
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or otherwise transferred all your shares in International Bank of Asia Limited, you should at once hand this Composite Document and the accompanying Form of Acceptance to the purchaser(s) or transferee(s) or to the bank, a licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

Neither the Stock Exchange of Hong Kong Limited nor the Securities and Futures Commission takes any responsibility for the contents of this Composite Document and the accompanying Form of Acceptance, makes any representation as to its accuracy or completeness and each of them expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Composite Document and the accompanying Form of Acceptance.



**FUBON FINANCIAL HOLDING
CO., LTD.**

*(a company incorporated in Taiwan
with limited liability)*



**INTERNATIONAL BANK
OF ASIA LIMITED**

*(a company incorporated in Hong Kong
with limited liability)*

**COMPOSITE OFFER AND RESPONSE DOCUMENT RELATING TO
VOLUNTARY CONDITIONAL CASH OFFER BY
CITIGROUP GLOBAL MARKETS ASIA LIMITED
FOR AND ON BEHALF OF
FUBON FINANCIAL HOLDING CO., LTD.
TO ACQUIRE THE WHOLE OF THE ISSUED SHARE CAPITAL OF
INTERNATIONAL BANK OF ASIA LIMITED**

Financial Adviser to
Fubon Financial Holding Co., Ltd.

Independent Financial Adviser to the
Independent Board Committee of
International Bank of Asia Limited


Citigroup Global Markets Asia Limited

 **ROTHSCHILD**

A letter from the Independent Board Committee of International Bank of Asia Limited containing its recommendation in respect of the Offer to the Independent Shareholders of International Bank of Asia Limited is set out on pages 24 to 25 of this Composite Document and a letter from the independent financial adviser, N M Rothschild & Sons (Hong Kong) Limited, containing its advice on the Offer to the Independent Board Committee of International Bank of Asia Limited is set out on pages 26 to 56 of this Composite Document.

The procedures for acceptance and other related information are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Acceptances should be received by no later than 4:00 p.m. on Monday, 8 March, 2004 (or such later time and/or date as the Offeror may decide and announce).

16 February, 2004

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DEFINITIONS

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

“ABC”	Arab Banking Corporation (B.S.C.), the controlling shareholder of IBA, which is incorporated under the laws of the Kingdom of Bahrain and whose shares are listed on the Bahrain Stock Exchange
“Accepting Shareholder(s)”	the Shareholder(s) who accept(s) the Offer by duly completing and returning the Form of Acceptance
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors of IBA
“business day”	a day on which banks are open for the transaction of general banking business in Hong Kong (excluding Saturday and Sunday and days on which a tropical cyclone warning No.8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.)
“CEPA”	the closer economic partnership arrangement between Hong Kong and the PRC entered into on 29 June, 2003 and the annexes thereto which were signed on 29 September, 2003
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“China Everbright”	China Everbright Limited or, where the context requires, any company in the group of companies of which it forms part
“Citigroup”	Citigroup Global Markets Asia Limited, a company incorporated under the laws of Hong Kong with limited liability and a deemed licenced corporation under transitional arrangements with regard to Types 1, 4, 6, 7 and 9 regulated activities under part V of the SFO
“Committed Shares”	the 644,688,000 IBA Shares (representing 55% of the entire issued share capital of IBA and being ABC’s entire shareholding in IBA) held by ABC which are the subject matter of the Undertaking
“Composite Document”	this composite offer and response document dated 16 February, 2004 jointly issued by the Offeror and IBA in connection with the Offer

DEFINITIONS

“Compulsory Acquisition”	subject to the Offeror becoming so entitled and choosing to proceed under section 168 and the Ninth Schedule of the Companies Ordinance and Rule 2.11 of the Takeovers Code, the compulsory acquisition under those provisions of those IBA Shares which have not been acquired by the Offeror under the Offer
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Excluded Jurisdiction(s)”	British Columbia, Canada and (subject to any further application which may be made by the Offeror and approved by the Executive) any other jurisdiction(s)
“Excluded Shareholder(s)”	Overseas Shareholder(s) whose address(es), as shown on the register of members of IBA as at the Latest Practicable Date, is/are located in an Excluded Jurisdiction(s)
“Executive”	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director
“First Closing Date”	the date which is 21 days after the date of despatch of this Composite Document
“Form(s) of Acceptance”	the form(s) of acceptance and transfer in respect of the Offer which accompanies this Composite Document
“Fubon Group”	the Offeror and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HKMA”	the Hong Kong Monetary Authority
“IBA”	International Bank of Asia Limited, a company incorporated under the laws of Hong Kong with limited liability, the shares of which are listed on the Stock Exchange, and which is authorized by the HKMA pursuant to section 16 of the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) to carry on banking business
“IBA Directors”	the directors of IBA or any of them

DEFINITIONS

“IBA Group”	IBA and its subsidiaries
“IBA Share(s)”	share(s) of HK\$1.00 each in the issued share capital of IBA
“IBA Shareholder(s)”	holder(s) of IBA Share(s)
“Independent Board Committee”	the independent committee of the Board comprising Messrs. Steven K. L. Poon, Robert J. Kenrick and James Y. C. So, appointed to advise the Independent Shareholders in respect of the Offer
“Independent Shareholders”	the IBA Shareholders who are not involved in, or interested in, the Undertaking, being IBA Shareholders other than ABC and their associates or parties acting in concert with any of them
“Interim Dividend”	an interim dividend of HK\$0.04 per IBA Share approved by the board of directors of IBA in respect of the six-month financial period ended 30 June, 2003 and paid on 24 October, 2003
“Joint Announcement”	the joint press announcement dated 8 September, 2003 made by the Offeror and IBA regarding the Offer
“Latest Practicable Date”	11 February, 2004, being the latest practicable date prior to the printing of this Composite Document for the purpose of ascertaining certain information contained in this Composite Document
“Letter from Citigroup”	the letter from Citigroup to the IBA Shareholders as set out in this Composite Document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	the latest date on which the Offeror can declare the Offer unconditional, which is 60 days after the date of the posting of this Composite Document (or such later date to which the Executive may consent)
“Offer”	the voluntary conditional cash offer to acquire the entire issued share capital of IBA made by Citigroup on behalf of the Offeror on the terms and subject to the conditions contained in this Composite Document and the Form of Acceptance, including any extension or revision thereof

DEFINITIONS

“Offer Condition”	the condition to the Offer, as set out in paragraph 2.1 of Appendix I
“Offeror”	Fubon Financial Holding Co., Ltd., a company incorporated under the laws of Taiwan with limited liability, the shares of which are listed on the Taiwan Stock Exchange Corporation
“Offeror Directors”	the directors of the Offeror or any of them
“Outstanding Shareholders”	IBA Shareholders whose IBA Shares may become the subject of the Compulsory Acquisition (if applicable)
“Overseas Shareholders”	the IBA Shareholders whose registered addresses, as shown on the register of members of IBA as at the Latest Practicable Date, are outside Hong Kong
“Possible Disposal Announcement”	the press announcement dated 13 December, 2002 made by IBA regarding the possible disposal of the interests of the substantial shareholders of IBA
“Pre-Conditions”	the pre-conditions to the making of the Offer, as set out in paragraph 1.1 of Appendix I
“PRC”	the People’s Republic of China
“Processing Agent”	Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Registrar”	Computershare Hong Kong Investor Services Limited, located at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen’s Road East, Hong Kong
“Rothschild”	N M Rothschild & Sons (Hong Kong) Limited, a company incorporated under the laws of Hong Kong with limited liability and an authorised financial institution deemed to have been registered under section 119(1) of the SFO for Types 1, 4, 6 and 9 regulated activities from 1 April, 2003 (previously an investment adviser registered with the SFC)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“trading day”	a day on which IBA Shares can be purchased or sold on or through the Stock Exchange
“Undertaking”	an irrevocable undertaking dated 8 September, 2003 in favour of the Offeror from ABC to accept the Offer in respect of the Committed Shares as amended by a supplemental sale and purchase undertaking dated 6 December, 2003 between the Offeror and ABC
“HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong for the time being
“NT\$”	New Taiwan dollars, the lawful currency of Republic of China for the time being
“%”	per centum or per cent.

EXPECTED TIMETABLE

2004

Opening date of the Offer	Monday, 16 February
Latest time for acceptance of the Offer (assuming the Offer is declared unconditional in all respects within one business day following receipt by ABC of this Composite Document) (<i>Notes 1 and 3</i>)	4:00 pm on Monday, 8 March
First Closing Date	Monday, 8 March
Latest time by which the Offer could be declared unconditional in all respects (<i>Note 2</i>)	4:00 pm on Friday, 16 April
Latest time for settlement of consideration (<i>Note 4</i>)	

Notes:

1. The Offeror expects that the Offer Condition should be satisfied not later than one business day after receipt by ABC of this Composite Document in accordance with the terms of the Undertaking. It is the Offeror's intention to declare the Offer unconditional on the same day the Offer Condition is satisfied. The Offeror reserves its right to extend the Offer until such date as it may determine in accordance with the Takeovers Code (or as permitted by the Executive in accordance with the Takeovers Code). The Offeror will issue a press announcement in relation to any extension of the Offer, which announcement will state either the next closing date or that the Offer will remain open until further notice. In the latter case, at least 14 days' notice in writing will be given before the Offer is closed to those IBA Shareholders who have not accepted the Offer.

Beneficial owners of IBA Shares who hold their IBA Shares in CCASS directly as an investor participant or indirectly via a broker or custodian participant should note the timing requirements for causing instructions to be made to CCASS in accordance with the General Rules of CCASS and CCASS Operational Procedures.

2. If the Offer becomes unconditional on or before 4:00 p.m. on 8 March, 2004, the closing date of the Offer will be the later of 8 March, 2004 and 14 days from the date when the Offer becomes unconditional, unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. If the Offer has not been declared or become unconditional in all respects on or before 4:00 p.m. on the First Closing Date, the Offer will lapse unless the Offer has been extended by the Offeror in accordance with the Takeovers Code. In that case, the Offeror will issue a press announcement as soon as practicable thereafter. The latest date on which the Offeror can declare the Offer unconditional is the Long Stop Date (60 days after the date of the posting of this Composite Document (or such later date to which the Executive may consent)). The Offeror has reserved the right to extend the Offer but there is no certainty that the Offer will be extended past the First Closing Date. As the Offeror may avail itself of its rights of Compulsory Acquisition, the Offer may not, under Rules 2.11 and 15.6 of the Takeovers Code, remain open for acceptance for more than four months from the date of despatch of this Composite Document, unless the Offeror may by that time become entitled to exercise such powers of Compulsory Acquisition.

If the Offer Condition is satisfied (or, if applicable, waived) on or before the Long Stop Date, IBA Shareholders will be notified by press announcement as soon as practicable thereafter.

3. No acceptance of the Offer may be revoked or withdrawn except as permitted under the Takeovers Code.
4. The consideration payable for IBA Shares tendered under the Offer will be paid as described in the paragraph headed "Settlement of consideration" in the Letter from Citigroup.

EXPECTED TIMETABLE

All documents sent to IBA Shareholders by post will be sent to them by ordinary post at their own risk. Such documents will be sent to IBA Shareholders at their respective addresses as they appear on the register of members of IBA or, in the case of joint IBA Shareholders, to the IBA Shareholder whose name stands first in the register of members of IBA, as applicable.

All time references contained in this Composite Document refer to Hong Kong time.

LETTER FROM CITIGROUP



Citigroup Global Markets Asia Limited
20th Floor
Three Exchange Square
8 Connaught Place Central
Hong Kong

16 February, 2004

To IBA Shareholders

Dear Sir or Madam,

**VOLUNTARY CONDITIONAL CASH OFFER BY CITIGROUP GLOBAL MARKETS
ASIA LIMITED FOR AND ON BEHALF OF
FUBON FINANCIAL HOLDING CO., LTD.
TO ACQUIRE THE WHOLE OF THE ISSUED SHARE CAPITAL OF
INTERNATIONAL BANK OF ASIA LIMITED**

INTRODUCTION

On 8 September, 2003, the Offeror and IBA announced a possible voluntary conditional offer to be made by Citigroup for and on behalf of the Offeror to acquire the whole of the issued share capital of IBA. It was also announced by the Offeror and IBA on 10 February, 2004 that Pre-Conditions (a), (b), (c) and (f) had been satisfied and the Offeror confirmed it had a firm intention to make the Offer. It is expected that IBA will, on 16 February, 2004, pay a special interim dividend of HK\$0.26 per IBA Share to IBA Shareholders on record in IBA's register of members on 8 January, 2004.

The Offeror has received from ABC the Undertaking under which ABC has undertaken to accept the Offer in respect of 644,688,000 IBA Shares (representing 55% of the entire issued share capital of IBA as at the Latest Practicable Date).

This letter sets out information on the Offer, the Offeror and the intention of the Offeror regarding the future of the IBA Group. Further terms of the Offer are set out in Appendix I to this Composite Document and in the accompanying Form of Acceptance. Terms defined in this Composite Document have the same meanings when used in this letter.

LETTER FROM CITIGROUP

THE OFFER

Other than the IBA Shares, IBA does not have any other outstanding equity securities (including equity-related convertible securities, or warrants, options or subscription rights in respect of any equity share capital (including non-transferable options)) as at the Latest Practicable Date. We are making the Offer for and on behalf of the Offeror on and subject to the terms and conditions set out below.

For each IBA ShareHK\$3.68

Comparisons of value

If the Offer is made and becomes unconditional, IBA Shareholders who accept the Offer will receive HK\$3.68 per IBA Share from his or her acceptance of the Offer.

The amount of HK\$3.68 per IBA Share represents:

- (a) a premium of approximately 6.67% over the closing price of one IBA Share of HK\$3.45 as quoted on the Stock Exchange on 5 September, 2003, being the last trading day prior to the Joint Announcement;
- (b) a premium of approximately 16.46%, 20.26% and 23.49% over the average prices of HK\$3.16, HK\$3.06 and HK\$2.98 per IBA Share respectively, being the average closing prices of IBA Shares as quoted on the Stock Exchange for the 20, 40 and 60 trading days respectively immediately prior to and including the last trading day prior to the Joint Announcement; and
- (c) a discount of approximately 0.54% to the closing price of one IBA Share of HK\$3.70 as quoted on the Stock Exchange on the Latest Practicable Date.

Highest and lowest prices

The highest and lowest closing prices of the IBA Shares as recorded on the Stock Exchange during the period commencing 8 March, 2003, being six months prior to the date of the Joint Announcement, and ending on the Latest Practicable Date were HK\$3.925 on 29 December, 2003 and HK\$2.425 on 10 April, 2003, respectively.

Total consideration

On the basis of the amount of HK\$3.68 per IBA Share payable to Accepting Shareholders, the entire issued IBA Shares are valued at approximately HK\$4,313,548,800.

LETTER FROM CITIGROUP

Pre-Conditions

The making of the Offer was conditional upon the satisfaction of the Pre-Conditions. On 10 February, 2004, it was jointly announced by the Offeror and IBA that Pre-Conditions (a), (b), (c) and (f) had been satisfied and the remaining Pre-Conditions were satisfied upon despatch of this Composite Document. Further information in relation to the Pre-Conditions is set out in Appendix I.

Offer Condition

The Offer is conditional on valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the First Closing Date (or such later time(s) and/or date(s) as the Offeror may, subject to the Takeovers Code, decide) in respect of more than 50% in nominal value of the IBA Shares carrying voting rights then exercisable at a general meeting of IBA.

Financial resources for the Offer

Citigroup is satisfied that sufficient financial resources are available to the Offeror to meet full acceptance of the Offer. The Offeror will fund the Offer from its internal resources.

Settlement of consideration

Settlement of the consideration will be made as soon as possible but in any event within three business days of the later of the date on which the Offer becomes (or is declared) unconditional in all respects and the date on which IBA Shares are tendered for acceptance of the Offer, provided that the relevant Form(s) of Acceptance and IBA Share certificate(s) and/or transfer receipt(s) and/or any other documents of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are in complete and good order and have been received by the Registrar by not later than the latest time for acceptance.

Settlement of the consideration to which any IBA Shareholder is entitled under the Offer will be paid in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such IBA Shareholder.

Overseas Shareholders

As at the Latest Practicable Date, two Overseas Shareholders, holding in total 32,000 IBA Shares (representing approximately 0.0027% of the entire issued share capital of IBA as at the Latest Practicable Date), were located in British Columbia, Canada, an Excluded Jurisdiction. In order to address concerns regarding the implications under the Excluded Jurisdiction in relation to the making of the Offer to the Excluded Shareholders (which implications include illegality, filing and registration requirements or the need for compliance with other

LETTER FROM CITIGROUP

requirements), an application has been made to the Executive for a waiver from compliance with the requirements under Rule 8.1 of the Takeovers Code on the grounds set out in Note 3 to Rule 8 so that the Composite Document will not be sent to IBA Shareholder(s) whose address(es) as shown on the register of members of IBA is/are located in British Columbia, Canada; and the Executive has consented to the Composite Document not being sent to the Excluded Shareholders.

As the Offer to persons not residents in Hong Kong may be affected by the laws of the relevant jurisdictions, Overseas Shareholders should inform themselves about and observe any applicable legal or regulatory requirements and, where considered necessary, seek legal advice. It is the responsibility of any Overseas Shareholder who wishes to accept the Offer to satisfy himself/herself as to the full observance of the laws of the relevant jurisdiction in that connection, including the obtainment of any governmental or other consent which may be required or the compliance with other necessary formalities or legal or regulatory requirements and the payment of any transfer or other taxes or duties or analogous imposts due in respect of such jurisdiction. Acceptances of the Offer by any such person will constitute a warranty by such person that such person is permitted under all applicable laws to receive and accept the Offer, and any revision thereof, and all such acceptances shall be valid and binding in accordance with all applicable laws.

Fubon and Citigroup reserve the right to notify any matter in relation to the Offer to IBA Shareholders (including Overseas Shareholders) by announcement or by advertisement in a newspaper which may not be circulated in the jurisdictions in which the Overseas Shareholders are resident. The notice will be deemed to have been sufficiently given, despite any failure by an Overseas Shareholder to receive or see that notice. All such notices and documents will, in any event, be posted on the website of the Stock Exchange (<http://www.hkex.com.hk>).

Compulsory Acquisition and withdrawal of listing

To the extent applicable and pursuant to the compulsory acquisition power under the Companies Ordinance, if the Offeror acquires not less than 90% in value of the IBA Shares in respect of which the Offer is made, the Offeror may consider exercising its rights under the provisions of Section 168 of the Companies Ordinance and the Ninth Schedule of the Companies Ordinance to compulsorily acquire those IBA Shares not acquired by the Offeror pursuant to the Offer, and then proceed to withdraw the listing of IBA Shares from the Stock Exchange in accordance with Rule 2.11 of the Takeovers Code. Pursuant to the Takeovers Code, except with the consent of the Executive, the Offer may not remain open for more than four months from the date of posting of this Composite Document, unless the Offeror has by that time become entitled to acquire 90% of the disinterested IBA Shares.

WARNING: Furthermore, if the level of acceptances reaches that prescribed under the Companies Ordinance and Rule 2.11 of the Takeovers Code permitting Compulsory Acquisition and the Offeror proceeds with the privatisation of IBA, dealings in IBA Shares will be suspended from the close of the Offer up to the withdrawal of listing of IBA Shares from the Stock Exchange.

LETTER FROM CITIGROUP

Maintaining the listing

If the Offeror does not acquire the requisite percentage of IBA Shares in order to compulsorily acquire all the issued IBA Shares within four months from the despatch of this Composite Document, its intention is to maintain the listing of IBA on the Stock Exchange. Accordingly, assuming the Offer becomes unconditional in all respects but the Offeror does not effect the Compulsory Acquisition, the Offeror will undertake to the Stock Exchange to use reasonable endeavours following the close of the Offer to ensure that such number of IBA Shares as will be required by the Stock Exchange are held by the public. As stated above, if the Offeror acquires not less than 90% in value of the IBA shares in respect of which the Offer is made, the Offeror may consider exercising its rights under the Companies Ordinance to compulsorily acquire those IBA Shares not acquired by the Offeror pursuant to the Offer, and then proceed to withdraw the listing of the IBA Shares from the Stock Exchange in accordance with Rule 2.11 of the Takeovers Code.

The Stock Exchange has stated that, if less than 25% of IBA Shares are in public hands following the closing of the Offer or if the Stock Exchange believes that a false market exists or may exist in IBA Shares or that there are insufficient IBA Shares in public hands to maintain an orderly market, then it will give consideration to exercising its discretion to suspend dealings in IBA Shares.

The Stock Exchange has also stated that, if IBA remains a public company whose shares are listed on the Stock Exchange, any further acquisitions or disposals by IBA will be subject to the provisions of the Listing Rules. The Stock Exchange will also closely monitor all future acquisitions or disposals of assets by IBA. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require IBA to issue a circular to IBA Shareholders where any acquisition or disposal by IBA is proposed, irrespective of the size of such acquisition or disposal and, in particular, where such acquisition or disposal represents a departure from the principal activities of IBA. The Stock Exchange also has the power, pursuant to the Listing Rules, to aggregate a series of acquisitions or disposals by IBA and any such acquisitions or disposals may, in any event, result in IBA being treated as a new applicant for listing and subject to the requirements for new applicants as set out in the Listing Rules.

INFORMATION RELATING TO THE OFFEROR

The Offeror

The Offeror's executive and registered offices are located at 237 Chien Kuo South Road, Section 1, Taipei, Taiwan.

LETTER FROM CITIGROUP

The Offeror is one of the leading financial holding companies in Taiwan. The Fubon Group provides a comprehensive range of financial products and services, including commercial banking, non-life and life insurance, securities brokerage, asset management and investment banking services. The Fubon Group serves more than seven million customers through a broad and diverse distribution network, that includes more than 330 bank branches and representative offices, 588 ATMs, and more than 9,000 sales and marketing representatives.

The Offeror's audited net profit after tax for the year ended 31 December, 2002 was approximately NT\$9,414.9 million (approximately HK\$2,151.3 million). Shareholders' funds and total assets as at 31 December, 2002 were approximately NT\$138,802.1 million (approximately HK\$31,716.3 million) and approximately NT\$1,157,480.8 million (approximately HK\$264,484.4 million), respectively.

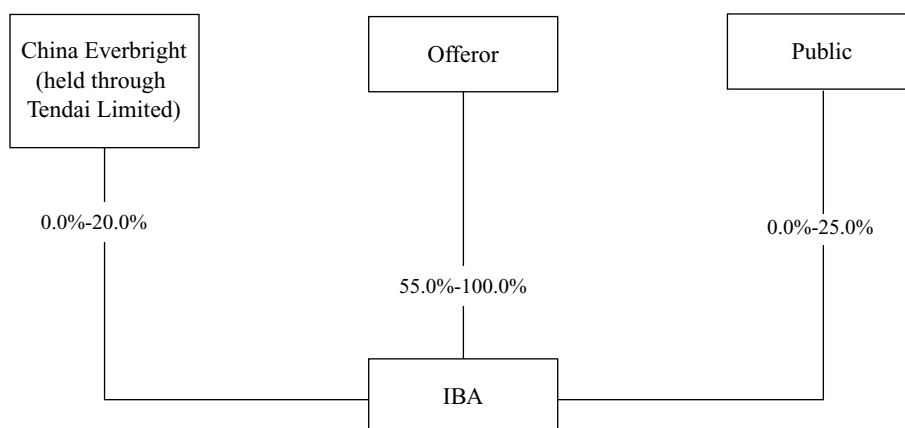
The shares of the Offeror are listed on the Taiwan Stock Exchange and the Offeror is a constituent stock of the Taiwan Stock Exchange Weighted Index. The Offeror has a market capitalisation of approximately NT\$237.7 billion (approximately HK\$55.8 billion) based on its closing price of NT\$32.30 as of the Latest Practicable Date.

Corporate structure

If the Offer becomes unconditional in all respects, the Offeror will become the new holding company and controlling shareholder of IBA. The shareholding interest of the Offeror in IBA after the Offer will depend on the level of acceptances of the Offer.

The corporate chart below indicates the levels of possible shareholding interest in IBA following the Offer if it becomes unconditional in all respects.

Post-Offer Shareholding Structure



LETTER FROM CITIGROUP

Intentions of the Offeror regarding the future of IBA

IBA is a Hong Kong licensed bank with its shares listed on the Stock Exchange. Through its branches and subsidiaries, IBA provides banking, securities broking and other financial related services to corporate and individual customers in Hong Kong. The consolidated net profit of IBA before and after taxation for the year ended 31 December, 2000 was HK\$275,526,000 and HK\$229,032,000 respectively and for the year ended 31 December, 2001 was HK\$307,023,000 and HK\$291,820,000 respectively and for the year ended 31 December, 2002 was HK\$221,868,000 and HK\$220,444,000 respectively. The net asset value of IBA as at 31 December, 2002 was HK\$3,767,384,000.

If the Offer becomes unconditional in all respects and the Offeror acquires a majority ownership of IBA, IBA will become a member of the Fubon Group.

The Offeror does not have any intention to inject any material assets or business into IBA or its subsidiaries or to make any significant changes to the existing businesses of IBA and its subsidiaries after completion of the Offer. IBA will remain a Hong Kong licensed bank. The Offeror has no specific plan for any redeployment of the fixed assets of IBA and it is envisaged that IBA will continue its existing business.

If the Offeror acquires a majority shareholding in IBA, the Offeror intends to leverage IBA's existing franchise and grow IBA either organically or through acquisitions. The Offeror's growth strategy does not include any specified target total asset size or timetable to achieve such growth.

The Offeror's long-term strategic objective is to become one of the leading diversified personal financial services companies in the Chinese-speaking world. As such, the Offeror views the acquisition of IBA as an attractive opportunity to expand into the Hong Kong financial services industry. IBA's current size, branch locations and diversified customer base will offer the Offeror a suitable platform to develop the Offeror's interests in the Hong Kong market.

Given the Offeror's presence, experience and success in various financial services businesses in Taiwan, the Offeror intends to leverage IBA's existing franchise and grow IBA either organically or through acquisitions. All of the Offeror's financial services businesses, with the exception of Fubon Insurance, are less than 15 years old and have been built into market leaders in a relatively short time period. As such, the Offeror is uniquely positioned to help IBA build and develop its business to capture a larger market share.

The Offeror views the acquisition of IBA as an attractive opportunity to expand into the Hong Kong financial services industry. As such, IBA's current operations in Hong Kong form the main attraction for the Offeror to acquire IBA. As stated above, it is the intention of the Offeror that IBA, if the Offer is completed, will continue its existing business as a Hong Kong licensed bank.

LETTER FROM CITIGROUP

If the Offeror acquires a majority shareholding in IBA, any overseas expansion by IBA in the PRC or elsewhere would require the approval from the relevant government or regulatory authorities in Hong Kong and Taiwan, as well as approvals from the relevant host country. The Offeror understands that IBA does not meet the entry requirements to the PRC under CEPA. Subject to IBA meeting the entry requirements of CEPA and obtaining the necessary government and regulatory approvals, the Offeror may consider entering into the PRC market using IBA.

