

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



大新銀行集團有限公司 DahSingBankingGroupLimited

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

The holding company of Dah Sing Bank, Limited and MEVAS Bank Limited

GLOBAL OFFERING

- Number of Offer Shares** : 182,000,000 Shares (subject to Over-allotment Option adjustment)
- Number of Placing Shares** : 163,800,000 Shares (subject to reallocation and Over-allotment Option adjustment)
- Number of Public Offer Shares** : 18,200,000 Shares (subject to reallocation)
- Offer Price** : not more than HK\$13.86 per Offer Share plus brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars, subject to refund)
- Nominal Value** : HK\$1.00 per Share
- Stock Code** : 2356

Global Co-ordinator and Sponsor



The Hongkong and Shanghai Banking Corporation Limited

Joint Bookrunners and Joint Lead Managers



The Hongkong and Shanghai Banking Corporation Limited



CLSA Limited

The Stock Exchange and HKSCC take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, together with the documents specified in the section headed "Documents Delivered to the Registrar of Companies" in Appendix X to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 38D of the Companies Ordinance. The SFC and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be determined by agreement between the Company, DSFH and the Joint Bookrunners (on behalf of the Public Offer Underwriters) on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 25 June 2004 and, in any event, no later than Monday, 28 June 2004.

The Offer Price will not be more than the Maximum Offer Price (which is HK\$13.86 per Offer Share) and is currently expected not to be less than HK\$12.66 per Offer Share. The Joint Bookrunners (on behalf of the Underwriters) may, with the consent of DSFH and the Company, reduce the number of Offer Shares and/or the stated Offer Price range below that stated in this prospectus (which is HK\$12.66 to HK\$13.86 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, a notice of the reduction in the number of Offer Shares and/or the stated Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Public Offer. If applications for the Public Offer Shares and the Reserved Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer and the Preferential Offer, respectively, then even if the number of Offer Shares and/or the stated Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Investors applying for Offer Shares must pay the maximum price of HK\$13.86 per Offer Share, together with brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%, subject to refund to the extent that the Offer Price determined as described above is lower than the Maximum Offer Price.

If, for any reason, the Offer Price is not agreed between the Company, DSFH and the Joint Bookrunners (on behalf of the Public Offer Underwriters) on or before Monday, 28 June 2004, the Global Offering will not proceed.

The obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement to subscribe for, and to procure applicants for the subscription of the Public Offer Shares, are subject to termination by the Joint Bookrunners (on behalf of the Public Offer Underwriters) if certain grounds arise prior to 8:00 a.m. on the day that dealings in the Shares commence on the Stock Exchange. Such grounds are set out in the section headed "Underwriting" in this prospectus. It is important that you refer to that section for further details.

18 June 2004

EXPECTED TIMETABLE⁽¹⁾

Latest time to lodge **pink** Application Forms 4:00 p.m. on Wednesday, 23 June 2004

Latest time to lodge **white, yellow and blue**

Application Forms 12:00 noon on Thursday, 24 June 2004

Latest time to give **electronic application**

instructions to HKSCC⁽²⁾ 12:00 noon on Thursday, 24 June 2004

Application lists open⁽³⁾ 11:45 a.m. on Thursday, 24 June 2004

Application lists close 12:00 noon on Thursday, 24 June 2004

Expected Price Determination Date⁽⁴⁾ Friday, 25 June 2004

Announcement of the Offer Price, the level of indication

of interest in the Placing, the results of applications

with successful applicants' I.D. document numbers

and the basis of allotment of the Public Offer Shares

under the Public Offer to be published in the

South China Morning Post (in English) and the

Hong Kong Economic Times (in Chinese) on or before Tuesday, 29 June 2004

Despatch of Share certificates in respect of wholly or

partially successful applications on or before⁽⁵⁾ Tuesday, 29 June 2004

Despatch of refund cheques in respect of wholly or

partially unsuccessful applications on or before⁽⁶⁾ Tuesday, 29 June 2004

Dealings in Shares on the Stock Exchange

to commence on⁽⁷⁾ Wednesday, 30 June 2004

Notes:

- (1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure and conditions of the Global Offering are set out in the section headed "Structure and Conditions of the Global Offering" in this prospectus.
- (2) Applicants who apply by giving **electronic application instructions** to HKSCC should refer to the section headed "How to Apply for Public Offer Shares and Reserved Shares — Applying by Giving Electronic Application Instructions to HKSCC" in this prospectus.
- (3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above in force at any time between 9:00 a.m. and 12:00 noon on Thursday, 24 June 2004, the application lists will not open on that day. Further information is set out in the section headed "How to Apply for Public Offer Shares and Reserved Shares — Effect of Bad Weather on the Opening of the Application Lists" in this prospectus.

EXPECTED TIMETABLE⁽¹⁾

- (4) Please note that the Price Determination Date fixed for the purposes of the Global Offering is expected to be on or about Friday, 25 June 2004. Notwithstanding that the Offer Price may be fixed at below the Maximum Offer Price, applicants who apply for Shares must pay on application the Maximum Offer Price of HK\$13.86 per Share together with brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%. Such applicants will be refunded the surplus application monies, if any, as provided in the section headed “How to Apply for Public Offer Shares and Reserved Shares” in this prospectus.
- (5) Applicants who apply for 1,000,000 or more Public Offer Shares and Reserved Shares and who have indicated in their Application Forms their wish to collect refund cheques and, where applicable, Share certificates in person may do so from the Share Registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 29 June 2004 or at any other date notified by the Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) as the date of despatch of Share certificates and refund cheques. Applicants being individuals who opt for personal collection must not authorise any other person to make the collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from their corporation stamped with the corporation’s chops. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Share Registrar. Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants’ own risk to the addresses specified in the relevant Application Forms promptly thereafter. Further information is set out in the section headed “How to Apply for Public Offer Shares and Reserved Shares” in this prospectus.
- (6) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications in the event that the Offer Price is less than the Maximum Offer Price.
- (7) Share certificates will only become valid certificates of title provided that the Public Offer has become unconditional and neither of the Underwriting Agreements has been terminated in accordance with its terms, which is no later than 8:00 a.m. on Wednesday, 30 June 2004.

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You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. No person has been authorised to provide you with information that is different from the information contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, DSFH, the Sponsor, the Underwriters, any of their respective directors or any other person involved in the Global Offering.

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SUMMARY

This summary aims to provide an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to prospective investors. Prospective investors should read the whole document before they decide whether to invest in the Offer Shares. Capitalised terms not defined in this summary are defined in the section headed “Definitions” in this prospectus.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus, which prospective investors should read carefully before deciding whether to invest in the Offer Shares.

OVERVIEW

The Company was established on 11 March 2004 as the holding company for the banking-related interests of DSFH. The banking business of the Group is carried out through its subsidiaries with banking licences. All descriptions of the banking business of the Group in this prospectus refer to the banking business carried out through these subsidiaries. The Group’s operations comprise three main lines of business carried out through its banking subsidiaries: personal banking, commercial banking and treasury. The Group’s operations are primarily based in Hong Kong, although it has recently opened its first Mainland China branch in Shenzhen and also has an interest in an offshore private bank licensed in Guernsey.

The Group’s personal banking business, carried out through its banking subsidiaries, offers retail, private and VIP banking services, including deposit-taking, mortgage lending, credit cards, personal loans, overdrafts and wealth management products and services. The Group’s commercial banking services, carried out through its banking subsidiaries, include a variety of lending and deposit-taking services for commercial and institutional customers. The Group also operates, through Dah Sing Bank, a treasury business, which is responsible for securities investment, funding, foreign exchange, cash management and interest rate risk management.

The Group is headquartered in Hong Kong and, as at 31 December 2003, its local banking subsidiaries had a network of 43 branches and three sales and service centres, with approximately 1,200 employees and more than 700,000 customers. The Group’s principal subsidiary, Dah Sing Bank, has been active in the banking business since 1947 and, in the past ten years, has established a significant position in the personal banking market in Hong Kong.

In addition to Dah Sing Bank, the Company has two smaller banking subsidiaries, MEVAS Bank, which is wholly-owned, and D.A.H. Hambros Bank, in which the Company holds a 75.5% interest. Dah Sing Bank and MEVAS Bank are licensed banks under the Banking Ordinance and are regulated by the HKMA. Pursuant to Section 70 of the Banking Ordinance, the Company has obtained the consent of the HKMA to become a majority shareholder controller of Dah Sing Bank and MEVAS Bank. D.A.H. Hambros Bank is licensed under the Banking Supervision (Bailiwick of Guernsey) Law of 1994 and is regulated by the Guernsey Financial Services Commission.

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Dah Sing Bank, MEVAS Bank and D.A.H. Holdings, the parent of D.A.H. Hambros Bank, were previously directly held subsidiaries of DSFH, the holding company of the Company. However, following the incorporation of the Company, a reorganisation was effected to transfer all of DSFH's banking interests to the Company, which will continue to be a subsidiary of DSFH upon completion of the Global Offering.

For the year ended 31 December 2003, the Group's combined net interest income amounted to HK\$1,683 million and its combined profit before taxation was HK\$1,005 million. As at 31 December 2003, the Group had combined total assets of HK\$62,164 million, combined advances to customers of HK\$27,942 million, combined customer deposits of HK\$40,152 million and combined shareholders' funds of HK\$5,680 million. As at 31 December 2003, the Group's total CAR was 20.4%, its Tier 1 CAR was 15.8%, and for the year ended 31 December 2003, its average liquidity ratio was 65.9%. Please also refer to the tables headed "Liquidity" and "Capital Adequacy" in the section headed "Industry Overview" in this prospectus.

KEY STRENGTHS

Over the last five years, the Group's local banking subsidiaries have consistently outperformed the average of all Retail Banks in terms of return on average assets, net interest margin and non-performing loan ratio, and the average of all locally incorporated banks in terms of return on shareholders' funds. The Company believes that the key strengths that have enabled it to achieve this are as follows:

- *Management:* Management of the Group has shown its ability to identify and execute opportunities to expand into new business areas or grow existing businesses which offer an attractive combination of risk and return and to decrease focus on products and services which do not.
- *Brand:* "Dah Sing" has become a well-known brand in Hong Kong, as a result of more than 50 years in the banking business and more than 16 years as part of a listed group, the Group's customer base of over 700,000 customers, its branch network, advertising and its wide range of personal banking and commercial banking products and services.
- *Personal banking:* The Group provides an innovative and wide-ranging personal banking product and service franchise. The Group's particular strength has been in the credit card and consumer finance sectors, which provide a broad customer base from which to expand its wealth management and other businesses.
- *Commercial banking:* The Group has long-standing commercial banking client relationships, particularly in the SME sector.

SUMMARY

- *Treasury:* The Group has a treasury management infrastructure which has enabled it to take advantage of the high degree of liquidity in the Hong Kong market to profitably deploy deposits taken by the Group. This has resulted in the treasury division becoming a significant contributor to profits in recent years.
- *Risk management:* Coupled with the Group's determination to grow its core businesses is a focus on risk management, which has enabled the Group's local banking subsidiaries to maintain an average non-performing loan ratio that is below the average of all Retail Banks in Hong Kong.

FUTURE PLANS AND STRATEGY

The Group's strategy is to expand its banking and financial services businesses and to deliver value to Shareholders and customers, whilst maintaining a prudent approach to financial discipline and risk.

Opportunities for Growth

- The Group intends to grow organically with a particular focus on:

- *Increasing its customer base:*

The Group intends to continue its strategy of focusing on the personal banking market where it believes there are attractive opportunities for growth. This will involve increasing the Group's customer base both through consumer lending products such as credit cards and personal loans, as well as wealth management products and services;

- *Selling more products and services to its existing customers:*

The Group intends to make full use of its substantial customer base by cross-selling additional products and services. It also intends to continue its efforts to increase distribution of its products and services through improved service quality and as a result of the training of its staff;

- *Identifying new business areas with attractive risk-return characteristics:*

The Group will continue to seek attractive new areas of business. For example, recent initiatives have included a significant increase in the Group's wealth management business and increased investments in debt securities in the wholesale banking market;

SUMMARY

- *Diversifying its business so as not to be overly dependent on any single business area:*

The Group will continue to seek to operate in a variety of different business areas with different risk characteristics, so as to gain the benefits of risk diversification, as well as being able to generate positive returns in a range of different market conditions; and

- *Expanding in Mainland China:*

The Group believes that there will be many opportunities which will arise as a result of Hong Kong's increasing business and economic integration with Mainland China. It has already opened its first Mainland China branch in Shenzhen, and will continue to seek opportunities for further expansion in Mainland China as and when they become available.

- The Group intends to seek opportunities to expand through:

- *Mergers and/or acquisitions in Hong Kong:*

Consolidation in the Hong Kong banking market is expected to continue, and it is the Group's strategy to actively pursue opportunities that may arise in this regard. The Group intends, however, to maintain financial discipline in any merger and/or acquisition, with a view to ensuring that such transaction brings financial benefits to the Group; and

- *Investments, joint ventures and/or alliances in Mainland China:*

Whilst organic growth is the primary strategy as regards expansion in Mainland China, it is also anticipated that there may be opportunities to make investments, or enter into joint ventures or alliances. These will be considered on a case-by-case basis, and would be expected to provide strategic benefits as well as financial benefits to the Group.

Financial Discipline and Risk Management

- The Group aims to grow in an efficient and disciplined manner through:

- The expansion of those areas of its business that provide attractive returns within risk levels, which are acceptable to the management and the Board;

- A continued focus on risk management, ensuring that appropriate risk management systems and controls are in place for existing and new business areas and that such systems and controls are effective; and

- A continued focus on cost control and efficiency improvements, in particular through close attention to detail regarding costs and the benefits of economies of scale as the Group's businesses grow.

SUMMARY

OFFER STATISTICS

| | Based on an Offer Price of HK\$12.66 per Offer Share⁽¹⁾ | Based on an Offer Price of HK\$13.86 per Offer Share⁽¹⁾ |
|--|---|---|
| Market capitalisation ⁽²⁾ | HK\$11,521 million | HK\$12,613 million |
| Adjusted net tangible asset value per Share ⁽³⁾ | HK\$7.58 | HK\$7.71 |

Notes:

- (1) The Offer Price does not include brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%.
- (2) The calculation of market capitalisation is based on 910,000,000 Shares being in issue immediately following the completion of the Global Offering, without taking into account the Shares which may be issued pursuant to the exercise of the Over-allotment Option or the Issue Mandate and any Shares which may be repurchased pursuant to the exercise of the Repurchase Mandate, as the case may be, as referred to in the section headed "Written resolutions of the sole Shareholder passed on 12 June 2004" in Appendix IX to this prospectus.
- (3) The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to in the section headed "Financial Information — Pro Forma Financial Information" in this prospectus on the basis of 910,000,000 Shares being in issue immediately following the completion of the Global Offering, without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the Issue Mandate and any Shares which may be repurchased pursuant to the exercise of the Repurchase Mandate, as the case may be, as referred to in the section headed "Written resolutions of the sole Shareholder passed on 12 June 2004" in Appendix IX to this prospectus. The adjusted net tangible asset value per Share as shown in the above table does not take into account the payment of a final dividend by Dah Sing Bank on 28 April 2004 of HK\$200 million in respect of the year ended 31 December 2003 and is referred to in the section headed "Financial Information — Dividend" in this prospectus. After solely taking into account the payment of the dividend, the adjusted net tangible asset value per Share would have decreased.

The Listing Committee resolved that the Company may proceed with the listing of its securities with a public float of 15% or greater on the basis that the expected market capitalisation of the Company at the time of the Listing will exceed HK\$10 billion as specified in the Listing Rules, and on the condition that the Company and its controlling shareholders take appropriate steps to increase the public float to 25% of the Company's total issued share capital within 18 months from the date of Listing. It is intended that the Company will initially be listed with a 20% public float (assuming that the Over-allotment Option is not exercised). DSFH currently intends to increase the number of Shares in public hands to 25% or more of the issued share capital of the Company within 18 months from the date of Listing either by the sale or disposal by DSFH of additional Shares or by procuring, to the extent that it is able, the issue by the Company of new Shares, or otherwise in accordance with the Listing Rules.

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SUMMARY COMBINED FINANCIAL AND OPERATING INFORMATION

The tables below show the Group's summary combined profit and loss account data, selected combined cash flow statement data and selected financial ratios for each of the last three years ended 31 December and the Group's combined balance sheet data as at 31 December 2001, 2002 and 2003, in each case extracted from the Group's combined audited financial statements as set out in the "Accountants' Report" in Appendix I to this prospectus.

Combined Profit and Loss Account Data

| | For the year ended 31 December | | |
|---|--------------------------------|-----------------------|-----------------------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | |
| Interest income | 2,355,956 | 2,563,904 | 3,179,240 |
| Interest expense | <u>(672,575)</u> | <u>(734,909)</u> | <u>(1,480,251)</u> |
| Net interest income | 1,683,381 | 1,828,995 | 1,698,989 |
| Other operating income | <u>534,254</u> | <u>550,082</u> | <u>443,711</u> |
| Operating income | 2,217,635 | 2,379,077 | 2,142,700 |
| Operating expenses | <u>(781,087)</u> | <u>(868,152)</u> | <u>(907,113)</u> |
| Operating profit before provisions | 1,436,548 | 1,510,925 | 1,235,587 |
| Charge for bad and doubtful debts | <u>(534,754)</u> | <u>(703,869)</u> | <u>(411,106)</u> |
| Operating profit after provisions | 901,794 | 807,056 | 824,481 |
| Net loss on disposal and deficit on revaluation of fixed assets | (64,479) | (38,104) | (11,287) |
| Net gain on disposal of associates | — | 1,613 | — |
| Net gain on disposal of non-trading and held-to-maturity securities | 195,918 | 83,164 | 176,116 |
| Provision on non-trading securities | <u>(25,877)</u> | — | — |
| Profit on ordinary activities | 1,007,356 | 853,729 | 989,310 |
| Share of net losses of jointly controlled entities | (2,015) | (6,000) | (20,000) |
| Share of net losses of associates | — | — | (27) |
| Net other contribution from discontinuing operation | <u>141</u> | <u>673</u> | <u>672</u> |
| Profit before taxation | 1,005,482 | 848,402 | 969,955 |
| Taxation | <u>(122,776)</u> | <u>(68,749)</u> | <u>(117,608)</u> |
| Profit after taxation | 882,706 | 779,653 | 852,347 |
| Minority interests | <u>(2,880)</u> | <u>(3,320)</u> | <u>(1,639)</u> |
| Profit attributable to Shareholders | <u>879,826</u> | <u>776,333</u> | <u>850,708</u> |
| Dividends | <u>507,500</u> | <u>440,000</u> | <u>440,000</u> |

SUMMARY

Combined Balance Sheet Data

| | As at 31 December | | |
|---|----------------------------|--------------------------|--------------------------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | |
| Assets | | | |
| Cash and short term funds | 10,983,523 | 9,010,988 | 6,918,309 |
| Trade bills | 737,548 | 576,446 | 535,645 |
| Certificates of deposit held | 204,400 | 455,137 | 524,766 |
| Trading securities | 2,789,214 | 2,497,937 | 2,980,255 |
| Advances to customers and other accounts | 29,049,518 | 29,277,275 | 30,024,347 |
| Held-to-maturity securities | 392,198 | 78,049 | 4,597,102 |
| Non-trading securities | 17,091,136 | 15,870,632 | 6,204,215 |
| Investments in associates | — | — | 99,866 |
| Investments in jointly controlled entities | 22,985 | 25,000 | 27,000 |
| Fixed assets | 893,750 | 1,005,316 | 1,073,549 |
| Total assets | <u>62,164,272</u> | <u>58,796,780</u> | <u>52,985,054</u> |
| Liabilities | | | |
| Deposits and balances of banks and other financial institutions | 161,972 | 62,423 | 293,164 |
| Deposits from customers | 40,152,196 | 37,589,089 | 33,153,143 |
| Certificates of deposit issued | 7,868,079 | 6,888,227 | 5,652,190 |
| Issued debt securities | 31,052 | — | — |
| Other accounts and accruals | 7,219,535 | 7,875,246 | 7,915,785 |
| Current and deferred tax liabilities | 61,461 | 10,724 | 45,919 |
| Total liabilities | <u>55,494,295</u> | <u>52,425,709</u> | <u>47,060,201</u> |
| Capital Resources | | | |
| Loan capital | 970,388 | 974,831 | 974,719 |
| Minority interests | 19,120 | 18,153 | 32,766 |
| Share capital | 1,215,850 | 1,215,850 | 1,213,952 |
| Reserves | 4,464,619 | 4,162,237 | 3,703,416 |
| Shareholders' funds | 5,680,469 | 5,378,087 | 4,917,368 |
| Total capital resources | 6,669,977 | 6,371,071 | 5,924,853 |
| Total liabilities and capital resources | <u>62,164,272</u> | <u>58,796,780</u> | <u>52,985,054</u> |

SUMMARY

Selected Combined Cash Flow Statement Data

| | For the year ended 31 December | | |
|---|--------------------------------|-------------|-----------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | |
| Net cash inflow/(outflow) from operating activities | 2,811,669 | (1,530,426) | (420,491) |
| Net cash outflow from investing activities | (61,256) | (25,457) | (102,620) |
| Net cash inflow from financing | 470,560 | 795,742 | 223,571 |

Selected Financial Ratios

| | As at or for the year ended 31 December | | |
|---|---|-------|-------|
| | 2003 | 2002 | 2001 |
| | <i>(%)</i> | | |
| Profitability ratios | | | |
| Net interest margin ⁽¹⁾ | 3.05 | 3.74 | 3.76 |
| Cost to income ratio (continuing operations) ⁽²⁾ | 35.22 | 36.49 | 42.34 |
| Return on average total assets ⁽³⁾ | 1.45 | 1.39 | 1.68 |
| Return on average shareholders' funds ⁽⁴⁾ | 15.91 | 15.08 | 18.31 |
| Asset and credit quality ratios | | | |
| Specific provision rate ⁽⁵⁾ | 1.92 | 2.39 | 1.42 |
| Non-performing loan ratio ⁽⁶⁾ | 1.55 | 1.67 | 2.07 |
| Overdue and rescheduled loan ratio ⁽⁷⁾ | 2.06 | 2.03 | 2.57 |
| Other ratios⁽⁸⁾ | | | |
| CAR ⁽⁹⁾ | 20.4 | 19.9 | 18.6 |
| Adjusted CAR ⁽¹⁰⁾ | 20.2 | 19.8 | 18.5 |
| Liquidity ratio ⁽¹¹⁾ | 65.9 | 54.9 | 46.2 |

Notes:

- (1) The "net interest margin" represents the net interest income as a percentage of the average balance of total interest-earning assets for the year.
- (2) The "cost to income ratio (continuing operations)" represents the total operating expenses as a percentage of the total operating income for the year.
- (3) The "return on average total assets" represents the profit attributable to shareholders as a percentage of the average balance of total assets for the year.
- (4) The "return on average shareholders' funds" represents the profit attributable to shareholders as a percentage of the average balance of total shareholders' funds for the year.
- (5) The "specific provision rate" represents the total specific provision for bad and doubtful debts charged to the profit and loss account as a percentage of the average balance of total advances to customers for the year.

SUMMARY

- (6) The “non-performing loan ratio” represents the total non-performing loans as a percentage of the total advances to customers at year end.
- (7) The “overdue and rescheduled loan ratio” represents the total gross advances overdue for more than three months and rescheduled advances as a percentage of the total advances to customers at year end.
- (8) Please note that only the local banking subsidiaries within the Group are subject to minimum “CAR” and “liquidity ratio” requirements under the Banking Ordinance. These ratios of the Group are calculated for reference only.
- (9) The “CAR” represents the combined capital adequacy ratio of the Group as at 31 December of the relevant year. The CAR of each banking subsidiary within the Group is calculated in accordance with the Third Schedule of the Banking Ordinance.
- (10) The “adjusted CAR” represents the combined capital adequacy ratio of the Group as at 31 December of the relevant year after incorporating market risk capital requirements. The adjusted CAR of each banking subsidiary within the Group is calculated in accordance with the Guideline entitled “Maintenance of Adequate Capital Against Market Risks” issued by the HKMA. The adjusted ratio takes into account market risk as at 31 December of the relevant year.
- (11) The “liquidity ratio” is calculated as the simple average of each calendar month’s average liquidity ratio for the 12 months of the financial year for the local banking subsidiaries within the Group in accordance with the Fourth Schedule of the Banking Ordinance.

USE OF PROCEEDS

The net proceeds with respect to the New Shares pursuant to the Global Offering (after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Global Offering, assuming that the Over-allotment Option is not exercised and assuming a price of HK\$13.26 per Share, being the midpoint of the stated Offer Price range of HK\$12.66 to HK\$13.86 per Share) are estimated to be approximately HK\$1,275 million (or if the Over-allotment Option is exercised in full, approximately HK\$1,469 million).

The net proceeds received by the Company with respect to the Global Offering will be used to support the growth and expansion of the Group as described in the section headed “Future Plans and Use of Proceeds” in this prospectus.

SUMMARY

REASONS FOR THE LISTING

The purpose of seeking a listing of the Shares on the Stock Exchange is to:

- facilitate the Company and its banking subsidiaries to:
 - raise additional capital for organic growth on cost efficient terms through ready and varied access to the capital markets;
 - acquire new businesses for shares or cash;
 - form alliances and joint ventures and/or make investments in banking-related businesses in Mainland China supervised by the CBRC; and
 - attract and incentivise management; and
- enable the Company to take advantage of the many new opportunities which are expected to arise as a result of the improvement in the Hong Kong economy and Hong Kong's increasing business and economic integration with Mainland China, including opportunities arising out of CEPA.

DIVIDEND POLICY

The dividend policy of the Company will be determined and reviewed from time to time by the Directors. The Directors will take into account factors such as general business conditions, financial results, capital requirements, Shareholders' interests and any other factors the Directors consider to be relevant. Any final dividend payment for any financial year is subject to the approval of the Shareholders.

In the absence of any special circumstances or unforeseen events and subject to the aforesaid factors, the Directors currently expect that the aggregate amount of interim and final dividends to be declared by the Company in respect of each financial year could represent approximately 50% of the Company's distributable profit for that financial year.

For further details see the section headed "Financial Information — Dividend Policy" in this prospectus.

SUMMARY

RISK FACTORS

Risks Relating to the Business Operations of the Group

- An economic downturn in Hong Kong may materially and adversely affect the Group's financial condition and results of operations.
- The Group is facing significant competition, which may have an adverse effect on its financial condition and results of operations.
- Expansion of the Group's operations, including expansion into new markets, may represent a risk if not managed effectively.
- The Group may need additional capital in the future and there can be no assurance that the Group will be able to obtain such capital on acceptable terms, or at all.
- The Group's business is vulnerable to volatility in interest rates.
- The Group's business is subject to interest rate risk.
- The Group's personal banking portfolio carries a higher degree of credit risk than its other types of lending.
- Material changes in, or a breach of, the regulations that govern the Group and its business activities may adversely affect its business and future financial performance.
- Discontinuation of, or amendment to, the link of the Hong Kong dollar to the U.S. dollar or revaluation of the Hong Kong dollar could adversely affect the Group's liquidity position as well as its financial condition and results of operations.

Risks Relating to the Global Offering

- If an active market for the Shares fails to develop or be sustained, the price of the Shares may fall.
- Future sales of substantial amounts of Shares in the public market could adversely affect the prevailing market price of the Shares.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below:

| | |
|----------------------------------|---|
| “Abbey” | Abbey National Jersey International Limited |
| “ALCO” | Asset and Liability Management Committee |
| “Application Forms” | white, yellow, pink and blue application forms or, where the context so requires, any of them |
| “Articles of Association” | the articles of association of the Company |
| “associate” | has the meaning ascribed thereto under the Listing Rules |
| “Assured Entitlement” | the entitlement of a Qualifying DSFH Shareholder to apply for Reserved Shares under the Preferential Offer on the basis of an assured entitlement of one Reserved Share for every whole multiple of five DSFH Shares held by each Qualifying DSFH Shareholder at the close of business on the Record Date |
| “ATM” | automated teller machine |
| “AUD” or “AU\$” | Australian dollars, the lawful currency of Australia |
| “authorized institution” or “AI” | a bank, a restricted licence bank or a deposit-taking company as such terms are defined in the Banking Ordinance |
| “Banking Ordinance” | the Banking Ordinance, Chapter 155 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time |
| “Board” or “Board of Directors” | the board of Directors |
| “Business Day” | a day that is not a Saturday, Sunday or public holiday in Hong Kong |
| “CAR” | capital adequacy ratio |
| “CBRC” | China Banking Regulatory Commission |
| “CCASS” | the Central Clearing and Settlement System established and operated by HKSCC |
| “CCASS Broker Participant” | a person admitted to participate in CCASS as a broker participant |
| “CCASS Custodian Participant” | a person admitted to participate in CCASS as a custodian participant |
| “CCASS Investor Participant” | a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation |

DEFINITIONS

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| “CCASS Participant” | a CCASS Broker Participant or a CCASS Custodian Participant or a CCASS Investor Participant |
| “CCB” | China Construction Bank |
| “CEPA” | the Closer Economic Partnership Agreement entered into between Hong Kong and Mainland China dated 29 June 2003 |
| “charge-off rate” | the net charge-off amount (gross charge-off amount less recoveries) as a percentage of average credit card receivables or personal loans outstanding, as appropriate |
| “CLSA” | CLSA Limited, a person licensed to carry out Types 1, 4, 6 and 9 regulated activities as set out in Schedule 5 to the SFO |
| “Companies Ordinance” | the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time |
| “Company” | Dah Sing Banking Group Limited, a company incorporated in Hong Kong with limited liability, the holding company of Dah Sing Bank and MEVAS Bank and currently a wholly-owned subsidiary of DSFH |
| “connected person” | has the meaning ascribed to it in the Listing Rules |
| “controlling shareholder” | has the meaning ascribed to it in the Listing Rules |
| “D.A.H. Hambros Bank” | D.A.H. Hambros Bank (Channel Islands) Limited, a bank licensed in Guernsey, a wholly-owned subsidiary of D.A.H. Holdings |
| “D.A.H. Holdings” | D.A.H. Holdings Limited, a company incorporated in Bermuda, a subsidiary of the Company |
| “DAHP” | D.A.H. Private Bank Limited, subsequently renamed MEVAS Bank Limited |
| “Dah Sing Bank” | Dah Sing Bank, Limited, a licensed bank incorporated in Hong Kong, a wholly-owned subsidiary of the Company |
| “Director(s)” | the director(s) of the Company |
| “DSFH” | Dah Sing Financial Holdings Limited, a company incorporated in Hong Kong with limited liability and listed on the Main Board of the Stock Exchange and which is the controlling shareholder of the Company |
| “DSFH Group” | DSFH and its subsidiaries |
| “DSFH Shares” | ordinary shares issued by DSFH, with nominal value of HK\$2.00 each |

DEFINITIONS

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| “DSGI” | Dah Sing General Insurance Company Limited, a company incorporated in Bermuda, a subsidiary of DSFH |
| “DSIA” | Dah Sing Insurance Agency Limited, a company incorporated in Hong Kong, a wholly-owned subsidiary of DSFH |
| “DSIS” | Dah Sing Insurance Services Limited, a company incorporated in Hong Kong, a wholly-owned subsidiary of DSFH |
| “DSLA” | Dah Sing Life Assurance Company Limited, a company incorporated in Bermuda, a wholly-owned subsidiary of DSFH |
| “e-banking” | electronic banking through the Internet |
| “GC Securities” | Global Courage Securities Limited, a company incorporated in Hong Kong, a wholly-owned subsidiary of Dah Sing Bank |
| “GDP” | gross domestic product |
| “Global Co-ordinator” | HSBC |
| “Global Offering” | the Public Offer and the Placing |
| “Government” | the Government of Hong Kong |
| “Group” | the Company and its subsidiaries |
| “HKMA” | Hong Kong Monetary Authority |
| “HKSCC” | Hong Kong Securities Clearing Company Limited |
| “HKSCC Nominees” | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Hong Kong dollars” or “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “Hong Kong GAAP” | accounting principles generally accepted in Hong Kong |
| “HSBC” | The Hongkong and Shanghai Banking Corporation Limited, a deemed registered institution for Types 1, 4, 6, 7 and 9 regulated activities under the SFO and a licensed bank under the Banking Ordinance |

DEFINITIONS

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| “International Placing” | the conditional placing by the International Placing Underwriters of the International Placing Shares for cash at the Offer Price with institutional, professional and other investors as further described in the section headed “Structure and Conditions of the Global Offering” in this prospectus |
| “International Placing Shares” | 136,500,000 Shares, comprising 54,600,000 New Shares and 81,900,000 Sale Shares (subject to reallocation and Over-allotment Option adjustment) offered for subscription and sale, respectively, under the International Placing |
| “International Placing Underwriters” | the group of underwriters of the International Placing, led by HSBC and CLSA as Joint Lead Managers |
| “International Underwriting Agreement” | the underwriting agreement relating to the Placing to be entered into among the Company, DSFH, HSBC, CLSA and the Placing Underwriters on or around 25 June 2004 |
| “Issue Mandate” | the general and unconditional mandate granted to the Directors by the Shareholders, as further described in paragraph 4 of the section headed “Written resolutions of the sole Shareholder passed on 12 June 2004” in Appendix IX to this prospectus |
| “JETCO” | Joint Electronic Teller Company Limited |
| “Joint Bookrunners” | HSBC and CLSA |
| “Joint Lead Managers” | HSBC and CLSA |
| “JPY” or “JP¥” | Japanese yen, the lawful currency of Japan |
| “JSB” | Jian Sing Bank Limited |
| “Latest Practicable Date” | 14 June 2004, being the latest practicable date for the purposes of ascertaining certain information contained in this prospectus |
| “LIBOR” | London Interbank Offered Rate |
| “Listing” | the listing of, and dealings in, the Shares on the Main Board of the Stock Exchange |
| “Listing Committee” | the Listing Committee of the Stock Exchange |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time) |
| “Mainland China” | the PRC, but for the purposes of this prospectus only (unless otherwise indicated) excluding Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC |

DEFINITIONS

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| “Maximum Offer Price” | the maximum price of HK\$13.86 per Share payable by applicants for Shares under the Global Offering |
| “Memorandum of Association” | the memorandum of association of the Company |
| “MEVAS Bank” | MEVAS Bank Limited, a licensed bank incorporated in Hong Kong, a wholly-owned subsidiary of the Company |
| “MPF” | Mandatory Provident Fund |
| “New Shares” | the 100,100,000 new Shares initially being offered by the Company for subscription at the Offer Price under the Global Offering, subject to Over-allotment Option adjustment |
| “non-performing loans” or “NPLs” | loans and advances to customers on which interest is placed in suspense or on which interest accrual has ceased |
| “Offer Price” | the final Hong Kong dollar price per Share (exclusive of brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee) at which the Shares are to be subscribed for and issued by the Company and sold by DSFH pursuant to the Global Offering, to be determined as further described in the section headed “Structure and Conditions of the Global Offering — Pricing and Allocation” in this prospectus |
| “Offer Shares” | the Public Offer Shares and the Placing Shares together, where relevant, with any additional Shares issued and allotted pursuant to the exercise of the Over-allotment Option |
| “Over-allotment Option” | the option to be granted by the Company and DSFH to the International Placing Underwriters, exercisable by the Global Co-ordinator on behalf of the International Placing Underwriters, for up to 30 days from the date of this prospectus, to require the Company to allot and issue, and DSFH to sell, up to an aggregate of 27,300,000 additional Shares, representing 15% of the initial Offer Shares, at the Offer Price, solely to cover over-allocations in the International Placing |
| “Overseas DSFH Shareholders” | registered holders of DSFH Shares, whose addresses on the register of members of DSFH were outside Hong Kong at the close of business on the Record Date |
| “Pearl River Delta Region” | the region commonly referred to by that name, located at the mouth of the Pearl River in the Southern part of Guangdong Province in Mainland China |
| “Placing” | the International Placing and the Preferential Offer |

DEFINITIONS

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|---------------------------------------|--|
| “Placing Shares” | the International Placing Shares and the Reserved Shares |
| “Placing Underwriters” | the International Placing Underwriters and the Preferential Offer Underwriters |
| “PRC” | the People’s Republic of China |
| “Preferential Offer” | the preferential offer to the Qualifying DSFH Shareholders for subscription of the Reserved Shares on an assured basis at the Offer Price on and subject to the terms and conditions stated herein and in the blue Application Form |
| “Preferential Offer Underwriters” | the group of underwriters of the Preferential Offer led by HSBC and CLSA as Joint Lead Managers |
| “Price Determination Date” | the date, expected to be on or before 25 June 2004, on which the Offer Price is fixed for the purposes of the Global Offering |
| “Public Offer” | the offer of Public Offer Shares for subscription by the public in Hong Kong for cash at the Offer Price, on and subject to the terms and conditions described in this prospectus and the Application Forms |
| “Public Offer Shares” | the 18,200,000 New Shares (subject to reallocation) being offered by the Company for subscription pursuant to the Public Offer |
| “Public Offer Underwriters” | the group of underwriters of the Public Offer led by HSBC and CLSA as Joint Lead Managers |
| “Public Offer Underwriting Agreement” | the underwriting agreement dated 17 June 2004 relating to the Public Offer entered into among the Company, DSFH, HSBC, CLSA and the Public Offer Underwriters |
| “Qualifying DSFH Shareholders” | registered holders of DSFH Shares, whose names appeared on the register of members of DSFH at the close of business on the Record Date, other than Overseas DSFH Shareholders, U.S. DSFH Shareholders and Directors or any of their associates |
| “Record Date” | 12 June 2004, being the record date for ascertaining the Assured Entitlements |
| “Regulation S” | Regulation S under the U.S. Securities Act |
| “Repurchase Mandate” | the general and unconditional mandate granted to the Directors by the Shareholders, as further described in paragraph 3 of the section headed “Written resolutions of the sole Shareholder passed on 12 June 2004” in Appendix IX to this prospectus |

DEFINITIONS

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| “Reserved Shares” | 27,300,000 Placing Shares representing 15% of the Shares initially available under the Global Offering (subject to Over-allotment Option adjustment) being offered pursuant to the Preferential Offer |
| “Retail Banks” | has the meaning ascribed thereto by the HKMA and includes banks incorporated in Hong Kong together with a number of foreign banks whose operations are similar to those of the Hong Kong incorporated banks in that, in Hong Kong, they operate a branch network and are active in retail banking |
| “RMB” or “Renminbi” | Renminbi, the lawful currency of Mainland China |
| “Sale Shares” | the 81,900,000 Shares to be sold by DSFH under the International Placing |
| “SFC” | the Securities and Futures Commission of Hong Kong |
| “SFO” | the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong, as amended, supplemented or otherwise modified from time to time |
| “SG Hambros” | SG Hambros Bank & Trust Limited |
| “Share Option Scheme” | the share option scheme conditionally approved and adopted by the Shareholders on 12 June 2004, the principal terms of which are summarised in Appendix VIII to this prospectus |
| “Share Registrar” | Computershare Hong Kong Investor Services Limited |
| “Shareholder(s)” | shareholder(s) of the Company |
| “Shares” | ordinary shares issued by the Company, with nominal value of HK\$1.00 each, traded in Hong Kong dollars and for which application has been made for the granting of listing, and permission to deal, on the Stock Exchange |
| “SME” | small and medium-sized enterprise |
| “Sponsor” | HSBC |
| “Stock Borrowing Agreement” | a stock borrowing agreement expected to be entered into on or about 25 June 2004 between the Global Co-ordinator and DSFH, pursuant to which DSFH will agree to lend up to 27,300,000 Shares to the Global Co-ordinator on the terms set out therein, further details of which are set out in the section headed “Information About this Prospectus and the Global Offering — Over-allotment and Stabilisation” in this prospectus |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |

DEFINITIONS

| | |
|----------------------------|---|
| “subsidiary” | has the meaning ascribed to it in the Companies Ordinance |
| “UFJ Bank” | UFJ Bank Limited |
| “U.K.” or “United Kingdom” | the United Kingdom of Great Britain and Northern Ireland |
| “Underwriters” | the Public Offer Underwriters and the Placing Underwriters |
| “Underwriting Agreements” | the Public Offer Underwriting Agreement and the International Underwriting Agreement |
| “U.S.” or “United States” | the United States of America |
| “U.S. dollars” or “US\$” | United States dollars, the lawful currency of the United States |
| “U.S. DSFH Shareholders” | registered holders of DSFH Shares who are within the United States (within the meaning of Regulation S) |
| “U.S. Securities Act” | the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder |
| “Vanishing Border” | Vanishing Border Investment Services Limited, a company incorporated in Hong Kong, a wholly-owned subsidiary of Dah Sing Bank |
| “VaR” | value at risk |
| “WOB” | The Wing On Bank Limited, subsequently renamed D.A.H. Private Bank Limited and then MEVAS Bank Limited |

All third party trademarks appearing in this prospectus are the property of the respective owners.

RISK FACTORS

Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Group before making any investment decision in relation to the Offer Shares. The occurrence of any of the following risks could have a material adverse effect on the business, results of operations, financial condition and future prospects of the Group and cause the market price of the Offer Shares to fall significantly.

RISKS RELATING TO THE BUSINESS OPERATIONS OF THE GROUP

An economic downturn in Hong Kong may materially and adversely affect the Group's financial condition and results of operations.

The Group conducts most of its operations and generates most of its revenues in Hong Kong. The Group's performance and the quality and growth of its assets are necessarily dependent on the overall economy in Hong Kong. As a result, any downturn in the Hong Kong economy may adversely affect the Group's financial condition and results of operations. For example, the 1997 Asian financial crisis and the subsequent economic downturn in Hong Kong resulted in, among other things, increased provisions which negatively affected the Group's profitability in 1998. Although economic conditions in Hong Kong improved in the second half of 1999 and throughout 2000, general economic conditions deteriorated significantly in 2001 compared to 2000, resulting in an increase in personal bankruptcies in Hong Kong. In addition, Hong Kong's economic growth continued to be slow during 2002 and was affected by the Severe Acute Respiratory Syndrome virus in the first half of 2003. No assurance can be given that economic conditions in Hong Kong will improve in the future or that the Group's operations will not be affected by any future deterioration in the Hong Kong economy.

Although Hong Kong's GDP grew by 3.3% in 2003, the Group expects the continued recovery in the Hong Kong economy to depend in part upon the economic performance of the United States and Mainland China, as well as certain other developed countries. The global downturn in 2001 and 2002 was in part caused by the recession in the United States. There can be no assurance that future global events will not have an impact on the Hong Kong economy and the Group.

The Group is facing significant competition, which may have an adverse effect on its financial condition and results of operations.

The Group is subject to significant competition from other local and international banks operating in Hong Kong, including competitors that may have greater financial and other resources. Internationally and locally, there is a trend towards consolidation of the banking industry which may result in the creation of larger and more efficient competitors in this market. The financial services sector in Hong Kong is a mature market and as at 31 December 2003, supported 23 Hong Kong incorporated licensed banks and over 100 branches of foreign banks serving a population of approximately 6.8 million people. Therefore, many of the international and local banks and niche players operating in Hong Kong compete for substantially the same customers as the Group. The strength of competition in the past few years has had an adverse impact on the pricing of certain products. Any increase in competition in Hong Kong may have an adverse effect on the Group's financial condition and results of operations.

RISK FACTORS

Expansion of the Group's operations, including expansion into new markets, may represent a risk if not managed effectively.

The Group's strategy involves expansion of its business in the Hong Kong and Mainland China markets, through organic growth and through mergers, acquisitions and alliances, if suitable opportunities arise. Expansion into new markets, particularly Mainland China, will present the Group with new risks and challenges, such as new regulatory environments, different market practices and competition in such markets. Expansion and integration of new mergers, acquisitions and alliances may also require significant operational, administrative and management resources. The success of any mergers, acquisitions and alliances will depend in part on the ability of the Group's management to integrate the operations of newly-acquired businesses with its existing operations and, where applicable, to integrate various departments, systems and processes. Consequently, the Group's ability to implement its business strategy may be constrained and the timing of such implementation may be affected due to demands placed on existing resources by this process. There is no assurance that:

- acquired entities will achieve the level of performance that the Group anticipates; or
- the projected demand for and margins of the Group's products and services will be realised.

The failure to manage expansion effectively could have an adverse effect on the Group's financial condition and results of operations.

The Group may need additional capital in the future and there can be no assurance that the Group will be able to obtain such capital on acceptable terms, or at all.

The Group's financial condition, results of operations and capital position are affected by a range of factors such as economic conditions, interest rates, the credit environment, asset quality, operating income and level of provisioning. A slowdown in the economy could lead to a deterioration in the Group's asset quality and an increase in provisions for bad and doubtful debts, which may result in a deterioration of the Group's capital adequacy position. To the extent that the Group's future operating income is not sufficient to meet provisioning requirements, the Group's capital could be eroded, and it may be required to obtain new capital.

In addition, as stated in the sections headed "Future Plans and Use of Proceeds" and "Reasons for the Listing" in this prospectus, the purpose of seeking a listing for the Shares on the Stock Exchange includes facilitating the future raising of capital, the acquisitions of new businesses for shares or cash, and the forming of alliances or joint ventures and/or making investments in banking-related businesses in Mainland China. However, there can be no assurance that the Group will be able to obtain additional capital in a timely manner or on acceptable terms, or at all. Furthermore, issuances of equity securities may result in significant dilution of Shareholders' interests. The Listing Rules prohibit the Company from issuing, or agreeing to issue, Shares or securities convertible into equity securities of the Company (other than in certain prescribed circumstances) for a period of six months from the date on which dealings in the Shares on the Stock Exchange commence.

RISK FACTORS

The Group's business is vulnerable to volatility in interest rates.

As with most banks, the Group's net interest income is a significant factor in determining its overall financial performance. For the year ended 31 December 2003, the Group's net interest income represented approximately 75.9% of its operating income, compared to 76.9% in the previous year. Changes in market interest rates affect the interest received on the Group's interest-earning assets and the interest paid on the Group's interest-bearing liabilities. These changes could result in an increase in the Group's interest expense relative to its interest income which may lead to a reduction in its net interest income. Interest rates in Hong Kong are sensitive to factors over which the Group has no control, including, among others:

- interest rates in Hong Kong as a whole, which tend to follow the trend of interest rates in the United States; and
- domestic and international economic and political conditions.

Any volatility in interest rates could adversely affect the Group's financial condition and results of operations.

The Group's business is subject to interest rate risk.

Currently, as with most banks, the Group is subject to interest rate risk as a result of mismatches in the pricing and duration of its assets and liabilities. A significant part of the Group's funding requirements is met through short-term or floating rate funding sources, primarily in the form of deposits, including customer deposits, interbank deposits and certificates of deposit, which tend to be at floating rates and are regularly repriced. In contrast, some of the Group's assets either receive a fixed rate of interest or if they receive a floating rate of interest, it may not be repriced as frequently as the Group's deposits. The Group monitors the risks associated with changes in interest rates and imposes VaR limits on its trading portfolio, as well as hedging a portion of the Group's fixed rate portfolio. However, in a rising interest rate environment there can be no assurance that the Group's net interest margin will not be compressed and the Group's net interest income reduced.

In addition, the Group's treasury operations have made a significant contribution to its profit before taxation in recent years. Such treasury operations involve taking interest rate risk, as the funding of treasury investments is generally of shorter duration than the assets that are held, and have generated both significant interest income and capital gains in recent years. There can be no assurance that the Group will be able to generate similar interest income in the future and it is likely that the Group's gains from disposals of securities will be lower, and that its treasury operations may possibly even incur losses, in a rising interest rate environment.

RISK FACTORS

The Group's personal banking portfolio carries a higher degree of credit risk than its other types of lending.

As at 31 December 2003, 12.3% of the Group's loan portfolio comprised unsecured personal loans and credit card receivables. The Group has developed its personal financial services business through key products such as credit cards and unsecured personal loans. Whilst the growth in these assets and the higher interest rates carried by these products has in the past made a significant contribution to the net profits of the Group, the Group recognises the higher degree of credit risk associated with these products as a result of the absence of collateral. Indeed, during 2002 as a result of the downturn in the economy and deteriorating asset quality, the Group tightened its credit approval and control criteria in relation to personal loans and credit card receivables. If there is a renewed downturn in the economy, the credit quality and charge-off rates experienced by the Group may deteriorate.

Material changes in, or a breach of, the regulations that govern the Group and its business activities may adversely affect its business and future financial performance.

Banks in Hong Kong are subject to the supervision of the HKMA, whose supervisory framework is in line with international standards. The Group's local banking business could be directly affected by any changes in the HKMA's policies, including in the areas of specific lending activities, loan provisioning, capital adequacy and liquidity requirements. In addition, any changes in regulatory or governmental policies, profits tax laws or rules and accounting principles, as well as international conventions and standards relating to commercial banking operations, including changes proposed under the New Basel Capital Accord of the Bank for International Settlements (see the section headed "Industry Overview — Basel II" in this prospectus), could affect the Group's operations. There can be no assurance that any future changes in the regulatory environment for banks in Hong Kong will not adversely affect the Group's business and future financial performance.

Apart from the above, certain products and services provided by the Group are regulated by other regulators including the SFC in Hong Kong. The Group carefully manages legal and compliance risks, including in relation to the sale of financial products and money laundering regulations. However, there can be no assurance that breaches of legislation or regulations by the Group will not occur and, to the extent that such a breach does occur, that significant liability or penalties will not be incurred.

Discontinuation of, or amendment to, the link of the Hong Kong dollar to the U.S. dollar or revaluation of the Hong Kong dollar could adversely affect the Group's liquidity position as well as its financial condition and results of operations.

The Hong Kong dollar has been pegged to the U.S. dollar at the rate of HK\$7.80 to US\$1.00 since 17 October 1983. The Hong Kong government has stated that it is fully committed to maintaining exchange rate stability under this pegged exchange rate system. In the event that this policy were to be changed or there were to be a revaluation of the Hong Kong dollar, it could adversely affect the Hong Kong economy and, as a result, the Group's financial condition and

RISK FACTORS

results of operations. There can be no assurance that the Hong Kong dollar will continue to be pegged to the U.S. dollar at the current exchange rate. At 31 December 2003, the Group had U.S. dollar denominated assets of approximately HK\$19,878 million and U.S. dollar denominated liabilities of approximately HK\$10,742 million, representing approximately 32% and approximately 19.4% of the Group's total assets and liabilities, respectively, at the same date. A significant change in the exchange rate between the U.S. dollar and the Hong Kong dollar may have an adverse effect on the Group's liquidity, financial position and capital.

RISKS RELATING TO THE GLOBAL OFFERING

If an active market for the Shares fails to develop or be sustained, the price of the Shares may fall.

Prior to the Global Offering, there has been no market for the Shares. Following completion of the Global Offering, the Stock Exchange will be the only market for the Shares. There can be no assurance that an active trading market will develop for the Shares or that the Shares will trade in the public market subsequent to the Global Offering at or above the Offer Price. The Offer Price for the Shares is expected to be fixed by agreement between the Company, the Joint Bookrunners (on behalf of the Public Offer Underwriters) and DSFH and may not be indicative of the market price of the Shares following the completion of the Global Offering.

Future sales of substantial amounts of Shares in the public market could adversely affect the prevailing market price of the Shares.

The market price of the Shares could decline as a result of future sales of substantial amounts of the Shares in the public market or the issuance of new Shares, or the perception that such sales, transfers or issuances may occur. This could also materially and adversely affect the prevailing market price of the Shares or the Group's ability to raise capital in the future at a time and at a price it deems appropriate. In addition, Shareholders will experience dilution in their holdings to the extent that the Group issues new equity securities in future offerings, other than through an offering pro rata to all Shareholders.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

The following information is provided for guidance only. Prospective applicants for Offer Shares should consult their financial advisers and take legal advice, as appropriate, to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. Prospective applicants should inform themselves as to the relevant legal requirements of applying for Offer Shares and any applicable exchange control regulations and applicable taxes in the countries of their respective citizenship, residence or domicile.

RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Companies Ordinance, the Securities (Stock Exchange Listing) Rules 1989 (as amended) and the Listing Rules for the purpose of giving information to the public with regard to the Company. The Directors, the Company and DSFH collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

UNDERWRITING

This prospectus is published solely in connection with the Public Offer and the Placing as part of the Global Offering. For applicants in the Public Offer, this prospectus and the Application Forms contain the terms and conditions of the Public Offer.

The Global Offering comprises the Public Offer of initially 18,200,000 Offer Shares, the International Placing of initially 136,500,000 Offer Shares and the Preferential Offer of initially 27,300,000 Offer Shares, subject to Over-allotment Option adjustment and reallocation on the basis described in the section headed “Structure and Conditions of the Global Offering” in this prospectus.

The listing of the Shares on the Stock Exchange is sponsored by HSBC, and the Global Offering is managed by HSBC as Global Co-ordinator. HSBC and CLSA are the Joint Bookrunners and Joint Lead Managers of the Global Offering. The Public Offer is fully underwritten by the Public Offer Underwriters pursuant to the Public Offer Underwriting Agreement. The International Placing is fully underwritten by the International Placing Underwriters and the Preferential Offer is fully underwritten by the Preferential Offer Underwriters, pursuant to the International Underwriting Agreement. Information relating to the underwriting arrangements is set out in the section headed “Underwriting” in this prospectus.

If, for any reason, the Offer Price is not agreed between the Company, DSFH and the Joint Bookrunners (on behalf of the Public Offer Underwriters), on or before Monday, 28 June 2004, the Global Offering will not proceed.

RESTRICTIONS ON THE SALE OF THE OFFER SHARES

Each person acquiring the Offer Shares will be required, or deemed by his acquisition of such Offer Shares, to confirm that he is aware of the restriction on offers and sales of the Offer Shares described below.

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

United States

The Offer Shares have not been and will not be registered under the U.S. Securities Act and, subject to certain exceptions, may not be offered or sold within the United States.

The Offer Shares are being offered and sold outside the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offer of Offer Shares, an offer or sale of Offer Shares within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the U.S. Securities Act.

United Kingdom

Each Underwriter has represented, warranted and agreed that:

- (1) it has not offered or sold and, prior to the expiry of a period of six months from the issue date of the Offer Shares, will not offer or sell any Offer Shares to persons in the United Kingdom except to persons whose ordinary activities involve them acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- (2) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received by it in connection with the issue or sale of any Offer Shares in circumstances in which section 21(1) of the FSMA does not apply to the Company; and
- (3) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Offer Shares in, from or otherwise involving the United Kingdom.

Singapore

This prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore and the Offer Shares will be offered in Singapore pursuant to exemptions invoked under Sections 274 and 275 of the Securities and Futures Act (Act 42 of 2001) of Singapore (the “Singapore Securities and Futures Act”). Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Offer Shares may not be circulated or distributed, nor may the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than: (i) to an institutional investor or other person specified in Section 274 of the Singapore Securities and Futures Act; (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the Singapore Securities and Futures Act; or (iii) otherwise pursuant to, and in accordance with, the conditions of any other provision of the Singapore Securities and Futures Act.

Japan

The Offer Shares have not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”). Accordingly, the Offer Shares may not be offered or sold, directly or indirectly in Japan, or to or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws and regulations of Japan. As used in this paragraph, a “resident of Japan” means any person residing in Japan, including any corporation or other entity organised under the laws of Japan.

Mainland China

This prospectus does not constitute a public offer of the Offer Shares, whether by way of sale or subscription, in the PRC. The Offer Shares are not being offered or sold and may not be offered or sold directly or indirectly in the PRC or to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements of the PRC, the Offer Shares shall only be offered or sold to natural or legal persons in Taiwan, Hong Kong or the Macau Special Administrative Region of the PRC or any country other than the PRC by means of this prospectus or otherwise.

Germany

This prospectus is not a Securities Selling Prospectus within the meaning of the German Securities Prospectus Act of 13 December 1990 and has not been filed with and approved by the Federal Supervisory Authority, and the Offer Shares may not be offered or sold and copies of this prospectus or any document relating to the Offer Shares may not be distributed directly or indirectly in Germany except to persons falling within the scope of paragraph 2 numbers 1, 2 and 3 of the German Securities Prospectus Act of 13 December 1990.

Netherlands

The Offer Shares may not be offered, sold, transferred or delivered in or from within the Netherlands as part of their initial distribution or at any time thereafter, directly or indirectly, and neither this prospectus nor any other document in respect of the Global Offering may be distributed or circulated in the Netherlands, other than to individuals or legal entities who or which trade or invest in securities in the conduct of a profession or business within the meaning of the Netherlands Securities Transactions Supervision Act 1995 (*Vrijstellingsregeling wet toezicht effectenverkeer 1995*) and its implementing regulations (which includes banks, brokers, securities institutions, insurance companies, pension funds, investment institutions, other institutional investors and other parties including treasury departments of commercial enterprises and finance companies of groups which are regularly active in the financial markets in a professional manner).

France

This prospectus has not been prepared in the context of a public offer of securities in France within the meaning of Article L.411-1 of the French *Code monétaire et financier* and Regulations no. 98-01 and 98-08 of the *Commission des opérations de bourse* and has therefore not been submitted to the *Commission des opérations de bourse* for prior approval.

It is made available only to qualified investors and/or to a limited circle of investors (as defined in Article L.411-2 of the French *Code monétaire et financier* and in the Decree no. 98-880 dated 1 October 1998), on the condition that it shall not be passed on to any person nor reproduced (in whole or in part), that investors act for their own account in accordance with the terms set out by the said decree and undertake not to retransfer, directly or indirectly, the securities in France, other than in compliance with applicable laws and regulations (Articles L.411-1, L.412-1 and L.621-8 of the French *Code monétaire et financier*).

Spain

This prospectus has not been registered with the *Comisión Nacional del Mercado de Valores*, and no public offer for sale of the Offer Shares will be promoted in the Kingdom of Spain. The Offer Shares may not be offered or sold in the Kingdom of Spain, except in accordance with the requirements of the Spanish securities market law (*ley 24/1988, de 28 de julio, del Mercado de Valores*), as amended, and Royal Decree 291/1992, on Issues and Public Offers for the Sale of Securities (*Real Decreto 291/1992, de 27 de marzo, sobre Emisiones y Ofertas Públicas de Venta de Valores*), as amended, and the decrees and regulations issued thereunder.

Italy

The Offer Shares may not be offered, sold or delivered, and copies of this prospectus or any other document relating to the Offer Shares may not be distributed in Italy except to professional investors, as defined by CONSOB, the local stock market regulator in Italy, in compliance with the terms and procedures provided by Legislative Decree no. 58 of 24 February 1998, or the Finance Law, or in any other circumstance where an express exemption to comply with the solicitation restrictions provided by the Finance Law or CONSOB Regulation no. 11971 of 14 May 1999, or the

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Issuers Regulation applies, including those provided for under Art. 100 of the Finance Law and Art. 33 of the Issuers Regulation, and any such offer, sale or delivery of the Offer Shares or distribution or copies of this prospectus or any other document relating to the Offer Shares must be made (i) by investment firms, banks or financial intermediaries authorised to carry out such activities in Italy in accordance with the Finance Law, Legislative Decree no. 385 of 1 September 1993, or the Banking Law, CONSOB Regulation no. 11522 of 1 July 1998 and any other applicable laws and regulations; (ii) in compliance with Art. 129 of the Banking Law, as supplemented by Bank of Italy's instructions, under which the issue or placement of securities in Italy is subject to a prior notification, unless an exemption, depending, among others on the amount of the issue or placement applies; and (iii) in compliance with any other applicable notification requirement or limitation which may, from time to time, be imposed by CONSOB or the Bank of Italy.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any Shares which may be issued or sold pursuant to the exercise of the Over-allotment Option) and any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme. Dealings in the Shares on the Stock Exchange are expected to commence on or about Wednesday, 30 June 2004. Save as disclosed in this prospectus, no part of the Company's share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in the Offer Shares. None of the Company, DSFH, the Global Co-ordinator, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of, dealing in, or the exercise of any rights in relation to, the Offer Shares.

OVER-ALLOTMENT AND STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard, and if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the offer price.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

In connection with the Global Offering, the Global Co-ordinator, as stabilisation manager, or any person acting for it, on behalf of the Underwriters, may over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period following the commencement of trading in the Shares on the Stock Exchange. In particular, for the purpose of settling stabilisation over-allocations, the Global Co-ordinator may borrow up to 27,300,000 Shares from DSFH, equivalent to the maximum number of Shares to be issued on full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. Any market purchases of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Global Co-ordinator or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the sole discretion of the Global Co-ordinator and may be discontinued at any time. Any such stabilising activity will end on the thirtieth day after the date of this prospectus. The number of Shares that may be over-allocated will not exceed the number of Shares that may be allotted and issued or sold under the Over-allotment Option, namely 27,300,000 Shares, which is 15% of the Shares initially available under the Global Offering.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules includes (i) over-allocation for the purpose of preventing or minimising any reduction in the market price, (ii) selling or agreeing to sell shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price, (iii) subscribing, or agreeing to subscribe, for shares pursuant to an over-allotment option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, shares for the sole purpose of preventing or minimising any reduction in the market price, (v) selling shares to liquidate a long position held as a result of those purchases, and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

As a result of effecting transactions to stabilise or maintain the market price of the Shares, the Global Co-ordinator, or any person acting for it, may maintain a long position in the Shares. The size of the long position, and the period for which the Global Co-ordinator, or any person acting for it, will maintain the long position is at the discretion of the Global Co-ordinator and is uncertain. In the event that the Global Co-ordinator liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilising action by the Global Co-ordinator, or any person acting for it, is not permitted to support the price of the Shares for longer than the stabilising period, which begins on the day on which trading of the Shares commences on the Stock Exchange and ends on the thirtieth day after the date of this prospectus. The stabilising period is expected to end on Sunday, 18 July 2004. As a result, demand for the Shares, and their market price, may fall after the end of the stabilising period.

Any stabilising action taken by the Global Co-ordinator, or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilising period. Bids for, or market purchases of, the Shares by the Global Co-ordinator, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the Shares by subscribers and purchasers.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Any liability, expenses, profit or loss (calculated on a mark-to-market basis at the end of the stabilising period) resulting from any stabilisation action taken by the Global Co-ordinator shall be shared equally between the Joint Bookrunners and DSFH.

The Global Co-ordinator (on behalf of the Company and DSFH) has applied to the Stock Exchange for a waiver from strict compliance with Rule 10.07(1) of the Listing Rules which restricts the disposal of Shares by controlling shareholders following a new listing, in order to allow, among other things, DSFH to enter into and perform its obligations under the Stock Borrowing Agreement on the following conditions:

- the Stock Borrowing Agreement will only be effected by the Global Co-ordinator for settlement of over-allocations in the International Placing;
- the maximum number of Shares borrowed from DSFH will be limited to the maximum number of Shares which may be issued upon the exercise of the Over-allotment Option;
- the same number of Shares borrowed must be returned to DSFH on or before the fifth Business Day following the earlier of (i) the last day on which Shares may be issued and allotted or sold pursuant to the Over-allotment Option, and (ii) the day on which the Over-allotment Option is exercised in full and the relevant over-allotment Shares have been sold;
- borrowing of stock pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable laws and regulatory requirements; and
- no payments will be made to DSFH in relation to the Stock Borrowing Agreement.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES AND RESERVED SHARES

The procedure for applying for Public Offer Shares and Reserved Shares is set out in the section headed “How to Apply for Public Offer Shares and Reserved Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure and Conditions of the Global Offering” in this prospectus.

ROUNDING

Any discrepancies in any table between totals and sums of amounts listed therein are due to rounding.

STAMP DUTY

No stamp duty is payable by applicants for Public Offer Shares in the Public Offer, for Reserved Shares in the Preferential Offer or for New Shares in the International Placing. All Sale Shares sold by DSFH pursuant to applications made in the International Placing will be subject to stamp duty at the rate of 0.2% of the Offer Price, which will be met by DSFH. The Offer Shares will be registered on the register of members of the Company which is maintained in Hong Kong.

All dealings in the Shares will be subject to Hong Kong stamp duty.

CURRENCY TRANSLATIONS

Transactions in foreign currencies are translated at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at the balance sheet date. All exchange differences are dealt with in the combined profit and loss account.

