam Navigation Company Ltd. held 3,162,424,323 A shares (Long position) in the Company. China Merchants Steam Navigation Company Ltd. was a wholly-owned subsidiary of China Merchants Group Ltd..
- (1.2) China Merchants Finance Investment Holdings Co. Ltd. held 266,497,479 A shares (Long position) in the Company. China Merchants Finance Investment Holdings Co. Ltd. was owned as to 90% and 10% by China Merchants Group Ltd. and China Merchants Steam Navigation Company Ltd., referred to in (1.1) above, respectively.

- (1.3) Shenzhen Yan Qing Investment and Development Company Ltd. held 747,589,686 A shares (Long position) in the Company. Shenzhen Yan Qing Investment and Development Company Ltd. was owned as to 51% and 49% by China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and China Merchants Group Ltd. respectively.
- (1.4) Shenzhen Chu Yuan Investment and Development Company Ltd. held 653,135,659 A shares (Long position) in the Company. Shenzhen Chu Yuan Investment and Development Company Ltd. was owned as to 50% by each of China Merchants Finance Investment Holdings Co. Ltd., referred to in (1.2) above, and Shenzhen Yan Qing Investment and Development Company Ltd., referred to in (1.3) above, respectively.
- (1.5) Bestwinner Investment Limited held 58,147,140 A shares (Long position) and 156,178,923 H shares (Long position) in the Company. Bestwinner Investment Limited was an indirect wholly-owned subsidiary of China Merchants Group Ltd. (10.55% interests were directly owned by China Merchants Group Ltd. whereas 89.45% interests were indirectly owned by China Merchants Steam Navigation Company Ltd., referred to in (1.1) above, through its subsidiaries).
- (2) JPMorgan Chase & Co. was deemed to hold interests in a total of 453,589,732 H shares (Long position) and 27,375,116 H shares (Short position) in the Company by virtue of its control over a number of its indirect or direct wholly-owned subsidiaries.

In addition, China International Fund Management Co Ltd had a long position in 6,864,000 H shares of the Company. China International Fund Management Co Ltd was owned as to 49% by JPMorgan Asset Management (UK) Limited, an indirect wholly-owned subsidiary of JPMorgan Chase & Co.

The entire interest and short position of JPMorgan Chase & Co. in the Company included a lending pool of 157,433,928 H shares. Besides, 21,704,806 H shares (Long position) and 27,375,116 H shares (Short position) were held through derivatives as follows:

5,341,680 H shares (Long position) and 6,850,500 H shares (Short position)	–	through physically settled derivatives (on exchange)
493,000 H shares (Short position)	–	through cash settled derivatives (on exchange)
403,145 H shares (Short position)	–	through physically settled derivatives (off exchange)
16,363,126 H shares (Long position) and 19,628,471 H shares (Short position)	–	through cash settled derivatives (off exchange)

- (3) BlackRock, Inc. had a long position in 339,254,543 H shares (in which 192,000 H shares were held through cash settled derivatives (off exchange)) and a short position in 12,000 H Shares of the Company by virtue of its control over a number of subsidiaries.

Save as disclosed above, the Company is not aware of any other person (other than the Directors, Supervisors and chief executives (as defined in the Hong Kong Listing Rules) of the Company) having any interests or short positions in the shares and underlying shares of the Company as at the Latest Practicable Date as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

As at the Latest Practicable Date, save as disclosed below, so far as is known to the Board, no director or supervisor is a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under provisions of Divisions 2 and 3 of Part XV of the SFO:

### **Directors**

Mr. Li Jianhong is the Chairman of China Merchants Group Ltd., the chairman of China Merchants Holdings (International) Co., Ltd. and the chairman of China International Marine Containers (Group) Limited.

Mr. Li Xiaopeng is a director and the general manager of China Merchants Group Ltd., the chairman of China Merchants Huajian Highway Investment Company Limited and China Merchants Energy Shipping Company Limited, the Deputy Chairman of China Merchants Holdings (International) Company Limited and vice chairman of China Merchants Capital Investments Co., Ltd..

Mr. Li Yinquan is the general manager of China Merchants Capital Investments Co., Ltd..

Ms. Sun Yueying is a director of China Merchants Securities Co. Ltd..

Mr. Fu Gangfeng is the chief financial officer of China Merchants Group Ltd. and a director of China Merchants Property Development Co., Ltd..

Mr. Hong Xiaoyuan is the assistant general manager of China Merchants Group Ltd. and the general manager of China Merchants Finance Holdings Company Limited. He is also the chairman of China Merchants Finance Investment Holdings Co., Ltd., China Merchants Holdings (U.K.) Co., Ltd., China Merchants China Direct Investments Limited and Bosera Asset Management Co., Ltd., and a director of China Merchants Securities Co., Ltd. and China Merchants Capital Investments Co., Ltd..

## **2. NO MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Company and its subsidiaries since 31 December 2014, being the date to which the latest published audited accounts of the Company and its subsidiaries were made up to.

### 3. CONSENT OF EXPERT

The following expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or statements and references to its name and logo in the form and context in which they are included:

<b>Name</b>	<b>Qualification</b>
Altus Capital Limited	a licensed corporation to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities as defined under the SFO, acting as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Connected Issue

The letter of Altus Capital Limited is given as of the date of this circular for incorporation herein. As at the Latest Practicable Date, the above expert was not beneficially interested in the share capital of the Company and its subsidiaries nor did it have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in the Company and its subsidiaries.

As at the Latest Practicable Date, the above expert did not have any direct or indirect interest in any assets which had been since 31 December 2014 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to the Company and its subsidiaries, or were proposed to be acquired or disposed of by or leased to the Company and its subsidiaries.

### 4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisor of the Company had entered into any service contract with the Company or its subsidiaries which does not expire or is not terminable by the Company and its subsidiaries within one year without payment of compensation, other than statutory compensation.

### 5. DIRECTORS' OR SUPERVISORS' INTERESTS IN THE COMPANY AND ITS SUBSIDIARIES' ASSETS OR CONTRACTS

As at the Latest Practicable Date, none of the Directors or Supervisors of the Company had any interest in any assets which have been since 31 December 2014 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to the Company and its subsidiaries, or were proposed to be acquired or disposed of by or leased to the Company and its subsidiaries.

As at the Latest Practicable Date, none of the Directors or Supervisors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant in relation to the business of the Company.



**6. DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the Directors or their respective associates has interests in the businesses, other than being a Director, which compete or are likely to compete, either directly or indirectly, with the businesses of the Company (as would be required to be disclosed under Rule 8.10 of the Hong Kong Listing Rules if each of them were a controlling shareholder).

**7. MISCELLANEOUS**

- (a) Mr. Xu Shiqing and Mrs. Seng Sze Ka Mee Natalia are the Joint Company Secretaries and Mr. Xu Shiqing is the Board Secretary of the Company.
- (b) The registered and office address of the Company is at No. 7088, Shennan Boulevard, Futian District, Shenzhen, Guangdong Province, China. The H Share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) In the case of any discrepancy, the Chinese text of this circular shall prevail over the English.

**8. DOCUMENTS FOR INSPECTION**

Copy of the following documents will be available for inspection at the office of Herbert Smith Freehills at 23/F, Gloucester Tower, 15 Queen's Road Central, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 19 June 2015:

- (a) Asset Management Agreement; and
- (b) Share Subscription Agreement.