IBA will be a suitable platform for the Offeror to develop the Offeror's interests in the Hong Kong market. Specifically, with the acquisition of IBA, the Offeror would be able to better serve its existing customers in Taiwan that have business interests in the Hong Kong market.

Name of IBA

On the Offeror acquiring a majority ownership of IBA, IBA will become a member of the Fubon Group, and the Offeror expects that the name of IBA will be changed to reflect the Offeror's majority ownership and the identity of the Offeror.

DIRECTORS AND MANAGEMENT

In order to satisfy the Pre-Condition set out in paragraph 1.1(f) of Appendix I, IBA on 10 February, 2004 passed resolutions for the appointment of certain persons nominated by the Offeror as non-executive and independent non-executive IBA Directors, with the intention for the Offeror to take control of the Board. Such appointments took effect from the date of dispatch of this Composite Document, in accordance with the Takeovers Code. Details of such persons who have been appointed as IBA Directors are set out in the paragraph below headed "New IBA Directors".

In recognition of Dr. Mike M. Murad's experience and his contribution to IBA as Vice Chairman, Chief Executive Officer and Managing Director of IBA since 1988, the Fubon Group has requested Dr. Murad to retain his positions and remain an IBA Director. Dr. Murad has agreed to retain his positions in accordance with and on the terms of his current service contract with IBA. Mr. Samra will remain as an executive IBA Director. Messrs. Al Suwaidi and Al Kindi have resigned from the Board, such resignations to be effective when the Offer becomes or is declared unconditional. The Executive has granted its consent under Rule 7 of the Takeovers Code, for the resignations of Messrs. Al Suwaidi and Al Kindi to take effect at that time. Mr. Kenrick will remain as an independent non-executive IBA Director. Messrs. Al-Mudhaf, Poon and So have resigned, such resignations to be effective on the First Closing Date. The intentions of Messrs. Guo and Zhou have yet to be ascertained.

It is the intention of the Offeror to build on the existing franchise of IBA and to retain the services of the senior management team and maintain the existing employee structure.

LETTER FROM CITIGROUP

NEW IBA DIRECTORS

Details of the persons nominated by the Offeror and who have been appointed as non-executive and independent non-executive IBA Directors with effect from the date of despatch of this Composite Document are as follows:

Non-Executive Directors:

Ming-Chung (Daniel) Tsai

Mr. Tsai, aged 47, joined the Fubon Group in 1981. He is currently Vice-Chairman, Executive Director and Co-Chief Executive Officer of the Offeror as well as the Vice-Chairman of Taipei Bank Co., Ltd.. Mr. Tsai is also the Chairman of Fubon Construction Management Co. Ltd, Taiwan Cellular Corporation, and Chung Shing Development respectively, and acts as the Chairman of the board of directors and Executive Officer of Fubon Land Development Co., Ltd.. Mr. Tsai has extensive experience in banking and telecommunication services, as well as the land development, construction management and building leasing business. He holds a Master of Law degree (1979) from Georgetown University and a Bachelor of Law degree (1978) from the National Taiwan University. Mr. Tsai is the brother of Ming-Hsing (Richard) Tsai.

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

Mr. Tsai, aged 46, joined the Fubon Group in 1982. He is severally the President, the Executive Director and the Co-Chief Executive Officer of the Offeror. Mr. Tsai also acts as the Chairman for Fubon Life Assurance Co., Ltd and Fubon Asset Management Co., Ltd and has over 10 years of experience in these businesses. He is currently also the Vice-Chairman of Taiwan Cellular Corporation, a provider of telecommunication services. Prior to this, Mr. Tsai was also the Chairman of Fubon Securities Co., Ltd. Mr. Tsai holds a Master of Business Administration degree (1981) from New York University and a Bachelor of Business Administration degree (1979) from the National Taiwan University. Mr. Tsai is the brother of Ming-Chung (Daniel) Tsai.

Wing-Fai Ng

Mr. Ng, aged 36, joined the Fubon Group in 2000. Mr. Ng's extensive experience in the financial and banking sectors can be evidenced in his previous positions as Managing Director and Head of the Asia-Pacific Financial Institution Group at Salomon Smith Barney, and prior to that, he was a Director of Corporate Finance at UBS Warburg. Currently, Mr. Ng is Senior Executive Vice-President and Chief Strategic Officer of the Offeror. Mr. Ng holds a Master of Business Administration degree (1994) from Harvard University and has a Master of Arts and a Bachelor of Arts degree (1990) in economics and engineering from Cambridge University.

LETTER FROM CITIGROUP

Victor Kung

Mr. Kung, aged 47, joined the Fubon Group in 2000. Mr. Kung first joined Fubon Insurance Co., Ltd. as a Director and Senior Advisor before becoming Senior Executive Vice-President and Chief Financial Officer of the Offeror. Prior to this, he was the Executive Vice-President of Walden International Investment Group, specializing in private equity investments, and an Executive Director at the private equity investment arm of Citicorp Venture Capital Asia. Mr. Kung holds both a Master of Business Administration in Finance (1988) and a Master in Economics degree (1982) from New York University, as well as a Bachelor of Law (1978) from National Chunghsing University.

Jesse Ding

Mr. Ding, aged 50, is the President of Taipei Bank Co., Ltd. He has extensive experience in the banking services sector with over 20 years of experience. Before his current employment, Mr. Ding was Executive Vice President of the China Industrial Bank Preparatory Team, and prior to that he was President of the Taipei Branch of Chase Manhattan Bank for more than 5 years. Mr. Ding also spent 4 years at Bankers Trust and more than 7 years at Citibank in various positions. He holds a Master of Business Administration degree (1979) from the University of Detroit and a Bachelor of Business Administration degree (1975) from National Taiwan University.

Independent Non-Executive Directors:

Moses Tsang

Mr. Tsang, aged 55, is the Chairman and Managing Partner of Aija Partners as well as the General Manager and Partner of EC Investment Services. Prior to that, he was a Partner of Global Investment Banking at the Goldman Sachs Group for more than 20 years before making a retirement decision. Mr. Tsang was a Doctoral candidate (1976) and has done postgraduate work at the University of Chicago, he holds a Master in Social Works (1973) from the University of Iowa and has a Bachelor's degree (1972) from Minnesota State University.

Hung Shih

Mr. Shih, aged 49, was previously a Consultant at Swiss Banking Corporation before becoming a full time employee of the firm which eventually merged with Union Bank of Switzerland in 1998 and was renamed UBS AG. Afterwards, he became a Managing Director and the China Country head of UBS AG before his early retirement in 1999. Mr. Shih holds both a Master of Business Administration degree (1982) and a Master of Law degree (1980) from the University of Michigan, as well as a Bachelor of Law degree (1976) from National Taiwan University.

LETTER FROM CITIGROUP

With the exception of Wing-Fai Ng, Moses Tsang and Hung Shih, the other persons referred to above are usually resident outside Hong Kong.

The appointments of the above non-executive and independent non-executive IBA Directors have been approved by the HKMA.

FURTHER TERMS OF THE OFFER

Further terms

Further terms and conditions (including the procedures for acceptance and the acceptance period) of the Offer are set out in Appendix I to this Composite Document and the Form of Acceptance.

Lapse of the Offer

If the Offer Condition is not satisfied (or, if applicable, waived) on or before the First Closing Date, the Offer will lapse unless extended by the Offeror. In that case, the Offeror will issue a press announcement as soon as practicable thereafter. The latest date on which the Offeror can declare the Offer unconditional is 60 days after the date of the posting of this Composite Document (or such later date as to which the Executive may consent).

If the Offer Condition is satisfied (or, if applicable, waived) on or before the First Closing Date, IBA Shareholders will be notified by press announcement as soon as practicable thereafter.

Stamp duty

Stamp duty at a rate of HK\$1 for every HK\$1,000 (or part of HK\$1,000) of the greater of (i) the consideration payable, and (ii) the market value of the IBA Shares in respect of the relevant acceptance, will be deducted from the amount payable to IBA Shareholders who accept the Offer. The Offeror will then pay the stamp duty on behalf of such IBA Shareholders in respect of the relevant acceptance which is due and payable under the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

LETTER FROM CITIGROUP

GENERAL MATTERS RELATING TO THE OFFER

Undertaking to accept

The Offeror has received the Undertaking from ABC to accept the Offer in respect of the Committed Shares. The Committed Shares represent 55% of the voting rights which may be exercised at general meetings of IBA.

Taxation and independent advice

IBA Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting or rejecting the Offer. It is emphasised that none of the Offeror nor Citigroup nor any of their respective directors nor affiliates nor any other person involved in the Offer accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of their acceptance or rejection of the Offer.

Additional information

Your attention is drawn to the letters from the Board of Directors of IBA, the Independent Board Committee and Rothschild which are set out in this Composite Document and the additional information set out in the Appendices which form part of this Composite Document.

Yours faithfully,
for and on behalf of
Citigroup Global Markets Asia Limited
Frank J. Slevin
Managing Director

LETTER FROM THE BOARD OF DIRECTORS OF IBA



INTERNATIONAL BANK OF ASIA LIMITED

(Incorporated under the laws of Hong Kong with limited liability)

Board of Directors:

Anwar A. Al-Mudhaf (*Chairman*)*
Mike M. Murad (*Vice Chairman, Managing Director
and Chief Executive Officer*)
Steven Kwok Lim Poon†
Robert James Kenrick†
So Yiu Cho, James†
Eissa Mohamed Al Suwaidi*
Guo You*
Bachar Samra
Khalifa Mohamed Al Kindi*
Zhou Liqun*

Registered Office:

International Bank of Asia Building
38 Des Voeux Road Central
Hong Kong

16 February, 2004

* *Non-executive Directors*

† *Independent Non-executive Directors*

To the Shareholders

Dear Sir or Madam,

VOLUNTARY CONDITIONAL CASH OFFER TO ACQUIRE THE ENTIRE ISSUED SHARE CAPITAL OF INTERNATIONAL BANK OF ASIA LIMITED

INTRODUCTION

Fubon Financial Holding Co., Ltd. (the “Offeror”) and International Bank of Asia Limited (“IBA”) announced on 8 September, 2003 that the Offeror (or its wholly-owned subsidiary) intended to make a voluntary conditional offer (“Offer”) for the whole of the issued share capital of IBA. The making of the Offer was subject to a number of pre-conditions (as set out in the 8 September, 2003 announcement) and the Offer is subject to the condition of valid acceptances being received (and not, where permitted, withdrawn) no later than the first closing date in respect of 50% of the issued share capital of IBA. The pre-conditions have now all been satisfied.

LETTER FROM THE BOARD OF DIRECTORS OF IBA

The terms of the Offer are set out in the Letter from Citigroup, Appendix I to this composite document dated 16 February, 2004 issued by the Offeror and IBA (the “Composite Document”), of which this letter forms an integral part, and the accompanying Form of Acceptance. Terms defined in this Composite Document have the same meaning when used in this letter.

In accordance with the Takeovers Code, the Independent Board Committee comprising Messrs. Steven K. L. Poon, Robert J. Kenrick and James Y. C. So, who are independent non-executive IBA Directors, has been formed to consider the terms of the Offer. Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee upon whether the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, with the benefit of such advice, the Independent Board Committee will make a recommendation as to the course of action which should be taken by Independent Shareholders.

This Composite Document is prepared for IBA Shareholders pursuant to the requirements of the Takeovers Code and sets out, amongst other things, the recommendation of the Independent Board Committee and the opinion rendered to the Independent Board Committee by its independent financial adviser, Rothschild, in respect of the Offer.

Messrs. Mike M. Murad, Bachar Samra, Anwar A. Al-Mudhaf, Eissa Mohamed Al Suwaidi and Khalifa Mohamed Al Kindi are either nominated by or associated with ABC and, accordingly, none of them is considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders on the Offer. In addition, Messrs. Guo You and Zhou Liquan are also directors of China Everbright, a substantial IBA Shareholder which owned approximately 20.0% of the total issued share capital of IBA as at the Latest Practicable Date, which has certain agreements with ABC regarding IBA including, but not limited to, a co-operative arrangement in connection with the business of IBA and the nomination of IBA Directors to the Board by China Everbright. Accordingly, they are not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders on the Offer. As such, Messrs. Steven K. L. Poon, Robert J. Kenrick, James Y.C. So, the independent non-executive IBA Directors, who have no interest in the Offer, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on the Offer.

THE OFFER

The Offer is being made by Citigroup on behalf of the Offeror on the following basis:

For each IBA Share HK\$3.68 in cash

LETTER FROM THE BOARD OF DIRECTORS OF IBA

Undertaking to Accept

Pursuant to the Undertaking and subject to and on the terms and conditions therein, ABC has irrevocably undertaken to accept the Offer in respect of the Committed Shares not later than one business day after receipt by it of this Composite Document.

Overseas Shareholders

As the Offer to persons not resident in Hong Kong may be affected by the laws of the relevant jurisdictions, Overseas Shareholders should inform themselves about and observe any applicable legal or regulatory requirements and, where considered necessary, seek legal advice. It is the responsibility of any Overseas Shareholder who wishes to accept the Offer to satisfy himself/herself as to the full observance of the laws of the relevant jurisdiction, including the obtainment of any governmental or other consent which may be required or the compliance with other necessary formalities or legal or regulatory requirements and the payment of any transfer or other taxes or duties or analogous imposts due as a result of the connection with such jurisdiction. Acceptances of the Offer by any such person will constitute a warranty by such person that such person is permitted under all applicable laws to receive and accept the Offer, and all such acceptances shall be valid and binding in accordance with all applicable laws.

INFORMATION ON IBA

Business of IBA

IBA has been granted authorization by the HKMA pursuant to section 16 of the Banking Ordinance to carry on banking business and IBA Shares are admitted to listing on the Stock Exchange. Through its branches and subsidiaries, IBA provides banking, securities broking and other financial related services to corporate and individual customers in Hong Kong. Its retail banking division has a network of 25 branches, including 4 Superbranches, supplemented by a Call Center and Internet banking. IBA commenced its credit card business in 1985 and offers its cardholders 24-hour customer and credit authorisation service support. In recent years, IBA has expanded its personal loan business by applying its credit card experience to customer lending. It has a hire purchase and leasing division which provides equipment financing. This division operates through a wholly-owned subsidiary, IBA Credit Limited. IBA also has an investment banking division designed to offer customers a wide range of investment opportunities which has increased fee income and promoted IBA's image. Additionally, IBA also has a corporate banking division and a department dedicated to carrying out Treasury activities.

LETTER FROM THE BOARD OF DIRECTORS OF IBA

The consolidated net profit of IBA before and after taxation for the year ended 31 December, 2000 was HK\$275,526,000 and HK\$244,388,000 respectively and for the year ended 31 December, 2001 was HK\$307,023,000 and HK\$295,338,000 respectively and for the year ended 31 December, 2002 was HK\$221,868,000 and HK\$225,338,000 respectively. The net asset value of IBA as at 31 December, 2002 was HK\$3,765,935,000.

It is expected that a special interim dividend of HK\$0.26 per IBA Share will be paid on 16 February, 2004 to IBA Shareholders recorded in IBA's register of members on 8 January, 2004.

Financial information regarding IBA is set out in Appendix II to this Composite Document.

Equity Securities of IBA

Other than the IBA Shares, IBA does not have any other outstanding equity securities (including equity related convertible securities, or warrants, options, derivatives or subscription rights in respect of any equity share capital (including non-transferable options)) as at the Latest Practicable Date.

Other information concerning IBA

The intentions of the Offeror in relation to IBA, the reasons for the Offer and certain matters in relation to the management of IBA are set out in the Letter from Citigroup. The Board does not feel it is appropriate for the Board as a whole (which includes IBA Directors who are not considered to be sufficiently independent under the Takeovers Code for the purposes of advising the Independent Shareholders on the Offer) to comment on such matters. For a discussion of these matters, please refer to the "Letter from Rothschild" and the "Letter from Independent Board Committee of IBA." We also note the statements relating to the possible Compulsory Acquisition and withdrawal of the listing of the IBA Shares on the Stock Exchange as set out in the Letter from Citigroup. Independent Shareholders should carefully consider the implications of these potential developments.

General

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

Yours faithfully,
for and on behalf of

INTERNATIONAL BANK OF ASIA LIMITED

Mike M. Murad

Vice Chairman, Managing Director and Chief Executive Officer

LETTER FROM INDEPENDENT BOARD COMMITTEE OF IBA



INTERNATIONAL BANK OF ASIA LIMITED

(a company incorporated in Hong Kong with limited liability)

Registered Office:

International Bank of Asia Building
38 Des Voeux Road Central
Hong Kong

16 February, 2004

To the Independent Shareholders

Dear Sir or Madam,

VOLUNTARY CONDITIONAL CASH OFFER

BACKGROUND

We refer to this Composite Document dated 16 February, 2004 issued by IBA and the Offeror to IBA Shareholders, of which this letter forms an integral part. Terms used in this letter shall have the same meanings as those defined in this Composite Document unless the context otherwise requires.

Fubon Financial Holding Co., Ltd. and IBA announced on 8 September, 2003 that the Offeror intended to make the Offer, subject to Pre-Conditions (a), (b), (c) and (f) being satisfied or, if applicable, waived. ABC entered into the Undertaking with the Offeror on the same day, pursuant to which ABC would accept the Offer, in respect of the Committed Shares, upon the making of the Offer by the Offeror. On 10 February, 2004, the Offeror confirmed its firm intention to make the Offer after satisfaction of Pre-Conditions (a), (b), (c) and (f). Further details of the Offer are set out under the section headed "The Offer" in the Letter from Citigroup of this Composite Document.

For the purpose of the Offer, we have been appointed as members of the Independent Board Committee to advise the Independent Shareholders as to whether or not the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned and whether or not they should accept the Offer. Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee in connection with the Offer.

LETTER FROM INDEPENDENT BOARD COMMITTEE OF IBA

ADVICE FROM ROTHSCHILD

We have considered carefully the terms of the Offer and the advice from Rothschild, including the principal factors and reasons which led to its advice in relation to the Offer. Your attention is drawn to the recommendations of Rothschild, which are set out in its letter of advice on pages 26 to 56 of this Composite Document, including, in particular, the subparagraphs headed “Reasons for the Offer” and “Intentions of the Offeror regarding the future of IBA,” the Letter from Citigroup on pages 8 to 19 of this Composite Document, the “Letter from the board of directors of IBA” on pages 20 to 23 of this Composite Document and the appendices to this Composite Document which set out the financial and other further information on the IBA Group.

In this regard, we note that the Offeror states that it intends to retain the services of the senior management and the existing employee structure and that it intends that IBA should continue its existing business as a Hong Kong licensed bank. We believe that these are appropriate strategies for the IBA Group.

We also note that the Offeror states that it intends to grow IBA either organically or through acquisitions. Given that the Offeror states that its growth strategy does not include any specified target total asset size or timetable to achieve such growth, it is not possible to comment on the Offeror’s growth strategy. Further, given that IBA does not currently meet the entry requirements for CEPA, it is not possible to comment on the possibility of entry into the PRC market using IBA.

RECOMMENDATIONS

The Independent Board Committee has resolved to adopt the advice of Rothschild as to the fairness and reasonableness of the Offer. Accordingly, we consider that the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned, and we advise the Independent Shareholders to accept the Offer.

Independent Shareholders who wish to realise their investments in the IBA Shares should monitor the share price performance of IBA. Should the market price (after deducting relevant transaction costs) of IBA Shares exceed the Offer price, those Independent Shareholders who wish to accept the Offer should consider realising their investments on the Stock Exchange. However, those Independent Shareholders who are attracted by the future prospects of IBA, as a subsidiary of the Offeror, should consider retaining some or all of their interests in the IBA Shares and, in so doing, they may have regard to the potential risks as highlighted by Rothschild as set out under the sub-section headed “Future prospects of IBA” and the section headed “Compulsory Acquisition and withdrawal of listing” in its letter of advice.

Yours faithfully,

Steven K. L. Poon
Independent
Non-executive IBA Director

Robert J. Kenrick
Independent
Non-executive IBA Director

James Y. C. So
Independent
Non-executive IBA Director

LETTER FROM ROTHSCHILD



16 February, 2004

*To the Independent Board Committee of
International Bank of Asia Limited*

Dear Sirs,

VOLUNTARY CONDITIONAL CASH OFFER

We refer to our engagement to advise the Independent Board Committee with respect to the Offer, details of which are contained in this Composite Document dated 16 February, 2004 of which this letter forms an integral part. Rothschild has been appointed as the independent financial adviser to advise the Independent Board Committee as to whether or not the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned.

The terms used in this letter shall have the same meanings as defined elsewhere in this Composite Document unless the context otherwise requires.

The Board comprises ten IBA Directors of whom two are executive IBA Directors and the remaining eight are non-executive IBA Directors. The two executive IBA Directors are Messrs. Mike M. Murad and Bachar Samra, and the eight non-executive IBA Directors are Messrs. Anwar A. Al-Mudhaf, Steven K. L. Poon, Robert J. Kenrick, James Y. C. So, Eissa Mohamed Al Suwaidi, Guo You, Khalifa Mohamed Al Kindi and Zhou Liqun.

As noted under the section headed "Introduction" in the "Letter from the board of directors of IBA" of this Composite Document, Messrs. Mike M. Murad, Bachar Samra, Anwar A. Al-Mudhaf, Eissa Mohamed Al Suwaidi and Khalifa Mohamed Al Kindi are either nominated by or associated with ABC and, accordingly, none of them is considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders on the Offer. In addition, Messrs. Guo You and Zhou Liqun are also directors of China Everbright, a substantial shareholder of IBA which owned approximately 20.0% of the total issued share capital of IBA as at the Latest Practicable Date, which has certain agreements with ABC regarding IBA including, but not limited to, the co-operative arrangement in connection with the business of IBA and the nomination of directors to the Board by China Everbright. For the aforesaid reasons, they are not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders on the Offer. Accordingly, Messrs. Steven K. L. Poon, Robert J. Kenrick, James Y. C. So, the independent non-executive IBA Directors, who have no interest in the Offer, have been appointed as members of the Independent Board Committee to advise the Independent Shareholders on the Offer.

N M Rothschild & Sons (Hong Kong) Limited
16th Floor, Alexandra House
16-20 Chater Road, Central
Hong Kong SAR

Telephone: (852) 2525-5333
Facsimile: (852) 2868-1728
(852) 2810-6997



In formulating our recommendations, we have relied on the information and facts supplied to us by IBA, ABC, the Offeror and their respective advisers, and have assumed that any representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have also assumed that all information, representations and opinions contained or referred to in this Composite Document are fair and reasonable and have relied on them.

We have been advised by the IBA Directors, the directors of ABC and the Offeror Directors that no material facts have been omitted and we are not aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or misleading. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the IBA Directors, the directors of ABC and the Offeror Directors.

The IBA Directors (in respect of the information as set out under the section headed “2. Responsibility statement” in Appendix IV to this Composite Document) and the Offeror Directors (in respect of the information as set out under the section headed “1. Responsibility” in Appendix III to this Composite Document) have jointly and severally accepted full responsibility for the accuracy of the information contained in this Composite Document and have confirmed, having made all reasonable enquiries, that, to the best of their knowledge and belief, opinions expressed in this Composite Document have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement in this Composite Document misleading.

We believe that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, conducted any independent in-depth investigation into the business and affairs of IBA or any of its subsidiaries or associated companies.

PRINCIPAL FACTORS AND REASONS

In arriving at our opinion, we have taken into consideration the following principal factors and reasons:

1. Background to and reasons for the Offer

(i) Background to the Offer

As noted in the Possible Disposal Announcement, ABC and China Everbright confirmed that they were considering the possibility of disposing of their shareholding interests in IBA. Based on our discussions with the management of ABC, we understand that there have been various discussions with a number of interested



parties regarding the possible sale, and ABC has confirmed that the Offer is, in its opinion and having considered all factors, the best offer it has received from all such interested parties.

On 8 September, 2003, ABC entered into the Undertaking with the Offeror pursuant to which ABC has agreed to accept the offer, in respect of the Committed Shares, upon the making of the Offer by the Offeror. On the same day, the Offeror announced that a possible voluntary conditional cash offer would be made by the Offeror to acquire the entire issued share capital of IBA. On 10 February, 2004, the Offeror confirmed its firm intention to make the Offer after satisfaction of Pre-Conditions (a), (b), (c) and (f) and the remaining Pre-Conditions were satisfied upon despatch of this Composite Document.

Under the Offer, all Accepting Shareholders will receive HK\$3.68 per IBA Share, further details of which are set out under the section headed “The Offer” in the Letter from Citigroup. At the Offer price of HK\$3.68 per IBA Share (“Offer Price”), the aggregate amount payable by the Offeror to the Accepting Shareholders on full acceptance of the Offer would amount to approximately HK\$4,313.5 million. We note that Citigroup, the financial adviser to the Offeror in relation to the Offer, is satisfied that sufficient financial resources are available to the Offeror to satisfy full acceptance of the Offer, and the Offeror will fund the Offer from its internal resources.

Independent Shareholders should note that the Offer is conditional upon the Offer Condition, further details of which are set out under the sub-section headed “Offer Condition” in the Letter from Citigroup. According to the terms of the Undertaking, the Offer Condition is expected to be satisfied by no later than one business day after receipt of this Composite Document by ABC.

(ii) Reasons for the Offer

As noted under the sub-section headed “Intentions of the Offeror regarding the future of IBA” in the Letter from Citigroup, it is the Offeror’s long-term strategic objective to become one of the leading diversified personal financial services companies in the Chinese-speaking world. The Offeror views the acquisition of IBA as an attractive opportunity for it to expand into the Hong Kong financial services industry. The Offeror is of the opinion that the current size, branch locations and diversified customer base of IBA will offer it a suitable platform to develop its business interest in the Hong Kong market whilst providing it the ability to better service its existing customers in Taiwan that have business interests in the Hong Kong market. The Offeror has stated that the current operations of IBA in Hong Kong form the main attraction for it to acquire IBA.



2. Historical financial performance and future prospects of IBA

- (i) *Financial performance for the three financial years ended 31 December, 2002 and for the six months ended 30 June, 2003*

IBA is a Hong Kong licensed bank with its shares listed on the Stock Exchange. Through its branches and subsidiaries, IBA provides banking, securities broking and other financial related services to corporate and individual customers in Hong Kong. A summary of the audited consolidated financial results of the IBA Group for each of the three financial years ended 31 December, 2002, the audited consolidated financial statements of the IBA Group for the two financial years ended 31 December, 2002 and the unaudited consolidated financial results of the IBA Group for the six months ended 30 June, 2003 are set out in Appendix II to this Composite Document respectively. It should be noted that the figures in respect of “Taxation charge”, “Profit attributable to shareholders” and “Earnings per share” under the section headed “1. Three year financial results summary” in Appendix II to this Composite Document have been restated to reflect the adoption of the revised Statement of Standard Accounting Practice 12 “Income Taxes” (“Revised SSAP 12”), which relates to the recognition of deferred taxation by IBA with effect from 1 January, 2003 and this new accounting policy has been adopted retrospectively.