SELLING SHAREHOLDER AND DIRECTORS

Independent Non-executive Directors

| <u>Name</u> | <u>Address</u> | <u>Nationality</u> |
|------------------------|--|--------------------|
| Robert Tsai-To Sze | 6th Floor, 100 MacDonnell Road, Hong Kong | British |
| John William Simpson | 6 Brunton Park, Bowden, Melrose, Roxburghshire, TD6 OSZ, United Kingdom | British |
| David Richard Hinde | The Martins, High Street, Chipping Campden, Gloucestershire, GL55 6AG, United Kingdom | British |
| Andrew Kwan-Yuen Leung | No.52 La Salle Road, Kowloon, Hong Kong | British |

Non-executive Director

| <u>Name</u> | <u>Address</u> | <u>Nationality</u> |
|--------------|---|--------------------|
| Sohei Sasaki | 2-28-15 Nakamachi, Setagaya-ku, Tokyo, Japan | Japanese |

PARTIES INVOLVED IN THE GLOBAL OFFERING

| | |
|--|--|
| Global Co-ordinator, Sponsor, Joint Bookrunner, Joint Lead Manager, International Placing Underwriter, Preferential Offer Underwriter and Public Offer Underwriter | The Hongkong and Shanghai Banking Corporation Limited Level 15, 1 Queen's Road Central, Hong Kong |
| Joint Bookrunner, Joint Lead Manager, International Placing Underwriter, Preferential Offer Underwriter and Public Offer Underwriter | CLSA Limited 18th Floor, One Pacific Place, 88 Queensway, Hong Kong |
| Legal Advisers to the Company | <i>as to Hong Kong law:</i> Herbert Smith 23rd Floor, Gloucester Tower, 11 Pedder Street, Central, Hong Kong |
| Legal Advisers to the Global Co-ordinator, Sponsor, Joint Bookrunners, Joint Lead Managers, International Placing Underwriters, Preferential Offer Underwriters and Public Offer Underwriters | <i>as to Hong Kong law:</i> Linklaters 10th Floor, Alexandra House, Chater Road, Central, Hong Kong |
| Auditors and Reporting Accountants | PricewaterhouseCoopers 22nd Floor, Prince's Building, Central, Hong Kong |
| Property Valuer | Knight Frank 29th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong |

PARTIES INVOLVED IN THE GLOBAL OFFERING

Receiving Bankers

Dah Sing Bank, Limited
36th Floor,
Dah Sing Financial Centre,
108 Gloucester Road,
Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central,
Hong Kong

CORPORATE INFORMATION

| | |
|--|---|
| Registered Office | 36th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Hong Kong |
| Head Office and Principal Place of Business | 36th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Hong Kong |
| Company Secretary | Hoi-Lun Soo (Helen Soo) |
| Qualified Accountant | Gary Pak-Ling Wang |
| Audit Committee | Robert Tsai-To Sze John William Simpson David Richard Hinde |
| Authorised Representatives | Hon-Hing Wong (Derek Wong) Gary Pak-Ling Wang |
| Share Registrar and Transfer Office | Computershare Hong Kong Investor Services Limited Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong |

STRUCTURE OF THE BANKING SYSTEM

The Banking Ordinance, under which both Dah Sing Bank and MEVAS Bank are authorised, provides the legal framework for banking supervision in Hong Kong. The principal objectives of the Banking Ordinance are to regulate banking business and the business of taking deposits, and to supervise the institutions that it regulates, so as to provide a measure of protection to depositors and to promote the general effectiveness and stability of the banking industry in Hong Kong. Powers under the Banking Ordinance are vested in the HKMA, which is the body responsible for banking supervision in Hong Kong.

Hong Kong maintains a three-tier system of deposit-taking institutions: licensed banks; restricted licence banks; and deposit-taking companies, which are collectively known as AIs under the Banking Ordinance. Dah Sing Bank and MEVAS Bank are both licensed banks. The Banking Ordinance prohibits (i) the carrying on of “banking business” except by a bank authorised under the Banking Ordinance and (ii) the carrying on of the business of taking deposits except by an AI.

“Banking business” is defined in Section 2 of the Banking Ordinance as the business of either or both of the following:

- receiving from the general public money on current, deposit, savings or other similar accounts repayable on demand or within less than three months or at call or notice of less than three months; and/or
- paying or collecting cheques drawn by or paid in by customers.

In Hong Kong, only licensed banks may conduct full banking services, including operating current and savings accounts and accepting deposits of any size and maturity from the public and paying or collecting cheques drawn, or paid in, by customers. All licensed banks are required to be members of the Hong Kong Association of Banks.

Restricted licence banks, which are principally engaged in merchant banking and capital markets activities, may take call, notice or time deposits from the public in amounts of HK\$500,000 or above without restriction on maturity. Deposit-taking companies, which are mostly owned or otherwise associated with banks and which may engage in a range of specialised activities, including consumer finance and securities business, are restricted to taking deposits of HK\$100,000 or above with an original term to maturity of at least three months.

INDUSTRY OVERVIEW

COMPETITION

As at 31 December 2003, there were 215 AIs, of which 134 were licensed banks, including Dah Sing Bank and MEVAS Bank, and 42 were restricted licence banks. 23 of the licensed banks were locally incorporated and the remaining 111 were branches of foreign banks. In addition, 87 overseas banks had representative offices in Hong Kong. The total deposits and assets held by AIs as at 31 December 2003 were as follows:

| | No. of licensed entities | Total deposits | Total assets |
|--|---|---------------------------|-------------------------|
| <i>(in HK\$ millions, except for no. of licensed entities)</i> | | | |
| Licensed banks | 134 | 3,523,329 | 6,279,655 |
| Restricted licence banks | 42 | 38,187 | 188,498 |
| Deposit-taking companies | 39 | 4,908 | 37,724 |
| Total | <u>215</u> | <u>3,566,424</u> | <u>6,505,877</u> |

Source: HKMA Monthly Statistical Bulletin (February 2004)

The following table sets out the 23 locally incorporated licensed banks as at 31 December 2003:

| | |
|--|---|
| Asia Commercial Bank Limited | Jian Sing Bank Limited |
| Bank of America (Asia) Limited | Liu Chong Hing Bank Limited |
| Bank of China (Hong Kong) Limited | MEVAS Bank Limited |
| Chekiang First Bank Limited | Nanyang Commercial Bank, Limited |
| Chiyu Banking Corporation Limited | Shanghai Commercial Bank Limited |
| CITIC Ka Wah Bank Limited | Standard Bank Asia Limited |
| Dah Sing Bank, Limited | Tai Sang Bank Limited |
| DBS Bank (Hong Kong) Limited | Tai Yau Bank, Limited |
| (formerly known as Dao Heng Bank Limited) | The Bank of East Asia, Limited |
| Hang Seng Bank, Limited | The Hongkong and Shanghai Banking Corporation Limited |
| Industrial and Commercial Bank of China (Asia) Limited | Wing Hang Bank, Limited |
| International Bank of Asia Limited | Wing Lung Bank Limited |

Source: HKMA Annual Report (2003)

INDUSTRY OVERVIEW

INDUSTRY CHARACTERISTICS

For comparative purposes, unless stated otherwise, the information below refers to Retail Banks.

Assets and Liabilities of Retail Banks

The following table sets out, as at the dates indicated, certain information relating to the assets and liabilities of all Retail Banks:

| | As at 31 December | | | | |
|--|---------------------------|---------------------|---------------------|---------------------|---------------------|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | <i>(in HK\$ billions)</i> | | | | |
| Assets | | | | | |
| Loans to customers | 1,450 | 1,459 | 1,454 | 1,431 | 1,369 |
| Inside Hong Kong ⁽¹⁾ | 1,412 | 1,426 | 1,420 | 1,390 | 1,323 |
| Outside Hong Kong ⁽²⁾ | 39 | 33 | 33 | 41 | 46 |
| Interbank lending | 1,166 | 1,010 | 1,188 | 1,433 | 1,289 |
| Inside Hong Kong | 357 | 297 | 348 | 432 | 399 |
| Outside Hong Kong | 809 | 713 | 840 | 1,002 | 890 |
| Negotiable certificates of deposit (NCD) | 96 | 82 | 74 | 77 | 58 |
| Negotiable debt instruments, other than NCD | 843 | 744 | 616 | 494 | 369 |
| Other assets | 327 | 269 | 221 | 202 | 218 |
| Total assets | <u>3,883</u> | <u>3,564</u> | <u>3,553</u> | <u>3,637</u> | <u>3,303</u> |
| Liabilities | | | | | |
| Deposits from customers ⁽³⁾ | 2,927 | 2,726 | 2,708 | 2,722 | 2,481 |
| Interbank borrowing | 354 | 291 | 329 | 425 | 349 |
| Inside Hong Kong | 58 | 55 | 58 | 86 | 82 |
| Outside Hong Kong | 296 | 236 | 271 | 339 | 267 |
| NCD | 162 | 138 | 113 | 118 | 126 |
| Other liabilities | 440 | 409 | 402 | 372 | 346 |
| Total liabilities | <u>3,883</u> | <u>3,564</u> | <u>3,553</u> | <u>3,637</u> | <u>3,303</u> |

Notes:

- (1) Defined as loans for use in Hong Kong plus trade financing loans.
- (2) Includes unallocated loans.
- (3) Includes swap deposits.

Source: HKMA Annual Report (2003)

INDUSTRY OVERVIEW

Loans to Customers

The following table sets out, as at the dates indicated, the breakdown of loans for use in Hong Kong by economic sector made by Retail Banks:

| | As at 31 December | | | | | | | | | |
|---|---|------------|--------------|------------|--------------|------------|--------------|------------|--------------|------------|
| | 2003 | | 2002 | | 2001 | | 2000 | | 1999 | |
| | Amount | (%) | Amount | (%) | Amount | (%) | Amount | (%) | Amount | (%) |
| | <i>(in HK\$ billions, except for percentages)</i> | | | | | | | | | |
| Hong Kong's visible trade | 80 | 6 | 72 | 5 | 69 | 5 | 78 | 6 | 85 | 6 |
| Manufacturing | 53 | 4 | 47 | 3 | 46 | 3 | 47 | 3 | 49 | 4 |
| Transport & transport equipment | 68 | 5 | 63 | 4 | 58 | 4 | 48 | 3 | 43 | 3 |
| Building, construction & property development and investment | 301 | 21 | 311 | 22 | 307 | 22 | 294 | 21 | 272 | 21 |
| Wholesale and retail trade | 65 | 5 | 70 | 5 | 68 | 5 | 76 | 5 | 87 | 7 |
| Financial concerns (other than authorized institutions) | 65 | 5 | 56 | 4 | 63 | 4 | 63 | 5 | 72 | 5 |
| Individuals: | | | | | | | | | | |
| To purchase flats in the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenants Purchase Scheme | 57 | 4 | 65 | 5 | 69 | 5 | 56 | 4 | 45 | 3 |
| To purchase other residential properties | 501 | 35 | 508 | 36 | 497 | 35 | 482 | 35 | 458 | 35 |
| Other purposes | 104 | 7 | 111 | 8 | 116 | 8 | 114 | 8 | 105 | 8 |
| Others | 117 | 8 | 122 | 9 | 126 | 9 | 132 | 9 | 106 | 8 |
| Total⁽¹⁾ | 1,412 | 100 | 1,426 | 100 | 1,420 | 100 | 1,390 | 100 | 1,323 | 100 |

Note:

(1) Defined as loans for use in Hong Kong plus trade financing loans.

Source: HKMA Annual Report (2003)

INDUSTRY OVERVIEW

Asset Quality

The following table sets out, as at the dates indicated, certain information relating to the asset quality as a percentage of total credit exposures⁽¹⁾ of Retail Banks:

| | As at 31 December | | | | |
|---|-------------------|------|------|------|-------|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | (%) | | | | |
| Total outstanding provisions | 1.13 | 1.41 | 1.76 | 2.16 | 2.68 |
| Classified exposures ⁽²⁾ | | | | | |
| Gross | 2.30 | 3.02 | 4.03 | 4.70 | 6.72 |
| Net of specific provisions | 1.65 | 2.15 | 2.85 | 3.25 | 4.72 |
| Net of all provisions | 1.16 | 1.61 | 2.27 | 2.54 | 4.04 |
| Non-performing exposures ⁽²⁾ | 1.72 | 2.17 | 2.92 | 3.52 | 4.68 |
| As % of total loans | | | | | |
| Total outstanding provisions | 2.05 | 2.49 | 3.04 | 3.52 | 4.25 |
| Classified ⁽³⁾ loans | | | | | |
| Gross | 3.91 | 5.04 | 6.53 | 7.26 | 10.14 |
| Net of specific provisions | 2.74 | 3.53 | 4.51 | 4.93 | 7.02 |
| Net of all provisions | 1.85 | 2.55 | 3.48 | 3.74 | 5.89 |
| Non-performing loans ⁽⁴⁾ | 3.16 | 3.94 | 5.16 | 5.87 | 7.60 |
| More than three months overdue and rescheduled loans | 2.83 | 3.59 | 4.57 | 6.04 | 7.86 |

Notes:

- (1) Figures relate to Hong Kong office(s) and for locally incorporated AIs included therein, also, their overseas branches.
- (2) Credit exposures include loans and advances, acceptances and bills of exchange held, investment debt securities issued by others, accrued interest, and commitments and contingent liabilities to or on behalf of non-banks.
- (3) Denotes loans or exposures graded as "substandard", "doubtful" or "loss".
- (4) Denotes loans or exposures on which interest has been placed in suspense or on which interest accrual has ceased.

Source: HKMA Annual Report (2003)

INDUSTRY OVERVIEW

The following table sets out, as at the dates indicated, certain information relating to asset quality in the residential mortgage and credit card businesses of the surveyed institutions in Hong Kong:

| | As at 31 December | | | | |
|--|-------------------|-------|------|------|------|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | | | (%) | | |
| Residential mortgage loans | | | | | |
| Delinquency ratio | 0.86 | 1.06 | 1.22 | 1.32 | 1.13 |
| Credit card receivables ⁽¹⁾ | | | | | |
| Delinquency ratio | 0.92 | 1.28 | 1.28 | 0.76 | 0.92 |
| Charge-off ratio | 10.02 | 13.25 | 5.46 | 3.88 | 4.92 |

Note:

(1) There is a break in series in 2001 owing to an increase in the number of surveyed institutions.

Source: HKMA Annual Report (2003)

Profitability

The following table sets out, as at the dates indicated, certain information relating to the profitability of Retail Banks:

| | As at 31 December | | | | |
|--|-------------------|------|------|------|------|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | | | (%) | | |
| All Retail Banks | | | | | |
| Return on assets (operating profit before tax) | 1.36 | 1.35 | 1.17 | 1.33 | 0.98 |
| Return on assets (post-tax profit) | 1.17 | 1.18 | 1.05 | 1.16 | 0.94 |
| Net interest margin | 1.91 | 2.09 | 2.03 | 2.14 | 2.11 |
| Cost-income ratio | 38.7 | 39.3 | 42.2 | 38.1 | 39.0 |
| Bad debt charge to total assets | 0.29 | 0.34 | 0.40 | 0.44 | 0.76 |
| Locally incorporated banks | | | | | |
| Operating profit before tax to shareholders' funds | 16.6 | 16.2 | 15.4 | 17.0 | 12.6 |
| Post-tax profit to shareholders' funds | 14.4 | 14.0 | 14.1 | 14.7 | 11.6 |

Source: HKMA Annual Report (2003)

INDUSTRY OVERVIEW

Liquidity

The following table sets out, as at the dates indicated, certain information relating to the liquidity of Retail Banks:

| | As at 31 December | | | | |
|---|-------------------|------|------|------|------|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | | | (%) | | |
| Loan to deposit ratio (all currencies) | 49.6 | 53.5 | 53.7 | 52.6 | 55.2 |
| Loan to deposit ratio (HK dollars) ⁽¹⁾ | 71.6 | 78.6 | 77.2 | 73.3 | 71.7 |

Note:

(1) Includes swap deposits.

Source: HKMA Annual Report (2003)

Capital Adequacy

The following table sets out, as at the dates indicated, certain information relating to the capital adequacy of locally incorporated banks and locally incorporated AIs:

| | As at 31 December | | | | |
|--|-------------------|------|------|------|------|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | | | (%) | | |
| Locally incorporated banks | | | | | |
| Equity to asset ratio ⁽¹⁾ | 10.5 | 10.6 | 10.5 | 8.6 | 8.9 |
| Locally incorporated AIs | | | | | |
| Capital adequacy ratio (consolidated) | 15.3 | 15.7 | 16.5 | 17.8 | 18.7 |

Note:

(1) Figures include overseas branches.

Source: HKMA Annual Report (2003)

Despite the decline in CARs as set out above, the capital position of banks in Hong Kong still remains above international minimum standards. See the section headed "Capital Adequacy" in Appendix VII to this prospectus for a more detailed description of the HKMA's capital adequacy requirements.

INDUSTRY OVERVIEW

Hong Kong Interest Rates

The following table sets out, as at the dates indicated, certain information relating to Hong Kong interest rates:

| | As at 31 December | | | | |
|----------------------------|-------------------|------|------|------|------|
| | 2003 | 2002 | 2001 | 2000 | 1999 |
| | | | (%) | | |
| Three-month interbank rate | 0.07 | 1.41 | 1.88 | 5.75 | 5.69 |
| Savings deposit | 0.01 | 0.03 | 0.15 | 4.75 | 3.75 |
| One-month time deposit | 0.01 | 0.13 | 0.54 | 5.03 | 4.36 |
| Banks' "Best lending rate" | 5.00 | 5.00 | 5.13 | 9.50 | 8.50 |

Source: HKMA Annual Report (2003)

RECENT INDUSTRY AND REGULATORY DEVELOPMENTS

Merger and Acquisition Activity and Consolidation among Retail Banks in Hong Kong

Merger and acquisition activity and consolidation among Retail Banks in Hong Kong in recent years supports two key themes:

- *Consolidation:* In line with the global trend towards consolidation in the financial services industry, the Hong Kong banking industry has seen a number of cases where banks have sought to increase their competitiveness through consolidation. Examples of this include CITIC Ka Wah Bank Limited's acquisition of The Hongkong Chinese Bank, Limited in 2002 and Wing Hang Bank, Limited's acquisition of Chekiang First Bank Limited in 2003.
- *Entry of Asian financial institutions:* Whereas historically new market entrants tended to be international players seeking entry into Hong Kong, the trend in recent years has been for Asian players, particularly from Singapore, Mainland China and Taiwan, to seek to enter the Hong Kong market through acquisitions. Examples of this include the acquisition of interests in Dao Heng Bank Group Limited by DBS Diamond Holdings Ltd. in 2001, in Fortis Bank Asia HK (now known as Belgian Bank) by Industrial and Commercial Bank of China (Asia) Limited in 2003 and in International Bank of Asia Limited by Fubon Financial Holding Co., Ltd. in 2004.

INDUSTRY OVERVIEW

The following table sets out details of certain bank acquisitions in Hong Kong in the past five years:

| Date of transaction | Name of target bank(s) | Name of acquiror | Major vendor(s) |
|---------------------|--|--|---|
| 1999 | Kwong On Bank, Limited | DBS Group Holdings (Hong Kong) Ltd. | The Fuji Bank, Limited, Kwong On Holdings Limited |
| 2000 | Union Bank of Hong Kong Limited | The Industrial and Commercial Bank of China | China Merchants Finance Holdings Company Limited |
| 2000 | Chase Manhattan Card Company Limited and Hong Kong-based retail banking business of The Chase Manhattan Bank | Standard Chartered PLC | The Chase Manhattan Bank |
| 2001 | Dao Heng Bank Group Limited | DBS Diamond Holdings Ltd. | Guoco Group Limited |
| 2001 | Industrial and Commercial Bank of China – Branch Commercial Banking Business | Industrial and Commercial Bank of China (Asia) Limited | Industrial and Commercial Bank of China |
| 2001 | Jardine Fleming Bank Limited | Standard Bank Investment Corporation Limited | JP Morgan Chase & Co. |
| 2001 | FPB Bank Holding Company Limited | The Bank of East Asia, Limited | FPMF Limited, MIMET FOTIC Investment Limited |
| 2002 | Jian Sing Bank Limited | China Construction Bank | Dah Sing Bank, Limited |
| 2002 | The Hongkong Chinese Bank, Limited | CITIC Ka Wah Bank Limited | The HKCB Bank Holding Company Limited |
| 2003 | Fortis Bank Asia HK (now known as Belgian Bank) | Industrial and Commercial Bank of China (Asia) Limited | Fortis NV/SA, Generale Belgian Holding B.V. |
| 2003 | Chekiang First Bank Limited | Wing Hang Bank, Limited | Mizuho Corporate Bank, Ltd. |
| 2004 | International Bank of Asia Limited | Fubon Financial Holding Co., Ltd. | Arab Banking Corporation (B.S.C.) |

Source: SDC, Dow Jones Reuters Business Interactive, the Stock Exchange website, company announcements

Increased Opportunities in Mainland China

Mainland China is one of the world's leading emerging markets in terms of GDP growth. Businesses, from Hong Kong and internationally, are increasingly seeking to move operations to Mainland China in order to benefit from relatively lower manufacturing costs and to seek to take advantage of domestic business opportunities.

INDUSTRY OVERVIEW

Increasingly, there are likely to be opportunities for Hong Kong incorporated banks to provide services and take advantage of both the inflow of international business into Mainland China and the opening of the domestic market to international financial institutions. Recent examples of such opportunities include:

- *CEPA*: CEPA contains a number of concessions for Hong Kong incorporated banks seeking to do business in Mainland China. The total asset requirement for Hong Kong incorporated banks to establish branches or bodies corporate in Mainland China was reduced to not less than US\$6 billion of total assets at the year end immediately preceding application. Under CEPA, Hong Kong incorporated banks are no longer required to set up representative offices in Mainland China prior to establishing a joint venture bank or finance company in Mainland China, and branches of Hong Kong incorporated banks operating in Mainland China may apply to conduct RMB business in Mainland China after operating profitably for more than two years, on the basis of the aggregate profitability of all their branches in Mainland China.
- *RMB Business in Hong Kong*: New rules regarding the conduct of RMB business for banks in Hong Kong were announced on 18 November 2003. Under the new rules, all licensed banks in Hong Kong are permitted to accept deposits from Hong Kong resident customers in RMB, to offer RMB currency exchange services up to a maximum of RMB6,000 per transaction for non-customers, or up to RMB20,000 per day for existing customers, to offer remittance services in RMB between existing customers in Hong Kong and accounts in the same name at banks in Mainland China up to a maximum of RMB50,000 per customer per day, and to offer debit and credit cards denominated in RMB. Bank of China (Hong Kong) Limited is the clearing bank for all RMB business conducted by Hong Kong banks. The new rules regarding RMB business became effective on 25 February 2004.

Sharing of Positive Consumer Data

In August 2003, a credit reference agency was established in Hong Kong to cover consumer lending. The credit reference agency covers all forms of consumer borrowing and is updated monthly by AIs supplying data to the agency. AIs are able, subject to satisfying certain qualifying criteria, to access both positive and negative data in respect of individual consumers to assist in the underwriting of new credit applications and the assessment of increases to, and renewals of, existing credit facilities. Customer data must be properly safeguarded with respect to the confidentiality, accuracy, relevance and proper utilisation of the information and access to the database by AIs is restricted to permitted purposes only.

Commercial Credit Reference Agency

A new commercial credit reference agency has been proposed, and is supported by the HKMA. It is expected that the new agency will be based on voluntary participation by AIs. The scheme will cover unlisted companies with turnover of less than HK\$50 million per year and all forms of credit granted to those companies by AIs, and will be updated monthly. Customer consent will be required for the new scheme and the data received must be properly safeguarded with respect to confidentiality, accuracy, relevance and proper utilisation of the information. It is currently expected that the new scheme will be introduced and will be operational by the third quarter of 2004.

Basel II

In April 2003, the third consultative version of the “New Basel Capital Accord” (“Basel II”) prescribing new requirements for banks’ regulatory capital was published. Basel II is based upon three pillars:

- *Pillar one*: minimum capital requirement; introduces three alternative approaches to quantifying capital required for credit risk and operational risk, each of which implies increasing sophistication and use of internal models in the management of these risks.
- *Pillar two*: the supervisory review process requires supervisors to ensure that each bank has sound internal processes in place to assess the adequacy of its capital based upon a thorough evaluation of its risks.
- *Pillar three*: market discipline; aims to bolster market discipline through significantly increased disclosure by banks, so that market participants can better understand banks’ risk profiles, capital adequacy and aspects of their internal risk management.

It is anticipated that the new accord will be implemented by regulators in 2006 and the HKMA has indicated that it intends to implement the new accord with local modifications in line with the timetable of other major international banking centres.

INTRODUCTION

The Company was established on 11 March 2004 as the holding company for the banking-related interests of DSFH. The banking business of the Group is carried out through its subsidiaries with banking licences. All descriptions of the banking business of the Group in this prospectus refer to the banking business carried out through these subsidiaries. The Group's operations comprise three main lines of business carried out through its banking subsidiaries: personal banking, commercial banking and treasury. The Group's operations are primarily based in Hong Kong, although it has recently opened its first Mainland China branch in Shenzhen and also has an interest in an offshore private bank licensed in Guernsey.

The Group's personal banking business, carried out through its banking subsidiaries, offers retail, private and VIP banking services, including deposit-taking, mortgage lending, credit cards, personal loans, overdrafts and wealth management products and services. The Group's commercial banking services, carried out through its banking subsidiaries, include a variety of lending and deposit-taking services for commercial and institutional customers. The Group also operates, through Dah Sing Bank, a treasury business, which is responsible for securities investment, funding, foreign exchange, cash management and interest rate risk management.

The Group is headquartered in Hong Kong and, as at 31 December 2003, its local banking subsidiaries had a network of 43 branches and three sales and service centres, with approximately 1,200 employees and more than 700,000 customers. The Group's principal subsidiary, Dah Sing Bank, has been active in the banking business since 1947 and, in the past ten years, has established a significant position in the personal banking market in Hong Kong.

In addition to Dah Sing Bank, the Company has two smaller banking subsidiaries, MEVAS Bank, which is wholly-owned, and D.A.H. Hambros Bank, in which the Company holds a 75.5% interest. Dah Sing Bank and MEVAS Bank are licensed banks under the Banking Ordinance and are regulated by the HKMA. Pursuant to Section 70 of the Banking Ordinance, the Company has obtained the consent of the HKMA to become a majority shareholder controller of Dah Sing Bank and MEVAS Bank. D.A.H. Hambros Bank is licensed under the Banking Supervision (Bailiwick of Guernsey) Law of 1994 and is regulated by the Guernsey Financial Services Commission.

Dah Sing Bank, MEVAS Bank and D.A.H. Holdings, the parent of D.A.H. Hambros Bank, were previously directly held subsidiaries of DSFH, the holding company of the Company. However, following the incorporation of the Company, a reorganisation was effected to transfer all of DSFH's banking interests to the Company, which will continue to be a subsidiary of DSFH upon completion of the Global Offering.

For the year ended 31 December 2003, the Group's combined net interest income amounted to HK\$1,683 million and its combined profit before taxation was HK\$1,005 million. As at 31 December 2003, the Group had combined total assets of HK\$62,164 million, combined advances to customers of HK\$27,942 million, combined customer deposits of HK\$40,152 million and

THE COMPANY AND ITS BUSINESS

combined shareholders' funds of HK\$5,680 million. As at 31 December 2003, the Group's total CAR was 20.4%, its Tier 1 CAR was 15.8%, and for the year ended 31 December 2003, its average liquidity ratio was 65.9%. Please also refer to the tables headed "Liquidity" and "Capital Adequacy" in the section headed "Industry Overview" in this prospectus.

HISTORY

Dah Sing Bank was founded in 1947. Dah Sing Bank's business initially focused on trade finance, mortgage lending and deposit-taking, but it has expanded the size and range of its businesses since the late 1980s as a result of both organic growth and acquisitions. Dah Sing Bank's commercial banking and hire purchase finance businesses grew significantly in the mid-1980s and the early 1990s, at which time Dah Sing Bank began to diversify into full service retail banking. Since the early 1990s, the Group has also pursued a "bancassurance" strategy, whereby life assurance products are distributed through its branch network. Since 2002, the Group has also expanded its wealth management business significantly.

The businesses carried on by the Group were expanded by two significant acquisitions. In 1987, Dah Sing Bank acquired the Hongkong Industrial and Commercial Bank Limited (now known as JSB). The consolidation of the operations of the two banks brought a significant increase in the total assets, customer base and branch network of Dah Sing Bank. In 1994, Dah Sing Bank entered into a joint venture agreement with the People's Construction Bank of China (now known as CCB), whereby it sold a 40% interest in JSB to CCB. CCB increased its shareholding in JSB to 70% in 1998. In February 2002, Dah Sing Bank disposed of its remaining 30% interest in JSB to CCB.

In 1993, DSFH acquired WOB. Pursuant to a subsequent business reorganisation, the majority of WOB's branches, assets and liabilities were transferred to Dah Sing Bank. Under a joint venture agreement between DSFH, Abbey National plc and Hambros Bank Limited, WOB was restructured as a joint-venture private bank based in Hong Kong and in August 1997, was renamed as DAHP. In August 2000, DSFH agreed to acquire the interests of Abbey (a nominee of Abbey National plc) and SG Hambros (formerly Hambros Bank Limited) in DAHP. The acquisition was completed in September 2000 with the transfer of DAHP's Hong Kong private banking business to Dah Sing Bank, together with nearly all of its loans and deposits. This acquisition contributed to the expansion of Dah Sing Bank's lines of business and its range of products. DAHP was subsequently renamed as MEVAS Bank, which remains as the Group's second retail banking brand and currently services customers through its 24-hour call centre and six branches.

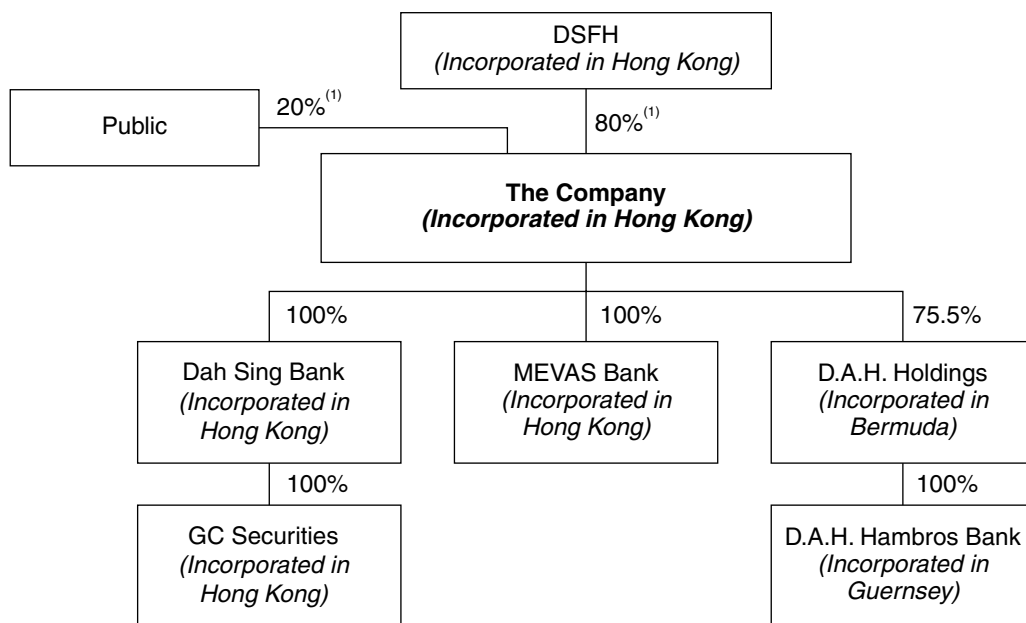
D.A.H. Holdings, the parent of D.A.H. Hambros Bank, was incorporated in February 1997 with the Group as a 51% shareholder. On 23 December 2002, the Group acquired a further 24.5% interest in D.A.H. Holdings from Abbey. The remaining interest is held by SG Hambros.

REORGANISATION

The Company was incorporated in Hong Kong on 11 March 2004. Following the incorporation of the Company, a reorganisation was effected as a result of which certain companies within the DSFH Group became subsidiaries of the Company in preparation for the listing of the Shares. The objective of the reorganisation was to establish the Company as the holding company for the DSFH Group’s banking subsidiaries. Under the reorganisation, all the DSFH Group’s banking subsidiaries, including Dah Sing Bank, MEVAS Bank and D.A.H. Hambros Bank, were transferred to the Group. In addition, as part of the reorganisation, DSIA, which was a non-banking subsidiary of Dah Sing Bank, was transferred to DSFH.

Further details of the reorganisation are set out in the section headed “Corporate Reorganisation” in Appendix IX to this prospectus.

The following chart sets out the simplified corporate structure of the Group, including its major shareholders and major subsidiaries, immediately following the completion of the reorganisation and the Global Offering, assuming that the Over-allotment Option is not exercised.



Note:

- (1) If the Over-allotment Option is exercised in full, the percentage holdings of Shares of the public and DSFH will be approximately 22.6% and 77.4%, respectively.

KEY STRENGTHS

Over the last five years, the Group's local banking subsidiaries have consistently outperformed the average of all Retail Banks in terms of return on average assets, net interest margin and non-performing loan ratio, and the average of all locally incorporated banks, in terms of return on shareholders' funds. The Company believes that the key strengths that have enabled it to achieve this are as follows:

- *Management:* Management of the Group has shown its ability to identify and execute opportunities to expand into new business areas or grow existing businesses which offer an attractive combination of risk and return and to decrease focus on products and services which do not.
- *Brand:* "Dah Sing" has become a well-known brand in Hong Kong, as a result of more than 50 years in the banking business and more than 16 years as part of a listed group, the Group's customer base of over 700,000 customers, its branch network, advertising and its wide range of personal banking and commercial banking products and services.
- *Personal banking:* The Group provides an innovative and wide-ranging personal banking product and service franchise. The Group's particular strength has been in the credit card and consumer finance sectors, which provide a broad customer base from which to expand its wealth management and other businesses.
- *Commercial banking:* The Group has long-standing commercial banking client relationships, particularly in the SME sector.
- *Treasury:* The Group has a treasury management infrastructure which has enabled it to take advantage of the high degree of liquidity in the Hong Kong market to profitably deploy deposits taken by the Group. This has resulted in the treasury division becoming a significant contributor to profits in recent years.
- *Risk management:* Coupled with the Group's determination to grow its core businesses is a focus on risk management, which has enabled the Group's local banking subsidiaries to maintain an average non-performing loan ratio that is below the average of all Retail Banks in Hong Kong.

THE COMPANY AND ITS BUSINESS

BUSINESS

The Group's operations comprise three principal lines of business carried out through its banking subsidiaries: personal banking, commercial banking and treasury.

The operating income from each of the business divisions of the Group for the years ended 31 December 2001, 2002 and 2003, respectively, was as follows:

| | For the year ended 31 December | | | | | |
|-------------------------|--|--------------|--------------|--------------|--------------|--------------|
| | 2003 | | 2002 | | 2001 | |
| | Amount | (%) | Amount | (%) | Amount | (%) |
| | <i>(in HK\$ million, except percentages)</i> | | | | | |
| Personal banking | 1,245 | 56.1 | 1,327 | 55.8 | 1,118 | 52.2 |
| Commercial banking | 571 | 25.7 | 560 | 23.5 | 633 | 29.5 |
| Treasury | 389 | 17.6 | 434 | 18.2 | 336 | 15.7 |
| Elimination/unallocated | 13 | 0.6 | 58 | 2.5 | 56 | 2.6 |
| Operating income | 2,218 | 100.0 | 2,379 | 100.0 | 2,143 | 100.0 |

The profit before taxation from each of the business divisions of the Group for the years ended 31 December 2001, 2002 and 2003, respectively, was as follows:

| | For the year ended 31 December | | | | | |
|-------------------------------------|--|--------------|------------|--------------|------------|--------------|
| | 2003 | | 2002 | | 2001 | |
| | Amount | (%) | Amount | (%) | Amount | (%) |
| | <i>(in HK\$ million, except percentages)</i> | | | | | |
| Personal banking | 234 | 23.2 | 109 | 12.9 | 159 | 16.3 |
| Commercial banking | 372 | 37.0 | 336 | 39.6 | 405 | 41.8 |
| Treasury ⁽¹⁾ | 490 | 48.8 | 445 | 52.5 | 444 | 45.8 |
| Elimination/unallocated | (91) | (9.0) | (42) | (5.0) | (38) | (3.9) |
| Total profit before taxation | 1,005 | 100.0 | 848 | 100.0 | 970 | 100.0 |

Note:

(1) Including net gain on disposal of non-trading and held-to-maturity securities.

Personal Banking

The Group's personal banking business comprises retail banking, VIP banking and private banking. The retail banking business accounts for the majority of the personal banking activities of the Group and comprises retail residential mortgages, credit cards, personal loans and overdrafts, deposit-taking and wealth management. Since 1994, the Group has focused on developing and expanding its personal banking business through certain key products, such as credit cards and unsecured personal loans. Over that period, the positive rate of growth in the local personal financial services market and the interest rates carried by these products, which tend to be higher than for other loan products, have contributed to the growth in profits of the Group's personal banking division. The Group recognises the higher degree of credit risk associated with its unsecured credit card and personal loan businesses, and has, as a result, taken measures to strengthen its risk management capabilities in this area. For further information see the section headed "Description of the Assets and Liabilities of the Group — Credit Policies and Approval Procedures" in this prospectus.

The Group's personal banking division also provides customers with additional services, such as securities dealing, foreign currency remittances, telegraphic transfers, issues of bank drafts, cashier's orders, travellers cheques, gift cheques, provision of safe deposit boxes, ATM and telephone banking services and distribution of life and general assurance policies, unit trusts and other wealth management products and services. The Group's strategy in the last two years has been to expand its wealth management business using its wide customer base to cross-sell such products. Since 2000, the Group has also provided e-banking services, using the Internet as an alternative channel to distribute its products and services.

MEVAS Bank, the Group's separate retail banking brand, commenced business in April 2001 having changed its name from DAHP. MEVAS Bank currently operates a network of six branches, a 24-hour call/telephone banking centre and an Internet banking platform which focuses on the personal banking sector, targeting mainly Hong Kong's retail and middle-income sectors. MEVAS Bank provides the Group with a means of adopting an alternative product pricing strategy to that of Dah Sing Bank.

Pursuant to a reorganisation of the Group's personal banking business in January 2003, all operations and IT platforms of MEVAS Bank were integrated with those of Dah Sing Bank. MEVAS Bank generated a net profit of HK\$1.5 million for the year ended 31 December 2003 against losses of HK\$34.5 million and HK\$35.1 million for the year ended 31 December 2002 and 2001, respectively. The improvement in its operating performance was attributable to the growth in its customer base and therefore operating income, and an overall reduction in its operating expenses following the integration of its operations and support functions with those of Dah Sing Bank.

THE COMPANY AND ITS BUSINESS

The following table sets out a breakdown by operating income for the principal activities in the personal banking division for the years ended 31 December 2001, 2002 and 2003, respectively:

| | For the year ended 31 December | | | | | |
|------------------------------|---|--------------|--------------|--------------|--------------|--------------|
| | 2003 | | 2002 | | 2001 | |
| | Amount | (%) | Amount | (%) | Amount | (%) |
| | <i>(in HK\$ millions, except percentages)</i> | | | | | |
| Net interest income from | | | | | | |
| Retail residential mortgages | 194 | 15.6 | 140 | 10.6 | 187 | 16.7 |
| Credit cards | 509 | 40.9 | 573 | 43.2 | 472 | 42.2 |
| Other consumer lending | 245 | 19.7 | 313 | 23.6 | 283 | 25.3 |
| Deposit-taking | 140 | 11.2 | 180 | 13.5 | 114 | 10.3 |
| Non-interest income from | | | | | | |
| Products and services | 157 | 12.6 | 121 | 9.1 | 62 | 5.5 |
| Total | 1,245 | 100.0 | 1,327 | 100.0 | 1,118 | 100.0 |

The aggregate amount of Government guaranteed mortgages, residential mortgage loans, credit card receivables, personal loans and overdraft facilities represented approximately 55.8% of the total loan portfolio of the Group as at 31 December 2003.

Retail Banking

The principal retail banking business comprises retail residential mortgages, credit cards, personal loans and overdrafts, deposit-taking and wealth management.

Retail Residential Mortgages

The Group has been a lender in the Hong Kong retail mortgage market for many years. The Group provides a wide range of mortgages, almost all of which are priced on the basis of a floating rate of interest. The Group uses a range of incentives to attract borrowers, such as discounted rates for fixed periods and cash rebates. The Group's target market is primarily the lower- and middle-income market, hence the average residential mortgage loan size in 2003 was HK\$1.2 million. 39.4% of the Group's loan portfolio as at 31 December 2003 consisted of retail residential and Government guaranteed mortgage loans.

During the last few years, the Hong Kong property market has experienced significant price erosion. During this time, the Group decreased its marketing of retail residential mortgage loans. However, in anticipation of an improvement in the property market, management made a decision to increase the Group's mortgage portfolio in mid-2003 by offering more competitive terms on its retail residential mortgage loans.

THE COMPANY AND ITS BUSINESS

Despite the downturn in the Hong Kong property market and significant decreases in property values, as at 31 December 2002 and 31 December 2003, the delinquency rate of the Group's residential mortgage portfolio remained relatively low, amounting to 0.6% and 0.3%, respectively. According to the results of a survey conducted by HKMA of over 95% of the total Hong Kong residential and mortgage lending business, as at 31 December 2003, the Hong Kong residential mortgage delinquency rate for surveyed institutions was 0.9%. In addition, the proportion of the Group's retail residential mortgage portfolio in negative equity by value had decreased from 16.8% as at 31 December 2002 to 13.2% as at 31 December 2003 as a result of an improvement in residential property values in the second half of 2003.

When determining the suitability of a borrower for a mortgage, the Group considers, *inter alia*, the borrower's ability to service the debt. The Group's current practice (which is consistent with general market practice in Hong Kong) is to advance as a mortgage up to 70% of the lower of the appraised value of the property or the purchase price. Collateral is taken in the form of a first legal charge over the relevant property. Since the introduction of mortgage insurance offered by the Hong Kong Mortgage Corporation, a public sector entity, the Group has also offered residential mortgage loans of up to 90% of the value of the property in cases where the mortgage insurance covers the loan amount in excess of 70% of the property value at origination.

Credit Cards

The Group offers a comprehensive range of credit card products in Hong Kong with a total of around 70 co-brand, affinity or theme card programmes that cater to general as well as specialised markets. The Group had approximately 500,000 credit cards in issue as at 31 December 2003 and as at such date its total credit card receivables amounted to HK\$2,132 million. Dah Sing Bank is the only bank in Hong Kong that offers each of Visa, MasterCard and American Express cards in Hong Kong.

The Group's co-brand, affinity and theme credit cards include programmes with organisations such as The Association of Chartered Certified Accountants and consumer retail franchises in Hong Kong such as Fotomax, Chickeeduck and PEOPLES. The Group also seeks to differentiate itself from its competitors by introducing credit cards which provide creative value-added features in order to increase card usage and the customer's loyalty to the Group. In this regard, the Group pioneered an automatic add-value feature for the Octopus card, a popular payment card system for public transport and other small payments in Hong Kong, and a Short Message Service ("SMS") transaction notifier system and has recently re-launched a co-brand credit card with Autotoll Limited, the operator of the automated toll payment system for certain tunnels and roads in Hong Kong.

The Group currently charges an annualised percentage rate of between 16.3% and 20.8% on amounts outstanding on most of its credit cards, taking into account a cash rebate scheme. This compares with an annualised percentage rate of 25.5% to 26.8% for each of the three largest card issuers in Hong Kong. The Group's lower rates, combined with its wide product range and cash rebate programme, have contributed to the growth of its credit card business.

The number of credit cards issued by the Group increased from 485,000 as at 31 December 2001 to 504,000 as at 31 December 2002, but decreased marginally to 501,000 as at 31 December 2003. In addition, credit card receivables have decreased from HK\$2,774 million to HK\$2,624 million and to HK\$2,132 million as at 31 December 2001, 2002 and 2003, respectively. The decreases were a result of more stringent credit approval and control criteria introduced in 2002 and generally weak market conditions. The Group has consistently maintained a prudent credit policy and card application approval process. Through its credit scoring system and collection policy, the Group has sought to manage actively the asset quality of its credit card portfolio through the difficult market conditions that existed during 2002 and 2003. Due to the economic slowdown and rise in unemployment and personal bankruptcies in Hong Kong in 2002, the Group's credit card charge-off rate rose from 4.7% as at 31 December 2001 to 14.6% as at 31 December 2002 and 9.4% as at 31 December 2003, compared to the annualised charge-off rate for surveyed institutions as disclosed by the HKMA, of 5.5% for 2001, 13.3% for 2002 and 10% for 2003.

Personal Loans

The Group's retail banking division offers a wide range of unsecured personal loans including tax loans, special purpose loans and flexible and revolving instalment loans, which are targeted at a broad retail market and are priced at different interest rates based on product type and customer credit profiles. The Group also offers a range of higher-yield products targeted at the sub-prime market.

Revolving personal overdraft facilities are available to individuals seeking standby credit facilities. The key credit criteria for approving such retail lending are evidence of a stable source of income and an acceptable ability to service the debt. For further information, see the section headed "Description of the Assets and Liabilities of the Group — Credit Policies and Approval Procedures" in this prospectus.

Personal loans generally incorporate credit life insurance so that such unsecured lending is fully insured in the event of the death of the borrower.

Deposit-taking

Approximately 67.1% of the customer deposits of the Group as at 31 December 2003 were generated from its retail banking division. The Group has a diversified deposit base which provides a stable source of funding and a broad platform across which it is able to cross-sell other products to create stronger, multi-product customer relationships. In addition to traditional savings deposits, current deposits and time deposits, the Group has introduced a range of retail certificates of deposit and other structured deposits in response to customers' demand for higher yield deposit products. In order to broaden the product mix and attract new customers, retail certificates of deposit, which the Group first issued in July 2002 and which are now issued in both Hong Kong dollars and selected major foreign currencies, also assist to increase the maturity of the Group's deposit base by virtue of their maturity period of between three and five years. The Group has also recently launched a range of RMB deposit accounts.

Wealth Management

The Group has actively promoted its wealth management products and services in order to offer additional products and services to its existing client base and to new customers.

The Group has expanded its wealth management products and services to meet the investment needs of its general retail customers. The Group, which distributes a total of over 600 unit trusts and mutual funds, acts as placing bank or third party distributor of retail corporate bonds, and provides various structured products, such as currency-linked deposits and equity-linked notes to retail customers who are seeking higher yields than those offered by traditional deposit products. The Group has a dedicated investment advisory team to source and evaluate wealth management products and services from external suppliers as well as from within the Group.

The Group distributes life assurance policies under a distribution agreement and an agency agreement with DSIS. These policies include whole life policies and term life policies, endowment plans, investment-linked policies, various illness and unemployment protection plans and disability protection policies. DSIS pays the Group a commission for life policies originated by the Group's sales staff as well as the Group's expenses in relation to the origination of such policies. See the section headed "Connected Transactions — Distribution and Agency Agreements with DSIS and DSIA" in this prospectus.

The Group also provides Hong Kong share dealing services to its customers.

The Group principally distributes its wealth management products and services through its branch network. The Group receives fee income from the distribution of third party wealth management products and services and derives income from the sale of its own structured products.

VIP Banking

In line with the Group's strategy to expand its target client base and also to serve its existing client base better, in January 2002, Dah Sing Bank introduced a VIP banking service targeted at middle-income professionals and individuals. VIP banking offers Dah Sing Bank's VIP banking customers all of the products offered to retail banking customers, together with more personalised services, such as priority counter services in Dah Sing Bank's branches and enhanced telephone banking services. Customers of Dah Sing Bank are required to have a minimum total relationship balance with Dah Sing Bank of HK\$500,000 to be eligible to be a VIP banking customer. As at 31 December 2003, Dah Sing Bank had approximately 4,500 VIP banking customers.

Private Banking

In addition to the retail products described above, the Group's private banking business focuses on providing high net worth individuals with a full range of investment products and services including equities, fixed-income instruments, derivatives, and alternative investments. Its target customers comprise business proprietors, professionals and individual investors. Through the Group's subsidiary bank, D.A.H. Hambros Bank in Guernsey, the Group is able to provide offshore private banking services to its customers. Total lending to private banking customers accounted for approximately 4.2% of the Group's total loan portfolio as at 31 December 2003. The Group had approximately 1,500 private banking customers as at 31 December 2003. The Group's private banking customers are serviced by a team of client relationship managers. The target account relationship balance for the Group's private banking customers is at least US\$500,000. As at 31 December 2003, the assets under management of the private banking business were HK\$6,105 million.

Commercial Banking

The Group's commercial banking services, carried out through its banking subsidiaries, include trade finance, overdraft facilities, commercial lending, syndicated loans, property development and investment lending, deposit-taking from corporates and institutions, mortgage lending, corporate credit cards, hire purchase and equipment leasing. For the year ended 31 December 2003, the commercial banking division accounted for approximately 37% of the Group's profit before taxation. The Group's customers are principally SMEs in industrial, manufacturing and trading businesses based in Hong Kong, many of which have manufacturing plants in the Pearl River Delta Region. Many of these customers have been banking with the Group for many years.

The commercial banking division is divided into three departments: marketing, risk management and trade services, each of which reports directly to the head of the division. The risk management department is further divided into credit approval, credit administration and special attention credits teams, and functionally reports to the Head of Group Risk.

As at 31 December 2003, the commercial banking division had approximately 13,000 customers which comprise corporates and their respective directors and family members. Approximately 1,500 of these corporates had operations in Mainland China.

THE COMPANY AND ITS BUSINESS

Product Mix

Collectively, commercial banking-related lending accounted for approximately 44.2% of the Group's total loan portfolio as at 31 December 2003, of which hire purchase and equipment finance lending accounted for approximately 14% of the Group's total loan portfolio as at 31 December 2003. The following table sets out a breakdown by operating income for the principal activities in the commercial banking division for the years ended 31 December 2001, 2002 and 2003, respectively:

| | For the year ended 31 December | | | | | |
|---------------------------------|--|--------------|------------|--------------|------------|--------------|
| | 2003 | | 2002 | | 2001 | |
| | Amount | (%) | Amount | (%) | Amount | (%) |
| | <i>(in HK\$ million, except percentages)</i> | | | | | |
| Trade finance | 153 | 26.8 | 137 | 24.5 | 130 | 20.5 |
| Commercial mortgages | 91 | 15.9 | 82 | 14.6 | 92 | 14.5 |
| Overdrafts | 63 | 11.0 | 58 | 10.4 | 67 | 10.6 |
| Syndicated loans | 19 | 3.3 | 23 | 4.1 | 19 | 3.0 |
| Hire purchase loans and leasing | 69 | 12.1 | 86 | 15.3 | 157 | 24.8 |
| Equipment finance | 133 | 23.3 | 112 | 20.0 | 100 | 15.8 |
| Other commercial loans | 14 | 2.5 | 15 | 2.7 | 20 | 3.2 |
| Non-interest income based | | | | | | |
| products and services | 6 | 1.1 | 10 | 1.8 | 11 | 1.7 |
| Corporate deposit-taking | 23 | 4.0 | 37 | 6.6 | 37 | 5.9 |
| Total | 571 | 100.0 | 560 | 100.0 | 633 | 100.0 |

Trade Finance, Overdraft Facilities, Commercial Lending, Corporate Credit Cards and Syndicated Loans

The Group provides trade finance services to its customers, with a principal focus on import and export financing. Services provided include the issuance of documentary credits, import loans, purchase of export bills, packing loans, issuance of shipping guarantees and financing of accounts receivable. Income received with respect to trade finance is a combination of commissions and interest income. As well as being affected by macro-economic factors in Hong Kong and Mainland China, the volume of the Group's trade finance business fluctuates based on seasonal factors. As a result, the majority of transactions tend to be effected in the second and third quarter of the year.

The Group also provides overdraft and term loan facilities to local companies for general working capital and other commercial purposes. These loans are usually supported, at least in part, by collateral such as property, listed shares, cash deposits or machinery. As a borrower's relationship develops and its financial position warrants, the Group may lend to such borrower on the basis of less collateral or an unsecured basis. Credit facilities are subject to review at least annually depending on credit performance.

The Group has recently launched corporate MasterCard credit cards, which have a new Smart Data On Line feature, which allows the account to be monitored by the customer and expenses to be reviewed by category.

As at 31 December 2003, revolving loans, which are provided to the Group's larger corporate customers to meet their special capital or cash flow needs, and syndicated loans represented 5.3% of the Group's loan portfolio. The Group participates in this market on an opportunistic basis, depending on the spreads available for lending to particular credits. Companies or institutions which wish to draw down such loans are required to meet the Group's eligibility criteria. The Group's participation in syndicated loans is dependent on the creditworthiness of borrowers, pricing and the Group's relationship with arrangers.

As at 31 December 2003, approximately 69% of the total number of loans to corporate customers were for facilities of HK\$10 million or less, approximately 27% for facilities of HK\$10 million to HK\$50 million and approximately 4% for an amount greater than HK\$50 million. Loans in the HK\$10 million to HK\$50 million range represented the Group's largest commitment, comprising 44% of the Group's total commitment by value in this category, as at such date. Loans below HK\$10 million and above HK\$50 million represented 33% and 23%, respectively, of the Group's total commitment by value, as at such date.

Property Development and Investment Lending

The Group provides property lending facilities to corporate customers to facilitate the development or purchase of properties for commercial or investment purposes. As with residential loans, the Group's normal practice in respect of commercial mortgage loans is to advance up to 70% of the lower of the appraised value of the relevant property or the purchase price. The loans are typically secured by a first legal charge over the property for which the mortgage is sought.

Whilst balance sheet and cash flow analysis are fundamental requirements of the Group's commercial banking credit policy, the adoption of a prudent loan to value ratio serves to cap risk exposure in general. In certain circumstances, the Group will lend more than 70% of the value of a property, especially where properties are secured for trade-related facilities, term loans and overdraft facilities for customers with good credit standing.

Hire Purchase Finance

The Group's hire purchase business comprises hire purchase finance and leasing, principally involving taxi, vehicle and equipment financing and leasing, all of which are generally required to be secured against the respective underlying assets. Vehicle financing for the purchase of taxis, public light buses, trucks, lorries and private cars has been an established core business of the Group since the mid-1980s. The Group entered both the truck/lorry and taxi financing markets in the early 1980s and, as increasing competition depressed spreads in this market, the Group started to decrease its exposure to those sectors in 2000. In addition, the Group reduced its taxi financing portfolio in 2001. However, since 1997, equipment financing and leasing has expanded significantly and as at 31 December 2003 represented 23.3% of the operating income generated by this division.

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The standard credit underwriting requirements of the hire purchase business include taking possession of registration and title documents of the relevant vehicle or equipment as security, assessment of the relevant business and, where appropriate, cash flow analysis.

Deposit-taking from Corporates and Institutions

Approximately 18.6% of the customer deposits of the Group as at 31 December 2003 were generated from its commercial banking division. The Group's principal commercial depositors are corporates and their respective directors and staff, institutions and public sector entities. The majority of the Group's core deposits come from its longer-term relationship customers. The types of deposit products offered include current, savings, call and time deposits and certificates of deposit in Hong Kong dollars and selected major foreign currencies. Certificates of deposit assist to increase the maturity of the Group's deposit base. The deposit market in Hong Kong is highly competitive and the Group's pricing strategy depends on its requirements for liquidity and the activities of its competitors.

General Insurance Distribution

The Group distributes general insurance products under a distribution agreement and an agency agreement with DSIA. DSIA pays a commission to the Group in respect of any insurance business that it refers. Customers of the Group who wish to purchase general insurance products are first referred to DSGI which has the right of first refusal to provide such products. If no suitable products are provided by DSGI, or if DSGI does not wish to underwrite the risk, the customers will then be referred to the Group's insurance broking subsidiary, which will then refer the customer to third party general insurance providers. DSGI provides a comprehensive range of general insurance products, including fire, household, motor and travel insurance. See the section headed "Connected Transactions — Distribution and Agency Agreements with DSIS and DSIA" in this prospectus.

Treasury

The principal activities of the treasury division comprise (i) managing the Group's funding by centralising and re-deploying customer deposits, asset funding, interbank deposit-taking and placing, (ii) foreign exchange dealings with customers and the interbank market, (iii) long-term financing through certificates of deposit and debt issues and (iv) risk management transactions for hedging currency and interest rate risks. For a discussion of the results of the Group's treasury operations, see the section headed "Financial Information — Treasury Operations" in this prospectus.

The Group has regularly raised term borrowing by issuing certificates of deposit to lengthen its funding maturity profile. Two certificate of deposit programmes, one for HK\$10 billion and another for US\$1.5 billion, have been established. Since 2002, Dah Sing Bank has made frequent issues of retail certificates of deposit through its branch network to increase its deposit base and

assist in the liquidity management of the Group by lengthening the liability maturity of its deposits. As at 31 December 2003, total retail certificates of deposit amounted to HK\$4.3 billion. In March 2001, Dah Sing Bank issued a US\$125 million subordinated note listed on the Luxembourg Stock Exchange with a 10-year maturity and a call option exercisable in March 2006. In addition, Dah Sing Bank has outstanding a US\$4 million Structured Note due November 2008 with an issuer call option falling in November 2004, which was issued pursuant to its medium term note programme. See the section headed “Description of the Assets and Liabilities of the Group — Liabilities and Sources of Funds” in this prospectus.

The Group’s derivative transactions are largely undertaken for hedging purposes. Trading in derivatives is not a key operation of the Group and is restricted within defined limits set by the Group’s risk management policies. The Group’s treasury activities are closely monitored by the Group’s ALCO and Treasury Risk Committee. These committees comprise the Group’s chief executive, executive directors and senior treasury and finance executives. See the section headed “Description of the Assets and Liabilities of the Group — Risk Management” in this prospectus.

The Hong Kong banking industry has experienced a period of excess liquidity over the last few years, as the economic downturn has resulted in limited loan growth or in some cases a contraction in lending. In addition, in the last two to three years the returns on fixed income securities have been attractive as a result of the declining interest rate environment. Therefore, in late 2001 the Group adopted a strategy of expanding its treasury operations and acquiring deposits more actively in order to generate surplus funds for investment in fixed income securities.

The Group’s treasury division invests its surplus funds in debt securities in both local and overseas markets, with the intention of generating both spread increases and capital gains. As at 31 December 2003, the Group’s total non-trading securities (including treasury bills) amounted to HK\$21.1 billion, while its trading securities (including treasury bills) amounted to HK\$4.2 billion. See the section headed “Description of the Assets and Liabilities of the Group — Investment in Securities” in this prospectus for a breakdown of the carrying values of the Group’s investment securities portfolio. The Group principally invests in highly liquid and investment grade debt securities, including securities issued by sovereigns or financial institutions. Since late 2003, the Group has increased its investment in longer-dated fixed-income securities which are then largely hedged against interest rate risk through the use of interest rate swaps. This enables the Group to generate a return from a credit spread, which is not directly correlated with interest rate movements, therefore assisting in the diversification of the Group’s income streams. The general framework for such investments is set out in the policies of the respective business units which are responsible for the overall management of the investments. The operations of these business units are overseen by committees. The principal role of such committees is generally supervisory and, in most cases, such committees are not involved in the overall day-to-day management of the business unit’s operations.

The Group outsources the management of a portion of its surplus funds to a small number of independent third party professional investment managers. The Group retains beneficial ownership of all surplus funds which it has outsourced the management of and the Directors consider the additional risks by virtue of such outsourcing to be immaterial.

BRANCH NETWORK

The Group delivers its retail products and services through a combination of its network of branches, sales and service centres and ATMs and other delivery channels such as telephone banking and Internet banking. The primary channel for the delivery of these products and services is the Group's branch network. As at 31 December 2003, the Group's local banking subsidiaries had a total of 43 branches and three sales and service centres in Hong Kong which are located in areas in which the Group's target customers live and/or locations with high customer traffic. In addition, Dah Sing Bank has recently opened its first Mainland China branch in Shenzhen and also provides private banking services through D.A.H. Hambros Bank in Guernsey.

The following table sets out the number of the Group's branches and ATMs in Hong Kong as at 31 December 2001, 2002 and 2003, respectively:

| | As at 31 December | | |
|-----------------------|-------------------|-----------|-----------|
| | 2003 | 2002 | 2001 |
| Hong Kong Island | 17 | 17 | 15 |
| Kowloon | 13 | 14 | 14 |
| New Territories | 13 | 13 | 15 |
| Total branches | 43 | 44 | 44 |
| ATMs | 50 | 52 | 53 |

The Group uses its branches and sales and service centres to provide a full range of retail banking services and increasingly, to generate sales of its wealth management products and services. In addition, the Group seeks to improve the service level and product coverage of the staff in each branch and sales and service centre through training, use of technology and obtaining the appropriate licences and qualifications. The Group also monitors the performance levels of each of its branches and sales and service centres to ensure that they are well located both from a geographical perspective and from a customer demand perspective and accordingly, the Group opens new branches and sales and service centres and closes existing ones that may not be generating sufficient returns.

The Group's ATM network is linked to the JETCO system and customers can use their ATM cards in any of the JETCO-linked ATM machines in Hong Kong.

A list of the branches and the sales and service centre of Dah Sing Bank and MEVAS Bank as at the Latest Practicable Date is set out in Appendix VI to this prospectus.

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As at the Latest Practicable Date, the Group's local subsidiaries had a total of 44 branches and one sales and service centre in Hong Kong. The following map shows the location of the branches and the sales and service centre of Dah Sing Bank and MEVAS Bank in Hong Kong as at the Latest Practicable Date:



● Dah Sing Bank Branches ● Dah Sing Bank - Sales & Services Centre ● Mevas Bank Branches

INFORMATION TECHNOLOGY

Management believes that investing in information technology is important for the Group to compete effectively. The Group seeks to maintain an IT platform appropriate for its needs, including product and application software and e-banking capabilities. The Group entered into an outsourcing agreement with IBM in December 1999 under which it outsourced the Group's data centre operations in Hong Kong for a seven-year period. As at 31 December 2003, the Group had 107 staff in its information technology division, the majority of whom were employed for system development and technical support purposes.

E-banking

The Group operates two online banking platforms: “www.dahsing.com” and “www.mevas.com”. “www.dahsing.com” provides a comprehensive range of e-banking services, including credit card and personal loan applications, mutual fund price enquiry, mortgage valuations and applications, foreign exchange and deposit rate quotes and dealing, online insurance applications, securities trading, balance enquiries and fund transfers, bill payments and commercial banking services, including applications for letters of credit and remittances, and trade finance enquiry. “www.mevas.com” provides a diversified range of e-banking services, including credit card and personal loan applications, mortgage loan applications and repayment calculator, foreign exchange and deposit rate quotes, online insurance applications, online deposit account applications, balance enquiries and fund transfers, bill payments and stock savings plan applications.

COMPETITION

The Hong Kong banking market is very competitive. The market is dominated by a small number of large banking groups. There were a total of 23 locally incorporated licensed banks operating in Hong Kong as at 31 December 2003. As Hong Kong is a global financial centre, a large number of international banks and financial institutions are also present. The Directors consider that the Group’s main competitors are mid-sized, locally incorporated licensed banks. For a discussion and overview of the banking industry in Hong Kong, see the section headed “Industry Overview — Competition” in this prospectus.

The Directors expect that competition in the local banking market will continue to intensify as a result of the following trends:

Global financial conglomerates: The trend towards consolidation in the financial services industry is creating a smaller number of global enterprises capable of competing in many markets. These global entities have the financial strength to withstand systemic crises and to invest heavily in markets or businesses which they believe have significant potential. Such financial conglomerates also have the necessary scale for both operational efficiencies and product development.

International banks: Since the Asian financial crisis, international banks have been more focused on their approach to the emerging markets. Many have moved away from offering a full banking service to focusing on selective products or geographical markets where they have a considerable amount of product expertise, competitive advantage or scale of operations.

Asian Financial Institutions: Certain Asian financial institutions are growing their Hong Kong operations, both organically and through acquisitions.

Niche players: In addition to banks, there are also other financial institutions entering the market. These entities tend to focus on a niche segment of the market, where barriers to entry are low and where these entities may possess a competitive edge. Examples of these niche market segments include credit cards services, trade services and mortgages.

THE COMPANY AND ITS BUSINESS

Technological innovations: Technological innovations, including new and expanding information and communication technologies, increase the channels via which financial institutions can sell their products and service their customers.

Technological alliances: Partnerships or alliances between financial institutions and technology and telecommunications providers are also seen as competitors, although they tend to be more restricted to a specific area or product attribute.

CUSTOMERS

Taken together, total interest income from the five largest borrowers of the Group (excluding banks borrowing from the Group in the interbank market) accounted for 10.4% of the total interest income and other operating income of the Group in the year ended 31 December 2003.

LEGAL PROCEEDINGS

Members of the Group are subject to certain claims and are party to a number of legal proceedings in the normal course of their business. The Company believes that the outcome of all legal proceedings to which any member of the Group is a party, and the costs associated therewith, either individually or in aggregate, are not likely to have a material effect on its financial position or profitability, or be material in the context of the Group's net assets.

PROPERTY INTERESTS

Most of the Group's properties are used in the Group's operations and those properties that are not used as bank premises are leased to third parties (including DSFH) to generate rental income or are vacant pending sale or lease. As at 31 December 2003, the Group's local banking subsidiaries had 43 branches in Hong Kong, 21 of which operated in premises owned by the Group and 22 of which were leased from third parties. As at 31 December 2003, the Group owned a total of 25 properties, the aggregate value of which was HK\$769 million. Of the 25 properties owned by the Group, 13 were occupied exclusively by members of the Group, five were partially leased to third parties, three properties were leased exclusively to third parties and two were vacant pending lease or sale. Two further properties were partly vacant pending lease. The valuations of the owned properties were carried out by independent property valuers. As at 31 December 2003, the value of the Group's owned properties used, in whole or in part, as the Group's branches and offices amounted to HK\$571 million and the value of the Group's investment properties leased to third parties or vacant amounted to HK\$198 million, based on an independent professional valuation conducted as at that date.