Set out below is a summary of the published audited consolidated financial results of the IBA Group for the three financial years ended 31 December, 2002 and the published unaudited consolidated financial results for the six months ended 30 June, 2003, the analysis of non-performing loans (“NPL”) at the end of each

LETTER FROM ROTHSCHILD



financial year and period, and a brief review of the financial performance of the IBA Group during this period.

	Financial year ended 31 December,			Six months ended 30 June,	
	2002*	2001*	2000*	2003#	2002#
<i>Summary of consolidated results of the IBA Group:</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>(Restated) HK\$ '000</i>
Net interest income	728,376	758,154	685,666	300,884	374,374
Other operating income	151,240	141,853	161,252	87,279	80,740
Operating income	879,616	900,007	846,918	388,163	455,114
Operating expense	(456,865)	(487,226)	(439,257)	(222,401)	(221,758)
Operating profit before provisions and gains	422,751	412,781	407,661	165,762	233,356
Charge for bad and doubtful debts	(338,975)	(232,175)	(175,935)	(101,715)	(179,075)
Operating profit after provisions for bad and doubtful debts	83,776	180,606	231,726	64,047	54,281
Impairment losses on investment and assets acquired	(32,263)	(5,760)	0	(62,322)	(7,956)
Gain less losses from disposal, redemption or transfer of held-to-maturity and non-trading securities	170,355	132,177	43,800	52,211	60,992
Profit before tax	221,868	307,023	275,526	53,936	107,317
Taxation ⁽¹⁾	3,470	(11,685)	(31,138)	(1,548)	(11,047)
Net profit attributable to IBA Shareholders ⁽²⁾	<u>225,338</u>	<u>295,338</u>	<u>244,388</u>	<u>52,388</u>	<u>96,270</u>
<i>Analysis of NPLs:</i>					
NPLs	262,392	837,768	1,170,699	407,330	518,541
Collaterals for NPLs	168,516	529,647	494,698	302,093	349,723
Specific reserves for NPLs	55,735	164,379	361,325	78,513	103,921
NPL Ratio (%) ⁽³⁾	1.7%	5.0%	6.5%	2.6%	3.3%

* Audited
Unaudited

Notes:

- (1) The restated taxation charges for the three financial years ended 31 December, 2000, 2001 and 2002 would be approximately HK\$46.5 million, HK\$15.2 million and HK\$1.4 million respectively after adjusting for the effects in relation to the adoption of the Revised SSAP 12.
- (2) The restated net profit attributable to IBA Shareholders for the three financial years ended 31 December, 2000, 2001 and 2002 would be approximately HK\$229.0 million, HK\$291.8 million and HK\$220.4 million respectively after adjusting for the effects in relation to the adoption of the Revised SSAP 12.
- (3) The NPLs as a percentage of gross advances to customers (“NPL Ratio”).



(a) Net interest income

Net interest income increased from approximately HK\$685.7 million in 2000 to approximately HK\$758.2 million in 2001, before declining to approximately HK\$728.4 million for the financial year ended 31 December, 2002. The increase in net interest income in 2001 was largely the result of the higher average loans outstanding compared to 2000, which offset the fall in the net interest margin from approximately 2.93% in 2000 to approximately 2.89% in 2001. For 2002, the decrease in net interest income was due largely to lower average loans outstanding and decline in net interest margin to approximately 2.61% caused by lower loans demand as a consequence of poor local economic conditions.

Net interest income reduced to approximately HK\$300.9 million for the six months ended 30 June, 2003 compared to approximately HK\$374.4 million for the same period in 2002. This was due mainly to a decline in net interest margin from approximately 2.88% for the six months ended 30 June, 2002 to approximately 2.39% for the same period in 2003, and a relatively lower average loans outstanding but higher average deposits balance in the first six months of 2003 compared to the same period in 2002 as a result of the weakened local economic conditions due mainly to the outbreak of the Severe Acute Respiratory Syndrome (“SARS”) in early 2003.

(b) Operating profit after provisions for bad and doubtful debts

Operating profit after provisions for bad and doubtful debts decreased to approximately HK\$83.8 million in 2002 from approximately HK\$180.6 million in 2001 and approximately HK\$231.7 million in 2000. Although net interest income increased by approximately HK\$72.5 million in 2001 as discussed above, such increase was offset by a decrease in other operating income (which includes net fees and commission income in relation to the sale of investment products, credit card commissions and loan fees) from approximately HK\$161.3 million in 2000 to approximately HK\$141.9 million in 2001, a decrease of approximately HK\$19.4 million, and an increase in operating expenses from approximately HK\$439.3 million in 2000 to approximately HK\$487.2 million in 2001, representing an increase of approximately HK\$47.9 million as a result of advertising and promotion for new products, the opening of new business premises and depreciation of equipment and technology. In addition, provisions for bad and doubtful debts increased from approximately HK\$175.9 million in 2000 to approximately HK\$232.2 million in 2001 as IBA increased reserves for possible loan losses due to the uncertainty in the timing of the economic recovery.



For 2002, although other operating income increased by approximately HK\$9.4 million to approximately HK\$151.2 million and operating expenses decreased to approximately HK\$456.9 million, representing a decline of approximately HK\$30.4 million from 2001, the decline in operating profit after provisions for bad and doubtful debts was primarily caused by a decrease in net interest income of approximately HK\$29.8 million as described above, and an increase in provisions for bad and doubtful debts of approximately HK\$106.8 million to approximately HK\$339.0 million in 2002, representing an increase of approximately 46.0% from 2001. This was the result of the overall increase in personal bankruptcies in Hong Kong and of a one-time charge in 2002 arising from a change in specific provision policy by IBA with respect to credit card advances and personal loans relating to bankruptcy.

Operating profit after provisions for bad and doubtful debts was approximately HK\$64.0 million for the six months ended 30 June, 2003 compared to approximately HK\$54.3 million for the same period in 2002. The increase was principally due to a reduction in loan loss provisions to approximately HK\$101.7 million for the six months ended 30 June, 2003 compared to approximately HK\$179.1 million for the six months ended 30 June, 2002, representing a reduction of approximately HK\$77.4 million, which offset the decrease in net interest income of approximately HK\$73.5 million compared to the preceding period as described above. We note that IBA has implemented new application procedures and monitoring systems in the consumer finance portfolio to tighten control and requirements in loan application and improve monitoring of debtors in the second half of 2002. However, we are unable to comment on whether the implementation of the aforesaid procedures and systems can further reduce the level of loan loss provision in coming years given that there are other factors, including but not limited to, the then overall economic environment, which may affect the provision required for a particular financial year.

(c) Net profit attributable to IBA Shareholders

For the financial year ended 31 December, 2002, IBA reported a consolidated net profit attributable to IBA Shareholders of approximately HK\$225.3 million compared to approximately HK\$295.3 million for the financial year ended 31 December, 2001 and approximately HK\$244.4 million for the financial year ended 31 December, 2000. In addition to the reasons for the change in operating profit after provisions for bad and doubtful debts in 2001 as discussed above, the increase in net profit attributable to IBA Shareholders of approximately HK\$51.0 million in 2001 was due largely to net gains from the disposal of investment securities, which increased by



approximately HK\$88.4 million to approximately HK\$132.2 million in 2001, and lower taxation charges, which was approximately HK\$19.5 million lower due mainly to the reversal of tax provisions made in previous years.

The decline in net profit for the financial year ended 31 December, 2002 compared to 2001 was due mainly to lower operating profit after provisions for bad and doubtful debts as discussed above and the increase in provisions for impairment losses on investment and assets acquired by approximately HK\$26.5 million.

Net profit attributable to IBA Shareholders decreased to approximately HK\$52.4 million for the six months ended 30 June, 2003 compared to approximately HK\$96.3 million for the same period in 2002. In addition to the reasons for the change in operating profit after provisions for bad and doubtful debts as discussed above, the change in net profit was due largely to a one-off provision of approximately HK\$62.3 million in relation to the diminution in value of property assets acquired under lending agreements which contributed to the reduction in net profit attributable to IBA Shareholders during this period.

(d) NPLs

Gross NPLs decreased from approximately HK\$1,170.7 million as at 31 December, 2000 to approximately HK\$837.8 million as at 31 December, 2001. The NPL Ratio also decreased from approximately 6.5% as at 31 December, 2000 to approximately 5.0% as at 31 December, 2001. These were due largely to recovery of approximately HK\$209.0 million of overdue PRC loans in 2001. Gross NPLs and the NPL Ratio decreased further to approximately HK\$262.4 million and 1.7% respectively as at 31 December, 2002. These reductions were mainly caused by improved recoveries from NPLs of approximately HK\$129.1 million and the write-off of NPLs of approximately HK\$513.0 million for the period under review.

NPLs increased to approximately HK\$407.3 million as at 30 June, 2003 compared to approximately HK\$262.4 million as at 31 December, 2002. The NPL Ratio also increased to approximately 2.6 % from approximately 1.7% for the period under review. The increase was due primarily to the increase in overdue advances as a result of weak local economic conditions in the first half of 2003.

IBA held collaterals of approximately HK\$494.7 million and specific reserves of approximately HK\$361.3 million in respect of NPLs totalling approximately HK\$1,170.7 million as at 31 December, 2000. In addition to



specific reserves of approximately HK\$164.4 million, IBA held collaterals of approximately HK\$529.6 million in respect of NPLs totalling approximately HK\$837.8 million as at 31 December, 2001. In respect of the NPLs totalling approximately HK\$262.4 million as at 31 December, 2002, IBA held collaterals of approximately HK\$168.5 million and specific reserves of approximately HK\$55.7 million. As at 30 June, 2003, IBA held collaterals of approximately HK\$302.1 million and specific reserves of approximately HK\$78.5 million in respect of NPLs totalling approximately HK\$407.3 million.

In summary, the financial performance of the IBA Group has been adversely affected by the weak local economic conditions and the increasing competition in the Hong Kong banking sector over the last few years as further discussed under the sub-section headed “(a) Outlook of the Hong Kong banking sector” below. We note that the deterioration of loan quality in Hong Kong resulted in significant provisions made by IBA in respect of its loan portfolio, together with the increasing competition in the local banking sector has led to a squeeze in net interest margin of IBA, hence the overall profitability of IBA has been negatively impacted for the period under review. For further discussions on the future prospects of IBA, your attention is drawn to the sub-section headed “(ii) Future prospects of IBA” below.

(ii) Future prospects of IBA

(a) Outlook of the Hong Kong banking sector

The future prospects of IBA are closely tied to those of the local banking sector which in turn is related to the general conditions of the Hong Kong economy as a whole, as well as the operating environment and business opportunities available to local banks.

The Hong Kong economy has shown signs of improvement according to recent economic indicators. According to data obtained from the Hong Kong Census and Statistics Department, the unemployment rate in Hong Kong for the fourth quarter of 2003 decreased to 7.3% from 8.3% for the previous quarter, which was slightly higher than the level of the fourth quarter of 2002 of 7.2%. We also note that the unemployment rate for the three months ending December 2003 was 7.3%, which was lower than the previous three months ending November 2003 of 7.5%. Inbound tourism and local consumer spending increased retail sales by 5.2% in the fourth quarter of 2003 compared to the previous quarter of an increase of 1.2%. In line with the increase in retail sales as discussed above, overall consumer prices have also improved, with the Composite Consumer Price Index (“CPI”) reducing by 2.3% in the fourth quarter of 2003, which was slightly lower than the reduction of 3.6% in the third quarter of 2003.



In addition, the asset quality of retail banks in Hong Kong has shown signs of improvement according to the HKMA. The NPL Ratio reduced slightly to 3.59% for the third quarter of 2003 compared to 3.92% for the second quarter of 2003. The average NPL Ratio for the first three quarters of 2003 was approximately 3.85%, which was lower than the average of approximately 4.55% for the same period in 2002. According to the Official Receivers Office in Hong Kong, bankruptcy orders in Hong Kong totalled 1,270 in December 2003 compared to the highest recorded monthly figure since 1999 of 3,193 in January 2003. However, the total number of bankruptcy orders for 2003 was 24,922 compared to 25,328 in 2002, representing a slight decrease of approximately 1.6%.

According to the HKMA, Hong Kong banks' profitability is expected to improve in line with the general economic environment. In addition, Hong Kong banks may be able to benefit from the increasing financial and economic integration with mainland China, which is expected to present opportunities for small to medium sized banks to diversify their businesses in the mainland as a result of the CEPA. The agreement of the People's Bank of China in relation to the provision of clearing arrangements for banks in Hong Kong to conduct personal renminbi business on a trial basis on 18 November, 2003 will provide the Hong Kong banking sector areas for new business development and increase its competitiveness. In the long term, these arrangements are expected to have an important influence in the development of Hong Kong as an international financial centre.

Although we note that recent indicators have shown improvement in the general market conditions of the Hong Kong economy, and there are increasing business opportunities for local banks as a result of the CEPA and the ability to conduct personal renminbi business, we are of the view that the timing of a full recovery of the local economy and the banking sector remains uncertain and the extent of the potential benefits to local banks as a result of the increasing integration with mainland China has yet to be demonstrated. We have also discussed with the IBA Directors the financial performance of the IBA Group since the latest audited financial year ended 31 December, 2002, which was adversely affected by general market conditions as indicated by the decline in net profit attributable to IBA Shareholders of approximately 45.6% for the first six months of 2003 compared to the same period in 2002 discussed above. We have also discussed with the IBA Directors the potential benefits to IBA with respect to the aforesaid personal renminbi business which, under the current arrangements local banks are only allowed to conduct renminbi deposit, exchange, remittance and renminbi debit and credit card businesses. The IBA Directors do not envisage any substantial profit contribution from conducting



these new services in the near short term. In addition, as evidenced by the mergers and acquisitions of local banks in recent years, further details of which are summarised under the sub-section headed “(iii) Recent mergers and acquisitions in the banking sector in Hong Kong” below and the recent financial performances of local banks which showed a decline in the industry average net interest margin from approximately 2.10% for 2002 to approximately 1.94% for September 2003 annualised figure according to the HKMA, we believe the operating environment of the local banking sector would remain competitive, in particular for smaller banks which lack economies of scale to compete with the larger banks.

(b) Intentions of the Offeror regarding the future of IBA

The future prospects of IBA would also be highly dependent on the future intentions of the Offeror in relation to the business strategy and management of IBA, as well as whether such future plans could be successfully implemented. As noted under the section headed “Information relating to the Offeror” in the Letter from Citigroup, the Offeror is one of the leading financial holding companies in Taiwan. The Offeror provides a comprehensive range of financial products and services such as commercial banking, non-life and life insurance, securities brokerage, asset management and investment banking services. Its shares are listed on the Taiwan Stock Exchange and it is a constituent stock of the Taiwan Stock Exchange Weighted Index with a market capitalisation of approximately NT\$237.7 billion (approximately HK\$55.8 billion) as at the Latest Practicable Date. In addition, the Offeror is of the view that it is uniquely positioned to help IBA build and develop its business to capture a larger market share. Further background information on the Offeror is set out under the section headed “Information relating to the Offeror” in the Letter from Citigroup.

As also noted under the sub-section headed “Intentions of the Offeror regarding the future of IBA” in the Letter from Citigroup, the Offeror does not intend to inject any material assets or business into the IBA Group or make any significant changes to its existing business. IBA will remain a Hong Kong licensed bank and it is the intention of the Offeror to leverage IBA’s existing franchise and grow IBA either organically or through acquisitions. The Offeror also believes that the acquisition of IBA would enable it to better serve its existing customers in Taiwan that have business interests in the Hong Kong market. In addition, any overseas expansion by IBA in the PRC or other countries would require the approvals from the relevant government or regulatory authorities in Taiwan and Hong Kong, as well as approvals from the relevant host country. In particular, the Offeror has acknowledged that IBA does



not meet the requirements to enter the PRC under the CEPA. In the event that such requirements have been met, and the necessary government and regulatory approvals have been obtained by IBA, the Offeror may consider entering the PRC market using IBA. Upon entering into the PRC market, this would provide an opportunity for IBA to expand its businesses into the mainland China, which may potentially improve the business prospects of IBA.

We also note that Dr. Mike M. Murad will remain as the Vice Chairman, Chief Executive Officer and Managing Director of IBA in accordance with, and on the terms of his current service contract with IBA. Mr. Bachar Samra will remain as an executive IBA Director and Mr. Robert J. Kenrick will remain as an independent non-executive IBA Director. Messrs. Eissa Mohamed Al Suwaidi and Khalifa Mohamed Al Kindi have resigned from the Board, such resignations to be effective when the Offer becomes or is declared unconditional. Messrs. Anwar A. Mudhaf, Steven K. L. Poon and James Y. C. So have resigned from the Board, such resignations to be effective on the First Closing Date. Messrs. Guo You and Zhou Liqun's intentions have yet to be ascertained. IBA has also passed resolutions for the appointment of certain nominated persons by the Offeror as executive IBA Directors and independent non-executive IBA Directors to the Board with the intention to take control of the Board, further details of which are set out under the section headed "Directors and management" and "New IBA Directors" in the Letter from Citigroup. Having regard to the background of the proposed new IBA Directors, we are of the view that they have the relevant experience for IBA. In addition, the Offeror intends to retain the services of the senior management team of IBA and its existing employee structure.

Independent Shareholders should note that the Offeror has stated that its growth strategy for IBA does not include any specified target total asset size or timetable to achieve such growth. In addition, Independent Shareholders should note that there is no assurance as to the timing and whether any part or all of the future plan of the Offeror in respect of IBA could be successfully implemented.

Having considered all the above factors and current available information, we believe IBA will continue to be operated as a Hong Kong licensed bank in a competitive local banking environment after the closing of the Offer. As discussed above, the future prospects of IBA are also highly dependent on whether, and if the Offeror's future business strategy and plans for IBA could be successfully implemented. We note that the Offeror has established a successful financial business in Taiwan, offering a comprehensive range of financial products and services, and hence we believe the Offeror's management and expertise should complement the business of IBA. In addition, the acquisition of IBA will be the Offeror's first major acquisition outside Taiwan, which provides it with the platform to develop its business in Hong



Kong, a market which it currently only has a limited business presence. The acquisition would also enable the Offeror to better serve its existing customers in Taiwan that have business interests in the Hong Kong market, which may potentially provide additional business and broaden the customer base of IBA, and as a result, the business prospects of IBA may potentially be improved. Since there is no assurance as to the timing, and whether any part, or all of the future plans of the Offeror in respect of IBA could be successfully implemented, nor is there any certainty of replicating the Offeror's success in Taiwan for IBA in the Hong Kong banking sector, we are unable to comment on the potential effects and benefits to IBA as a result of the change in control at this stage.

3. Analysis of the Offer Price

The Offer Price values the entire issued share capital of IBA at approximately HK\$4,313.5 million. It represents:

- a discount of approximately 0.54% over the closing price of HK\$3.70 per IBA Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- a premium of approximately 6.67% over the closing price of HK\$3.45 per IBA Share as quoted on the Stock Exchange on 5 September, 2003, being the last trading day of the IBA Shares prior to the suspension of the trading in the IBA Shares on the Stock Exchange, pending the issue of the Joint Announcement;
- a premium of approximately 8.55% over the average closing price of approximately HK\$3.39 per IBA Share as quoted on the Stock Exchange over the last five trading days up to and including 5 September, 2003;
- a premium of approximately 18.65% over the average closing price of approximately HK\$3.10 per IBA Share as quoted on the Stock Exchange over the last 30 trading days up to and including 5 September, 2003;
- a premium of approximately 25.34% over the average closing price of approximately HK\$2.94 per IBA Share as quoted on the Stock Exchange over the last 90 trading days up to and including 5 September, 2003;
- a premium of approximately 30.23% over the average closing price of approximately HK\$2.83 per IBA Share as quoted on the Stock Exchange over the last 180 trading days up to and including 5 September, 2003;
- a price to published audited net asset value ("NAV") as at 31 December, 2002 of approximately 1.15 times, based on the published audited NAV per IBA Share of approximately HK\$3.21 as at 31 December, 2002 according to the annual report of IBA for the financial year ended 31 December, 2002;

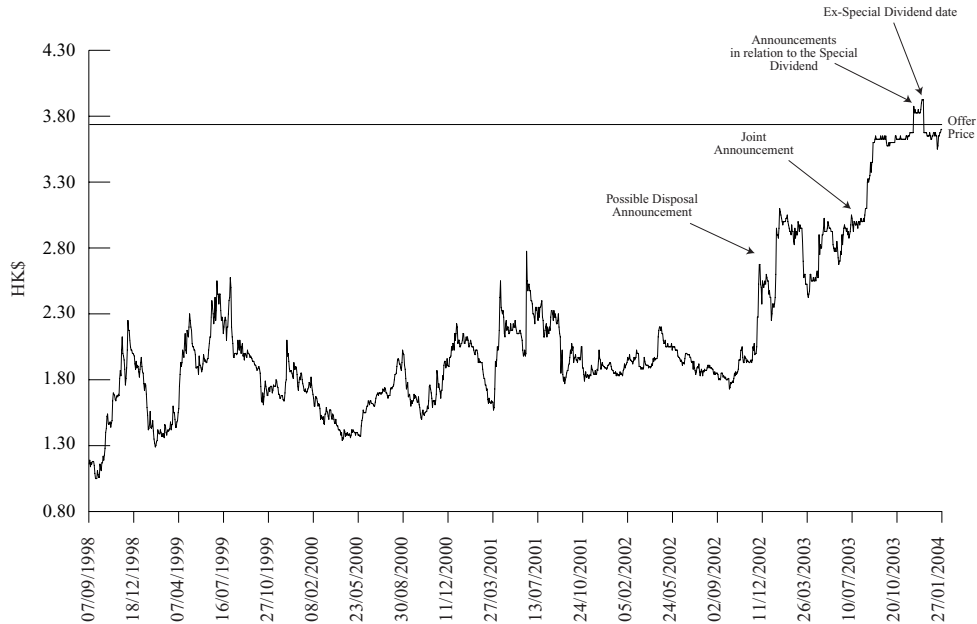
LETTER FROM ROTHSCHILD



- a price to restated NAV as at 31 December, 2002 of approximately 1.14 times, based on the restated NAV per IBA Share (“Restated NAV”) of approximately HK\$3.21 as at 31 December, 2002, which in turn was calculated based on the audited NAV as at 31 December, 2002 and after adjusting for the effects of the adoption of the Revised SSAP 12;
- a price to unaudited NAV of approximately 1.26 times, based on the unaudited adjusted NAV per IBA Share of approximately HK\$2.91 as at 30 June, 2003, which in turn was calculated based on the Restated NAV as at 31 December, 2002, adjusted for the financial results and dividend payment in respect of the six months ended 30 June, 2003 and the special interim dividend payment of HK\$0.26 per IBA Share as set out in the announcement of IBA dated 19 December, 2003 (“Special Dividend”), which is expected to be paid by IBA on 16 February, 2004 to the IBA Shareholders on record in IBA’s register of members on 8 January, 2004;
- a price-to-earnings ratio (“PER”) of approximately 19.14 times, based on the published earnings per IBA Share of HK\$0.192 for the financial year ended 31 December, 2002 according to the annual report of IBA for the financial year ended 31 December, 2002;
- a PER of approximately 19.57 times based on the restated earnings per IBA Share of HK\$0.188 for the financial year ended 31 December, 2002 according to Appendix II to this Composite Document; and
- a dividend yield of approximately 3.3%, based on the dividend per IBA Share of HK\$0.12 for the financial year ended 31 December, 2002.



The graph below illustrates the closing prices of the IBA Shares on the Stock Exchange for the last five years from 6 September, 1998 to the Latest Practicable Date:



Source: Bloomberg

(i) *Historical share price performance of IBA*

As illustrated in the graph above, since the Possible Disposal Announcement, the price of the IBA Shares increased from HK\$2.28 to HK\$3.45 between 13 December, 2002 and 5 September, 2003, representing an increase of approximately 51.3%. We believe this increase was mainly driven by the market's expectation of an increase in value of the IBA Shares arising from the possible disposal and the improvement in general stock market sentiment in recent months. Notwithstanding the substantial rise in the share price of IBA in recent months, the IBA Shares have traded predominantly below the Offer Price for the period under review with the exception of the period from 8 December, 2003, in which the IBA Shares traded above the Offer Price as a result of the announcement of the possible Special Dividend as set out in a joint announcement of the Offeror and IBA dated 6 December, 2003. The IBA Shares traded down to the Offer Price since the ex-Special Dividend date on 30 December, 2003 and recently traded slightly above the Offer Price and closed on HK\$3.70 as at the Latest Practicable Date. Subsequent to the Latest Practicable Date, the IBA Shares closed at HK\$4.025 on 12 February, 2004. The Board has confirmed that it is not aware of any reasons for such increase in the IBA Share price, save for the confirmation by the Offeror with respect to its firm intention to make the Offer as announced jointly by the Offeror and IBA in an announcement dated 10 February, 2004.

LETTER FROM ROTHSCHILD



The table below is a summary of the highest and lowest traded prices, the highest and lowest closing prices, the average closing prices of the IBA Shares and the total number of trading days which the closing prices of the IBA Shares were above the Offer Price for the one-year period (“One-Year Period”) from 6 September, 2002 to 5 September, 2003, both days inclusive, and for the three-year period (“Three-Year Period”) from 6 September, 2000 to 5 September, 2003, both days inclusive, and for the five-year period (“Five-Year Period”) from 6 September, 1998 to 5 September, 2003, both days inclusive:

	One-Year Period	Three-Year Period	Five-Year Period
Highest traded price	HK\$3.48	HK\$3.48	HK\$3.48
Lowest traded price	HK\$1.73	HK\$1.47	HK\$0.96
Highest closing price	HK\$3.45	HK\$3.45	HK\$3.45
Lowest closing price	HK\$1.73	HK\$1.50	HK\$1.05
Average closing price	HK\$2.57	HK\$2.17	HK\$1.99
Number of trading days			
closed above the Offer Price	0 day	0 day	0 day
Total number of trading days	248 days	737 days	1,232 days

Source: Bloomberg

As illustrated in the table above, the IBA Shares have been traded below the Offer Price for the entire Five-Year Period under review. The Offer Price represents approximately 43.2%, 69.6% and 84.9% premium over the average closing prices for the One-Year Period, Three-Year Period and Five-Year Period respectively. In addition, it represents approximately 5.8% premium over the highest traded price for the Five-Year Period under review.

We have also compared the trading performance of the IBA Shares to the Hang Seng Index (“HSI”) and Hang Seng Hong Kong Small Caps Index (“HSHKSI”). We have used the HSI and HSHKSI in our comparison as they are commonly used indicators of the general stock market trend in Hong Kong and the general trading performance of small cap companies listed in Hong Kong respectively. In addition, we have also compared the share prices of a group of six listed banks in Hong Kong, the comparable banks (“Comparable Banks”) to IBA. Further details of our selection criteria of the comparables are set out below. We believe a comparison against the Comparable Banks is more suitable than comparing the IBA Share price performance against the Hang Seng Composite Finance Index (“HSCIFN”) as the HSCIFN is heavily weighted towards banks such as HSBC Holdings Plc, Hang Seng Bank Limited and BOC Hong Kong (Holdings) Limited, which we do not consider to be appropriate comparables to IBA given their respective market positions and sizes, in terms of audited NAV and market capitalisation.

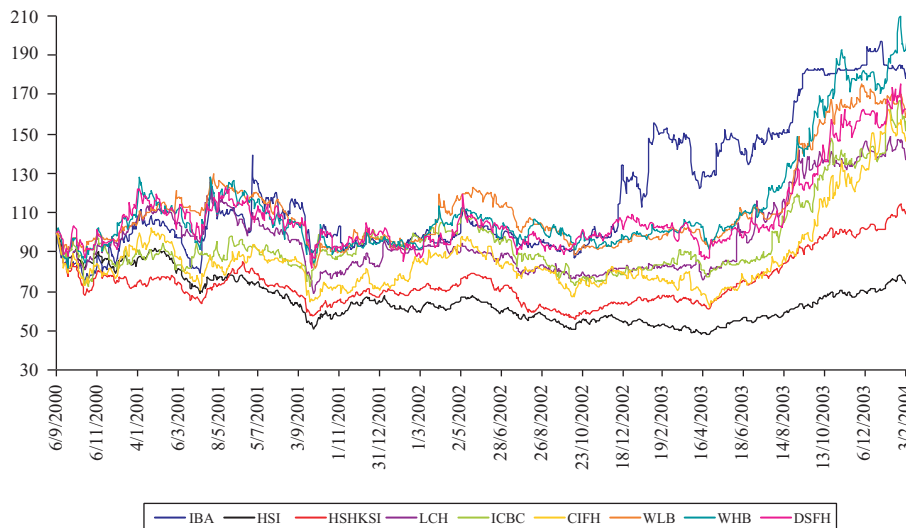
We note that the HSHKSI began in January 2000, and therefore for comparative purposes, we have compared the above-mentioned indexes and the Comparable



Banks with the trading performance of the IBA Shares since 6 September, 2000, being the three years preceding to the last trading day of the IBA Shares prior to the Joint Announcement, and up to and including the Latest Practicable Date.

In conducting our Comparable Banks analysis, we have reviewed relevant information of all listed banks in Hong Kong. In selecting the Comparable Banks, we have taken into account their respective sizes, in terms of market capitalisation, audited total assets, audited NAV and their business activities. Since IBA is a Hong Kong listed commercial bank with the majority of its revenues generated in Hong Kong, the Comparable Banks we have chosen are all of the small to medium sized commercial banks listed on the Stock Exchange whose revenues are generated primarily in Hong Kong. The Comparable Banks we have chosen have market capitalisations of less than HK\$16,000 million as at the Latest Practicable Date, audited total assets and audited NAV, based on their respective latest published annual reports, of less than HK\$80,000 million and HK\$8,000 million respectively, and with at least 90.0% of their respective revenues generated in Hong Kong. The Comparable Banks we have selected, based on the criteria set out above, are Liu Chong Hing Bank Limited (“LCH”), Industrial and Commercial Bank of China Limited (“ICBC”), Citic International Financial Holdings Limited (“CIFH”), Wing Lung Bank Limited (“WLB”), Wing Hang Bank Limited (“WHB”) and Dah Sing Financial Holdings Limited (“DSFH”). We believe that these criteria would highlight companies which provide an appropriate comparison to IBA, which has a market capitalisation of approximately HK\$4,313.5 million, based on the Offer Price, and published audited total assets and published audited NAV of approximately HK\$32,312.5 million and HK\$3,765.9 million respectively as at 31 December, 2002.

**Relative trading performance of the IBA Shares, HSI, HSHKSI
and the Comparable Banks from 6 September, 2000
and up to the Latest Practicable Date**



Source: Bloomberg



As illustrated in the graph above, the IBA Shares have generally outperformed on average the HSI and HSHKSI by approximately 80.5% and 58.9% respectively from 6 September, 2000 and up to the Latest Practicable Date. In addition, we have compared the average trading performance of the IBA Shares for the period from 6 September, 2000 to the last trading day prior to the Possible Disposal Announcement (“Pre-Possible Disposal Announcement Date Period”) and the period from the Possible Disposal Announcement and prior to the date of the Joint Announcement (“Post-Possible Disposal Announcement Date Period”). We note that the IBA Shares have outperformed on average the HSI and HSHKSI during the Pre-Possible Disposal Announcement Date Period by approximately 43.4% and 39.3% respectively. We believe the better performance of the IBA Shares during this period was supported largely by the merger and acquisition activities in the Hong Kong banking sector during 2000 and 2001 and the market’s speculation regarding further consolidation of small to medium sized banks in Hong Kong. The IBA Shares have also outperformed on average the HSI and HSHKSI during the Post-Possible Disposal Announcement Date Period by approximately 26.8% and 11.8% respectively, and we believe this was largely due to the market’s expectation of a potential takeover of IBA. For the period since the Joint Announcement and up to and including the Latest Practicable Date, the HSI reached 13,525 points on the Latest Practicable Date as market sentiment improved during this period. The IBA Shares have performed broadly in line with the HSI and HSHKSI respectively, during this period, which we believe to be mainly caused by the market’s reaction to the Joint Announcement and the announcement of the Special Dividend as discussed above.

We have also compared the average trading performance of the IBA Shares to the Comparable Banks for the period during the Pre-Possible Disposal Announcement Date Period and note that the IBA Shares have traded mostly in line with the Comparable Banks. During the Post-Possible Disposal Announcement Date Period, the IBA Shares have outperformed the Comparable Banks. We believe the trading performance of the IBA Shares for this period has been supported by the market’s expectation regarding the offer value of the possible change in ownership of the bank. We have also compared the trading performance of the IBA Shares with the Comparable Banks from the date of the Joint Announcement and up to the Latest Practicable Date. During this period, the price of the IBA Shares increased and traded above the Offer Price since the announcement of the possible Special Dividend as described above and traded down to the Offer Price since the ex-Special Dividend date on 30 December, 2003, and closed at HK\$3.70 on the Latest Practicable Date. We believe the trading performance of the IBA Shares during this period was mainly supported by the Offer and as a result of the announcements in relation to the Special Dividend as discussed above. The trading performances of the Comparable Banks have also increased and has been largely due to the positive sentiment towards an expected improvement in the operating environment of the local banking sector as well as the opportunities for Hong Kong banks as a result of the initiatives from the CEPA.



(ii) *Comparable Banks analysis*

We have also compared the multiples of IBA, based on the Offer Price, with the trading multiples of the Comparable Banks and our analysis is summarised in the following table:

Comparison of various parameters between IBA and the Comparable Banks

	Latest audited financial year end date	Closing share price on the Latest Practicable Date (HK\$)	Market capitalisation on the Latest Practicable Date (HK\$ million)	Net profit ⁽¹⁾ (HK\$ million)	Price to audited NAV ⁽¹⁾ (Times)	PER ⁽¹⁾ (%)	ROA ^{(1) (2)} (%)	ROE ^{(1) (3)} (%)	NPL Ratio ⁽¹⁾ (%)
Liu Chong Hing Bank Limited	31 December, 2002	12.30	5,350.5	309.5	0.91	17.29	0.8	5.3	5.5
Industrial and Commercial Bank of China Limited	31 December, 2002	12.15	7,586.1	482.4	1.27	15.72	0.8	8.1	2.3
Citic International Financial Holdings Limited	31 December, 2002	4.18	13,317.6	612.9	1.79	21.73	0.8	8.3	5.6
Wing Lung Bank Limited	31 December, 2002	51.00	11,841.7	757.6	1.49	15.63	1.2	9.5	2.3
Dah Sing Financial Holdings Limited	31 December, 2002	62.50	15,417.4	829.0	2.53	18.60	1.4	13.6	1.7
Wing Hang Bank Limited	31 December, 2002	53.50	15,717.3	680.7	2.47	23.09	1.2	10.7	2.7
Average of all Comparable Banks (for illustrative purposes only)					1.74	18.68	1.0	9.3	3.4
Average of Comparable Banks with similar ROA and ROE as IBA (LCH, ICBC and CIFI)					1.33	18.25	0.8	7.2	4.5
IBA ⁽⁴⁾	31 December, 2002	3.68	4,313.5	225.3 ⁽⁵⁾	1.15 ⁽⁶⁾	19.14 ⁽⁷⁾	0.7 ⁽⁸⁾	6.0 ⁽⁹⁾	1.7

Sources: Bloomberg and annual reports of the respective companies

Notes:

- 1) These were computed based on the full year financials extracted from the latest published annual reports of the respective companies.
- 2) Return on assets (“ROA”). These were computed based on net profit divided by total assets.
- 3) Return on equity (“ROE”). These were computed based on net profit divided by total shareholders’ equity.



- 4) These were computed based on the Offer Price.
- 5) The net profit (as restated) for the financial year ended 31 December, 2002 is approximately HK\$220.4 million.
- 6) The price to Restated NAV as at 31 December, 2002 is approximately 1.14 times.
- 7) The PER (as restated) is approximately 19.57 times.
- 8) The ROA (as restated) is approximately 0.7%.
- 9) The ROE (as restated) is approximately 5.9%.

As illustrated above, the price to published audited NAV implied by the Offer Price of approximately 1.15 times falls towards the lower end of the range of all Comparable Banks of approximately 0.91 times to 2.53 times as at the Latest Practicable Date. From the above Comparable Banks analysis, we also note that LCH, ICBC and CIFH have relatively lower operational efficiency, in terms of ROA and ROE, than WLB, DSFH and WHB, which in turn have higher ROA and ROE. Although the price to published audited NAV implied by the Offer is lower than the average price to published audited NAV of all Comparable Banks as at the Latest Practicable Date, and also slightly lower than the average of the Comparable Banks (LCH, ICBC and CIFH) which have similar ROA and ROE as IBA, we consider it to be within an acceptable range.

In addition, we note that the PER of IBA, based on the Offer Price, of approximately 19.14 times (based on the published earnings per IBA Share of HK\$0.192 for the financial year ended 31 December, 2002) is within the range of the Comparable Banks of approximately 15.63 times to 23.09 times and is slightly higher than their overall average of approximately 18.68 times or the average of LCH, ICBC and CIFH (being the Comparable Banks which have similar ROA and ROE as IBA) of approximately 18.25 times as at the Latest Practicable Date.

It should be noted that the latest audited financial year end date of the Comparable Banks was 31 December, 2002 and therefore for comparative purposes, the above comparisons of PER, price to audited NAV, ROA and ROE have been conducted before adjusting for any potential effect which may arise from the adoption of the Revised SSAP 12 by the relevant companies.

(iii) Recent mergers and acquisitions in the banking sector in Hong Kong

We have reviewed all the major merger and acquisition transactions with transaction details announced since 1 January, 1998 which involve commercial banks that operate in Hong Kong. We believe this period is more relevant given the impact of the Asian financial crisis on Hong Kong, which started in 1997, and the significant changes in the operating and regulatory environment of the Hong Kong

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banking sector in recent years. However, we are of the view that there are no perfect direct comparable transactions to the Offer due to the specific characteristics of each precedent such as the background of the acquirer and target as well as the prevailing economic, operating and regulatory environment and conditions at the time of the transaction. For each precedent transaction we have compared total price paid to the latest audited NAV of the target prior to the announcement of the transaction (“Transaction Price to Audited NAV”), total price paid to the unaudited adjusted NAV of the target (“Transaction Price to Unaudited NAV”), and the total price paid to the latest reported full year earnings of the target prior to the announcement of the transaction (“Transaction PER”).

The results of our analysis is summarised in the following table:

Date of announcement	Acquirer	Target company	Stake acquired (%)	Transaction size (HK\$ million)	Transaction PER ⁽¹⁾ (Times)	Transaction Price to Audited NAV ⁽²⁾ (Times)	Transaction Price to Unaudited NAV ⁽³⁾ (Times)
<i>Relevant precedent transactions⁽⁴⁾</i>							
1 August, 2003	WHB	Chekiang First Bank Limited (“CFB”) ⁽⁵⁾	100	4,800	23.17	1.22	N/A
1 November, 2001	CIFH	Hongkong Chinese Bank Limited (“HKCB”) ⁽⁶⁾	100	4,200	46.10	1.25	1.26
20 November, 2000	The Bank of East Asia Limited (“BEA”)	FPB Bank Holding Company Limited (“FPB”) ⁽⁷⁾	100	4,368	71.53	1.52	1.49
19 April, 2000	ICBC	Union Bank of Hong Kong Limited (“Union Bank”)	100	3,391	Negative	1.40	N/A
16 December, 1998	The Development Bank of Singapore Ltd (“DBS”)	Kwong On Bank Limited (“KOB”) ^{(7) (8)}	100	3,563	20.60 ⁽⁹⁾	0.85 ⁽¹⁰⁾	N/A
<i>Other precedent transactions</i>							
21 August, 2003 ⁽¹¹⁾	ICBC	Fortis Bank Asia HK (“FBAHK”) ⁽¹²⁾	100	2,157	21.85	1.22	1.05
11 April, 2001	DBS ⁽¹³⁾	Dao Heng Bank Group Limited (“DHB”) ^{(7) (14)}	100	41,924 ⁽¹⁴⁾	24.23 ⁽¹⁴⁾	3.34 ⁽¹⁴⁾	N/A
IBA at the Offer Price				4,314	19.14⁽¹⁵⁾	1.15⁽¹⁶⁾	1.26⁽¹⁷⁾

Sources: Respective offer and shareholders’ circulars and announcements in respect of each precedent transaction

N/A: Not applicable

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Notes:

- 1) Unless otherwise stated, the Transaction PER was computed based on the transaction size divided by the latest full year net profit of the target company prior to the announcement of the transaction.
- 2) Unless otherwise stated, the Transaction Price to Audited NAV was computed based on the transaction size divided by the latest audited NAV of the target company prior to the announcement of the transaction.
- 3) Unless otherwise stated, the Transaction Price to Unaudited NAV was computed based on the unaudited adjusted NAV of the target company as disclosed in the respective offer and/or shareholders' circular in relation to the respective transaction.
- 4) Relevant precedent transactions with similar transaction size as the Offer.
- 5) CFB is not a listed company.
- 6) This involved the acquisition of HKCB, a wholly-owned subsidiary of The HKCB Bank Holding Company Limited (renamed to Hong Kong Chinese Limited), a listed company on the Stock Exchange, by CIFH.
- 7) The target company was successfully privatised and de-listed from the Stock Exchange.
- 8) This transaction involved cash or cash and contingent options (being an option with a contingent cash payment determined based on loan loss ratio) or a combination of both options. All figures in the above table were computed based on the cash option of the takeover.
- 9) This represents the Transaction PER based on the audited net profit for the financial year ended 31 December, 1998.
- 10) This represents the Transaction Price to Audited NAV as at 31 December, 1998.
- 11) The announcement of the proposed acquisition was made on 21 August, 2003 and subsequently the details of the proposed acquisition were announced on 31 December, 2003.
- 12) The details of this transaction are included for illustrative purposes only. FBAHK is not a listed company. This transaction is considered not relevant for our comparison purposes as it involves the issue of new shares of ICBC as part of the consideration whereby the vendor would be able to participate in any potential benefits arising from the transaction because of its shareholding interest in ICBC after completion of the transaction.
- 13) The details of this transaction are included for illustrative purposes only. This transaction is considered not relevant for our comparison purposes given the transaction size is substantially larger than the Offer.
- 14) This transaction involved a cash or share exchange option. All figures in the above table were computed based on the cash option of the takeover.
- 15) The PER (as restated) is approximately 19.57 times.
- 16) The price to Restated NAV as at 31 December, 2002 is approximately 1.14 times.
- 17) This represents the price to unaudited NAV (approximately HK\$2.91 per IBA Share) as at 30 June, 2003, which is based on the Restated NAV as at 31 December, 2002 and adjusted for the financial results and dividend payment in respect of the six months ended 30 June, 2003 and the payment of the Special Dividend.



Our review of the acquisition multiples of the above precedent transactions since 1998 indicates a large valuation differential for transactions conducted in the period prior to 2000, between 2000 and mid 2001, and from late 2001 onward. We attribute this differential in pricing to the prevailing local economic environment and conditions for each transaction, which has played a significant role in determining the valuations paid for bank acquisitions in Hong Kong. In general, the acquisition of DHB by DBS, the acquisition of FPB by BEA and the acquisition of Union Bank by ICBC were conducted between 2000 and mid 2001, being a period when the Hong Kong economy showed signs of a ‘rebound’ from the effects of the Asian financial crisis as evidenced by the growth in gross domestic product from 3.4% in 1999 to 10.2% in 2000, which had subsequently fallen from 1.5% in the second quarter of 2001 to negative 0.5% in the third quarter of 2001. As a result, these transactions have relatively higher acquisition multiples compared to other precedent transactions under review.

The acquisition of KOB by DBS announced in December 1998, together with the acquisition of HKCB by CIFH announced in November 2001, and the recent acquisition of CFB by WHB announced in August 2003 and the proposed acquisition of FBAHK by ICBC announced in August 2003, were conducted at a time when sentiment in the local stock market was relatively poor, but more importantly, the prevailing general economic conditions in Hong Kong were worsened largely due to the impact of the Asian financial crisis which started in 1997, the continuous depressed local economic environment since late 2001, and the war in Iraq and subsequent outbreak of SARS in early to mid 2003 respectively. We note the multiples paid at the time of these transactions are more comparable to the Offer, with the exception of the acquisition of FBAHK by ICBC as noted above, and are lower than the other precedent transactions for the reasons discussed above.

In addition, we believe the availability and market focus on the consolidation of banks with smaller operations has contributed to the lower acquisition multiples of smaller banks in recent years. Small to medium sized banks have shown an appetite to seek acquisitions in order to remain competitive as reflected by the recent WHB’s acquisition of CFB, ICBC’s acquisition of FBAHK and CIFH’s acquisition of HKCB. Hence, the market positions of the smaller banks in Hong Kong are becoming increasingly difficult and competitive against their larger peers.



As noted from the above table, the Transaction Price to Audited NAV and the Transaction Price to Unaudited NAV of approximately 1.15 times and 1.26 times under the Offer fall towards the lower end of the range of all relevant precedent transactions. In terms of Transaction PER, the Offer is the lowest amongst all relevant precedent transactions, save for the acquisition of Union Bank by ICBC in 2000 whereby Union Bank recorded a net loss for its latest financial year prior to the takeover. More importantly, we are of the view that the acquisition of HKCB by CIFH and the acquisition of CFB by WHB to be more comparable to the Offer given that they share certain similar characteristics of the Offer including the prevailing economic conditions at the time of the transaction. In terms of Transaction Price to Audited NAV and the Transaction Price to Unaudited NAV, the Offer is slightly below these two comparable transactions. In terms of Transaction PER, the Offer is also slightly below the acquisition of CFB by WHB, and is substantially lower than that of the acquisition of HKCB by CIFH. However, we believe the exceptionally higher Transaction PER in relation to the acquisition of HKCB by CIFH was primarily caused by the poor financial performance of HKCB in 2000, the latest financial year prior to its takeover. Notwithstanding the above factors, we are of the opinion that the slightly higher transaction multiples of these two comparable transactions compared to the Offer is justifiable given the expected potential synergies and operational cost savings to WHB and CIFH (as both have existing banking businesses in Hong Kong) arising from their respective acquisitions, a benefit not relevant to the Offeror under the Offer.

It should again be noted that the above analysis of the Transaction Price to NAV, Transaction Price to Unaudited NAV and Transaction PER for each of the precedent transactions shown above have not been impacted by the adoption of the Revised SSAP 12. Accordingly, we have used the relevant multiples under the Offer, before adjusting for the adoption of the Revised SSAP 12, for comparison purposes in this section.

Having considered all the above analyses including the historical trading performance of the IBA Shares, Comparable Banks analysis and recent mergers and acquisitions in the Hong Kong banking sector, we consider the valuation of IBA under the Offer is within a reasonable range and the Offer Price is fair and reasonable so far as the Independent Shareholders are concerned.



4. Dividend yield

The following table sets out the dividend per IBA Share, dividend payout ratio and the dividend yield of IBA for the three financial years ended 31 December, 2002:

For the financial year ended 31 December	2002	2001	2000	Average for the period under review⁽¹⁾
Earnings per IBA Share (HK\$)	0.19	0.25	0.21	0.22
Earnings per IBA Share (as restated) (HK\$) ⁽²⁾	0.19	0.25	0.20	0.21
Dividend per IBA Share (HK\$)	0.12	0.11	0.08	0.10
Dividend payout ratio ⁽³⁾	62.4%	43.7%	38.4%	48.2%
Dividend payout ratio (based on restated financial figures) ⁽³⁾	63.8%	44.2%	40.9%	49.6%
Share price of IBA at the financial year end date (HK\$)	2.53	1.89	2.08	N/A
Dividend yield based on the share price at the financial year end date	4.7%	5.8%	3.9%	4.8%
Dividend yield based on the closing price of the IBA Shares on 5 September, 2003	3.5%			
Dividend yield based on the Offer Price	3.3%			

Sources: Bloomberg and IBA's annual reports

N/A: Not applicable

Notes:

- 1) These are the average of the figures in respect of each item shown in the above table.
- 2) These are the earnings per IBA Share (as restated) after taking into account the effect of the Revised SSAP 12.
- 3) These were computed based on total dividend paid for a financial year and divided by profit attributable to IBA Shareholders for that financial year.

As shown in the table above, the dividend per IBA Share has been relatively constant over the last three financial years, ranging from HK\$0.08 to HK\$0.12 per IBA Share and with a three-year average of approximately HK\$0.10 per IBA Share. The dividend yield based on the IBA Share price as at the financial year end date of 31 December increased steadily from approximately 3.9% in 2000 to approximately 4.7% in 2002, and the dividend yield based on the Offer Price is approximately 3.3%.

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We have also summarised in the following table the dividend yields of the Comparable Banks based on their total dividend per share for their latest audited financial year and their closing prices as at the Latest Practicable Date:

	Dividend yield as at the Latest Practicable Date ⁽¹⁾
LCH	4.1%
CIFH	3.8%
WHB	3.4%
ICBC	2.9%
WLB	2.9%
DSFH	1.8%
Average	3.1%
IBA	3.3%

Source: Bloomberg

Note:

(1) These were computed based on gross dividend paid for the financial year ended 31 December, 2002.

As noted from the above table, the dividend yield of IBA, based on the Offer Price, is lower than those of LCH, CIFH and WHB, and is slightly higher than the average of all Comparable Banks. Based on this comparison, Independent Shareholders who wish to retain an investment in a local small to medium sized bank and earn a higher dividend yield may consider to accept the Offer and re-invest the proceeds into shares of the Comparable Banks which offer higher dividend yield as shown above. However, Independent Shareholders should also note that there is no assurance that any of the Comparable Banks and IBA will continue to pay similar dividends and/or their respective dividend yields will remain at similar levels as shown in the above tables in the future.

5. Trading volume

The table below sets out the trading volume of the IBA Shares per month, the monthly trading volume as a percentage of the issued share capital of IBA and the trading

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volume as a percentage of the IBA Shares held by the public respectively for the period from 1 March, 2002 and up to and including the Latest Practicable Date:

	Monthly trading volume of IBA Shares (million shares)	Monthly trading volume of IBA Shares as a percentage of total issued share capital of IBA ⁽¹⁾	Monthly trading volume of IBA Shares as a percentage of public float ⁽²⁾
March 2002	34.2	2.9%	11.7%
April 2002	22.7	1.9%	7.8%
May 2002	68.8	5.9%	23.5%
June 2002	14.8	1.3%	5.0%
July 2002	13.8	1.2%	4.7%
August 2002	9.1	0.8%	3.1%
September 2002	10.6	0.9%	3.6%
October 2002	21.3	1.8%	7.3%
November 2002	27.4	2.3%	9.4%
December 2002	125.8	10.7%	42.9%
January 2003	120.8	10.3%	41.2%
February 2003	37.2	3.2%	12.7%
March 2003	23.1	2.0%	7.9%
April 2003	35.9	3.1%	12.3%
May 2003	71.6	6.1%	24.4%
June 2003	32.9	2.8%	11.2%
July 2003	67.1	5.7%	22.9%
August 2003	57.8	4.9%	19.7%
September 2003	154.8	13.2%	52.8%
October 2003	41.3	3.5%	14.1%
November 2003	12.8	1.1%	4.4%
December 2003	58.7	5.0%	20.0%
January 2004	7.4	0.6%	2.5%
From 1 February, 2004 and up to and including the Latest Practicable Date	81.9	7.0%	27.9%
One-year average monthly trading volume (September 2002 to August 2003)	52.6	4.5%	18.0%
Three-year average monthly trading volume (September 2000 to August 2003)	58.5	5.0%	20.0%
Five-year average monthly trading volume (September 1998 to August 2003)	58.9	5.0%	20.1%

Source: Bloomberg

Notes:

- 1) These were computed based on the 1,172.2 million IBA Shares in issue as at the Latest Practicable Date.
- 2) For the purpose of this letter, public float of IBA refers to the 293.0 million IBA Shares held by the IBA Shareholders other than ABC and China Everbright as at the Latest Practicable Date, which represents approximately 25% of the total shares in issue.

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From the table above, we note that the monthly trading volume of the IBA Shares ranged from approximately 9.1 million shares to approximately 125.8 million shares for the period from March 2002 to August 2003. The average monthly trading volume for the one-year, three-year and five-year period to August 2003 were relatively stable according to the above analysis.

In addition to the above analysis, we have also compared the trading volume of the IBA Shares with the Comparable Banks as set out in the table below:

	Average monthly trading volume of the shares as a percentage of public float for the one-year period (September 2002 to August 2003)	Average monthly trading volume of the shares as a percentage of public float for the three-year period (September 2000 to August 2003)	Average monthly trading volume of the shares as a percentage of public float for the five-year period (September 1998 to August 2003)
LCH	6.3%	5.3%	7.1%
ICBC	8.0%	7.4%	17.5%
CIFH	5.8%	6.7%	12.6%
WLB	2.9%	2.8%	3.1%
WHB	3.6%	4.3%	5.7%
DSFH	7.0%	7.2%	9.9%
Average	5.6%	5.6%	9.3%
IBA	18.0%	20.0%	20.1%

Note:

- For the purpose of this table, the public float of these companies was computed based on their respective number of shares in issue as at the Latest Practicable Date (as disclosed on the Stock Exchange's website as at the Latest Practicable Date) less any shares held by their relevant substantial shareholders and directors as disclosed in their respective latest interim reports for the six months ended 30 June, 2003.