The Group's properties, comprising both owned and investment properties, were re-valued by Knight Frank as at 31 March 2004 at HK\$872 million, reflecting the increase in property values in Hong Kong since 31 December 2003. As at 31 March 2004, the value of the Group's owned properties used, in whole or in part, as the Group's branches and offices amounted to HK\$640 million and the value of the Group's investment properties leased to third parties or vacant amounted to HK\$232 million. A copy of that report is set out in Appendix V to this prospectus.

Exemption from the SFC

In relation to the format and content of the valuation report set out in Appendix V to this prospectus, the Company has applied to the SFC for an exemption from strict compliance with paragraph 34(4) of the Third Schedule to the Companies Ordinance which requires that, if a company has obtained more than one valuation report regarding any of the company's interests in land or buildings within six months before the issue of a prospectus, then all such reports shall be included in the prospectus.




DSFH obtained a valuation report prepared by Knight Frank as at 31 December 2003 (the "2003 Valuation Report") in relation to the DSFH Group's properties (which included the Group's properties) for the purposes of DSFH's audited consolidated accounts for the year ended 31 December 2003. Under paragraph 34(4) of the Third Schedule to the Companies Ordinance, the Company would normally be required to include the 2003 Valuation Report in this prospectus. However, the Company considers that it would be irrelevant and unduly burdensome to include in this prospectus a copy of the full 2003 Valuation Report on the basis that it was prepared for, and addressed to, DSFH for the purposes of the preparation of its audited consolidated accounts for the year ended 31 December 2003 and not by the Company for the purposes of this prospectus. In addition, the 2003 Valuation Report covers the property interests of the whole DSFH Group and not just the Group's properties. The inclusion of the full 2003 Valuation Report in this prospectus is therefore likely to be confusing to the public.

As noted in the valuation report of the Group's properties set out in Appendix V to this prospectus, the value of the Group's properties as at 31 March 2004 exceeded that of 31 December 2003 because of the general trend of increases in property prices during the three-month period from the end of 2003.

On this basis, the SFC has granted a partial exemption from strict compliance with paragraph 34(4) of the Third Schedule to the Companies Ordinance on the following conditions:

- (1) the property valuation report set out in Appendix V to this prospectus will include the value of each of the properties owned by the Group as at 31 December 2003; and
- (2) the 2003 Valuation Report, in relation to the DSFH Group's properties as at 31 December 2003, will be made available to the public for inspection in accordance with the section headed "Documents Available for Inspection" in Appendix X to this prospectus.

INTELLECTUAL PROPERTY

The Group conducts its business in Hong Kong using the trade marks  ,  大新銀行,  and 大新, which are all owned by DSFH. DSFH has granted to the Company a royalty free, exclusive trade mark licence to use the trade marks in relation to banking services and to sub-license the same to any member of the Group. The trade mark licence permits the use of the trade marks as part of a domain name and contains a reciprocal right to establish a link to any websites operated by the other party. DSFH, as the ultimate holding company of both the Group and the DSFH Group, is, and will continue to be, the proprietor of the trade marks.

Pursuant to the trademark license agreement, any goodwill arising from the licensed use of the trade marks by the Company or from the Company being connected in the course of trade, with any of the trade marks shall belong to DSFH. DSFH shall also be responsible for maintaining the registrations of the trade marks on the relevant registers of trade marks and for the payment of all renewal fees associated therewith. The trade mark licence is perpetual and irrevocable, save, inter alia, in the following circumstances:

- DSFH is entitled to terminate it if the Company ceases to be a subsidiary of DSFH and control of the Company is obtained by any person who did not exercise control over the Company at the date of the trade mark licence or if the Company challenges the validity, or entitlement, of DSFH to any of the trade marks. For this purpose, control means the power to appoint or remove such members of the Board who can exercise a majority of the votes on the Board, or who hold the beneficial interest and/or right to the exercise of the voting rights in respect of Shares conferring on the holder more than 50% of the voting rights exercisable in general meetings of the Company.
- Each of DSFH and the Company is entitled to terminate it if (i) the other party commits a material breach of its obligations under the licence and fails to remedy that breach within 28 days of being requested to do so, or (ii) action is taken to wind up or appoint a receiver and manager in respect of all or a substantial part of the assets of the other party or if similar events take place; or (iii) if the other party is unable to pay its debts as they fall due within the meaning of Section 178 of the Companies Ordinance, or stops or threatens to stop paying its debts generally, or ceases or threatens to cease to carry on its business.

The DSFH Group will continue to use the trade marks.

The Group is also the owner of the domain names of “www.dahsing.com” and “www.mevas.com”.

For further details of the trade mark licence, see the section headed “Connected Transactions” and the section headed “Intellectual property rights” in Appendix IX to this prospectus.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

BOARD OF DIRECTORS

The business affairs of the Company are administered by the Board. The Board elects a Chairman from among its members. The roles of the Chairman and Chief Executive are separate. The Board is made up of six executive Directors, four independent non-executive Directors and one non-executive Director, some of whom are also directors of DSFH. All Directors are subject to periodic reappointment in accordance with the Articles of Association. All non-executive Directors have been initially appointed for a specific term.

The Board's principal roles include formulating and approving corporate and business strategies, reviewing operations and financial performance, approving key policies and an annual business plan and ensuring sound risk management and regulatory compliance.

Executive Directors are appointed to the Board based on their experience, specialist skills and knowledge of different businesses of the Group. Independent non-executive Directors bring to the Board their knowledge and experience of other markets and industries, guide executive management's strategy development and policy implementation, and provide valuable external perspectives in the Board's deliberations.

The Directors are as follows:

| Name | Age | Position |
|----------------------------|------------|---|
| David Shou-Yeh Wong | 63 | Chairman and Executive Director |
| Hon-Hing Wong (Derek Wong) | 51 | Chief Executive and Executive Director |
| Gary Pak-Ling Wang | 43 | Finance Director and Executive Director |
| Lung-Man Chiu (John Chiu) | 54 | Executive Director |
| Harold Tsu-Hing Wong | 34 | Executive Director |
| Dennis Tat-Wang Yau | 56 | Executive Director |
| Robert Tsai-To Sze | 63 | Independent non-executive Director |
| John William Simpson | 63 | Independent non-executive Director |
| David Richard Hinde | 65 | Independent non-executive Director |
| Andrew Kwan-Yuen Leung | 53 | Independent non-executive Director |
| Sohei Sasaki | 54 | Non-executive Director |

Executive Directors

David Shou-Yeh Wong, aged 63, has been the Chairman of Dah Sing Bank since 1983 and a director since 1963. Mr Wong graduated from Massachusetts Institute of Technology, U.S. with a Bachelor of Science degree in Electrical Engineering. Mr Wong has 40 years of experience in banking and finance. Mr Wong is a member of the General Committee of the Federation of Hong Kong Industries, the Hong Kong/Japan Business Co-operation Committee, the Hong Kong Port Development Council, the Banking Advisory Committee to the Government, the Hong Kong

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Association of Banks, the Chinese Banks Association Limited and the Hong Kong Shipowners Association. Mr Wong is also the Vice President of The Hong Kong Institute of Bankers and the Chairman of DSFH, DSLA, New Asian Shipping Company Limited, Wing Tak Shipping Agency Limited and various other companies. He is the father of Harold Tsu-Hing Wong.

Hon-Hing Wong (Derek Wong), aged 51, has been the Managing Director and Chief Executive of Dah Sing Bank since 2000. Mr Wong joined Dah Sing Bank in 1977. Mr Wong has been an executive director of Dah Sing Bank since 1989 and an executive director of DSFH since 1993. Mr Wong was appointed as the Managing Director of DSFH in 2002. Mr Wong graduated from The Hong Kong Polytechnic University (previously known as Hong Kong Polytechnic) with a Higher Diploma in Business Studies. Mr Wong is an Associate of The Institute of Bankers (U.K.), a Founder Member of The Hong Kong Institute of Bankers and a Founder Member of the International Retail Banking Council of the U.K.. Mr Wong has over 25 years of experience in banking. He is not related to David Shou-Yeh Wong.

Gary Pak-Ling Wang, aged 43, has been the Alternate Chief Executive of Dah Sing Bank since 2000. Mr Wang joined Dah Sing Bank in 1995 and is responsible for financial management of Dah Sing Bank and the DSFH Group. Mr Wang has been an executive director of Dah Sing Bank and DSFH since 1997 and 2001, respectively, and was appointed as the Finance Director of DSFH in 2002. Mr Wang graduated from the University of Hong Kong with a Bachelor of Social Sciences degree. Mr Wang is a qualified accountant, a Fellow of The Association of Chartered Certified Accountants of the U.K. and a member of the Hong Kong Society of Accountants. Mr Wang has over 19 years of experience in financial management mainly related to banking.

Lung-Man Chiu (John Chiu), aged 54, has been an executive director and the Head of Commercial Banking Division of Dah Sing Bank since 1995. Mr Chiu joined Dah Sing Bank in 1986 and is responsible for Dah Sing Bank's commercial banking business. Mr Chiu graduated from University of Windsor, Canada with a Master of Arts degree in Economics and has over 25 years of experience in commercial banking.

Harold Tsu-Hing Wong, aged 34, is currently an executive director and the Chief Executive of MEVAS Bank. Mr Wong joined Dah Sing Bank in 2000 and has been responsible for the Group's marketing and business development in respect of personal banking since the beginning of 2003. Mr Wong was appointed as a director and the Alternate Chief Executive of MEVAS Bank in 2001. Mr Wong is a qualified solicitor in England and Wales and Hong Kong. Mr Wong graduated with a Bachelor of Laws (LLB Honours) degree from King's College, London, U.K. and a Master of Business Administration degree from Harvard University, U.S.. He is the son of David Shou-Yeh Wong, the Chairman of the Company.

Dennis Tat-Wang Yau, aged 56, has been a Senior Business Advisor since he joined Dah Sing Bank in 2002 and is responsible for the business development of Dah Sing Bank's commercial banking business. Mr Yau graduated from the University of Hong Kong with a Bachelor of Social Sciences degree and completed the Advanced Management Program at the

Harvard University Graduate School of Business Administration. Mr Yau has extensive experience in international trade gained from working in markets in North America, Europe, Japan and Mainland China during his 32 years of service with the Hong Kong Trade Development Council, a statutory organisation responsible for the promotion of Hong Kong's external trade in goods and services.

Independent Non-executive Directors

Robert Tsai-To Sze, aged 63, has been an independent non-executive director of DSFH since 1997 and a non-executive director of Dah Sing Bank since 1996. Mr Sze is currently the Chairman of the Audit Committee of DSFH and a non-executive director of a number of Hong Kong listed companies. Mr Sze is a Fellow of The Institute of Chartered Accountants in England and Wales, a Fellow of the Hong Kong Society of Accountants and a member of the Shanghai Committee of the Chinese People's Political Consultative Conference.

John William Simpson, aged 63, has been a director of DSFH since 1987 and was appointed a non-executive director of Dah Sing Bank in 1991. Mr Simpson was appointed a director of Dah Sing Bank in 1984, became the Chief Manager in 1986 and retired as Managing Director in 1991. Mr Simpson has not had any involvement in the business of the Group or DSFH (except in his capacity as a director of DSFH or its subsidiaries in an independent non-executive capacity) since he retired from his executive position in 1991. Mr Simpson will be an elected member of the Group's Audit Committee. Mr Simpson has 40 years of experience in banking and finance.

David Richard Hinde, aged 65, has been a non-executive director of DSFH since 1987 and undertook full time executive responsibilities in DSFH and major operating units in the Group from 1994 to 1998. Mr Hinde has not had any involvement in the business of the Group or DSFH (except in his capacity as a director of DSFH or its subsidiaries in an independent non-executive capacity) since he retired from his executive position in 1998. Mr Hinde will be an elected member of the Group's Audit Committee. Mr Hinde has over 30 years of experience in international investment banking.

Andrew Kwan-Yuen Leung, aged 53, has been an independent non-executive director of DSFH since 2003. Mr Leung is currently Chairman of the Federation of Hong Kong Industries, the Textile Council of Hong Kong and the Hong Kong Productivity Council and Honorary President of the Hong Kong Woollen & Synthetic Knitting Manufacturers' Association. Mr Leung is a representative of the Federation of Hong Kong Industries on the Labour Advisory Board and serves on a number of advisory public bodies including the Task Force on Employment, the Textiles Advisory Board, the Vocational Training Council and the Clothing Industry Training Authority.

Non-executive Director

Sohei Sasaki, aged 54, has been the Deputy Head of the Global Banking & Trading Division of UFJ Bank since May 2003. Mr Sasaki was General Manager of the International Treasury & Trading Department (formerly known as the Treasury and Trading Department) from January 2000 to May 2003. He joined The Sanwa Bank Limited (which changed its name to UFJ Bank in January 2002) in 1973. Mr Sasaki has 31 years of experience in banking and finance.

CORPORATE GOVERNANCE

Corporate governance is concerned with how companies are managed and controlled, and in particular the roles and operations of the board of directors in sustaining sound business integrity and practices, and effective accountability. Dah Sing Bank and MEVAS Bank have fully complied with the requirements set out in the guideline entitled “Corporate Governance of Locally Incorporated Authorized Institutions” issued by the HKMA.

Specialised Committees

Audit Committee

The Audit Committee of the Group, drawn from members of the Board, has the authority to review all matters relating to financial statements and disclosures, audit work performed by internal and external auditors, internal control systems and the effectiveness of risk management and compliance for the Group. The Audit Committee reports to the Board its observations and comments on any issue that needs to be brought to the attention of the Board and will make recommendations to the Board regarding financial statements and results announcements.

Three independent non-executive Directors comprise the Audit Committee which will meet at least twice a year with the Group’s senior management, Head of Internal Audit Division and external auditors. The Chairman of the Audit Committee is Mr Robert Tsai-To Sze, an independent non-executive Director experienced in finance and auditing.

The Head of Internal Audit Division reports functionally to the Audit Committee. External auditors have direct access to the Audit Committee for expressing their views and comments on any matter of concern relating to the Group or the Company.

Executive Committee

The Executive Committee of the Group comprises the Chairman, Chief Executive and Finance Director of the Company. It is responsible for developing and setting the strategy and objectives of the Group. It provides direction and guidance to business divisions, reviews business performance, monitors and reviews risk management systems, ensures effective internal control systems, allocates resources, prioritises business initiatives and investments. It is also delegated with the authority of the Board to exercise the authority and power of the Board on matters relating to the normal course of business of the Group.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

The Executive Committee can call upon other Directors or members of senior management for advice or participation in its discussions as it deems appropriate.

Asset and Liability Management Committee

The Group's ALCO is accountable to the Group's Executive Committee, and oversees the overall management of the balance sheet, liquidity, funding and market risk of the Group and the Company. It is responsible for making decisions affecting lending business, loan mix, treasury investments, deposit-taking and capital management. It also plays a key role in the overall risk governance and management of the Group and the Company.

ALCO meets every week and its regular tasks include a review of key business emphasis and development, loan and deposit changes, funding requirements, liquidity, surplus funds' investments, capital market dealings, and market changes and competition. ALCO also conducts regular monthly reviews of overall balance sheet and business performance, including trend analysis and actual positions against limits and targets.

ALCO is chaired by the Company's Chief Executive. Members of ALCO include most executive Directors, heads of most business, risk management and financial control divisions.

Credit and Risk Management Committees

The Group has a credit committee or risk management committee for each of its business divisions. Each committee comprises relevant executive Directors and senior business, credit and risk officers and includes the Company's Chairman or Chief Executive. Each committee is responsible for formulating and revising credit and risk policies and procedures for its business division, approving credit and risk exposures which exceed an individual credit officer's or risk officer's credit authority and reviewing credit performance and loan provisioning policies. Credit policies and procedures define the credit extension criteria and guidelines, credit approval, review and monitoring process and the systems of loan classification and provisioning. For the treasury division, its risk committee has additional responsibilities which include reviewing and approving wholesale credits, credit limits for financial institutions and treasury dealing limits and controls.

The Head of Group Risk is a member of all credit committees and risk management committees and serves to co-ordinate the overall risk management process and governance, including the development and ongoing upgrade of credit policies and procedures and the maintenance of appropriate credit quality.

Management Committee

The Management Committee of the Group, chaired by the Company's Chief Executive, meets on a monthly basis. Members of the Management Committee include all division heads and a number of senior executives of the Group. The Management Committee operates to strengthen internal communications on corporate and business development, operational issues and control.

Compliance Committee

The Compliance Committee of the Group is responsible for overseeing and guiding the development, maintenance and enhancement of compliance systems, policies and practices to ensure compliance with all statutory requirements and regulatory guidelines applicable to the Group. The Compliance Committee serves to uphold a high level of awareness and accountability for compliance requirements. The Group has implemented an ongoing compliance control and monitoring process within business and support functions to enhance compliance control.

The Compliance Committee reports to the Executive Committee. Minutes of the Compliance Committee meetings and regular reports will be submitted to the Audit Committee. Members of the Compliance Committee include the Company's Chief Executive, a number of executive Directors and senior operation and risk control executives of the Group.

Information Technology Steering Committee

The Information Technology Steering Committee of the Group is responsible for providing information technology strategic direction and ensuring sound and robust information technology infrastructure and processes to support the Group's businesses. It is also responsible for ensuring that information technology risk control, information security and operations continuity are managed effectively and for overseeing the Group's information technology resources allocation, project justification and prioritisation.

The Information Technology Steering Committee is chaired by the Chief Executive of the Company and includes most division heads as its members.

Human Resources Committee

The Human Resources Committee of the Group is responsible for setting the overall human resources direction of the Group and for guiding the development of human resources strategy, policy and practices. It is also responsible for overseeing corporate culture development, planning and implementation, remuneration programmes and changes, staff development plans, employee relations projects and human resources systems.

The Human Resources Committee is chaired by the Company's Chief Executive and comprises the Company's Chairman and a number of division heads.

SENIOR MANAGEMENT

Hon-Hing Lau (Daniel Lau), aged 40, has been a General Manager and Treasurer of Dah Sing Bank since 2001. Mr Lau joined Dah Sing Bank in 1998 and is responsible for the Group's treasury activities and dealing room operations. Mr Lau has over nine years of experience working for international banks in Hong Kong prior to joining Dah Sing Bank. Mr Lau graduated from The Macquarie University, Australia with a Master degree in Applied Finance.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Vivian Yuk-Mui Yu, aged 42, has been a General Manager and Head of Personal Banking of Dah Sing Bank since 2003 and is responsible for Dah Sing Bank's personal banking and private banking businesses. Ms Yu joined Dah Sing Bank in 2001. Ms Yu graduated from The Pace University, U.S. with a Master degree in Business Administration. Ms Yu has gained over 14 years of experience in the financial services industry in New York before relocating to Hong Kong in 2000. Ms Yu has received both the Chartered Financial Consultant and Chartered Life Underwriter professional designations in 1991.

Wai-Man Wong (Raymond Wong), aged 43, has been a General Manager and Head of Hire Purchase of Dah Sing Bank since 2002. Mr Wong joined Dah Sing Bank in 1997 and is responsible for Dah Sing Bank's equipment and vehicle finance businesses. Mr Wong has over 16 years experience in equipment and vehicle financing. Mr Wong graduated from the University of Hong Kong with a Bachelor degree in Social Sciences.

Alexander Stefan Braun, aged 44, has been the Head of Wholesale Banking since joining Dah Sing Bank in 2003 and is responsible for Dah Sing Bank's wholesale banking business and has held various senior management positions in international banks with over 16 years of wholesale banking experience prior to joining Dah Sing Bank. Mr Braun graduated from the University of London with a Bachelor of Science degree in Economics and is a member of the Institute of Chartered Accountants of England and Wales.

Po-Fung So (Francesca So), aged 41, has been the Head of Operations since 2001, and a General Manager since 2002, of Dah Sing Bank. Ms So joined Dah Sing Bank in 1993 as Head of Internal Audit and was transferred to Head of Dah Sing Bank's Operations Division in 2001. Ms So graduated from The Chinese University of Hong Kong with a Master degree in Business Administration. Ms So is a Fellow of The Association of Chartered Certified Accountants of the U.K. and the Hong Kong Society of Accountants.

Thomas Kai-Ching Ng, aged 51, has been a General Manager and Head of IT of Dah Sing Bank since joining in 1997 and is responsible for Dah Sing Bank's Information Technology Division. Mr Ng held various positions as a management consultant and system manager in the U.S. prior to joining Dah Sing Bank. Mr Ng graduated from New York University, U.S. with a Master degree in Business Administration.

Evan Kwai-Ming Chan, aged 40, has been a General Manager and Head of Human Resources of Dah Sing Bank since joining in 2000 and is responsible for the human resources management of the Group. Mr Chan held various senior human resources positions in the Asia Pacific region prior to joining Dah Sing Bank. Mr Chan graduated from The Chinese University of Hong Kong with a Master degree in Business Administration.

David Yiu-Sang Wong, aged 43, has been a General Manager of Dah Sing Bank since 2002. Mr Wong joined Dah Sing Bank in 1997 and is responsible for Dah Sing Bank's risk management and control function. Mr Wong had over 12 years of experience working for international banks in Hong Kong, Tokyo and New York prior to joining Dah Sing Bank. Mr Wong graduated from The University of British Columbia, Canada with a Master degree in Business Administration.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Amy Lai-Ping Lee, aged 39, has been a General Manager and Financial Controller of Dah Sing Bank since joining in 2002 and is responsible for financial control of the Group. Ms Lee is an Associate of The Institute of Chartered Accountants in Australia and a Fellow of the Hong Kong Society of Accountants. Ms Lee graduated from The University of New South Wales, Australia with a Master of Commerce degree in Finance.

Kennith Leung-Kui Yuen, aged 45, has been the Head of Internal Audit of Dah Sing Bank since joining in 2001, and a General Manager since 2004, and is responsible for the internal audit activities of the Group and the DSFH Group. Mr Yuen has over 20 years of experience in auditing and systems development, working for an audit firm and banks in Canada and Hong Kong prior to joining Dah Sing Bank. Mr Yuen is a member of The British Computer Society and a Certified Information Systems Auditor of the Information Systems Audit and Control Association. Mr Yuen graduated from The University of Liverpool, U.K. with a Bachelor of Arts degree in Computational and Statistical Science.

The business address for each senior manager is 36th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Hong Kong.

Company Secretary

Hoi-Lun Soo (Helen Soo), aged 40, is the company secretary of each of the companies within the Group and the DSFH Group. Ms Soo joined Dah Sing Bank in 1991 and was appointed as company secretary of DSFH in 1995. Ms Soo is an Associate of The Institute of Chartered Secretaries and Administrators (U.K.) and The Hong Kong Institute of Company Secretaries. Ms Soo graduated from the City Polytechnic of Hong Kong (now known as the City University of Hong Kong) with a Bachelor of Arts degree in Accountancy.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

The aggregate amount of compensation (including fees, salaries, housing allowances, other allowances and benefits in kind) paid by the Group to the Directors during each of the three years ended 31 December 2001, 2002 and 2003 was approximately HK\$23.1 million, HK\$34.4 million and HK\$34.6 million, respectively.

The aggregate amount of contributions to pension schemes for Directors for each of the three years ended 31 December 2001, 2002 and 2003 was approximately HK\$1 million, HK\$1 million and HK\$1.1 million, respectively.

The aggregate amount of bonuses paid or payable to Directors which were discretionary or were based on performance for each of three years ended 31 December 2001, 2002 and 2003 was approximately HK\$6.4 million, HK\$10.1 million and HK\$13.4 million, respectively.

The remuneration of Directors and members of the senior management team is determined by the Executive Committee based on the Group's performance appraisal system and is reviewed annually.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

The five highest paid individuals of the Group included three Directors in each of 2003 and 2001 and two Directors in 2002, whose aggregate compensation has been included in the aggregate compensation of the Directors above. Excluding the compensation of such Directors, the aggregate amount of fees, salaries, housing allowances, contribution to retirement benefits plan, bonuses paid or receivable, amounts paid or receivable as an inducement to join or upon joining of the Group, compensation paid or receivable for the loss of any office in connection with the management of the affairs of any member of the Group, and other allowances and benefits in cash or in kind paid by the Group to the two highest paid individuals of the Group during the year ended 31 December 2001 and 2003 was approximately HK\$19.2 million and HK\$16 million, respectively, and to the three highest paid individuals of the Group during the year ended 31 December 2002 was approximately HK\$18.4 million.

Save as disclosed above, no other payments have been paid or are payable, in respect of the three years ended 31 December 2001, 2002 and 2003, by the Group or any of its subsidiaries to the Directors. It is estimated that an aggregate amount of approximately HK\$42 million, including benefits and contributions, will be paid to the Directors as remuneration by the Group in respect of the year ending 31 December 2004 according to the present arrangements.

Remuneration Policy

The basis of the Group's remuneration policy is to:

- ensure that individual rewards and incentives relate directly to the performance of the individual, the operations and functions for which they are responsible, the Group as a whole and the interests of Shareholders; and
- maintain competitive rewards that reflect the international nature of the Group and enable it to attract and retain high quality executives.

EMPLOYEES

As at 31 December 2003, the Group had 1,208 full-time staff. The following table sets out full-time staff categorised by function:

| | As at 31 December | | | | | |
|---|-------------------|--------------|--------------|--------------|--------------|--------------|
| | 2003 | | 2002 | | 2001 | |
| | Number | (%) | Number | (%) | Number | (%) |
| Management | 7 | 0.6 | 8 | 0.6 | 9 | 0.6 |
| Information technology | 107 | 8.9 | 116 | 8.7 | 119 | 8.5 |
| Human resources, finance and administration | 67 | 5.5 | 68 | 5.1 | 62 | 4.4 |
| Operations and business support | 524 | 43.4 | 622 | 46.5 | 645 | 46.0 |
| Sales and marketing | 503 | 41.6 | 522 | 39.1 | 568 | 40.5 |
| Total | 1,208 | 100.0 | 1,336 | 100.0 | 1,403 | 100.0 |

DIRECTORS, SENIOR MANAGEMENT AND STAFF

The table above illustrates that the Group has managed to reduce its headcount as part of its ongoing cost reduction programme over the last three fiscal years.

All employees of the Group are employed under employment contracts which specify, amongst other things, the employees' remuneration, code of conduct and grounds for termination of employment. In general, employment contracts can be terminated at will by giving the employee an amount equal to one to three month's salary in lieu of notice. Employees may be entitled to an annual bonus based on various performance criteria.

Remuneration of the Group's employees comprises basic salaries, commissions and bonuses. The Group's remuneration expenses were approximately HK\$494 million, HK\$496 million and HK\$442 million for the three years ended 31 December 2001, 2002 and 2003, respectively, representing 23.1%, 20.8%, and 19.9%, respectively, of the Group's operating income for those periods.

The Group provides its staff with a range of benefits including housing loans, medical insurance protection, a life insurance scheme, an employee's compensation scheme and a personal accident insurance scheme.

The Group places great emphasis on the training and development of its staff. The Group has a structured training programme for its employees in areas such as language, customer service and technical skills. Employees are required to attend certain in-house and external courses and may also attend elective courses as part of compliance with regulatory requirements. New employees are provided with training to ensure that they are equipped with the necessary skills to perform their duties.

The Group has not experienced any strike, work stoppage or significant labour dispute which has affected its operations and has not experienced any significant difficulties in recruiting and retaining qualified staff. The Group considers its relations with its employees to be good.

LOANS TO OFFICERS AND EMPLOYEES

As at 31 December 2003, outstanding loans to officers of the Group amounted to HK\$57,222,000.

The Banking Ordinance limits the aggregate amount of unsecured loans that may be advanced to credit officers and employees of an authorized institution. As a result of the economic downturn over the last few years, a small number of mortgage loans advanced by the Group to its credit officers and employees caused the Group to be in breach of the Banking Ordinance. The breaches were attributable to unusually large falls in the value of mortgaged properties underlying the mortgage loans that had been advanced to the Group's credit officers and employees, thereby creating an, or increasing the, unsecured portion of such loans beyond statutory limits. The breaches were reported to the HKMA and exemption has been granted from the limitations under the relevant provisions of the Banking Ordinance in relation to the provision of these loans. Notification is made annually in the years where such breaches occur by reference to the

outstanding balances and value of security as at 31 March of the relevant year. As at 31 March 2001, 2002 and 2003, the aggregate value of such loans was HK\$29 million, HK\$97 million and HK\$66 million, respectively, and the unsecured balance thereof was approximately HK\$6 million, HK\$24 million and HK\$17 million, respectively.

SHARE OPTION SCHEME

The Group has conditionally adopted the Share Option Scheme for the benefit of its employees and Directors. Details of the Share Option Scheme are set out in Appendix VIII to this prospectus. The Group believes that the Share Option Scheme will assist in the recruitment and retention of high calibre executives and employees.

RETIREMENT SCHEMES

In addition to their basic compensation, employees of the Group also participate in the Group's exempted retirement schemes, MPF scheme and other employee benefit plans. Under the exempted retirement schemes, on a monthly basis, each employee contributes 0% or 5% of his salary to the schemes, and the Group contributes 5% to 15%, depending on the required contribution of the employee's entitled scheme. The MPF scheme is a retirement scheme required by Hong Kong law, under which the Group and each employee are presently required to contribute 5% of the employee's salary to the fund on a monthly basis, subject to a maximum monthly contribution of HK\$1,000 for each employee. The Group has made all required contributions to date. For further details, please see Note 10 to the "Accountants' Report" in Appendix I to this prospectus.

RELATIONSHIP WITH DSFH

Significance of the relationship with DSFH

As at the Latest Practicable Date, DSFH was interested in 100% of the issued share capital of the Company. Immediately following the completion of the Global Offering assuming that the Over-allotment Option is not exercised, DSFH will be interested in approximately 80% of the issued share capital of the Company.

The DSFH Group is principally engaged in the provision of banking and financial services (through the Group) and insurance and other related services. Following the incorporation of the Company, a reorganisation was effected as a result of which certain companies within the DSFH Group became subsidiaries of the Company in preparation for the listing of the Shares. The objective of the reorganisation was to establish the Company as the holding company for the DSFH Group's banking subsidiaries. Under the reorganisation, all the DSFH Group's banking subsidiaries were transferred to the Group, as a result of which the Company has a 100% interest in each of Dah Sing Bank and MEVAS Bank and a 75.5% interest in D.A.H. Hambros Bank.

Independence from the DSFH Group

The Company is satisfied that the Group can carry on business independently of the DSFH Group and its associates after the Company is listed on the Stock Exchange by virtue of:

- *Independence of boards and management:* DSFH and the Company will have boards of directors that will function independently of each other. Although there will be some common directors between DSFH and the Company, a majority of the Directors will not be directors of DSFH and each of DSFH and the Company will have three independent non-executive directors which are not common. In addition, the senior management of the operating subsidiaries within the DSFH Group and the Group will be independent of each other.
- *Separate lines of business:* The Group operates in banking and related services and will not operate any insurance underwriting business. Other than investment holdings, including its interest in the Company, the DSFH Group is only engaged in the insurance business, which is regulated by the Insurance Authority of Hong Kong.
- *Independent financial viability:* As illustrated in the section headed "Financial Information" in this prospectus, the Directors believe that the Group has the ability to support its own operations following the reorganisation of the Group and its separate listing.

RELATIONSHIP WITH DSFH

David Shou-Yeh Wong, who, at the Latest Practicable Date, was deemed under Part XV of the SFO to be interested in 100% of the issued share capital of the Company (by virtue of his deemed interest in 37.2% of DSFH's issued share capital), will be deemed to be interested in approximately 80% of the issued share capital of the Company immediately after the Global Offering (assuming that the Over-allotment Option is not exercised). Three of the executive Directors of the Company are also executive Directors of DSFH.

Potential competition with the DSFH Group

As at the Latest Practicable Date, the DSFH Group does not carry on any business activities that directly compete with the Group's activities. Neither the Group nor the DSFH Group has entered into any contractual restriction or provided any undertaking that would prevent it from competing with the other party. However, the Directors do not currently intend that the Group will engage in any insurance underwriting business that would directly compete with that of the DSFH Group.

CONNECTED TRANSACTIONS

Following completion of the Global Offering, there will be continuing connected transactions between members of the Group and members of the DSFH Group. These transactions will constitute continuing connected transactions of the Company (as defined in the Listing Rules), details of which are set out below.

Continuing connected transactions exempt from independent Shareholders' approval

(a) Insurance services provided by DSGI and DSLA

DSGI underwrites general insurance policies in the name, and for the benefit, of Dah Sing Bank and other members of the Group including policies covering domestic motor, property all risks, public liability, money, electronic equipment, employees' compensation and group personal accident. The policies are subject to renewal annually. The Directors believe that the policies are provided to the Group on DSGI's normal, written commercial terms. The annual premiums payable in respect of the policies in the name, and for the benefit, of Dah Sing Bank and other members of the Group for the financial years ended 31 December 2001, 2002 and 2003 were HK\$585,000, HK\$1,075,000 and HK\$1,123,000, respectively.

In addition, DSLA underwrites insurance policies to cover the death and/or critical illness of certain borrowing customers and staff of Dah Sing Bank and MEVAS Bank. The provision of the insurance cover for customers is set out in the terms and conditions of the relevant bank borrowing arrangement. The master policies between DSLA and Dah Sing Bank and MEVAS Bank in relation to the provision of such insurance cover for their respective customers are for a fixed term of three years with effect from 1 January 2004. The policies can be terminated within two months in the event of non-payment of premiums. The Directors believe that the policies are provided to the Group on DSLA's normal, written commercial terms. The premiums payable under such policies are calculated monthly by reference to the outstanding credit balances in respect of each of the products to which they relate. The aggregate annual premiums payable on the policies in the name of Dah Sing Bank and MEVAS Bank for the financial years ended 31 December 2001, 2002 and 2003 were HK\$7,151,000, HK\$6,475,000 and HK\$3,739,000, respectively.

Having regard to the annual premiums paid for the three years ended 31 December 2003, it is expected that the maximum aggregate annual premiums payable by the Group pursuant to the above arrangements will not result in the percentage ratios set out in Chapter 14 of the Listing Rules (other than the profits ratio) exceeding 2.5%. The annual monetary caps referred to in the section below headed "Waiver" have been ascertained by reference to the annual premiums paid in the financial years ended 31 December 2001, 2002 and 2003 and calculated on the basis of expected market premiums multiplied by the amount of cover required. To allow for growth in the financial years ending 31 December 2004, 2005 and 2006, the monetary cap in relation to the premiums paid to DSGI is HK\$2 million per year. The monetary cap in relation to the premiums paid to DSLA is HK\$5.5 million per year.

CONNECTED TRANSACTIONS

(b) Banking arrangements provided by the Group for companies within the DSFH Group

Dah Sing Bank and other members of the Group provide standard banking services to members of the DSFH Group including cheque clearing, autopay, cheque and deposit bank accounts, credit card merchant facilities, co-branded credit cards in respect of DSLA and investment dealing.

The Directors believe that the services are provided to the DSFH Group on the normal commercial terms of the relevant banks within the Group and are documented in writing. The banking services in respect of cheque clearing, autopay, cheque and deposit accounts are provided to the DSFH Group in the same way as they are provided to other customers of the Group under standard account opening and other forms. The credit card merchant facilities and co-brand credit card arrangements are provided under normal commercial contracts and are market standard. The standard market practice for credit card merchant facilities is not to provide for a fixed term, but allow for termination at the option of the bank by giving written notice. The co-brand credit card arrangements between the Group and the DSFH Group can be terminated after the first three years by either party giving not less than six months' notice in writing. All such banking services, by their nature, are not normally provided for a fixed term. Accordingly, the banking arrangements between the Group and the DSFH Group are not for a fixed term. The Sponsor is of the view that it is normal business practice that banking arrangements of this type can be maintained for a period longer than three years.

The aggregate annual bank charges payable to Dah Sing Bank and other members of the Group to members of the DSFH Group for the financial years ended 31 December 2001, 2002 and 2003 were HK\$466,000, HK\$697,000 and HK\$1,388,000, respectively.

The aggregate annual interest expense payable by Dah Sing Bank and other members of the Group to members of the DSFH Group for the financial years ended 31 December 2001, 2002 and 2003 were HK\$5,082,000, HK\$1,189,000 and HK\$1,024,000, respectively.

Having regard to the bank charges paid to the Group and the interest expenses incurred by the Group in the financial years ended 31 December 2001, 2002 and 2003, it is expected that the maximum aggregate annual bank charges and interest payable by the Group pursuant to the above arrangements will not result in the percentage ratios set out in Chapter 14 of the Listing Rules (other than the profits ratio) exceeding 2.5%. The annual monetary caps referred to in the section below headed "Waiver" have been ascertained by reference to the bank charges and interest expense paid in the three years ended 31 December 2003 and calculated on the basis of the bank charges applied to the particular banking services utilised and the applicable interest rates, as appropriate, multiplied by the amount of money on deposit. To allow for growth in deposits and interest rate increases in the financial years ending 31 December 2004, 2005 and 2006, the monetary cap in relation to bank charges is HK\$4 million per year and in relation to interest expense is HK\$5 million per year.

(c) Computer and Administrative Services Agreement with DSFH

On 12 June 2004, Dah Sing Bank entered into a computer and administrative services agreement with DSFH for the provision of certain computer and administrative services to the

CONNECTED TRANSACTIONS

DSFH Group (the "Services Agreement"). These services principally consist of the following: (1) computer services including data processing, printing and enveloping, system development, technical support, disaster recovery and contract management; (2) administrative, company secretarial, internal audit, compliance, operational, credit and treasury operations; and (3) secondment of, and provision of services by, staff to the DSFH Group (collectively, the "Services"). The Services Agreement is for a fixed term of three years with retroactive effect from 1 January 2004. The fixed annual fee payable by the DSFH Group for the provision of the Services will be HK\$8.5 million per annum. For the financial year ended 31 December 2003, the fee payable by the DSFH Group for the provision of the Services was HK\$4.7 million. For the financial years ended 31 December 2001 and 2002, no fee was paid by the DSFH Group for the provision of the Services. The increase in the fee payable under the Services Agreement to HK\$8.5 million reflects an expected increase in the costs of the Services as well as the inclusion of additional costs that will be charged to the DSFH Group from the date of the Services Agreement but which were not previously charged to the DSFH Group.

The Directors (including independent non-executive Directors) and the Sponsor consider that the provision of the Services after the completion of the Global Offering will be on normal commercial terms, in the ordinary and usual course of business of the Group and fair and reasonable to the Shareholders.

Having regard to the allocation of expenses incurred in relation to the provision of the Services in the financial years ended 31 December 2001, 2002 and 2003, it is expected that the annual fee payable to the Group pursuant to the above arrangements will not result in the percentage ratios set out in Chapter 14 of the Listing Rules (other than the profits ratio) exceeding 2.5%. The annual monetary cap referred to in the section below headed "Waiver" has been ascertained by reference to the fixed fee which has been set by reference to the allocation in the three years ended 31 December 2003. The annual monetary cap is HK\$8.5 million.

(d) Distribution and Agency Agreements with DSIS and DSIA

On 12 June 2004, each of DSIS and DSIA entered into distribution agreements and underlying agency agreements with each of Dah Sing Bank and MEVAS Bank for the marketing and distribution of life and general insurance products through Dah Sing Bank's and MEVAS Bank's network of bank branches. DSIS pays to each of Dah Sing Bank and MEVAS Bank a commission in respect of life assurance products which varies, depending on the product type, between 10% and 50% of the first year's premium received, plus up to 10% of the renewal premiums for a period of up to a maximum of the tenth year in respect of certain policies. For major whole of life assurance policies, the commission is 50% of the first year's premium received and 10% of the second. The commission payable by DSIA in respect of general insurance products to each of Dah Sing Bank and MEVAS Bank varies between 5% and 30% of each year's premium received in respect of a new or renewal policy. DSIS and DSIA also pay for and reimburse certain expenses connected with the distribution of policies by Dah Sing Bank and MEVAS Bank such as registration fees, sales incentives and marketing expenses. The Directors confirmed that the commission rates and expenses paid and reimbursed will be on normal commercial terms, in the

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ordinary and usual course of business of the Group and fair and reasonable to the Shareholders. The distribution and agency agreements are for a fixed term of three years with retroactive effect from 1 January 2004, save that the provisions relating to the payment of outstanding renewal premiums shall remain in force until payment is received in full.

During the financial years ended 31 December 2001, 2002 and 2003, the aggregate amount of commission paid and expenses paid and reimbursed to the Group by DSIS and DSIA amounted to approximately HK\$20.8 million, HK\$24.8 million and HK\$27.5 million, respectively.

Having regard to the commission paid and expenses paid and reimbursed to the Group in the financial years ended 31 December 2001, 2002 and 2003, it is expected that the maximum aggregate annual amount payable to the Group under the above arrangements will not result in the percentage ratios set out in Chapter 14 of the Listing Rules (other than the profits ratio) exceeding 2.5%. The annual monetary cap referred to in the section below headed "Waiver" has been ascertained by reference to the commission paid and expenses paid and reimbursed in the financial years ended 31 December 2001, 2002 and 2003 and calculated on the basis of the commission rates multiplied by the premiums received on the insurance products distributed. To allow for growth in the financial years ending 31 December 2004, 2005 and 2006, the annual monetary cap is HK\$50.6 million.

(e) *Lease and sub-lease arrangements between DSIS, DSIA and DSLA and Dah Sing Bank and Vanishing Border*

(i) Lease agreements in relation to Island Place Tower

On 12 June 2004, DSIS entered into two lease agreements (the "DSIS Lease Agreements") with Dah Sing Bank pursuant to which DSIS leases from Dah Sing Bank: (1) a portion of the 17th Floor of Island Place Tower, Island Place, 510 King's Road, North Point, Hong Kong with a floor area of 2,256 square feet at a monthly rent of HK\$20,304 exclusive of management fees, government rates, electricity, service charges and air-conditioning charges which are estimated to total approximately HK\$285,000 per annum; and (2) a portion of the 20th floor of Island Place Tower, Island Place, 510 King's Road, North Point, Hong Kong with a floor area of 9,936 square feet at a monthly rent of HK\$64,728 exclusive of management fees, government rates, electricity, service charges and air-conditioning charges, which are estimated to total approximately HK\$1,021,000 per annum. The DSIS Lease Agreements are each for a term of three years commencing on 1 July 2004 and ending on 30 June 2007 in respect of the 17th floor and 1 January 2004 and ending on 31 December 2006 in respect of 20th floor (in each case both dates inclusive).

On 12 June 2004, DSIA entered into a lease agreement (the "DSIA Lease Agreement") with Dah Sing Bank pursuant to which DSIA leases a portion of the 20th Floor of Island Place Tower, Island Place, 510 King's Road, North Point, Hong Kong with a floor area of 1,438 square feet from Dah Sing Bank. The DSIA Lease Agreement is for a term of three years

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commencing on 1 January 2004 and ending on 31 December 2006 (both dates inclusive) at a monthly rent of HK\$11,504 exclusive of management fees, government rates, electricity, service charges and air-conditioning charges, which are estimated to total approximately HK\$185,000 per annum.

The aggregate amounts payable under the DSIS Lease Agreements and the DSIA Lease Agreement, together with associated management fees, government rates, electricity, service charges and air-conditioning charges are approximately HK\$2.65 million per annum.

(ii) Lease agreement in relation to Shenzhen Development Centre

On 12 June 2004, DSLA entered into a lease agreement (the “Shenzhen Lease Agreement”) with Vanishing Border pursuant to which DSLA leases a portion of Room 1504 on the 15th Floor of the Shenzhen Development Centre with a floor area of 132 square metres from Vanishing Border. The Shenzhen Lease Agreement is for a term of three years commencing on 1 July 2004 and ending on 30 June 2007 (both dates inclusive) at a monthly rent of HK\$4,800 exclusive of management fees, electricity, service charges, air-conditioning charges, telephone fees and property tax, which are estimated to total approximately HK\$80,000 per annum.

The aggregate amount payable under the Shenzhen Lease Agreement, together with associated management fees, electricity, service charges, air-conditioning charges, telephone fees and property tax is approximately HK\$138,000 per annum.

The Directors (including independent non-executive Directors) and the Sponsor consider that the DSIS Lease Agreements, the DSIA Lease Agreement and the Shenzhen Lease Agreement (together the “Lease Agreements”) are on normal commercial terms, in the ordinary and usual course of business of the Group and are fair and reasonable to the Shareholders. Knight Frank has confirmed that the rents payable are comparable to the current market rents in respect of similar properties.

(iii) Sub-lease agreement in relation to Dah Sing Financial Centre

On 12 June 2004, DSIS entered into a sub-lease agreement (the “Sub-lease Agreement”) with Dah Sing Bank pursuant to which DSIS sub-leases a portion of the 33rd Floor, Dah Sing Financial Centre, 108 Gloucester Road, Hong Kong with a floor area of 2,826 square feet from Dah Sing Bank. The Sub-lease Agreement is for a term of three years commencing on 1 January 2004 and ending on 31 December 2006 (both dates inclusive) at a monthly rental of HK\$38,438 exclusive of management fees, government rates, electricity, service charges and air-conditioning charges, which are estimated to total approximately HK\$268,000 per annum. The monthly rental has been ascertained based on Dah Sing Bank recovering the rent which it pays to an independent third party pursuant to its lease of that portion of the 33rd Floor of Dah Sing Financial Centre.

CONNECTED TRANSACTIONS

The aggregate amount payable under the Sub-lease Agreement, together with associated management fees, government rates, electricity, service charges and air-conditioning charges is approximately HK\$730,000 per annum.

The Directors (including the independent non-executive Directors) and the Sponsor consider that the Sub-lease Agreement is on normal commercial terms, in the ordinary and usual course of business of the Group and is fair and reasonable to the Shareholders.

It is expected that the maximum annual amount payable to the Group under the above Lease Agreements and Sub-lease Agreement will not result in the percentage ratios set out in Chapter 14 of the Listing Rules (other than the profits ratio) exceeding 2.5%. The annual monetary cap referred to in the section below headed "Waiver" is HK\$3.7 million in respect of the rents payable under the Lease Agreements and the Sub-lease Agreement in aggregate.

Exempted continuing connected transactions under the de minimis rule

Trade mark licence agreement between DSFH and the Company

On 12 June 2004, DSFH and the Company entered into a royalty free exclusive trade mark licence agreement in respect of four trade marks, including the "Dah Sing" brand and logo, registered in the name of DSFH. The trade mark licence permits the use of the trade marks as part of a domain name and contains a reciprocal right to establish a link to any websites operated by the other party. The trade mark licence is perpetual and irrevocable, save, inter alia, in the following circumstances:

- DSFH is entitled to terminate it if (i) the Company ceases to be a subsidiary of DSFH and control of the Company is obtained by any person who did not exercise control over the Company at the date of the trade mark licence; or (ii) the Company challenges the validity, or the entitlement of DSFH to, any of the trade marks. For this purpose, control means the power to appoint or remove such members of the Board who can exercise a majority of the votes on the Board, or who hold the beneficial interest and/or right to the exercise of the voting rights in respect of Shares conferring on the holder more than 50% of the voting rights exercisable in general meetings of the Company.
- Each of DSFH and the Company is entitled to terminate it if (i) the other party commits a material breach of its obligations under the licence and fails to remedy that breach within 28 days of being requested to do so; or (ii) action is taken to wind up or appoint a receiver and manager in respect of all or a substantial part of the assets of the other party or if similar events take place; or (iii) if the other party is unable to pay its debts as they fall due within the meaning of Section 178 of the Companies Ordinance, or stops or threatens to stop paying its debts generally, or ceases or threatens to cease to carry on its business.

CONNECTED TRANSACTIONS

As other members of the DSFH Group use the same or similar trade marks, the Company considers that it is usual for the parent company of the Group, DSFH, to be the registered owner of the trade marks.

For details of the trade mark licence agreement, see the section headed “The Company and its Business — Intellectual Property” in this prospectus and the section headed “Intellectual property rights” in Appendix IX to this prospectus.

Under Rule 14A.33(3) of the Listing Rules, a continuing connected transaction on normal commercial terms where each of the percentage ratios set out in Chapter 14 of the Listing Rules (other than the profits ratio) is on an annual basis less than 0.1% will normally be exempted from all the reporting, announcement and independent Shareholders’ approval requirements contained in Rules 14A.35 and 14A.45 to 14A.48 of the Listing Rules. Since the total consideration under the trade mark licence described above is nil and therefore will not result in any of the percentage ratios set out in Chapter 14 of the Listing Rules applied to the total consideration under the trade mark licence exceeding 0.1% after completion of the Listing, the trade mark licence will be an exempted continuing connected transaction under Rule 14A.33(3) of the Listing Rules.

Exempted continuing connected transactions under the financial assistance rules

Financial assistance provided by the Group

The Group may from time to time provide financial assistance (as defined in Chapter 14A of the Listing Rules) in the ordinary and usual course of business for the benefit of connected persons on normal commercial terms.

Under Rule 14A.65 of the Listing Rules, financial assistance (as defined in Chapter 14A of the Listing Rules) provided for the benefit of a connected person in the ordinary and usual course of business on normal commercial terms will be exempt from all the reporting, announcement and Shareholders’ approval requirements contained in Rules 14A.35 and 14A.45 to 14A.48 of the Listing Rules. The financial assistance provided by the Group to connected persons will be exempted continuing connected transactions under Rule 14A.65 of the Listing Rules.

Waiver

The above transactions will constitute continuing connected transactions for the Company under the Listing Rules once the Shares are listed on the Main Board of the Stock Exchange and for so long as DSFH remains a substantial Shareholder. Under the Listing Rules, each connected transaction would normally be subject to the reporting, announcement and independent Shareholders’ approval requirements of Chapter 14A, subject to the nature and value of the transaction.

CONNECTED TRANSACTIONS

In the opinion of the Directors, including the independent non-executive Directors, the continuing connected transactions referred to above have been entered into in the Group's ordinary and usual course of business, on normal commercial terms and on terms that are fair and reasonable and in the interests of the Shareholders taken as a whole. The Directors have confirmed that the bases on which the relevant commissions, fees, rents, premiums, charges and interest expenses will be ascertained during the three financial years ending 31 December 2006 will be equivalent to the bases upon which they were ascertained during the financial years ended 31 December 2001, 2002 and 2003 except in respect of the fee under the Services Agreement, as fees for certain Services were not charged to the DSFH Group during the period, and rent under the DSIS Lease Agreement of the 17th Floor of Island Place Tower and the Shenzhen Lease Agreement which were not previously occupied by the DSFH Group.

In the opinion of the Directors (including the independent non-executive Directors) and the Sponsor, the connected transactions:

- (i) have been entered in the ordinary and usual course of business of the Group and are fair and reasonable as far as the Shareholders are concerned; and
- (ii) are either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than terms available to or from (as appropriate) independent third parties.

The transactions described in (a) to (e) above are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules. The Directors consider that strict compliance with the announcement requirements for these transactions would be unduly burdensome and impractical to comply with immediately after the Listing. The Company has therefore applied to the Stock Exchange for waivers under Rule 14A.42(3) of the Listing Rules from the above announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules in respect of the transactions described in (a) to (e) above on the terms stated above for the financial years ending 31 December 2004, 2005 and 2006. The Company will comply with Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules, as specified in Rule 14A.42(3) of the Listing Rules.

CONNECTED TRANSACTIONS

In respect of Rules 14A.35(2) and 14A.36(1), the maximum aggregate annual value (cap) in respect of each of the transactions shall not exceed the respective caps set out below:

| <u>Transaction</u> | <u>Annual cap on the aggregate value of the transaction</u> |
|---|---|
| (i) Insurance services | |
| - DSGI | HK\$2 million |
| - DSLA | HK\$5.5 million |
| (ii) Bank charges | HK\$4 million |
| (iii) Interest expense | HK\$5 million |
| (iv) Services Agreement | HK\$8.5 million |
| (v) Distribution and Agency Agreements | HK\$50.6 million |
| (vi) Lease Agreements and Sub-lease Agreement, together with associated management fees, government rates, electricity, service charges and air-conditioning charges | HK\$3.7 million |

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable at the date of this prospectus on transactions of the kind to which the transactions belong, including, but not limited to, a requirement that such transactions be made conditional on approval by the independent Shareholders, the Company shall take immediate steps to ensure compliance with such requirements within a reasonable period.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at the Latest Practicable Date, the following persons were interested in 10% or more of the Shares then in issue:

| <u>Name</u> | <u>Shares</u> | <u>Percentage of issued Shares</u> |
|---|---------------|------------------------------------|
| DSFH | 809,900,000 | 100% |
| David Shou-Yeh Wong ⁽¹⁾ | 809,900,000 | 100% |
| HSBC International Trustee Limited ⁽²⁾ | 809,900,000 | 100% |
| Christine Yen Wong ⁽³⁾ | 809,900,000 | 100% |

Notes:

- (1) Such Shares represent the deemed interest of David Shou-Yeh Wong under Part XV of the SFO by virtue of his deemed interest in 91,723,982 DSFH Shares representing 37.2% of DSFH's share capital in issue.
- (2) Such Shares represent the deemed interest of HSBC International Trustee Limited under Part XV of the SFO by virtue of its interest in 87,880,236 DSFH Shares representing 35.6% of DSFH's share capital in issue. Such Shares mainly consist of the interest indirectly held by HSBC International Trustee Limited in trust for a discretionary trust established for the benefit of David Shou-Yeh Wong and his family.
- (3) Christine Yen Wong is the wife of David Shou-Yeh Wong and is deemed to be interested in the Shares in which David Shou-Yeh Wong is deemed or taken to be interested for the purposes of the SFO.

Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised and that DSFH does not subscribe for any Public Offer Shares pursuant to its obligations under the Public Offer Underwriting Agreement), so far as the Directors are aware, the only parties directly or indirectly interested in 10% or more of the Shares in issue (assuming no other sales or purchases or issues of any Shares after the Latest Practicable Date) will be:

| <u>Name</u> | <u>Shares</u> | <u>Percentage of issued Shares</u> |
|---|---------------|------------------------------------|
| DSFH | 728,000,000 | 80% |
| David Shou-Yeh Wong ⁽¹⁾ | 728,000,000 | 80% |
| HSBC International Trustee Limited ⁽²⁾ | 728,000,000 | 80% |
| Christine Yen Wong ⁽³⁾ | 728,000,000 | 80% |

Notes:

- (1) Such Shares represent the deemed interest of David Shou-Yeh Wong under Part XV of the SFO by virtue of his deemed interest in 91,723,982 DSFH Shares representing 37.2% of DSFH's share capital in issue.
- (2) Such Shares represent the deemed interest of HSBC International Trustee Limited under Part XV of the SFO by virtue of its interest in 87,880,236 DSFH Shares representing 35.6% of DSFH's share capital in issue. Such Shares mainly consist of the interest indirectly held by HSBC International Trustee Limited in trust for a discretionary trust established for the benefit of David Shou-Yeh Wong and his family.
- (3) Christine Yen Wong is the wife of David Shou-Yeh Wong and is deemed to be interested in the Shares in which David Shou-Yeh Wong is deemed or taken to be interested for the purposes of the SFO.

SUBSTANTIAL SHAREHOLDERS

If the Over-allotment Option is exercised in full (assuming that DSFH does not subscribe for any Public Offer Shares pursuant to its obligations under the Public Offer Underwriting Agreement), the interests of the parties named in the table above in the Company's share capital (assuming no other sales or purchases or issues of any Shares after the Latest Practicable Date) will be:

| <u>Name</u> | <u>Shares</u> | <u>Percentage of issued Shares</u> |
|---|---------------|------------------------------------|
| DSFH | 715,715,000 | 77.4% |
| David Shou-Yeh Wong ⁽¹⁾ | 715,715,000 | 77.4% |
| HSBC International Trustee Limited ⁽²⁾ | 715,715,000 | 77.4% |
| Christine Yen Wong ⁽³⁾ | 715,715,000 | 77.4% |

Notes:

- (1) Such Shares represent the deemed interest of David Shou-Yeh Wong under Part XV of the SFO by virtue of his deemed interest in 91,723,982 DSFH Shares representing 37.2% of DSFH's share capital in issue.
- (2) Such Shares represent the deemed interest of HSBC International Trustee Limited under Part XV of the SFO by virtue of its interest in 87,880,236 DSFH Shares representing 35.6% of DSFH's share capital in issue. Such Shares mainly consist of the interest indirectly held by HSBC International Trustee Limited in trust for a discretionary trust established for the benefit of David Shou-Yeh Wong and his family.
- (3) Christine Yen Wong is the wife of David Shou-Yeh Wong and is deemed to be interested in the Shares in which David Shou-Yeh Wong is deemed or taken to be interested for the purposes of the SFO.

For more information about substantial shareholders, please refer to the section headed "Further Information about Substantial Shareholders, Directors and Experts" in Appendix IX to this prospectus.

Other than DSFH, none of the existing Shareholders has provided any undertaking to the Company in relation to any future acquisition or disposal of Shares by it at any time, including any time following completion of the Global Offering.

SHARE CAPITAL

The table below sets out details relating to the Company's share capital as at the Latest Practicable Date and immediately after the completion of the Global Offering:

HK\$

Authorised share capital:

| | | |
|---------------|-------------------------|---------------|
| 1,500,000,000 | Shares of HK\$1.00 each | 1,500,000,000 |
|---------------|-------------------------|---------------|

Issued Shares:

| | | |
|-------------|---|-------------|
| 809,900,000 | Shares in issue as at the date of this prospectus | 809,900,000 |
|-------------|---|-------------|

Shares to be issued:

| | | |
|-------------|---|-------------|
| 100,100,000 | Shares to be issued pursuant to the Global Offering | 100,100,000 |
|-------------|---|-------------|

Total:

| | | |
|-------------|--------|-------------|
| 910,000,000 | Shares | 910,000,000 |
|-------------|--------|-------------|

Notes:

(1) **Assumptions**

The above numbers of Shares have been calculated based on the maximum number of Shares that may be offered pursuant to the Global Offering without taking into account any exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, then 15,015,000 additional Shares will be issued, resulting in a total enlarged issued share capital of 925,015,000 Shares with an aggregate nominal value of HK\$925,015,000.

The above table assumes that the Global Offering becomes unconditional, but does not take into account exercise of the Over-allotment Option or the Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme. It also does not take into account the general mandate referred to in (4) below or Shares which may be repurchased by the Company under the general mandate referred to in (5) below.

(2) **Ranking**

The Shares to be issued will rank equally with all Shares currently in issue or to be issued and, in particular, will rank in full for all dividends or other distributions declared, made or paid on the Shares in respect of a record date which falls after the date of Listing.

(3) **Share Option Scheme**

The Company has conditionally adopted the Share Option Scheme, a summary of which is set out in Appendix VIII to this prospectus. Under the Share Option Scheme, directors of, managers of, and employees holding executive managerial or supervisory positions in the Group may be granted options which entitle them to subscribe for Shares representing up to a maximum of 5% of the total number of Shares in issue as at the date of adoption of the Share Option Scheme.

SHARE CAPITAL

(4) **General mandate to issue Shares**

The Directors have been granted an unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than 20% of the aggregate of (i) the nominal value of the share capital of the Company in issue immediately following completion of the Global Offering (including Shares which may be issued upon the exercise of the Over-allotment Option) and (ii) the nominal amount of share capital that may be purchased by the Company under the general mandate referred to in (5) below.

The Directors may, in addition to Shares which they are authorised to issue under the mandate and pursuant to the Global Offering, allot, issue and deal with Shares under a rights issue, scrip dividend scheme or similar arrangement or Shares to be issued upon the exercise of options granted under the Share Option Scheme.

Brief details of the general mandate to issue Shares are set out in the section headed "Written resolutions of the sole Shareholder passed on 12 June 2004" in Appendix IX to this prospectus.

(5) **General mandate to repurchase Shares**

The Directors have been granted an unconditional mandate to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Global Offering (including Shares which may be issued upon the exercise of the Over-allotment Option).

(6) **Public float**

The Listing Committee resolved that the Company may proceed with the listing of its securities with a public float of 15% or greater on the basis that the expected market capitalisation of the Company at the time of the Listing will exceed HK\$10 billion as specified in the Listing Rules, and on the condition that the Company and its controlling shareholders take appropriate steps to increase the public float to 25% of the Company's total issued share capital within 18 months from the date of Listing. It is intended that the Company will initially be listed with a 20% public float (assuming that the Over-allotment Option is not exercised). DSFH currently intends to increase the number of Shares in public hands to 25% or more of the issued share capital of the Company within 18 months from the date of Listing either by the sale or disposal by DSFH of additional Shares or by procuring, to the extent that it is able, the issue by the Company of new Shares, or otherwise in accordance with the Listing Rules.

FINANCIAL INFORMATION

The following discussion should be read in conjunction with the Company's combined audited financial information as at and for the years ended 31 December 2001, 2002 and 2003, and, in each case, the notes thereto, which are included in the "Accountants' Report" set out in Appendix I to this prospectus and prepared in accordance with Hong Kong GAAP. For the purposes of the following discussion, unless the context requires otherwise, references to "Fiscal 2001", "Fiscal 2002" and "Fiscal 2003" are to the financial year ended 31 December of the relevant year.

OVERVIEW

The banking business of the Group is carried out through its subsidiaries with banking licences. All descriptions of the banking business of the Group in this prospectus refer to the banking business carried out through these subsidiaries. The Group's operations comprise three main lines of business carried out through its banking subsidiaries: personal banking, commercial banking and treasury. The Group's operations are primarily based in Hong Kong, although it also has recently opened its first Mainland China branch in Shenzhen and also has an interest in an offshore private bank licensed in Guernsey.

The Group's personal banking business, carried out through its banking subsidiaries, offers retail, private and VIP banking services, including deposit-taking, mortgage lending, credit cards, personal loans, overdrafts and wealth management products and services. The Group's commercial banking services, carried out through its banking subsidiaries, include a variety of lending and deposit-taking services for commercial and institutional customers. The Group also operates, through Dah Sing Bank, a treasury business, which is responsible for securities investment, funding, foreign exchange, cash management and interest rate risk management.

The Group is headquartered in Hong Kong and as at 31 December 2003, its local banking subsidiaries had a network of 43 branches and three sales and service centres, with approximately 1,200 employees and more than 700,000 customers. The Group's principal subsidiary, Dah Sing Bank, has been active in the banking business since 1947 and, in the past ten years, has established a significant position in the personal banking market in Hong Kong.