As noted in the table above, the trading volume of the IBA Shares as a percentage of public float is higher than the range and average of all the Comparable Banks for the period under review. We believe this was due largely to the small public float of IBA and the market's reaction to a potential takeover of IBA. In addition, we believe the substantially higher trading volume of the IBA Shares in the months of December 2002 and January 2003 was mainly due to market's speculation as a result of the Possible Disposal Announcement. We also believe the relatively higher volume of the IBA Shares traded from September 2003 and up to the Latest Practicable Date of approximately 356.9 million shares was caused by the market's reaction to the Offer and the announcements in respect of the Special Dividend. In summary, we are of the view that it is unlikely that the relatively higher trading volume of the IBA Shares reached recently will continue in the absence of a potential offer for all the IBA Shares.



6. Compulsory Acquisition and withdrawal of listing

As noted under the sub-sections headed “Compulsory Acquisition and withdrawal of listing” and “Maintaining the listing” in the Letter from Citigroup, if the Offeror and its concert parties acquire not less than 90% of disinterested IBA Shares under the Offer, being IBA Shares other than those which are owned by the Offeror or persons acting in concert with it, the Offeror may consider exercising the Compulsory Acquisition rights under the Companies Ordinance to acquire the remaining IBA Shares and proceed to withdraw the listing of IBA from the Stock Exchange, should the Offeror consider it appropriate to do so. On the other hand, if the Offeror does not acquire the requisite percentage of IBA Shares to exercise the Compulsory Acquisition rights, it intends to maintain the listing of IBA on the Stock Exchange. Under such circumstances, the Offeror will undertake to the Stock Exchange to use reasonable endeavours to ensure the required minimum public float will be maintained after closing of the Offer. The Stock Exchange has stated that, if there are fewer than 25% of IBA Shares in public hands or the Stock Exchange believes that a false market exists or may exist or that there are insufficient IBA Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the IBA Shares. Further details of the regulation by the Stock Exchange on IBA as a listed company after closing of the Offer are set out under the sub-section headed “Maintaining the listing” in the Letter from Citigroup.

We note that China Everbright owned 234,432,000 IBA Shares, representing approximately 20.0% of the entire issued share capital of IBA, as at the Latest Practicable Date. Accordingly, the decision of China Everbright in respect of the Offer will have an important influence on whether the Offeror can achieve the requisite percentage of IBA Shares for exercising the Compulsory Acquisition rights and proceed to a de-listing of IBA Shares, should the Offeror consider it appropriate to do so. If China Everbright accepts the Offer, the Offeror may have the chance of achieving the requisite percentage for exercising the Compulsory Acquisition rights and proceed to a de-listing of IBA, should the Offeror consider it appropriate to do so. Under such circumstances, and in the event that the Offeror exercises the Compulsory Acquisition rights, all IBA Shares held by the Outstanding Shareholders (being IBA Shareholders other than the Accepting Shareholders) will be acquired by the Offeror. However, if China Everbright does not accept the Offer, the Offeror will be unable to achieve the requisite percentage for the Compulsory Acquisition and therefore it cannot invoke the Compulsory Acquisition rights. Under such circumstances, the Offeror has stated that it will not seek to de-list IBA from the Stock Exchange, and therefore, IBA will be required to maintain the minimum public float requirement set out in the Listing Rules. China Everbright had not indicated its intention in respect of the Offer as at the Latest Practicable Date. There may therefore be a significant risk of an insufficient public float after closing of the Offer should China Everbright decide not to accept the Offer given, under such circumstances, China Everbright would remain a substantial shareholder of IBA after the closing of the Offer and its shareholding would not form part of the



public float of IBA. Accordingly, the Offeror would have to sell down its holding or take another course of action to restore the minimum public float of IBA Shares, and any such exercise may have a weakening effect on the price of the IBA Shares.

SUMMARY

Having considered the above principal factors and reasons, we draw your attention to the following in arriving at our conclusion:

- (i) ABC has confirmed that the Offer is, in its opinion, the best offer it has received since the Possible Disposal Announcement;
- (ii) the future prospects of IBA depend on the future intentions of the Offeror in relation to IBA, and more importantly, are tied closely to the outlook of the local banking sector which is expected to remain competitive, for smaller banks in particular, which lack economies of scale and thus may continue to find it increasingly difficult to compete with their larger peers;
- (iii) the IBA Shares have traded predominantly below the Offer Price for the last five years under review;
- (iv) the PER and price to NAV multiples of IBA under the Offer are within an acceptable range of the trading multiples of the Comparable Banks as at the Latest Practicable Date, having considered their respective sizes, operational efficiency and profitability, and the recent market recovery since the Joint Announcement was made;
- (v) the valuation of IBA under the Offer is within a reasonable range of relevant and comparable precedent transactions, having considered the recent trend of mergers and acquisitions of local banks and impacts of the banking industry consolidation; and
- (vi) the decision of China Everbright in respect of the Offer will have an important influence on whether IBA could be successfully privatised by the Offeror by way of the Compulsory Acquisition and be de-listed from the Stock Exchange. The Offeror will only be able to exercise the Compulsory Acquisition rights should China Everbright accept the Offer and the requisite percentage for the Compulsory Acquisition has been achieved. If China Everbright does not accept the Offer and IBA remains a Hong Kong listed company but there are fewer than 25% of IBA Shares in public hands after closing of the Offer, the Offeror would have to sell down its holding or to take other appropriate course of action to restore the required minimum public float, and any such action may have a weakening effect on the price of the IBA Shares.



RECOMMENDATIONS

Having considered all the above factors and reasons, we consider the terms of the Offer to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Offer. Independent Shareholders who wish to realise their investments in the IBA Shares should monitor the share price performance of IBA. Should the market price (after deducting relevant transaction costs other than stamp duty) of the IBA Shares exceed the Offer Price, those Independent Shareholders who wish to accept the Offer should consider realising their investments on the Stock Exchange. However, those Independent Shareholders who are attracted by the future prospects of IBA, as a subsidiary of the Offeror, should consider retaining some or all of their interests, and should also consider the potential risk as discussed under the section headed “6. Compulsory Acquisition and withdrawal of listing” above.

Yours very truly,
For and on behalf of
N M Rothschild & Sons (Hong Kong) Limited
Kelvin Chau
Director

1. PRE-CONDITIONS TO THE OFFER**1.1 Pre-Conditions to the Offer**

The making of the Offer was conditional on the satisfaction of the following Pre-Conditions:

- (a) receipt of the consent of the HKMA as required under the Banking Ordinance in respect of each of the persons who will become a controller (as such term is defined in such Ordinance) in connection with the Offer and the proposed acquisition of IBA Shares and in respect of the appointment of such directors and chief executive of IBA as are nominated by the Offeror, each being obtained in terms satisfactory to the Offeror;
- (b) receipt of the approval of The Ministry of Finance, Taiwan, The Ministry of Economic Affairs, Taiwan (including the Investment Commission of The Ministry of Economic Affairs, Taiwan) in respect of the Offer and the proposed acquisition of IBA Shares in terms satisfactory to the Offeror;
- (c) all authorisations, orders, grants, recognitions, confirmations, consents, clearances, permissions and approvals necessary for the proposed acquisition of any IBA Shares or control of IBA or any other member of IBA from the SFC, the Stock Exchange and the Reserve Bank of Vanuatu and any relevant government, governmental, quasi-governmental, statutory or regulatory body or court having been obtained in terms satisfactory to the Offeror (other than any such authorisation, order, grant, recognition, confirmation, consent, clearance, permission and approval which, if it was not obtained, would not have a material and adverse effect on the business of IBA taken as a whole);
- (d) the authorisations, orders, grants, recognitions, confirmations, consents, clearances, permissions and approvals referred to in Pre-Condition (c) remaining in full force and effect as at the time of despatch of this Composite Document;
- (e) since 31 December, 2002 and ending on the date this Composite Document is despatched to IBA Shareholders, no material adverse change having occurred in the business and financial condition of IBA and its subsidiaries (taken as a whole) except arising from any event or events (including market conditions) affecting banks generally in Hong Kong or specifically disclosed in writing by ABC to the Offeror or known by the Offeror before the date of the Joint Announcement;

- (f) resolutions of the Board of Directors of IBA being duly passed to approve the resignation of such persons as directors of IBA and/or its subsidiaries, and the appointment and/or re-appointment of such persons as directors of IBA, in each case, as the Offeror shall nominate in writing to ABC and to take effect from the earliest time permitted under (or pursuant to a dispensation from) the Takeovers Code or by the Executive, and so that the directors nominated by the Offeror represent a majority of the board of directors of IBA, and the delivery to IBA of resignation letters under seal from the resigning directors acknowledging that they have no claim outstanding for compensation or otherwise against IBA and its subsidiaries;
- (g) from the date of the Joint Announcement until despatch of this Composite Document, the listing of the IBA Shares not having been withdrawn or revoked and the IBA Shares continuing to be traded on the Stock Exchange (save for any temporary suspension pending any announcement in connection with the Offer or suspension for any other reason for not longer than ten trading days in aggregate);
- (h) there not being at any time after the date of the Joint Announcement until the time of despatch of this Composite Document a valid order or demand made or issued (which is not prior to the fulfilment or waiver of Pre-Conditions (a) to (c) inclusive retracted, overturned or withdrawn) by a government, statutory or regulatory body or court to which the Offeror is subject which makes the acquisition of any of the IBA Shares by the Offeror void, unenforceable or illegal or which would impose any material conditions with respect to the acquisition of any of the IBA Shares by the Offeror; and
- (i) there being no breach of the representations and warranties set out in Schedule 2 to the Undertaking at any time after the date of the Joint Announcement until the time of despatch of this Composite Document which would entitle the Offeror, under such Undertaking, to bring a claim in excess of HK\$200 million.

1.2 Status of the Pre-Conditions

As at the date of this Composite Document, all the Pre-Conditions have been satisfied.

2. THE OFFER CONDITION**2.1 The Offer Condition**

The Offer is conditional on valid acceptances of the Offer being received (and not, where permitted, withdrawn) by 4:00 p.m. on the First Closing Date (or such later time(s) and/or date(s) as the Offeror may, subject to the Takeovers Code, decide) in respect of more than 50% in nominal value of the IBA Shares carrying voting rights then exercisable at a general meeting of IBA.

2.2 Status of the Offer Condition

In accordance with the terms of the Undertaking, the Offer Condition is expected to be satisfied not later than one business day after receipt by ABC of this Composite Document. An appropriate announcement will be made once the Offer becomes unconditional.

3 FURTHER TERMS OF THE OFFER**3.1 Procedures for acceptance**

- (a) If the share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your IBA Shares is/are in the name of a nominee company or some name other than your own, and you wish to accept the Offer, you must either:
 - (i) lodge the IBA Share certificate(s) and/or transfer receipt(s) and/or any other documents(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the Form of Acceptance duly completed together with the relevant IBA Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Processing Agent; or
 - (ii) arrange for the IBA Shares to be registered in your name by IBA through the Registrar and send the Form of Acceptance duly completed together with the relevant IBA Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Processing Agent; or

- (iii) if your IBA Shares have been lodged with your broker/custodian bank through CCASS, instruct your broker/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited, in this case, on 5 March, 2004 which is one business day before the latest date on which acceptances of the Offer must be received by the Processing Agent. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your broker/custodian bank for the timing on the processing of your instruction, and submit your instruction to your broker/custodian bank as required by them; or
 - (iv) if your IBA Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System not later than one business day before the latest date on which acceptances of the Offer must be received by the Processing Agent, which is 5 March, 2004 in this case.
- (b) If you have lodged transfer(s) of IBA Shares for registration in your name and have not yet received your IBA Share certificate(s) and you wish to accept the Offer, you should nevertheless complete the Form of Acceptance and deliver it to the Processing Agent together with the transfer receipt(s) duly signed by you. Such action will be deemed to be an irrevocable authority to the Offeror or its agent(s) to collect from IBA or the Registrar on your behalf the relevant IBA Share certificate(s) when issued and to deliver such certificate(s) to the Processing Agent and to authorise and instruct the Processing Agent to hold such certificate(s), subject to the terms of the Offer, as if it was/they were delivered to the Processing Agent with the Form of Acceptance.
- (c) If the IBA Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title is/are not readily available and/or is/are lost and you wish to accept the Offer, the Form of Acceptance should nevertheless be completed and delivered to the Processing Agent together with a letter stating that you have lost one or more of your IBA Share certificate(s) and/or transfer receipt(s) and/or other documents of title or that it/they is/are not readily available. If you find such document(s) or if it/they becomes/become available, the relevant IBA Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) should be forwarded to the Processing Agent as soon as possible thereafter. If you have lost your IBA Share certificate(s) and/or other document(s) of title, you should also write to the Processing Agent for a form of letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Processing Agent.

- (d) An acceptance may not be counted towards fulfilling an acceptance condition unless:
- (i) it is received by the Processing Agent on or before the latest time for acceptance at 4:00 p.m. on 8 March, 2004 or such later time and/or date as the Offeror may determine and announce in accordance with the Takeovers Code and the Processing Agent has recorded that the acceptance and any relevant documents as required by Note 1 to Rule 30.2 of the Takeovers Code has been so received; and
 - (ii) the Form of Acceptance is duly completed and is:
 - (1) accompanied by share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or satisfactory indemnity or indemnities required), in respect of the relevant IBA Shares and, if the certificate(s) is/are not in the name of the acceptor, such other documents (e.g. a duly stamped transfer of the relevant IBA Shares in blank or in favour of the acceptor executed by the registered holder) in order to establish the right of the acceptor to become the registered holder of the relevant IBA Shares; or
 - (2) from a registered holder or his personal representatives (but only up to the amount of the registered holding and only to the extent that the acceptance relates to the IBA Shares which are not taken into account under subparagraph (d)(ii)(1) above).

If the Form of Acceptance is executed by a person other than the registered holder, appropriate evidence of authority (e.g. grant of probate or certified copy of a power of attorney) must be produced.

- (e) No acknowledgement of receipt for any Form(s) of Acceptance, IBA Share certificate(s), transfer receipt(s) and/or any other document(s) of title and/or any satisfactory indemnity or indemnities required in respect thereof will be given.
- (f) The address of the Processing Agent is located at Shops 1712-1716, 17/F Hopewell Centre, 183 Queen's Road East, Hong Kong.

3.2 Acceptance period and revisions

- (a) The Offeror reserves the right to revise or extend the Offer after the despatch of this Composite Document.
- (b) Unless the Offer has previously been extended or revised or has previously become (or been declared) unconditional in all respects on or before 4:00 p.m. on the First Closing Date, the Offer will lapse.

- (c) If the Offer becomes unconditional in all respects, it will remain open for acceptance for not less than 14 days from the date on which the Offeror announces that the Offer has become unconditional in all respects.
- (d) The Offer shall not be capable of:
 - (i) becoming unconditional as to acceptances after 12:00 midnight on the Long Stop Date; or
 - (ii) being kept open after that date (unless the Offer has previously become unconditional in all respects),

provided that the Offeror reserves the right, with the permission of the Executive under the Takeovers Code, to extend the Offer to a later time and/or date.

- (e) Although no such revision is envisaged, if the Offer (in its original or any previously revised form(s)) is revised (either in its terms and conditions or in the value or nature of the consideration offered or otherwise) and such revision represents, on the date on which such revision is announced (on such basis as Citigroup may reasonably consider appropriate), no diminution in the value of the Offer as so revised (compared with the consideration or terms previously offered), the benefit of the revised Offer will, subject to paragraphs 3.2(g) and (h) below, be made available to any IBA Shareholder who has accepted the Offer in its original or any previously revised form(s) (“Previous Acceptor”).

The acceptance by or on behalf of a Previous Acceptor of the Offer in its original or any previously revised form(s) shall, subject as provided in paragraphs 3.2(g) and (h) below, be treated as an acceptance of the Offer as so revised. It shall also constitute an authority to any director of the Offeror or of Citigroup as his agent:

- (i) to accept any such revised Offer on behalf of such Previous Acceptor;
- (ii) if any revised or previously revised Offer includes alternative forms of consideration, to make such elections for and accept such alternative forms of consideration in such proportions (as nearly as practicable) as those made by such Previous Acceptor in the Form of Acceptance previously executed by him or on his behalf (or, if no such alternatives were previously available, to make an election for the consideration in the previous form); and
- (iii) to execute on behalf of and in the name of such Previous Acceptor all such further documents (if any) as may be required to give effect to such acceptances and/or elections.

In making any such election and/or acceptance, such agent shall take into account the nature of any previous acceptances made by or on behalf of the Previous Acceptor and such other facts or matters as he may reasonably consider relevant.

- (f) Subject to paragraph 3.2(g) below, the authorities conferred by paragraphs 3.2(e) to (i) (inclusive) and any acceptance of revised Offer and/or any election pursuant thereto shall be irrevocable unless and until the Previous Acceptor becomes entitled to withdraw his acceptance under paragraph 3.4 below headed “Right of withdrawal” and duly does so.
- (g) The deemed acceptance referred to in paragraph 3.2(e) above shall not apply, and the authority conferred on any director of the Offeror or of Citigroup by that paragraph shall be ineffective, if a Previous Acceptor shall lodge, within 14 days of the posting of the document pursuant to which the revision of the Offer referred to in paragraph 3.2(e) above is made available to IBA Shareholders, a form (which will be provided by Citigroup in the revised offer document) in which he/she validly elects to receive the consideration receivable by him/her in some other manner.
- (h) The deemed acceptance referred to in paragraph 3.2(e) above shall not apply, and the authorities conferred on any director of the Offeror or of Citigroup by such paragraph shall not be exercised by any director of the Offeror or of Citigroup, if as a result thereof the Previous Acceptor would (on such basis as Citigroup may reasonably consider appropriate) thereby receive less in aggregate in cash than he would have received in aggregate in cash (if any) as a result of acceptance of any previously revised Offer in the form in which it was previously accepted by him. The authority conferred by paragraph 3.2(e) above shall not be exercised in respect of any election available under the revised Offer save in accordance with this paragraph.
- (i) The Offeror reserves the right to treat a valid acceptance of the Offer (in its original or any previously revised form(s)) which is received after the announcement or issue of the Offer in any revised form as a valid acceptance of the revised Offer and/or, where applicable, a valid election for or acceptance of any of the alternative forms of consideration (if any), and such acceptances shall constitute an authority in the terms of paragraph 3.2(e) above mutatis mutandis on behalf of the relevant IBA Shareholder.

3.3 Announcements

- (a) The Offeror shall immediately inform the Executive and the Stock Exchange in the event that the Offer has lapsed, been extended or revised, closed or become unconditional in all respects; and the Offeror shall, by 7:00 p.m. on the same day, publish an announcement through the website of Hong Kong Exchanges and Clearing Limited stating whether the Offer has lapsed, been extended or revised, closed or become unconditional in all respects and republish such announcement (in accordance with the requirements set out in item (c) below) on the next business day and also specifying (except in the case of lapse) the total number of IBA Shares, as nearly as practicable, which the Offeror or any person acting in concert with it, directly or indirectly, owns or controls including the number of IBA Shares for which valid acceptances have been received, and the number of IBA Shares otherwise acquired by the Offeror or any person acting in concert with it during the offer period (as defined in the Takeovers Code).
- (b) In calculating the number of IBA Shares represented by acceptances, there may be excluded or included, for announcement purposes, acceptances which are not in all respects in order or which are subject to verification. The number of these acceptances will be separately stated.
- (c) As required under the Takeovers Code and the Listing Rules, all announcements in relation to the Offer, in respect of which the Executive and (if applicable) the Stock Exchange have confirmed that they have no further comments, must be published as a paid announcement in at least one leading English language newspaper and one leading Chinese language newspaper, being in each case a newspaper which is published daily and circulated generally in Hong Kong.

3.4 Right of withdrawal

If the Offer has not become unconditional as to acceptances by 4:00 p.m. on 8 March, 2004, being the day falling 21 days from the First Closing Date, an Accepting Shareholder shall be entitled to withdraw his acceptance by delivery to the Processing Agent of a notice of such withdrawal in writing signed by the Accepting Shareholder or his agent duly appointed in writing, together with evidence of appointment of any such agent, but such entitlement to withdraw shall be exercisable only until such time as the Offer has become unconditional as to acceptances. Save as aforesaid, and, if applicable, as may be granted by the Executive under Rule 19.2 of the Takeovers Code if the Offeror is unable to comply with the announcement requirements under Rule 19, acceptances shall be irrevocable.

3.5 Settlement of consideration

The timing and procedures for settlement of the consideration to which the Accepting Shareholders will be entitled (if the Offeror becomes, or is declared, unconditional in all respects) are set out in the Form of Acceptance and in the section headed “Settlement of consideration” in the “Letter from Citigroup”.

3.6 IBA Shares

IBA Shares will be acquired free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive in full all dividends (other than the Interim Dividend and the special interim dividend of HK\$0.26 per IBA Share which is expected to be paid to IBA Shareholders on 16 February, 2004) and other distributions, if any, declared, made or paid after the date of the Joint Announcement.

3.7 General

- (a) All communication, notices, forms of acceptance and transfer, certificates, transfer receipts and other documents of title or of indemnity or of any other nature to be delivered by or sent to or from IBA Shareholders will be delivered by or sent to or from them, or their designated agents, at their risk, and none of the Offeree, Offeror, Citigroup or the Registrar accepts any liability for any loss or any other liabilities whatsoever which may arise as a result.
- (b) Acceptance of the Offer by any person will be deemed to constitute a warranty by such person or persons to the Offeror that the IBA Shares acquired under the Offer are sold by such person or persons free from all liens, charges, encumbrances, rights of pre-emption and any other third party rights of any nature and together with all rights attaching to them, including the right to receive in full all dividends (other than the Interim Dividend and the special interim dividend of HK\$0.26 per IBA Share which is expected to be paid to IBA Shareholders on 16 February, 2004) and other distributions, if any, declared, made or paid after the date of the Joint Announcement.
- (c) Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee to the Offeror that the number of IBA Shares in respect of which is indicated in the Form of Acceptance is the aggregate number of IBA Shares held by such nominee for such beneficial owners who are accepting the Offer.
- (d) The provisions set out in the Form of Acceptance form part of the terms of the Offer.

- (e) The accidental omission to despatch this Composite Document and/or the Form of Acceptance or any of them to any person to whom the Offer is made will not invalidate the Offer in any way. The deliberate omission to despatch this Composite Document and the Form of Acceptance to the Excluded Shareholders will not invalidate the Offer in any way.
- (f) The Offer and all acceptances thereof will be governed by and construed in accordance with the laws of Hong Kong.
- (g) References to the Offer in this Composite Document and in the Form of Acceptance shall include any extension and/or revision thereof and references to the Offer becoming unconditional shall include a reference to the Offer being declared unconditional.
- (h) Due execution of a Form of Acceptance will constitute an authority to the Offeror, any director of the Offeror or of Citigroup or their respective agents to complete and execute on behalf of the person accepting the Offer, the Form of Acceptance and any document and to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror, or such person or persons as the Offeror shall direct, the IBA Shares which are the subject of such acceptance.
- (i) Acceptances of the Offer by any Overseas Shareholder will constitute a warranty by such person that such person is permitted under all applicable laws to receive and accept the Offer, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws.
- (j) The Offer is made in accordance with the Takeovers Code (to the extent dispensations therefrom have not been granted by the SFC).

1. THREE YEAR FINANCIAL RESULTS SUMMARY

Set out below is a summary of the audited consolidated results of IBA for the last three years ended 31 December, 2002. Other than the “Taxation charge”, “Profit attributable to shareholders” and “Earnings per share” figures, all figures were extracted from the published financial statements of IBA for 2002 and 2001. For all three years there were no extraordinary or exceptional items and there were no minority interests to report.

CONSOLIDATED INCOME STATEMENT

	2002	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(Restated)</i>	<i>(Restated)</i>	<i>(Restated)</i>
Interest income	1,130,362	1,708,123	1,985,404
Interest expenses	(401,986)	(949,969)	(1,299,738)
Net interest income	728,376	758,154	685,666
Other operating income	151,240	141,853	161,252
Operating income	879,616	900,007	846,918
Operating expenses	(456,865)	(487,226)	(439,257)
Operating profit before provisions and gains	422,751	412,781	407,661
Charge for bad and doubtful debts	(338,975)	(232,175)	(175,935)
Impairment losses on investments and acquired assets	(32,263)	(5,760)	–
Gains less losses from disposal, redemption or transfer of held-to-maturity and non-trading securities	170,355	132,177	43,800
Profit before taxation	221,868	307,023	275,526
*Taxation charge	(1,424)	(15,203)	(46,494)
Profit attributable to shareholders	220,444	291,820	229,032
Dividends attributable to the year	(140,659)	(128,937)	(93,773)
Earnings per share (Hong Kong cents)	18.81	24.90	19.54

* The taxation charge has been restated as a result of adoption of the revised SSAP 12 “Income Taxes” by IBA with effect from 1 January, 2003. The new accounting policy has been adopted retrospectively.

APPENDIX II **FINANCIAL INFORMATION RELATING TO THE IBA GROUP**

The impact of this change in accounting policy is as follows:

	2002	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Taxation credit / (charge) (as originally stated)	3,470	(11,685)	(31,138)
Taxation charge (restated)	(1,424)	(15,203)	(46,494)

As a result of the new accounting policy, IBA Group's profit attributable to shareholders has been decreased by HK\$4,894,000 for 2002, decreased by HK\$3,518,000 for 2001 and decreased by HK\$15,356,000 for 2000. In addition, IBA Group's net assets as at 31 December, 2002 and 2001 have been increased by HK\$1,449,000 to HK\$3,767,384,000 and HK\$8,625,000 to HK\$3,663,891,000 respectively.

2. AUDITED FINANCIAL INFORMATION

The following financial information, together with the accompanying notes and supplementary financial information, are directly extracted from the annual report of IBA for the year ended 31 December, 2002.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December, 2002

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest income	3	1,130,362	1,708,123
Interest expenses		<u>(401,986)</u>	<u>(949,969)</u>
Net interest income		728,376	758,154
Other operating income	4	<u>151,240</u>	<u>141,853</u>
Operating income		879,616	900,007
Operating expenses	5	<u>(456,865)</u>	<u>(487,226)</u>
Operating profit before provisions and gains		422,751	412,781
Charge for bad and doubtful debts	8	(338,975)	(232,175)
Impairment losses on investments and acquired assets	9	(32,263)	(5,760)
Gains less losses from disposal, redemption or transfer of held-to-maturity and non-trading securities	10	<u>170,355</u>	<u>132,177</u>
Profit before taxation		221,868	307,023
Taxation credit/(charge)	11	<u>3,470</u>	<u>(11,685)</u>
Profit attributable to shareholders	14, 30	<u><u>225,338</u></u>	<u><u>295,338</u></u>
Dividends attributable to the year			
Interim dividend declared during the year	12	(46,886)	(46,886)
Final dividend proposed after the balance sheet date	12	<u>(93,773)</u>	<u>(82,051)</u>
		<u>(140,659)</u>	<u>(128,937)</u>
Earnings per share (Hong Kong cents)	13	19.22	25.20

CONSOLIDATED BALANCE SHEET*For the year ended 31 December, 2002*

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
ASSETS			
Cash on hand		91,511	95,013
Short term funds	<i>17</i>	12,116,538	5,198,931
Placements with banks maturing between one and twelve months	<i>18</i>	735,030	710,475
Trade bills less reserves and certificates of deposit	<i>19</i>	291,220	354,976
Advances to customers less reserves	<i>20</i>	14,961,429	16,384,160
Accrued interest and other accounts		1,062,108	762,262
Investments	<i>21</i>	1,788,328	3,364,443
Investments in associated company	<i>22</i>	9,874	11,749
Fixed assets	<i>24</i>	1,256,447	1,279,837
		<u>32,312,485</u>	<u>28,161,846</u>
LIABILITIES			
Deposits and balances of other banks	<i>25</i>	330,369	378,567
Deposits from customers	<i>26</i>	22,070,807	22,245,917
Certificates of deposit issued	<i>27</i>	1,810,494	1,615,000
Short position in Exchange Fund Bills		4,094,931	0
Other accounts and liabilities		239,949	267,096
		<u>28,546,550</u>	<u>24,506,580</u>
CAPITAL RESOURCES			
Share capital	<i>28</i>	1,172,160	1,172,160
Share premium	<i>29</i>	749,778	749,778
Reserves	<i>30</i>	1,843,997	1,733,328
Shareholders' funds		<u>3,765,935</u>	<u>3,655,266</u>
		<u><u>32,312,485</u></u>	<u><u>28,161,846</u></u>

BALANCE SHEET*For the year ended 31 December, 2002*

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
ASSETS			
Cash on hand		91,503	95,006
Short term funds	<i>17</i>	12,116,030	5,198,729
Placements with banks maturing between one and twelve months	<i>18</i>	735,030	710,475
Trade bills less reserves and certificates of deposit	<i>19</i>	291,220	354,976
Advances to customers less reserves	<i>20</i>	12,629,012	14,069,662
Accrued interest and other accounts		1,003,533	703,742
Investments	<i>21</i>	1,788,142	3,363,657
Investments in associated company	<i>22</i>	9,874	11,749
Investments in subsidiaries	<i>23</i>	87,146	87,146
Due from subsidiaries		2,165,911	2,121,995
Fixed assets	<i>24</i>	1,221,451	1,244,475
		<u>32,138,852</u>	<u>27,961,612</u>
LIABILITIES			
Deposits and balances of other banks	<i>25</i>	330,369	378,567
Deposits from customers	<i>26</i>	21,106,230	22,034,353
Certificates of deposit issued	<i>27</i>	1,810,494	1,615,000
Short position in Exchange Fund Bills		4,094,931	0
Other accounts and liabilities		197,727	219,560
Due to subsidiaries		1,126,797	431,582
		<u>28,666,548</u>	<u>24,679,062</u>
CAPITAL RESOURCES			
Share capital	<i>28</i>	1,172,160	1,172,160
Share premium	<i>29</i>	749,778	749,778
Reserves	<i>30</i>	1,550,366	1,360,612
Shareholders' funds		<u>3,472,304</u>	<u>3,282,550</u>
		<u>32,138,852</u>	<u>27,961,612</u>

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31 December, 2002*

	<i>Note</i>	2002		2001 (Restated)	
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow from operating activities	36		6,217,788		417,210
Investing activities					
Payments for purchase of fixed assets		(39,944)		(198,290)	
Net proceeds from disposal of fixed assets		9,728		480	
Net decrease in investment in associated company		1,875		1,130	
Net cash used in investing activities			(28,341)		(196,680)
Financing activities					
Floating rate certificates of deposit issued during the year		1,010,494		1,060,000	
Floating rate certificates of deposit redeemed during the year		(815,000)		(606,699)	
Dividend paid		(128,937)		(105,494)	
			66,557		347,807
Increase in cash and cash equivalents			6,256,004		568,337
Cash and cash equivalents at 1 January			5,737,997		5,169,660
Cash and cash equivalents at 31 December			11,994,001		5,737,997
Analysis of cash and cash equivalents					
			2002		2001
			<i>HK\$'000</i>		<i>HK\$'000</i>
Cash on hand			91,511		95,013
Short term funds maturing within 3 months from acquisition date			11,344,132		4,950,329
Placements with banks maturing between one and twelve months, which mature within 3 months from acquisition date			558,358		692,655
			<u>11,994,001</u>		<u>5,737,997</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December, 2002

	<i>Note</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Shareholders' equity at 1 January			
As previously reported		3,655,266	3,479,367
Prior period adjustment arising from change in accounting policy for employee benefits	<i>15, 30</i>	<u>16,566</u>	<u>0</u>
As restated		3,671,832	3,479,367
Realisation of revaluation deficit of non-trading securities		3,854	0
Net change in fair value of non-trading securities		<u>(6,152)</u>	<u>(13,945)</u>
Net gains and losses not recognised in the income statement		<u>(2,298)</u>	<u>(13,945)</u>
Net profit for the year		225,338	295,338
Dividends paid during the year		<u>(128,937)</u>	<u>(105,494)</u>
Shareholders' equity at 31 December		<u><u>3,765,935</u></u>	<u><u>3,655,266</u></u>

The notes on Appendix II-8 to II-50 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS**1. Activities and corporate affiliation**

IBA, through its branches and subsidiaries, provides a range of banking, financial and related services.

The ultimate holding company of IBA is Arab Banking Corporation (B.S.C.) which is incorporated in the State of Bahrain and operates as an offshore bank.

2. Significant accounting policies**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants (“HKSA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and the recommendations in the Supervisory Policy Manual “Financial Disclosures by Locally Incorporated Authorised Institutions” issued by the Hong Kong Monetary Authority. A summary of the significant accounting policies adopted by the IBA Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of premises in 1989, and the marking to market of certain investments in securities as explained in the accounting policies set out below.

(c) Investment in subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the IBA Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if IBA has the power, directly or indirectly, to govern their financial and operating policies so as to obtain benefits from their activities.

The financial statements of a controlled subsidiary are consolidated into the consolidated financial statements, unless the subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the IBA Group, in which case, the investment is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In IBA's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (note 2(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to IBA, in which case, it is stated at fair value with changes in fair value recognised in the investment revaluation reserve as they arise.

(d) Associated companies

An associated company is a company in which the IBA Group or IBA has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

The investment in the associated company is not equity accounted for in the consolidated financial statements as it is considered by the directors to be immaterial to the IBA Group. It is stated at cost less impairment losses (note 2(i)) in the IBA Group's and IBA's balance sheets. The results of the associated company are included in the IBA Group's and IBA's income statement to the extent of dividends received and receivable (note 2(j)).

(e) Advances and doubtful debts

- i. Advances to customers and trade bills are carried at amounts advanced less payments collected, any suspended interest and reserves for credit losses. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the income statement over the early prepayment penalty period.

- ii. Specific and general provisions

Provisions for bad and doubtful debts are made promptly and on a prudent and consistent basis. Specific provisions are determined by the directors at a level deemed appropriate to absorb expected losses from individual accounts after taking into account the value of collateral held. General provisions augment specific provisions and provide cover for loans which are impaired at the balance sheet date but which will not be identified as such until some time in the future. Both specific and general provisions are charged to the income statement and are deducted from trade bills, other assets and advances to customers in the balance sheet. When there is no longer any realistic prospect of recovery, the outstanding debt is written off.

- iii. Advances on which interest is being suspended

Interest suspended on doubtful debts is netted in the balance sheet against "Advances to customers" and accrued interest receivable in "Accrued interest and other accounts". Amounts received are applied to the repayment of outstanding indebtedness, with any surplus used to recover any specific provisions and then suspended interest.

iv. Repossessed assets or assets acquired under lending agreements (“acquired assets”)

Repossessed assets and acquired assets continue to be reported as advances if the advance has not been fully written off and IBA is seeking recovery from both the borrower and amounts to be generated from the repossessed assets or the acquired assets. The advance is recorded at the expected recoverable amount and the specific provision is adjusted. Any subsequent change in the values of the repossessed assets or acquired assets are recorded as a movement in specific provision. Any income derived from repossessed assets and acquired assets is recognised as a reduction in the advance balance.

Acquired assets where it is intended to achieve an orderly realisation and IBA is no longer seeking repayment from the borrower are reclassified to other accounts. The assets acquired are recorded at the carrying value of the advance disposed of at the date of the acquisition less any subsequent impairment losses (note 2(i)). Income derived from acquired assets is recognised in the income statement.

(f) Finance leases

Leases under which substantially all the risks and benefits of ownership are transferred to lessees are classified as finance leases.

Where assets are leased out under finance leases, an amount representing the net investment in the lease is included in the balance sheet as advances to customers. Finance income implicit in the lease payments is credited to the income statement over the period of the leases so as to produce an approximately constant periodic rate of return on the outstanding net investment in the leases for each accounting period.

(g) Investments in securities

The IBA Group’s and IBA’s policies for investments in securities other than investments in subsidiaries and associated companies are as follows:

- i. Dated debt securities that the IBA Group and/or IBA have the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value which is considered other than temporary. Provisions are recognised in the income statement.

Profits or losses on realisation of held-to-maturity securities are accounted for in the income statement as they arise.

- ii. Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer’s margin.

- iii. Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is recognised in the income statement.
- iv. Transfers from the investment revaluation reserve to the income statement as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- v. Profits or losses on disposal of investments in securities are accounted for in the income statement as they arise. In the case of non-trading securities, the profit and loss includes any amount previously held in the investment revaluation reserve in respect of that security.

(h) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less impairment losses (note 2(i)) and less accumulated depreciation calculated to write off the assets over the estimated useful lives.

Leasehold land is depreciated over the unexpired terms of the leases on a straight-line basis. Premises are depreciated at the higher of 2% per annum or over the unexpired terms of the leases.

Furniture, fixtures and equipment are depreciated over their estimated useful lives, which are generally between 3 to 10 years.

Certain of the IBA Group's leasehold land and premises have been included at Directors' valuation made having regard to independent professional valuations carried out in November 1989. The surplus arising on revaluation was credited to the revaluation reserve. Additions to revalued premises made subsequent to the revaluation are included at cost. Premises which have not been the subject of revaluation are included at cost. The revaluation reserve arising from the November 1989 revaluation was transferred to the capital redemption reserve when IBA redeemed its "A" and "B" preference shares in June 1991.

In preparing these financial statements, advantage has been taken of the transitional provisions in paragraph 80 of the Statement of Standard Accounting Practice 17 'Property, Plant and Equipment' issued by the Hong Kong Society of Accountants with the effect that premises have not been revalued to fair value at the balance sheet date. It is not the Directors' present intention to revalue the premises in the future.

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the assets when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the IBA Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the assets and are recognised in the income statement on the date of retirement or disposal.

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that fixed assets, acquired assets and investments in subsidiaries and associated companies may be impaired.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where there are assets that do not generate cash flow largely independent of those from other assets, recoverable amounts are determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) Revenue recognition

(i) Interest income

Interest income and expenses are accrued on a time-apportioned basis on the principal outstanding and at the rate applicable except in the case of doubtful debts where interest is credited to a suspense account which is netted in the balance sheet against the relevant balances. Fee income and expenses are recognised when earned or incurred.

Interest income from dated debt securities is recognised as it accrues, as adjusted by the amortisation of the premium or discount on acquisition, so as to achieve a constant rate of return over the period from the date of purchase to the date of maturity.

(ii) Dividend income

Dividends from listed investments are recognised when the share price of such investments is quoted ex-dividend; and

Interim dividends from unlisted investments are recognised when the directors of the investee companies declare such dividends; final dividends from unlisted investments are recognised when the shareholders of the investee companies approve the dividends proposed by the directors at the general meeting.

(iii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(k) Operating lease charges

Where the IBA Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(l) Deferred taxation

Deferred taxation is provided under the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(m) Translation of foreign currencies

Transactions in foreign currencies during the year are translated into Hong Kong dollars at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are included in the income statement.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, placements with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. Derivatives include futures, forward, swap and option contracts undertaken by the IBA Group and IBA in the foreign exchange, interest rate and equity markets.

Accounting for derivatives is dependent upon whether the transactions are undertaken for trading purposes or as part of the management of asset and liability portfolios.

i. Derivatives used for trading purposes

Trading transactions include transactions undertaken for market making, to service customers' needs and for proprietary purposes, as well as any related hedges.

Transactions undertaken for trading purposes are marked to market and the gain or loss arising is recognised in the income statement as trading profits or losses, after appropriate deferrals for unearned credit margin and future servicing costs. Unrealised gains on transactions are included in 'Accrued interest and other accounts' in the balance sheet. Unrealised losses on transactions are included in 'Other accounts and provisions'. Netting is applied where a legal right of set-off exists.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the IBA Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

ii. Derivatives used for asset and liability management purposes

Derivatives that qualify as hedges are valued on an equivalent basis to the underlying assets, liabilities or net positions which they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or net positions.

A hedging relationship exists when

- at inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the reporting period; and
- for hedges of a forecast transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss.

Interest rate swaps are also used to alter synthetically the interest rate characteristics of financial instruments. Interest rate swaps that qualify as synthetic alteration are accounted on an accruals basis with the relative income and expense treated as interest income or interest expense.

Any gain or loss on termination of hedging derivatives is amortised to the income statement over the original life of the terminated contract. Where the underlying asset, liability or position is sold or terminated, the hedging derivative is redesignated as trading and is marked to market through the income statement. Netting is applied where a legal right of set-off exists.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the IBA Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Related parties

For the purposes of these financial statements, parties are considered to be related to the IBA Group if the IBA Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the IBA Group and the party are subject to common control or common significant influence. Related parties may be individuals or entities.

(r) Segment reporting

A segment is a distinguishable component of the IBA Group that is engaged in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In common with the IBA Group's internal financial reporting, the IBA Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example segment assets may include loans and advances to customers, investment securities, interbank placements, premises and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(s) Employee benefits

- i. Salaries, annual bonuses, paid annual leave and the cost to the IBA Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the IBA Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present value.
- ii. Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are recognised as an expense in the income statement as incurred.
- iii. The IBA Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the IBA Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the IBA Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the IBA Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

- iv. Termination benefits are recognised when, and only when, the IBA Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

3. Interest Income

	IBA Group	
	2002	2001
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Interest income on listed investments	80,580	90,186
Interest income on unlisted investments	68,956	63,830
Other interest income	980,826	1,554,107
	<u>1,130,362</u>	<u>1,708,123</u>

4. Other operating income

	IBA Group	
	2002	2001
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Fees and commission income	146,833	139,130
Less: Fee and commission expense	(32,137)	(25,399)
Net fee and commission income	114,696	113,731
Dividend income from listed investments	1,160	955
Dividend income from unlisted investments	2,630	1,808
Gain on dealing in foreign currencies	8,821	12,154
Gain on dealing in trading securities	1,922	0
Loss on disposal of fixed assets	0	(1,406)
Rental income	12,313	10,867
Others	9,698	3,744
	<u>151,240</u>	<u>141,853</u>

5. Operating expenses

The major items which comprise operating expenses are as follows:

	IBA Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Staff Costs		
Contributions to defined contribution scheme	283	380
Defined benefit scheme expense (Note 33)	11,264	11,479
	<u>11,547</u>	<u>11,859</u>
Retirement costs	11,547	11,859
Salaries and other staff costs	213,799	225,800
	<u>225,346</u>	<u>237,659</u>
Premises and other fixed assets		
– Rental of premises	17,799	20,424
– Depreciation	53,606	47,354
– Others	14,150	14,416
Auditors' remuneration	1,353	1,673
Other operating expenses		
– Business promotion	21,493	46,097
– Legal & professional fee	13,980	8,238
– Communication	16,485	16,539
– Electronic data processing and computer systems	54,587	50,145
– Others	38,066	44,681
	<u>456,865</u>	<u>487,226</u>

6. Directors' remuneration

- (a) The aggregate remuneration of the directors disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	IBA Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Directors' fees	3,355	564
Basic salaries and other allowances	14,823	15,219
Contributions to pension scheme	984	934
Discretionary bonuses	1,981	6,118
	<u>21,143</u>	<u>22,835</u>

Included in directors' remuneration were emoluments of HK\$1,290,666 (2001: HK\$2,030,067) paid and payable to the independent non-executive directors in respect of the year.

APPENDIX II FINANCIAL INFORMATION RELATING TO THE IBA GROUP

- (b) The number of directors of IBA whose total remuneration fell within the following defined bands are as follows:

	IBA Group	
	2002	2001
HK\$nil – HK\$1,000,000	8	10
HK\$1,000,001 – HK\$1,500,000	0	1
HK\$5,000,001 – HK\$5,500,000	0	1
HK\$5,500,001 – HK\$6,000,000	1	0
HK\$11,000,001 – HK\$12,000,000	0	1
HK\$12,500,001 – HK\$13,000,000	1	0

7. Individuals with highest emoluments

- (a) Among the five individuals whose emoluments were the highest in the IBA Group, two (2001:two) were directors of IBA whose emoluments are disclosed in note 6. The aggregate emoluments of the remaining three (2001:three) highest paid individuals were as follows:

	IBA Group	
	2002	2001
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Basic salaries and other allowances	7,814	7,444
Contributions to pension scheme	623	587
Bonuses	1,863	978
	<u>10,300</u>	<u>9,009</u>

- (b) The number of three (2001: three) highest paid non-director employees of the IBA Group whose total emoluments fell within the following defined bands are as follows:

	IBA Group	
	2002	2001
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
HK\$2,000,001 – HK\$2,500,000	0	1
HK\$2,500,001 – HK\$3,000,000	1	0
HK\$3,000,001 – HK\$3,500,000	0	1
HK\$3,500,001 – HK\$4,000,000	2	1

8. Charge for bad and doubtful debts

	IBA Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
General provision		
– trade bills (Note 19)	30	19
– advances to customers (Note 20)	(37,846)	63,127
	<u>(37,816)</u>	<u>63,146</u>
Specific provision		
– Net specific provision on advances to customers (Note 20)	376,791	169,029
	<u>338,975</u>	<u>232,175</u>

9. Impairment losses on investments and acquired assets

	IBA Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Write back of impairment loss on investments	(3,471)	0
Impairment loss on acquired assets	35,734	5,760
	<u>32,263</u>	<u>5,760</u>

10. Gains less losses from disposal, redemption or transfer of held-to-maturity and non-trading securities

	IBA Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net realised gain on disposal or redemption of held-to-maturity and non-trading securities	170,355	103,549
Net unrealised gains from transfer of held-to-maturity securities to non-trading securities	0	28,628
	<u>170,355</u>	<u>132,177</u>

In 2001, HK\$3,440 million held-to-maturity investment securities were transferred to non-trading investment securities. The attributable unrealised gain of HK\$29 million was recognised in the income statement at the date of transfer in accordance with Hong Kong Statement of Standard Accounting Practice 24 “Accounting for Investments in Securities”. Of this amount, HK\$1.5 million has subsequently been realised on disposal in 2002 (2001: HK\$26.5 million).

11. Taxation

- (a) Taxation in the consolidated income statement represents:

	IBA Group	
	2002	2001
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Provision for Hong Kong Profits Tax for the year	5,053	37,087
Over provision in respect of prior years	(8,523)	(25,402)
	<u> </u>	<u> </u>
Taxation (credit)/charge	<u>(3,470)</u>	<u>11,685</u>

Hong Kong Profits Tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits for the year ended 31 December, 2002. The amounts of unprovided deferred tax liability as at 31 December, 2002 and 2001 are not material.

- (b) Taxation in the balance sheets, which is included in “Accrued interest and other accounts” and “Other accounts and provisions”, represents:

	IBA Group	
	2002	2001
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Provision for Hong Kong Profits Tax for the year	5,053	37,087
Provisional Profits Tax paid	(7,629)	(17,318)
	<u> </u>	<u> </u>
	(2,576)	19,769
Balance of Profits Tax provision relating to prior years	300	300
	<u> </u>	<u> </u>
	<u>(2,276)</u>	<u>20,069</u>
Hong Kong Profits Tax recoverable	(4,608)	(877)
Provision for Hong Kong Profits Tax	2,332	20,946
	<u> </u>	<u> </u>
	<u>(2,276)</u>	<u>20,069</u>

	IBA	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for Hong Kong Profits Tax for the year	67	24,315
Provisional profits tax paid	(4,622)	(7,658)
	<u> </u>	<u> </u>
Hong Kong Profits Tax (recoverable)/provision	<u>(4,555)</u>	<u>16,657</u>

12. Dividends

Dividends attributable to the year

	IBA Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interim dividend declared and paid of 4.00 cents (2001: 4.00 cents) per share	46,886	46,886
Final dividend, proposed on 25 February, 2003, of 8.00 cents (2001: proposed on 7 February, 2002, of 7.00 cents) per share	93,773	82,051
	<u> </u>	<u> </u>
	<u>140,659</u>	<u>128,937</u>

Dividends attributable to the previous financial year, approved and paid during the year

	IBA Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of 7.00 cents (2001: 5.00 cents) per share	82,051	58,608
	<u> </u>	<u> </u>

13. Earnings per share

Earnings per share are calculated on earnings of HK\$225,338,000 (2001: HK\$295,338,000) and on 1,172,160,000 (2001: 1,172,160,000) shares in issue during the year. There were no convertible loan capital, options or warrants outstanding which would cause a dilution effect on the earning per share.

14. Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of HK\$219,423,000 (2001: HK\$220,709,226) which has been dealt with in the accounts to IBA.

15. Change in accounting policy

In prior years, the regular cost of providing retirement benefits under defined benefit retirement plans was charged to the income statement over the expected service lives of the members of the plans on the basis of level percentages of pensionable pay. With effect from 1 January, 2002, in order to comply with SSAP 34 “Employee benefits”, the Bank adopted a new policy for defined benefit plans as set out in note 1(s). As a result of the adoption of this accounting policy, the Bank’s profit for the year has been increased by HK\$398,000 and the net assets as at 31 December, 2002 have been increased by HK\$16,964,000.

The effect of adopting the new accounting policy has been adjusted to the opening balance of the retained earnings for the year. No restatement of other comparative information has been made.

16. Segment reporting

Segment information is presented in respect of the IBA Group’s business and geographical segments. Business segment information is chosen as the primary reporting format because substantially all of the IBA Group’s business is attributable to a single geographical segment, Hong Kong.

IBA and its subsidiaries are principally engaged in the provision of banking and related financial services. Consumer Finance mainly comprises IBA’s retail banking, hire purchase and credit card businesses. Retail banking mainly comprises deposit account services, residential mortgage and other consumer lending. Hire purchase lending includes both personal and corporate equipment, auto and other consumer leasing contracts and lending. Credit card business comprises merchant acquiring and provision of credit card advances. Corporate Banking business covers trade financing, syndicated loans and other corporate lending. Investment Banking activities mainly comprise private banking activities, securities brokerage, unit trusts and insurance services. Treasury activities are mainly the provision of foreign exchange services and centralised cash management for deposit taking and lending, management of trading securities, execution of management’s investment strategies in money market investment instruments and the overall funding of the IBA Group. Unallocated items mainly comprise the central management unit, management of investments in securities, premises and property management and other activities which cannot be reasonably allocated to specific business segments.

APPENDIX II
FINANCIAL INFORMATION RELATING TO THE IBA GROUP

2002	IBA GROUP						Consolidated HK\$'000
	Consumer Finance HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	ⁱⁱⁱ Treasury HK\$'000	ⁱⁱ Unallocated HK\$'000	Inter- segment Elimination HK\$'000	
Interest income from external customers	661,524	153,529	27,840	275,650	11,819	0	1,130,362
Interest expense to external customers	(286,407)	(37,044)	(18,737)	(56,360)	(3,438)	0	(401,986)
Inter-segment income ⁱ	278,954	5,530	8,888	0	20,736	(314,108)	0
Inter-segment expense ⁱ	(74,199)	(62,532)	0	(177,377)	0	314,108	0
Net interest income	579,872	59,483	17,991	41,913	29,117	0	728,376
Other operating revenue from external customers	84,807	20,933	52,957	14,067	10,613		183,377
Operating revenue	664,679	80,416	70,948	55,980	39,730		911,753
Fees and commission expenses							(32,137)
Operating income							879,616
Operating expenses – depreciation	(16,087)	(187)	(3,952)	(577)	(32,803)		(53,606)
Segment result before provisions	330,875	31,524	30,199	42,799	(12,646)		422,751
Inter-segment transactions ⁱ	34,269	1,345	7,104	776	(43,494)		0
Profit/(loss) from operations before provisions	365,144	32,869	37,303	43,575	(56,140)		422,751
Provision for bad & doubtful debts	(285,205)	(51,488)	88	45	(2,415)		(338,975)
Impairment loss on investments and acquired assets	(16,231)	(18,190)	(1,313)	0	3,471		(32,263)
Gains less losses from disposal and redemption of non-trading securities	0	0	0	170,355	0		170,355
Profit/(loss) before taxation	<u>63,708</u>	<u>(36,809)</u>	<u>36,078</u>	<u>213,975</u>	<u>(55,084)</u>		<u>221,868</u>

2002	IBA GROUP						Consolidated (restated) HK\$'000
	Consumer Finance HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	ⁱⁱⁱ Treasury HK\$'000	ⁱⁱ Unallocated HK\$'000	Inter- segment Elimination HK\$'000	
Segment assets	10,811,255	4,535,649	976,333	14,906,634			31,229,871
Unallocated assets ⁱⁱ							<u>1,082,614</u>
Total assets (excluding liabilities of customers for engagements)							<u>32,312,485</u>
Segment liabilities	18,855,759	1,767,603	1,318,640	6,379,727			28,321,729
Unallocated liabilities ⁱⁱ							<u>224,821</u>
Total liabilities							<u>28,546,550</u>
Capital expenditure incurred during the year	13,857	5,742	1,239	19,106			<u><u>39,944</u></u>

APPENDIX II
FINANCIAL INFORMATION RELATING TO THE IBA GROUP

2001	IBA GROUP						Consolidated HK\$'000
	Consumer Finance HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	ⁱⁱⁱ Treasury HK\$'000	ⁱⁱ Unallocated HK\$'000	Inter- segment Elimination HK\$'000	
Interest income from external customers	922,136	280,648	42,257	454,733	8,349	0	1,708,123
Interest expense to external customers	(687,866)	(97,032)	(37,231)	(105,375)	(22,465)	0	(949,969)
Inter-segment income ⁱ	478,501	3,854	12,929	0	98,408	(593,692)	0
Inter-segment expense ⁱ	(120,731)	(123,603)	0	(349,358)	0	593,692	0
Net interest income	592,040	63,867	17,955	0	84,292	0	758,154
Other operating revenue from external customers	88,375	22,622	40,574	13,478	2,203		167,252
Operating revenue	680,415	86,489	58,529	13,478	86,495		925,406
Fees and commission expenses							(25,399)
Operating income							900,007
Operating expenses – depreciation	(14,707)	(252)	(3,300)	(341)	(28,754)		(47,354)
Segment result before provisions	330,799	29,659	19,408	8,369	24,546		412,781
Inter-segment transactions ⁱ	17,686	1,602	5,597	703	(25,588)		0
Profit/(loss) from operations before provisions	348,485	31,261	25,005	9,072	(1,042)		412,781
Provision for bad & doubtful debts	(131,201)	(94,818)	(4,818)	(45)	(1,293)		(232,175)
Impairment loss on acquired assets	(5,760)	0	0	0	0		(5,760)
Gains less losses from disposal, redemption or transfer of held-to-maturity and non-trading securities	0	0	0	132,177	0		132,177
Profit / (loss) before taxation	<u>211,524</u>	<u>(63,557)</u>	<u>20,187</u>	<u>141,204</u>	<u>(2,335)</u>		<u>307,023</u>

2001	IBA GROUP						Consolidated (restated) HK\$'000
	Consumer Finance HK\$'000	Corporate Banking HK\$'000	Investment Banking HK\$'000	ⁱⁱⁱ Treasury HK\$'000	ⁱⁱ Unallocated HK\$'000	Inter- segment Elimination HK\$'000	
Segment assets	11,510,494	4,944,248	977,873	9,506,755			26,939,370
Unallocated assets ⁱⁱ							1,222,476
Total assets (excluding liabilities of customers for engagements)							28,161,846
Segment liabilities	18,257,446	2,063,025	1,070,967	2,421,579			23,813,017
Unallocated liabilities ⁱⁱ							693,563
Total liabilities							24,506,580
Capital expenditure incurred during the year	153,868	14,246	2,784	27,392			198,290

- i. Inter-segment pricing is based on similar terms as those available to other external parties.
- ii. Unallocated items mainly comprise of interest income derived from shareholders' funds not used by the business segments, staff housing loans and the related interest income and funding costs, staff deposits and the related interest expenses and the head office premises, furniture, fixtures and equipment and the related depreciation.
- iii. Treasury was changed from a cost centre in 2001 to a profit centre in 2002. As a result, inter-segment interest income and expense were allocated on a different basis in the two years. In 2001, all net interest income earned by Treasury was allocated to the business segments. In 2002, Treasury's funding costs were allocated to the business segment based on market rates but Treasury retained any net interest income earned from its activities. The comparative figure for the gain less losses from disposal, redemption or transfer of held-to-maturity and non-trading securities of HK\$132,177,000, which was included in the unallocated items was restated to be included in the treasury segment.