FINANCIAL INFORMATION

SELECTED COMBINED FINANCIAL INFORMATION

The following table sets forth selected combined financial information for Fiscal 2001, 2002 and 2003 with respect to the Group which has been extracted from the Group's combined audited financial information for Fiscal 2001, 2002 and 2003 included in the "Accountants' Report" set out in Appendix I to this prospectus:

| | For the year ended 31 December | | |
|---|--------------------------------|-----------------------|-----------------------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | |
| Combined Profit and Loss Account Data: | | | |
| Interest income | 2,355,956 | 2,563,904 | 3,179,240 |
| Interest expense | <u>(672,575)</u> | <u>(734,909)</u> | <u>(1,480,251)</u> |
| Net interest income | 1,683,381 | 1,828,995 | 1,698,989 |
| Other operating income | <u>534,254</u> | <u>550,082</u> | <u>443,711</u> |
| Operating income | 2,217,635 | 2,379,077 | 2,142,700 |
| Operating expenses | <u>(781,087)</u> | <u>(868,152)</u> | <u>(907,113)</u> |
| Operating profit before provisions | 1,436,548 | 1,510,925 | 1,235,587 |
| Charge for bad and doubtful debts | <u>(534,754)</u> | <u>(703,869)</u> | <u>(411,106)</u> |
| Operating profit after provisions | 901,794 | 807,056 | 824,481 |
| Net loss on disposal and deficit on revaluation of fixed assets | (64,479) | (38,104) | (11,287) |
| Net gain on disposal of associates | — | 1,613 | — |
| Net gain on disposal of non-trading and held-to-maturity securities | 195,918 | 83,164 | 176,116 |
| Provision on non-trading securities | <u>(25,877)</u> | <u>—</u> | <u>—</u> |
| Profit on ordinary activities | 1,007,356 | 853,729 | 989,310 |
| Share of net losses of jointly controlled entities | (2,015) | (6,000) | (20,000) |
| Share of net losses of associates | — | — | (27) |
| Net other contribution from discontinuing operation | <u>141</u> | <u>673</u> | <u>672</u> |
| Profit before taxation | 1,005,482 | 848,402 | 969,955 |
| Taxation | <u>(122,776)</u> | <u>(68,749)</u> | <u>(117,608)</u> |
| Profit after taxation | 882,706 | 779,653 | 852,347 |
| Minority interests | <u>(2,880)</u> | <u>(3,320)</u> | <u>(1,639)</u> |
| Profit attributable to shareholders | <u>879,826</u> | <u>776,333</u> | <u>850,708</u> |
| Dividends | <u>507,500</u> | <u>440,000</u> | <u>440,000</u> |

FINANCIAL INFORMATION

As at 31 December

2003 2002 2001

(in HK\$ thousands)

Combined Balance Sheet Data:

Assets

| | | | |
|--|--------------------------|--------------------------|--------------------------|
| Cash and short term funds | 10,983,523 | 9,010,988 | 6,918,309 |
| Trade bills | 737,548 | 576,446 | 535,645 |
| Certificates of deposit held | 204,400 | 455,137 | 524,766 |
| Trading securities | 2,789,214 | 2,497,937 | 2,980,255 |
| Advances to customers and other accounts | 29,049,518 | 29,277,275 | 30,024,347 |
| Held-to-maturity securities | 392,198 | 78,049 | 4,597,102 |
| Non-trading securities | 17,091,136 | 15,870,632 | 6,204,215 |
| Investments in associates | — | — | 99,866 |
| Investments in jointly controlled entities | 22,985 | 25,000 | 27,000 |
| Fixed assets | 893,750 | 1,005,316 | 1,073,549 |
| Total assets | <u>62,164,272</u> | <u>58,796,780</u> | <u>52,985,054</u> |

Liabilities

| | | | |
|---|--------------------------|--------------------------|--------------------------|
| Deposits and balances of banks and other financial institutions | 161,972 | 62,423 | 293,164 |
| Deposits from customers | 40,152,196 | 37,589,089 | 33,153,143 |
| Certificates of deposit issued | 7,868,079 | 6,888,227 | 5,652,190 |
| Issued debt securities | 31,052 | — | — |
| Other accounts and accruals | 7,219,535 | 7,875,246 | 7,915,785 |
| Current and deferred tax liabilities | 61,461 | 10,724 | 45,919 |
| Total liabilities | <u>55,494,295</u> | <u>52,425,709</u> | <u>47,060,201</u> |

Capital Resources

| | | | |
|--|--------------------------|--------------------------|--------------------------|
| Loan capital | 970,388 | 974,831 | 974,719 |
| Minority interests | 19,120 | 18,153 | 32,766 |
| Share capital | 1,215,850 | 1,215,850 | 1,213,952 |
| Reserves | 4,464,619 | 4,162,237 | 3,703,416 |
| Shareholders' funds | 5,680,469 | 5,378,087 | 4,917,368 |
| Total capital resources | 6,669,977 | 6,371,071 | 5,924,853 |
| Total liabilities and capital resources | <u>62,164,272</u> | <u>58,796,780</u> | <u>52,985,054</u> |

FINANCIAL INFORMATION

For the year ended 31 December

2003 2002 2001

(in HK\$ thousands)

Combined Cash Flow Data:

| | | | |
|---|-------------------------|-------------------------|-------------------------|
| Net cash inflow/(outflow) from operating activities | <u>2,811,669</u> | <u>(1,530,426)</u> | <u>(420,491)</u> |
| Investing activities | | | |
| Disposal of associates | — | 105,165 | — |
| Disposal of a subsidiary | — | — | 25,030 |
| Purchase of fixed assets | (23,407) | (45,679) | (82,715) |
| Proceeds from disposal of fixed assets | 6,321 | 7,458 | 56 |
| Investments in partnerships for taxation purposes | <u>(44,170)</u> | <u>(92,401)</u> | <u>(44,991)</u> |
| Net cash outflow from investing activities | <u>(61,256)</u> | <u>(25,457)</u> | <u>(102,620)</u> |
| Net cash inflow/(outflow) before financing | <u>2,750,413</u> | <u>(1,555,883)</u> | <u>(523,111)</u> |
| Financing | | | |
| Certificates of deposit issued | 4,350,184 | 2,506,482 | 1,639,000 |
| Certificates of deposit redeemed | (3,363,176) | (1,270,740) | (2,081,072) |
| Debt securities issued | 31,052 | — | — |
| Issue of ordinary shares | — | — | 50,000 |
| Loan capital issued | — | — | 974,863 |
| Dividends paid on ordinary shares | <u>(547,500)</u> | <u>(440,000)</u> | <u>(359,220)</u> |
| Net cash inflow from financing | <u>470,560</u> | <u>795,742</u> | <u>223,571</u> |
| Increase/(decrease) in cash and cash equivalents | <u>3,220,973</u> | <u>(760,141)</u> | <u>(299,540)</u> |
| Cash and cash equivalent at beginning of the year | <u>3,604,564</u> | <u>4,364,705</u> | <u>4,664,245</u> |
| Cash and cash equivalent at end of the year | <u>6,825,537</u> | <u>3,604,564</u> | <u>4,364,705</u> |

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SELECTED FINANCIAL RATIOS

The following table sets forth certain financial ratios of the Group for Fiscal 2001, 2002 and 2003:

| | As at or for the year ended 31 December | | |
|---|---|-------|-------|
| | 2003 | 2002 | 2001 |
| | (%) | | |
| Profitability ratios | | | |
| Net interest margin ⁽¹⁾ | 3.05 | 3.74 | 3.76 |
| Cost to income ratio (continuing operations) ⁽²⁾ | 35.22 | 36.49 | 42.34 |
| Return on average total assets ⁽³⁾ | 1.45 | 1.39 | 1.68 |
| Return on average shareholders' funds ⁽⁴⁾ | 15.91 | 15.08 | 18.31 |
| Asset and credit quality ratios | | | |
| Specific provision rate ⁽⁵⁾ | 1.92 | 2.39 | 1.42 |
| Non-performing loan ratio ⁽⁶⁾ | 1.55 | 1.67 | 2.07 |
| Overdue and rescheduled loan ratio ⁽⁷⁾ | 2.06 | 2.03 | 2.57 |
| Other ratios⁽⁸⁾ | | | |
| CAR ⁽⁹⁾ | 20.4 | 19.9 | 18.6 |
| Adjusted CAR ⁽¹⁰⁾ | 20.2 | 19.8 | 18.5 |
| Liquidity ratio ⁽¹¹⁾ | 65.9 | 54.9 | 46.2 |

Notes:

- (1) The "net interest margin" represents the net interest income as a percentage of the average balance of total interest-earning assets for the year.
- (2) The "cost to income ratio (continuing operations)" represents the total operating expenses as a percentage of the total operating income for the year.
- (3) The "return on average total assets" represents the profit attributable to shareholders as a percentage of the average balance of total assets for the year.
- (4) The "return on average shareholders' funds" represents the profit attributable to shareholders as a percentage of the average balance of total shareholders' funds for the year.
- (5) The "specific provision rate" represents the total specific provision for bad and doubtful debts charged to the profit and loss account as a percentage of the average balance of total advances to customers for the year.
- (6) The "non-performing loan ratio" represents the total non-performing loans as a percentage of the total advances to customers at year end.
- (7) The "overdue and rescheduled loan ratio" represents the total gross advances overdue for more than three months and rescheduled advances as a percentage of the total advances to customers at year end.
- (8) Please note that only the local banking subsidiaries within the Group are subject to minimum "CAR" and "liquidity ratio" requirements under the Banking Ordinance. These ratios of the Group are calculated for reference only.
- (9) The "CAR" represents the combined capital adequacy ratio of the Group as at 31 December of the relevant year. The CAR of each banking subsidiary within the Group is calculated in accordance with the Third Schedule of the Banking Ordinance.
- (10) The "adjusted CAR" represents the combined capital adequacy ratio of the Group as at 31 December of the relevant year after incorporating market risk capital requirements. The adjusted CAR of each banking subsidiary within the Group is calculated in accordance with the guideline entitled "Maintenance of Adequate Capital Against Market Risks" issued by the HKMA. The adjusted ratio takes into account market risk as at 31 December of the relevant year.
- (11) The "liquidity ratio" is calculated as the simple average of each calendar month's average liquidity ratio for the 12 months of the financial year for the local banking subsidiaries within the Group in accordance with the Fourth Schedule of the Banking Ordinance.

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The decrease in net interest margin from 3.74% in Fiscal 2002 to 3.05% in Fiscal 2003 was primarily due to lower average balances of higher yielding consumer lending and a larger pool of short-term debt securities.

The cost to income ratio declined from 42.34% in Fiscal 2001 to 36.49% in Fiscal 2002 and 35.22% in Fiscal 2003 largely as a result of cost containment measures implemented by the Group during Fiscal 2002 and the reorganisation of the Group's personal banking business in January 2003, pursuant to which the operations and support platforms of MEVAS Bank were integrated with those of Dah Sing Bank.

The decrease in return on average total assets in Fiscal 2002 was principally due to: (i) a decrease in profit attributable to shareholders as a result of an increase in the charge for bad and doubtful debts; and (ii) an increase in the average total assets of the Group. The increase in the average total assets of the Group from Fiscal 2001 to Fiscal 2003 was primarily driven by the Group's strategy of growing its deposit base in an effort to cross-sell wealth management services to depositors and raising additional medium-term funding to support more active surplus funds investments.

The decrease in return on average total shareholders' funds in Fiscal 2002 was principally due to: (i) a decrease in profit attributable to shareholders as a result of an increase in the charge for bad and doubtful debts; and (ii) an increase in the average total shareholders' funds of the Group from Fiscal 2001 to Fiscal 2003. The increase in the average total shareholders' funds of the Group from Fiscal 2001 to Fiscal 2003 was primarily due to the increase in retained profit and a rise in the investment revaluation reserve as a result of the increase in the fair value of non-trading securities.

The increase in the specific provision rate in Fiscal 2002 from Fiscal 2001 was due to higher loan losses from the Group's personal banking business charged to the profit and loss account. The specific provision rate improved in Fiscal 2003 primarily due to: (i) rigorous collection efforts resulting in improved recoveries; (ii) improved retail credit quality as a result of fewer personal bankruptcies; and (iii) a recovery in property prices in Hong Kong in the second half of 2003.

The decrease in the non-performing loan ratio from Fiscal 2001 to Fiscal 2002 was primarily due to a larger amount of loans being written off during Fiscal 2002. In Fiscal 2003, the non-performing loan ratio was further improved as a result of improvements in the local economy in the second half of the year.

The decrease in the overdue and rescheduled loan ratio in Fiscal 2002 from Fiscal 2001 was due to the decrease in the overdue and rescheduled loan amount at the year end.

The increases in the capital adequacy ratio in Fiscal 2002 and Fiscal 2003 were largely due to an increase in core capital through an increase in reserves, particularly the retained earnings and investment revaluation reserve.

The increases in the liquidity ratio in Fiscal 2002 and Fiscal 2003 were largely due to an increase in liquefiable assets determined in accordance with the Fourth Schedule of the Banking Ordinance.

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SELECTED STATISTICAL INFORMATION

The following table sets forth the average balances of the Group's outstanding assets and liabilities and the associated interest income, interest expense, average yield and cost, net interest margin and net interest spread for Fiscal 2001, 2002 and 2003:

| | As at or for the year ended 31 December | | | | | | | | |
|---|---|--------------------------------|---------------------------|----------------------|--------------------------------|---------------------------|----------------------|--------------------------------|---------------------------|
| | 2003 | | | 2002 | | | 2001 | | |
| | Average balance | Interest income/ expense | Average yield/ cost | Average balance | Interest income/ expense | Average yield/ cost | Average balance | Interest income/ expense | Average yield/ cost |
| Amount | Amount | (%) | Amount | Amount | (%) | Amount | Amount | (%) | |
| <i>(in HK\$ millions, except percentages)</i> | | | | | | | | | |
| Assets | | | | | | | | | |
| Loans to customers | 26,938 | 1,526 | 5.66 | 28,759 | 1,810 | 6.29 | 30,168 | 2,385 | 7.91 |
| Loans to banks | 8,003 | 83 | 1.04 | 4,396 | 69 | 1.57 | 3,000 | 107 | 3.57 |
| Interest-earning securities | 20,182 | 747 | 3.70 | 15,734 | 685 | 4.35 | 11,951 | 687 | 5.75 |
| Total interest-earning assets | <u>55,123</u> | <u>2,356</u> | <u>4.27</u> | <u>48,889</u> | <u>2,564</u> | <u>5.24</u> | <u>45,119</u> | <u>3,179</u> | <u>7.05</u> |
| Provision for bad and doubtful debts | (513) | — | — | (543) | — | — | (537) | — | — |
| Non-interest earning assets | <u>5,871</u> | <u>—</u> | <u>—</u> | <u>7,545</u> | <u>—</u> | <u>—</u> | <u>6,095</u> | <u>—</u> | <u>—</u> |
| Total assets and interest income | <u>60,481</u> | <u>2,356</u> | <u>3.90</u> | <u>55,891</u> | <u>2,564</u> | <u>4.59</u> | <u>50,677</u> | <u>3,179</u> | <u>6.27</u> |
| Liabilities | | | | | | | | | |
| Deposits and balances of banks and other financial institutions | 2,680 | 1 | 0.04 | 1,497 | 3 | 0.20 | 728 | 15 | 2.06 |
| Current, fixed, savings and other deposits of customers | 38,440 | 453 | 1.18 | 35,099 | 550 | 1.57 | 32,380 | 1,136 | 3.51 |
| Certificates of deposit issued | 7,576 | 112 | 1.48 | 6,886 | 150 | 2.18 | 6,344 | 296 | 4.67 |
| Other interest-bearing liabilities | <u>2,818</u> | <u>107</u> | <u>3.80</u> | <u>975</u> | <u>32</u> | <u>3.28</u> | <u>745</u> | <u>33</u> | <u>4.43</u> |
| Total interest-bearing liabilities | <u>51,514</u> | <u>673</u> | <u>1.31</u> | <u>44,457</u> | <u>735</u> | <u>1.65</u> | <u>40,197</u> | <u>1,480</u> | <u>3.68</u> |
| Shareholders' funds and non-interest-bearing liabilities | <u>7,975</u> | <u>—</u> | <u>—</u> | <u>10,434</u> | <u>—</u> | <u>—</u> | <u>9,960</u> | <u>—</u> | <u>—</u> |
| Total shareholders' funds and liabilities and interest expense | <u>59,489</u> | <u>673</u> | <u>1.13</u> | <u>54,891</u> | <u>735</u> | <u>1.34</u> | <u>50,157</u> | <u>1,480</u> | <u>2.95</u> |
| Net interest income | <u>—</u> | <u>1,683</u> | <u>—</u> | <u>—</u> | <u>1,829</u> | <u>—</u> | <u>—</u> | <u>1,699</u> | <u>—</u> |
| Net interest margin | | | <u>3.05</u> | | | <u>3.74</u> | | | <u>3.76</u> |
| Net interest spread⁽¹⁾ | | | <u>2.96</u> | | | <u>3.59</u> | | | <u>3.37</u> |

Note:

- (1) Net interest spread represents the difference between the average yield on total average interest-earning assets and the average cost of total average interest-bearing liabilities.

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RESULTS OF OPERATIONS

Net Interest Income

The following table sets forth the principal components of the Group's net interest income (defined as interest income net of interest expense) for Fiscal 2001, 2002 and 2003:

| | For the year ended 31 December | | |
|---|--------------------------------|-------------------------|-------------------------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | |
| Interest income | | | |
| Interest income on listed investments | 214,443 | 173,456 | 187,420 |
| Interest income on unlisted investments | 411,358 | 418,560 | 415,324 |
| Other interest income | <u>1,730,155</u> | <u>1,971,888</u> | <u>2,576,496</u> |
| Total interest income | 2,355,956 | 2,563,904 | 3,179,240 |
| Interest expense | <u>(672,575)</u> | <u>(734,909)</u> | <u>(1,480,251)</u> |
| Net interest income | <u>1,683,381</u> | <u>1,828,995</u> | <u>1,698,989</u> |

Net interest income decreased by HK\$146 million, or 8%, from HK\$1,829 million in Fiscal 2002 to HK\$1,683 million in Fiscal 2003. The decrease was primarily due to lower average loan balances and a lower net interest margin. The net interest margin narrowed from 3.74% in Fiscal 2002 to 3.05% in Fiscal 2003 as a result of lower average balances of higher yielding consumer lending and a larger pool of short-term debt securities.

Net interest income increased by HK\$130 million, or 7.7%, from HK\$1,699 million in Fiscal 2001 to HK\$1,829 million in Fiscal 2002. The spread in Fiscal 2002 was higher, due largely to the decline in market interest rates which lowered the Group's average cost of funds despite the lower loan balance and tighter spreads from the Group's traditional lending businesses.

Total Interest Income

Total interest income decreased by HK\$208 million, or 8.1%, from HK\$2,564 million in Fiscal 2002 to HK\$2,356 million in Fiscal 2003. The decrease was primarily due to lower market interest rates, lower balances of higher yielding consumer lending, lower yields on many loan products due to competition and lower yields on shorter-dated debt securities. The impact of lower interest rates was mitigated to some extent by the growth in the volume of interest-earning assets as a result of new deposits taken during Fiscal 2003.

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Total interest income decreased by HK\$615 million, or 19.3%, from HK\$3,179 million in Fiscal 2001 to HK\$2,564 million in Fiscal 2002. The decrease was primarily due to lower loan balances and lower average yields from the Group's lending businesses as market interest rates were lower in Fiscal 2002 than in Fiscal 2001. Loan balances in Fiscal 2002 declined due to weaker demand for loans and higher loan charge-offs, resulting from weaker economic conditions and a deterioration in asset quality.

Interest Expense

Interest expense decreased by HK\$62 million, or 8.4%, from HK\$735 million in Fiscal 2002 to HK\$673 million in Fiscal 2003. The decrease was primarily due to a lower cost of funds in Fiscal 2003 caused by a significant drop in short-term money market rates for Hong Kong dollars.

Interest expense decreased by HK\$745 million, or 50.3%, from HK\$1,480 million in Fiscal 2001 to HK\$735 million in Fiscal 2002. The decrease was primarily due to a lower cost of funds in Fiscal 2002 as market interest rates fell. Please also refer to the table headed "Hong Kong Interest Rates" in the section headed "Industry Overview — Industry Characteristics" and the table above headed "Selected Statistical Information" for further information with respect to interest rates.

Other Operating Income

The following table sets forth information with respect to the Group's other operating income for Fiscal 2001, 2002 and 2003:

| | For the year ended 31 December | | |
|--|---------------------------------------|----------------|----------------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | |
| Fees and commission income | 472,054 | 463,955 | 399,962 |
| Fees and commission expense | (54,447) | (80,229) | (94,571) |
| Net fees and commission income | 417,607 | 383,726 | 305,391 |
| Net gain from foreign exchange trading | 26,028 | 35,319 | 35,496 |
| Net gain from trading securities and derivatives | 56,317 | 90,447 | 43,439 |
| Dividend income from investments in securities | | | |
| Listed investments | 162 | 327 | 3,548 |
| Unlisted investments | 9,738 | 14,661 | 17,882 |
| Gross rental income from investment properties | 11,900 | 13,709 | 14,681 |
| Other rental income | 5,417 | 4,669 | 4,279 |
| Others | 7,085 | 7,224 | 18,995 |
| Other operating income | 534,254 | 550,082 | 443,711 |

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Other operating income decreased by HK\$16 million, or 2.9%, from HK\$550 million in Fiscal 2002 to HK\$534 million in Fiscal 2003. Higher fees and commission income from the growth of the wealth management business in Fiscal 2003 (offset in part by lower fee income from the credit card and retail lending business) was not sufficient to offset lower trading gains from securities and foreign exchange dealing. The decline in trading income was due in part to the sudden depreciation in the U.S. dollar (compared to the HK\$) in the third quarter of Fiscal 2003.

Other operating income increased by HK\$106 million, or 23.9%, from HK\$444 million in Fiscal 2001 to HK\$550 million in Fiscal 2002. The key growth drivers were increased fees and commission income from credit cards, wealth management sales and services, and insurance sales through the Group's branch network. In particular, treasury earned significantly higher non-interest income through higher trading volumes and management of a larger pool of surplus funds.

Operating Expenses

The following table sets forth information with respect to the Group's operating expenses for Fiscal 2001, 2002 and 2003:

| | For the year ended 31 December | | |
|---|--------------------------------|-----------------------|-----------------------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | |
| Staff costs (including directors' remuneration) | 441,682 | 495,598 | 494,268 |
| Premises and other fixed assets | | | |
| Rental of premises | 44,100 | 43,746 | 44,752 |
| Others | 54,944 | 62,383 | 84,046 |
| Depreciation | 63,009 | 66,761 | 66,218 |
| Auditors' remuneration | 2,223 | 2,382 | 2,398 |
| Other operating expenses | <u>175,129</u> | <u>197,282</u> | <u>215,431</u> |
| Operating expenses | <u>781,087</u> | <u>868,152</u> | <u>907,113</u> |

Operating expenses decreased by HK\$87 million, or 10%, from HK\$868 million in Fiscal 2002 to HK\$781 million in Fiscal 2003. The Group's personal banking business was reorganised in January 2003, and the operations and support platforms of MEVAS Bank were integrated with those of Dah Sing Bank which enabled the Group to reduce expenses in these areas. Rigorous cost containment measures also resulted in savings in other operating expenses. The cost to income ratio fell from 36.5% in Fiscal 2002 to 35.2% in Fiscal 2003.

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Operating expenses decreased by HK\$39 million, or 4.3%, from HK\$907 million in Fiscal 2001 to HK\$868 million in Fiscal 2002. Due to the challenging macroeconomic environment in Hong Kong, the Group made cost reduction a focus in Fiscal 2002. As a result, actions such as reductions in advertising and promotion expenditures resulted in lower operating expenses in Fiscal 2002.

Operating Profit before Provisions

Operating profit before provisions decreased by HK\$74 million, or 4.9%, from HK\$1,511 million in Fiscal 2002 to HK\$1,437 million in Fiscal 2003. The decrease was primarily due to reduced net interest income which was partly compensated by lower operating expenses.

Operating profit before provisions increased by HK\$275 million, or 22.2%, from HK\$1,236 million in Fiscal 2001 to HK\$1,511 million in Fiscal 2002. The increase was primarily due to a combination of increased net interest income, increased trading income from treasury, and lower operating expenses.

Charge for Bad and Doubtful Debts

The following table sets forth the Group's charge for bad and doubtful debts for Fiscal 2001, 2002 and 2003:

| | For the year ended 31 December | | |
|--|--------------------------------|-----------------------|-----------------------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | |
| Continuing operation | | | |
| Specific provisions charged | | | |
| New provisions | 609,598 | 727,965 | 465,294 |
| Releases | (27,862) | (14,440) | (30,716) |
| Recoveries | <u>(42,119)</u> | <u>(27,754)</u> | <u>(17,038)</u> |
| | 539,617 | 685,771 | 417,540 |
| General provisions (written back)/charged | <u>(4,865)</u> | <u>18,116</u> | <u>(6,465)</u> |
| Net charge to profit and loss account⁽¹⁾ | <u>534,752</u> | <u>703,887</u> | <u>411,075</u> |

Note:

- (1) The amount is net of the charge for bad and doubtful debts for the discontinuing operation of approximately HK\$31,000 in Fiscal 2001 and HK\$2,000 in Fiscal 2003, and write back of HK\$18,000 in Fiscal 2002.

Net charge for bad and doubtful debts decreased by HK\$169 million, or 24%, from HK\$704 million in Fiscal 2002 to HK\$535 million in Fiscal 2003. The decrease was due to tightened credit underwriting criteria, rigorous collection efforts resulting in improved recoveries, improved retail

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credit quality as a result of fewer personal bankruptcies and a recovery in property prices in the second half of Fiscal 2003. A general improvement in bad and doubtful charges was experienced in all lending businesses, and particularly in personal banking. As at 31 December 2003, the non-performing loan ratio had decreased to 1.55% from 1.67% as at 31 December 2002.

The net charge for bad and doubtful debts increased by HK\$293 million, or 71.3%, from HK\$411 million in Fiscal 2001 to HK\$704 million in Fiscal 2002, primarily due to higher loan losses from the Group's personal banking business. In Fiscal 2002, the depressed local economy in Hong Kong, weak asset prices, high levels of unemployment and a substantial increase in personal bankruptcies resulted in a significant increase in credit losses in the Group's credit card and personal lending businesses.

Operating Profit after Provisions

Operating profit after provisions increased by HK\$95 million, or 11.8%, from HK\$807 million in Fiscal 2002 to HK\$902 million in Fiscal 2003. The increase was primarily due to a lower charge for bad and doubtful debts resulting from improved credit quality.

Operating profit after provisions decreased by HK\$17 million, or 2.1%, from HK\$824 million in Fiscal 2001 to HK\$807 million in Fiscal 2002. The decrease was primarily due to the increased charge for bad and doubtful debts in Fiscal 2002 resulting from the macroeconomic environment in Hong Kong.

Net loss on disposal or revaluation of fixed assets

In light of the persistent fall in property prices over Fiscal 2002 and Fiscal 2003, the cumulative depreciation in the values of the Group's bank premises since the last revaluation conducted at the end of Fiscal 2001 had become material. A revaluation of the Group's bank premises was therefore performed as at 31 December 2003, together with the annual revaluation of its investment properties. A revaluation deficit charge of HK\$64 million was recognised in the Fiscal 2003 profit and loss account.

Net gain on disposal of and provision on held-to-maturity and non-trading securities

The Group continued to manage actively its surplus funds by investing in a wide variety of debt securities and money market assets with the objectives of sustaining prudent liquidity, generating solid accrual income in a low interest rate environment and capturing market opportunities by realising disposal gains. In Fiscal 2003, the Group took advantage of opportunities in the market to dispose of certain medium-term debt securities which enabled it to realise a total net gain of HK\$196 million. In addition, the Group made a provision of HK\$26 million to reflect the credit deterioration of an investment held by the Group.

In Fiscal 2002, as a result of a change in management's previous intention to hold certain securities until maturity and in response to the market conditions in the second half of that year, the Group disposed of certain of its debt securities and transferred the remainder of its

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held-to-maturity securities to non-trading securities in order to realise market gains, having taken into consideration its assessment of the opportunities provided by interest rate trends and market changes. The disposal and transfer of debt securities produced a total net gain of HK\$83 million in Fiscal 2002.

Taxation

Taxation costs increased by HK\$54 million, or 78.3%, from HK\$69 million in Fiscal 2002 to HK\$123 million in Fiscal 2003. The increase in the current year's Hong Kong profits tax rate from 16% to 17.5% resulted in a higher taxation expense in Fiscal 2003, which in part was offset by the recognition of a larger deferred tax credit in Fiscal 2003. The lower attributable tax benefit from the share of estimated Hong Kong profits tax losses arising from investments in partnership also accelerated the increase in taxation in Fiscal 2003.

Taxation costs decreased by HK\$49 million, or 41.5%, from HK\$118 million in Fiscal 2001 to HK\$69 million in Fiscal 2002. The decrease was primarily due to the recognition of a significant amount of over-provision for tax made in prior years and a larger deferred tax credit.

Profit after Taxation

Profit after taxation increased by HK\$103 million, or 13.2%, from HK\$780 million in Fiscal 2002 to HK\$883 million in Fiscal 2003.

Profit after taxation decreased by HK\$72 million, or 8.5%, from HK\$852 million in Fiscal 2001 to HK\$780 million in Fiscal 2002.

Profit Attributable to Shareholders

Profit attributable to shareholders increased by HK\$104 million, or 13.4%, from HK\$776 million in Fiscal 2002 to HK\$880 million in Fiscal 2003.

Profit attributable to shareholders decreased by HK\$75 million, or 8.8%, from HK\$851 million in Fiscal 2001 to HK\$776 million in Fiscal 2002.

SUMMARY SEGMENTAL OPERATING RESULTS

The Group's operations comprise three main lines of business carried out through its banking subsidiaries: personal banking, commercial banking and treasury. The Group's personal banking business, carried out through its banking subsidiaries, offers retail, private and VIP banking services, including deposit-taking, mortgage lending, credit cards, personal loans, overdrafts and wealth management products and services. The Group's commercial banking services, carried out through its banking subsidiaries, include a variety of lending and deposit-taking services for commercial and institutional customers. The Group also operates, through its local banking subsidiaries, a treasury business, which is responsible for securities investment, funding, foreign exchange, cash management and interest rate risk management.

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Personal Banking

The following table sets forth the components of the Group's profit before taxation for its personal banking business for Fiscal 2001, 2002 and 2003:

| | For the year ended 31 December | | |
|--|--------------------------------|----------------|----------------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | |
| Interest income from | | | |
| External customers | 950,654 | 1,136,490 | 1,355,141 |
| Inter-segments | 319,523 | 253,562 | 303,120 |
| Interest expense to | | | |
| External customers | (358,210) | (390,976) | (791,491) |
| Net interest income | 911,967 | 999,076 | 866,770 |
| Other operating income | 332,764 | 327,713 | 251,288 |
| Operating income | 1,244,731 | 1,326,789 | 1,118,058 |
| Operating expenses | (554,121) | (608,503) | (640,018) |
| Operating profit before provisions | 690,610 | 718,286 | 478,040 |
| Charge for bad and doubtful debts | (456,934) | (608,280) | (319,029) |
| Operating profit after provisions | 233,676 | 110,006 | 159,011 |
| Net loss on disposal/revaluation of fixed assets | — | (1,263) | — |
| Profit before taxation | 233,676 | 108,743 | 159,011 |

Net interest income from the Group's personal banking operations decreased by HK\$87 million, or 8.7%, from HK\$999 million in Fiscal 2002 to HK\$912 million in Fiscal 2003. The decrease was due mainly to lower balances of higher yielding consumer finance products such as credit cards and personal loans, which decreased by 25.7% in Fiscal 2003 from Fiscal 2002. Operating profit after provisions increased by HK\$124 million, or 112.7%, from HK\$110 million in Fiscal 2002 to HK\$234 million in Fiscal 2003, due in part to improvements in the local economy in the second half of Fiscal 2003, increasing sales generated by wealth management and insurance products, increasing retail deposits and focusing on quality of service and cost rationalisation. The profit before taxation of the personal banking business increased by HK\$125 million, or 114.7%, from HK\$109 million in Fiscal 2002 to HK\$234 million in Fiscal 2003. This was largely as a result of lower operating expenses and a reduction in both general and specific provisions caused by a lower loan balance and improvement in charge-offs.

The difficult macroeconomic conditions in Hong Kong made Fiscal 2002 a challenging year for the Group's personal banking business. The personal banking division was able to increase operating income by HK\$209 million, or 18.7%, from HK\$1,118 million in Fiscal 2001 to HK\$1,327

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million in Fiscal 2002 through a combination of increased fee income from credit cards and wealth management sales and increased net interest income. However, the personal banking division's charges for bad and doubtful unsecured consumer loans and credit card debt increased in Fiscal 2002 by HK\$289 million to HK\$608 million, or 90.6%, from HK\$319 million in Fiscal 2001. Such increased charges adversely affected the personal banking division's profitability in Fiscal 2002 despite the increase in operating income, with profit before taxation decreasing by HK\$50 million, or 31.4%, from HK\$159 million in Fiscal 2001 to HK\$109 million in Fiscal 2002.

Commercial Banking

The following table sets forth the components of the Group's profit before taxation for its commercial banking business for Fiscal 2001, 2002 and 2003:

| | For the year ended 31 December | | |
|---|---------------------------------------|-----------------------|-----------------------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | |
| Interest income from | | | |
| External customers | 578,781 | 684,786 | 1,044,448 |
| Interest expense to | | | |
| External customers | (75,071) | (100,250) | (224,036) |
| Inter-segments | (26,505) | (92,593) | (260,293) |
| Net interest income | 477,205 | 491,943 | 560,119 |
| Other operating income | 93,499 | 68,419 | 73,227 |
| Operating income | 570,704 | 560,362 | 633,346 |
| Operating expenses | (118,967) | (124,074) | (148,845) |
| Operating profit before provisions | 451,737 | 436,288 | 484,501 |
| Charge for bad and doubtful debts | (79,881) | (100,724) | (79,384) |
| Operating profit after provisions/Profit before taxation | <u>371,856</u> | <u>335,564</u> | <u>405,117</u> |

Commercial banking delivered an improved result in Fiscal 2003 due to increased lending to the Group's customers with operations in the Pearl River Delta Region. Overall, lending to SME customers registered moderate growth in Fiscal 2003 due to increased marketing and customer acquisition activities in the SME sector. Hire purchase transport financing, despite a highly competitive market, continued to post a solid performance. The equipment finance business, targeting manufacturing companies operating in both Hong Kong and the Pearl River Delta Region, registered a small increase in loan balances in the year. Increased lending, higher fee income, lower operating expenses and smaller loan loss provisions assisted in increasing operating profit after provisions from the Group's commercial banking operations by HK\$36 million, or 10.7%, from HK\$336 million in Fiscal 2002 to HK\$372 million in Fiscal 2003.

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A weak economy in Fiscal 2002 led to weak demand for commercial lending and increased competition among lenders for high-quality commercial borrowers. There was significant contraction in the Group's taxi lending portfolio due to concerns as to pricing, which was the main reason for lower average loan balances in Fiscal 2002. The average taxi lending portfolio decreased from HK\$2,249 million (or 17.3% of the commercial banking loan portfolio) in Fiscal 2001 to HK\$1,529 million (or 12.5% of the commercial banking loan portfolio) in Fiscal 2002. The lower loan balances and tighter net interest spreads led to a decline in operating income of HK\$73 million, or 11.5%, from HK\$633 million in Fiscal 2001 to HK\$560 million in Fiscal 2002. A significant general provision write-back in the contracted taxi lending portfolio in Fiscal 2001 resulted in increased loan loss provisioning in Fiscal 2002. The lower operating income and higher loan loss provisions resulted in a reduction in the commercial banking division's operating profit after provisions by HK\$69 million, or 17%, from HK\$405 million in Fiscal 2001 to HK\$336 million in Fiscal 2002.

Treasury Operations

The following table sets forth the components of the Group's profit before taxation of its treasury operations for Fiscal 2001, 2002 and 2003:

| | For the year ended 31 December | | |
|---|--------------------------------|----------------|----------------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | |
| Interest income from | | | |
| External customers | 819,834 | 734,970 | 767,561 |
| Interest expense to | | | |
| External customers | (230,220) | (237,322) | (448,801) |
| Inter-segments | (283,802) | (193,172) | (65,237) |
| Net interest income | 305,812 | 304,476 | 253,523 |
| Other operating income | 83,199 | 129,343 | 82,416 |
| Operating income | 389,011 | 433,819 | 335,939 |
| Operating expenses | (69,316) | (72,709) | (69,101) |
| Operating profit before provisions | 319,695 | 361,110 | 266,838 |
| Write-back of provision for charge for bad and doubtful debts | 879 | 712 | — |
| Operating profit after provisions | 320,574 | 361,822 | 266,838 |
| Net gain on disposal of non-trading and held-to-maturity securities | 195,918 | 83,164 | 177,316 |
| Provision on non-trading securities | (25,877) | — | — |
| Profit before taxation | 490,615 | 444,986 | 444,154 |

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Strong growth in the Group's deposit base in part as a result of the Group's treasury strategy, combined with a flat loan portfolio, resulted in a higher level of surplus funds in Fiscal 2003 which the Group deployed through its treasury business. The Group's investment portfolio continued to comprise mainly of sovereign, bank, public sector and asset backed debt securities, although exposures to the wholesale corporate sector gradually expanded in Fiscal 2003. This development was part of the Group's strategy to diversify further credit risk and revenue by selectively investing in investment-grade securities issued by international borrowers. During Fiscal 2003, the Group continued to manage its interest rate risk, including hedging investments in longer dated fixed income securities through the use of interest rate swaps.

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Assets

Total Assets

Total assets increased by HK\$3,367 million, or 5.7%, from HK\$58,797 million in Fiscal 2002 to HK\$62,164 million in Fiscal 2003 due mainly to increased investments in non-trading securities and cash and short-term funds. This was driven by the Group's strategy, which began in Fiscal 2001, of growing its deposit base in an effort to raise additional medium-term funding to support more active surplus funds investment and cross-sell wealth management products and services to depositors.

Increased lending in the second half of Fiscal 2003, as the economy recovered, almost fully reversed the loan contraction in the first half. As at 31 December 2003, the loan book had contracted by less than 1% compared with 31 December 2002.

Total assets increased by HK\$5,812 million, or 11%, from HK\$52,985 million in Fiscal 2001 to HK\$58,797 million in Fiscal 2002. The increase was primarily driven by the Group's strategy, in light of low market interest rates, of adjusting the asset and liability mix to increase deposits to support more active surplus funds investment.

Liabilities

Total Liabilities

Total liabilities increased HK\$3,068 million, or 5.9%, from HK\$52,426 million in Fiscal 2002 to HK\$55,494 million in Fiscal 2003, largely due to the increase in customer deposits and issues of certificates of deposit in the retail market. Retail certificates of deposit were issued to diversify the Group's sources of funding and to lengthen the maturity profile of its deposits.

Total liabilities increased HK\$5,366 million, or 11.4%, from HK\$47,060 million in Fiscal 2001 to HK\$52,426 million in Fiscal 2002, largely due to increased deposits, including certificates of deposits.

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Customer Deposits

Customer deposits in Fiscal 2003 were HK\$40,152 million, which was a HK\$2,563 million increase from HK\$37,589 million in Fiscal 2002. Customer deposits in Fiscal 2002 were HK\$37,589 million, which was a HK\$4,436 million increase from HK\$33,153 million in Fiscal 2001. The increase in customer deposits was driven by the Group's strategy, in light of low market interest rates, of more actively acquiring deposits to support increased surplus funds investment and to cross-sell wealth management products and services to depositors.

Certificates of Deposit Issued

Total certificates of deposit issued in Fiscal 2003 were HK\$7,868 million, which was an increase of 14.2% from HK\$6,888 million in Fiscal 2002. Following the successful launch of retail certificates of deposit in Fiscal 2002, such instruments have become a significant source of medium-term funding for the Group in addition to wholesale certificates of deposit. As at 31 December 2003, total retail certificates of deposit issued amounted to HK\$4.3 billion.

Total certificates of deposit issued in Fiscal 2002 were HK\$6,888 million, which was an increase of 21.9% from HK\$5,652 million in Fiscal 2001. The Group launched a series of retail certificates of deposit during Fiscal 2002, booking a total of HK\$1.6 billion of new retail certificates of deposits that year. This new source of funding enabled the Group to diversify its funding base, strengthen its term deposit mix and lower the cost of funding relative to raising wholesale funding.

Shareholders' Funds

Total shareholders' funds increased HK\$302 million, or 5.6%, from HK\$5,378 million in Fiscal 2002 to HK\$5,680 million in Fiscal 2003, largely due to the increase in retained profit in Fiscal 2003.

Total shareholders' funds increased by HK\$461 million, or 9.4%, from HK\$4,917 million in Fiscal 2001 to HK\$5,378 million in Fiscal 2002 as a result of the increase in retained profit in Fiscal 2002 and the increase in the investments revaluation reserve as a result of an increase in the fair value of non-trading securities.

Capital Expenditures

Capital expenditures decreased 48.8% to HK\$23.4 million in Fiscal 2003 from HK\$45.7 million in Fiscal 2002 and decreased 44.7% to HK\$45.7 million in Fiscal 2002 from HK\$82.7 million in Fiscal 2001 primarily due to the decrease in expenditures on furniture, fixtures, equipment and information technology related assets as a result of tighter cost controls.

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The Group intends to invest approximately HK\$22.8 million in capital expenditures during Fiscal 2004, enhancing existing computer systems or application systems, building a data warehouse that will provide customer information and operational statistics, enhancing information and information technology security, building the risk management capability in relation to treasury-related products and building the back-up sites for critical banking operations and other infrastructure for business continuity purposes. Other expenditures in connection with the enhancement of back office processing and opening of new branches have also been planned. Such capital expenditures will be financed by internal resources.

OFF-BALANCE SHEET EXPOSURE

The Group's off-balance sheet exposure consists of guarantees and documentary credits pursuant to which the Group is exposed to contingent liabilities, and derivatives including foreign exchange, interest rate and option contracts.

Contingent Liabilities and Commitments

The following table sets forth a summary of the contractual amounts of each significant class of contingent liability and commitment for Fiscal 2001, 2002 and 2003:

| | As at 31 December | | |
|--|----------------------------|--------------------------|--------------------------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | |
| Direct credit substitutes ⁽¹⁾ | 312,580 | 146,004 | 67,356 |
| Transaction-related contingencies ⁽²⁾ | 15,051 | 40,018 | 14,014 |
| Trade-related contingencies ⁽³⁾ | 802,388 | 732,334 | 859,371 |
| Other commitments ⁽⁴⁾ | | | |
| Under one year or which are unconditionally cancelled ⁽⁵⁾ | 19,529,291 | 18,220,680 | 17,849,072 |
| With an original maturity over 1 year ⁽⁶⁾ | 895,261 | 899,695 | 740,487 |
| Total | <u>21,554,571</u> | <u>20,038,731</u> | <u>19,530,300</u> |

Notes:

- (1) Irrevocable off-balance sheet obligations which carry the same credit risks as a direct extension of credit. These include liabilities arising from the issue of guarantees, the confirmation of letters of credit and the issue of standby letters of credit serving as financial guarantees for loans, securities and other financial liabilities. These also include liabilities arising from acceptances on accommodation bills (excluding any such bills which have been discounted) and credit exposures to a reference entity through the holding of credit default swaps whereby the banking subsidiaries of the Group act as credit risk buyers.
- (2) Contingent liabilities arising from an irrevocable obligation to pay to a beneficiary when a customer fails to perform some contractual, non-financial obligation or term under a contract or transaction, e.g. those arising from performance bonds, bid bonds, warranties and standby letters of credit related to a particular transaction.

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- (3) Contingent liabilities arising from trade-related obligations, e.g. letters of credit issued, acceptances on trade bills, shipping guarantees issued and any other trade-related contingencies.
- (4) The undrawn portion of any binding arrangements which oblige the reporting institution to provide funds at some future date and commitments with an original maturity of less than one year, or which can be unconditionally cancelled at any time by the reporting institution at its discretion, other than for “force majeure” reasons. Original maturity is defined as the length of time between the date the commitment is made and the earliest date on which the banking subsidiaries of the Group can, at their option, unconditionally cancel the commitment.
- (5) Any revolving or undated/open-dated commitments, e.g. overdrafts or unused credit card lines which can be unconditionally cancelled at any time and which are subject to credit revision at least annually.
- (6) Dated commitments, e.g. term loan or syndicated loan facilities, with an original maturity of over one year.

Derivatives

In the normal course of business, the Group enters into a variety of derivative transactions including forwards, futures, swaps and options transactions in the interest rate, foreign exchange and equity markets. Derivative transactions are conducted for both trading and hedging purposes. The objectives of using derivative instruments are to meet customers’ needs by acting as an intermediary, to manage the exposure to risks and to generate revenues through trading activities within acceptable limits. See the section headed “Description of the Assets and Liabilities of the Group — Risk Management” in this prospectus.

Derivatives held or issued for trading purposes

The Group enters into derivative contracts on behalf of customers or to address customer demands in structuring tailored derivatives. The Group also takes proprietary positions for its own account. Trading derivative products used by the Group are primarily over-the-counter derivatives transacted based on interest rates, foreign exchange rates and the price of equities.

Derivatives held or issued for hedging purposes

Derivatives held for hedging purposes primarily consist of derivative instruments or contracts used to manage interest rate risk and foreign exchange risk. All of these are over-the-counter derivatives.

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The following table presents the aggregate notional contract amounts of the Group's significant type of derivatives for Fiscal 2001, 2002 and 2003, respectively:

| | As at 31 December | | | | | | | | |
|-----------------------------------|---------------------------|----------------------|----------------------|---------------------|----------------------|----------------------|---------------------|----------------------|----------------------|
| | 2003 | | | 2002 | | | 2001 | | |
| | Trading | Hedging | Total | Trading | Hedging | Total | Trading | Hedging | Total |
| | <i>(in HK\$ millions)</i> | | | | | | | | |
| Exchange rate contracts | | | | | | | | | |
| Forward and future contracts | 1,903 | 27,486 | 29,389 | 1,825 | 27,655 | 29,480 | 341 | 16,218 | 16,559 |
| Currency swaps | — | — | — | — | 39 | 39 | — | 58 | 58 |
| Foreign exchange option contracts | | | | | | | | | |
| Currency options purchased | 255 | — | 255 | 301 | — | 301 | 438 | — | 438 |
| Currency options written | 255 | — | 255 | 301 | — | 301 | 438 | — | 438 |
| Total | <u>2,413</u> | <u>27,486</u> | <u>29,899</u> | <u>2,427</u> | <u>27,694</u> | <u>30,121</u> | <u>1,217</u> | <u>16,276</u> | <u>17,493</u> |
| Interest rate contracts | | | | | | | | | |
| Forward and futures contracts | 1,141 | — | 1,141 | 293 | — | 293 | — | 9,305 | 9,305 |
| Interest rate swaps | 213 | 8,490 | 8,703 | — | 6,962 | 6,962 | — | 3,166 | 3,166 |
| Interest rate option contracts | | | | | | | | | |
| Options written | 262 | 1,859 | 2,121 | 8 | 1,876 | 1,884 | — | 1,170 | 1,170 |
| Total | <u>1,616</u> | <u>10,349</u> | <u>11,965</u> | <u>301</u> | <u>8,838</u> | <u>9,139</u> | <u>—</u> | <u>13,641</u> | <u>13,641</u> |
| Other contracts | | | | | | | | | |
| Equity index futures contracts | — | — | — | — | — | — | 17 | 14 | 31 |
| Equity option contracts | | | | | | | | | |
| Options purchased | 200 | — | 200 | 271 | — | 271 | 71 | — | 71 |
| Options written | 200 | — | 200 | 271 | — | 271 | 71 | — | 71 |
| Total | <u>400</u> | <u>—</u> | <u>400</u> | <u>542</u> | <u>—</u> | <u>542</u> | <u>159</u> | <u>14</u> | <u>173</u> |

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The table below sets forth the replacement costs and credit risk weighted amounts of the above off-balance sheet exposures which do not take into account the effects of bilateral netting arrangements for Fiscal 2001, 2002 and 2003, respectively:

| | As at 31 December | | | | | |
|--|-----------------------------------|---------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|
| | 2003 | | 2002 | | 2001 | |
| | Credit risk weighted amount | Replacement cost | Credit risk weighted amount | Replacement cost | Credit risk weighted amount | Replacement cost |
| | <i>(in HK\$ millions)</i> | | | | | |
| Contingent liabilities and commitments | 780 | | 729 | | 582 | |
| Derivatives | | | | | | |
| Exchange rate contracts | 153 | 462 | 114 | 264 | 112 | 347 |
| Interest rate contracts | 104 | 428 | 64 | 249 | 25 | 90 |
| Other contracts | 2 | 2 | 1 | 2 | 1 | — |
| | <u>259</u> | <u>892</u> | <u>179</u> | <u>515</u> | <u>138</u> | <u>437</u> |
| | <u>1,039</u> | | <u>908</u> | | <u>720</u> | |
| Credit risk weighted amount as a percentage of shareholders' funds | 18.3% | | 16.9% | | 14.6% | |

INDEBTEDNESS

At the close of business on the Latest Practicable Date for the purpose of this indebtedness statement, the Group had the following outstanding indebtedness:

US\$125,000,000 7.5% subordinated bonds qualifying as Tier 2 capital of Dah Sing Bank issued on 28 March 2001 which are listed on the Luxembourg Stock Exchange. The bonds will mature on 28 March 2011 with an optional redemption date falling on 29 March 2006. Interest at 7.5% is payable annually from the issue date to the optional redemption date. Thereafter, if the bonds are not redeemed, the interest rate will be reset and the bonds will bear interest at the then prevailing 5-year US Treasury rate plus 369.75 basis points. Dah Sing Bank may, subject to the prior approval of the HKMA, redeem the bonds in whole but not in part, at par either on the optional redemption date or for taxation reasons. An interest rate swap contract to swap the fixed interest rate payment liability of the bonds to floating interest rate based on LIBOR has been entered into with an international bank which is an independent third party.

Dah Sing Bank has a US\$1,000,000,000 Euro Medium Term Note Programme under which notes can be issued and listed on the Luxembourg Stock Exchange. The only outstanding issue is the US\$4,000,000 structured note issued by Dah Sing Bank on 12 November 2003 by way of a private placement. The note is unsecured and through an interest rate swap, the cost of the note is determined on a floating rate basis. The note has a final maturity date of 12 November 2008 but

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is callable by Dah Sing Bank when the cumulative interest paid to noteholders reaches 5% of the note amount. The earliest date on which such callable arrangement may be triggered is 12 November 2004.

In addition, on the Latest Practicable Date, the Group had deposits and money market takings from customers and other banks in the normal course of the Group's banking business and certificates of deposit, repurchase and short-sale transactions, direct credit substitutes, transaction-related contingencies, trade-related contingencies and other commitments that arise from the normal course of banking business.

Disclaimer

Save as aforesaid or as otherwise disclosed in this prospectus, the Group did not have, at the close of business on the Latest Practicable Date, outstanding liabilities or any debentures or other loan capital, bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments, any guarantee, other material contingent liabilities or any material mortgages and charges.

The Directors have confirmed that there has not been any material change in the indebtedness or contingent liabilities of the Company since the Latest Practicable Date.

PRO FORMA FINANCIAL INFORMATION

Adjusted Net Tangible Asset Value

The following statement of the Group's adjusted net tangible asset value is based on the combined audited net tangible asset value of the Group as at 31 December 2003, as shown in the "Accountants' Report" set out in Appendix I to this prospectus, adjusted as described below. The statement of the Group's adjusted net tangible asset value per Share has been prepared for illustrative purposes only and, because of its nature, it may not reflect the actual net tangible asset value of the Group as at 31 December 2003 or at any future date.

| | Combined audited net tangible asset value of the Group | Estimated net proceeds from the Share Offer | Adjusted net tangible asset value | Adjusted net tangible asset value per Share |
|--|---|--|--|--|
| | | <i>(in HK\$ millions)</i> | | <i>(in HK\$)</i> |
| Based on an Offer Price of HK\$12.66 per Share | 5,680 | 1,216 | 6,896 | 7.58 |
| Based on an Offer Price of HK\$13.86 per Share | 5,680 | 1,333 | 7,013 | 7.71 |

Notes:

- (1) Pursuant to a property valuation as at 31 March 2004 conducted by Knight Frank, an independent professional chartered surveyor firm, the Group's property interests were valued at HK\$871,800,000, an increase of HK\$102,444,000 as compared to 31 December 2003. The latter valuation was also provided by Knight Frank. This

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property valuation will not be reflected in the audited accounts of the Group for the year ended 31 December 2004. The Company will, however, conduct a revaluation of its investment properties and may undertake a revaluation of its premises as at 31 December 2004 in accordance with its normal accounting policies as described in the "Accountants' Report" set out in Appendix I to this prospectus.

- (2) The figure for the estimated net proceeds from the Global Offering does not take account of the Shares which may be issued pursuant to the Over-allotment Option.
- (3) The adjusted net tangible asset value and the adjusted net tangible asset value per Share as shown in the above table do not take into account the payment of a final dividend by Dah Sing Bank on 28 April 2004 of HK\$200 million in respect of the period from 1 January 2003 to 31 December 2003 and is referred to in the section below headed "Dividend". After solely taking into account the payment of the dividend, the adjusted net tangible assets of the Group and the adjusted net tangible asset value per Share would have decreased.
- (4) The adjusted net tangible asset value per Share is arrived after the adjustments referred to in the preceding paragraph and on the basis that 910,000,000 Shares are in issue and that the Over-allotment Option is not exercised.
- (5) Please refer to "Letter on Pro Forma Financial Information relating to the Adjusted Net Tangible Asset Value" set out in Appendix III to this prospectus with respect to the report from PricewaterhouseCoopers on the above unaudited pro forma financial information.

DIVIDEND

On 1 March 2004, Dah Sing Bank proposed a final dividend for 2003 of HK\$200 million which was paid on 28 April 2004.

DIVIDEND POLICY

The Company may pay dividends out of its distributable profits in accordance with Hong Kong law generally and the Articles of Association. Further details are set out in the section headed "Dividends" in Appendix IV to this prospectus.

The declaration of dividends is subject to the discretion of the Board of Directors and any final dividend for a financial year is subject to Shareholders' approval. Whether any dividends will be declared or paid and the amounts of dividends actually paid to holders of Shares will depend upon a number of factors, including:

- general business conditions;
- financial results;
- regulatory requirements;
- capital requirements;
- Shareholders' interests; and
- any other factors considered relevant by the Board of Directors.

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Dividends will be declared in Hong Kong dollars. The Board of Directors may declare interim dividends at any time in accordance with the Articles of Association. The Board of Directors anticipates that in subsequent financial years, subject to the factors noted above, the Company will consider the payment of two dividends in respect of each financial year: an interim dividend after the announcement of the interim results and a final dividend after the announcement of the final results. Shareholders will share proportionally on a per Share basis in all dividends (if any) paid by the Company after the Listing, including any interim dividend in respect of the six-month period ending 30 June 2004 which the Board of Directors sees fit to declare after the Listing.

In the absence of any special circumstances or unforeseen events and subject to the aforesaid factors, the Directors currently expect that the aggregate amount of interim and final dividends to be declared by the Company in respect of each financial year could represent approximately 50% of the Company's distributable profit for that financial year.

RULES 13.11 TO 13.16 OF THE LISTING RULES

Save as disclosed in this prospectus, the Directors have confirmed that they are not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.11 to 13.16 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Save as disclosed in this prospectus, the Directors believe that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2003.

The Directors confirm that they have performed sufficient due diligence on the Company to ensure that, up to the date of this prospectus, there has been no material adverse change in the financial position or prospects of the Group since 31 December 2003 and there is no event since 31 December 2003 which would materially affect the information shown in the "Accountants' Report" in Appendix I to this prospectus.

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

ASSETS

The three principal components of the Group's interest-earning assets consist of loans to customers, loans to banks (which also include other financial institutions) and interest-earning securities. The following table sets out such balances for the years ended 31 December 2001, 2002 and 2003:

| | For the year ended 31 December | | |
|--|---|---------------|---------------|
| | 2003 | 2002 | 2001 |
| | <i>(average balances, in HK\$ millions)</i> | | |
| Loans to customers | 26,938 | 28,759 | 30,168 |
| Loans to banks ⁽¹⁾ | 8,003 | 4,396 | 3,000 |
| Interest-earning securities ⁽²⁾ | 20,182 | 15,734 | 11,951 |
| Total interest-earning assets | 55,123 | 48,889 | 45,119 |
| Non-interest-earning assets ⁽³⁾ | 5,871 | 7,545 | 6,095 |
| Provision for bad and doubtful debts | (513) | (543) | (537) |
| Total average assets | 60,481 | 55,891 | 50,677 |

Notes:

- (1) Includes loans to other financial institutions and consists of balances (demand deposits), money at call and short notice (maturing within one month), placements (maturing between one and 12 months), and advances (generally maturing over 12 months).
- (2) Consists of debt securities of central governments and banks, public sector entities, banks and other financial institutions and corporate entities and certificates of deposit. These instruments are accounted for as held-to-maturity securities, non-trading securities or certificates of deposit held.
- (3) Mainly includes trading securities and non-trading equity securities, fixed assets, real properties, interest receivables, other receivables and other accounts.

Advances to Customers

The Group lends mainly to corporates, primarily SMEs, and individuals based in Hong Kong with only 2.1% of the Group's loan portfolio as at 31 December 2003 being made to customers and institutions outside Hong Kong. As at 31 December 2003, the Group's advances to customers were HK\$27,942 million, which represented 44.9% of its total assets as at such date.

Loan Concentration by Industry

The Group's policy is to maintain a diversified loan portfolio without significant exposure to any particular industry sector. In general, whilst maintaining diversification, the Group has sought to increase its exposure to industry sectors which it believes have growth potential, while minimising its exposure to those it considers are declining.

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

As at 31 December 2003, the Group's ten largest loans were classified in the following industry sectors by amount; property investment 66.4%; transportation 16.7%; financial concerns 9.6%; and textiles 7.3%.

The following table sets out the composition of the Group's loan portfolio by type of borrower and as a percentage of advances to customers as at 31 December 2001, 2002 and 2003:

| | As at 31 December | | | | | |
|---|---|---------------------|----------------------|---------------------|----------------------|---------------------|
| | 2003 | | 2002 | | 2001 | |
| | Amount | (%) | Amount | (%) | Amount | (%) |
| | <i>(in HK\$ millions, except percentages)</i> | | | | | |
| Industrial, commercial and financial | | | | | | |
| Property development | 74 | 0.3 | 188 | 0.7 | 448 | 1.5 |
| Property investment | 2,381 | 8.6 | 2,457 | 8.7 | 2,380 | 8.1 |
| Financial concerns | 385 | 1.4 | 379 | 1.3 | 363 | 1.3 |
| Stockbrokers | 9 | 0.0 | 8 | 0.0 | 13 | 0.0 |
| Wholesale and retail trade | 1,018 | 3.6 | 1,098 | 3.9 | 1,168 | 4.0 |
| Manufacturing | 2,263 | 8.1 | 2,109 | 7.5 | 2,134 | 7.3 |
| Transport and transport equipment | 1,904 | 6.8 | 2,076 | 7.4 | 2,180 | 7.5 |
| Others | 767 | 2.7 | 983 | 3.5 | 888 | 3.0 |
| Sub-total | <u>8,801</u> | <u>31.5</u> | <u>9,298</u> | <u>33.0</u> | <u>9,574</u> | <u>32.7</u> |
| Individuals | | | | | | |
| Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 2,205 | 7.9 | 2,403 | 8.5 | 2,465 | 8.4 |
| Loans for the purchase of other residential properties | 8,801 | 31.5 | 8,019 | 28.5 | 8,443 | 28.8 |
| Credit card advances | 2,132 | 7.6 | 2,624 | 9.3 | 2,774 | 9.5 |
| Others | 2,771 | 9.9 | 3,185 | 11.3 | 3,662 | 12.5 |
| Sub-total | <u>15,909</u> | <u>56.9</u> | <u>16,231</u> | <u>57.6</u> | <u>17,344</u> | <u>59.2</u> |
| Loans for use in Hong Kong | 24,710 | 88.4 | 25,529 | 90.6 | 26,918 | 91.9 |
| Trade finance | 2,657 | 9.5 | 2,053 | 7.3 | 1,880 | 6.5 |
| Loans for use outside Hong Kong | 575 | 2.1 | 575 | 2.1 | 476 | 1.6 |
| Gross advances to customers | <u>27,942</u> | <u>100.0</u> | <u>28,157</u> | <u>100.0</u> | <u>29,274</u> | <u>100.0</u> |
| Provisions for bad & doubtful debts | 510 | | 503 | | 571 | |
| Net advances to customers | <u>27,432</u> | | <u>27,654</u> | | <u>28,703</u> | |

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

The major trends as at 31 December 2003 compared with 31 December 2002 were:

- an increase in manufacturing lending and trade finance as a result of growth in import and export trade during the second half of Fiscal 2003;
- a decrease in transport and transport equipment lending as a result of the Group decreasing its taxi financing portfolio;
- a decrease in lending pursuant to the various Government housing schemes as a result of their suspension by the Hong Kong Government;
- an increase in residential mortgages as a result of the improvement in the property market during the second half of Fiscal 2003;
- a decrease in credit card advances as a result of the Group's more stringent credit criteria for credit card approvals and weak market conditions; and
- a decrease in other lending as a result of the Group decreasing its exposure to personal loans and weak market conditions.

Borrower Concentration

In accordance with the Banking Ordinance and the HKMA's guidelines, the financial exposures of an authorized institution incorporated in Hong Kong to any one person or a group of connected persons must not exceed 25% of its capital base, unless the exposure is to the Government or other Hong Kong authorized institutions or is secured by cash deposits, guarantees or other security approved by the HKMA. The Group's ten largest non-Government and non-bank credit exposures to any such person or group as at 31 December 2003 totalled HK\$6,439 million, which represented 23% of the Group's loan portfolio and represented approximately 97.5% of the Group's capital base. As at the same date, the largest credit exposure to a single borrower group was HK\$1,118 million and represented approximately 16.9% of the Group's capital base.

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

Maturity Analysis

The following tables set out by maturity certain of the Group's assets outstanding as at 31 December 2001, 2002 and 2003, respectively:

| As at 31 December 2003 | | | | | | | |
|-------------------------------|--------------|--------------|---------------|---------------|---------------|------------|---------------|
| Repayable | 3 months | 1 year or | 5 years | After 5 | Undated | Total | |
| on | or less | less but | or less | years | years | Total | Total |
| demand | months | over 3 | but over | 1 year | years | Total | Total |
| demand | or less | months | 1 year | years | years | Total | Total |
| <i>(in HK\$ millions)</i> | | | | | | | |
| Assets | | | | | | | |
| Treasury bills | — | 1,004 | 4,387 | — | — | — | 5,391 |
| Certificates of deposit held | — | — | 204 | — | — | — | 204 |
| Advances to customers | 4,408 | 4,323 | 2,702 | 6,667 | 9,404 | 438 | 27,942 |
| Debt securities included in: | | | | | | | |
| - Trading securities | — | 343 | 150 | 2,153 | 141 | — | 2,787 |
| - Held-to-maturity securities | — | 48 | 113 | 231 | — | — | 392 |
| - Non-trading securities | — | 661 | 1,614 | 8,490 | 5,948 | 5 | 16,718 |
| Total | 4,408 | 6,379 | 9,170 | 17,541 | 15,493 | 443 | 53,434 |
| As at 31 December 2002 | | | | | | | |
| Repayable | 3 months | 1 year or | 5 years | After 5 | Undated | Total | |
| on | or less | less but | or less | years | years | Total | Total |
| demand | months | over 3 | but over | 1 year | years | Total | Total |
| demand | or less | months | 1 year | years | years | Total | Total |
| <i>(in HK\$ millions)</i> | | | | | | | |
| Assets | | | | | | | |
| Treasury bills | — | 636 | 4,960 | — | — | — | 5,596 |
| Certificates of deposit held | — | — | 355 | 100 | — | — | 455 |
| Advances to customers | 5,048 | 3,623 | 2,534 | 6,775 | 9,662 | 515 | 28,157 |
| Debt securities included in: | | | | | | | |
| - Trading securities | — | 51 | 487 | 1,884 | 76 | — | 2,498 |
| - Held-to-maturity securities | — | — | — | 78 | — | — | 78 |
| - Non-trading securities | — | 1,354 | 1,811 | 9,194 | 3,494 | 4 | 15,857 |
| Total | 5,048 | 5,664 | 10,147 | 18,031 | 13,232 | 519 | 52,641 |

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

| As at 31 December 2001 | | | | | | | |
|-------------------------------|--------------|--------------|--------------|---------------|---------------|------------|---------------|
| Repayable | 3 months | 1 year or | 5 years | After 5 | Undated | Total | |
| on | or less | less but | or less | years | | | |
| demand | or less | over 3 | but over | 1 year | years | | |
| | | months | 1 year | | | | |
| <i>(in HK\$ millions)</i> | | | | | | | |
| Assets | | | | | | | |
| Treasury bills | — | 865 | 2,262 | — | — | — | 3,127 |
| Certificates of deposit held | — | — | 69 | 456 | — | — | 525 |
| Advances to customers | 5,543 | 3,781 | 2,552 | 6,801 | 9,983 | 614 | 29,274 |
| Debt securities included in: | | | | | | | |
| - Trading securities | — | — | 345 | 2,527 | 108 | — | 2,980 |
| - Held-to-maturity securities | — | 682 | — | 3,462 | 453 | — | 4,597 |
| - Non-trading securities | — | 750 | 161 | 2,480 | 2,580 | 4 | 5,975 |
| Total | 5,543 | 6,078 | 5,389 | 15,726 | 13,124 | 618 | 46,478 |

With respect to the maturity profile of the Group's loan portfolio as at 31 December 2003, HK\$11,433 million, or 40.9%, of the Group's total loans had a remaining maturity of one year or less, HK\$6,667 million, or 23.9%, had a remaining maturity of five years or less but over one year, and HK\$9,404 million, or 33.7%, had a remaining maturity of over five years.

Loans by Currency Exposure

As at 31 December 2003, 93.3% of the Group's loan portfolio was denominated in Hong Kong dollars with 6.7% being denominated in foreign currency, the majority of which comprised U.S. dollars. The following table sets out an analysis of the Group's loans by currency as at 31 December 2001, 2002 and 2003:

| | As at 31 December | | | | | |
|---|-------------------|--------------|---------------|--------------|---------------|--------------|
| | 2003 | | 2002 | | 2001 | |
| | Amount | (%) | Amount | (%) | Amount | (%) |
| <i>(in HK\$ millions, except percentages)</i> | | | | | | |
| Hong Kong dollars | 26,068 | 93.3 | 26,837 | 95.3 | 28,013 | 95.7 |
| Foreign currencies | 1,874 | 6.7 | 1,320 | 4.7 | 1,261 | 4.3 |
| Total | 27,942 | 100.0 | 28,157 | 100.0 | 29,274 | 100.0 |

The increase in foreign currency denominated loans as at 31 December 2003 resulted from an increase in demand for U.S. dollar denominated loans as a result of the depreciation of the U.S. dollar and the increase in the trade finance balance.

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Interest Rate Sensitivity of Loan Portfolio

Interest rate risk on the customer loan portfolio is managed as part of the Group's risk management practices. See the section below headed "Risk Management".