Geographical segments

The geographical segment is analysed based on the locations of the principal operations of the subsidiaries or on the location of the branches of IBA responsible for reporting the results or booking the assets, the location of customers and the location of the assets. For both years 2001 and 2002, all of the IBA Group's revenue and profit before taxation were generated by assets booked by the principal operations of the branches and subsidiaries of IBA located in Hong Kong. More than 90% of assets were either located in Hong Kong or were extended to companies and individuals domiciled in Hong Kong. The balance of the assets were extended to companies and individuals domiciled outside Hong Kong, mainly in China.

17. Short term funds

	IBA Group		IBA	
	2002	2001	2002	2001
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Balances with banks and other financial institutions	153,055	51,729	152,547	51,527
Money at call and short notice*	6,395,418	5,147,202	6,395,418	5,147,202
Treasury bills (including Exchange Fund Bills)	5,568,065	0	5,568,065	0
	<u>12,116,538</u>	<u>5,198,931</u>	<u>12,116,030</u>	<u>5,198,729</u>

* Money at call and short notice represents deposits of up to a maximum of 1-month maturity from the balance sheet date.

Treasury bills are issued by central governments and central banks and are unlisted. The analysis of treasury bills is as follows:

	IBA Group		IBA	
	2002	2001	2002	2001
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
Treasury bills				
– Trading	1,699,190	0	1,699,190	0
– Non-trading	3,868,875	0	3,868,875	0
	<u>5,568,065</u>	<u>0</u>	<u>5,568,065</u>	<u>0</u>

The maturity profile of treasury bills included above and analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	IBA Group		IBA	
	2002	2001	2002	2001
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
3 months or less but not repayable on demand	5,221,050	0	5,221,050	0
1 year or less but over 3 months	347,015	0	347,015	0
	<u>5,568,065</u>	<u>0</u>	<u>5,568,065</u>	<u>0</u>

18. Placements with banks maturing between one and twelve months

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	IBA Group		IBA	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
3 months or less but over 1 month	558,358	710,475	558,358	710,475
1 year or less but over 3 months	176,672	0	176,672	0
	<u>735,030</u>	<u>710,475</u>	<u>735,030</u>	<u>710,475</u>

19. Trade bills less reserves and certificates of deposits

	IBA Group		IBA	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Trade bills	13,900	9,538	13,900	9,538
Less: General reserves	(91)	(61)	(91)	(61)
	<u>13,809</u>	<u>9,477</u>	<u>13,809</u>	<u>9,477</u>
Certificates of deposit – unlisted, non-trading	277,411	345,499	277,411	345,499
	<u>291,220</u>	<u>354,976</u>	<u>291,220</u>	<u>354,976</u>

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	IBA Group		IBA	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Repayable on demand	0	910	0	910
3 months or less but not repayable on demand	43,900	28,859	43,900	28,859
1 year or less but over 3 months	153,425	19,980	153,425	19,980
5 years or less but over 1 year	93,986	305,288	93,986	305,288
Undated	0	0	0	0
	<u>291,311</u>	<u>355,037</u>	<u>291,311</u>	<u>355,037</u>

Movements in reserves for doubtful debts – General:

	IBA Group		IBA	
	2002 HK\$ '000	2001 HK\$ '000	2002 HK\$ '000	2001 HK\$ '000
At 1 January	61	42	61	42
Charged during the year (Note 8)	30	19	30	19
At 31 December	<u>91</u>	<u>61</u>	<u>91</u>	<u>61</u>

20. Advances to customers less reserves

	IBA Group		IBA	
	2002 HK\$ '000	2001 HK\$ '000	2002 HK\$ '000	2001 HK\$ '000
Advances to customers	15,161,583	16,730,081	12,783,264	14,407,813
Reserves for doubtful debts				
– General	(129,455)	(167,301)	(108,091)	(167,301)
– Specific	(70,699)	(178,620)	(46,161)	(170,850)
	<u>14,961,429</u>	<u>16,384,160</u>	<u>12,629,012</u>	<u>14,069,662</u>

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	IBA Group		IBA	
	2002 HK\$ '000	2001 HK\$ '000	2002 HK\$ '000	2001 HK\$ '000
Repayable on demand	1,003,297	1,175,839	992,554	1,165,515
3 months or less but not repayable on demand	1,703,514	1,237,410	1,389,195	931,965
1 year or less but over 3 months	1,838,818	1,798,476	1,070,302	1,038,638
5 years or less but over 1 year	4,722,613	5,399,406	3,757,959	4,443,250
Over 5 years	5,583,238	6,225,127	5,341,399	6,003,734
Undated	310,103	893,823	231,855	824,711
	<u>15,161,583</u>	<u>16,730,081</u>	<u>12,783,264</u>	<u>14,407,813</u>

Movements in reserves for doubtful debts – General:

	IBA Group		IBA	
	2002 HK\$ '000	2001 HK\$ '000	2002 HK\$ '000	2001 HK\$ '000
At 1 January	167,301	104,174	167,301	104,174
(Written-back)/Charged during the year (Note 8)	(37,846)	63,127	(59,210)	63,127
At 31 December	<u>129,455</u>	<u>167,301</u>	<u>108,091</u>	<u>167,301</u>

Movements in reserves for doubtful debts – Specific:

	IBA Group		IBA	
	2002 HK\$ '000	2001 HK\$ '000	2002 HK\$ '000	2001 HK\$ '000
At 1 January	178,620	383,196	170,850	373,365
Net charge to income statement				
– New provisions raised	389,352	194,050	336,557	181,472
– Recoveries of advances written off in previous years	(12,561)	(25,021)	(12,340)	(25,015)
	<u>376,791</u>	<u>169,029</u>	<u>324,217</u>	<u>156,457</u>
Amounts written off	(484,712)	(373,605)	(448,906)	(358,972)
At 31 December	<u>70,699</u>	<u>178,620</u>	<u>46,161</u>	<u>170,850</u>

The specific provisions were made after taking into account the value of collateral in respect of such doubtful debts totalling HK\$170,226,838 (2001: HK\$535,531,125).

Movements in interest suspended:

	IBA Group		IBA	
	2002 HK\$ '000	2001 HK\$ '000	2002 HK\$ '000	2001 HK\$ '000
At 1 January	93,497	88,122	93,497	88,122
Interest suspended during the year	(59,240)	5,375	(59,240)	5,375
	<u>34,257</u>	<u>93,497</u>	<u>34,257</u>	<u>93,497</u>

Total advances on which interest is being placed in suspense or on which interest accrual has ceased (“Non-performing advances”):

The non-performing advances, together with the aggregate amount of specific reserves held and amount of collateral held in respect of such advances are as follows:

	IBA Group			
	As at 31 December, 2002		As at 31 December, 2001	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
Non-performing advances ²				
– Rescheduled	8,694	0.06	33,550	0.20
– Others	253,698	1.67	804,218	4.81
	<u>262,392</u>	1.73	<u>837,768</u>	5.01
Amount of specific reserves held against non-performing advances	55,735		164,379	
Amount of collateral held in respect of non-performing advances ³	<u>168,516</u>		<u>529,647</u>	
	<u>224,251</u>		<u>694,026</u>	
Amount of interest suspended	<u>59,240</u>		<u>93,497</u>	

1. As a percentage of gross advances to customers
2. Net of suspended interest.
3. Including expected recoveries of HK\$11.73 million (2001: HK\$16.76 million) from companies in liquidation.

Finance leases

Included in the IBA Group's advances to customers are amounts due from lessees under finance lease contracts.

	IBA Group	
	2002	2001
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Total minimum lease payments due:		
– Not later than one year	1,072,072	938,338
– Later than one year and not later than five years	993,103	936,999
– Later than five years	464,052	294,625
	<u>2,529,227</u>	<u>2,169,962</u>
Unearned finance income relating to future periods	(547,868)	(303,608)
	1,981,359	1,866,354
Provision for doubtful debts	0	(7,770)
Unguaranteed residual value	(2)	(2)
	<u>1,981,357</u>	<u>1,858,582</u>

IBA did not enter into any finance lease contracts during this year and the prior year.

The maturity profile of the present value of the minimum lease payments before provisions is as follows:

	IBA Group	
	2002	2001
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Not later than one year	882,150	812,796
Later than one year and not later than five years	804,650	828,211
Later than five years	294,559	225,347
	<u>1,981,359</u>	<u>1,866,354</u>

21. Investments

	IBA Group		IBA	
	2002 HK\$ '000	2001 HK\$ '000	2002 HK\$ '000	2001 HK\$ '000
Investments in securities				
Non-trading securities at fair value				
Listed in Hong Kong				
– debt	449,685	2,544,670	449,685	2,544,670
– equity	31,094	44,091	30,908	43,305
Unlisted				
– debt	1,279,277	753,298	1,279,277	753,298
– equity	20,941	22,384	20,941	22,384
Sub-total	1,780,997	3,364,443	1,780,811	3,363,657
Trading securities at fair value*				
– debt	7,331	0	7,331	0
Sub-total	7,331	0	7,331	0
Total	<u>1,788,328</u>	<u>3,364,443</u>	<u>1,788,142</u>	<u>3,363,657</u>
Market value				
Listed in Hong Kong				
– debt securities	<u>449,685</u>	<u>2,544,670</u>	<u>449,685</u>	<u>2,544,670</u>
– equity securities	<u>31,094</u>	<u>44,091</u>	<u>30,908</u>	<u>43,305</u>

* Trading securities are all unlisted, issued by public sector entities, and mature in less than 5 years but over 1 year.

The non-trading securities are issued by:

	IBA Group		IBA	
	2002 HK\$ '000	2001 HK\$ '000	2002 HK\$ '000	2001 HK\$ '000
Central governments and central banks	449,685	2,739,620	449,685	2,739,620
Public sector entities	455,779	0	455,779	0
Banks and other financial institutions	476,772	155,459	476,772	154,673
Corporate entities	398,761	469,364	398,575	469,364
	<u>1,780,997</u>	<u>3,364,443</u>	<u>1,780,811</u>	<u>3,363,657</u>

The maturity profile of debt securities analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	IBA Group		IBA	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
3 months or less but not repayable				
on demand	241,977	50,185	241,977	50,185
1 year or less but over 3 months	476,212	404,775	476,212	404,775
5 years or less but over 1 year	771,038	2,808,181	771,038	2,808,181
Over 5 years	211,307	2,000	211,307	2,000
Undated	35,759	32,827	35,759	32,827
	<u>1,736,293</u>	<u>3,297,968</u>	<u>1,736,293</u>	<u>3,297,968</u>

22. Investment in associated company

	IBA Group and IBA	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares, at cost	5,761	5,761
Advances	9,874	11,749
Less: impairment loss	(5,761)	(5,761)
	<u>9,874</u>	<u>11,749</u>

IBA owns 40% (2001: 40%) of the issued share capital of IBA Finance Corporation, which is incorporated in the Philippines. The principal activity of the associated company is the provision of financing and leasing services in the Philippines. IBA has not equity accounted for the investment in the associated company in view of the immaterial amount involved.

23. Investments in subsidiaries

	IBA	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unlisted shares, at cost	<u>87,146</u>	<u>87,146</u>

APPENDIX II FINANCIAL INFORMATION RELATING TO THE IBA GROUP

All principal subsidiaries are directly owned by IBA. Details of principal subsidiaries at 31 December, 2002 are as follows:

	Issued and fully paid-up ordinary share capital	% of Ownership Interest held	Principal activities
Incorporated and operating in Hong Kong			
IBA Credit Limited	HK\$65,000,000	100%	Deposit-taking and finance
International Bank of Asia (Trustee) Limited	HK\$3,000,000	100%	Trustee services
IBA Securities Limited	HK\$8,000,000	100%	Securities broking
IBA Fund Management Limited	HK\$8,000,000	100%	Fund management
Mars (Nominees) Limited	HK\$200	100%	Nominees services
Incorporated and operating in Vanuatu			
IBA Bank Limited	US\$10,000	100%	Finance

All of these are controlled subsidiaries as defined under note 1(c) and have been consolidated into the IBA Group's financial statements. All the subsidiaries are private companies except for International Bank of Asia (Trustee) Limited, which is a public company.

24. Fixed assets

IBA GROUP

	Premises <i>HK\$'000</i>	Furniture, Fixtures and Equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation			
At 1 January, 2002	1,189,615	308,471	1,498,086
Additions	23	39,921	39,944
Disposals	(8,645)	(8,868)	(17,513)
At 31 December, 2002	<u>1,180,993</u>	<u>339,524</u>	<u>1,520,517</u>
Accumulated depreciation			
At 1 January, 2002	67,419	150,830	218,249
Charge for the year	13,593	40,013	53,606
Released on disposal	(1,116)	(6,669)	(7,785)
At 31 December, 2002	<u>79,896</u>	<u>184,174</u>	<u>264,070</u>
Net book value			
At 31 December, 2002	<u>1,101,097</u>	<u>155,350</u>	<u>1,256,447</u>
At 31 December, 2001	<u>1,122,196</u>	<u>157,641</u>	<u>1,279,837</u>

IBA

	Premises <i>HK\$'000</i>	Furniture, Fixtures and Equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation			
At 1 January, 2002	1,152,866	306,955	1,459,821
Additions	23	39,774	39,797
Disposals	(8,645)	(8,868)	(17,513)
At 31 December, 2002	<u>1,144,244</u>	<u>337,861</u>	<u>1,482,105</u>
Accumulated depreciation			
At 1 January, 2002	65,318	150,028	215,346
Charge for the year	13,267	39,825	53,092
Released on disposal	(1,115)	(6,669)	(7,784)
At 31 December, 2002	<u>77,470</u>	<u>183,184</u>	<u>260,654</u>
Net book value			
At 31 December, 2002	<u>1,066,774</u>	<u>154,677</u>	<u>1,221,451</u>
At 31 December, 2001	<u>1,087,548</u>	<u>156,927</u>	<u>1,244,475</u>

The net book value of premises comprises:

	IBA Group		IBA	
	2002 HK\$ '000	2001 HK\$ '000	2002 HK\$ '000	2001 HK\$ '000
Premises held in Hong Kong				
– Long term leases (over 50 years)	855,115	862,548	820,792	827,900
– Medium term leases (10 – 50 years)	245,982	259,648	245,982	259,648
	<u>1,101,097</u>	<u>1,122,196</u>	<u>1,066,774</u>	<u>1,087,548</u>

Certain of these premises of IBA have been included in the financial statements at their November 1989 valuation of HK\$77,100,000 (2001: HK\$77,100,000). In preparing these financial statements, advantage has been taken of the transitional provisions in paragraph 80 of the Statement of Standard Accounting Practice 17 “Property, Plant and Equipment” issued by the Hong Kong Society of Accountants with the effect that premises have not been revalued to fair value at the balance sheet date. It is not the Directors’ present intention to revalue the premises in the future.

The net book value of all premises which have been stated in the balance sheet at valuation would have been as follows had they been stated at cost less accumulated depreciation:

	IBA Group and IBA	
	2002 HK\$ '000	2001 HK\$ '000
Net book value at 31 December	<u>18,565</u>	<u>19,009</u>

25. Deposits and balances of other banks

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	IBA Group		IBA	
	2002 HK\$ '000	2001 HK\$ '000	2002 HK\$ '000	2001 HK\$ '000
Repayable on demand	1,778	36,253	1,778	36,253
3 months or less but not repayable on demand	328,591	342,314	328,591	342,314
	<u>330,369</u>	<u>378,567</u>	<u>330,369</u>	<u>378,567</u>

26. Deposits from customers

	IBA Group		IBA	
	2002 <i>HK\$ '000</i>	2001 <i>HK\$ '000</i>	2002 <i>HK\$ '000</i>	2001 <i>HK\$ '000</i>
Demand deposits and current accounts	2,805,818	1,466,836	2,805,818	1,466,836
Savings deposits	613,942	917,058	613,942	917,057
Time, call and notice deposits	18,651,047	19,862,023	17,686,470	19,650,460
	<u>22,070,807</u>	<u>22,245,917</u>	<u>21,106,230</u>	<u>22,034,353</u>

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	IBA Group		IBA	
	2002 <i>HK\$ '000</i>	2001 <i>HK\$ '000</i>	2002 <i>HK\$ '000</i>	2001 <i>HK\$ '000</i>
Repayable on demand	4,231,513	2,383,895	4,231,093	2,383,895
3 months or less but not repayable on demand	16,781,314	18,341,969	15,817,157	18,130,405
1 year or less but over 3 months	965,523	1,495,350	965,523	1,495,350
5 years or less but over 1 year	92,457	24,703	92,457	24,703
	<u>22,070,807</u>	<u>22,245,917</u>	<u>21,106,230</u>	<u>22,034,353</u>

27. Certificates of deposit issued

The maturity profile analysed by the remaining period at the balance sheet date to the contractual maturity date is as follows:

	IBA Group		IBA	
	2002 <i>HK\$ '000</i>	2001 <i>HK\$ '000</i>	2002 <i>HK\$ '000</i>	2001 <i>HK\$ '000</i>
3 months or less but not repayable on demand	0	310,000	0	310,000
1 year or less but over 3 months	0	505,000	0	505,000
5 years or less but over 1 year	1,810,494	800,000	1,810,494	800,000
	<u>1,810,494</u>	<u>1,615,000</u>	<u>1,810,494</u>	<u>1,615,000</u>

28. Share capital

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
<i>Authorised</i>		
1,406,592,000 (2001: 1,406,592,000) ordinary shares of HK\$1 each	<u>1,406,592</u>	<u>1,406,592</u>
<i>Issued and fully paid</i>		
1,172,160,000 (2001: 1,172,160,000) ordinary shares of HK\$1 each	<u>1,172,160</u>	<u>1,172,160</u>

29. Share premium

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

30. Reserves

IBA GROUP

	Capital redemption reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January, 2001	372,000	(4,280)	1,189,709	1,557,429
Profit after tax for the year	0	0	295,338	295,338
Net change in fair value of non-trading securities	0	(13,945)	0	(13,945)
Dividends approved in respect of the previous financial year	0	0	(58,608)	(58,608)
Interim dividend paid	0	0	(46,886)	(46,886)
	<u>372,000</u>	<u>(18,225)</u>	<u>1,379,553</u>	<u>1,733,328</u>
At 31 December, 2001	<u>372,000</u>	<u>(18,225)</u>	<u>1,379,553</u>	<u>1,733,328</u>
At 1 January, 2002	372,000	(18,225)	1,379,553	1,733,328
Prior period adjustment in respect of defined benefit scheme	0	0	16,566	16,566
	<u>372,000</u>	<u>(18,225)</u>	<u>1,396,119</u>	<u>1,749,894</u>
As restated	372,000	(18,225)	1,396,119	1,749,894
Profit after tax for the year	0	0	225,338	225,338
Realisation of revaluation deficit of non-trading securities	0	3,854	0	3,854
Net change in fair value of non-trading securities	0	(6,152)	0	(6,152)
Dividends approved in respect of the previous financial year	0	0	(82,051)	(82,051)
Interim dividend paid	0	0	(46,886)	(46,886)
	<u>372,000</u>	<u>(20,523)</u>	<u>1,492,520</u>	<u>1,843,997</u>
At 31 December, 2002	<u>372,000</u>	<u>(20,523)</u>	<u>1,492,520</u>	<u>1,843,997</u>

IBA	Capital redemption reserve <i>HK\$ '000</i>	Investment revaluation reserve <i>HK\$ '000</i>	Retained earnings <i>HK\$ '000</i>	Total <i>HK\$ '000</i>
At 1 January, 2001	372,000	(4,280)	891,622	1,259,342
Profit after tax for the year	0	0	220,709	220,709
Net change in fair value of non-trading securities	0	(13,945)	0	(13,945)
Dividends approved in respect of the previous financial year	0	0	(58,608)	(58,608)
Interim dividend paid	0	0	(46,886)	(46,886)
At 31 December, 2001	<u>372,000</u>	<u>(18,225)</u>	<u>1,006,837</u>	<u>1,360,612</u>
At 1 January, 2002	372,000	(18,225)	1,006,837	1,360,612
Prior period adjustment in respect of defined benefit scheme	0	0	16,566	16,566
As restated	372,000	(18,225)	1,023,403	1,377,178
Profit after tax for the year	0	0	304,423	304,423
Realisation of revaluation deficit of non-trading securities	0	3,854	0	3,854
Net change in fair value of non-trading securities	0	(6,152)	0	(6,152)
Dividends approved in respect of the previous financial year	0	0	(82,051)	(82,051)
Interim dividend paid	0	0	(46,886)	(46,886)
At 31 December, 2002	<u>372,000</u>	<u>(20,523)</u>	<u>1,198,889</u>	<u>1,550,366</u>

- a) The capital redemption reserve arose from the redemption of IBA's "A" and "B" preference shares in 1991 and 1992 out of its retained earnings. The capital redemption reserve is undistributable under the Hong Kong Companies Ordinance section 79 C(2) but may be applied by IBA in paying up its unissued shares to be allotted to its members as fully paid bonus shares.
- b) Total distributable reserves of the IBA Group and IBA amounted to HK\$1,492,520,000 (2001: HK\$1,379,553,000) and HK\$1,198,889,000 (2001: HK\$1,006,837,000) respectively.
- c) At the balance sheet date the directors proposed a final dividend of 8 Hong Kong cents per share (2001: 7 Hong Kong cents per share) amounting to HK\$93,772,800 (2001: HK\$82,051,200). This dividend has not been recognised as a liability at the balance sheet date.

31. Material related party transaction

- (a) During the year the IBA Group entered into a number of transactions with its ultimate holding company and another major shareholder, China Everbright Limited and its subsidiaries, in the ordinary course of its banking business including, inter alia, lending, the acceptance and placement of interbank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The contracts were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the IBA Group. In the opinion of the Directors these transactions were conducted on normal commercial terms.

Information relating to income and expense from related party transactions during the year and balances outstanding as at the balance sheet date is set out below:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
(i) Income/expenses		
Interest income	5,267	10,838
Interest expense	6,926	31,292
(ii) Assets		
<i>Ultimate holding company</i>		
Short term funds	155,975	0
Accrued interest and other accounts	1,436	1,163
Due from ultimate holding company	<u>157,411</u>	<u>1,163</u>
<i>Other related parties</i>		
Loans and advances to customers	25,000	38,000
Accrued interest and other accounts	3	5
Due from other related parties	<u>25,003</u>	<u>38,005</u>
Total receivables	<u><u>182,414</u></u>	<u><u>39,168</u></u>

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
(iii) Liabilities		
<i>Ultimate holding company</i>		
Deposits and balances with other banks	0	118,970
Other accounts and provisions	0	22
	<u>0</u>	<u>118,992</u>
Due to ultimate holding company	0	118,992
	<u>0</u>	<u>118,992</u>
<i>Other related parties</i>		
Current, fixed and other deposits of customers	0	103,215
Other accounts and provisions	0	60
	<u>0</u>	<u>103,275</u>
Due to other related parties	0	103,275
	<u>0</u>	<u>103,275</u>
Total payable	<u><u>0</u></u>	<u><u>222,267</u></u>

32. Loans to officers

The aggregate amount of loans made by the IBA Group and IBA disclosed pursuant to section 161B of the Hong Kong Companies Ordinance is as follows:

	IBA Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
At 31 December	12,728	16,333
	<u>12,728</u>	<u>16,333</u>
Maximum during the year	16,362	24,141
	<u><u>16,362</u></u>	<u><u>24,141</u></u>

33. Employee retirement benefits

(a) Defined benefit retirement plans

The IBA Group operates a retirement scheme, namely the International Bank of Asia Limited (1987) Retirement Scheme (“the Scheme”), which incorporates a defined benefits plan for all its full-time employees. The Scheme is administrated by trustees who are independent. The assets of the Scheme are held separately from those of the IBA Group. The IBA Group has secured Mandatory Provident Fund (“MPF”) exemption status for the Scheme.