The following table sets out the interest rate sensitivity of the Group's loan portfolio at 31 December 2001, 2002 and 2003, respectively:

| | As at 31 December | | |
|------------------------|-------------------|--------------|--------------|
| | 2003 | 2002 | 2001 |
| | | (%) | |
| Fixed interest rate | 17.7 | 21.6 | 23.4 |
| Variable interest rate | 82.3 | 78.4 | 76.6 |
| Total | 100.0 | 100.0 | 100.0 |

Approximately 82.3% of loans made by the Group as at 31 December 2003 were at variable interest rates which are periodically adjusted. Loans to corporates and institutions were principally made at variable interest rates based on prime rate or interbank offered rates. Residential mortgage loans and overdraft facilities to individuals are nearly all based on prime rate plus or minus a margin depending on the relevant credit circumstances of the borrower, whilst interest rates on personal loans offered by the Group can be either fixed rate or floating rate depending on the type of product and repayment requirements. The rate of interest on the Group's main credit card offerings, taking into account the cash rebate scheme, had effectively been fixed at 18% per annum for most customers since the Group launched its credit cards in 1994. However, with the increase in charge-offs due largely to rising personal bankruptcies in the last few years, the interest rate for normal credit card customers has been increased to 20% and 25%, respectively, per annum for retail purchases and cash card advances, respectively. In the case of the new American Express credit card launched by the Group in 2001, the introductory rate for the first three months was 8% per annum, followed by a normal interest rate charged at 15.8% or 16.8% per annum depending on the amount outstanding. For delinquent credit card customers or card customers who have missed two required minimum payments over a 12-month period, the applicable interest rate is 36% per annum.

Secured and Unsecured Loans

The Group seeks to minimise credit risk by requiring customers to provide collateral as security for the repayment of secured loans. Collateral for the Group's secured loans is primarily in the form of real estate, and to a lesser extent shares in listed companies, bank deposits or plant and machinery.

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The Group's policy is that the maximum amount of real estate loans should not be in excess of 70% of the appraised value or purchase price of the property provided as security for such loans, except for residential mortgage loans in respect of which the maximum value could be up to 90%, provided that mortgage insurance is obtained for the excess value over 70%. The Group generally uses third party assessors from an approved panel to value properties to be given as security.

As at 31 December 2003, 2% of unsecured loans constituted non-performing loans.

Asset Quality

The Group attaches a high priority to managing its credit risk and has in place a developed credit discipline and structure which are governed by the Group's credit policies. As a result of these credit policies and the Group's prudent diversification strategy, the Group has achieved a lower rate of bad and doubtful debts than the average of Retail Banks over the past three years.

The following table sets out the non-performing, overdue and rescheduled loan ratios of the Group and the averages of Retail Banks as at 31 December 2001, 2002 and 2003, respectively:

| | As at 31 December | | | | | |
|----------------------|-------------------|-----------------|-------------|-----------------|-------------|-----------------|
| | 2003 | | 2002 | | 2001 | |
| | Group | Retail Banks | Group | Retail Banks | Group | Retail Banks |
| | (%) | | | | | |
| Overdue loans | 1.31 | 2.04 | 1.36 | 2.77 | 1.65 | 3.95 |
| Rescheduled loans | 0.75 | 0.79 | 0.67 | 0.82 | 0.92 | 0.61 |
| Total | 2.06 | 2.83 | 2.03 | 3.59 | 2.57 | 4.56 |
| Non-performing loans | 1.55 | 3.16 | 1.67 | 3.94 | 2.07 | 5.16 |

Source: HKMA Monthly Statistical Bulletin (May 2004) in respect of data for Retail Banks

The principal reasons for the Group's lower rate of non-performing loans by comparison with other Retail Banks include:

- prudent credit policies and lending practices;
- detailed credit analysis and an emphasis on a borrower's ability to repay, coupled with projected cash flows and collateral (collateral, although important, being regarded only as a secondary method of repayment);
- a diversified loan portfolio and a relatively low average credit exposure to individuals and low concentration of large-exposure corporate borrowers; and

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

- low exposure to corporate credits based outside Hong Kong, whilst exposures to overseas entities via investment in debt securities are largely limited to high quality and high investment grade government, public sector and bank credits.

Selected Asset Quality Information

The table below sets out details of the Group's non-performing loans, rescheduled loans and charge for bad and doubtful debts as at, or for the years ended, 31 December 2001, 2002 and 2003, respectively:

| | As at or for the year ended 31 December | | |
|---|--|------------|------------------------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands, except percentages)</i> | | |
| Total advances to customers | 27,942,364 | 28,156,907 | 29,274,357 |
| Non-performing loans | 433,346 | 469,082 | 605,935 |
| Non-performing loans as a percentage of total advances to customers | 1.55% | 1.67% | 2.07% |
| Specific provisions made for non-performing loans | 209,965 | 202,763 | 267,035 |
| Market value of securities held | 228,250 | 249,329 | 328,420 |
| Specific provisions made for non-performing loans as a percentage of non-performing loans | 48.5% | 43.2% | 44.1% |
| Non-performing loans coverage ratio ⁽¹⁾ | 101.1% | 96.4% | 98.3% |
| Rescheduled loans ⁽²⁾ | 210,515 | 188,318 | 268,364 |
| Rescheduled loans as a percentage of total advances to customers | 0.75% | 0.67% | 0.92% |
| Charge for bad and doubtful debts for the year | 534,754 | 703,869 | 411,106 ⁽³⁾ |

Notes:

- Specific provisions made plus market value of security held as a percentage of non-performing loans.
- Accumulated value of the Group's rescheduled loans as of relevant date, net of loans repaid, written-off or foreclosed and net of those which have been overdue for over three months.
- Included impairment on investments in associates of approximately HK\$3,656,000 in 2001.

Credit Policies and Approval Procedures

The Group Risk Division oversees the credit policies approved by the Board of Directors. These policies are contained in credit manuals which are disseminated throughout the relevant business divisions of the Group. The policies cover the entire credit process of origination, documentation, administration, credit review, collections and repossessed assets.

All commercial credits are originated by marketing officers who evaluate the creditworthiness of a borrower based on its financial strength, current and projected cashflows, quality of management, ownership, credit standing, industry standing, value of collateral (if required) and debt servicing ability.

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The recommendations of the marketing officers are routed to the head of the relevant marketing team and then submitted to credit officers for deliberation and approval, if the credit is within the approval limits designated to such credit officers by the Loan Committee of the Group's commercial banking division. If the credit proposed is over the approval limits designated by the Loan Committee, the credit is submitted to the Loan Committee for its approval. The Loan Committee's evaluation and approval is required for all secured credits over HK\$30 million and unsecured credits over from HK\$2 million to HK\$8 million depending on the nature of the products.

All retail and consumer credits received by the Group's personal banking division are evaluated by credit officers who focus on the creditworthiness of a borrower based on its income, occupation, debt servicing ability and the value of collateral (if required). Secured and unsecured credits over HK\$10 million and HK\$1 million, respectively, must be evaluated and approved by the Retail Credit Committee.

The decision to grant credit including extensions or renewals is governed by internal credit policy guidelines approved by the Board of Directors.

As at 31 December 2003, the Group had approximately 90 staff involved in appraisal and credit investigations, credit risk review, credit control and administration.

Loan Classification

The Group classifies its loans into the following categories for loan classification and bad and doubtful debt provisioning, according to perceived levels of risk and in order to maintain loss reserves which are in aggregate adequate to absorb probable losses arising from its loan portfolio:

| Grade | Loan | Description | Required provision against net exposure |
|--------------|-------------------|---|--|
| 1-6 | "Pass" | Repayment of principal and interest is current and not in doubt. | 0% |
| 7 | "Special mention" | Borrowers have experienced some difficulties, although loss is not expected at this stage. Normally reflected by persistent deterioration in financial status. | 0% |
| 8 | "Substandard" | Past due record over three months and principal plus interest of the loan is not fully secured by tangible collateral. Some unsecured consumer lending is classified as substandard well within three months past due. Rescheduled loans are typically classified as substandard. | 25-50% |
| 9 | "Doubtful" | Full recovery is doubtful, given the value of security available. | 50-75% |
| 10 | "Loss" | Considered non-collectable after realisation of security and exhausting all collection efforts. | 100% |

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Grade 1 to 6 loans are applicable only to commercial credits as retail and consumer credits have only one grade of performing loans. Grade 1 to 6 loans are considered to be performing loans, while grade 7 to 10 loans are criticized, including grade 8, 9 and 10 loans which are generally treated as non-performing. Interest normally ceases to accrue for grade 8, 9 and 10 loans. Interest accrual is typically suspended where a loan is overdue by 90 days. Specific provision of 25% to 100% is made for grade 8, 9 and 10 loans along with delinquency aging and having regard to the current valuation of any collateral, with full provision against any net exposure, followed by write off, for grade 10 loans.

In grading commercial loans, the Group considers relevant factors including: (i) the payment history of the loan; (ii) the history of the Group's dealings with the borrower in question; (iii) the borrower's financial condition; (iv) the management and operation of the borrower's business; (v) the status of any collateral or guarantees; and (vi) market conditions affecting the borrower's industry. Loans are reviewed on an ongoing basis and by periodic reviews at least once a year for normal commercial credits and quarterly for classified credits when the appropriateness of the assigned loan grade and provision level, if any, is re-examined.

Personal credits, which are relatively smaller in size when compared to commercial loans, are managed on a portfolio basis. Individual credits are periodically reviewed only if they become overdue.

The following tables sets out the levels of the Group's substandard, doubtful and loss loans by type of borrower as at 31 December 2001, 2002 and 2003:

| | As at 31 December 2003 | | | |
|---|----------------------------|----------------|---------------|----------------|
| | Substandard | Doubtful | Loss | Total |
| | <i>(in HK\$ thousands)</i> | | | |
| Industrial, commercial and financial | | | | |
| Property investment | 8,998 | 4,797 | — | 13,795 |
| Wholesale and retail trade | 35,878 | 191,213 | 791 | 227,882 |
| Manufacturing | 35,989 | 54,109 | 1,523 | 91,621 |
| Transport and transport equipment | 192,631 | 2,503 | — | 195,134 |
| Others | 3,702 | 21,652 | — | 25,354 |
| Sub-total | 277,198 | 274,274 | 2,314 | 553,786 |
| Individuals | | | | |
| Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 2,338 | 22,180 | 3,280 | 27,798 |
| Loans for the purchase of other residential properties | 38,569 | 19,057 | 3,491 | 61,117 |
| Credit card advances | 15,696 | 14,339 | 12,796 | 42,831 |
| Others | 26,955 | 12,328 | 3,205 | 42,488 |
| Sub-total | 83,558 | 67,904 | 22,772 | 174,234 |
| Loans for use in Hong Kong | 360,756 | 342,178 | 25,086 | 728,020 |
| Loans for use outside Hong Kong | 375 | 834 | 289 | 1,498 |
| Total | 361,131 | 343,012 | 25,375 | 729,518 |

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| | As at 31 December 2002 | | | |
|--|----------------------------|----------------|---------------|----------------|
| | Substandard | Doubtful | Loss | Total |
| | <i>(in HK\$ thousands)</i> | | | |
| Industrial, commercial and financial | | | | |
| Property investment | 8,019 | — | 16 | 8,035 |
| Wholesale and retail trade | 123,311 | 135,050 | 332 | 258,693 |
| Manufacturing | 33,074 | 54,892 | 5,450 | 93,416 |
| Transport and transport equipment | 158,814 | 14,267 | — | 173,081 |
| Others | 4,650 | 17,915 | — | 22,565 |
| Sub-total | 327,868 | 222,124 | 5,798 | 555,790 |
| Individuals | | | | |
| Loans for the purchase of flats in the Home | | | | |
| Ownership Scheme, Private Sector Participation | | | | |
| Scheme and Tenants Purchase Scheme | — | 13,345 | 1,994 | 15,339 |
| Loans for the purchase of other residential properties | 20,726 | 33,716 | 10,235 | 64,677 |
| Credit card advances | 16,465 | 16,147 | 14,604 | 47,216 |
| Others | 11,097 | 11,953 | 5,500 | 28,550 |
| Sub-total | 48,288 | 75,161 | 32,333 | 155,782 |
| Loans for use in Hong Kong | 376,156 | 297,285 | 38,131 | 711,572 |
| Loans for use outside Hong Kong | 982 | 1,007 | 796 | 2,785 |
| Total | 377,138 | 298,292 | 38,927 | 714,357 |

| | As at 31 December 2001 | | | |
|--|----------------------------|----------------|---------------|----------------|
| | Substandard | Doubtful | Loss | Total |
| | <i>(in HK\$ thousands)</i> | | | |
| Industrial, commercial and financial | | | | |
| Property investment | 13,168 | 2,527 | 502 | 16,197 |
| Wholesale and retail trade | 70,574 | 208,266 | — | 278,840 |
| Manufacturing | 40,854 | 73,312 | 2,296 | 116,462 |
| Transport and transport equipment | 246,946 | 7,278 | — | 254,224 |
| Others | 2,846 | 21,991 | — | 24,837 |
| Sub-total | 374,388 | 313,374 | 2,798 | 690,560 |
| Individuals | | | | |
| Loans for the purchase of flats in the Home | | | | |
| Ownership Scheme, Private Sector Participation | | | | |
| Scheme and Tenants Purchase Scheme | 2,176 | 1,057 | 351 | 3,584 |
| Loans for the purchase of other residential properties | 28,585 | 16,548 | 10,520 | 55,653 |
| Credit card advances | 11,565 | 65,048 | 19,015 | 95,628 |
| Others | 27,550 | 44,045 | 10,626 | 82,221 |
| Sub-total | 69,876 | 126,698 | 40,512 | 237,086 |
| Loans for use in Hong Kong | 444,264 | 440,072 | 43,310 | 927,646 |
| Loans for use outside Hong Kong | 3,358 | 3,311 | 1,909 | 8,578 |
| Total | 447,622 | 443,383 | 45,219 | 936,224 |

Provisioning

The Group determines the levels of its provisions and charge-offs and monitors the credit quality of its loan portfolio by reference to the level of overdue loans that have been classified.

The Group makes a general provision of 1% on its whole loan portfolio (except for cash collateralised loans and certain Government guaranteed housing loans), and specific, case-by-case provisions for “Substandard”, “Doubtful” and “Loss” loans as described in the section above headed “Loan Classification”. For commercial credits, the Group makes specific provisions based on its qualitative evaluations of the borrower, the status of any loan restructuring efforts and the overall likelihood of performance.

Within the personal banking business, specific provisioning is normally made by reference to the “days past due” and net exposure of the respective credit facility. Such provisioning is carried out at a portfolio level in line with normal market practice. Since 2001, in response to the increase in personal bankruptcies, all unsecured consumer exposures are fully covered by specific provisions whenever a bankruptcy petition is filed against or by an individual borrower. Since 2002 and in line with market practice, such loans are immediately written off, whenever notices of personal bankruptcy filing are received.

The Group tightened its credit approval criteria and credit limits for credit card and unsecured consumer lending in 2001 in order to reduce the risk of losses arising from personal bankruptcies.

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The following table sets out the Group's provisions for loan losses by risk classification, together with total provisions for overdue loans and as a percentage of total overdue loans as at 31 December 2001, 2002 and 2003, respectively:

| | As at 31 December | | | | | |
|--|--|---|----------------|---|----------------|---|
| | 2003 | | 2002 | | 2001 | |
| | Amount | % of total overdue loans ⁽¹⁾ | Amount | % of total overdue loans ⁽¹⁾ | Amount | % of total overdue loans ⁽¹⁾ |
| | <i>(in HK\$ thousands, except percentages)</i> | | | | | |
| Specific provisions by risk classification | | | | | | |
| Substandard | 56,699 | 15.5 | 71,890 | 18.9 | 62,327 | 12.9 |
| Doubtful | 158,291 | 43.1 | 121,056 | 31.8 | 211,291 | 43.6 |
| Loss | 20,757 | 5.7 | 29,353 | 7.7 | 34,524 | 7.1 |
| | 235,747 | 64.3 | 222,299 | 58.4 | 308,142 | 63.6 |
| Provisions for loan losses | | | | | | |
| Specific | 235,747 | | 222,299 | | 308,142 | |
| General | 274,376 | | 280,904 | | 263,182 | |
| Total provisions | 510,123 | | 503,203 | | 571,324 | |
| Total overdue loans | 366,828 | | 380,627 | | 484,654 | |

Note:

- (1) Overdue loans are loans and advances to customers in respect of which no payment has been made for 90 days or more. Overdue loans are classified as non-performing loans when interest is placed in suspense or when interest accrual has ceased.

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The following table sets out the changes in the Group's specific provisions for possible loan losses and as a percentage of advances to customers for the years ended 31 December 2001, 2002 and 2003, respectively:

| | For the year ended 31 December | | | | | |
|--|--|--|--------------------------|--|--------------------------|--|
| | 2003 | | 2002 | | 2001 | |
| | Amount | % of total advances to customers | Amount | % of total advances to customers | Amount | % of total advances to customers |
| | <i>(in HK\$ thousands, except percentages)</i> | | | | | |
| Specific provisions for loan losses | | | | | | |
| Beginning balance | 222,299 | 0.8 | 308,142 | 1.1 | 223,001 | 0.8 |
| Provisions charged during the year | 539,617 | 1.9 | 685,771 | 2.4 | 413,890 | 1.4 |
| Bad debt recoveries | 42,119 | 0.1 | 27,754 | 0.1 | 17,038 | 0.1 |
| Amount written off | (568,288) | (2.0) | (799,368) | (2.8) | (345,787) | (1.2) |
| Closing balance | <u>235,747</u> | <u>0.8</u> | <u>222,299</u> | <u>0.8</u> | <u>308,142</u> | <u>1.1</u> |
| Advances to customers | <u>27,942,364</u> | | <u>28,156,907</u> | | <u>29,274,357</u> | |

Note:

(1) The above table excludes other accounts and provisions made thereto.

The table above illustrates that the specific provision charge peaked in 2002. The situation improved in 2003 as the Hong Kong economy began to recover in the second half of the year. This resulted in lower provisions and higher recoveries by comparison to 2002.

Loans classified as loss assets are generally charged off against provisions. Non-performing loans are generally charged off against provisions once they are fully provided for, although all possible avenues of recovery (such as rehabilitation, realisation of collateral and legal enforcement) continue to be pursued. Any loan that is proposed to be charged off is submitted to the credit committee of the relevant business division for consideration and final approval before being charged off.

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

Non-performing Loans

Non-performing loans are loans and advances to customers on which interest is being placed in suspense or on which interest accrual has ceased. Interest accrual ceases when the loans have no prospect of eventual recovery. However, interest accrual is typically suspended if payments under a loan are overdue for three months. The following table sets out the Group's non-performing loans to customers and the related provisions and securities held and interest placed in suspense or on which interest accrual has ceased and in each case as a percentage of total advances to customers as at 31 December 2001, 2002 and 2003, respectively:

| | As at 31 December | | | | | |
|--|--|--|-----------------------|--|-----------------------|--|
| | 2003 | | 2002 | | 2001 | |
| | Amount | % of total advances to customers | Amount | % of total advances to customers | Amount | % of total advances to customers |
| | <i>(in HK\$ thousands, except percentages)</i> | | | | | |
| Non-performing loans | 433,346 | 1.6 | 469,082 | 1.7 | 605,935 | 2.1 |
| Specific provisions made with respect to non-performing loans | <u>(209,965)</u> | <u>(0.8)</u> | <u>(202,763)</u> | <u>(0.7)</u> | <u>(267,035)</u> | <u>(0.9)</u> |
| Net non-performing loans | <u>223,381</u> | <u>0.8</u> | <u>266,319</u> | <u>1.0</u> | <u>338,900</u> | <u>1.2</u> |
| Market value of securities held | 228,250 | 0.8 | 249,329 | 0.9 | 328,420 | 1.1 |
| Interest in suspense | 24,502 | 0.1 | 34,653 | 0.1 | 53,147 | 0.2 |

The table above similarly illustrates the improvement in non-performing loans in 2003 as the Hong Kong economy began to recover in the second half of the year. In addition, the decrease in non-performing loans in 2002 was a result of an improvement in the performance of the SME sector and the significant levels of loans written off in 2002. Please also refer to the section above headed "Asset Quality" for the reasons for the Group's lower rate of non-performing loans.

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

The following table sets out the Group's non-performing loans by business divisions and as a percentage of the Group's non-performing loans as at 31 December 2001, 2002 and 2003, respectively:

| | As at 31 December | | | | | |
|-----------------------------------|--|---------------------|-----------------------|---------------------|-----------------------|---------------------|
| | 2003 | | 2002 | | 2001 | |
| | Amount | (%) | Amount | (%) | Amount | (%) |
| | <i>(in HK\$ thousands, except percentages)</i> | | | | | |
| Personal Banking | 97,816 | 22.6 | 110,593 | 23.6 | 179,221 | 29.6 |
| Commercial Banking | <u>335,530</u> | <u>77.4</u> | <u>358,489</u> | <u>76.4</u> | <u>426,714</u> | <u>70.4</u> |
| Total non-performing loans | <u>433,346</u> | <u>100.0</u> | <u>469,082</u> | <u>100.0</u> | <u>605,935</u> | <u>100.0</u> |

The following table sets out an aging analysis of the Group's overdue loans as at 31 December 2001, 2002 and 2003, respectively:

| | As at 31 December | | | | | |
|--|--|----------------------------------|-----------------------|----------------------------------|-----------------------|----------------------------------|
| | 2003 | | 2002 | | 2001 | |
| | Amount | % of total advances to customers | Amount | % of total advances to customers | Amount | % of total advances to customers |
| | <i>(in HK\$ thousands, except percentages)</i> | | | | | |
| Six months or less but over three months | 121,029 | 0.43 | 119,659 | 0.42 | 179,324 | 0.61 |
| One year or less but over six months | 68,533 | 0.25 | 97,621 | 0.35 | 113,761 | 0.39 |
| Over one year | <u>177,266</u> | <u>0.63</u> | <u>163,347</u> | <u>0.58</u> | <u>191,569</u> | <u>0.65</u> |
| Total gross overdue advances to customers | <u>366,828</u> | <u>1.31</u> | <u>380,627</u> | <u>1.35</u> | <u>484,654</u> | <u>1.65</u> |
| Amount on which interest is still being accrued | 32,111 | 0.11 | 50,992 | 0.18 | 60,536 | 0.21 |
| Market value of security held against the secured advances | 207,073 | 0.74 | 222,470 | 0.79 | 308,015 | 1.05 |
| Secured overdue advances | 189,193 | 0.68 | 212,349 | 0.75 | 290,424 | 0.99 |
| Unsecured overdue advances | 177,635 | 0.63 | 168,278 | 0.60 | 194,230 | 0.66 |
| Specific provisions made | 196,964 | 0.70 | 148,733 | 0.53 | 184,044 | 0.63 |

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

Rescheduled Loans

The Group reschedules a loan when it considers that amending its terms will lead to a higher ultimate recovery than other means, such as foreclosure, to recover funds. As at 31 December 2003, HK\$211 million of the Group's loans were classified as rescheduled loans, an increase of 11.8% as compared with 31 December 2002. The increase resulted from an improvement in the Hong Kong economy and more active restructuring efforts by the Group.

As at 31 December 2003, the Group's three largest rescheduled loans amounted in aggregate to HK\$50.8 million, which is 24.1% and 0.2% of total rescheduled and total advances to customers, respectively.

Approval for the rescheduling of loans is generally required to be obtained from the Group's various credit committees. If the loan is to be rescheduled, the term of the loan is generally extended and/or a grace period for repayment is granted depending on the Group's estimate of the borrower's future cashflows. The Group does not generally enter into debt for equity swaps or waive interest or principal as part of the rescheduling of a loan, except in the case of individual voluntary arrangements relating mainly to credit cards and unsecured personal loans.

If a decision is made not to reschedule a problem commercial loan, the credit facility is immediately suspended. Any loan that is rescheduled is treated as performing following six consecutive payments of interest and/or principal for secured loans and partially secured loans, respectively, following which such loan's classification can be upgraded. If a loan has been restructured and interest and/or principal is written off in part, it is classified as doubtful.

Any rescheduled personal banking loan that has served six consecutive payments can be upgraded to a normal credit. However, the provision with respect to such loan is not reversed until the loan has performed for a period of not less than 12 months.

The following table sets out the Group's rescheduled loans (net of those which have been overdue for over three months subsequent to rescheduling) as at 31 December 2001, 2002 and 2003, respectively:

| | As at 31 December | | | | | |
|--------------------------|--|--|---------|--|---------|--|
| | 2003 | | 2002 | | 2001 | |
| | Amount | % of total advances to customers | Amount | % of total advances to customers | Amount | % of total advances to customers |
| | <i>(in HK\$ thousands, except percentages)</i> | | | | | |
| Rescheduled loans | 210,515 | 0.75 | 188,318 | 0.67 | 268,364 | 0.92 |
| Specific provisions made | 12,074 | 0.04 | 31,132 | 0.11 | 20,349 | 0.07 |

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

Investments in Securities

The Group's investment in securities comprises primarily listed and unlisted debt securities with a limited amount of equity securities. As at 31 December 2003, the book value of the Group's securities portfolio was HK\$25,868 million. The Group's investment securities that are held to maturity are accounted for on an amortised cost basis and the Group's trading and non-trading securities are accounted for on a fair value basis. For a discussion of the accounting policies applicable to held-to-maturity securities, trading securities and non-trading securities, please refer to Note 1 (n) in the combined audited financial statements in the "Accountants' Report" set out in Appendix I to this prospectus.

The following tables set out the carrying values of the Group's investment securities portfolio, as at 31 December 2001, 2002 and 2003, respectively:

| | As at 31 December 2003 | | | |
|---|----------------------------|-------------------|------------------|-------------------|
| | Held-to- Maturity | Non-trading | Trading | Total |
| | <i>(in HK\$ thousands)</i> | | | |
| Debt Securities | | | | |
| Treasury bills (including Exchange Fund Bills) ⁽¹⁾ | — | 3,999,608 | 1,391,323 | 5,390,931 |
| Certificates of deposit | | | | |
| Unlisted | — | 204,400 | — | 204,400 |
| Other debt securities | | | | |
| Listed | | | | |
| In Hong Kong | — | 1,384,656 | 2,173,363 | 3,558,019 |
| Outside Hong Kong | — | 7,650,441 | — | 7,650,441 |
| Total listed | — | 9,035,097 | 2,173,363 | 11,208,460 |
| Unlisted | 392,198 | 7,681,808 | 613,968 | 8,687,974 |
| Total other debt securities | 392,198 | 16,716,905 | 2,787,331 | 19,896,434 |
| Equity securities | | | | |
| Listed | | | | |
| In Hong Kong | — | 71,723 | 1,883 | 73,606 |
| Unlisted | — | 302,508 | — | 302,508 |
| Total equity securities | — | 374,231 | 1,883 | 376,114 |
| Total | 392,198 | 21,295,144 | 4,180,537 | 25,867,879 |

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

| | As at 31 December 2002 | | | |
|---|----------------------------|-------------------|------------------|-------------------|
| | Held-to- Maturity | Non-trading | Trading | Total |
| | <i>(in HK\$ thousands)</i> | | | |
| Debt Securities | | | | |
| Treasury bills (including Exchange Fund Bills) ⁽¹⁾ | 5,347,030 | — | 248,680 | 5,595,710 |
| Certificates of deposit | | | | |
| Unlisted | — | 455,137 | — | 455,137 |
| Other debt securities | | | | |
| Listed | | | | |
| In Hong Kong | — | 2,343,957 | 1,198,309 | 3,542,266 |
| Outside Hong Kong | — | 6,146,886 | — | 6,146,886 |
| Total listed | — | 8,490,843 | 1,198,309 | 9,689,152 |
| Unlisted | 78,049 | 7,366,763 | 1,299,554 | 8,744,366 |
| Total other debt securities | 78,049 | 15,857,606 | 2,497,863 | 18,433,518 |
| Equity securities | | | | |
| Listed | | | | |
| In Hong Kong | — | 3,212 | 74 | 3,286 |
| Unlisted | — | 9,814 | — | 9,814 |
| Total equity securities | — | 13,026 | 74 | 13,100 |
| Total | 5,425,079 | 16,325,769 | 2,746,617 | 24,497,465 |

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

| | As at 31 December 2001 | | | Total |
|---|----------------------------|-------------------------|-------------------------|--------------------------|
| | Held-to- Maturity | Non-trading | Trading | |
| | <i>(in HK\$ thousands)</i> | | | |
| Debt Securities | | | | |
| Treasury bills (including Exchange Fund Bills) ⁽¹⁾ | 2,591,103 | — | 536,016 | 3,127,119 |
| Certificates of deposit | | | | |
| Unlisted | 524,766 | — | — | 524,766 |
| Other debt securities | | | | |
| Listed | | | | |
| In Hong Kong | 1,817,416 | 999,581 | 1,727,877 | 4,544,874 |
| Outside Hong Kong | 1,203,092 | 846,752 | — | 2,049,844 |
| Total listed | 3,020,508 | 1,846,333 | 1,727,877 | 6,594,718 |
| Unlisted | 1,576,594 | 4,128,214 | 1,251,878 | 6,956,686 |
| Total other debt securities | 4,597,102 | 5,974,547 | 2,979,755 | 13,551,404 |
| Equity securities | | | | |
| Listed | | | | |
| In Hong Kong | — | 18,193 | 500 | 18,693 |
| Unlisted | — | 211,475 | — | 211,475 |
| Total equity securities | — | 229,668 | 500 | 230,168 |
| Total | <u>7,712,971</u> | <u>6,204,215</u> | <u>3,516,271</u> | <u>17,433,457</u> |

Note:

(1) Treasury bills are included under “Cash and short term funds” on the balance sheet.

Investment in debt securities is a key activity of the Group’s treasury division. The principal investment objectives include: (1) achieving a sound and high liquidity ratio throughout the year through the holding of a pool of investment grade and marketable debt securities; (2) generating a positive spread over the cost of funds within credit and interest rate risk tolerance limits; (3) diversifying risk exposures; and (4) supporting treasury trading operations especially in the local Exchange Fund debt market.

As at 31 December 2003, 81% of the Group’s aggregate investment in debt securities was invested in debt securities issued or guaranteed by central governments, central banks, public sector entities and banks, compared with 83.8% at 31 December 2002. A significant proportion of such sovereign or quasi-sovereign debt was unlisted.

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

LIABILITIES AND SOURCES OF FUNDS

The Group seeks to maintain stable and low-cost funding primarily from deposits sourced through its branch network. The Group's sources of funding comprise deposits from customers, certificates of deposit issued, subordinated bonds issued and shareholders' funds. Deposits include demand deposits and savings and time deposits, primarily in Hong Kong dollars, but also in other major currencies. The issuance of certificates of deposit helps lengthen funding maturities and reduces possible maturity mismatches. The US\$125 million subordinated bond issued in March 2001 helped broaden the Group's funding base and extend liability maturity, in addition to improving the Group's capital adequacy. Short-term interbank deposits are taken on a limited basis and the Group is a net lender to the interbank market.

The following table sets out a summary of the Group's principal sources of funds by type and as a percentage of total funding sources as at 31 December 2001, 2002 and 2003, respectively:

| | As at 31 December | | | | | |
|--|--|--------------|-------------------|--------------|-------------------|--------------|
| | 2003 | | 2002 | | 2001 | |
| | Amount | (%) | Amount | (%) | Amount | (%) |
| | <i>(in HK\$ thousands, except percentages)</i> | | | | | |
| Deposits | | | | | | |
| Current, fixed, savings and other deposits of customers | 40,152,196 | 81.6 | 37,589,089 | 82.6 | 33,153,143 | 82.7 |
| Certificates of deposit | 7,868,079 | 16.0 | 6,888,227 | 15.1 | 5,652,190 | 14.1 |
| Total deposits | 48,020,275 | 97.6 | 44,477,316 | 97.7 | 38,805,333 | 96.8 |
| Borrowings | | | | | | |
| Borrowings from other banks | 161,972 | 0.3 | 62,423 | 0.2 | 293,164 | 0.7 |
| Debt securities in issue | 31,052 | 0.1 | — | — | — | — |
| Loan capital (subordinated debt) | 970,388 | 2.0 | 974,831 | 2.1 | 974,719 | 2.5 |
| Total borrowings | 1,163,412 | 2.4 | 1,037,254 | 2.3 | 1,267,883 | 3.2 |
| Total deposits and borrowings | 49,183,687 | 100.0 | 45,514,570 | 100.0 | 40,073,216 | 100.0 |

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

Deposits

The Group attracts deposits from corporates and individuals principally through its branch network. As at 31 December 2003, the Group had deposits, including certificates of deposit, of HK\$48,020 million, representing 97.6% of the Group's total funding sources.

The following table sets out a breakdown of the Group's deposits (excluding those represented by certificates of deposit) as at 31 December 2001, 2002 and 2003, respectively:

| | As at 31 December | | |
|--------------------------------------|----------------------------|--------------------------|--------------------------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | |
| Demand deposits and current accounts | 3,757,246 | 2,782,377 | 1,832,757 |
| Saving deposits | 6,924,297 | 5,370,759 | 5,295,811 |
| Time, call and notice deposits | 29,470,653 | 29,435,953 | 26,024,575 |
| Total | <u>40,152,196</u> | <u>37,589,089</u> | <u>33,153,143</u> |

The Group determines the rate of the interest which it pays on HK\$ deposits and certificates of deposit according to prevailing market conditions. Since the full deregulation of the interest rates rule in mid 2001, banks in Hong Kong have been free to quote different interest rates for savings deposits and can offer interest on current (or demand) deposits. Dah Sing Bank quotes savings deposit rates similar to those offered by the leading banks in Hong Kong. However, as a result of the Group's dual brand strategy, it does have the flexibility to attract slightly higher cost deposits through MEVAS Bank if appropriate. Changes in the savings rates usually follow changes in the US Federal Fund rate and the local discount rate of the HKMA. The Group offers a special interest bearing current account deposit with an interest rate making reference to the savings rate offered by the Group. Foreign currency deposits are based principally on LIBOR or the applicable interbank interest rates of the relevant currency.

Wholesale certificates of deposit are typically issued to other financial institutions through both private placements and public syndications. They are usually priced at a spread over short-term interbank offered rates. Since 2002, the Group has been a regular issuer in the local HK\$ and US\$ retail certificates of deposit market by offering such deposits to the retail and commercial depositors of the Group. Retail certificates of deposit generally represent a cheaper funding source than wholesale certificates of deposit. Certificates of deposit also provide the Group with funds with a longer maturity profile than other customer deposits.

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

Borrowings

Dah Sing Bank issued US\$125 million subordinated bonds in March 2001 (the "Bonds") which qualify as Tier 2 supplementary capital of the Group. The Bonds are listed on the Luxembourg Stock Exchange and will mature in March 2011, with an optional redemption date falling in March 2006. In addition, Dah Sing Bank has an outstanding US\$4 million Structured Note due November 2008 with an issuer call option falling in November 2004, which was issued pursuant to its Medium Term Note Programme.

As at 31 December 2003, 66.4% of deposits and other borrowed funds of the Group were denominated in HK dollars, with the remainder denominated principally in U.S. dollars.

Maturity Profile of Liabilities

The most significant proportion of the Group's liabilities matures in three months or less. The Group however believes that its deposit base is stable as its short-term deposits are generally rolled over on maturity. The following table sets out the maturity profile of the Group's liabilities as at 31 December 2001, 2002 and 2003, respectively:

| As at 31 December 2003 | | | | | | | |
|---|---------------------|---|--|------------------|----------|----------|---------------|
| Repayable on demand | 3 months or less | 1 year or less but over 3 months | 5 years or less but over 1 year | After 5 years | Undated | Total | |
| <i>(in HK\$ millions)</i> | | | | | | | |
| Deposits and balances of banks and other financial institutions | 142 | 17 | 3 | — | — | — | 162 |
| Current, fixed, savings and other deposits of customers | 10,940 | 27,427 | 1,448 | 337 | — | — | 40,152 |
| Certificates of deposit issued | — | — | 1,384 | 6,484 | — | — | 7,868 |
| Issued debt securities | — | — | 31 | — | — | — | 31 |
| | 11,082 | 27,444 | 2,866 | 6,821 | — | — | 48,213 |

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

As at 31 December 2002

| | Repayable on demand | 3 months or less | 1 year or less but over 3 months | 5 years or less but over 1 year | After 5 years | Undated | Total |
|---|---------------------------|---------------------|---|--|------------------|----------|---------------|
| <i>(in HK\$ millions)</i> | | | | | | | |
| Deposits and balances of banks and other financial institutions | 54 | 8 | — | — | — | — | 62 |
| Current, fixed, savings and other deposits of customers | 8,241 | 27,073 | 2,048 | 227 | — | — | 37,589 |
| Certificates of deposit issued | — | 367 | 3,001 | 3,520 | — | — | 6,888 |
| | <u>8,295</u> | <u>27,448</u> | <u>5,049</u> | <u>3,747</u> | <u>—</u> | <u>—</u> | <u>44,539</u> |

As at 31 December 2001

| | Repayable on demand | 3 months or less | 1 year or less but over 3 months | 5 years or less but over 1 year | After 5 years | Undated | Total |
|---|---------------------------|---------------------|---|--|------------------|----------|---------------|
| <i>(in HK\$ millions)</i> | | | | | | | |
| Deposits and balances of banks and other financial institutions | 71 | 221 | 1 | — | — | — | 293 |
| Current, fixed, savings and other deposits of customers | 7,172 | 23,553 | 2,240 | 188 | — | — | 33,153 |
| Certificates of deposit issued | — | 100 | 1,171 | 4,381 | — | — | 5,652 |
| | <u>7,243</u> | <u>23,874</u> | <u>3,412</u> | <u>4,569</u> | <u>—</u> | <u>—</u> | <u>39,098</u> |

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

Capital Adequacy and Liquidity Ratios

The following table sets out a summary of the Group's capital adequacy and liquidity ratios as at 31 December 2001, 2002 and 2003, respectively:

| | As at or for the year ended 31 December | | |
|--------------------------------|---|------|------|
| | 2003 | 2002 | 2001 |
| | | (%) | |
| CAR ⁽²⁾ | | | |
| Tier 1 | 15.8 | 15.1 | 14.4 |
| Total | 20.4 | 19.9 | 18.6 |
| Adjusted CAR ⁽³⁾ | 20.2 | 19.8 | 18.5 |
| Liquidity ratio ⁽⁴⁾ | 65.9 | 54.9 | 46.2 |

- (1) Please note that only the local banking subsidiaries within the Group are subject to minimum "CAR" and "liquidity ratio" requirements under the Banking Ordinance. The above ratios of the Group are calculated for reference only.
- (2) The "CAR" represents the combined capital adequacy ratio of the Group as at 31 December of the relevant year. The CAR of each banking subsidiary within the Group is calculated in accordance with the Third Schedule of the Banking Ordinance.
- (3) The "adjusted CAR" represents the combined capital adequacy ratio of the Group as at 31 December of the relevant year after incorporating market risk capital requirements. The adjusted CAR of each banking subsidiary within the Group is calculated in accordance with the Guideline entitled "Maintenance of Adequate Capital Against Market Risks" issued by the HKMA. The adjusted ratio takes into account market risk as at 31 December of the relevant year.
- (4) The "liquidity ratio" is calculated as the simple average of each calendar month's average liquidity ratio for the 12 months of the financial year for the local banking subsidiaries within the Group in accordance with the Fourth Schedule of the Banking Ordinance.

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

The combined capital base of the banking subsidiaries of the Group after deductions used in the calculation of the above CARs as at 31 December 2001, 2002 and 2003, respectively, was as follows:

| | As at 31 December | | |
|---|----------------------------|-------------------------|-------------------------|
| | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | |
| Core capital | | | |
| Paid up ordinary share capital | 1,207,749 | 1,207,749 | 1,207,749 |
| Reserves | <u>3,922,614</u> | <u>3,548,195</u> | <u>3,193,331</u> |
| Total core capital | <u>5,130,363</u> | <u>4,755,944</u> | <u>4,401,080</u> |
| Supplementary capital | | | |
| Reserve on revaluation of land and interests in land | 193,769 | 193,285 | 194,846 |
| Reserve on revaluation of holding of securities not held for trading purposes | 56,464 | 76,680 | (5,172) |
| General provisions for doubtful debts | 281,826 | 286,727 | 268,594 |
| Term subordinated debts | <u>970,388</u> | <u>974,831</u> | <u>974,719</u> |
| Total eligible supplementary capital | <u>1,502,447</u> | <u>1,531,523</u> | <u>1,432,987</u> |
| Total capital base before deductions | 6,632,810 | 6,287,467 | 5,834,067 |
| Deductions from total capital base | <u>(26,186)</u> | <u>(28,201)</u> | <u>(120,201)</u> |
| Total capital base after deductions | <u>6,606,624</u> | <u>6,259,266</u> | <u>5,713,866</u> |

RISK MANAGEMENT

The Group recognises the changing nature of risk and manages it through a well-developed management structure. The principal types of risk inherent in the Group's business include credit, market, interest rate and liquidity risks:

- credit risk occurs mainly in the Group's credit portfolios comprising commercial, wholesale and retail lending, equipment and hire purchase financing, and treasury and financial institutions wholesale lending;
- market risk is associated with the Group's positions in foreign exchange, debt securities and equity securities, on-balance sheet and derivative positions off-balance sheet and the market risk inherent in its loan and deposit portfolios;
- interest rate risk relates to the risk to the Group's financial condition resulting from adverse movements in interest rates; and
- liquidity risk arises across the Group's balance sheet.

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

Risk management is a critical part of the Group's organisational structure. The risk management framework is approved by the Board of Directors. The Board approves the overall institutional tolerance for risk, including risk policies and the risk philosophy of the Group. The Group's risk management infrastructure as approved by the Board allows oversight by the Board of the major risk areas of credit risk, market and liquidity risk, and operations risk. An internal audit group is responsible for the ongoing monitoring of the Group's internal management processes and for providing an independent assessment of the Group's systems to ensure that integrity is maintained. The Group's policy is to maintain what it considers is a conservative balance sheet and strong capital base.

In 2000, the Group initiated a full review of the credit policies and procedures of all the business divisions of the Group. A decision to upgrade and formalise the risk management of the Group was reached, leading to the creation of the post of Head of Group Risk. The Head of Group Risk is responsible for the management and control of risks such as strategic risk, credit risk, business risk, market risk, interest rate risk, operational risk and reputational risk.

The Group's risk management practices and capabilities have been reviewed against the proposed requirements of Basel II and, where appropriate, are being revised to meet these requirements.

The Risk Management Structure of the Group

The Board of Directors has the broad overall responsibility for the management of all types of risk. The responsibilities of the Board in relation to risk control are:

- the approval of the overall strategy and policies to ensure that credit and other risks are properly managed at both the transaction and portfolio levels;
- the management of risk, both financial and non-financial, conducted through operational and administrative control systems including the operation of the Audit Committee, review of key results (against forecasts), operational statistics and policy issues; and
- financial performance by analysis against approved budgets and analysis of variations in key non-financial measures.

The Executive Committee has been delegated the authority to oversee and guide the management of different risks which are more particularly managed and dealt with by Group Risk and different functional committees.

The Head of Group Risk reports to the Group's Executive Committee and the Company's Chief Executive, which have overall responsibility for the management of all types of risk. The Group has established policies and procedures for the identification, measurement, monitoring and control of credit, liquidity, interest rates, foreign exchange and market risks. The policies and procedures are regularly reviewed and updated by senior management and the respective business credit committees.

Group Risk

The independent Group Risk function is responsible for ensuring that policies and mandates are established for the Group as a whole. Group Risk monitors and reports Group risk positions to the Board via the Executive Committee, sets standards for financial risks and data integrity and ensures that the financial risks are considered in the product planning and pricing process. Group Risk reviews and approves all credit and risk exposure policies for the Group including the approval of exposures to new markets, economic sectors, organisations, credit products and financial instruments which expose the Group to credit and related risks. In determining credit and risk policies, Group Risk takes into account the guidelines established by the HKMA, and the Group's strategy. Group Risk is also represented on the lending or risk committees of the Group's operating divisions and businesses.

The Group's risk management expertise continues to advance the overall quality of the Group's lending portfolios, and helps the Group to meet the changing regulatory requirements and enter into credit exposures with the confidence that it understands the associated risks and rewards.

The Group is continuing to evolve its risk management capabilities under the aegis of the Head of Group Risk, increasing the focus of its risk strategy on risk and reward and returns on capital. The Group uses a range of risk measurement and analytical tools in its management of the various risks which it faces in its day-to-day businesses and these are enhanced and upgraded from time to time to reflect changing business needs and the requirements of the regulators.

Business Division Credit Committees

Each of the operating divisions of the Group has its own credit or risk committee responsible for approving and recommending policies, limits and mandates for risk control within their respective business areas. This is consistent with the Group's approach of devolving responsibility for risk management to the individual business areas under the aegis of the Group Risk function. As such, each business credit risk function reports to the business area which it supports and is subject to the guidance of Group Risk. The Risk Management and Control function is part of Group Risk and reports directly to the Head of Group Risk.

Credit Risk Management

The Group's main credit risk is that borrowers or counterparties may default on their payment obligations due to the Group. These obligations arise from the Group's financing, trading activities (taking the form of loans), trading account assets or derivative instruments.

The Group has a credit committee for each division, made up of certain Executive Directors and senior credit officers and chaired by the Chairman or the Chief Executive of the Company. Each credit committee has responsibility for formulating and revising credit policies and procedures for that division within the parameters set by Group Risk Policy. Credit policies and procedures define the credit extension criteria and guidelines, credit approval and scoring, review and monitoring process and the systems of loan classification and provisioning.

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

The Group manages credit risk on a prudent basis by evaluating the creditworthiness of different types of customers and counterparties based on an assessment of business, financial, market, industry sector and collateral information applicable to the type of credit. Credits are extended normally within limits set for each product, customer or counterparty, where these exist, and are approved by different levels of management based on established guidelines. Actual credit exposures, limits and asset quality are regularly monitored and controlled by management, Head of Group Risk and the respective credit committees. The Group's internal auditors conduct regular audits and reviews to help ensure compliance with the Group's credit policy and procedures and regulatory guidelines. Please also refer to the section above headed "Asset Quality".

The individual business' credit policies also establish policies and processes for the approval and review of new products and activities, together with details of the facility grading, or credit scoring, processes and provisioning policies.

To avoid concentration of risk, large exposures to individual customers or related groups are limited to a percentage of the capital base, and advances to industry sectors are managed within approved limits to achieve a balanced portfolio.

In order to mitigate the credit risk and where appropriate, the Group will obtain collateral which is secured against the credit facility. The acceptable types of collateral and their characteristics are established within the credit policies, as are the respective margins of finance.

Irrespective of whether collateral is taken, credit decisions are generally based upon the customer's or counterparty's cashflow position and ability to repay.

Liquidity Risk Management

The Group manages its liquidity on a prudent basis to ensure that a sufficiently high liquidity ratio relative to the statutory minimum is maintained throughout the year. As disclosed in this prospectus, the average liquidity ratio of the local banking subsidiaries of the Group for the years ended 31 December 2001, 2002 and 2003 was well above the 25% minimum ratio set by the Banking Ordinance.

Liquidity management is directed towards ensuring that all the Group's operations can meet their current funding needs, whether to replace existing funding as it matures, or to satisfy the requirement for additional borrowings. The concentration of funding requirements at any one date or from any one source is managed continuously.

A substantial proportion of the Group's assets are funded by customer deposits, made up of current and savings accounts and other short-term deposits. Management believes that these customer deposits, which are widely diversified by type and maturity, represent a stable source of funds. Lending is normally funded by liabilities in the same currency and if other currencies are used, the foreign exchange risk is usually hedged. The Group is a net lender to the interbank market.

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

Liquidity risk is managed by the Group's high proportion of liquid assets, including interbank assets (which are diversified by type, maturity and source), money market assets and short-term customer loans. For longer-term assets, the Group has significant sources of longer-term funds, including debt securities, certificates of deposit and notes, money market borrowings and longer-term customer deposits. The Group is planning to conduct regular stress tests on its liquidity position.

ALCO regularly reviews the Group's current loan and deposit mix, funding requirements and projections and maturity mismatches with the ongoing monitoring of the Group's liquidity ratio. Appropriate liquidity limits are set and sufficient liquid assets are held to ensure that the Group can meet all short-term funding requirements.

Market Risk Management

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other changes that affect market risk sensitive instruments. The Group's market risk is associated with its positions in foreign exchange, debt securities and equity securities on-balance sheet and off-balance sheet positions, and the market risk inherent in its loan and deposit portfolios. Most off-balance sheet derivative positions arise from the execution of customer-related foreign exchange orders and positions taken to hedge other elements of the Group's trading book.

The Group's exposure to market risk is a function of its trading activities for its own account and its role as a financial intermediary in consumer and wholesale transactions. The objective of market risk management is to avoid excessive exposure to loss of the Group's earnings and equity, and to reduce the volatility inherent in financial instruments. Limits have been generally set to control the Group's exposure to movements in prices and volatilities arising from trading activities. These exposures are controlled at each business location by product type, using delegated limits.

Market risk exposure for different types of transactions is managed within risk limits and guidelines approved by ALCO. Exposures are measured and monitored via a combination of principal or notional amounts, sensitivity and stop-loss limits. A VaR risk management methodology has been implemented with respect to the Group's trading portfolios to manage interest rate risk, equity risk and foreign exchange risk. VaR is used to alert senior management whenever the potential for losses in the Group's trading portfolios exceed predetermined levels. All market-risk trading positions are subject to daily mark-to-market valuations which are monitored and managed by the treasury division. Independent monitoring, checking and trade confirmations are undertaken by the Risk Management and Control department which reports to the Head of Group Risk. The Group's Internal Audit division performs regular reviews to help ensure compliance with market risk limits and guidelines, and treasury policy and procedures. All exceptions to approved limits have to be reviewed and approved by the appropriate level of management, Treasury Risk Committee or ALCO.

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

VaR is a statistical technique which estimates the potential losses that could arise on risk positions taken due to movements in foreign exchange, interest rates or equity prices over a specified time horizon and to a given level of confidence. The model used by the Group to calculate portfolio and individual VaR on a variance/ co-variance basis uses historical movements in market rates and prices, a 99% confidence level and a one-day holding period.

As at 31 December 2003, the VaR for the various types of exposures were as follows:

| | <u>As at 31 December 2003</u> <i>(in HK\$ thousands)</i> |
|---|---|
| Interest rate risk trading exposures | 3,635 |
| Foreign exchange trading exposures | 1,882 |
| Equity trading exposures | <u>77</u> |
| Market risk trading exposures | <u>5,594</u> |
| Average VaR for the year ended 31 December 2003 | <u>4,398</u> |

The average daily revenue earned from the Group's market risk related treasury activities was HK\$332,000 in Fiscal 2003, HK\$509,000 in Fiscal 2002 and HK\$322,000 in Fiscal 2001. The standard deviation for such daily revenue was HK\$2,942,000 in Fiscal 2003, HK\$2,659,000 in Fiscal 2002 and HK\$2,329,000 in Fiscal 2001. The following are the average daily revenue and the standard deviation for daily revenue analysed by principal dealing activities:

| | Average daily revenue | | | Standard deviation | | |
|--------------------------|----------------------------|------|------|--------------------|-------|-------|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| | <i>(in HK\$ thousands)</i> | | | | | |
| Foreign exchange dealing | 105 | 143 | 145 | 1,881 | 248 | 208 |
| Interest rate dealing | 227 | 366 | 177 | 2,146 | 2,640 | 2,337 |

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

Interest Rate Risk Management

In the Group, interest rate sensitivity arises where there is an imbalance between assets (e.g. customer loans) and liabilities (e.g. deposits and certificates of deposit) on which interest rates change periodically or at different intervals (e.g. customer loans may bear a fixed rate of interest, while the deposits may be repriced periodically). The Group's interest rate risk mainly arises from the funding of fixed-rate loans and fixed income securities by floating-rate deposits and notes. When interest rates rise, the interest spread and net interest income will be affected as interest income generated by the existing fixed-rate loans and debt securities will not increase. The Group addresses the risks of changes in interest rates by closely monitoring levels of interest-earning assets and interest-bearing liabilities. In addition, limits have been set by business and product type to control the Group's exposure to movements in interest rates. These limits are complemented by VaR limits in relation to the trading portfolio that control the overall quantum of risk assumed by the Group.

The Group's interest rate risk is mitigated in part by the use of off-balance sheet interest rate hedging instruments to hedge a portion of the Group's fixed-rate assets as determined by ALCO based on market and interest rate conditions. The counterparties to the Group's interest rate swaps and options are all rated BBB and above.

The following table sets forth the Group's asset and liability interest rate gap position and sensitivity to interest rate movements as at 31 December 2003:

| | As at 31 December 2003 ⁽¹⁾⁽²⁾ | | | | | Total |
|--|--|--|--|------------------|-----------------------------|---------------|
| | Within 3 months | After 3 months and within 1 year | After 1 year and within 5 years | After 5 years | Non interest- bearing | |
| | <i>(in HK\$ millions)</i> | | | | | |
| Assets | | | | | | |
| Cash on hand and at banks | 199 | — | — | — | 397 | 596 |
| Money at call and short notice | 4,997 | — | — | — | — | 4,997 |
| Certificates of deposit held | — | 204 | — | — | — | 204 |
| Advances to customers and trade bills | 25,570 | 1,008 | 944 | 410 | 755 | 28,687 |
| Provisions for bad and doubtful debts | — | — | — | — | (518) | (518) |
| Interest-earning securities ⁽³⁾ | 3,997 | 6,712 | 11,080 | 3,494 | — | 25,283 |
| Non interest-earning securities ⁽⁴⁾ | — | — | — | — | 380 | 380 |
| Fixed assets and other non-interest bearing assets | — | — | — | — | 2,535 | 2,535 |
| | <u>34,763</u> | <u>7,924</u> | <u>12,024</u> | <u>3,904</u> | <u>3,549</u> | <u>62,164</u> |

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

| | As at 31 December 2003 ⁽¹⁾⁽²⁾ | | | | | Total |
|--|--|--|--|----------------------|-----------------------------|-----------------|
| | Within 3 months | After 3 months and within 1 year | After 1 year and within 5 years | After 5 years | Non interest- bearing | |
| | <i>(in HK\$ millions)</i> | | | | | |
| Liabilities and Capital Resources | | | | | | |
| Deposits and balances of banks | (17) | (3) | — | — | (142) | (162) |
| Deposits from customers | | | | | | |
| Demand deposits and current account | (2,328) | — | — | — | (1,429) | (3,757) |
| Savings deposits | (6,923) | — | — | — | (1) | (6,924) |
| Time, call and notice deposits | (27,761) | (1,442) | (268) | — | — | (29,471) |
| Certificates of deposit issued | (3,915) | (1,327) | (2,626) | — | — | (7,868) |
| Issued debt securities | — | (31) | — | — | — | (31) |
| Current and deferred tax liabilities | — | — | — | — | (61) | (61) |
| Other accounts and accruals, and other liabilities | — | — | — | — | (7,221) | (7,221) |
| Loan capital | — | — | (970) | — | — | (970) |
| Minority interest | — | — | — | — | (19) | (19) |
| Shareholders' funds | — | — | — | — | (5,680) | (5,680) |
| | <u>(40,944)</u> | <u>(2,803)</u> | <u>(3,864)</u> | <u>—</u> | <u>(14,553)</u> | <u>(62,164)</u> |
| Net assets (or liabilities) | (6,181) | 5,121 | 8,160 | 3,904 | (11,004) | — |
| Net effect of off-balance sheet items (assets or (liabilities)) | (3,525) | (392) | 5,368 | (1,451) | — | — |
| Interest rate repricing gap ⁽⁵⁾ | (9,706) | 4,729 | 13,528 | 2,453 | (11,004) | — |
| Cumulative interest rate repricing gap | <u>(9,706)</u> | <u>(4,977)</u> | <u>8,551</u> | <u>11,004</u> | | |
| Profit and loss sensitivity per ⁽⁶⁾ : | | | | | | |
| 500 basis points increase | (485) | 236 | 676 | 123 | | 550 |
| 500 basis points decrease | 485 | (236) | (676) | (123) | | (550) |
| 100 basis points increase | (97) | 47 | 135 | 25 | | 110 |
| 100 basis points decrease | 97 | (47) | (135) | (25) | | (110) |
| 50 basis points increase | (49) | 24 | 68 | 12 | | 55 |
| 50 basis points decrease | 49 | (24) | (68) | (12) | | (55) |

Notes:

- (1) Assets, liabilities and the net effect of off-balance sheet items are classified into the applicable time bands based on residual maturity or repricing date, whichever is earlier.
- (2) Items that neither mature nor reprice are included in the "non interest-bearing" category. These include shareholders' funds, fixed assets, provisions for bad and doubtful debts, non interest-earning securities and other non interest-bearing assets or liabilities.
- (3) Given the Group's asset and liability positions as at 31 December 2003, the Directors believe that hypothetical changes in interest rates will primarily affect the fair value of the Group's interest-earning securities.

DESCRIPTION OF THE ASSETS AND LIABILITIES OF THE GROUP

- (4) Non interest-earning securities are mainly equity securities. No sensitivity analysis on the hypothetical changes in market prices has been prepared as the impact of changes cannot be easily quantified.
- (5) Equal to the sum of total assets minus total liabilities and capital resources and net effect of off-balance sheet items (assets or liabilities).
- (6) The sensitivity analysis above sets forth, for the repricing period indicated, the impact of changes in interest rates on the net interest income of the total portfolio. For example, if interest rates increased by 100 basis points, the Group expects that the net interest income of the total portfolio within three months as at 31 December 2003 would decrease by HK\$97 million. This sensitivity analysis is for risk management purposes and assumes that no other changes were made to the portfolio. Actual changes in the net interest income may vary from the sensitivity analysis.

Foreign Exchange Risk Management

The Group has limited foreign exchange exposures as foreign exchange positions and foreign currency balances arising from customer transactions are normally offset against other customer transactions or transactions with the market. The Group's assets and liabilities are primarily denominated in Hong Kong dollars or U.S. dollars. The net exposure positions, both by individual currency and in aggregate, are managed by the treasury division on a daily basis within established foreign exchange limits.

Long-term foreign currency funding, to the extent that this is used to fund Hong Kong dollar assets, is normally hedged using currency swaps or forward exchange agreements to reduce the foreign exchange risk.

The following table sets out the Group's net foreign exchange positions in U.S. dollars which constitute more than 10% of the total net position in all foreign currencies as at 31 December 2001, 2002 and 2003. The next largest net foreign exchange position as at the same dates is also shown:

| | As at 31 December | | | | | |
|----------------------------------|--------------------------------------|-----------------|---------------------|--------------------|---------------------|--------------------|
| | 2003 | | 2002 | | 2001 | |
| | US\$ | AU\$ | US\$ | JP¥ | US\$ | JP¥ |
| | <i>(equivalent in HK\$ millions)</i> | | | | | |
| Spot assets | 35,183 | 2,564 | 25,168 | 5,161 | 20,757 | 2,555 |
| Spot liabilities | (34,695) | (2,588) | (24,871) | (5,180) | (20,522) | (2,570) |
| Forward purchases | 36,280 | 2,657 | 33,364 | 9,209 | 20,847 | 3,888 |
| Forward sales | (35,204) | (2,625) | (30,588) | (9,216) | (19,064) | (3,903) |
| Net long/(short) position | <u>1,564</u> | <u>8</u> | <u>3,073</u> | <u>(26)</u> | <u>2,018</u> | <u>(30)</u> |

Risks Associated with Derivative Instruments

Derivatives are contracts whose characteristics and value derive from underlying financial instruments, interest rates, exchange rates or indices. They include futures, forwards, swaps and options transactions in the foreign exchange and interest rate markets. Derivatives are important risk management tools for banks and their customers because they can be used to manage the risk of price, interest rate and exchange rate movements.

The Group enters into derivative contracts in the normal course of business to meet customer requirements and to manage its own exposure to fluctuations in interest and exchange rates and for trading and yield enhancement.

The credit risk arising from a derivative contract is calculated by taking the cost of replacing the contract, where its mark-to-market value is positive, together with an estimate for the potential future change in the value of the contract. The credit risk on contracts with a negative mark-to-market value is restricted to the potential future change in their market value. The credit risk on derivatives is therefore usually small, relative to their notional principal values.

Operational Risk Management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The Group's Management Committee, which comprises the Company's Chief Executive, all division heads and deputy division heads, provides a key management control role in guiding the initiation and implementation of policies and procedures related to the operations and activities of the Group, co-ordinating the work of the divisions, prioritising projects and tasks, resolving internal issues and enhancing operational control. Ongoing information technology security reviews, upgrades and audits help strengthen the core system and security reliability. To sustain a high degree of operational robustness and continuity for the critical businesses and processes of the Group, measures to strengthen business continuity planning, readiness and effectiveness have been adopted.

The Group's operational risk capabilities and systems have been reviewed against the proposed requirements of Basel II.

Business units are required to monitor their operational risks using Group and business level standards and indicators. Where appropriate, issues must be reported to business heads and the Head of Operations. The Group purchases insurance where appropriate to address operational risk inherent to its business activities.

The Role of Internal Audit

The Group's Internal Audit Division is an independent, objective assurance and consulting unit which is designed to focus on enhancing and sustaining sound internal control in all business and operational units of the Group. The Internal Audit Division reports functionally to the Audit Committee which is chaired by an independent non-executive Director. The Internal Audit Division conducts a wide variety of internal control activities such as compliance audits and operations and systems reviews to ensure the integrity, efficiency and effectiveness of the systems of control of the Group.

FUTURE PLANS AND STRATEGY

The Group's strategy is to expand the Group's banking and financial services businesses and to deliver value to Shareholders and customers, whilst maintaining its prudent approach to financial discipline and risk.

Opportunities for Growth

- The Group intends to grow organically with a particular focus on:

- *Increasing its customer base:*

The Group intends to continue its strategy of focusing on the personal banking market where it believes there are attractive opportunities for growth. This will involve increasing the Group's customer base both through consumer lending products such as credit cards and personal loans, as well as wealth management products and services;

- *Selling more products and services to its existing customers:*

The Group intends to make full use of its substantial customer base by cross-selling additional products and services. It also intends to continue its efforts to increase distribution of its products and services through improved service quality and as a result of the training of its staff;

- *Identifying new business areas with attractive risk-return characteristics:*

The Group will continue to seek attractive new areas of business. For example, recent initiatives have included a significant increase in the Group's wealth management business and increased investments in debt securities in the wholesale banking market;

- *Diversifying its business so as not to be overly dependent on any single business area:*

The Group will continue to seek to operate in a variety of different business areas with different risk characteristics, so as to gain the benefits of risk diversification, as well as being able to generate positive returns in a range of different market conditions; and

- *Expanding in Mainland China:*

The Group believes that there will be many opportunities which will arise as a result of Hong Kong's increasing business and economic integration with Mainland China. It has already opened its first Mainland China branch in Shenzhen, and will continue to seek opportunities for further expansion in Mainland China as and when they become available.

FUTURE PLANS AND USE OF PROCEEDS

- The Group intends to seek opportunities to expand through:

- *Mergers and/or acquisitions in Hong Kong:*

Consolidation in the Hong Kong banking market is expected to continue, and it is the Group's strategy to actively pursue opportunities that may arise in this regard. The Group intends, however, to maintain financial discipline in any merger and/or acquisition, with a view to ensuring that such transaction brings financial benefits to the Group; and

- *Investments, joint ventures and/or alliances in Mainland China:*

Whilst organic growth is the primary strategy as regards expansion in Mainland China, it is also anticipated that there may be opportunities to make investments, or enter into joint ventures or alliances. These will be considered on a case-by-case basis, and would be expected to provide strategic benefits as well as financial benefits to the Group.

Financial Discipline and Risk Management

- The Group aims to grow in an efficient and disciplined manner through:
 - The expansion of those areas of its business that provide attractive returns within the risk levels, which are acceptable to the management and the Board;
 - A continued focus on risk management, ensuring that appropriate risk management systems and controls are in place for existing and new business areas and that such systems and controls are effective; and
 - A continued focus on cost control and efficiency improvements, in particular through close attention to detail regarding costs and the benefits of economies of scale as the Group's businesses grow.

USE OF PROCEEDS

The net proceeds with respect to the New Shares pursuant to the Global Offering (after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Global Offering, assuming that the Over-allotment Option is not exercised and assuming a price of HK\$13.26 per Share, being the midpoint of the stated Offer Price range of HK\$12.66 to HK\$13.86 per Share) are estimated to be approximately HK\$1,275 million (or if the Over-allotment Option is exercised in full, approximately HK\$1,469 million).

FUTURE PLANS AND USE OF PROCEEDS

The net proceeds received by the Company pursuant to the Global Offering will form part of the assets of the Group and will, together with its other assets, be deployed in its existing banking businesses in furtherance of the strategy of the Group as set out in the section above headed “Future Plans and Strategy”. Whilst the Group intends to grow in the future by expanding in Mainland China and seeking opportunities to expand through mergers and/or acquisitions in Hong Kong or investments, joint ventures and/or alliances in Mainland China, pending the identification of any specific opportunity in this regard, none of the proceeds of the Global Offering have been earmarked for such use.

The net proceeds with respect to the Sale Shares pursuant to the Global Offering (after deduction of underwriting fees and estimated expenses payable by DSFH in relation to the Global Offering, assuming that the Over-allotment Option is not exercised and assuming a price of HK\$13.26 per Share, being the midpoint of the stated Offer Price range of HK\$12.66 to HK\$13.86 per Share) are estimated to be approximately HK\$1,043 million (or if the Over-allotment Option is exercised in full, approximately HK\$1,202 million).

REASONS FOR THE LISTING

REASONS FOR THE LISTING

The purpose of seeking a listing of the Shares on the Stock Exchange is to:

- facilitate the Company and its banking subsidiaries to:
 - raise additional capital for organic growth on cost efficient terms through ready and varied access to the capital markets;
 - acquire new businesses for shares or cash;
 - form alliances and joint ventures and/or make investments in banking-related businesses in Mainland China supervised by the CBRC; and
 - attract and incentivise management; and
- enable the Company to take advantage of the many new opportunities which are expected to arise as a result of the improvement in the Hong Kong economy and Hong Kong's increasing business and economic integration with Mainland China, including opportunities arising out of CEPA.

UNDERWRITING

PUBLIC OFFER UNDERWRITERS

The Hongkong and Shanghai Banking Corporation Limited
CLSA Limited
Dah Sing Financial Holdings Limited

INTERNATIONAL PLACING UNDERWRITERS

The Hongkong and Shanghai Banking Corporation Limited
CLSA Limited
Dah Sing Financial Holdings Limited
Fox-Pitt, Kelton N.V.
Daiwa Securities SMBC Hong Kong Limited

PREFERENTIAL OFFER UNDERWRITERS

The Hongkong and Shanghai Banking Corporation Limited
CLSA Limited
Dah Sing Financial Holdings Limited
Fox-Pitt, Kelton N.V.
Daiwa Securities SMBC Hong Kong Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

The Public Offer Shares are being offered for subscription on, and subject to, the terms and conditions of this prospectus and the Application Forms. Subject to the Listing Committee granting the listing of, and permission to deal in, the Offer Shares as mentioned herein and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have agreed severally and not jointly to subscribe, or procure subscribers for, the Public Offer Shares which are being offered but are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

Grounds for Termination

The obligation of the Public Offer Underwriters to purchase or procure purchasers for the Public Offer Shares is subject to termination if, at any time prior to 8:00 a.m. on the day on which dealings in the Shares commence on the Stock Exchange:

- (i) there has been a breach of any of the representations, warranties, agreements and undertakings given by the Company or DSFH in the Public Offer Underwriting Agreement or there has been a breach by the Company or DSFH of any of the provisions of the Public Offer Underwriting Agreement; or

UNDERWRITING

- (ii) any matter has arisen or has been discovered which would, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitute an omission therefrom; or
- (iii) any statement contained in this prospectus has become, or been discovered to be, untrue, incorrect or misleading in any respect; or
- (iv) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of any of the Company or DSFH pursuant to the indemnities referred to in the Public Offer Underwriting Agreement; or
- (v) there shall have been any adverse change or prospective adverse change in the business or the financial or trading position of any member of the Group; or
- (vi) there shall have developed, occurred, happened or come into effect any event or series of events, matters or circumstances concerning or relating to:
 - (a) any change in, or any event or series of events likely to result in any change in, local, national or international financial, political, economic, military, industrial, fiscal, regulatory, currency or market conditions or equity securities or stock or other financial market conditions or any monetary or trading settlement system (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the United States) in Hong Kong, the United States, the United Kingdom, Taiwan or the PRC; or
 - (b) any new law, rule, statute, ordinance, regulation, guideline or circular (in each case, to the extent mandatory or, if not complied with, the basis for legal or regulatory consequences), order, judgment, decree or ruling of any public, regulatory, taxing, administrative or governmental, agency or authority (including, without limitation, the Stock Exchange and the SFC) and any court at the national, provincial, municipal or local level (“Governmental Authority”) or change in existing laws, rules, statutes, ordinances, regulations, guidelines or circulars (in each case, to the extent mandatory or, if not complied with, the basis for legal or regulatory consequences), orders, judgments, decrees or rulings of any Governmental Authority or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or the PRC; or
 - (c) any event of *force majeure* affecting Hong Kong, the United States, the United Kingdom, Taiwan, or the PRC including, without limiting the generality thereof, any act of God, war, outbreak or escalation of hostilities (whether or not war is declared) or act of terrorism, or declaration of a national or international emergency or war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, outbreak of an infectious disease, calamity, crisis, strike or lock-out (whether or not covered by insurance); or

UNDERWRITING

- (d) the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange, the London Stock Exchange or the New York Stock Exchange or any suspension of trading of any of the securities of DSFH on any exchange or any major disruption of any securities settlement or clearing services in Hong Kong or on commercial banking activities in Hong Kong, due to exceptional financial circumstances or otherwise; or
- (e) a change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the United States, the United Kingdom, Japan or the PRC,

which, in the sole opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters):

- (1) is or will be, or is likely to be, materially adverse to the general affairs, management, business, financial, trading or other condition or prospects of the Group or to any present or prospective Shareholder in its capacity as such; or
- (2) has or will have, or is likely to have, a material adverse impact on the success of the Global Offering or the level of Offer Shares applied for or accepted or purchased or the distribution of the Offer Shares or dealings in the Shares in the secondary market; or
- (3) makes it impracticable, inadvisable or inexpedient to proceed with the Public Offer and/or the Placing on the terms and in the manner contemplated by this prospectus and the Application Forms,

then the Joint Bookrunners, in their sole and absolute discretion, may, on behalf of the Public Offer Underwriters, upon giving notice in writing to the Company and DSFH on or prior to 8:00 a.m. on the day on which dealings in the Shares commence on the Stock Exchange (with a copy of such notice to the other Public Offer Underwriters), terminate the Public Offer Underwriting Agreement with immediate effect.

Undertakings

DSFH has undertaken to the Stock Exchange and the Company that except pursuant to the Global Offering or the Over-allotment Option:

- (i) it will not, without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, during the period commencing on the Latest Practicable Date and ending on the date which is six months from the day on which dealings in the Shares first commence on the Stock Exchange (the “First Six-Month Period”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances, in respect of any of the Shares in respect of which DSFH is shown by this prospectus to be the beneficial owner (the “Parent Shares”); and

UNDERWRITING

- (ii) it will not, without the prior written consent of the Stock Exchange, in the six-month period commencing from the expiry of the First Six-month Period (the “Second Six-month Period”) dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Parent Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, DSFH would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company.

Pursuant to the Public Offer Underwriting Agreement and the International Underwriting Agreement, the Company has undertaken to each of the Public Offer Underwriters and the Placing Underwriters, respectively, that, except pursuant to the Global Offering and the exercise of the Over-allotment Option and except pursuant to any share option scheme of any member of the Group, the Company will not, and DSFH shall procure that the Company will not, without the prior written consent of the Joint Bookrunners (on behalf of the Public Offer Underwriters and the Placing Underwriters) and unless in compliance with the Listing Rules:

- (a) at any time after the date of the Public Offer Underwriting Agreement and the International Underwriting Agreement, respectively, up to and including the date falling six months after the date on which dealings in the Shares first commence on the Stock Exchange, (i) offer, accept subscription for, pledge, issue, sell, lend, mortgage, assign, charge, contract to issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any of the share capital or other securities of the Company or any interest therein (including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i), (ii) or (iii) above, whether any such transaction described in (i) or (ii) or (iii) above is to be settled by delivery of Shares or other securities, in cash or otherwise; and
- (b) enter into any of the foregoing transactions in paragraphs (a)(i), (ii) and (iii) above, or agree or contract to or publicly announce any intention to enter into any such transaction, such that DSFH would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company during the Second Six-Month Period.

Further, DSFH has undertaken to the Public Offer Underwriters and the Placing Underwriters, respectively, that, save as pursuant to the offer for sale of the Sale Shares under the Global Offering or the Over-allotment Option or any stock borrowing arrangements agreed between DSFH and the Global Co-ordinator in connection with the Global Offering:

- (a) at any time after the date of the Public Offer Underwriting Agreement and the International Underwriting Agreement, respectively, up to and including the date falling

UNDERWRITING

six months after the date on which dealings in the Shares first commence on the Stock Exchange, it will not, without the prior written consent of the Joint Bookrunners (on behalf of the Public Offer Underwriters and the Placing Underwriters) and unless in compliance with the Listing Rules, (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any option, right, interest or encumbrance in respect of), either directly or indirectly, conditionally or unconditionally, any share capital or other securities of the Company or any interest therein (including, but not limited to, any securities that are convertible into or exchangeable for, or that represent the right to receive, any such capital or securities or any interest therein); or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such capital or securities or any interest therein; or (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in (i) or (ii) or (iii) above, whether any such transaction described in (i) or (ii) or (iii) above is to be settled by delivery of such capital or securities, in cash or otherwise;

- (b) during the Second Six-Month Period, it will not enter into any of the forgoing transactions in paragraphs (a)(i), (ii) and (iii) above, or agree or contract to or publicly announce any intention to enter into any such transactions if, immediately following such transfer or disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, DSFH will cease to be a controlling shareholder (as the term is defined in the Listing Rules) of the Company; and
- (c) until the expiry of the Second Six-Month Period, in the event that it enters into any of the forgoing transactions in paragraphs (a)(i), (ii) and (iii) above, or agrees or contracts to, or publicly announces an intention to enter into such transactions, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the Shares.

DSFH has undertaken to the Company, the Joint Bookrunners and the Stock Exchange that, at any time on or after the Latest Practicable Date up to and including the date falling 12 months from the day on which dealings in the Shares commence on the Stock Exchange, it shall (i) if and when it pledges or charges any securities or interests in the securities of the Company beneficially owned by it in favour of an authorized institution for a *bona fide* commercial loan, immediately inform the Company, the Joint Bookrunners and the Stock Exchange in writing of such pledge or charge, together with the number of securities so pledged or charged; and (ii) if and when it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company will be disposed of, immediately inform the Company, the Joint Bookrunners and the Stock Exchange in writing of such indications. The Company has undertaken that upon receiving such information mentioned in (i) and (ii) of this paragraph in writing from DSFH, the Company shall, as soon as practicable, notify the Stock Exchange and make a public disclosure in relation to such information by way of an announcement which is published in the newspapers.

UNDERWRITING

Commission and Expenses

The Public Offer Underwriters will receive a commission of 2.5% of the aggregate Offer Price payable for the Public Offer Shares initially offered under the Public Offer (after deducting the number of unsubscribed Public Offer Shares (if any), which are reallocated to the International Placing), out of which they will pay any sub-underwriting commissions. For unsubscribed Public Offer Shares reallocated to the International Placing, the Company will pay commission at the rate applicable to the International Placing and such commission will be paid to the International Placing Underwriters and not the Public Offer Underwriters.

Public Offer Underwriters' interest in the Company

Save for its obligations under the Public Offer Underwriting Agreement, none of the Public Offer Underwriters (other than DSFH) has any shareholding interests in the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company.

INTERNATIONAL PLACING

International Underwriting Agreement

In connection with the Placing, the Company and DSFH expect to enter into the International Underwriting Agreement with the Placing Underwriters. Under the International Underwriting Agreement, (i) the International Placing Underwriters to be named therein would agree severally (but not jointly or jointly and severally) to purchase, or procure purchasers for, the International Placing Shares; and (ii) under the Preferential Offer, the Preferential Offer Underwriters would severally agree to subscribe, or procure subscribers for, the Reserved Shares.

Under the International Underwriting Agreement, the Company and DSFH intend to grant to the Global Co-ordinator the Over-allotment Option, exercisable at the sole and absolute discretion by the Global Co-ordinator from the day on which dealings in the Shares commence on the Stock Exchange until the thirtieth day after the date of this prospectus under the Public Offer, to require the Company to allot and issue, and DSFH to sell, up to an aggregate of 27,300,000 additional Shares, representing 15% of the maximum number of Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price and will be solely for the purpose of covering over-allocations in the International Placing, if any.

TOTAL EXPENSES

Assuming an Offer Price of HK\$13.26 per Share (being the midpoint of the stated Offer Price range of HK\$12.66 to HK\$13.86 per Share), the aggregate commissions and fees, together with Stock Exchange listing fees, SFC transaction levy of 0.005%, investor compensation levy of 0.002%, Stock Exchange trading fee of 0.005%, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount in aggregate to approximately HK\$95 million (assuming that the Over-allotment Option is not exercised) in total. Such commissions, fees and expenses are payable by the Company and DSFH.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published solely in connection with the Public Offer and the Placing as part of the Global Offering. HSBC is the Global Co-ordinator and, with CLSA, the Joint Bookrunner and Joint Lead Manager of the Global Offering.

The Global Offering consists of (subject to reallocation and Over-allotment Option adjustment):

- the Public Offer of 18,200,000 Shares (subject to reallocation as mentioned below) in Hong Kong as described in the section below headed “The Public Offer”;
- the International Placing of 136,500,000 Shares (subject to reallocation and Over-allotment Option adjustment as mentioned below) outside the United States in reliance on Regulation S; and
- the Preferential Offer of 27,300,000 Shares (subject to reallocation as mentioned below) to Qualifying DSFH Shareholders on an assured basis.

Of the total of 182,000,000 Shares comprised in the Global Offering (assuming that the Over-allotment Option is not exercised), the Company is offering 100,100,000 Shares and DSFH is offering 81,900,000 Shares.

Investors may either apply for the Shares under the Public Offer or indicate an interest, if qualified to do so, for the Shares under the International Placing, but may not do both. However, investors applying for Public Offer Shares under the Public Offer may also apply for Reserved Shares under the Preferential Offer. The Public Offer is open to members of the public in Hong Kong including institutional and professional investors in Hong Kong. The International Placing will involve selective marketing of the Shares to institutional and professional investors and other investors for the Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Shares in the International Placing. Prior to the Price Determination Date, prospective investors will be required to specify the number of Shares under the International Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or before Thursday, 24 June 2004.

The number of Shares to be offered under the Public Offer and the Placing may be subject to reallocation as described in the section below headed “Pricing and Allocation”.

PRICING AND ALLOCATION

The Offer Price is expected to be fixed by agreement between the Company, DSFH and the Joint Bookrunners (on behalf of the Public Offer Underwriters) on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, 25 June 2004 and in any event, no later than Monday, 28 June 2004.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Offer Price will not be more than HK\$13.86 and is expected not to be less than HK\$12.66, unless otherwise announced not later than the morning of the last day for lodging applications under the Public Offer and the Preferential Offer, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the stated Offer Price range stated in this prospectus.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Joint Bookrunners (on behalf of the Underwriters and with the consent of DSFH and the Company) consider it appropriate, the stated Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer and the Preferential Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer and the Preferential Offer on Thursday, 24 June 2004, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction in the stated Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed “Summary — Offer Statistics” in this prospectus, and any other financial information which may change as a result of such reduction. Before submitting applications for Public Offer Shares or Reserved Shares, applicants should have regard to the possibility that any announcement of a reduction in the stated Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer and the Preferential Offer. If applications for the Public Offer Shares and the Reserved Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer and the Preferential Offer, respectively, then even if the stated Offer Price range is so reduced, such applications cannot be subsequently withdrawn.

The Shares to be offered in the Public Offer and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Bookrunners. The Shares to be offered in the Preferential Offer may in the event of an under-subscription in the Preferential Offer, be reallocated to the International Placing at the discretion of the Joint Bookrunners.

Allocation of Shares pursuant to the International Placing will be determined by the Joint Bookrunners and will be based on a number of factors including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell Shares after the listing of the Shares on the Stock Exchange. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid Shareholder base to the benefit of the Company and the Shareholders as a whole.

Allocation of Shares pursuant to the Preferential Offer will be made in accordance with the procedure set out under the section below headed “Preference to shareholders of DSFH”.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

Allocation of Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by each applicant, but will be made in board lots of 400 Shares strictly on a pro-rata basis. The allocation of Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The net proceeds from the Global Offering accruing to the Company are estimated to be approximately HK\$1,275 million. The estimated net proceeds are calculated assuming an Offer Price of HK\$13.26 per Share (being the midpoint of the stated Offer Price range of HK\$12.66 to HK\$13.86 per Share) and after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Global Offering, assuming that the Over-allotment Option is not exercised.

The net proceeds from the Global Offering accruing to DSFH are estimated to be approximately HK\$1,043 million. The estimated net proceeds are calculated assuming an Offer Price of HK\$13.26 per Share (being the midpoint of the stated Offer Price range of HK\$12.66 to HK\$13.86 per Share) and after deduction of underwriting fees and estimated expenses payable by DSFH in relation to the Global Offering, assuming that the Over-allotment Option is not exercised.

The applicable Offer Price, level of applications in the Public Offer, level of subscription in the Placing and the basis of allocations of the Public Offer Shares are expected to be announced on Tuesday, 29 June 2004 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

CONDITIONS OF THE PUBLIC OFFER

Acceptance of all applications for the Public Offer Shares pursuant to the Public Offer will be conditional on:

- (a) the granting by the Listing Committee of listing of, and permission to deal in, the Shares in issue, the Offer Shares (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option, subject only to allotment) and any Shares which may be issued pursuant to the exercise of any options that may be granted under the Share Option Scheme not later than Sunday, 18 July 2004 and such listing and permission not subsequently having been revoked prior to the date of Listing;
- (b) the execution and delivery of the International Underwriting Agreement on or before the Price Determination Date;
- (c) the obligations of the Underwriters under each of the Public Offer Underwriting Agreement and the International Underwriting Agreement having become unconditional and not having been terminated in accordance with their respective terms, in each case on or before the dates and times specified in the respective agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Sunday, 18 July 2004;

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

- (d) the representations, warranties, agreements and undertakings to be given by the Company and DSFH being true and accurate on and as of the date of the Public Offer Underwriting Agreement and the dates on which they are deemed to be repeated under the Public Offer Underwriting Agreement (as though they had been given and made on such date by reference to the facts and circumstances then subsisting); and
- (e) each of the Company and DSFH having complied with the Public Offer Underwriting Agreement and satisfied all the obligations and conditions on its part under the Public Offer Underwriting Agreement to be performed or satisfied on or prior to the respective times and dates by which such obligations must be performed or conditions met.

If for any reason, the Offer Price is not agreed by Monday, 28 June 2004 between the Company, DSFH and the Joint Bookrunners (on behalf of the Public Offer Underwriters), the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Global Offering will be published by the Company in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to Apply for Public Offer Shares and Reserved Shares" in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

THE PUBLIC OFFER

The Company is initially offering 18,200,000 Shares at the Offer Price, representing 10% of the 182,000,000 Shares initially available under the Global Offering, for subscription by the public in Hong Kong including eligible employees of the Group. Subject to adjustment as mentioned below, the number of Shares offered under the Public Offer will represent 2% of the Company's total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Offer Shares through the Public Offer and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Placing will not be allotted Offer Shares in the International Placing.

The Joint Bookrunners (on behalf of the Public Offer Underwriters) may require any investor who has been offered Shares under the International Placing and who has made an application under the Public Offer to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant application under the Public Offer and to ensure that it is excluded from any application for Shares under the Public Offer.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

The Offer Price will not be more than HK\$13.86 and is not expected to be less than HK\$12.66. Applicants under the Public Offer are required to pay, on application, the Maximum Offer Price plus 1% brokerage fee, 0.005% SFC transaction levy, 0.002% investor compensation levy and 0.005% Stock Exchange trading fee. If the Offer Price on the Price Determination Date is lower than HK\$13.86, being the Maximum Offer Price, the Company will refund the respective difference (including the brokerage fee, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in the section headed “How to Apply for Public Offer Shares and Reserved Shares” in this prospectus.

For allocation purposes only, the 18,200,000 Shares initially being offered for subscription under the Public Offer (after taking into account any reallocation in the number of Offer Shares allocated between the Public Offer and the International Placing) less any Public Offer Shares validly applied for by eligible employees of the Group in Hong Kong on the **pink** Application Forms will be divided equally into two pools: pool A and pool B. Assuming that all the 1,820,000 Public Offer Shares are validly applied for by eligible employees of the Group in Hong Kong on the **pink** Application Forms and no reallocation in the number of Offer Shares allocated between the Public Offer and the International Placing, pool A will initially comprise 8,190,000 Public Offer Shares and pool B will initially comprise 8,190,000 Public Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Public Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee) of HK\$5 million or below will fall into pool A and all valid applications that have been received for Public Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee) of more than HK\$5 million and up to the total value of pool B, will fall into pool B.

Applicants should be aware that applications in pool A and pool B are likely to receive different allocation ratios. If Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Public Offer Shares from either pool A or pool B, but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than 50% of the Public Offer Shares initially being offered for subscription under the Public Offer after deducting the 1,820,000 Public Offer Shares available for subscription by eligible employees of the Group in Hong Kong using the **pink** Application Forms (that is, 8,190,000 Public Offer Shares) are liable to be rejected.

The allocation of Shares between the Public Offer and the International Placing is subject to reallocation. If the number of Offer Shares validly applied for in the Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Shares initially available for subscription under the Public Offer, the total number of Shares available under the Public Offer will be increased to 54,600,000, 72,800,000 and 91,000,000 Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

available for subscription under the Global Offering (assuming that the Over-allotment Option is not exercised). In such cases, the number of Shares allocated in the International Placing will be correspondingly reduced, in such manner as the Joint Bookrunners deem appropriate and such additional Shares will be allocated to pool A and pool B.

If the Public Offer Shares are not fully subscribed, the Joint Bookrunners have the authority to reallocate all or any unsubscribed Public Offer Shares to the International Placing, in such proportions as the Joint Bookrunners deem appropriate.

THE PLACING

The number of Shares to be initially offered for subscription or sale under the International Placing will be 136,500,000 Shares, representing 75% of the Offer Shares and the number of Shares to be initially offered for subscription under the Preferential Offer will be 27,300,000, representing 15% of the Offer Shares. The Placing is subject to the Public Offer being unconditional.

Pursuant to the International Placing, the International Placing Underwriters will conditionally place the Shares with institutional and professional investors and other investors in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S.

The Company and DSFH expect to grant the Over-allotment Option to the Global Co-ordinator from the day on which dealings in the Shares commence on the Stock Exchange until the thirtieth day after the date of this prospectus. A press announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, the Global Co-ordinator will have the right to require the Company to allot and issue, and DSFH to sell, up to an aggregate of 27,300,000 additional Shares, representing in aggregate 15% of the initial Offer Shares, at the Offer Price, solely to cover over-allocations in the International Placing, if any. If exercised, the Over-allotment Option will be satisfied by the allotment and issue of Shares by the Company as to 55% and by the sale of Shares by DSFH as to 45%.

PREFERENCE TO EMPLOYEES OF THE GROUP

1,820,000 Public Offer Shares (initially representing 1% of the Offer Shares and 0.2% of the total issued share capital of the Company immediately after completion of the Global Offering, assuming the Over-allotment Option is not exercised) will be offered by the Company at the Offer Price (plus 1% brokerage fee, 0.005% SFC transaction levy, 0.002% investor compensation levy and 0.005% Stock Exchange trading fee) on a preferential basis as to allocation only to certain employees of the Group in Hong Kong. If these Public Offer Shares are not fully subscribed, the Joint Bookrunners may, in their absolute discretion, reallocate these Public Offer Shares to the Public Offer.

STRUCTURE AND CONDITIONS OF THE GLOBAL OFFERING

PREFERENCE TO SHAREHOLDERS OF DSFH

In order to enable shareholders of DSFH to participate in the Global Offering on a preferential basis as to allocation only, Qualifying DSFH Shareholders are being invited to apply for an aggregate of 27,300,000 Reserved Shares (representing 15% of the Offer Shares and 3% of the total issued share capital of the Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised) in the Placing on an assured basis.

In order to comply with Rule 10.03(1) of the Listing Rules, no Reserved Shares will be offered to Directors or any of their associates to the extent that they are Qualifying DSFH Shareholders. Instead, Reserved Shares to which such shareholders would have been entitled will be reallocated under the Preferential Offer. As a result, Qualifying DSFH Shareholders are entitled to subscribe at the Offer Price for one Reserved Share for every whole multiple of five DSFH Shares held by them at the close of business on the Record Date. Any Qualifying DSFH Shareholder holding less than five DSFH Shares will not be entitled to apply for the Reserved Shares.

The Assured Entitlements may represent Shares not in a multiple of a full board lot of 400 Shares, and dealings in odd lots of the Shares may be at below their prevailing market price.

A **blue** Application Form is being despatched to each Qualifying DSFH Shareholder with an Assured Entitlement together with a copy of this prospectus. Qualifying DSFH Shareholders are permitted to apply for a number of Reserved Shares which is greater than, less than, or equal to, their Assured Entitlements under the Preferential Offer. A valid application in respect of a number of Reserved Shares which is less than or equal to a Qualifying DSFH Shareholder's Assured Entitlement will be accepted in full, subject as mentioned in the **blue** Application Form. Where a Qualifying DSFH Shareholder applies for a number of Reserved Shares greater than his Assured Entitlement, his Assured Entitlement will be satisfied in full, subject as mentioned above, but the excess portion of such application will only be met to the extent that there are sufficient available Reserved Shares resulting from other Qualifying DSFH Shareholders declining to take up some or all of their Assured Entitlements. The Joint Bookrunners will allocate any Reserved Shares not taken up by Qualifying DSFH Shareholders first to satisfy the excess applications for Reserved Shares from Qualifying DSFH Shareholders on a fair and reasonable basis and thereafter, at the discretion of the Joint Bookrunners, they may allocate all or any of such Reserved Shares from the Preferential Offer to the International Placing.

DEALING ARRANGEMENTS

Assuming that the Public Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 30 June 2004, it is expected that dealings in Shares on the Stock Exchange will commence at 9:30 a.m. on Wednesday, 30 June 2004.

UNDERWRITING ARRANGEMENTS

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement, subject to agreement on the Offer Price between the Joint Bookrunners (on behalf of the Public Offer Underwriters), DSFH and the Company on the Price Determination Date.

The Company expects on or about the Price Determination Date, shortly after determination of the Offer Price, to enter into the International Underwriting Agreement relating to the Placing.

Underwriting arrangements, the Public Offer Underwriting Agreement and the International Underwriting Agreement are summarised in the section headed “Underwriting” in this prospectus.

(A) HOW TO APPLY FOR PUBLIC OFFER SHARES

There are two ways to make an application for the Public Offer Shares. You may either use an Application Form or you may **electronically** instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC.

1. Applying by Using an Application Form

Which Application Form to use

Use a **white** Application Form if you want the Public Offer Shares issued in your own name.

Use a **yellow** Application Form if you want the Public Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Use a **pink** Application Form if you are an eligible employee of the Group in Hong Kong and want your application to be given preferential consideration. Up to 1,820,000 Offer Shares (being 10% of the Public Offer Shares initially available for subscription under the Global Offering) are available to eligible employees of the Group in Hong Kong on this basis.

The Public Offer Shares are not available to existing beneficial owners of Shares, the directors or chief executive of the Company or any of its subsidiaries, or associates of any of them or U.S. persons (as defined in Regulation S) or persons who do not have a Hong Kong address.

Where to Collect the Application Forms

You can collect a **white** Application Form and a prospectus from:

Any participant of the Stock Exchange

Joint Lead Managers

The Hongkong and Shanghai Banking
Corporation Limited

Level 15,
1 Queen's Road Central,
Hong Kong

CLSA Limited

18th Floor,
One Pacific Place,
88 Queensway,
Hong Kong

HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

Co-Lead Manager

Dah Sing Financial Holdings Limited

36th Floor,
Dah Sing Financial Centre,
108 Gloucester Road,
Hong Kong

or any of the following branches of HSBC:

| | | |
|--------------------------|---------------------------------|---|
| <i>Hong Kong Island:</i> | Hong Kong Main Branch | Level 3, 1 Queen's Road Central, Central |
| | 128 Queen's Road Central Branch | V-Heun Building, 128-140 Queen's Road Central, Central |
| | North Point Branch | G/F, Winner House, 306-316 King's Road, North Point |
| <i>Kowloon:</i> | Festival Walk Branch | Shop LG1-37, Festival Walk, 80 Tat Chee Avenue, Kowloon Tong |
| | Mongkok Branch | 673 Nathan Road, Mongkok |
| | Tsim Sha Tsui Branch | 82-84 Nathan Road, Tsim Sha Tsui |
| <i>New Territories:</i> | Shatin City One Branch | Shop Nos. 138-140, 1/F, City One Plaza, Shatin |
| | Tuen Mun Town Plaza Branch | Shop 1, UG/F, Shopping Arcade Phase II, Tuen Mun Town Plaza, Tuen Mun |

or any of the following branches of Dah Sing Bank:

| | | |
|--------------------------|------------------------|---|
| <i>Hong Kong Island:</i> | Causeway Bay Branch | Thai Kong Building, 482 Hennessy Road, Causeway Bay |
| | Central Branch | Worldwide House, 19 Des Voeux Road, Central |
| | Gloucester Road Branch | Ground Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai |

HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

| | | |
|-------------------------|--|---|
| <i>Kowloon:</i> | Mongkok Branch Telford Gardens Branch Tsim Sha Tsui Branch | 697 Nathan Road, Mongkok Units F5A-F6A, Level 2, Telford Plaza 1, Kowloon Bay Shops E and F, Golden Crown Court, 66-70 Nathan Road, Tsim Sha Tsui |
| <i>New Territories:</i> | Shatin Branch Tsuen Wan Branch | Shop 9, Level 1, Lucky Plaza, 1-15 Wong Pok Street, Shatin Dang Fat Mansion, 14-16 Tai Ho Road, Tsuen Wan |

You can collect a **yellow** Application Form and a prospectus from:

- (i) the **Depository Counter of HKSCC** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong;
- (ii) the **Customer Service Centre of HKSCC** at Upper Ground Floor, V-Heun Building, 128-140 Queen's Road Central, Hong Kong; or
- (iii) your broker, who may have such Application Forms and the prospectus available.

Eligible employees of the Group in Hong Kong can collect a **pink** Application Form and a prospectus from the Human Resources Division or the company secretary of the Company, Ms Hoi-Lun Soo (Helen Soo), on 37th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Hong Kong.

How to Complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by signing the Application Form, amongst other things:

- (i) you agree with the Company and each of the Shareholders, and the Company agrees with each Shareholder, to observe and comply with the Companies Ordinance and the Memorandum of Association and Articles of Association;
- (ii) you agree with the Company and each of the Shareholders that the Shares are freely transferable by the holder thereof;

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- (iii) you confirm that you have only relied on the information and representations in this prospectus and the Application Form in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- (iv) you agree that the Company, HSBC, the Underwriters and their respective directors and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement hereto;
- (v) you agree (without prejudice to any other rights you may have) that once your application has been accepted, you may not revoke it other than as provided in this prospectus;
- (vi) you represent and warrant that you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act and that you are outside the United States (within the meaning of Regulation S) when completing and submitting the Application Form or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (vii) you undertake and confirm that you (if the application is made for your benefit), or the person(s) for whose benefit you have made the application, have not indicated an interest and/or applied for or taken up, and will not indicate an interest for or take up, any Shares under the International Placing;
- (viii) you agree to disclose to the Company, the Share Registrar, its receiving bankers, advisers and agents and the Joint Bookrunners personal data and any information which they require about you or the person(s) for whose benefit you have made the application; and
- (ix) you agree that the processing of your application, including the despatch of refund cheques (where applicable), may be done by any of the Company's receiving bankers and is not restricted to the bank at which your Application Form was lodged.

In order for the **yellow** Application Form to be valid:

- (i) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - (a) the designated CCASS Participant or its authorised signatories must sign in the appropriate box; and
 - (b) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

(ii) **If the application is made by an individual CCASS Investor Participant:**

- (a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card number; and
- (b) the CCASS Investor Participant must insert its participant I.D. and sign in the appropriate box in the Application Form.

(iii) **If the application is made by a joint individual CCASS Investor Participant:**

- (a) the Application Form must contain all joint CCASS Investor Participants' names and Hong Kong Identity Card numbers; and
- (b) the participant I.D. must be inserted and the authorised signatory(ies) of the CCASS Investor Participant's stock account must sign in the appropriate box in the Application Form.

(iv) **If the application is made by a corporate CCASS Investor Participant:**

- (a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Business Registration number; and
- (b) the participant I.D. and company chop (bearing its company name) endorsed by its authorised signatories must be inserted in the appropriate box in the Application Form.

Signature(s), number of signatories and form of chop, where appropriate, should match the records kept by HKSCC. Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of authorised signatory(ies) (if applicable), participant I.D. or other similar matters may render the application invalid.

If your application is made through a duly authorised attorney, the Company and the Joint Bookrunners (as the Company's agents) may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. The Company and the Joint Bookrunners in their capacity as the Company's agents will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

No joint applications are allowed for applications made using **pink** Application Forms.

Members of the Public — Time for Applying for Public Offer Shares

Completed **white** or **yellow** Application Forms, with payment attached, must be lodged by 12:00 noon on Thursday, 24 June 2004 or, if the application lists are not open on that day, by the time and date stated in the section below headed “Effect of Bad Weather on the Opening of the Applications Lists”.

Your completed **white** or **yellow** Application Form, with payment attached, should be deposited in the special collection boxes provided at any of the branches of HSBC or Dah Sing Bank listed under the section above headed “Where to Collect the Application Forms” at the following times:

Friday, 18 June 2004 — 9:00 a.m. to 4:00 p.m.
Saturday, 19 June 2004 — 9:00 a.m. to 12:00 noon
Monday, 21 June 2004 — 9:00 a.m. to 4:00 p.m.
Wednesday, 23 June 2004 — 9:00 a.m. to 4:00 p.m.
Thursday, 24 June 2004 — 9:00 a.m. to 12:00 noon

The application lists will be opened **from 11:45 a.m. to 12:00 noon on Thursday, 24 June 2004**, except as provided for in the section below headed “Effect of Bad Weather on the Opening of the Application Lists”.

No proceedings will be taken on applications for Public Offer Shares and no allotment of any such Public Offer Shares will be made until the closing of the application lists. No allotment of any of the Public Offer Shares will be made later than Sunday, 18 July 2004.

Eligible Employees — Time for Applying for Public Offer Shares

Completed **pink** Application Forms, with payment attached, must be returned to the Human Resources Division of the Company on 37th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Hong Kong by 4:00 p.m. on Wednesday, 23 June 2004.

2. Applying by Giving Electronic Application Instructions to HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling (852) 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
Upper Ground Floor
V-Heun Building
128-140 Queen's Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to the Company and its registrars.

Application for Public Offer Shares by HKSCC Nominees on your behalf

Where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **white** Application Form or this prospectus; and
- (ii) HKSCC Nominees does the following things on behalf of each such person:
 - agrees that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - undertakes and agrees to accept the Public Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - undertakes and confirms that that person has not indicated an interest for, applied for or taken up, and will not indicate an interest for or take up, any Shares under the International Placing;

HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

- represents and warrants that the person understands that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act and that the person is outside the United States (within the meaning of Regulation S) when giving **electronic application instructions** or is a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;
- understands that the above declaration will be relied upon by the Company, the Directors and the Joint Bookrunners in deciding whether or not to make any allotment of Public Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- authorises the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Public Offer Shares allotted in respect of that person's **electronic application instructions** and to send Share certificate(s) and/or refund money in accordance with the arrangements separately agreed between the Company and HKSCC;
- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf and will not rely on any other information and representations, save as set out in any supplement hereto;
- agrees that the Company, HSBC and the Underwriters, their respective directors and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus and any supplement hereto;
- agrees to disclose that person's personal data to the Company, the Share Registrar, its receiving bankers, advisers and agents and any information which they may require about that person or the person for whose benefit that person has made the application;

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- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;
- agrees that that person cannot revoke the **electronic application instructions** before Sunday, 18 July 2004, such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before Sunday, 18 July 2004 except by means of one of the procedures referred to in this prospectus. However, that person may revoke the instructions before Sunday, 18 July 2004 if a person responsible for this prospectus under Section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Public Offer published by the Company; and
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Public Offer Shares.

Effect of Giving Electronic Application Instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things you are deemed to have done which are mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the Maximum Offer Price per Public Offer Share, the brokerage, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or in the event that the Offer Price is less than the Maximum Offer Price paid on application, refund the application monies, or the appropriate portion thereof, in each case including the brokerage, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fee, by crediting your designated bank account; and

HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in this prospectus and the **white** Application Form.

Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application.

Minimum Subscription Amount and Permitted Multiples

You may give or cause your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 400 Public Offer Shares. Such instructions in respect of more than 400 Public Offer Shares must be in one of the multiples set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Participants can input **electronic application instructions** at the following times on the following dates:

| | |
|--------------------------------|---|
| Friday, 18 June 2004 | — 9:00 a.m. to 7:00 p.m.⁽¹⁾ |
| Saturday, 19 June 2004 | — 9:00 a.m. to 3:00 p.m.⁽¹⁾ |
| Monday, 21 June 2004 | — 9:00 a.m. to 7:00 p.m.⁽¹⁾ |
| Wednesday, 23 June 2004 | — 9:00 a.m. to 7:00 p.m.⁽¹⁾ |
| Thursday, 24 June 2004 | — 9:00 a.m. to 12:00 noon |

Note:

- (1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Participants.

Your **electronic application instructions** must be submitted by 12:00 noon on Thursday, 24 June 2004, or, if the application lists are not open on that day, by the time and date stated in the section below headed “(D) GENERAL — 1. Effect of Bad Weather on the Opening of the Application Lists”.

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given will be treated as an applicant.

Section 40 of the Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies Ordinance.

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company and the Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription for the Public Offer Shares by giving **electronic application instructions** to HKSCC is a facility only provided to CCASS Participants. The Company, the Directors, the Sponsor, the Joint Bookrunners and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **white** or **yellow** Application Form; or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Thursday, 24 June 2004.

3. How Many Applications for Public Offer Shares May You Make?

There are only two situations when you may make more than one application for the Public Offer Shares:

- (i) You are a **nominee**, in which case you may both give **electronic application instructions** to HKSCC (if you are a CCASS Participant) and lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:
 - an account number; or
 - some other identification code,

for each beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

- (ii) If you are an eligible employee of the Group in Hong Kong and apply on a **pink** Application Form, you may also apply for Public Offer Shares on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC.

Otherwise, multiple applications for Public Offer Shares are not allowed.

It will be a term and condition of all applications that by completing and delivering an Application Form or submitting **electronic application instructions** to HKSCC, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC; and
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which will be made for the benefit of that other person on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC and that you are duly authorised to sign the Application Form or to give **electronic application instructions** as that other person's agent.

All of your applications will be rejected as multiple applications for Public Offer Shares if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC;
- apply (whether individually or jointly) on one **white** Application Form and one **yellow** Application Form or on one **white** or **yellow** Application Form and give **electronic application instructions** to HKSCC;
- apply on one **white** or **yellow** Application Form (whether individually or jointly) or by giving **electronic application instructions** to HKSCC for more than 50% of the Shares initially being offered for subscription under the Public Offer after deducting the 1,820,000 Public Offer Shares available for subscription by eligible employees of the Group in Hong Kong using **pink** Application Forms as more particularly described in the section headed "Structure and Conditions of the Global Offering — The Public Offer" in this prospectus;
- make more than one application on a **pink** Application Form;
- apply on one **pink** Application Form for more than 100% of the Public Offer Shares being offered to eligible employees of the Group in Hong Kong on a preferential basis; or
- have indicated an interest for or have been or will be placed Offer Shares under the International Placing.

HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

All of your applications will also be rejected as multiple applications for Public Offer Shares if more than one application is made for **your benefit** (including the part of an application made by HKSCC Nominees acting on **electronic application instructions**) unless, and limited to the situation, where you are an eligible full-time employee of the Group who has made an application on a **pink** Application Form. If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than one-half of the voting power of the company; or
- hold more than one-half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

(B) HOW TO APPLY FOR RESERVED SHARES

Qualifying DSFH Shareholders may only make an application for Reserved Shares under the Preferential Offer using a **blue** Application Form.

Using the **blue** Application Form, you may apply for a number of Reserved Shares less than or equal to the number specified on your individual **blue** Application Form on an assured basis. You may also apply for a number of Reserved Shares in excess of your Assured Entitlement specified on your individual **blue** Application Form. Qualifying DSFH Shareholders may, in addition to applying for Reserved Shares, also apply for Public Offer Shares.

Despatch of Blue Application Forms

A **blue** Application Form with a copy of the prospectus will be despatched to you by the Company if you are a Qualifying DSFH Shareholder with an Assured Entitlement.

How to Complete the Blue Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker’s cashier order(s) to you at your own risk at the address stated in the Application Form.

HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

You should note that by signing the **blue** Application Form, amongst other things:

- (i) you agree with the Company and each of its Shareholders, and the Company agrees with each Shareholder, to observe and comply with the Companies Ordinance and the Memorandum of Association and Articles of Association;
- (ii) you agree with the Company and each of its Shareholders that Shares are freely transferable by the holder thereof;
- (iii) you confirm that you have only relied on the information and representations in this prospectus and the Application Form in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- (iv) you agree that the Company, HSBC, the Underwriters and their respective directors and any other parties involved in the Global Offering are only liable for the information and representations contained in this prospectus and any supplement thereto;
- (v) you agree (without prejudice to any other rights you may have) that once your application has been accepted, you may not revoke it other than as provided in this prospectus; and
- (vi) you agree to disclose to the Company, the Share Registrar, its receiving bankers, advisers and agents and the Joint Bookrunners personal data and any information which they require about you or the person(s) for whose benefit you have made the application.

All Qualifying DSFH Shareholders who would like to apply for Reserved Shares must complete the **blue** Application Form. In the **blue** Application Form, the Qualifying DSFH Shareholders will be required to, *inter alia*, fill in the total number of Reserved Shares that they are making an application for.

In order for the **blue** Application Form to be valid, Qualifying DSFH Shareholders should complete the **blue** Application Form and then deposit the completed **blue** Application Form, with one cheque or one banker's cashier order as payment attached, in the special collection boxes provided at any of the branches of HSBC or Dah Sing Bank listed under the section above headed "Where to collect the Application Forms" before the latest time for lodgement of the **blue** Application Form as specified in the section below headed "Time for Applying for Reserved Shares".

If the application is accepted, the Reserved Shares will be issued and allotted in the name of the Qualifying DSFH Shareholder.

How Many Applications You May Make

You may not make more than one application by applying on a **blue** Application Form.

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If you are a Qualifying DSFH Shareholder and apply on a **blue** Application Form, you may also apply for Public Offer Shares on a **white** or **yellow** Application Form or by giving **electronic application instructions** or, if you are also an eligible employee of the Group in Hong Kong, on a **pink** Application Form.

Please refer to the section above headed “(A) HOW TO APPLY FOR PUBLIC OFFER SHARES — 3. How Many Applications for Public Offer Shares May You Make?” for a description of the situations where you may make more than one application for Offer Shares.

Time for Applying for Reserved Shares

Completed **blue** Application Forms, with payment attached, must be lodged by 12:00 noon on Thursday, 24 June 2004, or, if the application lists are not open on that day, by the time and date stated in the section below headed “(D) GENERAL — 1. Effect of Bad Weather on the Opening of the Application Lists”.

Your completed Application Form, with one cheque or one banker’s cashier order attached, should be deposited in the special collection boxes provided at any of the branches of HSBC or Dah Sing Bank listed under the section above headed “(A) HOW TO APPLY FOR PUBLIC OFFER SHARES — Where to Collect the Application Forms”, at the following times:

Friday, 18 June 2004 — 9:00 a.m. to 4:00 p.m.
Saturday, 19 June 2004 — 9:00 a.m. to 12:00 noon
Monday, 21 June 2004 — 9:00 a.m. to 4:00 p.m.
Wednesday, 23 June 2004 — 9:00 a.m. to 4:00 p.m.
Thursday, 24 June 2004 — 9:00 a.m. to 12:00 noon

The application lists will be opened from 11:45 a.m. to 12:00 noon on Thursday, 24 June 2004.

(C) CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

Full details of the circumstances in which you will not be allotted Shares are set out in the notes contained in the Application Forms, and you should read them carefully. You should note in particular the following situations in which Offer Shares will not be allotted to you:

If your application is revoked:

By completing and submitting an Application Form or **electronic application instructions** to HKSCC, you agree that you cannot revoke your application on or before Sunday, 18 July 2004. Your application will take effect as a collateral contract with the Company and will become binding when you lodge your Application Form or submit your **electronic application instructions**. This collateral contract will be in consideration of the Company agreeing that it will not offer any Offer Shares to any person on or before Sunday, 18 July 2004 except by means of one of the procedures referred to in this prospectus.

HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

You may only revoke your application on or before Sunday, 18 July 2004 if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to the prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the prospectus as supplemented.

If your application has been accepted, it cannot be revoked or withdrawn. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot, respectively.

Full discretion of the Company or its agent to reject or accept:

The Company and its agents (including the Joint Bookrunners) or their respective nominees have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

If the allotment of Public Offer Shares and Reserved Shares is void:

The allotment of Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **yellow** Application Form) will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

You (and HKSCC Nominees) will not receive any allotment if:

- you make multiple applications for Public Offer Shares or you are suspected of having made multiple applications;
- in the case of an application made on a **white**, **yellow** or **pink** Application Form or by giving **electronic application instructions** to HKSCC, you, or the person whose benefit you apply for, have taken up or indicated an interest or applied for or received or have been or will be placed or allocated (including conditionally

and/or provisionally) Shares in the International Placing. By filling in a **white, yellow** or **pink** Application Form or by giving **electronic application instructions** to HKSCC, you agree not to apply for Offer Shares in the International Placing. Reasonable steps will be taken to identify and reject applications in the Public Offer from investors who have received Offer Shares in the International Placing, and to identify and reject indications of interest in the International Placing, from investors who have received Public Offer Shares in the Public Offer;

- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured upon its first presentation;
- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- the Underwriting Agreements do not become unconditional; or
- the Underwriting Agreements are terminated in accordance with their respective terms.

Qualifying DSFH Shareholders may, in addition to applying for Reserved Shares, also apply for Public Offer Shares. If you are not a Qualifying DSFH Shareholder you may apply for Shares under the Public Offer or indicate an interest for Shares under the International Placing, but may not do both.

(D) GENERAL

1. Effect of Bad Weather on the Opening of the Application Lists

The application lists will not be opened if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 24 June 2004. Instead, the application lists will be opened between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

2. Publication of Results

The Company expects to announce the Offer Price, the level of indication of interest in the Placing, basis of allotment and results of applications of the Public Offer and the Hong Kong Identity Card number/passport number/Hong Kong Business Registration number of successful applicants on Tuesday, 29 June 2004 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).

3. How Much are the Offer Shares

The Maximum Offer Price is HK\$13.86 per Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005%. This means that, at the Maximum Offer Price, for every 400 Offer Shares you will pay HK\$5,600.11. The Application Forms have tables showing the exact amount payable for certain multiples of Shares up to 500,000 Shares.

You must pay the Maximum Offer Price, brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee in full when you apply for the Shares. You must pay the amount payable upon application for Shares by a cheque or a banker's cashier order in accordance with the terms set out in the Application Form.

If your application is successful, brokerage is paid to participants of the Stock Exchange, SFC transaction levy, investor compensation levy and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy and the investor compensation levy, such levies are collected on behalf of the SFC).

4. Despatch/Collection of Share Certificates and Refund of Application Monies

If an application is rejected, not accepted or accepted in part only, or if the Offer Price is less than the Maximum Offer Price (excluding brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed "Structure and Conditions of the Global Offering — Conditions of the Public Offer" in this prospectus or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee, will be refunded, without interest.

You will receive one Share certificate for all the Public Offer Shares issued to you under the Public Offer (except pursuant to applications made on **yellow** Application Forms or by **electronic application instructions** to HKSCC where the Share certificates will be deposited into CCASS as described below) and one Share certificate for all the Reserved Shares issued to you under the Preferential Offer.

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) (i) one Share certificate for all Offer Shares applied for, if the application is wholly successful; or (ii) one Share certificate for the number of Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applications on **yellow** Application Forms and by giving **electronic application instructions** to HKSCC, whose Share certificates will be deposited into CCASS as described below); and/or

HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

- (b) for applications on **white, yellow, pink** or **blue** Application Forms, refund cheque(s) crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for: (i) the surplus application monies for Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the Maximum Offer Price paid on application multiplied by the number of Shares applied for in the event that the Offer Price is less than the Maximum Offer Price, in each case including brokerage at the rate of 1%, SFC transaction levy of 0.005%, investor compensation levy of 0.002% and Stock Exchange trading fee of 0.005% but without interest.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and monies representing the difference (if any) between the Offer Price and the Maximum Offer Price and Share certificates for successful applicants under **white, pink** or **blue** Application Forms are expected to be posted on or before Tuesday, 29 June 2004. The right is reserved to retain any Share certificates and any surplus application monies pending clearance of cheque(s).

If you apply using a white or blue Application Form

If you apply for either: (i) 1,000,000 or more Public Offer Shares; or (ii) 1,000,000 or more Reserved Shares, and you have elected on your **white** or **blue** Application Form, respectively, to collect your refund cheque (where applicable) and/or Share certificate (where applicable) in person, you may collect your refund cheque (where applicable) and/or Share certificate (where applicable) from the Share Registrar:

Computershare Hong Kong Investor Services Limited

Room 1712-1716, 17th Floor

Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

between 9:00 a.m. and 1:00 p.m. on the date notified by the Company in the newspapers as the date of despatch of Share certificates and refund cheques. The date of despatch is expected to be Tuesday, 29 June 2004.

If you are an individual, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your company chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Share Registrar.

If you do not collect your refund cheque and/or Share certificate within the time period specified for collection, they will be despatched promptly thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

HOW TO APPLY FOR PUBLIC OFFER SHARES AND RESERVED SHARES

If you have applied for either (i) 1,000,000 or more Public Offer Shares; or (ii) 1,000,000 or more Reserved Shares, and have not indicated on your Application Form that you will collect your Share certificate and refund cheque (if any) in person, or if you have applied for less than 1,000,000 Public Offer Shares or less than 1,000,000 Reserved Shares, your Share certificate (where applicable) and/or refund cheque (where applicable) will be sent to the address on your Application Form on Tuesday, 29 June 2004 by ordinary post and at your own risk.

If you apply using a yellow Application Form or by giving electronic application instructions to HKSCC

If you apply for Public Offer Shares using a **yellow** Application Form or by giving **electronic application instructions** to HKSCC and your application is wholly or partially successful, your Share certificate will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your **yellow** Application Form or the stock account of your designated CCASS Participant to which you have instructed to give **electronic application instructions** on your behalf (as appropriate) at the close of business on Tuesday, 29 June 2004, or under a contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

(i) Yellow Application Form

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) for Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant, the Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the newspapers on Tuesday, 29 June 2004. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 29 June 2004 or such other date as shall be determined by HKSCC or HKSCC Nominees. On Wednesday, 30 June 2004 (the next day following the credit of the Public Offer Shares to your CCASS Investor Participant stock account), you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account.

If you apply for 1,000,000 or more Public Offer Shares and you have elected on your **yellow** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **white** Application Form applicants as described above.

If you have applied for either (i) 1,000,000 Public Offer Shares and have not indicated on your **yellow** Application Form that you will collect your refund cheque (if any) in person, or (ii) less than 1,000,000 Public Offer Shares, your refund cheque (if any) will be sent to the address on your **yellow** Application Form on Tuesday, 29 June 2004 by ordinary post and at your own risk.

(ii) **Electronic application instructions to HKSCC**

If you apply by giving **electronic application instructions** to HKSCC, refund of the application moneys (including the related brokerage, SFC transaction levy, investor compensation levy and Stock Exchange trading fee) (if any) will be credited to your designated bank account or the bank account of your broker or custodian on Tuesday, 29 June 2004.

The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner, if supplied), your Hong Kong Identity Card number/passport number/Hong Kong Business Registration number and the basis of allotment of the Public Offer in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Tuesday, 29 June 2004. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 29 June 2004 or such other date as shall be determined by HKSCC or HKSCC Nominees.

If you are instructing your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allocated to you and the amount of refund (if any) payable to you with that broker or custodian on Tuesday, 29 June 2004.

If you are applying as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System on Tuesday, 29 June 2004. On Wednesday, 30 June 2004 (the next day following the credit of the Public Offer Shares to your stock account and the credit of the refund monies to your bank account), HKSCC will make available to you an activity statement showing the number of Public Offer Shares credited to your stock account and the amount of refund money credited to your designated bank account (if any).

If you apply using a pink Application Form

A Share certificate and/or refund cheque (if any) in respect of an application made on a **pink** Application Form will be sent to the address specified in your Application Form on the date of despatch by ordinary post and at your own risk.

5. Commencement of Dealings in the Shares

Dealings in the Shares on the Stock Exchange are expected to commence on Wednesday, 30 June 2004.

The Shares will be traded in board lots of 400 each. The stock code of the Shares is “2356”.

6. Shares will be Eligible for Admission into CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS, with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date that HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the auditors and reporting accountants of the Company, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

18th June 2004

The Directors
Dah Sing Banking Group Limited
36th Floor
Dah Sing Financial Centre
108 Gloucester Road
Hong Kong

The Directors
The Hongkong and Shanghai Banking Corporation Limited
CLSA Limited

Dear Sirs

We set out below our report on the financial information relating to Dah Sing Banking Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for inclusion in the prospectus of the Company dated 18th June 2004 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was incorporated in Hong Kong on 11th March 2004 as a company with limited liability under the Hong Kong Companies Ordinance. Pursuant to a group reorganisation (the "Reorganisation") as referred to in Section V, 1(b) headed "Basis of preparation", which was completed on 12th June 2004, the Company became the holding company of the subsidiaries set out in Section V, 42 headed "Companies Comprising the Group".

All companies now comprising the Group, associated companies and jointly controlled entities have adopted 31st December as their financial year end date.

No audited accounts have been prepared for the Company since its date of incorporation as it was newly incorporated and has not been involved in any business transactions since incorporation other than the Reorganisation. We acted as auditors of all the subsidiaries, associated companies and jointly controlled entities for the three years ended 31st December 2003.

We have examined the audited accounts of all companies now comprising the Group, associated companies and jointly controlled entities for each of the three years ended 31st December 2003 (the "Relevant Periods") and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The financial information as set out in Sections I-V (the "Financial Information") has been prepared based on the audited accounts of all companies now comprising the Group, associated companies and jointly controlled entities on the basis set out in Section V, 1(b) below, after making such adjustments as are appropriate. The directors of the respective companies, at the Relevant Periods, are responsible for preparing these accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, which is prepared on the basis set out in Section V, 1(b) below, gives a true and fair view of the combined state of affairs of the Group as at 31st December 2001, 2002 and 2003 and of the combined results and cash flows of the Group for the Relevant Periods.

Yours faithfully
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

DAH SING BANKING GROUP LIMITED
SECTION I — COMBINED PROFIT AND LOSS ACCOUNT

For the years ended 31st December

(Expressed in thousands of Hong Kong dollars)

| | <i>Note</i> | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|-------------|------------------|------------------|--------------------|
| Interest income | 2 | 2,355,956 | 2,563,904 | 3,179,240 |
| Interest expense | | <u>(672,575)</u> | <u>(734,909)</u> | <u>(1,480,251)</u> |
| Net interest income | | 1,683,381 | 1,828,995 | 1,698,989 |
| Other operating income | 3 | <u>534,254</u> | <u>550,082</u> | <u>443,711</u> |
| Operating income | | 2,217,635 | 2,379,077 | 2,142,700 |
| Operating expenses | 4 | <u>(781,087)</u> | <u>(868,152)</u> | <u>(907,113)</u> |
| Operating profit before provisions | | 1,436,548 | 1,510,925 | 1,235,587 |
| Charge for bad and doubtful debts | 6 | | | |
| — Continuing operations | | (534,752) | (703,887) | (411,075) |
| — Discontinuing operation | | <u>(2)</u> | <u>18</u> | <u>(31)</u> |
| | | <u>(534,754)</u> | <u>(703,869)</u> | <u>(411,106)</u> |
| Operating profit after provisions | | 901,794 | 807,056 | 824,481 |
| Net loss on disposal and deficit on revaluation of fixed assets | 7 | (64,479) | (38,104) | (11,287) |
| Net gain on disposal of associates | 23 | — | 1,613 | — |
| Net gain on disposal of non-trading and held-to-maturity securities | 8 | 195,918 | 83,164 | 176,116 |
| Provision on non-trading securities | | <u>(25,877)</u> | <u>—</u> | <u>—</u> |
| Profit on ordinary activities | | 1,007,356 | 853,729 | 989,310 |
| Share of net losses of jointly controlled entities | | (2,015) | (6,000) | (20,000) |
| Share of net losses of associates | | — | — | (27) |
| Net other contribution from discontinuing operation | 11 | <u>141</u> | <u>673</u> | <u>672</u> |
| Profit before taxation | | 1,005,482 | 848,402 | 969,955 |
| Taxation | 12 | | | |
| — Continuing operations | | (122,758) | (68,641) | (117,537) |
| — Discontinuing operation | | <u>(18)</u> | <u>(108)</u> | <u>(71)</u> |
| | | <u>(122,776)</u> | <u>(68,749)</u> | <u>(117,608)</u> |
| Profit after taxation | | 882,706 | 779,653 | 852,347 |
| Minority interests | | <u>(2,880)</u> | <u>(3,320)</u> | <u>(1,639)</u> |
| Profit attributable to shareholders | | <u>879,826</u> | <u>776,333</u> | <u>850,708</u> |
| Dividends | 13 | <u>507,500</u> | <u>440,000</u> | <u>440,000</u> |

DAH SING BANKING GROUP LIMITED
SECTION II — COMBINED BALANCE SHEET

As at 31st December

(Expressed in thousands of Hong Kong dollars)

| | <i>Note</i> | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|-------------|--------------------------|--------------------------|--------------------------|
| ASSETS | | | | |
| Cash and short-term funds | 15 | 10,983,523 | 9,010,988 | 6,918,309 |
| Trade bills | 16 | 737,548 | 576,446 | 535,645 |
| Certificates of deposit held | 17, 34 | 204,400 | 455,137 | 524,766 |
| Trading securities | 18 | 2,789,214 | 2,497,937 | 2,980,255 |
| Advances to customers and other accounts | 19 | 29,049,518 | 29,277,275 | 30,024,347 |
| Held-to-maturity securities | 21, 34 | 392,198 | 78,049 | 4,597,102 |
| Non-trading securities | 22 | 17,091,136 | 15,870,632 | 6,204,215 |
| Investments in associates | 23 | — | — | 99,866 |
| Investments in jointly controlled entities | 24 | 22,985 | 25,000 | 27,000 |
| Fixed assets | 25 | 893,750 | 1,005,316 | 1,073,549 |
| Total assets | | <u><u>62,164,272</u></u> | <u><u>58,796,780</u></u> | <u><u>52,985,054</u></u> |
| LIABILITIES | | | | |
| Deposits and balances of banks and other financial institutions | 34 | 161,972 | 62,423 | 293,164 |
| Deposits from customers | 26, 34 | 40,152,196 | 37,589,089 | 33,153,143 |
| Certificates of deposit issued | 34 | 7,868,079 | 6,888,227 | 5,652,190 |
| Issued debt securities | 29, 34 | 31,052 | — | — |
| Other accounts and accruals | 27 | 7,219,535 | 7,875,246 | 7,915,785 |
| Current and deferred tax liabilities | 28 | 61,461 | 10,724 | 45,919 |
| Total liabilities | | <u><u>55,494,295</u></u> | <u><u>52,425,709</u></u> | <u><u>47,060,201</u></u> |
| CAPITAL RESOURCES | | | | |
| Loan capital | 31 | 970,388 | 974,831 | 974,719 |
| Minority interests | | 19,120 | 18,153 | 32,766 |
| Share capital | 32 | 1,215,850 | 1,215,850 | 1,213,952 |
| Reserves | 33 | 4,464,619 | 4,162,237 | 3,703,416 |
| Shareholders' funds | | <u><u>5,680,469</u></u> | <u><u>5,378,087</u></u> | <u><u>4,917,368</u></u> |
| Total capital resources | | <u><u>6,669,977</u></u> | <u><u>6,371,071</u></u> | <u><u>5,924,853</u></u> |
| Total liabilities and capital resources | | <u><u>62,164,272</u></u> | <u><u>58,796,780</u></u> | <u><u>52,985,054</u></u> |

DAH SING BANKING GROUP LIMITED

SECTION III — COMBINED CASH FLOW STATEMENT

For the years ended 31st December

(Expressed in thousands of Hong Kong dollars)

| | | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|-------|-------------------------|-------------------------|-------------------------|
| Net cash inflow/(outflow) from operating activities | 38(a) | <u>2,811,669</u> | <u>(1,530,426)</u> | <u>(420,491)</u> |
| Investing activities | | | | |
| Disposal of associates | | — | 105,165 | — |
| Disposal of a subsidiary | | — | — | 25,030 |
| Purchase of fixed assets | | (23,407) | (45,679) | (82,715) |
| Proceeds from disposal of fixed assets | | 6,321 | 7,458 | 56 |
| Investments in partnerships for taxation purposes | | <u>(44,170)</u> | <u>(92,401)</u> | <u>(44,991)</u> |
| Net cash outflow from investing activities | | <u>(61,256)</u> | <u>(25,457)</u> | <u>(102,620)</u> |
| Net cash inflow/(outflow) before financing | | <u>2,750,413</u> | <u>(1,555,883)</u> | <u>(523,111)</u> |
| Financing | | | | |
| Certificates of deposit issued | | 4,350,184 | 2,506,482 | 1,639,000 |
| Certificates of deposit redeemed | | (3,363,176) | (1,270,740) | (2,081,072) |
| Debt securities issued | | 31,052 | — | — |
| Issue of ordinary shares | | — | — | 50,000 |
| Loan capital issued | | — | — | 974,863 |
| Dividends paid on ordinary shares | | <u>(547,500)</u> | <u>(440,000)</u> | <u>(359,220)</u> |
| Net cash inflow from financing | | <u>470,560</u> | <u>795,742</u> | <u>223,571</u> |
| Increase/(decrease) in cash and cash equivalents | | 3,220,973 | (760,141) | (299,540) |
| Cash and cash equivalents at beginning of the year | | <u>3,604,564</u> | <u>4,364,705</u> | <u>4,664,245</u> |
| Cash and cash equivalents at end of the year | 38(c) | <u><u>6,825,537</u></u> | <u><u>3,604,564</u></u> | <u><u>4,364,705</u></u> |

DAH SING BANKING GROUP LIMITED

SECTION IV — COMBINED STATEMENT OF CHANGES IN EQUITY

For the years ended 31st December

(Expressed in thousands of Hong Kong dollars)

| | Note | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|------|-------------------------|-------------------------|-------------------------|
| Total equity as at 1st January | | 5,378,087 | 4,917,368 | 4,373,909 |
| Change in fair value of non-trading securities | 33 | 137,747 | 139,828 | 33,910 |
| Deferred tax liabilities released/(recognised) on premises and investment revaluation | | 1,909 | (14,148) | (3,141) |
| Deficit on revaluation of premises | 33 | (1,164) | — | (155) |
| Deficit on revaluation of investment properties | 33 | — | (1,589) | (17,797) |
| Exchange differences arising from translation of the financial statements of a foreign subsidiary | 33 | (233) | — | — |
| Net gains not recognised in the combined profit and loss account | | <u>138,259</u> | <u>124,091</u> | <u>12,817</u> |
| Profit attributable to shareholders | | 879,826 | 776,333 | 850,708 |
| Issue of ordinary shares | | — | — | 50,000 |
| Acquisition of further interest in a subsidiary | | — | 15,500 | — |
| Dividends paid on ordinary shares | 33 | (540,000) | (440,000) | (352,720) |
| Other dividends paid | 33 | (5,662) | — | (3,315) |
| Reserves transferred to the combined profit and loss account upon disposal of non-trading securities | 33 | (195,918) | (10,237) | (14,031) |
| Reserves transferred to the combined profit and loss account upon provisioning on non-trading securities | 33 | 25,877 | — | — |
| Reserves transferred to the combined profit and loss account upon disposal of associates | 33 | — | (4,968) | — |
| Total equity as at 31st December | | <u><u>5,680,469</u></u> | <u><u>5,378,087</u></u> | <u><u>4,917,368</u></u> |

DAH SING BANKING GROUP LIMITED
SECTION V — NOTES TO THE FINANCIAL INFORMATION

(Expressed in thousands of Hong Kong dollars)

1. PRINCIPAL ACTIVITIES, BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES**(a) Principal activities**

The principal activities of the Group are the provision of banking, financial and other related services.

(b) Basis of preparation

The Company was incorporated on 11th March 2004 and became the holding company of the subsidiaries listed in Note 42 pursuant to a group reorganisation (the "Reorganisation"). The Reorganisation was effected by a share-for-share swap whereby the Company issued 809,899,998 shares to its ultimate holding company and effected the transfer of its 100% interest in Dah Sing Insurance Agency Limited ("DSIA") in consideration for the acquisition of the ultimate holding company's 100% interest in each of Dah Sing Bank, Limited ("DSB"), Mevas Bank Limited ("MEVAS") and Global Courage Securities Limited, and 75.5% interest in D.A.H. Holdings Limited ("DAH").

For the purpose of this report, the combined profit and loss accounts, combined cash flow statements and combined statements of changes in equity of the Group for the Relevant Periods include the financial information of the companies now comprising the Group as a result of the Reorganisation, as if the current group structure had been in existence throughout the Relevant Periods in accordance with Appendix 3 to the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The combined balance sheets of the Group as at 31st December 2001, 2002 and 2003 have been prepared to present the assets and liabilities of the Group as at these dates as if the current group structure had been in existence at these dates.

As at 31st December 2003, the Company was not yet incorporated and therefore there was no issued share capital. The combined share capital of all companies now comprising the Group prior to the Reorganisation is presented in lieu of the share capital of the Company for the purpose of this report.

All significant intercompany transactions and balances within the Group are eliminated on combination.