The Scheme is funded by contributions from the IBA Group in accordance with the trust deed governing the Scheme and based on an independent actuary’s recommendations. The latest independent actuarial valuation of the Scheme was at 31 December, 2002 and was prepared by Jennifer Chee, Fellow of the Society of Actuaries of the United States of America, of William M. Mercer Limited using the projected unit credit method. The actuarial valuation indicates that the IBA Group’s obligations under the Scheme are 100.6% covered by the plan assets held by the trustee.

The principal actuarial assumptions used as at 31 December are discount rates of 4.5%, long-term rate of return on assets of 5.0%, and no salary increases in both 2003 and 2004 and a 3.5% salary increase for 2005 and the years thereafter.

- (i) The Scheme's net assets recognised in the balance sheets under "Accrued interest and other accounts" is as follows:

	IBA Group and IBA
	2002
	<i>HK\$'000</i>
Present value of wholly or partly funded obligations	(181,742)
Fair value of Scheme assets at the end of year	182,775
Unrecognised actuarial losses	15,931
	<u> </u>
Net asset recognised in balance sheet at end of year	<u><u>16,964</u></u>

The Scheme assets include ordinary shares issued by IBA with a fair value of HK\$4,793,000 (2001: HK\$3,588,000).

- (ii) Movements in the net asset recognised in the balance sheet are as follows:

	IBA Group and IBA
	2002
	<i>HK\$'000</i>
At 1 January, 2002	16,566
Contributions paid to the Scheme	11,662
Expense recognised in the income statement (Note 5)	(11,264)
	<u> </u>
	<u><u>16,964</u></u>

- (iii) Expense recognised in the "Operating expenses – staff costs" in the consolidated income statement is as follows:

	IBA Group and IBA
	2002
	<i>HK\$'000</i>
Current service cost	10,774
Interest cost on obligation	8,945
Expected return on Scheme assets	(8,455)
	<u> </u>
	<u><u>11,264</u></u>

- (iv) The actual return on the Scheme assets for the year ended 31 December, 2002 amounted to approximately HK\$13,038,000.

(b) Mandatory Provident Fund Scheme

The IBA Group also operates an MPF scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the Scheme. The IBA Group participated in an approved MPF scheme with the Bank Consortium Trust Company Limited from 1 December, 2000 to provide scheme choice to both existing and new employees.

The MPF scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the scheme vest immediately.

34. Outstanding commitments

- (a) Capital commitments outstanding at 31 December, 2002 not provided for in the financial statements are as follows:

	IBA Group		IBA	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted for	<u>67,053</u>	<u>54,863</u>	<u>67,053</u>	<u>54,863</u>

- (b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	IBA Group		IBA	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
– Within one year	11,435	13,834	10,508	13,834
– Between one and five years	<u>5,691</u>	<u>10,667</u>	<u>5,402</u>	<u>10,667</u>
	<u>17,126</u>	<u>24,501</u>	<u>15,910</u>	<u>24,501</u>

35. Off-balance sheet exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual and risk-weighted amounts of each significant class of contingent liabilities and commitments:

IBA GROUP

	2002		2001	
	Contractual Amounts <i>HK\$'000</i>	Risk Weighted Amounts <i>HK\$'000</i>	Contractual Amounts <i>HK\$'000</i>	Risk Weighted Amounts <i>HK\$'000</i>
Direct credit substitutes	454,437	454,437	62,920	62,920
Transaction-related contingencies	8,912	4,456	17,260	8,630
Trade-related contingencies	386,342	22,770	370,060	14,804
Undrawn loan facilities				
– with an original maturity of under 1 year or which are unconditionally cancellable	5,492,194	0	6,029,268	0
– with an original maturity of 1 year or over	656,002	328,002	957,662	478,831
Forward deposits placed	153,372	30,674	263,884	52,777
	<u>7,151,259</u>	<u>840,339</u>	<u>7,701,054</u>	<u>617,962</u>

IBA

	2002		2001	
	Contractual Amounts <i>HK\$'000</i>	Risk Weighted Amounts <i>HK\$'000</i>	Contractual Amounts <i>HK\$'000</i>	Risk Weighted Amounts <i>HK\$'000</i>
Direct credit substitutes	462,027	462,027	70,511	70,511
Transaction-related contingencies	8,912	4,456	17,260	8,630
Trade-related contingencies	422,313	24,209	392,614	15,706
Undrawn loan facilities				
– with an original maturity of under 1 year or which are unconditionally cancellable	5,483,793	0	6,023,127	0
– with an original maturity of 1 year or over	619,562	309,782	935,201	467,601
Forward deposits placed	153,372	30,674	263,884	52,777
	<u>7,149,979</u>	<u>831,148</u>	<u>7,702,597</u>	<u>615,225</u>

b) Derivatives

The following is a summary of the contractual and risk-weighted amounts of each significant type of derivatives:

IBA GROUP

	Contractual Amounts	2002 Risk Weighted Amounts	Replacement Costs
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange rate contracts			
– Forward exchange contracts	2,556,340	11,939	26,165
– Options purchased	171,652	3	500
– Options written	176,657	N/A	N/A
Interest rate contracts			
– Interest rate swaps	1,034,648	6,643	28,860
	<u>3,939,297</u>	<u>18,585</u>	<u>55,525</u>

	Contractual Amounts	2001 Risk Weighted Amounts	Replacement Costs
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange rate contracts			
– Forward exchange contracts	754,078	2,398	997
– Leverage deposits contracts	359,128	0	13,720
	<u>1,113,206</u>	<u>2,398</u>	<u>14,717</u>

IBA

	Contractual Amounts	2002 Risk Weighted Amounts	Replacement Costs
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange rate contracts			
– Forward exchange contracts	2,568,073	11,962	26,165
– Options purchased	171,652	3	500
– Options written	176,657	N/A	N/A
Interest rate contracts			
– Interest rate swaps	1,034,648	6,643	28,860
	<u>3,951,030</u>	<u>18,608</u>	<u>55,525</u>

	Contractual Amounts <i>HK\$'000</i>	2001 Risk Weighted Amounts <i>HK\$'000</i>	Replacement Costs <i>HK\$'000</i>
Exchange rate contracts			
– Forward exchange contracts	775,884	2,654	2,060
– Leverage deposits contracts	359,128	0	13,720
	<u>1,135,012</u>	<u>2,654</u>	<u>15,780</u>

The replacement costs and credit risk-weighted amounts of the off-balance sheet exposures disclosed in parts (a) and (b) of this note to the financial statements do not take into account the effects of bilateral netting arrangements. The tables above state the contractual amounts, replacement cost and credit risk-weighted amounts of off-balance sheet transactions. These are assessed in accordance with the HKMA's guidelines which implement the Basle agreement on capital adequacy and depend on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate and interest rate contracts. Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market. The credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance. Derivatives arise from forward and swap transactions undertaken by the IBA Group in the foreign exchange and interest rate markets. The contractual amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

The exchange rate contracts are initiated in response to customer demands. The interest rate contracts are used to hedge the IBA Group's own exposures to market risks as part of its asset and liability management. No significant proprietary positions are maintained by the IBA Group.

36. Reconciliation of operating profit to net cash inflow from operating activities

	IBA Group and IBA	
	2002	2001
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Operating activities		
Profit from ordinary activities before taxation	221,868	307,023
Adjustments for:		
Depreciation	53,606	47,425
Loss on disposal of fixed assets	0	1,406
Charge for bad and doubtful debts	338,975	232,175
Specific provision written off during the year	(484,712)	(379,365)
Provision for investment and acquired assets	32,263	5,760
Increase in short-term funds	(523,804)	(248,602)
(Increase)/Decrease in placements maturing between one and twelve months	(158,852)	506,528
Decrease in trade bills and certificates of deposit	62,263	383,679
Decrease in advances to customers	1,568,498	1,183,670
(Increase)/Decrease in accrued interest and other accounts	(319,014)	297,153
Increase in trading securities	(8,970)	0
Decrease/(Increase) in non-trading securities	1,587,721	(409,332)
Increase in held-to-maturity securities	0	(384,775)
(Decrease)/Increase in deposits and balances from other banks	(48,198)	64,161
Decrease in customer deposits	(175,110)	(1,149,693)
Increase in short position in Exchange Fund Bills	4,094,931	0
Decrease in other accounts and provisions	(4,802)	(85,186)
Tax paid	(21,809)	(19,384)
Tax refunded	2,934	64,567
	<u>6,217,788</u>	<u>417,210</u>
Net cash inflow from operating activities	<u>6,217,788</u>	<u>417,210</u>

37. Post balance sheet events

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 12.

38. Comparative figures

The presentation and classification of items in the consolidated cash flow statement have been changed due to the adoption of the requirements of SSAP 15 (revised 2001) "Cash flow statements". As a result, certain deposits and balances of banks have been excluded from the definition of cash equivalents, cash flow items from taxation, returns on investments and servicing of finance have been classified into operating, investing and financing activities respectively. Comparative figures have been reclassified to conform with the current year's presentation.

3. INTERIM RESULTS

Set out below are the unaudited consolidated results of IBA for the six months ended 30 June, 2003 as compared with the unaudited consolidated results of IBA for the six months ended 30 June, 2002 extracted from the published interim results of IBA.

	For the six months ended	
	30 June, 2003	30 June, 2002
		<i>(restated)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest income	484,283	570,000
Interest expenses	(183,399)	(195,626)
Net interest income	300,884	374,374
Other operating income	87,279	80,740
Operating income	388,163	455,114
Operating expenses	(222,401)	(221,758)
Operating profit before provisions and gains	165,762	233,356
Charge for bad and doubtful debts	(101,715)	(179,075)
Impairment losses on investments and acquired assets	(62,322)	(7,956)
Gains less losses from disposal and redemption of non-trading securities	52,211	60,992
Profit before taxation	53,936	107,317
Taxation credit/ (charge)	(1,548)	(11,047)
Profit attributable to shareholders	52,388	96,270
Interim dividend of 4.00 Hong Kong cents per share (2002: 4.00 Hong Kong cents)	46,886	46,886
Earnings per share (Hong Kong Cents)	4.47	8.21

4. INDEBTEDNESS

As at the close of business on 30 November, 2003, the IBA Group had the following indebtedness:

- (a) outstanding floating rate certificates of deposit of approximately HK\$1 billion. In addition, IBA and IBA Bank Limited also accept deposits and retail certificates of deposits from customers and money market takings from other banks in the normal course of their respective banking or deposit taking business.
- (b) direct credit substitutes, transaction-related contingencies and trade-related contingencies which were arisen from the normal course of banking business carried out by its banking operations.

Save as aforementioned and apart from intra-group liabilities, no companies within the IBA Group had any mortgages, charges or debentures, loan capital, bank overdrafts, loans or other similar indebtedness or any hire purchase commitments, liabilities under acceptance or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 30 November, 2003.

5. MATERIAL CHANGES

The IBA Directors are not aware of any material change in the financial or trading position or prospects of the IBA Group since 31 December, 2002, the date to which the latest audited accounts of the IBA Group were made up.

1. RESPONSIBILITY

- 1.1 The issue of this Composite Document has been approved by the Offeror Directors.
- 1.2 This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Offeror and the Offer.
- 1.3 The Offeror Directors jointly and severally accept full responsibility for the accuracy of the information contained in this Composite Document (other than that relating to ABC, IBA (except for the information in the paragraph headed “Intentions of the Offeror regarding the future of IBA” in the section headed “Information relating to the Offeror” and the sections headed “Directors and Management” and “New IBA Directors” in the Letter from Citigroup and information regarding shareholdings in IBA by members of the Fubon Group and any person acting in concert with the Offeror), Citigroup and Rothschild) and confirm, having made all reasonable enquiries, that, to the best of their knowledge, the opinions expressed in this Composite Document (other than as specified above) have been arrived at after due and careful consideration and there are no other facts (other than that relating to ABC, IBA, Citigroup and Rothschild) not contained in this Composite Document the omission of which would make any of the statements in this Composite Document misleading.
- 1.4 The information relating to Citigroup included in this Composite Document has been based on the information provided by Citigroup. Citigroup accepts full responsibility for the accuracy of the information relating to Citigroup contained in this Composite Document and confirms, having made all reasonable enquiries, that, to the best of their knowledge, the opinions expressed by Citigroup in this Composite Document have been arrived at after due and careful consideration and there are no other facts not contained in this Composite Document the omission of which would make any of the statements relating to Citigroup in this Composite Document misleading. The only responsibility accepted by the Offeror Directors in respect of the information relating to Citigroup has been to ensure that it has been correctly and fairly extracted and based on the information provided by Citigroup.

2. DISCLOSURE OF SHAREHOLDINGS IN IBA

As far as the Offeror is aware, as at the Latest Practicable Date, the shareholdings in IBA owned or controlled by any persons who, prior to the posting of this Composite Document, have irrevocably committed themselves to accept or reject the Offer is limited to ABC, who owns 644,688,000 IBA Shares representing 55.0% of the entire issued share capital of IBA as at the Latest Practicable Date.

3. DISCLOSURE OF INTERESTS IN THE SECURITIES OF IBA AND THE OFFEROR

3.1 Save as disclosed in paragraph 2 above and in the section headed “Undertaking to Accept” in the Letter from Citigroup:

- (a) neither the Offeror, nor any person acting in concert with it for the purpose of the Takeovers Code, owned or controlled;
- (b) none of the Offeror Directors (including their respective spouses, children under the age of 18, related trusts and companies controlled by any of them) was beneficially interested in; and
- (c) as far as the Offeror is aware, none of the persons who, prior to the posting of this Offer Document, have irrevocably committed themselves to accept or reject the Offer, owned or controlled,

directly or indirectly, any IBA Shares as at the Latest Practicable Date and no such person has dealt for value in any IBA Shares, options, warrants, derivatives or any securities convertible into IBA Shares but excluding dealings executed on an agency or non-discretionary basis, during the period beginning six months prior to the date of the Joint Announcement and ending with the Latest Practicable Date.

3.2 No arrangement has been entered into by the Offeror, the Offeror Directors or any persons acting in concert with any of them for the transfer by any of them to any other person of any IBA Shares acquired pursuant to the Offer.

3.3 There was no agreement, understanding or benefit which shall be given by the Offeror to any IBA Director as compensation for loss of office or otherwise in connection with the Offer.

3.4 As at the Latest Practicable Date, save for the Undertaking, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it and any IBA Director or recent IBA Directors, IBA Shareholders or recent IBA Shareholders having any connection with or dependence upon the Offer.

3.5 As at the Latest Practicable Date, no arrangement has been entered into by the Offeror or any person acting in concert with it of the kind referred to in Note 8 to Rule 22 of the Takeovers Code in relation to the relevant securities (as defined in the Takeovers Code) of IBA.

4. INFORMATION ON THE OFFEROR

As referred to above in the Letter from Citigroup, the Offeror is listed on the Taiwan Stock Exchange. The Offeror Directors are Messrs. Chen S. Yu, Ming-Chung (Daniel) Tsai, Ming-Hsing (Richard) Tsai, Stephen Long, Gordon Yeh, Tsan-Ming Shih, Jesse Y. Ding, Barry Lam, Shu-Te Lee, and Samuel Shiouh. The registered office of the Offeror is 237 Chien Kuo South Road, Section 1, Taipei, Taiwan.

As at the Latest Practicable Date, the Tsai family was the largest shareholder of the Offeror holding 27.22% of its issued share capital.

5. CONSENT AND QUALIFICATION

Citigroup has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion therein of its letter and the references to its name in the form and context in which it appears.

Citigroup is a deemed licenced corporation under transitional arrangement with regard to Types 1, 4, 6, 7 and 9 regulated activities under Part V of the SFO.

6. MISCELLANEOUS

The English text of this Composite Document and the Form(s) of Acceptance shall prevail over the Chinese text for the purpose of interpretation.

1. MARKET PRICES

The table below shows the closing prices of the IBA Shares as recorded on the Stock Exchange:

Date	Closing Price per share <i>HK\$</i>
31 March, 2003 ^(a)	2.700
30 April, 2003 ^(a)	2.550
30 May, 2003 ^(a)	2.975
30 June, 2003 ^(a)	2.750
31 July, 2003 ^(a)	2.975
29 August, 2003 ^(a)	3.300
5 September, 2003 ^(b)	3.450
Latest Practicable Date	3.700

Notes:

- (a) On the last day on which dealings took place in each of the six months immediately preceding the date of the Joint Announcement.
- (b) On 5 September, 2003, being the last trading day for IBA Shares before the suspension of trading prior to the release of the Joint Announcement on 9 September, 2003.

2. RESPONSIBILITY STATEMENT

- (a) The issue of this Composite Document has been approved by the IBA Directors.
- (b) This Composite Document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to IBA.
- (c) The information contained in this Composite Document relating to IBA (other than the information in the paragraph headed “Intentions of the Offeror regarding the future of IBA” in the section headed “Information relating to the Offeror” and the sections headed “Directors and Management” and “New IBA Directors” in the Letter from Citigroup and the information regarding shareholdings in IBA by members of the Fubon Group and any person acting in concert with the Offeror, including Citigroup) and the IBA Directors has been supplied by the IBA Directors. The IBA Directors jointly and severally accept full responsibility for the accuracy of such information and information relating to ABC and Rothschild and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions relating to ABC, Rothschild and IBA (other than as specified above) or the IBA Directors expressed in this Composite Document have been arrived at after due and careful consideration and there are no other facts relating to ABC, Rothschild or IBA (other than as specified above) or the IBA Directors the omission of which would make any statement contained in this Composite Document misleading.

3. SHARE CAPITAL

The authorised and issued share capital of IBA as at the Latest Practicable Date were as follows:

Authorised:

HK\$1,406,592,000 comprising 1,406,592,000 IBA Shares of HK\$1 each

Issued and fully paid:

HK\$1,172,160,000 comprising 1,172,160,000 IBA Shares of HK\$1 each

All the IBA Shares rank *pari passu* in all respects as regards rights to dividends, voting and return of capital.

No further IBA Shares have been issued since 31 December, 2002.

The IBA Shares are listed and traded on the Stock Exchange. The IBA Shares are not listed, or dealt in, on any other stock exchange, nor is any listing of or permission to deal in the IBA Shares being sought on any other stock exchange.

As at the Latest Practicable Date, IBA did not have any outstanding options, warrants, derivatives or other securities carrying rights of conversion into or exchange or subscription for IBA Shares.

4. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of IBA and its associated corporations

As at the Latest Practicable Date, the IBA Directors had no interests or short positions in the IBA Shares, options, warrants, derivatives, or other securities carrying rights of conversion into or exchange or subscription for shares of IBA and its associated corporations (within the meaning of Part XV of the SFO) which were required, *inter alia*, to be notified to IBA and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or which were required, pursuant to Section 352 of the

SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transaction by Directors of Listed Companies contained in the Listing Rules, to be notified to IBA and the Stock Exchange or which were required, pursuant to the requirements of the Takeovers Code, to be disclosed herein.

(b) Substantial Shareholders

As at the Latest Practicable Date, those persons having interest of 5% or more in IBA's issued Shares as recorded in the register of substantial shareholders maintained under Section 336 of the SFO were as follows:

Nature of interest	Name of registered owner	Number and class of securities	Approximate % of shareholding
Direct	ABC	644,688,000	55
Direct	Tendai Limited (wholly owned subsidiary of China Everbright)	234,432,000	20

(c) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

Save as disclosed in (b) above, as at the Latest Practicable Date, so far as was known to the IBA Directors, no other person had, or was deemed or taken to have an interest or short position in IBA Shares which would fall to be disclosed to IBA and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(d) Rothschild

As at the Latest Practicable Date, Rothschild was not beneficially interested, directly or indirectly, in any IBA Shares, options, warrants, derivatives, or other securities carrying rights of conversion into or exchange or subscription for IBA Shares, nor had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any IBA Shares, options, warrants, derivatives, or other securities carrying rights of conversion into or exchange or subscription for IBA Shares, nor did it deal in any IBA Shares, options, warrants, derivatives, or other securities carrying rights of conversion into or exchange or subscription for IBA Shares as principal between 13 December, 2002 (being the date of the Possible Disposal Announcement) and the Latest Practicable Date.

(e) Dealings in securities of the IBA Group by IBA Directors

None of the IBA Directors had dealt for value in any IBA Shares, options, warrants, derivatives, or other securities carrying rights of conversion into or exchange or subscription for IBA Shares during the period between 13 June, 2002 (being six months prior to the date of the Possible Disposal Announcement) and the Latest Practicable Date.

(f) Interests in the Offeror

As at the Latest Practicable Date:

- (i) IBA did not hold any interest in the shares, options, warrants, derivatives or other securities carrying rights of conversion into or exchange or subscription for shares of the Offeror nor did it deal for value in any of the aforesaid securities of the Offeror between 13 June, 2002 (being six months prior to the date of the Possible Disposal Announcement) and the Latest Practicable Date; and
- (ii) none of the IBA Directors (including their respective spouses, children under the age of 18, related trusts and companies controlled by them) had any interest in any shares, options, warrants, derivatives or other securities carrying rights of conversion into or exchange or subscription for shares of the Offeror, nor did they deal in any shares, options, warrants, derivatives or other securities carrying rights of conversion into or exchange or subscription for shares of the Offeror between 13 June, 2002 (being six months prior to the date of the Possible Disposal Announcement) and the Latest Practicable Date.

(g) General

- (i) As at the Latest Practicable Date, International Bank of Asia Limited (1987) Retirement Scheme held 1,898,313 IBA Shares. There have been no dealings by such Scheme since 13 December, 2002 in IBA Shares. Save as disclosed above, no subsidiary of IBA nor any pension fund of the IBA Group was beneficially interested, directly or indirectly, in any IBA Shares, options, warrants, derivatives, or other securities carrying rights of conversion into or exchange or subscription for IBA Shares or had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any IBA Shares, options, warrants, derivatives, or other securities carrying rights of conversion into or exchange or subscription for IBA Shares nor did it deal in any IBA Shares, options, warrants, derivatives, or other securities carrying rights of conversion into or exchange or subscription for IBA Shares as principal between 13 December, 2002 (being the date of the Possible Disposal Announcement) and the Latest Practicable Date.

- (ii) The IBA Directors are not aware of any person who has entered into any arrangement of the kind described in Note 8 to Rule 22 of the Takeovers Code with IBA or with any other person who was an associate of IBA by virtue of classes (1), (2), (3) or (4) of the definition of associate under the Takeovers Code with respect to IBA Shares.
- (iii) Save as disclosed in this Composite Document in section 5 below, no benefit (other than statutory compensation) will be given to any IBA Director as compensation for loss of office or otherwise in connection with the Offer.
- (iv) Save as disclosed in this Composite Document, as at the Latest Practicable Date, there is no agreement or arrangement between any IBA Director and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.
- (v) As at the Latest Practicable Date, there are no material contracts entered into by the Offeror in which any IBA Director has a material personal interest.

5. PAYMENTS TO DIRECTORS

Each member of the Independent Board Committee will receive HK\$350,000 from IBA for acting as a member of the Independent Board Committee.

ABC will make certain payments to the executive IBA Directors (Dr. Mike Murad and Mr. Bachar Samra) and senior management of IBA (Mr. David Chan, Mr. Michael Ipson, Ms. Betty Brow and Mr. Joseph Hili) for services rendered to ABC over the past 15 years including services in connection with acting on behalf of ABC in relation to the disposal of ABC's stake in IBA.

The six individuals will receive in total US\$10,065,990 between them. In addition they will receive in total US\$6,083,209 between them (based on the sales proceeds), to be allocated at Dr. Murad's discretion.

6. MATERIAL CONTRACTS

No material contract (not being a contract entered into in the ordinary course of business carried on by the IBA Group) has been entered into by any member of the IBA Group in the two years preceding the date of the Possible Disposal Announcement.

7. SERVICE CONTRACTS

Dr. Murad's service contract provides for a term of employment to 30 September, 2006. Under such service contract, Dr. Murad is entitled to an aggregate fixed remuneration of US\$1,347,270.66 per annum, plus certain benefits. In addition to Hong Kong tax, Dr. Murad is also subject to taxation by the Internal Revenue Service of the US Treasury Department. Dr. Murad's service contract was amended on 30 September, 2002. The amendments do not relate to the termination date of, or remuneration payable under, the contract.

Mr. Samra's service contract provides for a term of employment to 30 September, 2004. Under such service contract, Mr. Samra is entitled to an aggregate fixed remuneration of US\$471,092.30 per annum, certain benefits and an annual discretionary bonus relating to the performance of IBA. Mr. Samra's service contract does not provide a specific amount or percentage of variable remuneration. The annual discretionary bonus is payable at the discretion of the Board taking into account performance and market conditions.

Prior to the above service contract Mr. Samra entered into a service contract which terminated on 30 September, 2002. Under that contract he was entitled to an aggregate fixed remuneration of US\$471,092.30 per annum, certain benefits and an annual discretionary bonus relating to the performance of IBA.

Save as disclosed above, there are no existing service contracts between any of the IBA Directors or proposed directors of IBA and any member of the IBA Group or any associated company (within the meaning of the Takeovers Code) of IBA which have more than 12 months to run and no service contracts between any of the IBA Directors or proposed directors of IBA and any member of the IBA Group or any associated company of IBA have been entered into or amended within six months before the date of the Possible Disposal Announcement.

8. LITIGATION

At the Latest Practicable Date, no member of the IBA Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the IBA Directors to be pending or threatened against any member of the IBA Group.

9. CONSENT

Rothschild has given and has not withdrawn its written consent to the issue of this Composite Document with the inclusion therein of its letter and the references to its name, in the forms and context in which they are included.

10. QUALIFICATION

The following are the qualifications of the adviser who has given an opinion, letter or advice contained in this Composite Document:

Name	Qualifications
Citigroup	A company incorporated under the laws of Hong Kong with limited liability and a deemed licenced corporation under transitional arrangements with regard to Types 1, 4, 6, 7 and 9 regulated activities under part V of the SFO
Rothschild	Restricted licence bank and an authorised financial institution deemed to have been registered under the SFO

11. GENERAL

The registered office of IBA is International Bank of Asia Building, 38 Des Voeux Road Central, Hong Kong.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection at the offices of Slaughter and May at 47th Floor, Jardine House, Connaught Road, Central, Hong Kong during normal business hours (except Sundays and gazetted public holidays in Hong Kong) up to the close of the Offer:

- (i) the memorandum and articles of association of IBA;
- (ii) the audited consolidated accounts of IBA for each of the two years ended 31 December, 2001 and 2002;
- (iii) the letter from the Independent Board Committee as set out on pages 24 to 25 of this Composite Document;
- (iv) the letter from Rothschild set out on pages 26 to 56 of this Composite Document;
- (v) the letter of consent referred to in paragraph 9 of this Appendix;
- (vi) the service contracts referred to in paragraph 7 of this Appendix;

(vii) the Undertaking;

(viii) the Letter from Citigroup; and

(ix) the letter of consent from Citigroup referred to in paragraph 5 of Appendix III.