The Financial Information has been prepared under the historical cost convention as modified by the revaluation of certain premises, investment properties and investments in securities. The principal accounting policies adopted by the Group in the preparation of the Financial Information set out in this report, which are in conformity with accounting principles generally accepted in Hong Kong and comply with the Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, are set out below.

In addition, the Financial Information has been prepared in accordance with the requirements set out in the guideline on "Financial Disclosure by Locally Incorporated Authorised Institutions" issued by the Hong Kong Monetary Authority.

(c) Subsidiaries

The results of subsidiaries acquired or disposed of during the Relevant Periods are included in the combined profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. Subsidiaries are those entities in which the Company controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

The gain or loss on the disposal of a subsidiary represents the difference between: (a) the proceeds of the sale and, (b) the Group's share of its net assets together with any unamortised goodwill or negative goodwill.

DAH SING BANKING GROUP LIMITED
SECTION V — NOTES TO THE FINANCIAL INFORMATION

(Expressed in thousands of Hong Kong dollars)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(d) **Associates**

An associate is a company, not being a subsidiary, in which an equity interest is held for the long term and significant influence is exercised in its management.

The combined profit and loss account includes the Group's share of the results of associates for the year. The combined balance sheet includes the Group's share of the net assets of the associates plus goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

(e) **Jointly controlled entities**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The combined profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the combined balance sheet includes the Group's share of the net assets of the jointly controlled entities.

(f) **Income recognition**

i) *Interest income*

Interest income is recognised in the combined profit and loss account as it accrues. Interest accrual ceases when the loans have no prospect of eventual recovery. Interest accrual is typically suspended if a loan is overdue for three months except for (1) residential mortgage loans where the net realisable value of collateral is sufficient to cover the outstanding principal and accrued interest; and (2) loans that are restructured and serviced in accordance with revised credit facilities.

For (1), interest accrual is suspended if a residential mortgage loan is in arrears for more than twelve months, irrespective of the net realisable value of the collateral. For (2), interest accrual on the restructured loans will only be made if the relevant loans have been properly serviced in accordance with the terms of the restructured credit facilities.

Interest accrual for credit card receivables and consumer loans managed on a portfolio basis is suspended if the loan is overdue for three months. Any interest previously recognised and remaining uncollected is reversed from the combined profit and loss account.

ii) *Fees and commission income*

Fees and commission income are accounted for in the period when receivable, except for fees receivable in advance which are deferred and recognised over the relevant period.

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iii) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

(g) **Advances to customers and other accounts**

Advances to customers and other accounts are generally reported in the combined balance sheet at the principal amount outstanding net of provisions for bad and doubtful debts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised on a straight line basis over the prepayment penalty period not exceeding three years.

All advances are recognised when cash is advanced to borrowers.

(h) **Provisions for bad and doubtful debts**

Provisions are made against specific loans and advances as and when the Credit Committee with authority delegated by the board of directors has doubts on the ultimate recoverability of principal or interest in full. Specific provisions are made to reduce the carrying value of an asset, net of any collateral, to the expected net realisable value based on the Credit Committee's assessment of the potential losses on those identified loans and advances on a case-by-case basis. Where it is not possible to reliably estimate the loss, the Group applies predetermined provisioning levels to the unsecured portion of loans and advances based on the Group's loan classification procedures.

The Group internally classifies loans and advances into five broad categories: Pass, Special Mention, Substandard, Doubtful and Loss. The classification of loans and advances is largely based on an assessment of the borrower's capacity to repay and on the degree of doubt about the collectibility of interest and/or principal. One important indicator of collectibility is the period that payments of interest and/or principal have been overdue.

Specific provisions ranging from 25% to 50% of the unsecured exposure of an overdue loan classified as Substandard is made depending on the type of loans. Further specific provisions are made if the relevant loans' overdue period lengthens, or if additional credit information indicates that more severe credit deterioration requires downgrading of the loans. Full specific provision is normally made against the outstanding unsecured exposure of an overdue loan classified as Loss.

In the case of unsecured personal loans, 100% specific provision is made whenever bankruptcy petitions are filed against or by the borrowers and the loan balance is immediately written off.

In addition, amounts have been set aside as a general provision for doubtful debts. General provision is not specifically earmarked against any individual loan and is provided based on predetermined percent of the loan book after excluding Government guaranteed loans and cash collateralised lending.

Both specific and general provisions are deducted from "Advances to customers and other accounts" and "Trade bills" in the combined balance sheet.

When there is no realistic prospect of recovery, the outstanding debt is written off.

(i) **Finance leases and hire purchase loans**

The amounts due from finance lease and hire purchase customers are included in "Advances to customers" and are stated at net investment. Income on contracts determined on a fixed interest rate basis is accrued and earned using the sum of digits method.

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Prior to 1st January 2003, commissions paid to dealers on hire purchase loans were amortised using a straight line basis over the term of the loan. The amortisation charge was included as part of fees and commission expense in the combined profit and loss account. With effect from 1st January 2003, such commissions are amortised using an income-matching method which matches the amortisation charge with the amount of interest income earned from the underlying loans in each period. The amortisation charge is included as part of net interest income in line with market practice. The effect of this change in amortisation basis and accounts classification to the 2002 and 2001 accounts is not significant and accordingly, no restatement of the amounts reported in those year is made.

(j) **Repossessed assets**

Advances with repossessed collateral assets will continue to be accounted for as customer advances. Upon the repossession of collateral assets for realisation in recovering customer advances, the advances are adjusted to the net realisable value of the repossessed assets, which are revalued periodically. Specific provisions are made on the shortfall between the expected sales proceeds from realisation of the repossessed assets and the outstanding advances.

(k) **Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with in the combined profit and loss account.

The balance sheet of subsidiaries and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss account is translated at an average rate for the period. Exchange differences are dealt with as a movement in reserves.

(l) **Deferred taxation**

Deferred taxation is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax liabilities are recognised on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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(m) **Fixed assets**

i) *Premises*

Premises are stated at cost or valuation less accumulated impairment losses and depreciation calculated to write off the assets over their estimated useful lives on a straight line basis as follows:

- Leasehold land is depreciated over the remaining period of the lease or up to 30th June 2047 whichever is shorter.
- Buildings are depreciated over a total estimated useful life of 50 years. On revaluation, the revalued amount is depreciated on a straight line basis over the remaining portion of the useful life.

Premises are valued as necessary at fair value, and in any case at intervals of not more than three years by independent professional valuers. The valuations are on an open market value basis related to individual properties. The valuations are incorporated in the Financial Information. Increases in valuation are credited to the "Premises revaluation reserve". However, a revaluation increase is recognised as income only to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. Decreases are first set off against increases on previous valuations of the same asset and thereafter are debited to the combined profit and loss account. Upon disposal of the premises, the relevant portion of the revaluation reserve realised in respect of previous valuations is released and transferred from the "Premises revaluation reserve" to "Retained earnings".

ii) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods greater than 20 years are valued annually by independent professional valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the Financial Information. Increases in valuation are credited to the "Investment properties revaluation reserve". Decreases in valuation are first set off against increases on previous valuations on a portfolio basis and thereafter are debited to the combined profit and loss account. Any subsequent increases in valuation are credited to the combined profit and loss account to the extent of the deficit previously charged.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining portion of the leases.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the "Investment properties revaluation reserve" to the combined profit and loss account.

iii) *Furniture, fixtures, equipment and motor vehicles*

Furniture, fixtures, equipment and motor vehicles are stated at cost less accumulated impairment losses and depreciation calculated to write off the assets on a straight line basis over their estimated useful lives, which are generally between 5 and 10 years.

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iv) *Impairment and gain or loss on sale*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the book value of premises, furniture, fixtures, equipment and motor vehicles are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the carrying cost of the asset to its recoverable amount. Such impairment losses are recognised in the combined profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the combined profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(n) **Investment in securities**

i) *Held-to-maturity securities*

Held-to-maturity securities are dated debt securities which the Group has the expressed intention and ability to hold to maturity. These securities are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition over the periods to maturity, less provision for diminution in their value other than temporary. Provisions are made for the amount of the carrying value which the Group does not expect to recover and are recognised as an expense in the combined profit and loss account as they arise.

The amortisation of premiums or discounts arising on acquisition of dated debt securities is included as part of interest income. Profits or losses on realisation of held-to-maturity securities are accounted for in the combined profit and loss account as they arise.

ii) *Trading securities*

Trading securities are securities which are acquired for the purpose of generating a profit from short-term fluctuations in price and are stated at fair value. Fair value represents the quoted market price for securities that are actively traded in a liquid market. For securities which are not actively traded or are unlisted, fair value is estimated by seeking quotations from unrelated financial institutions actively dealing in the securities. Changes in the fair value of trading securities are recognised in the combined profit and loss account as they arise. Profits and losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the combined profit and loss account as they arise.

iii) *Non-trading securities*

Non-trading securities include debt securities held for liquidity purposes which are held primarily to maintain the liquidity ratio as defined in the Fourth Schedule of the Hong Kong Banking Ordinance and other debt and equity securities and interests in investment funds which are not held for trading purposes. Non-trading securities are stated at fair value on the combined balance sheet. Fair value represents the quoted market price for securities that are actively traded in a liquid market. For securities which are not actively traded or are unlisted, fair value is estimated by seeking quotations from unrelated financial institutions actively dealing in the securities or by way of various pricing techniques generated internally.

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Changes in the fair value of non-trading securities are recognised in the "Investment revaluation reserve" until the security is sold or determined to be impaired, at which time the cumulative gain or loss representing the difference between the net sales proceeds or the expected recoverable amount and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is included in the combined profit and loss account.

(o) **Operating leases**

Leases where substantially all of the rewards and risks of ownership of the asset remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases net of any incentives received from the lessor are charged to the combined profit and loss account on a straight line basis over the lease term.

Where the Group is the lessor, the assets subject to the lease are included in fixed assets in the combined balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned fixed assets. Rental income from operating leases is recognised on a straight line basis over the lease term. Initial direct costs incurred specifically to earn revenue from an operating lease are recognised as an expense in the combined profit and loss account in the period in which they are incurred.

(p) **Off-balance sheet financial instruments**

Off-balance sheet financial instruments arise from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, equity and interest rate markets.

Accounting for these instruments is dependent upon the purpose for which the transactions are undertaken.

Transactions undertaken for trading purposes are re-measured to their fair value. Fair values are obtained periodically from various sources, including quoted market prices, discounted cash flow models and option pricing models as appropriate. The gains and losses arising from trading in foreign exchange instruments are recognised in the combined profit and loss account as "Net gain/(loss) from foreign exchange trading". The gains and losses arising from trading in interest rate and other financial instruments are recognised in the combined profit and loss account and included as part of other operating income. The major methods and assumptions used by the Group in estimating the fair value of trading derivatives are set out in note 37(c).

Unrealised gains on transactions which are marked to market are included in "Advances to customers and other accounts" in the combined balance sheet. Unrealised losses on transactions which are marked to market are included in "Other accounts and accruals".

On the date a derivative contract is entered into, the Group may designate certain derivative transactions as hedges. Derivatives are classified as a hedge when a formal linkage between the hedging instruments and the hedged items is clearly identified and documented at the inception of the hedging transactions. The risk mitigation effectiveness of the hedging instruments is reviewed by the Group Risk Division and is monitored on an on-going basis. Transactions designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or net positions.

If the derivative transaction no longer meets the criteria for a hedge set out above, the derivative is deemed to be held for trading purposes and is accounted for as set out above.

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Derivative transactions are offset only when the Group has the ability to insist on net settlement such as by means of entering into a master netting agreement or other legally enforceable arrangements. Any right to insist on a net settlement that is contingent is only taken into account when the Group is able to enforce net settlement in all situations of default by the other party or parties including insolvency of any parties to the contract, and the ability to insist on a net settlement is assured beyond doubt.

Derivative transactions are not offset unless the related settlement currencies are the same, or are denominated in freely convertible currencies for which quoted exchange rates are available in an active market.

(q) **Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation which, as a result of past events, makes it probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

The Group provides for costs related to restructuring of the Group's operations which are subject to detailed formal plans that are under implementation or have been communicated to those affected by the plans. Restructuring provisions mainly comprise employee termination payments. Provision is made when it is probable that an outflow of economic benefits will arise and the amounts can be reliably estimated.

(r) **Employee benefits**

i) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

ii) *Bonus plans*

Liabilities for bonus plans due wholly within twelve months after the balance sheet date are recognised when the Group has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

iii) *Pension obligations*

The Group offers a mandatory provident fund scheme and a number of defined contribution plans, the assets of which are generally held in separate trustee-administered funds. These pension plans are generally funded by payments from employees and by the relevant Group companies.

The Group's contributions to the mandatory provident fund schemes and defined contribution retirement schemes are expensed as incurred. Other than mandatory provident fund contribution, the Group's contributions may be reduced by contributions forfeited by those employees who leave prior to their contributions vesting fully.

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iv) *Equity compensation benefits*

Share options of the ultimate holding company are granted to directors and senior executives under the Executive Share Option Scheme.

Equity compensation benefits resulting from the issue of share options to the Group's employees at less than the fair value at which those instruments would be issued to a third party are not recognised in the Financial Information.

(s) **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When such inflow is virtually certain, an asset is recognised.

(t) **Segment reporting**

In accordance with the Group's internal financial reporting policy, the Group has determined that business segments be presented as the primary reporting format. No geographical reporting is provided as over 90% of the Group's revenues and assets are originated from business decisions and operations based in Hong Kong.

(u) **Cash and cash equivalents**

For the purposes of the combined cash flow statement, cash and cash equivalents comprise treasury bills held for trading purposes and balances with less than three months' maturity from the date of acquisition including cash, balances with banks and other financial institutions, treasury bills and certificates of deposit.

(v) **Dividends**

Dividends proposed or declared after the balance sheet date are disclosed as a post balance sheet event and are not recognised as a liability at the balance sheet date.

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2. INTEREST INCOME

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|------------------|------------------|------------------|
| Interest income on listed investments | 214,443 | 173,456 | 187,420 |
| Interest income on unlisted investments | 411,358 | 418,560 | 415,324 |
| Other interest income | <u>1,730,155</u> | <u>1,971,888</u> | <u>2,576,496</u> |
| | <u>2,355,956</u> | <u>2,563,904</u> | <u>3,179,240</u> |

3. OTHER OPERATING INCOME

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|-----------------|-----------------|-----------------|
| Fees and commission income | 472,054 | 463,955 | 399,962 |
| Less: Fees and commission expense (<i>Note</i>) | <u>(54,447)</u> | <u>(80,229)</u> | <u>(94,571)</u> |
| Net fees and commission income | 417,607 | 383,726 | 305,391 |
| Net gain from foreign exchange trading | 26,028 | 35,319 | 35,496 |
| Net gain from trading securities and derivatives | 56,317 | 90,447 | 43,439 |
| Dividend income from investments in securities | | | |
| Listed investments | 162 | 327 | 3,548 |
| Unlisted investments | 9,738 | 14,661 | 17,882 |
| Gross rental income from investment properties | 11,900 | 13,709 | 14,681 |
| Other rental income | 5,417 | 4,669 | 4,279 |
| Others | <u>7,085</u> | <u>7,224</u> | <u>18,995</u> |
| | <u>534,254</u> | <u>550,082</u> | <u>443,711</u> |

Note: Prior to 1st January 2003, commissions paid to dealers on hire purchase loans were amortised using a straight line basis over the term of the loan. The amortisation charge in 2002 and 2001 of HK\$26,990,000 and HK\$33,251,000 respectively was included as part of fees and commission expense. With effect from 1st January 2003, such commissions are amortised using an income-matching method which matches the amortisation charge with the amount of interest income earned from the underlying loans in each period. The amortisation charge is included as part of net interest income in line with market practice. The effect of this change in amortisation basis and accounts classification to the 2002 and 2001 accounts is not significant and accordingly, no restatement of the amounts reported in those years is made.

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4. OPERATING EXPENSES

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|----------------|----------------|----------------|
| Staff costs (including directors' remuneration) (Note 5) | 441,682 | 495,598 | 494,268 |
| Premises and other fixed assets | | | |
| Rental of premises | 44,100 | 43,746 | 44,752 |
| Others | 54,944 | 62,383 | 84,046 |
| Depreciation (Note 25) | 63,009 | 66,761 | 66,218 |
| Auditors' remuneration | 2,223 | 2,382 | 2,398 |
| Other operating expenses | <u>175,129</u> | <u>197,282</u> | <u>215,431</u> |
| | <u>781,087</u> | <u>868,152</u> | <u>907,113</u> |

Rental of premises under operating leases is stated net of rental income received from sub-lease agreements with third parties.

5. STAFF COSTS

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|----------------|----------------|----------------|
| Wages and salaries | 418,825 | 463,689 | 471,249 |
| Termination benefits | — | 4,412 | — |
| Pension costs - defined contribution plans (Note 10) | <u>22,857</u> | <u>27,497</u> | <u>23,019</u> |
| | <u>441,682</u> | <u>495,598</u> | <u>494,268</u> |

The emoluments of the five highest paid individuals:

(i) The aggregate emoluments

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|---------------|---------------|---------------|
| Salaries, housing, benefits in kind and other allowances | 41,868 | 43,908 | 37,400 |
| Pensions | <u>1,237</u> | <u>1,299</u> | <u>920</u> |
| | <u>43,105</u> | <u>45,207</u> | <u>38,320</u> |

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(ii) The number of the five highest paid individuals whose emoluments fell within the following bands were:

| | Number of individuals | | |
|-------------------------|-----------------------|----------|----------|
| | 2003 | 2002 | 2001 |
| HK\$ | | | |
| 3,500,001 - 4,000,000 | — | 1 | 1 |
| 4,000,001 - 4,500,000 | — | — | 1 |
| 5,000,001 - 5,500,000 | 3 | — | — |
| 6,000,001 - 6,500,000 | — | — | 1 |
| 6,500,001 - 7,000,000 | — | 1 | — |
| 7,000,001 - 7,500,000 | — | 1 | — |
| 8,000,001 - 8,500,000 | — | 1 | — |
| 10,500,001 - 11,000,000 | 1 | — | — |
| 11,000,001 - 11,500,000 | — | — | 1 |
| 13,000,001 - 13,500,000 | — | — | 1 |
| 16,500,001 - 17,000,000 | 1 | — | — |
| 19,500,001 - 20,000,000 | — | 1 | — |
| | <u>5</u> | <u>5</u> | <u>5</u> |

Included in the emoluments of the five highest paid individuals were the emoluments of three (2002: two and 2001: three) directors. Their respective directors' emoluments have been included in Note 9 below.

During the Relevant Periods, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of offices.

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6. CHARGE FOR BAD AND DOUBTFUL DEBTS

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|-----------------|-----------------|-----------------|
| Net charge for bad and doubtful debts | | | |
| <i>Continuing operation</i> | | | |
| Specific provisions charged | | | |
| — new provisions | 609,598 | 727,965 | 465,294 |
| — releases | (27,862) | (14,440) | (30,716) |
| — recoveries | <u>(42,119)</u> | <u>(27,754)</u> | <u>(17,038)</u> |
| | 539,617 | 685,771 | 417,540 |
| General provisions (written back)/charged | <u>(4,865)</u> | <u>18,116</u> | <u>(6,465)</u> |
| | <u>534,752</u> | <u>703,887</u> | <u>411,075</u> |
| <i>Discontinuing operation</i> | | | |
| Specific provisions | | | |
| — new provisions | — | — | 6 |
| General provisions charged/(written back) | <u>2</u> | <u>(18)</u> | <u>25</u> |
| | <u>2</u> | <u>(18)</u> | <u>31</u> |
| Net charge to the combined profit and loss account | <u>534,754</u> | <u>703,869</u> | <u>411,106</u> |
| Provisions for bad and doubtful debts (Note 20) | 534,754 | 703,869 | 407,450 |
| Impairment loss on investments in associates (Note 23) | <u>—</u> | <u>—</u> | <u>3,656</u> |
| | <u>534,754</u> | <u>703,869</u> | <u>411,106</u> |

7. NET LOSS ON DISPOSAL AND DEFICIT ON REVALUATION OF FIXED ASSETS

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|---------------|---------------|---------------|
| Deficit on revaluation of investment properties | 19,022 | 32,528 | — |
| Deficit on revaluation of premises | 45,187 | — | 10,830 |
| Gain on disposal of investment properties and premises | (590) | — | — |
| Loss on disposal of other fixed assets | <u>860</u> | <u>5,576</u> | <u>457</u> |
| | <u>64,479</u> | <u>38,104</u> | <u>11,287</u> |

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8. NET GAIN ON DISPOSAL OF NON-TRADING AND HELD-TO-MATURITY SECURITIES

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|----------------|---------------|----------------|
| Net gain on disposal of non-trading securities | 195,918 | 10,237 | 14,031 |
| Net gain on disposal of held-to-maturity securities and transfer of held-to-maturity securities to non-trading securities (Note) | <u>—</u> | <u>72,927</u> | <u>162,085</u> |
| | <u>195,918</u> | <u>83,164</u> | <u>176,116</u> |

Note: The disposal and transfer of held-to-maturity securities in 2002 was brought about by a change in the Group's intention of holding the securities to maturity. All remaining holdings in the held-to-maturity securities portfolio kept in the investment book but excluding those held in the short-term money market book (as reflected in Treasury bills under "Cash and short-term funds" (Note 15)) were redesignated as non-trading securities at the time of transfer.

9. DIRECTORS' EMOLUMENTS

During the Relevant Periods, there were no emoluments paid and payable by the Company to the directors of the Company. Details of the emoluments paid and payable to the directors of the Company by the Group in respect of their services rendered for managing the subsidiaries of the Company during the Relevant Periods are as follows:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|---------------|---------------|---------------|
| Fees | 200 | 170 | 160 |
| Salaries, housing, benefits in kind and other allowances | 33,301 | 33,197 | 21,952 |
| Pensions | <u>1,081</u> | <u>987</u> | <u>967</u> |
| | <u>34,582</u> | <u>34,354</u> | <u>23,079</u> |

Included in the above directors' emoluments are fees amounting to HK\$100,000 (2002: HK\$80,000; 2001: HK\$70,000) paid and payable to independent non-executive directors.

The benefits arising from the exercise of share options of the ultimate holding company, Dah Sing Financial Holdings Limited ("DSFH"), are included in the above as benefits in kind and are determined based on the difference between the closing market price of the DSFH's shares upon exercise of the options and the predetermined exercise price of the option shares. During 2003, share option benefits amounting to HK\$4,463,875 (2002: HK\$8,051,000; 2001: HK\$Nil) had been received by two directors (2002: two directors, 2001: Nil) of the Group.

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The emoluments of the directors fell within the following bands:

| | 2003 | 2002 | 2001 |
|-------------------------|------|------|------|
| HK\$ | | | |
| Nil - 1,000,000 | 4 | 5 | 5 |
| 1,000,001 - 1,500,000 | 1 | — | — |
| 1,500,001 - 2,000,000 | — | — | 1 |
| 2,000,001 - 2,500,000 | 1 | 1 | 1 |
| 2,500,001 - 3,000,000 | — | 2 | — |
| 3,500,001 - 4,000,000 | 1 | — | 1 |
| 4,000,001 - 4,500,000 | — | — | 1 |
| 5,000,001 - 5,500,000 | 2 | — | — |
| 7,000,001 - 7,500,000 | — | 1 | — |
| 11,000,001 - 11,500,000 | — | — | 1 |
| 16,500,001 - 17,000,000 | 1 | — | — |
| 19,500,001 - 20,000,000 | — | 1 | — |
| | 10 | 10 | 10 |
| | 10 | 10 | 10 |

The above analysis includes the three (2002: two and 2001: three) individuals whose emoluments were the highest in the Group for 2003. Their respective directors' emoluments have been included in Note 5 above.

In addition to the above emoluments, options to purchase 218,750 (2002: 475,000, 2001: 975,000) shares of DSFH granted to certain Directors on 3rd April 2000 remained outstanding as at 31st December 2003. These options are exercisable at various amounts between the first and fifth anniversaries of the dates of grant or up to the expiry of the Scheme falling on 3rd April 2005. Options granted on 3rd April 2000 have an exercise price of HK\$26.28 per share.

During the Relevant Periods, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of offices.

10. PENSION COSTS

Employer's contributions to the mandatory provident fund scheme and a number of defined contribution plans are made at rates ranging from 5% to 15% of employees' monthly salaries. The pension costs charged to the combined profit and loss account represent contributions paid and payable by the Group to defined contribution retirement schemes (Note 5).

Contributions totalling HK\$1,125,000 (2002: HK\$3,713,000; 2001: HK\$3,675,000) were payable to the schemes at the 2003 year end and are included in "Other accounts and accruals". Forfeited contributions totalling HK\$6,094,000 (2002: HK\$4,502,000; 2001: HK\$11,182,000) were utilised during 2003. No unutilised forfeited contributions were available at the 2003 year end (2002 and 2001: Nil) to reduce future contributions.

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11. DISCONTINUING OPERATION

Discontinuing operation refers to the business of DSIA, a wholly-owned subsidiary of DSB. As part of the Reorganisation, DSB disposed of its entire interest in DSIA to the ultimate holding company.

12. TAXATION

Hong Kong profits tax has been calculated at the rate of 17.5% (2002 and 2001:16%) on the estimated assessable profit for 2003. In 2003, the Hong Kong Government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

As at 31st December 2003, MEVAS had estimated accumulated tax losses of HK\$72 million (2002: HK\$102 million; 2001: HK\$63 million) which are available for set-off against future assessable profit. The reduction in estimated accumulated tax losses in 2003 was largely caused by the sale of assets and a corresponding write-back of deductible losses.

The Group has recognised a deferred tax asset on tax losses attained by MEVAS to the extent that it is probable that taxable profit will be available against which these tax losses can be utilised. In the opinion of the directors of the Company, there are uncertainties on the future profitability of MEVAS sufficient to utilise the tax losses in the foreseeable future. The directors, as a matter of prudence, do not consider it appropriate to recognise the deferred tax asset relating to unrecognised tax losses of HK\$72 million in 2003 (2002: HK\$71 million; 2001: HK\$31 million), which would otherwise have the effect of increasing the Group's shareholders' funds by HK\$12,577,000 (2002: HK\$11,331,000; 2001: HK\$4,994,000). The unrecognised deferred tax asset will be re-assessed in the next balance sheet date for recognition if the uncertainties regarding MEVAS' ability to generate sufficient taxable profit in the future to utilise the accumulated tax losses are reduced.

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The amount of taxation charged to the combined profit and loss account represents:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|-----------------|------------------|------------------|
| Hong Kong profits tax on estimated assessable profit for the year | 149,839 | 116,603 | 152,197 |
| Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships | <u>(69,591)</u> | <u>(116,264)</u> | <u>(136,843)</u> |
| | 80,248 | 339 | 15,354 |
| Investments in partnerships written off | <u>53,287</u> | <u>91,248</u> | <u>102,756</u> |
| | 133,535 | 91,587 | 118,110 |
| Overseas taxation | 1,005 | 513 | — |
| Over-provision in prior years | (6) | (15,178) | (845) |
| Deferred taxation (<i>Note 28</i>) | | | |
| — relating to the origination and reversal of temporary differences | (7,619) | (8,173) | 343 |
| — resulting from an increase in tax rate | <u>(4,139)</u> | <u>—</u> | <u>—</u> |
| | <u>122,776</u> | <u>68,749</u> | <u>117,608</u> |

The Group's investments in partnerships are written off in the same year as the taxation benefits resulting from those investments are received and utilised. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

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The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|----------------|---------------|----------------|
| Profit before taxation | 1,005,482 | 848,402 | 969,955 |
| Calculated at a taxation rate of 17.5% (2002 and 2001: 16%) | 175,959 | 135,744 | 155,193 |
| Tax effect of: | | | |
| Different taxation rates in other countries | (1,228) | (712) | 100 |
| Income not subject to taxation | (58,862) | (58,705) | (54,486) |
| Expenses not deductible for taxation purposes | 20,738 | 21,707 | 38,419 |
| Tax losses not recognised | 45 | 5,853 | 7,927 |
| Utilisation of previously unrecognised tax losses | (407) | (323) | (556) |
| Increase in opening net deferred tax assets resulting from an increase in tax rates | (4,139) | — | — |
| Over-provision in prior years | (6) | (15,178) | (845) |
| Terminal return on investments in partnerships | 6,980 | 5,379 | 5,943 |
| Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships | (69,591) | (116,264) | (136,843) |
| Investments in partnerships written off | <u>53,287</u> | <u>91,248</u> | <u>102,756</u> |
| Taxation charge | <u>122,776</u> | <u>68,749</u> | <u>117,608</u> |

13. DIVIDENDS

No dividends have been paid or declared by the Company since its incorporation. Dividends paid during the Relevant Periods represented dividends paid by the subsidiaries of the Company.

The dividend rates and the number of shares ranking for the dividends are not presented as such information, for the purpose of this report, is not considered meaningful.

14. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the preparation of the results for the Relevant Periods on a combined basis as disclosed in Note 1(b) above.

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15. CASH AND SHORT-TERM FUNDS

| | Group | | |
|---|-------------------|------------------|------------------|
| | 2003 | 2002 | 2001 |
| Cash and balances with banks and other financial institutions | 595,685 | 552,810 | 1,102,246 |
| Money at call and short notice | 4,996,907 | 2,862,468 | 2,688,944 |
| Treasury bills (including Exchange Fund Bills) (Note 34) | <u>5,390,931</u> | <u>5,595,710</u> | <u>3,127,119</u> |
| | <u>10,983,523</u> | <u>9,010,988</u> | <u>6,918,309</u> |
| An analysis of treasury bills held is as follows: | | | |
| Trading securities, at fair value | | | |
| — Unlisted | 1,391,323 | 248,680 | 536,016 |
| Non-trading securities, at fair value | | | |
| — Unlisted | 3,999,608 | — | — |
| Held-to-maturity securities, at amortised cost | | | |
| — Unlisted | <u>—</u> | <u>5,347,030</u> | <u>2,591,103</u> |
| | <u>5,390,931</u> | <u>5,595,710</u> | <u>3,127,119</u> |

16. TRADE BILLS

| | Group | | |
|-----------------------------|----------------|----------------|----------------|
| | 2003 | 2002 | 2001 |
| Trade bills | 744,998 | 582,268 | 541,056 |
| General provision (Note 20) | <u>(7,450)</u> | <u>(5,822)</u> | <u>(5,411)</u> |
| | <u>737,548</u> | <u>576,446</u> | <u>535,645</u> |

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17. CERTIFICATES OF DEPOSIT HELD

| | Group | | |
|--|----------------|----------------|----------------|
| | 2003 | 2002 | 2001 |
| Non-trading securities, at fair value | | | |
| — Unlisted | 204,400 | 455,137 | — |
| Held-to-maturity securities, at amortised cost | | | |
| — Unlisted | <u>—</u> | <u>—</u> | <u>524,766</u> |
| | <u>204,400</u> | <u>455,137</u> | <u>524,766</u> |

18. TRADING SECURITIES

| | Group | | |
|---|------------------|------------------|------------------|
| | 2003 | 2002 | 2001 |
| At fair value: | | | |
| Debt securities (Note 34) | | | |
| — Listed in Hong Kong | 2,173,363 | 1,198,309 | 1,727,877 |
| — Unlisted | <u>613,968</u> | <u>1,299,554</u> | <u>1,251,878</u> |
| | <u>2,787,331</u> | <u>2,497,863</u> | <u>2,979,755</u> |
| Equity securities | | | |
| — Listed in Hong Kong | <u>1,883</u> | <u>74</u> | <u>500</u> |
| | <u>2,789,214</u> | <u>2,497,937</u> | <u>2,980,255</u> |
| Trading securities are analysed by issuer as follows: | | | |
| — Central governments and central banks | 2,242,304 | 1,188,628 | 1,987,615 |
| — Public sector entities | 488,592 | 1,219,997 | 992,232 |
| — Banks and other financial institutions | 56,527 | 89,312 | — |
| — Corporate entities | <u>1,791</u> | <u>—</u> | <u>408</u> |
| | <u>2,789,214</u> | <u>2,497,937</u> | <u>2,980,255</u> |

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19. ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

(a) Advances to customers and other accounts:

| | Group | | |
|---------------------------------------|-------------------|-------------------|-------------------|
| | 2003 | 2002 | 2001 |
| Advances to customers (Note 34) | 27,942,364 | 28,156,907 | 29,274,357 |
| Provisions for bad and doubtful debts | | | |
| Specific (Note 20) | (235,747) | (222,299) | (308,142) |
| General (Note 20) | <u>(274,376)</u> | <u>(280,904)</u> | <u>(263,182)</u> |
| | <u>27,432,241</u> | <u>27,653,704</u> | <u>28,703,033</u> |
| Accrued interest | 411,868 | 403,032 | 366,996 |
| Other accounts | 1,205,529 | 1,220,625 | 954,439 |
| Provisions against other accounts | | | |
| General (Note 20) | <u>(120)</u> | <u>(86)</u> | <u>(121)</u> |
| | <u>1,617,277</u> | <u>1,623,571</u> | <u>1,321,314</u> |
| | <u>29,049,518</u> | <u>29,277,275</u> | <u>30,024,347</u> |

(b) Non-performing loans to customers are analysed as follows:

| | 2003 | 2002 | 2001 |
|-----------------------------------|------------------|------------------|------------------|
| Non-performing loans to customers | 433,346 | 469,082 | 605,935 |
| Specific provisions | <u>(209,965)</u> | <u>(202,763)</u> | <u>(267,035)</u> |
| | <u>223,381</u> | <u>266,319</u> | <u>338,900</u> |
| Amount of interest in suspense | <u>24,502</u> | <u>34,653</u> | <u>53,147</u> |

Non-performing loans are loans and advances to customers on which interest is being placed in suspense or on which interest accrual has ceased. Non-performing loans to customers represent 1.55% (2002: 1.67%, 2001: 2.07%) of total advances to customers of the Group. The above specific provisions were made after taking into account the value of collateral in respect of such advances at 31st December.

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(c) Advances to customers include finance lease receivables, analysed as follows:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|-------------------------|-------------------------|-------------------------|
| Gross investment in finance leases, receivable: | | | |
| Not later than one year | 1,344,141 | 1,400,569 | 1,456,879 |
| Later than one year and not later than five years | 1,545,659 | 1,677,620 | 1,792,684 |
| Later than five years | <u>1,576,555</u> | <u>1,774,732</u> | <u>1,531,433</u> |
| | 4,466,355 | 4,852,921 | 4,780,996 |
| Unearned future finance income on finance leases | <u>(830,789)</u> | <u>(999,260)</u> | <u>(962,387)</u> |
| Net investment in finance leases | <u><u>3,635,566</u></u> | <u><u>3,853,661</u></u> | <u><u>3,818,609</u></u> |
| The maturity of net investment in finance leases is analysed as follows: | | | |
| Not later than one year | 1,180,353 | 1,197,423 | 1,229,464 |
| Later than one year and not later than five years | 1,263,323 | 1,339,191 | 1,449,173 |
| Later than five years | <u>1,191,890</u> | <u>1,317,047</u> | <u>1,139,972</u> |
| | <u><u>3,635,566</u></u> | <u><u>3,853,661</u></u> | <u><u>3,818,609</u></u> |

There is no unguaranteed residual value included in the gross investment in finance leases above as at 31st December 2003 (2002 and 2001: Nil).

The allowance for uncollectable finance lease receivables included in the provision for loan losses amounted to HK\$29,673,000 as at 31st December 2003 (2002: HK\$29,166,000, 2001: HK\$37,152,000).

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20. PROVISIONS FOR BAD AND DOUBTFUL DEBTS

| | Group | | | Suspended Interest |
|---|---------------------------------------|----------------|----------------|-----------------------|
| | Provisions for bad and doubtful debts | | | |
| | Specific | General | Total | |
| At 1st January 2003 | 222,299 | 286,812 | 509,111 | 34,653 |
| Amounts written off | (568,288) | — | (568,288) | (20,607) |
| Recoveries of advance written off in previous years | 42,119 | — | 42,119 | — |
| Charge/(credit) to the combined profit and loss account (Note 6) | 539,617 | (4,863) | 534,754 | — |
| Interest suspended during the year | — | — | — | 10,456 |
| Exchange difference | — | (3) | (3) | — |
| At 31st December 2003 | <u>235,747</u> | <u>281,946</u> | <u>517,693</u> | <u>24,502</u> |
| Deducted from: | | | | |
| Trade bills (Note 16) | — | 7,450 | 7,450 | |
| Advances to customers (Note 19(a)) | 235,747 | 274,376 | 510,123 | |
| Accrued interest and other accounts (Note 19(a)) | — | 120 | 120 | |
| | <u>235,747</u> | <u>281,946</u> | <u>517,693</u> | |

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| | Group | | | Suspended Interest |
|--|---------------------------------------|----------------|----------------|-----------------------|
| | Provisions for bad and doubtful debts | | | |
| | Specific | General | Total | |
| At 1st January 2002 | 308,142 | 268,714 | 576,856 | 53,147 |
| Amounts written off | (799,368) | — | (799,368) | (27,026) |
| Recoveries of advances written off in previous years | 27,754 | — | 27,754 | — |
| Charge to the combined profit and loss account (Note 6) | 685,771 | 18,098 | 703,869 | — |
| Interest suspended during the year | — | — | — | 8,532 |
| At 31st December 2002 | <u>222,299</u> | <u>286,812</u> | <u>509,111</u> | <u>34,653</u> |
| Deducted from: | | | | |
| Trade bills (Note 16) | — | 5,822 | 5,822 | |
| Advances to customers (Note 19(a)) | 222,299 | 280,904 | 503,203 | |
| Accrued interest and other accounts (Note 19(a)) | — | 86 | 86 | |
| | <u>222,299</u> | <u>286,812</u> | <u>509,111</u> | |

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| | Group | | | Suspended Interest |
|---|---------------------------------------|----------------|----------------|-----------------------|
| | Provisions for bad and doubtful debts | | | |
| | Specific | General | Total | |
| At 1st January 2001 | 223,001 | 275,154 | 498,155 | 63,019 |
| Amounts written off | (345,787) | — | (345,787) | (29,713) |
| Recoveries of advances written off in previous years | 17,038 | — | 17,038 | — |
| Charge/(credit) to the combined profit and loss account (Note 6) | 413,890 | (6,440) | 407,450 | — |
| Interest suspended during the year | — | — | — | 19,841 |
| At 31st December 2001 | <u>308,142</u> | <u>268,714</u> | <u>576,856</u> | <u>53,147</u> |
| Deducted from: | | | | |
| Trade bills (Note 16) | — | 5,411 | 5,411 | |
| Advances to customers (Note 19(a)) | 308,142 | 263,182 | 571,324 | |
| Accrued interest and other accounts (Note 19(a)) | — | 121 | 121 | |
| | <u>308,142</u> | <u>268,714</u> | <u>576,856</u> | |

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21. HELD-TO-MATURITY SECURITIES

| | Group | | |
|--|----------------|---------------|------------------|
| | 2003 | 2002 | 2001 |
| Balance as at 1st January | 78,049 | 4,597,102 | 7,106,084 |
| Amortisation of discount | 650 | 8,094 | 84,510 |
| Additions | 329,387 | 3,905,897 | 7,085,237 |
| Repayments | — | (685,806) | — |
| Securities sold during the year (Note 8) | — | (7,747,238) | (9,678,729) |
| Securities matured during the year | (15,529) | — | — |
| Exchange difference | (359) | — | — |
| | | | |
| Balance as at 31st December | <u>392,198</u> | <u>78,049</u> | <u>4,597,102</u> |
| | | | |
| Listed securities, at amortised cost | | | |
| — Listed in Hong Kong | — | — | 1,817,416 |
| — Listed outside Hong Kong | — | — | <u>1,203,092</u> |
| | — | — | 3,020,508 |
| Unlisted securities, at amortised cost | <u>392,198</u> | <u>78,049</u> | <u>1,576,594</u> |
| | <u>392,198</u> | <u>78,049</u> | <u>4,597,102</u> |
| | | | |
| Market value of listed securities | <u>—</u> | <u>—</u> | <u>2,996,177</u> |
| | | | |
| Held-to-maturity securities are analysed by issuer as follows: | | | |
| — Central governments and central banks | — | — | 1,817,416 |
| — Public sector entities | — | — | 284,043 |
| — Banks and other financial institutions | 365,556 | 78,049 | 2,354,921 |
| — Corporate entities | <u>26,642</u> | — | <u>140,722</u> |
| | <u>392,198</u> | <u>78,049</u> | <u>4,597,102</u> |

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22. NON-TRADING SECURITIES

| | Group | | |
|---|-------------------|-------------------|------------------|
| | 2003 | 2002 | 2001 |
| At fair value: | | | |
| Debt securities (Note 34) | | | |
| — Listed in Hong Kong | 1,384,656 | 2,343,957 | 999,581 |
| — Listed outside Hong Kong | 7,650,441 | 6,146,886 | 846,752 |
| — Unlisted | 7,681,808 | 7,366,763 | 4,128,214 |
| | <u>16,716,905</u> | <u>15,857,606</u> | <u>5,974,547</u> |
| Equity securities | | | |
| — Listed in Hong Kong | 71,723 | 3,212 | 18,193 |
| — Unlisted | | | |
| — Interests in investment funds | 292,633 | — | — |
| — Shares in other unlisted companies | 9,875 | 9,814 | 211,475 |
| | <u>374,231</u> | <u>13,026</u> | <u>229,668</u> |
| | <u>17,091,136</u> | <u>15,870,632</u> | <u>6,204,215</u> |
| Non-trading securities are analysed by issuer as follows: | | | |
| — Central governments and central banks | 3,940,712 | 6,729,179 | 1,347,408 |
| — Public sector entities | 2,600,245 | 1,740,652 | 1,400,484 |
| — Banks and other financial institutions | 6,428,815 | 4,404,484 | 521,206 |
| — Corporate entities | 4,119,836 | 2,994,599 | 2,852,893 |
| — Others | 1,528 | 1,718 | 82,224 |
| | <u>17,091,136</u> | <u>15,870,632</u> | <u>6,204,215</u> |

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23. INVESTMENTS IN ASSOCIATES

| | Group | | |
|------------------------------------|----------|----------|----------------|
| | 2003 | 2002 | 2001 |
| Unlisted shares, at cost | — | — | 90,000 |
| Share of post-acquisition reserves | — | — | 18,520 |
| Impairment loss | — | — | (3,656) |
| | <u>—</u> | <u>—</u> | <u>(3,656)</u> |
| Share of net assets | — | — | 104,864 |
| Amount due from an associate | — | — | 2,513 |
| Amount due to an associate | — | — | (7,511) |
| | <u>—</u> | <u>—</u> | <u>(7,511)</u> |
| | <u>—</u> | <u>—</u> | <u>99,866</u> |

On 19th February 2002, the Group reached an agreement with China Construction Bank to dispose of its remaining 30% interest in Jian Sing Bank Limited (“Jian Sing”) and its subsidiaries which are engaged in banking and other related services. The transaction was completed on 22nd February 2002. The consideration received was HK\$105,165,000 and a gain on disposal of HK\$1,613,000 after writing back the provision for impairment loss made in 2001 was recognised in 2002.

24. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

| | Group | | |
|--|---------------|---------------|---------------|
| | 2003 | 2002 | 2001 |
| Unlisted shares, at cost | 20,000 | 20,000 | 20,000 |
| Loan receivable from a jointly controlled entity | 31,000 | 31,000 | 27,000 |
| Share of post-acquisition reserves | (28,015) | (26,000) | (20,000) |
| | <u>22,985</u> | <u>25,000</u> | <u>27,000</u> |

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The following are the jointly controlled entities:

| Name | Place of incorporation | Principal activities and place of operation | Percentage of interest in ownership |
|---------------------------------------|-------------------------------|---|--|
| Bank Consortium Holding Limited | Hong Kong | Investment holding, Hong Kong | 13.333% |
| Bank Consortium Trust Company Limited | Hong Kong | Trustee and custodian services for retirement fund schemes, Hong Kong | 13.333% |

The Group's interest in Bank Consortium Holding Limited is held by DSB, a subsidiary of the Company. Bank Consortium Trust Company Limited is a wholly-owned subsidiary of Bank Consortium Holding Limited.

The loan receivable from a jointly controlled entity is interest free, with no specific repayment term and unsecured.

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(Expressed in thousands of Hong Kong dollars)

25. FIXED ASSETS

| | Group | | | | Total |
|--|--------------------------|----------------|---------------------------------------|-------------------|------------------|
| | Investment Properties | Premises | Furniture, Fixtures & Equipment | Motor Vehicles | |
| Cost or valuation | | | | | |
| At 1st January 2003 | 200,747 | 672,750 | 276,559 | 2,328 | 1,152,384 |
| Additions | — | — | 23,168 | 239 | 23,407 |
| Reclassification | 21,646 | (21,646) | — | — | — |
| Disposals/written off | (5,600) | — | (34,091) | — | (39,691) |
| Deficit on revaluation | (19,022) | (79,519) | — | — | (98,541) |
| At 31st December 2003 | <u>197,771</u> | <u>571,585</u> | <u>265,636</u> | <u>2,567</u> | <u>1,037,559</u> |
| Accumulated depreciation | | | | | |
| At 1st January 2003 | — | 17,305 | 128,521 | 1,242 | 147,068 |
| Charge for the year (Note 4) | — | 15,863 | 46,634 | 512 | 63,009 |
| Disposals/written off | — | — | (33,100) | — | (33,100) |
| Written back on revaluation | — | (33,168) | — | — | (33,168) |
| At 31st December 2003 | <u>—</u> | <u>—</u> | <u>142,055</u> | <u>1,754</u> | <u>143,809</u> |
| Net book value | | | | | |
| At 31st December 2003 | <u>197,771</u> | <u>571,585</u> | <u>123,581</u> | <u>813</u> | <u>893,750</u> |
| At 31st December 2002 | <u>200,747</u> | <u>655,445</u> | <u>148,038</u> | <u>1,086</u> | <u>1,005,316</u> |
| The analysis of cost or valuation of the above assets is as follows: | | | | | |
| At 31st December 2003 | | | | | |
| At cost | — | — | 265,636 | 2,567 | 268,203 |
| At professional valuation | | | | | |
| In 2003 | <u>197,771</u> | <u>571,585</u> | <u>—</u> | <u>—</u> | <u>769,356</u> |
| | <u>197,771</u> | <u>571,585</u> | <u>265,636</u> | <u>2,567</u> | <u>1,037,559</u> |

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(Expressed in thousands of Hong Kong dollars)

| | Group | | | | Total |
|------------------------------|--------------------------|----------------|---------------------------------------|-------------------|------------------|
| | Investment Properties | Premises | Furniture, Fixtures & Equipment | Motor Vehicles | |
| Cost or valuation | | | | | |
| At 1st January 2002 | 242,899 | 672,328 | 281,620 | 2,922 | 1,199,769 |
| Additions | — | — | 45,475 | 204 | 45,679 |
| Reclassification | (8,035) | 8,035 | — | — | — |
| Disposals/written off | — | (7,613) | (50,536) | (798) | (58,947) |
| Deficit on revaluation | (34,117) | — | — | — | (34,117) |
| At 31st December 2002 | <u>200,747</u> | <u>672,750</u> | <u>276,559</u> | <u>2,328</u> | <u>1,152,384</u> |
| Accumulated depreciation | | | | | |
| At 1st January 2002 | — | — | 124,765 | 1,455 | 126,220 |
| Charge for the year (Note 4) | — | 17,461 | 48,715 | 585 | 66,761 |
| Disposals/written off | — | (156) | (44,959) | (798) | (45,913) |
| At 31st December 2002 | <u>—</u> | <u>17,305</u> | <u>128,521</u> | <u>1,242</u> | <u>147,068</u> |
| Net book value | | | | | |
| At 31st December 2002 | <u>200,747</u> | <u>655,445</u> | <u>148,038</u> | <u>1,086</u> | <u>1,005,316</u> |
| At 31st December 2001 | <u>242,899</u> | <u>672,328</u> | <u>156,855</u> | <u>1,467</u> | <u>1,073,549</u> |

The analysis of cost or valuation of the above assets is as follows:

| | | | | | |
|---------------------------|----------------|----------------|----------------|--------------|------------------|
| At 31st December 2002 | | | | | |
| At cost | — | — | 276,559 | 2,328 | 278,887 |
| At professional valuation | | | | | |
| In 2002 | 200,747 | — | — | — | 200,747 |
| In 2001 | — | 672,750 | — | — | 672,750 |
| | <u>200,747</u> | <u>672,750</u> | <u>276,559</u> | <u>2,328</u> | <u>1,152,384</u> |

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| | Group | | | | Total |
|--|--------------------------|-----------------|---------------------------------------|-------------------|------------------|
| | Investment Properties | Premises | Furniture, Fixtures & Equipment | Motor Vehicles | |
| Cost or valuation | | | | | |
| At 1st January 2001 | 254,348 | 742,518 | 235,663 | 3,483 | 1,236,012 |
| Additions | — | — | 82,426 | 289 | 82,715 |
| Reclassification | 6,348 | (6,348) | — | — | — |
| Disposals/written off | — | — | (36,469) | (850) | (37,319) |
| Deficit on revaluation | <u>(17,797)</u> | <u>(63,842)</u> | <u>—</u> | <u>—</u> | <u>(81,639)</u> |
| At 31st December 2001 | <u>242,899</u> | <u>672,328</u> | <u>281,620</u> | <u>2,922</u> | <u>1,199,769</u> |
| Accumulated depreciation | | | | | |
| At 1st January 2001 | — | 35,296 | 112,729 | 1,640 | 149,665 |
| Charge for the year (Note 4) | — | 17,561 | 47,992 | 665 | 66,218 |
| Disposals/written off | — | — | (35,956) | (850) | (36,806) |
| Write back on revaluation | <u>—</u> | <u>(52,857)</u> | <u>—</u> | <u>—</u> | <u>(52,857)</u> |
| At 31st December 2001 | <u>—</u> | <u>—</u> | <u>124,765</u> | <u>1,455</u> | <u>126,220</u> |
| Net book value | | | | | |
| At 31st December 2001 | <u>242,899</u> | <u>672,328</u> | <u>156,855</u> | <u>1,467</u> | <u>1,073,549</u> |
| At 31st December 2000 | <u>254,348</u> | <u>707,222</u> | <u>122,934</u> | <u>1,843</u> | <u>1,086,347</u> |
| The analysis of cost or valuation of the above assets is as follows: | | | | | |
| At 31st December 2001 | | | | | |
| At cost | — | — | 281,620 | 2,922 | 284,542 |
| At professional valuation | | | | | |
| In 2001 | <u>242,899</u> | <u>672,328</u> | <u>—</u> | <u>—</u> | <u>915,227</u> |
| | <u>242,899</u> | <u>672,328</u> | <u>281,620</u> | <u>2,922</u> | <u>1,199,769</u> |

Investment properties were revalued on 31st December 2003, 2002 and 2001 and premises were revalued on 31st December 2003 and 2001 on an open market value basis by an independent professional chartered surveyor, Knight Frank.

Had the premises of the Group been stated at cost less accumulated depreciation, the carrying amount of the premises would have been HK\$430,892,000 (2002: HK\$472,457,000, 2001: HK\$487,125,000).

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The net book value of investment properties and premises comprises:

| | Group | | | | | |
|---|----------------------------------|-----------------|----------------------------------|-----------------|----------------------------------|-----------------|
| | 2003 | | 2002 | | 2001 | |
| | Investment Properties | Premises | Investment Properties | Premises | Investment Properties | Premises |
| Leaseholds | | | | | | |
| Held in Hong Kong on medium-term lease (between 10 - 50 years) | 197,155 | 570,801 | 200,131 | 654,671 | 242,262 | 671,516 |
| Held outside Hong Kong on medium-term lease (between 10 - 50 years) | <u>616</u> | <u>784</u> | <u>616</u> | <u>774</u> | <u>637</u> | <u>812</u> |
| | <u>197,771</u> | <u>571,585</u> | <u>200,747</u> | <u>655,445</u> | <u>242,899</u> | <u>672,328</u> |

26. DEPOSITS FROM CUSTOMERS

| | Group | | |
|-------------------------------------|-------------------|-------------------|-------------------|
| | 2003 | 2002 | 2001 |
| Demand deposits and current account | 3,757,246 | 2,782,377 | 1,832,757 |
| Savings deposits | 6,924,297 | 5,370,759 | 5,295,811 |
| Time, call and notice deposits | <u>29,470,653</u> | <u>29,435,953</u> | <u>26,024,575</u> |
| | <u>40,152,196</u> | <u>37,589,089</u> | <u>33,153,143</u> |

27. OTHER ACCOUNTS AND ACCRUALS

Included in "Other accounts and accruals" of the Group as at 31st December 2003 was a short position in treasury bills, treasury notes and other public sector debt securities totalling HK\$6,379,969,000 (2002: HK\$5,290,428,000, 2001: HK\$6,636,119,000) (Note 30).

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28. CURRENT AND DEFERRED TAX LIABILITIES

| | Group | | |
|-------------------------|---------------|---------------|---------------|
| | 2003 | 2002 | 2001 |
| Current tax (Note (a)) | 54,557 | (9,847) | 31,323 |
| Deferred tax (Note (b)) | 6,904 | 20,571 | 14,596 |
| | <u>61,461</u> | <u>10,724</u> | <u>45,919</u> |

(a) **Current tax**

| | Group | | |
|-----------------------|---------------|----------------|---------------|
| | 2003 | 2002 | 2001 |
| Hong Kong profits tax | 53,712 | (11,032) | 30,309 |
| Overseas tax | 845 | 1,185 | 1,014 |
| | <u>54,557</u> | <u>(9,847)</u> | <u>31,323</u> |

(b) **Deferred tax**

Deferred tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002 and 2001:16%)

The movement on the deferred tax liabilities/(assets) account is as follows:

| | Group | | |
|--|--------------|---------------|---------------|
| | 2003 | 2002 | 2001 |
| At 1st January | 20,571 | 14,596 | 11,112 |
| Deferred taxation (credited)/charged to the combined profit and loss account (Note 12) | (11,758) | (8,173) | 343 |
| Taxation (credited)/charged to equity (Note 33) | (1,909) | 14,148 | 3,141 |
| At 31st December | <u>6,904</u> | <u>20,571</u> | <u>14,596</u> |

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The deferred tax (credited)/charged to equity during the Relevant Periods is as follows:

| | Group | | |
|---|----------------|---------------|--------------|
| | 2003 | 2002 | 2001 |
| Fair value reserve in shareholders' equity | | | |
| — premises (<i>Note 33</i>) | 1,369 | (524) | (2,063) |
| — non-trading securities (<i>Note 33</i>) | <u>(3,278)</u> | <u>14,672</u> | <u>5,204</u> |
| | <u>(1,909)</u> | <u>14,148</u> | <u>3,141</u> |

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the Relevant Periods are as follows:

Deferred tax liabilities

| | Group | | | | | | | | | | | |
|--|------------------------------|---------------|---------------|----------------------|---------------|----------------|------------------------|---------------|--------------|----------------|---------------|---------------|
| | Accelerated tax depreciation | | | Premises revaluation | | | Investment revaluation | | | Total | | |
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| At 1st January | 12,460 | 14,754 | 8,744 | 48,773 | 49,297 | 51,360 | 15,944 | 1,272 | (3,932) | 77,177 | 65,323 | 56,172 |
| (Credited)/charged to the combined profit and loss account | (11,370) | (2,294) | 6,010 | — | — | — | — | — | — | (11,370) | (2,294) | 6,010 |
| Charged/(credited) to equity | <u>—</u> | <u>—</u> | <u>—</u> | <u>1,369</u> | <u>(524)</u> | <u>(2,063)</u> | <u>(3,278)</u> | <u>14,672</u> | <u>5,204</u> | <u>(1,909)</u> | <u>14,148</u> | <u>3,141</u> |
| At 31st December | <u>1,090</u> | <u>12,460</u> | <u>14,754</u> | <u>50,142</u> | <u>48,773</u> | <u>49,297</u> | <u>12,666</u> | <u>15,944</u> | <u>1,272</u> | <u>63,898</u> | <u>77,177</u> | <u>65,323</u> |

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Deferred tax assets

| | Group | | | | | | | | | | | |
|--|---------------|---------------|---------------|------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|---------------|
| | Provisions | | | Tax losses | | | Others | | | Total | | |
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| As 1st January | 49,989 | 46,033 | 43,744 | 5,023 | 5,126 | — | 1,594 | (432) | 1,316 | 56,606 | 50,727 | 45,060 |
| Credited/(charged) to the combined profit and loss account | 4,403 | 3,956 | 2,289 | (5,023) | (103) | 5,126 | 1,008 | 2,026 | (1,748) | 388 | 5,879 | 5,667 |
| At 31st December | <u>54,392</u> | <u>49,989</u> | <u>46,033</u> | <u>—</u> | <u>5,023</u> | <u>5,126</u> | <u>2,602</u> | <u>1,594</u> | <u>(432)</u> | <u>56,994</u> | <u>56,606</u> | <u>50,727</u> |

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the combined balance sheet.

| | Group | | |
|--------------------------|---------------|---------------|---------------|
| | 2003 | 2002 | 2001 |
| Deferred tax assets | (56,994) | (56,606) | (50,727) |
| Deferred tax liabilities | <u>63,898</u> | <u>77,177</u> | <u>65,323</u> |
| | <u>6,904</u> | <u>20,571</u> | <u>14,596</u> |

The amounts shown in the combined balance sheet include the following:

| | | | |
|--|---------------|---------------|---------------|
| Deferred tax assets to be recovered | | | |
| — Within the next 12 months | — | (5,023) | (103) |
| — After more than 12 months | (56,994) | (51,583) | (50,624) |
| Deferred tax liabilities to be settled | | | |
| — Within the next 12 months | — | 5,023 | 103 |
| — After more than 12 months | <u>63,898</u> | <u>72,154</u> | <u>65,220</u> |
| | <u>6,904</u> | <u>20,571</u> | <u>14,596</u> |

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29. ISSUED DEBT SECURITIES

On 12th November 2003, DSB issued a US\$4,000,000 structured note (the "Note") under its Euro Medium Term Note Program by way of a private placement. The Note is unsecured and through an interest rate swap, the cost of the Note is determined on a floating rate basis. The Note has a final maturity date on 12th November 2008 but is callable by DSB when the cumulative interest paid to noteholders reaches 5% of the Note amount. The earliest date on which such callable arrangement may be triggered is 12th November 2004.

30. ASSETS PLEDGED

Included in the following balance sheet captions are assets pledged by the Group to secure short positions of treasury bills and other public sector debt securities of the Group which are subject to sale and repurchase agreements (Note 27):

| | Group | | |
|-----------------------------|------------------|------------------|------------------|
| | 2003 | 2002 | 2001 |
| Cash and short-term funds | 5,328,118 | 240,189 | 1,387,190 |
| Trading securities | 1,857,013 | 1,843,696 | 2,024,549 |
| Held-to-maturity securities | — | — | 432,928 |
| Non-trading securities | <u>289,384</u> | <u>5,344,741</u> | <u>781,427</u> |
| | <u>7,474,515</u> | <u>7,428,626</u> | <u>4,626,094</u> |

31. LOAN CAPITAL

| | Group | | |
|---|----------------|----------------|----------------|
| | 2003 | 2002 | 2001 |
| 7.5% fixed rate subordinated bonds due 2011 | <u>970,388</u> | <u>974,831</u> | <u>974,719</u> |

The loan capital having an original maturity of more than five years is raised by DSB, for the development and expansion of its business.

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Loan capital represents US\$125,000,000 7.5% subordinated bonds qualifying as Tier 2 capital of DSB issued on 28th March 2001 which are listed on the Luxembourg Stock Exchange. The bonds will mature on 28th March 2011 with an optional redemption date falling on 29th March 2006. Interest at 7.5% is payable annually from the issue date to the optional redemption date. Thereafter, if the bonds are not redeemed, the interest rate will be reset and the bonds will bear interest at the then prevailing 5-year US Treasury rate plus 369.75 basis points. DSB may, subject to the prior approval of the Hong Kong Monetary Authority, redeem the bonds in whole but not in part, at par either on the optional redemption date or for taxation reasons. An interest rate swap contract to swap the fixed interest rate payment liability of the bonds to floating interest rate based on LIBOR has been entered into with an international bank.

32. SHARE CAPITAL

As at the balance sheet dates, the Company was not yet incorporated and therefore there was no issued share capital.

For the purpose of this report, the share capital as at 31st December 2001, 2002 and 2003 represents the aggregate amount of paid up share capital of the companies comprising the Group as at the respective dates.

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33. RESERVES

2003

| | Share Premium | Investment Properties Revaluation Reserve | Premises Revaluation Reserve | Investment Revaluation Reserve | General Reserve | Exchange Reserve | Retained Earnings | Total |
|--|------------------|--|------------------------------------|--------------------------------------|--------------------|---------------------|----------------------|------------------|
| At 1st January 2003 | 41,917 | 23,287 | 256,058 | 109,751 | 700,254 | — | 3,030,970 | 4,162,237 |
| Profit attributable to shareholders | — | — | — | — | — | — | 879,826 | 879,826 |
| Deficit on revaluation of premises | — | — | (1,164) | — | — | — | — | (1,164) |
| Reclassification | — | 17,139 | (17,139) | — | — | — | — | — |
| Change in fair value of non-trading securities | — | — | — | 137,747 | — | — | — | 137,747 |
| Deferred tax liabilities recognised on premises revaluation | — | — | (1,369) | — | — | — | — | (1,369) |
| Deferred tax liabilities released on investment revaluation | — | — | — | 3,278 | — | — | — | 3,278 |
| Dividends paid on ordinary shares | — | — | — | — | — | — | (540,000) | (540,000) |
| Other dividends paid | — | — | — | — | — | — | (5,662) | (5,662) |
| Disposal of non-trading securities | — | — | — | (195,918) | — | — | — | (195,918) |
| Reserves transferred to the combined profit and loss account upon provisioning on non-trading securities | — | — | — | 25,877 | — | — | — | 25,877 |
| Exchange differences arising from translation of the financial statements of a foreign subsidiary | — | — | — | — | — | (233) | — | (233) |
| At 31st December 2003 | <u>41,917</u> | <u>40,426</u> | <u>236,386</u> | <u>80,735</u> | <u>700,254</u> | <u>(233)</u> | <u>3,365,134</u> | <u>4,464,619</u> |
| Company and subsidiaries | 41,917 | 40,426 | 236,386 | 80,735 | 700,254 | (233) | 3,393,149 | 4,492,634 |
| Jointly controlled entities | — | — | — | — | — | — | (28,015) | (28,015) |
| | <u>41,917</u> | <u>40,426</u> | <u>236,386</u> | <u>80,735</u> | <u>700,254</u> | <u>(233)</u> | <u>3,365,134</u> | <u>4,464,619</u> |

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2002

| | Share Premium | Capital Reserve | Investment Properties Revaluation Reserve | Premises Revaluation Reserve | Investment Revaluation Reserve | General Reserve | Retained Earnings | Total |
|---|------------------|--------------------|--|------------------------------------|--------------------------------------|--------------------|----------------------|------------------|
| At 1st January 2002 | 28,315 | 4,968 | 24,876 | 258,810 | (5,168) | 700,254 | 2,691,361 | 3,703,416 |
| Profit attributable to shareholders | — | — | — | — | — | — | 776,333 | 776,333 |
| Acquisition of further interest in a subsidiary | 13,602 | — | — | — | — | — | — | 13,602 |
| Deficit on revaluation of investment properties | — | — | (1,589) | — | — | — | — | (1,589) |
| Transfer to retained earnings upon disposal of premises | — | — | — | (3,276) | — | — | 3,276 | — |
| Change in fair value of non- trading securities | — | — | — | — | 139,828 | — | — | 139,828 |
| Deferred tax liabilities released on premises revaluation | — | — | — | 524 | — | — | — | 524 |
| Deferred tax liabilities recognised on investment revaluation | — | — | — | — | (14,672) | — | — | (14,672) |
| Dividends paid on ordinary shares | — | — | — | — | — | — | (440,000) | (440,000) |
| Disposal of non-trading securities | — | — | — | — | (10,237) | — | — | (10,237) |
| Disposal of associates | — | (4,968) | — | — | — | — | — | (4,968) |
| At 31st December 2002 | <u>41,917</u> | <u>—</u> | <u>23,287</u> | <u>256,058</u> | <u>109,751</u> | <u>700,254</u> | <u>3,030,970</u> | <u>4,162,237</u> |
| Company and subsidiaries | 41,917 | — | 23,287 | 256,058 | 109,751 | 700,254 | 3,056,970 | 4,188,237 |
| Jointly controlled entities | — | — | — | — | — | — | (26,000) | (26,000) |
| | <u>41,917</u> | <u>—</u> | <u>23,287</u> | <u>256,058</u> | <u>109,751</u> | <u>700,254</u> | <u>3,030,970</u> | <u>4,162,237</u> |

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2001

| | Share Premium | Capital Reserve | Investment Properties Revaluation Reserve | Premises Revaluation Reserve | Investment Revaluation Reserve | General Reserve | Retained Earnings | Total |
|---|------------------|--------------------|--|------------------------------------|--------------------------------------|--------------------|----------------------|------------------|
| At 1st January 2001 | 28,315 | 4,968 | 29,933 | 269,642 | (19,843) | 700,254 | 2,196,688 | 3,209,957 |
| Profit attributable to shareholders | — | — | — | — | — | — | 850,708 | 850,708 |
| Deficit on revaluation of investment properties | — | — | (17,797) | — | — | — | — | (17,797) |
| Deficit on revaluation of premises | — | — | — | (155) | — | — | — | (155) |
| Reclassification | — | — | 12,740 | (12,740) | — | — | — | — |
| Change in fair value of non-trading securities | — | — | — | — | 33,910 | — | — | 33,910 |
| Deferred tax liabilities released on premises revaluation | — | — | — | 2,063 | — | — | — | 2,063 |
| Deferred tax liabilities recognised on investment revaluation | — | — | — | — | (5,204) | — | — | (5,204) |
| Dividends paid on ordinary shares | — | — | — | — | — | — | (352,720) | (352,720) |
| Other dividends paid | — | — | — | — | — | — | (3,315) | (3,315) |
| Disposal of non-trading securities | — | — | — | — | (14,031) | — | — | (14,031) |
| At 31st December 2001 | <u>28,315</u> | <u>4,968</u> | <u>24,876</u> | <u>258,810</u> | <u>(5,168)</u> | <u>700,254</u> | <u>2,691,361</u> | <u>3,703,416</u> |
| Company and subsidiaries | 28,315 | — | 24,876 | 258,810 | (5,168) | 700,254 | 2,701,465 | 3,708,552 |
| Jointly controlled entities | — | — | — | — | — | — | (20,000) | (20,000) |
| Associates | — | 4,968 | — | — | — | — | 9,896 | 14,864 |
| | <u>28,315</u> | <u>4,968</u> | <u>24,876</u> | <u>258,810</u> | <u>(5,168)</u> | <u>700,254</u> | <u>2,691,361</u> | <u>3,703,416</u> |

The above capital reserve was created by aggregating the premises revaluation reserve and investment revaluation reserve booked in associates and the general reserve is transferred from retained earnings in previous years.

The Company had no reserves available for distribution as at 31st December 2001, 2002 and 2003.

DAH SING BANKING GROUP LIMITED
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(Expressed in thousands of Hong Kong dollars)

34. MATURITY PROFILE

2003

| | Group | | | | | | Total |
|---|------------------------|---------------------|--|---------------------------------------|-------------------|----------------|-------------------|
| | Repayable on demand | 3 months or less | 1 year or less but over 3 months | 5 years or less but over 1 year | After 5 years | Undated | |
| Assets | | | | | | | |
| Treasury bills | — | 1,004,442 | 4,386,489 | — | — | — | 5,390,931 |
| Certificates of deposit held | — | — | 204,400 | — | — | — | 204,400 |
| Advances to customers | 4,408,115 | 4,322,946 | 2,701,600 | 6,667,165 | 9,404,010 | 438,528 | 27,942,364 |
| Debt securities included in: | | | | | | | |
| — Trading securities* | — | 343,300 | 150,256 | 2,152,593 | 141,182 | — | 2,787,331 |
| — Held-to-maturity securities* | — | 48,063 | 113,565 | 230,570 | — | — | 392,198 |
| — Non-trading securities* | — | 660,807 | 1,614,012 | 8,490,250 | 5,947,758 | 4,078 | 16,716,905 |
| | <u>4,408,115</u> | <u>6,379,558</u> | <u>9,170,322</u> | <u>17,540,578</u> | <u>15,492,950</u> | <u>442,606</u> | <u>53,434,129</u> |
| Liabilities | | | | | | | |
| Deposits and balances of banks and other financial institutions | 141,844 | 16,778 | 3,350 | — | — | — | 161,972 |
| Deposits from customers | 10,939,309 | 27,427,394 | 1,447,893 | 337,600 | — | — | 40,152,196 |
| Certificates of deposit issued | — | — | 1,384,424 | 6,483,655 | — | — | 7,868,079 |
| Issued debt securities | — | — | 31,052 | — | — | — | 31,052 |
| | <u>11,081,153</u> | <u>27,444,172</u> | <u>2,866,719</u> | <u>6,821,255</u> | <u>—</u> | <u>—</u> | <u>48,213,299</u> |

DAH SING BANKING GROUP LIMITED
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(Expressed in thousands of Hong Kong dollars)

2002

| | Group | | | | | | Total |
|---|------------------------|---------------------|--|---------------------------------------|-------------------|----------------|-------------------|
| | Repayable on demand | 3 months or less | 1 year or less but over 3 months | 5 years or less but over 1 year | After 5 years | Undated | |
| Assets | | | | | | | |
| Treasury bills | — | 635,961 | 4,959,749 | — | — | — | 5,595,710 |
| Certificates of deposit held | — | — | 355,137 | 100,000 | — | — | 455,137 |
| Advances to customers | 5,047,889 | 3,623,145 | 2,533,913 | 6,774,549 | 9,661,961 | 515,450 | 28,156,907 |
| Debt securities included in: | | | | | | | |
| — Trading securities* | — | 50,700 | 487,243 | 1,884,291 | 75,629 | — | 2,497,863 |
| — Held-to-maturity securities* | — | — | — | 78,049 | — | — | 78,049 |
| — Non-trading securities* | — | 1,353,723 | 1,811,318 | 9,193,657 | 3,494,831 | 4,077 | 15,857,606 |
| | <u>5,047,889</u> | <u>5,663,529</u> | <u>10,147,360</u> | <u>18,030,546</u> | <u>13,232,421</u> | <u>519,527</u> | <u>52,641,272</u> |
| Liabilities | | | | | | | |
| Deposits and balances of banks and other financial institutions | 54,166 | 8,257 | — | — | — | — | 62,423 |
| Deposits from customers | 8,241,089 | 27,072,774 | 2,048,516 | 226,710 | — | — | 37,589,089 |
| Certificates of deposit issued | — | 366,980 | 3,000,770 | 3,520,477 | — | — | 6,888,227 |
| | <u>8,295,255</u> | <u>27,448,011</u> | <u>5,049,286</u> | <u>3,747,187</u> | <u>—</u> | <u>—</u> | <u>44,539,739</u> |

DAH SING BANKING GROUP LIMITED
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(Expressed in thousands of Hong Kong dollars)

2001

| | Group | | | | | | Total |
|---|------------------------|---------------------|--|---------------------------------------|-------------------|----------------|-------------------|
| | Repayable on demand | 3 months or less | 1 year or less but over 3 months | 5 years or less but over 1 year | After 5 years | Undated | |
| Assets | | | | | | | |
| Treasury bills | — | 865,392 | 2,261,727 | — | — | — | 3,127,119 |
| Certificates of deposit held | — | — | 69,178 | 455,588 | — | — | 524,766 |
| Advances to customers | 5,543,495 | 3,780,315 | 2,552,040 | 6,801,066 | 9,983,136 | 614,305 | 29,274,357 |
| Debt securities included in: | | | | | | | |
| — Trading securities* | — | — | 344,631 | 2,526,949 | 108,175 | — | 2,979,755 |
| — Held-to-maturity securities* | — | 682,137 | — | 3,462,438 | 452,527 | — | 4,597,102 |
| — Non-trading securities* | — | 749,418 | 160,925 | 2,480,201 | 2,579,924 | 4,079 | 5,974,547 |
| | <u>5,543,495</u> | <u>6,077,262</u> | <u>5,388,501</u> | <u>15,726,242</u> | <u>13,123,762</u> | <u>618,384</u> | <u>46,477,646</u> |
| Liabilities | | | | | | | |
| Deposits and balances of banks and other financial institutions | 70,578 | 221,299 | 1,287 | — | — | — | 293,164 |
| Deposits from customers | 7,171,763 | 23,553,333 | 2,240,351 | 187,696 | — | — | 33,153,143 |
| Certificates of deposit issued | — | 100,000 | 1,170,606 | 4,381,584 | — | — | 5,652,190 |
| | <u>7,242,341</u> | <u>23,874,632</u> | <u>3,412,244</u> | <u>4,569,280</u> | <u>—</u> | <u>—</u> | <u>39,098,497</u> |

* As at 31st December 2003, 21% (2002: 19%; 2001: 14%) of the debt securities with a remaining term to maturity of over 1 year were floating rate assets which included adjustable rate debt securities.

35. BALANCES WITH GROUP COMPANIES

Included in the following balance sheet captions are balances with group companies detailed as follows:

Balances with the ultimate holding company

| | Group | | |
|--|--------|--------|-------|
| | 2003 | 2002 | 2001 |
| Advances to customers and other accounts | — | 18,009 | — |
| Deposits from customers | 30,893 | 5,832 | 2,840 |

DAH SING BANKING GROUP LIMITED
SECTION V — NOTES TO THE FINANCIAL INFORMATION

(Expressed in thousands of Hong Kong dollars)

Balances with fellow subsidiaries

| | Group | | |
|--|--------------|-------------|-------------|
| | 2003 | 2002 | 2001 |
| Advances to customers and other accounts | 21,133 | — | — |
| Deposits from customers | 217,198 | 382,168 | 203,510 |
| Other accounts and accruals | 474 | 9 | 29 |

36. LOANS TO OFFICERS

Particulars of loans to officers disclosed pursuant to section 161B(4C) of the Hong Kong Companies Ordinance are as follows:

| | Balance outstanding at 31st December | | | Maximum balance during the year | | |
|---|---|---------------|---------------|--|---------------|---------------|
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| Aggregate amount outstanding in respect of principal and interest | <u>57,222</u> | <u>60,805</u> | <u>39,581</u> | <u>83,524</u> | <u>61,619</u> | <u>65,215</u> |

37. OFF-BALANCE SHEET EXPOSURES

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment:

| | Group | | |
|---|-------------------|-------------------|-------------------|
| | 2003 | 2002 | 2001 |
| Direct credit substitutes | 312,580 | 146,004 | 67,356 |
| Transaction related contingencies | 15,051 | 40,018 | 14,014 |
| Trade-related contingencies | 802,388 | 732,334 | 859,371 |
| Other commitments with an original maturity of: | | | |
| — under 1 year or which are unconditionally cancellable | 19,529,291 | 18,220,680 | 17,849,072 |
| — 1 year and over | <u>895,261</u> | <u>899,695</u> | <u>740,487</u> |
| | <u>21,554,571</u> | <u>20,038,731</u> | <u>19,530,300</u> |

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(Expressed in thousands of Hong Kong dollars)

(b) **Derivatives**

The following is a summary of the aggregate notional contract amounts of each significant type of derivatives:

| | Group | | | | | | | | |
|--|------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | Trading | | | Hedging | | | Total | | |
| | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 | 2003 | 2002 | 2001 |
| Exchange rate contracts | | | | | | | | | |
| Forward and future contracts | 1,902,840 | 1,825,076 | 341,288 | 27,485,672 | 27,655,528 | 16,218,588 | 29,388,512 | 29,480,604 | 16,559,876 |
| Currency swaps | — | — | — | — | 38,993 | 57,703 | — | 38,993 | 57,703 |
| Foreign exchange option contracts | | | | | | | | | |
| — Currency options purchased | 255,143 | 301,073 | 437,773 | — | — | — | 255,143 | 301,073 | 437,773 |
| — Currency options written | 254,890 | 300,662 | 437,853 | — | — | — | 254,890 | 300,662 | 437,853 |
| | <u>2,412,873</u> | <u>2,426,811</u> | <u>1,216,914</u> | <u>27,485,672</u> | <u>27,694,521</u> | <u>16,276,291</u> | <u>29,898,545</u> | <u>30,121,332</u> | <u>17,493,205</u> |
| Interest rate contracts | | | | | | | | | |
| Forward and futures contracts | 1,141,550 | 292,703 | — | — | — | 9,304,892 | 1,141,550 | 292,703 | 9,304,892 |
| Interest rate swaps | 213,122 | — | — | 8,489,383 | 6,962,073 | 3,166,208 | 8,702,505 | 6,962,073 | 3,166,208 |
| Interest rate option contracts | | | | | | | | | |
| — Options written | 261,616 | 8,164 | — | 1,859,263 | 1,875,575 | 1,169,663 | 2,120,879 | 1,883,739 | 1,169,663 |
| | <u>1,616,288</u> | <u>300,867</u> | <u>—</u> | <u>10,348,646</u> | <u>8,837,648</u> | <u>13,640,763</u> | <u>11,964,934</u> | <u>9,138,515</u> | <u>13,640,763</u> |
| Other contracts | | | | | | | | | |
| Equity index futures contracts | — | — | 16,896 | — | — | 14,435 | — | — | 31,331 |
| Equity option contracts | | | | | | | | | |
| — Options purchased | 199,535 | 270,676 | 71,424 | — | — | — | 199,535 | 270,676 | 71,424 |
| — Options written | 199,535 | 270,676 | 71,424 | — | — | — | 199,535 | 270,676 | 71,424 |
| | <u>399,070</u> | <u>541,352</u> | <u>159,744</u> | <u>—</u> | <u>—</u> | <u>14,435</u> | <u>399,070</u> | <u>541,352</u> | <u>174,179</u> |

The trading transactions include positions arising from the execution of trade orders from customers or transactions taken to hedge these positions.

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As at 31st December, the credit risk weighted amounts and replacement costs of the above off-balance sheet exposures, without taking into account the effect of bilateral netting arrangements that the Group entered into, are as follows:

| | Group | | | | | |
|--|-----------------------------------|---------------------|-----------------------------------|---------------------|-----------------------------------|---------------------|
| | 2003 | | 2002 | | 2001 | |
| | Credit risk Weighted Amount | Replacement cost | Credit risk weighted amount | Replacement cost | Credit risk weighted amount | Replacement cost |
| Contingent liabilities and commitments | 780,114 | | 728,484 | | 582,336 | |
| Derivatives | | | | | | |
| Exchange rate contracts | 152,771 | 462,356 | 114,092 | 263,728 | 111,714 | 347,146 |
| Interest rate contracts | 103,874 | 427,738 | 64,536 | 249,582 | 24,766 | 89,772 |
| Other contracts | 2,394 | 1,823 | 541 | 2,140 | 1,067 | 253 |
| | <u>259,039</u> | <u>891,917</u> | <u>179,169</u> | <u>515,450</u> | <u>137,547</u> | <u>437,171</u> |
| | <u>1,039,153</u> | | <u>907,653</u> | | <u>719,883</u> | |

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date. They do not represent the amounts at risk.

The credit risk weighted amounts are the amounts which have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking to market contracts with a positive value. Replacement cost is considered to be a close approximation of the credit risk for these contracts at the balance sheet date.

(c) Determination of fair value of trading derivatives

The fair value of a derivative is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction. Where available, quoted and observable market prices are used as the measure of fair value. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could materially affect the resulting fair value estimates.

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38. NOTES TO COMBINED CASH FLOW STATEMENT

(a) Reconciliation of operating profit after provisions to net cash inflow/(outflow) from operating activities

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|------------------|--------------------|------------------|
| Operating profit after provisions | 901,794 | 807,056 | 824,481 |
| Provisions for bad and doubtful debts | 534,754 | 703,869 | 411,106 |
| Advances written off net of recoveries | (526,169) | (775,270) | (328,749) |
| Depreciation | 63,009 | 66,761 | 66,218 |
| Interest expense on loan capital and debt securities issued | 29,476 | 38,660 | 42,380 |
| Interest expense on certificates of deposit issued | 112,574 | 150,236 | 296,232 |
| Net other contribution from discontinuing operation | 141 | 673 | 672 |
| | <u>1,115,579</u> | <u>991,985</u> | <u>1,312,340</u> |
| Operating profit before changes in operating assets and liabilities | | | |
| Change in treasury bills maturing beyond three months | 1,347,422 | (3,085,303) | (518,351) |
| Change in trade bills | (162,730) | (41,212) | (81,636) |
| Change in certificates of deposit held | 250,737 | 69,629 | (176,884) |
| Change in trading securities | (291,277) | 482,318 | (1,470,816) |
| Change in advances to customers and other accounts | 211,686 | 814,995 | 145,949 |
| Change in held-to-maturity securities | (314,508) | (3,066,517) | (4,017,008) |
| Change in non-trading securities | (1,082,757) | (1,868,092) | 1,310,147 |
| Change in balances with an associate | — | (4,998) | (2,513) |
| Change in loan receivable from a jointly controlled entity | — | (4,000) | (17,200) |
| Change in deposits and balances of banks and other financial institutions maturing beyond three months | 565 | 1,742 | (99,142) |
| Change in deposits from customers | 2,563,107 | 4,435,946 | 1,516,023 |
| Change in other accounts and accruals | (644,882) | (42,380) | 2,034,830 |
| Exchange adjustments | (11,551) | 407 | (681) |
| | <u>2,981,391</u> | <u>(1,315,480)</u> | <u>(64,942)</u> |
| Cash generated from/(used in) operations | | | |
| Interest paid on loan capital and debt securities issued | (30,837) | (40,886) | (31,574) |
| Interest paid on certificates of deposit issued | (122,042) | (146,169) | (320,536) |
| Hong Kong profits tax paid | (15,497) | (27,549) | (3,439) |
| Overseas tax paid | (1,346) | (342) | — |
| | <u>(270,722)</u> | <u>(315,030)</u> | <u>(673,932)</u> |
| Net cash inflow/(outflow) from operating activities | <u>2,811,669</u> | <u>(1,530,426)</u> | <u>(420,491)</u> |

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(b) **Analysis of changes in financing during the year**

| | Loan Capital | Certificates of Deposit issued |
|--|-------------------------|---|
| At 1st January 2001 | — | 6,094,799 |
| Net cash inflow/(outflow) from financing | 974,863 | (442,072) |
| Effect of foreign exchange rate changes | <u>(144)</u> | <u>(537)</u> |
| At 31st December 2001 and 1st January 2002 | 974,719 | 5,652,190 |
| Net cash inflow from financing | — | 1,235,742 |
| Effect of foreign exchange rate changes | <u>112</u> | <u>295</u> |
| At 31st December 2002 and 1st January 2003 | 974,831 | 6,888,227 |
| Net cash inflow from financing | — | 987,008 |
| Effect of foreign exchange rate changes | <u>(4,443)</u> | <u>(7,156)</u> |
| At 31st December 2003 | <u>970,388</u> | <u>7,868,079</u> |

(c) **Analysis of the balances of cash and cash equivalents**

| | 2003 | 2002 | 2001 |
|---|------------------|------------------|------------------|
| Cash and balances with banks and other financial institutions | 595,685 | 552,810 | 1,102,246 |
| Money at call and short notice | 4,996,907 | 2,862,468 | 2,688,944 |
| Treasury bills with original maturity within three months | 1,391,323 | 248,680 | 865,392 |
| Deposits and balances of banks and other financial institutions with original maturity within three months | <u>(158,378)</u> | <u>(59,394)</u> | <u>(291,877)</u> |
| | <u>6,825,537</u> | <u>3,604,564</u> | <u>4,364,705</u> |

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39. CAPITAL AND LEASE COMMITMENTS

(a) Capital commitments

Capital commitments outstanding as at 31st December not provided for in the Financial Information were as follows:

| | Group | | |
|-----------------------------------|----------------------|----------------------|----------------------|
| | 2003 | 2002 | 2001 |
| Contracted but not provided for | 21,393 | 21,441 | 10,592 |
| Authorised but not contracted for | <u>1,437</u> | <u>892</u> | <u>1,869</u> |
| | <u><u>22,830</u></u> | <u><u>22,333</u></u> | <u><u>12,461</u></u> |

(b) Lease commitments

The Group as lessee

At 31st December the Group had future aggregate minimum lease payment under non-cancellable operating leases as follows:

| | Group | | |
|---|-----------------------|----------------------|----------------------|
| | 2003 | 2002 | 2001 |
| Land and buildings | | | |
| — Not later than one year | 33,453 | 47,510 | 48,350 |
| — Later than one year and not later than five years | 81,378 | 16,862 | 45,463 |
| — Later than five years | <u>13,451</u> | <u>546</u> | <u>—</u> |
| | <u><u>128,282</u></u> | <u><u>64,918</u></u> | <u><u>93,813</u></u> |

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The Group as lessor

At 31st December the Group had contracted with tenants for the following future minimum lease receivables:

| | Group | | |
|---|---------------|---------------|---------------|
| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
| Land and buildings | | | |
| — Not later than one year | 9,842 | 15,259 | 17,248 |
| — Later than one year and not later than five years | <u>7,259</u> | <u>13,427</u> | <u>8,599</u> |
| | <u>17,101</u> | <u>28,686</u> | <u>25,847</u> |

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40. SEGMENTAL INFORMATION

(a) **By class of business:**

2003

| | Personal Banking | Commercial Banking | Treasury | Unallocated | Elimination | Total |
|--|-----------------------------|-------------------------------|-----------------|--------------------|--------------------|--------------|
| Interest income from | | | | | | |
| — external customers | 950,654 | 578,781 | 819,834 | 6,687 | — | 2,355,956 |
| — inter-segments | 319,523 | — | — | — | (319,523) | — |
| Interest expenses to | | | | | | |
| — external customers | (358,210) | (75,071) | (230,220) | (9,074) | — | (672,575) |
| — inter-segments | — | (26,505) | (283,802) | (9,216) | 319,523 | — |
| Net interest income/(expense) | 911,967 | 477,205 | 305,812 | (11,603) | — | 1,683,381 |
| Other operating income | 332,764 | 93,499 | 83,199 | 24,792 | — | 534,254 |
| Operating income | 1,244,731 | 570,704 | 389,011 | 13,189 | — | 2,217,635 |
| Operating expenses | (554,121) | (118,967) | (69,316) | (38,683) | — | (781,087) |
| Operating profit/(loss) before provisions (Charge)/write back of provisions for bad and doubtful debts | 690,610 | 451,737 | 319,695 | (25,494) | — | 1,436,548 |
| — Continuing operations | (456,934) | (79,881) | 879 | 1,184 | — | (534,752) |
| — Discontinuing operation | — | — | — | (2) | — | (2) |
| | (456,934) | (79,881) | 879 | 1,182 | — | (534,754) |
| Operating profit/(loss) after provisions | 233,676 | 371,856 | 320,574 | (24,312) | — | 901,794 |
| Net loss on disposal and deficit on revaluation of fixed assets | — | — | — | (64,479) | — | (64,479) |
| Net gain on disposal of non-trading and held-to-maturity securities | — | — | 195,918 | — | — | 195,918 |
| Provisions on non-trading securities | — | — | (25,877) | — | — | (25,877) |
| Share of net losses of jointly controlled entities | — | — | — | (2,015) | — | (2,015) |
| Net other contribution from discontinuing operation | — | — | — | 141 | — | 141 |
| Profit/(loss) before taxation | 233,676 | 371,856 | 490,615 | (90,665) | — | 1,005,482 |
| Total assets | 19,204,568 | 13,126,303 | 31,454,300 | 1,115,354 | (2,736,253) | 62,164,272 |
| Total liabilities | 31,341,017 | 7,911,489 | 18,369,349 | 608,693 | (2,736,253) | 55,494,295 |
| Depreciation for the year | 31,353 | 1,754 | 862 | 29,040 | — | 63,009 |
| Capital expenditure incurred during the year | 7,232 | 143 | 230 | 15,802 | — | 23,407 |

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2002

| | <u>Personal Banking</u> | <u>Commercial Banking</u> | <u>Treasury</u> | <u>Unallocated</u> | <u>Elimination</u> | <u>Total</u> |
|--|-----------------------------|-------------------------------|-----------------|--------------------|--------------------|----------------|
| Interest income from | | | | | | |
| — external customers | 1,136,490 | 684,786 | 734,970 | 7,658 | — | 2,563,904 |
| — inter-segments | 253,562 | — | — | 32,203 | (285,765) | — |
| Interest expenses to | | | | | | |
| — external customers | (390,976) | (100,250) | (237,322) | (6,361) | — | (734,909) |
| — inter-segments | — | (92,593) | (193,172) | — | 285,765 | — |
| Net interest income | 999,076 | 491,943 | 304,476 | 33,500 | — | 1,828,995 |
| Other operating income | 327,713 | 68,419 | 129,343 | 24,607 | — | 550,082 |
| Operating income | 1,326,789 | 560,362 | 433,819 | 58,107 | — | 2,379,077 |
| Operating expenses | (608,503) | (124,074) | (72,709) | (62,866) | — | (868,152) |
| Operating profit/(loss) before provisions | 718,286 | 436,288 | 361,110 | (4,759) | — | 1,510,925 |
| (Charge)/write back of provisions for bad and doubtful debts | | | | | | |
| — Continuing operations | (608,280) | (100,724) | 712 | 4,405 | — | (703,887) |
| — Discontinuing operation | — | — | — | 18 | — | 18 |
| Operating profit/(loss) after provisions | (608,280) | (100,724) | 712 | 4,423 | — | (703,869) |
| Net loss on disposal and deficit on revaluation of fixed assets | (1,263) | — | — | (36,841) | — | (38,104) |
| Net gain on disposal of associates | — | — | — | 1,613 | — | 1,613 |
| Net gain on disposal of non-trading and held-to-maturity securities | — | — | 83,164 | — | — | 83,164 |
| Share of net losses of jointly controlled entities | — | — | — | (6,000) | — | (6,000) |
| Net other contribution from discontinuing operation | — | — | — | 673 | — | 673 |
| Profit/(loss) before taxation | <u>108,743</u> | <u>335,564</u> | <u>444,986</u> | <u>(40,891)</u> | <u>—</u> | <u>848,402</u> |
| Total assets | 19,019,756 | 13,177,715 | 28,546,708 | 606,960 | (2,554,359) | 58,796,780 |
| Total liabilities | 28,415,268 | 7,341,694 | 16,976,592 | 2,246,514 | (2,554,359) | 52,425,709 |
| Depreciation for the year | 33,788 | 1,803 | 1,297 | 29,873 | — | 66,761 |
| Capital expenditure incurred during the year | 37,406 | 1,340 | 330 | 6,603 | — | 45,679 |

DAH SING BANKING GROUP LIMITED
SECTION V — NOTES TO THE FINANCIAL INFORMATION

(Expressed in thousands of Hong Kong dollars)

2001

| | Personal Banking | Commercial Banking | Treasury | Unallocated | Elimination | Total |
|---|-----------------------------|-------------------------------|-----------------|--------------------|--------------------|--------------|
| Interest income from | | | | | | |
| — external customers | 1,355,141 | 1,044,448 | 767,561 | 12,090 | — | 3,179,240 |
| — inter-segments | 303,120 | — | — | 22,410 | (325,530) | — |
| Interest expenses to | | | | | | |
| — external customers | (791,491) | (224,036) | (448,801) | (15,923) | — | (1,480,251) |
| — inter-segments | — | (260,293) | (65,237) | — | 325,530 | — |
| Net interest income | 866,770 | 560,119 | 253,523 | 18,577 | — | 1,698,989 |
| Other operating income | 251,288 | 73,227 | 82,416 | 36,780 | — | 443,711 |
| Operating income | 1,118,058 | 633,346 | 335,939 | 55,357 | — | 2,142,700 |
| Operating expenses | (640,018) | (148,845) | (69,101) | (49,149) | — | (907,113) |
| Operating profit before provisions | 478,040 | 484,501 | 266,838 | 6,208 | — | 1,235,587 |
| (Charge)/write back of provisions for bad and doubtful debts | | | | | | |
| — Continuing operations | (319,029) | (79,384) | — | (12,662) | — | (411,075) |
| — Discontinuing operation | — | — | — | (31) | — | (31) |
| Operating profit/(loss) after provisions | (319,029) | (79,384) | — | (12,693) | — | (411,106) |
| Net loss on disposal and deficit on revaluation of fixed assets | — | — | — | (11,287) | — | (11,287) |
| Net gain/(loss) on disposal of non-trading and held-to-maturity securities | — | — | 177,316 | (1,200) | — | 176,116 |
| Share of net losses of associates | — | — | — | (27) | — | (27) |
| Share of net losses of jointly controlled entities | — | — | — | (20,000) | — | (20,000) |
| Net other contribution from discontinuing operation | — | — | — | 672 | — | 672 |
| Profit/(loss) before taxation | 159,011 | 405,117 | 444,154 | (38,327) | — | 969,955 |
| Total assets | 17,984,626 | 13,161,161 | 21,966,846 | 551,833 | (679,412) | 52,985,054 |
| Total liabilities | 23,196,995 | 6,696,440 | 16,836,831 | 1,009,347 | (679,412) | 47,060,201 |
| Depreciation for the year | 28,971 | 1,723 | 4,387 | 31,137 | — | 66,218 |
| Capital expenditure incurred during the year | 65,443 | 447 | 108 | 16,717 | — | 82,715 |

DAH SING BANKING GROUP LIMITED
SECTION V — NOTES TO THE FINANCIAL INFORMATION

(Expressed in thousands of Hong Kong dollars)

Personal banking business includes the acceptance of deposits from individual customers and the extension of residential mortgage lending, personal loans, overdraft and credit card services, the provision of insurance sales and investment services.

Commercial banking business includes the acceptance of deposits from and the advance of loans and working capital finance to commercial, industrial and institutional customers, and the provision of trade financing and receivable financing. Hire purchase finance and leasing related to equipment, vehicle and transport financing are included.

Treasury activities are mainly the provision of foreign exchange services and centralised cash management for deposit taking and lending, interest rate risk management, management of investment in securities and the overall funding of the Group.

Unallocated items include results of operations and corporate investments (including properties) not directly identified under other business divisions.

(b) **By geographical area:**

No geographical reporting is provided as over 90% of the Group's revenues and assets are originated from business decisions and operations based in Hong Kong.

41. SIGNIFICANT RELATED PARTY TRANSACTIONS

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

During the Relevant Periods, the continuing and discontinuing operations of the Group entered into various transactions with related parties including the ultimate holding company, fellow subsidiaries, the associates of the Group, companies directly or indirectly controlled or significantly influenced by the shareholders or directors of the ultimate holding company, in the normal course of the Group's business.

DAH SING BANKING GROUP LIMITED
SECTION V — NOTES TO THE FINANCIAL INFORMATION

(Expressed in thousands of Hong Kong dollars)

(1) **Continuing operations**

In respect of the continuing operations of the Group, details of the significant related party transactions are as follows:

(a) *Extension of credit facilities and deposit taking*

The Group has provided credit facilities to, and taken deposits from, companies controlled or significantly influenced by the shareholders or directors of the ultimate holding company or directors of the companies within the Group on normal commercial terms. For each of the year ended 31st December 2001, 2002 and 2003, the following balances were outstanding:

| | Group | | |
|---|---------------|---------------|--------------|
| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
| Loans outstanding as at 31st December | 35,000 | 36,271 | 25,000 |
| Average loan balances outstanding during the year | <u>35,225</u> | <u>35,919</u> | <u>4,667</u> |

| | Group | | |
|--|----------------|----------------|----------------|
| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
| Deposit outstanding as at 31st December | 135,196 | 114,081 | 200,191 |
| Average deposit balances outstanding during the year | <u>158,085</u> | <u>150,736</u> | <u>230,941</u> |

The Group also holds certain debt securities issued by a subsidiary of a substantial shareholder of the ultimate holding company. As at 31st December 2003, the total amount held was HK\$77,631,000 (2002: HK\$245,899,000; 2001: HK\$107,196,000) and was included in "Non-trading securities" in the combined balance sheet. These securities were acquired in the normal course of the Group's business on normal commercial terms.

DAH SING BANKING GROUP LIMITED
SECTION V — NOTES TO THE FINANCIAL INFORMATION

(Expressed in thousands of Hong Kong dollars)

(b) *Transactions with the ultimate holding company and fellow subsidiaries*

The Group received and incurred the following income and expense from transactions entered into with the ultimate holding company and fellow subsidiaries:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|-----------------------------|-------------|-------------|-------------|
| Interest expense | (1,024) | (1,189) | (5,082) |
| Other operating income | 24,290 | 16,666 | 11,692 |
| Operating expenses recovery | 7,076 | 944 | 856 |
| Operating expenses | (1,123) | (1,075) | (585) |

(i) Extension of credit facilities and deposit taking

The Group has provided credit facilities to and received deposits from the ultimate holding company and fellow subsidiaries on normal commercial terms. The balances of loans and deposits outstanding as at the end of 2001, 2002 and 2003 are set out in Note 35 above.

(ii) Sub-lease of properties to a fellow subsidiary, Dah Sing Insurance Services Limited ("DSIS")

DSB has leased and sub-leased certain of its owned and rented properties to DSIS as the latter's office premises. DSB receives from DSIS air-conditioning charges, building management charges and other utilities charges based on the actual amount of costs incurred. All leases and sub-leases are entered into on normal commercial terms.

(iii) Provision of computer and administrative services to DSIS

Pursuant to an arrangement for the provision of services between DSB and DSIS with effect from 1st January 2003 onwards, DSB shall provide to DSIS management support services including retail branch and marketing support, computer services, operations support, autopay services, treasury services, risk management support and other administrative services. DSIS shall pay DSB the cost of all such services received based on the actual amount of costs incurred by DSB in the provision of these services.

(iv) Distribution and Agency Agreements between DSB and MEVAS with another fellow subsidiary, DSIS

Under the Distribution and Agency Agreements entered into between DSIS and each of DSB and MEVAS, DSB and MEVAS have appointed DSIS for the sale and distribution of life insurance policies of Dah Sing Life Assurance Company Limited ("DSLAC"). DSB and MEVAS are entitled to receive from DSIS commissions calculated on bases that are on normal commercial terms.

(v) Credit Life Insurance Policy Agreements between DSB and MEVAS with DSLA

Pursuant to the Credit Life Insurance Policy Agreements which cover personal loans, credit card lendings and mortgage loans extended by DSB and MEVAS, DSLA provides insurance cover to DSB and MEVAS in return for a premium which is calculated based on the outstanding balances of the relevant loans on normal commercial terms.

DAH SING BANKING GROUP LIMITED

SECTION V — NOTES TO THE FINANCIAL INFORMATION

(Expressed in thousands of Hong Kong dollars)

- (vi) Insurance services provided by Dah Sing General Insurance Company Limited (“DSGI”)

DSGI underwrites general insurance policies in the name, and for the benefit, of DSB and other members of the Group including policies covering domestic motor, property all risks, public liability, money, electronic equipment, employees’ compensation and group personal accident. The policies are subject to renewal annually. The policies are provided to the Group on DSGI’s normal, written commercial terms.

- (vii) Other transaction

In relation to premiums settled by DSLA’s customers using credit cards issued by DSB and MEVAS, DSB and MEVAS charged DSLA merchant fees which are calculated on normal commercial terms.

- (c) *Disposal of a subsidiary to the ultimate holding company*

In July 2001, MEVAS disposed of its wholly-owned subsidiary, The Wing On Finance Company Limited, to the ultimate holding company at a consideration of HK\$25,030,000 which represented the then book cost.

- (d) *Service agreement with Jian Sing, a former associate of the Group*

Pursuant to services agreements signed between DSB and Jian Sing, the provision of management services by DSB to Jian Sing was charged at the higher of actual costs incurred and an agreed flat monthly fee. The provision of computer services by DSB to Jian Sing was charged at a fixed monthly fee plus an agreed fee for each branch transaction conducted. In addition, the provision of agency services by DSB to Jian Sing in respect of hire purchase loans was charged at an agreed monthly fee depending on the outstanding loan balances. These agreements had been terminated on 1st December 2002 and the total amount of management fee received from Jian Sing during 2002 was HK\$4,471,000 (2001: HK\$5,434,000).

The Group also charged Jian Sing rental charges on a normal commercial basis for premises leased to Jian Sing. The amount charged during 2002 was HK\$3,998,000 (2001: HK\$3,998,000).

In addition, the Group received deposits from and placed deposits with Jian Sing on normal commercial terms in its normal course of business. Immediately prior to the Group’s disposal of interests in Jian Sing in February 2002, the deposits received and placed amounted to HK\$95,112,000 (2001: HK\$220,773,000) and HK\$22,662,000 (2001: HK\$26,334,000) respectively.

- (e) *Subrogation rights in connection with the acquisition of further interest in DAHH by the ultimate holding company*

On 20th December 2002, the ultimate holding company of the Group, DSFH, entered into an agreement with Abbey National Jersey International Limited (“Abbey”) whereby it agreed to acquire from Abbey 245,000 shares representing 24.5% of the issued share capital of DAHH for US\$2.3 million. The consideration was settled by DSFH in cash for an amount of US\$2.3 million on 23rd December 2002.

The acquisition served to increase DSFH’s interest in DAHH from 51% to 75.5%, at a price equal to the net asset value of the shares of DAHH that were acquired. The remaining 24.5% of the issued share capital of DAHH is owned by SG Hambros Bank and Trust Limited (“SG Hambros”).

DAH SING BANKING GROUP LIMITED
SECTION V — NOTES TO THE FINANCIAL INFORMATION

(Expressed in thousands of Hong Kong dollars)

Subsequent to the transaction with Abbey, on 30th December 2002, DSFH entered into an agreement with SG Hambros whereby it agreed to grant a put option to SG Hambros and SG Hambros agreed to grant a call option to the Company over 245,000 shares representing 24.5% of the issued share capital of DAHH.

The option is exercisable by either DSFH or SG Hambros. On exercise of the option, DSFH has the right to buy from SG Hambros, or SG Hambros has the right to sell to DSFH, SG Hambros' entire holding of 245,000 shares of US\$1 each in DAHH, representing 24.5% of the issued share capital of DAHH. No monetary consideration was payable on the entering into of the option. On exercise of the option, the total consideration for the shares to be acquired will be based on the price to be agreed between the parties, or by reference to the net asset value of such shares at the end of the calendar month immediately preceding the exercise of the option. The option will be exercisable between 1st October to 31st December of each calendar year.

The exercise of the option would serve to increase Group's interest in DAHH from 75.5% to 100%, at a price likely to be equivalent to the net asset value of the shares of DAHH at the time of exercise.

As part of the Reorganisation, DSFH subrogated to the Group its rights and obligations under the above agreements.

(2) Discontinuing operation

In respect of the discontinuing operation of the Group (which relates to DSIA), details of the significant related party transactions are as follows.

Agency Agreement between DSIA and a fellow subsidiary, DSGI.

Under an Agency Agreement entered into between DSIA and DSGI, DSIA is appointed as an agent of DSGI for the sale and distribution of DSGI's general insurance policies. DSIA is entitled to receive from DSGI net commissions calculated on bases that are no more favourable than those available to third party agents. As part of this arrangement, DSIA also receives from DSGI a management fee.

The aggregate amount of income arising from the above transactions is as follows.

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|------------------------|--------------|--------------|---------------|
| Other operating income | <u>8,919</u> | <u>9,978</u> | <u>10,054</u> |

DAH SING BANKING GROUP LIMITED
SECTION V — NOTES TO THE FINANCIAL INFORMATION

(Expressed in thousands of Hong Kong dollars)

42. COMPANIES COMPRISING THE GROUP

Set out below are details of the companies in which the Company will have direct and indirect interests:

| Name | Country/place and date of incorporation* | Issued and fully paid up share capital | Attributable equity interest | Principal activities |
|---|--|--|------------------------------|----------------------|
| Subsidiaries | | | | |
| Directly held: | | | | |
| Dah Sing Bank, Limited | Hong Kong, 1st May 1947 | HK\$800,000,000 | 100% | Banking |
| MEVAS Bank Limited | Hong Kong, 12th December 1931 | HK\$400,000,000 | 100% | Banking |
| D.A.H. Holdings Limited | Bermuda, 13th February 1997 | US\$1,000,000 | 75.5% | Investment holding |
| Indirectly held: | | | | |
| Global Courage Securities Limited | Hong Kong, 27th August 1999 | HK\$10,000,000 | 100% | Securities dealing |
| Dah Sing Computer Systems Limited | Hong Kong, 23rd August 1985 | HK\$20 | 100% | Dormant |
| Dah Sing Finance Limited | Hong Kong, 9th March 1973 | HK\$25,000,000 | 100% | Dormant |
| Dah Sing Insurance Brokers Limited | Hong Kong, 19th March 1991 | HK\$200,000 | 100% | Insurance broking |
| Dah Sing MTN Financing Limited | British Virgin Islands, 31st January 2002 | US\$1 | 100% | Dormant |
| Dah Sing Nominees Limited | Hong Kong, 9th March 1973 | HK\$100,000 | 100% | Nominee services |
| Dah Sing Properties Limited | Hong Kong, 3rd July 1987 | HK\$10,000 | 100% | Investment holding |
| Dah Sing Property Agency Limited | Hong Kong, 24th April 1981 | HK\$100,000 | 100% | Property agency |
| Dah Sing SAR Financing Limited | British Virgin Islands, 19th February 2002 | US\$1 | 100% | Dormant |
| Vanishing Border Investment Services Limited | Hong Kong, 29th September 1992 | HK\$20 | 100% | Property investment |
| MEVAS Nominees Limited | Hong Kong, 3rd December 1968 | HK\$50,000 | 100% | Nominee services |
| D.A.H. Hambros Bank (Channel Islands) Limited | Guernsey, 27th March 1997 | US\$8,000,000 | 75.5% | Banking |

* The place of operation of all companies is the same as the place of incorporation.

Except for Dah Sing Bank, Limited which is a public limited company, all the above companies are private companies or, if incorporated outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

43. ULTIMATE HOLDING COMPANY

The ultimate holding company is Dah Sing Financial Holdings Limited, a listed company incorporated in Hong Kong.

DAH SING BANKING GROUP LIMITED
SECTION V — NOTES TO THE FINANCIAL INFORMATION

(Expressed in thousands of Hong Kong dollars)

44. SUBSEQUENT EVENT

The companies comprising the Group underwent the Reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited. On 12th June 2004, the Company became the holding company of the Group. Full details of the Reorganisation are set out in Appendix IX headed "Corporate Reorganisation" to this prospectus.

45. SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for the Company or any of the companies comprising the Group in respect of any period subsequent to 31st December 2003.

The information set out in this appendix provides further financial details relating to the Group and does not form part of the combined audited financial information set out in the “Accountants’ Report” in Appendix I to this prospectus. The financial information set out below follows the requirements of the guideline entitled “Financial Disclosure by Locally Incorporated Authorized Institutions” on supplementary financial information issued by the HKMA. Other non-financial information on risk management and corporate governance (which also follows the requirements of such guideline) is set out in the sections headed “Description of the Assets and Liabilities of the Group — Risk Management” and “Directors, Senior Management and Staff — Corporate Governance” in this prospectus, respectively.

DAH SING BANKING GROUP LIMITED
UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in thousands of Hong Kong dollars)

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION OF THE GROUP

1. NON-PERFORMING, OVERDUE AND RESCHEDULED ASSETS

Advances to customers

(i) *Non-performing loans:*

| | 2003 | % of Advances to Customers | 2002 | % of Advances to Customers | 2001 | % of Advances to Customers |
|---------------------------------|------------------|----------------------------------|------------------|----------------------------------|------------------|----------------------------------|
| Gross advances | 433,346 | 1.55 | 469,082 | 1.67 | 605,935 | 2.07 |
| Specific provisions made | <u>(209,965)</u> | | <u>(202,763)</u> | | <u>(267,035)</u> | |
| | <u>223,381</u> | | <u>266,319</u> | | <u>338,900</u> | |
| Market value of securities held | <u>228,250</u> | | <u>249,329</u> | | <u>328,420</u> | |
| Interest in suspense | <u>24,502</u> | | <u>34,653</u> | | <u>53,147</u> | |

(ii) *Overdue advances:*

| | <u>2003</u> | % of Advances to Customers | <u>2002</u> | % of Advances to Customers | <u>2001</u> | % of Advances to Customers |
|--|--------------------|----------------------------------|--------------------|----------------------------------|--------------------|----------------------------------|
| Gross advances overdue for: | | | | | | |
| Six months or less but over three months | 121,029 | 0.43 | 119,659 | 0.42 | 179,324 | 0.61 |
| One year or less but over six months | 68,533 | 0.25 | 97,621 | 0.35 | 113,761 | 0.39 |
| Over one year | <u>177,266</u> | 0.63 | <u>163,347</u> | 0.58 | <u>191,569</u> | 0.65 |
| | <u>366,828</u> | 1.31 | <u>380,627</u> | 1.35 | <u>484,654</u> | 1.65 |
| The amount on which interest is still being accrued | <u>32,111</u> | | <u>50,992</u> | | <u>60,536</u> | |
| Market value of securities held against the secured advances | <u>207,073</u> | | <u>222,470</u> | | <u>308,015</u> | |
| Secured overdue advances | 189,193 | | 212,349 | | 290,424 | |
| Unsecured overdue advances | <u>177,635</u> | | <u>168,278</u> | | <u>194,230</u> | |
| Specific provisions made | <u>196,964</u> | | <u>148,733</u> | | <u>184,044</u> | |

(iii) *Overdue advances are reconciled to non-performing loans as follows:*

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|--------------------|--------------------|--------------------|
| Advances which are overdue for more than three months | 366,828 | 380,627 | 484,654 |
| Add: non-performing loans which are overdue for three months or less | 65,438 | 60,679 | 109,379 |
| Add: non-performing loans which are not yet overdue | 7,985 | 16,196 | 20,536 |
| Add: rescheduled advances net of amounts included in overdue advances | 25,206 | 62,572 | 51,902 |
| Less: advances which are overdue for more than three months and on which interest is still being accrued | <u>(32,111)</u> | <u>(50,992)</u> | <u>(60,536)</u> |
| Non-performing loans | <u>433,346</u> | <u>469,082</u> | <u>605,935</u> |

Over 90% of non-performing loans and overdue loans were due from customers located in Hong Kong.

- (iv) *Rescheduled advances (net of those which have been overdue for over three months and reported in Note (ii) above):*

| | <u>2003</u> | % of Advances to Customers | <u>2002</u> | % of Advances to Customers | <u>2001</u> | % of Advances to Customers |
|--------------------------|-------------|----------------------------------|-------------|----------------------------------|-------------|----------------------------------|
| Rescheduled advances | 210,515 | 0.75 | 188,318 | 0.67 | 268,364 | 0.92 |
| Specific provisions made | 12,074 | | 31,132 | | 20,349 | |

- (v) *Other overdue assets*

Included in "Trade bills" in the combined balance sheet as set out in the "Accountants' Report" in Appendix I to this prospectus is an amount of HK\$394,000 which has been overdue for over one year as at 31st December 2003 (2002: an amount of HK\$628,000 which has been overdue for one year or less but over six months, 2001: HK\$Nil) and on which interest is being placed in suspense. Apart from this, there were no advances to banks and financial institutions nor other assets that were classified under non-performing, overdue and rescheduled assets as at 31st December 2003, 2002 and 2001.

- (vi) *Repossessed assets*

At 31st December 2003, the repossessed assets of the Group amounted to HK\$67,479,000 (2002: HK\$125,246,200, 2001: HK\$146,110,000).

2. CAPITAL ADEQUACY AND LIQUIDITY RATIOS

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|-----------------|-------------|-------------|-------------|
| CAR | 20.4% | 19.9% | 18.6% |
| Adjusted CAR | 20.2% | 19.8% | 18.5% |
| Liquidity ratio | 65.9% | 54.9% | 46.2% |

Please note that only the local banking subsidiaries within the Group are subject to minimum "CAR" and "liquidity ratio" requirements under the Banking Ordinance. The above ratios of the Group are calculated for reference only.

The "CAR" represents the combined capital adequacy ratio of the Group as at 31st December of the relevant year. The CAR of each banking subsidiary within the Group is calculated in accordance with the Third Schedule of the Banking Ordinance.

The "adjusted CAR" represents the combined capital adequacy ratio of the Group as at 31st December of the relevant year after incorporating market risks capital requirements. The adjusted CAR of each banking subsidiary within the Group is calculated in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the HKMA. The adjusted ratio takes into account market risk as at 31st December of the relevant year.

The "liquidity ratio" is calculated as the simple average of each calendar month's average liquidity ratio for the twelve months of the financial year for the local banking subsidiaries within the Group in accordance with the Fourth Schedule of the Banking Ordinance.

3. CAPITAL BASE AFTER DEDUCTIONS

The combined capital base of the banking subsidiaries of the Group after deductions used in the calculation of the above capital adequacy ratios as at 31st December and reported to the Hong Kong Monetary Authority is analysed as follows:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|-------------------------|-------------------------|-------------------------|
| Core capital | | | |
| Paid up ordinary share capital | 1,207,749 | 1,207,749 | 1,207,749 |
| Reserves | <u>3,922,614</u> | <u>3,548,195</u> | <u>3,193,331</u> |
| Total core capital | <u>5,130,363</u> | <u>4,755,944</u> | <u>4,401,080</u> |
| Supplementary capital | | | |
| Reserve on revaluation of land and interests in land | 193,769 | 193,285 | 194,846 |
| Reserve on revaluation of holding of securities not held for trading purposes | 56,464 | 76,680 | (5,172) |
| General provisions for doubtful debts | 281,826 | 286,727 | 268,594 |
| Term subordinated debts | <u>970,388</u> | <u>974,831</u> | <u>974,719</u> |
| Total eligible supplementary capital | <u>1,502,447</u> | <u>1,531,523</u> | <u>1,432,987</u> |
| Total capital base before deductions | 6,632,810 | 6,287,467 | 5,834,067 |
| Deductions from total capital base | <u>(26,186)</u> | <u>(28,201)</u> | <u>(120,201)</u> |
| Total capital base after deductions | <u><u>6,606,624</u></u> | <u><u>6,259,266</u></u> | <u><u>5,713,866</u></u> |

4. SEGMENTAL INFORMATION

(a) Gross advances to customers by industry sector classified according to the usage of the loan are:

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|---|--------------------------|--------------------------|--------------------------|
| Industrial, commercial and financial | | | |
| — Property development | 74,024 | 187,546 | 447,730 |
| — Property investment | 2,380,652 | 2,456,538 | 2,379,572 |
| — Financial concerns | 385,350 | 378,959 | 363,192 |
| — Stockbrokers | 9,065 | 7,863 | 12,512 |
| — Wholesale and retail trade | 1,018,219 | 1,098,085 | 1,168,226 |
| — Manufacturing | 2,262,914 | 2,109,125 | 2,134,177 |
| — Transport and transport equipment | 1,903,823 | 2,076,126 | 2,180,592 |
| — Others | <u>767,300</u> | <u>983,714</u> | <u>888,067</u> |
| | <u>8,801,347</u> | <u>9,297,956</u> | <u>9,574,068</u> |
| Individuals | | | |
| — Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme | 2,204,899 | 2,402,710 | 2,465,067 |
| — Loans for the purchase of other residential properties | 8,801,491 | 8,019,036 | 8,443,582 |
| — Credit card advances | 2,131,724 | 2,623,848 | 2,773,749 |
| — Others | <u>2,770,559</u> | <u>3,184,531</u> | <u>3,661,823</u> |
| | <u>15,908,673</u> | <u>16,230,125</u> | <u>17,344,221</u> |
| Loans for use in Hong Kong | 24,710,020 | 25,528,081 | 26,918,289 |
| Trade finance | 2,657,311 | 2,053,497 | 1,879,976 |
| Loans for use outside Hong Kong | <u>575,033</u> | <u>575,329</u> | <u>476,092</u> |
| | <u><u>27,942,364</u></u> | <u><u>28,156,907</u></u> | <u><u>29,274,357</u></u> |

(b) Cross-border claims:

As at 31st December 2003

| | <u>Group</u> | | | <u>Total</u> |
|---|---|-----------------------------------|---------------|---------------|
| | <u>Banks and other financial institutions</u> | <u>Public sector entities</u> | <u>Others</u> | |
| Equivalent in millions of Hong Kong Dollars | | | | |
| Asia Pacific excluding Hong Kong | 1,741 | — | 421 | 2,162 |
| North and South America | 649 | 3,096 | 1,994 | 5,739 |
| Europe | <u>4,403</u> | <u>1,391</u> | <u>2,652</u> | <u>8,446</u> |
| | <u>6,793</u> | <u>4,487</u> | <u>5,067</u> | <u>16,347</u> |

As at 31st December 2002

| | <u>Group</u> | | | <u>Total</u> |
|---|---|-----------------------------------|---------------|---------------|
| | <u>Banks and other financial institutions</u> | <u>Public sector entities</u> | <u>Others</u> | |
| Equivalent in millions of Hong Kong Dollars | | | | |
| Asia Pacific excluding Hong Kong | 1,467 | — | 891 | 2,358 |
| North and South America | 210 | 4,267 | 3,050 | 7,527 |
| Europe | <u>3,345</u> | <u>3,566</u> | <u>1,144</u> | <u>8,055</u> |
| | <u>5,022</u> | <u>7,833</u> | <u>5,085</u> | <u>17,940</u> |

As at 31st December 2001

| | Group | | | Total |
|---|---|---------------------------|--------------|---------------|
| | Banks and other financial institutions | Public sector entities | Others | |
| Equivalent in millions of Hong Kong Dollars | | | | |
| Asia Pacific excluding Hong Kong | 855 | — | 267 | 1,122 |
| North and South America | 823 | 1,889 | 3,665 | 6,377 |
| Middle East and Africa | 1 | — | — | 1 |
| Europe | <u>2,576</u> | <u>—</u> | <u>479</u> | <u>3,055</u> |
| | <u>4,255</u> | <u>1,889</u> | <u>4,411</u> | <u>10,555</u> |

The information on cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country. Only regions constituting 10% or more of the aggregate cross-border claims are disclosed.

The pro forma financial information compiled in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only, and is set out on pages 118-119 of this prospectus to provide investors with further information to assess the financial performance of the Group after taking into account the adjusted net tangible asset value of the Group to illustrate the financial position of the Group after receipt of the net proceeds of the subscription for New Shares.

The pro forma financial information is derived after making appropriate adjustments. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not reflect the actual net tangible asset value of the Group as at 31 December 2003 or at any future date.

Letter on Pro Forma Financial Information relating to the Adjusted Net Tangible Asset Value

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

18 June 2004

The Directors
Dah Sing Banking Group Limited
36/F Dah Sing Financial Centre
108 Gloucester Road
Hong Kong

Dear Sirs

We report on the unaudited pro forma financial information of Dah Sing Banking Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 118-119 under the heading of Pro Forma Financial Information — Adjusted Net Tangible Asset Value of the Company's prospectus dated 18 June 2004 in connection with the Global Offering of the shares of the Company for their listing on the Main Board of The Stock Exchange of Hong Kong Limited. The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Global Offering might have affected the relevant financial information of the Group as at 31 December 2003.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 21 of Appendix 1A and paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the bases set out on pages 118 and 119 for illustrative purpose only and, because of its nature, it may not reflect the actual net tangible asset value of the Group as at 31 December 2003 or at any future date.

Opinion

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group, and
- c) the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully
PricewaterhouseCoopers
Certified public accountants
Hong Kong

The existing Articles of Association were adopted on 12 June 2004. The following is a summary of certain provisions of the Articles of Association. A copy of the Articles of Association is available for inspection at the address specified in the section headed “Documents available for Inspection” in Appendix X to this prospectus.

CHANGES IN CAPITAL

The Company may exercise any powers conferred or permitted by the Companies Ordinance or any other ordinance from time to time to purchase or otherwise acquire its own shares and warrants (including any redeemable shares) or to give, directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a purchase or other acquisition made or to be made by any person of any shares or warrants in the Company and should the Company purchase or otherwise acquire its own shares or warrants, neither the Company nor the Board of Directors shall be required to select the shares or warrants to be purchased or otherwise acquired rateably or in any other particular manner as between the holders of shares or warrants of the same class or as between them and the holders of shares or warrants of any other class or in accordance with the rights as to dividends or capital conferred by any class of shares, provided that in the case of purchases of redeemable shares, (a) purchases not made through the market or by tender shall be limited to a maximum price and (b) if purchases are by tender, tenders shall be available to all Shareholders alike and provided further that any such purchase or other acquisition or financial assistance shall only be made or given in accordance with any relevant rules or regulations issued by the Stock Exchange or the SFC from time to time in force.

The Company may, from time to time, by ordinary resolution increase its authorised share capital by such sum divided into shares of such amounts as the resolution shall prescribe.

The Company may, from time to time, by ordinary resolution:

- (a) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association and that the resolution whereby any share is subdivided may determine that as between the holders of the shares resulting from such sub-division, one or more of the shares may, as compared with the others, have any preference or advantage;
- (b) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (c) consolidate and divide its share capital or any part thereof into shares of larger amount than its existing shares;
- (d) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its authorised share capital by the amount of the shares so cancelled; or

- (e) make provision for the issue and allotment of shares which do not carry any voting rights.

Save as provided by the Companies Ordinance or the Articles of Association to the contrary, all unissued shares shall be at the disposal of the Directors who may offer, allot, grant options over or otherwise deal with or dispose of the same to such persons and upon such terms as they shall consider fit, provided that no shares of any class shall be issued at a discount to their nominal value except in accordance with the provisions of the Companies Ordinance.

The Company may by special resolution reduce its share capital and any capital redemption reserve fund, any share premium account in any manner allowed by law.

MODIFICATION OF RIGHTS

If, at any time, the Company's share capital is divided into different classes of shares, all or any of the special rights attached to any class of shares (unless otherwise provided for by the terms of issue of the shares of that class) may, subject to the provisions of the Companies Ordinance, be varied, either while the Company is a going concern or during or in contemplation of a winding-up either with the consent in writing of the holders of three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of shares of that class. All the provisions contained in the Articles of Association relating to general meetings shall mutatis mutandis apply to every such meeting but so that the quorum thereof shall be not less than two persons holding or representing by proxy one-third in nominal value of the issued shares of the class, and that any holder of shares of that class present in person or by proxy may demand a poll.

TRANSFERS OF SHARES

All transfers of shares must be effected by an instrument of transfer or, if the transferor or transferee is a Clearing House or its nominee, the instrument of transfer shall be executed by hand or by machine imprinted signature or in writing in the usual common form or in such other form as the Board of Directors may approve by such manner of execution as the Board of Directors may approve from time to time. The instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee. The transferor shall remain the holder of the shares concerned until the name of the transferee is entered in the Company's register of members in respect thereof.

The Board of Directors may, at any time in their absolute discretion and without assigning any reason therefor decline to register any transfer of any share (not being a fully paid up share).

The Board of Directors may also decline to register any transfer unless:

- (a) the instrument of transfer is lodged at the Company's registered office or at such other place as the Directors may appoint;
- (b) the instrument of transfer is in respect of only one class of shares;

- (c) in the case of a transfer to joint holders, the number of transferees does not exceed four;
- (d) the shares concerned are free of any lien in favour of the Company;
- (e) the instrument of transfer is properly stamped;
- (f) such other conditions as the Board of Directors may from time to time impose for the purpose of guarding against losses arising from forgery are satisfied;
- (g) a fee not exceeding the maximum fee prescribed or permitted from time to time by the Stock Exchange is paid to the Company in respect thereof; and
- (h) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the Board of Directors may reasonably require to show the right of the transferor to make the transfer.

If the Board of Directors refuses to register a transfer they will, within ten Business Days after the date on which the transfer was lodged with the Company, send to the transferor and transferee notice of the refusal.

No transfer may be made to an infant or to a person of unsound mind or under other legal disability.

VOTING AT GENERAL MEETINGS

Subject to any rights or restrictions attached to any shares, at a general meeting every Shareholder who is present in person (or in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy is entitled, on a show of hands, to one vote only and, on a poll, to one vote for every fully paid-up share of which he is the holder. Votes may be given either personally or by proxy. A Shareholder entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way. In the case of an equality of votes at any general meeting, whether on a show of hands or on a poll, the chairman of the meeting is entitled to a second or casting vote.

A Shareholder, being a Clearing House (or its nominee), may authorise such person or persons as it thinks fit to act as its proxy or proxies or representative or representatives at any general meeting of Shareholders or at any meeting of any class of Shareholders, provided that, if more than one person is so authorised, the instrument of proxy or authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person so authorised is entitled to exercise the same powers on behalf of the Clearing House (or its nominee) which he represents as that Clearing House (or its nominee) could exercise as if such person were an individual Shareholder and, on a show of hands, each such person is entitled to a separate vote notwithstanding any contrary provision provided by the Articles of Association.

QUALIFICATION OF DIRECTORS

A Director is not required to hold any qualification shares. No person is required to vacate office or be ineligible for re-election or re-appointment as a Director, and no person is ineligible for appointment as a Director, by reason only of his having attained any particular age.

BORROWING POWERS

The Board of Directors may exercise all the powers of the Company to raise or borrow money and to mortgage or charge all or any part of its undertaking, property and uncalled capital. The Board of Directors may issue debentures, debenture stock, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

FEES OF DIRECTORS

The Directors are entitled to receive by way of remuneration for their services such sum as the Company may from time to time by ordinary resolution determine, which (unless otherwise directed by the resolution by which it is voted) is to be divided amongst the Directors in such proportions and in such manner as the Board of Directors may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing shall not apply to a Director who holds any salaried employment or office in the Company except in the case of sums paid in respect of Directors' fees.

The Directors are also entitled to be repaid their reasonable travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Board of Directors, committee meetings or general meetings or otherwise in connection with the discharge of their duties as Directors.

The Directors, or a committee of the Directors, may award special remuneration (by way of bonus, commission, participation in profits or otherwise as the Directors may determine) to any Director who performs services which, in the opinion of the Directors, go beyond the scope of the ordinary duties of a Director.

DIRECTORS' INTERESTS

No Director or intended Director is disqualified by his office from contracting with the Company, nor is any contract or arrangement entered into by or on behalf of the Company in which any Director is in any way interested be liable to be avoided, nor is any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or of any fiduciary relationship thereby established, provided that such Director shall disclose the nature of his interest in any contract or arrangement in which he is interested as required by and subject to the provisions of the Companies Ordinance.

A Director may not vote nor be counted in the quorum on any resolution of the Board of Directors in respect of any contract or arrangement or matter in which he or any of his associate(s) has, directly or indirectly, a material interest (other than an interest in shares, debentures or other securities of, or otherwise in or through, the Company), but this prohibition does not apply to any of the following matters:

- (a) any contract or arrangement for the giving of any guarantee, security or indemnity to the Director or his associate(s) in respect of money lent to, or obligations incurred by him or any of them at the request of or for the benefit of, the Company or any of its subsidiaries;
- (b) any contract or arrangement for the giving of any guarantee, security or indemnity to a third party in respect of an obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (c) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/are intending to become interested as a participant in the underwriting or sub-underwriting of the offer;
- (d) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in those shares or debentures or other securities;
- (e) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or his associate(s) is/are beneficially interested in shares of that company, other than a company in which the Director together with any of his associates are in aggregate the holders of or beneficially interested in 5% or more of the issued shares of any class of such company (or of any other company through which his interest or that of his associates is derived) or of the voting rights attaching to such issued shares;
- (f) any proposal or arrangement concerning the benefit of the employees of the Company or any of its subsidiaries, including the adoption, modification or operation of a pension fund or retirement, death or disability benefit scheme, which relates to the Directors, his associates and employees of the Company or any of its subsidiaries and does not accord to any Director or his associate(s) as such any privilege or advantage not generally accorded to the employees to whom such arrangement relates; and

- (g) any proposal or arrangement concerning the adoption, modification or operation of any employees' share scheme or any share incentive or share option scheme for the benefit of the employees of the Company or any of its subsidiaries under which the Director or his associate(s) may benefit.

A Director may continue to be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or in which the Company may be interested, and shall not be liable to account to the Company for any remuneration or other benefit received by him as a director or other officer or from his interest in such other company. The Board of Directors may exercise the voting powers conferred by the shares in any other company held or owned by the Company or exercisable by them as directors of such other company in such manner as the Board of Directors thinks fit (including the exercise thereof in favour of any resolution appointing themselves or any of them directors, managing directors, joint managing directors, deputy managing directors, executive directors, chief executive officers, managers or other officers of such company) and any Director may vote in favour of the exercise of such voting rights in the manner aforesaid notwithstanding that he may be, or be about to be, appointed a director, managing director, joint managing director, deputy managing director, executive director, chief executive officer, manager or other officer of such a company, and that as such he is or may become interested in the exercise of such voting rights in the manner aforesaid. A Director or his firm may not act as the auditors of the Company.

DIVIDENDS

The Company may by ordinary resolution declare dividends but no such dividend shall exceed the amount recommended by the Board of Directors. No dividend shall be payable except out of the profits or other distributable reserves of the Company, and no dividend shall bear interest against the Company.

Unless otherwise provided by the Articles of Association or the rights attached to shares or the terms of issue thereof, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid. If any share is issued on terms that it ranks for dividend as from a particular date, it shall rank for dividend accordingly. In any other case, dividends shall be apportioned and paid proportionately to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated as paid on the share.

The Company may retain any dividend or other moneys payable on or in respect of a share on which the Company has a lien, and may apply the same in or towards satisfaction of the debts and liabilities in respect of which the lien exists. The Board of Directors may deduct from any dividend or bonus payable to any Shareholder all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

In respect of any dividend which the Board of Directors has resolved to pay or any dividend declared, the Board of Directors may determine and announce, prior to or contemporaneously with the announcement or declaration of the dividend in question either (i) that Shareholders entitled thereto will receive in lieu of such dividend (or such part thereof as the Board of Directors may think fit) an allotment of shares credited as fully paid provided that the Shareholders are at the same time accorded the right to elect to receive such dividend (or part thereof as the case may be) in cash in lieu of such allotment or (ii) that Shareholders entitled to such dividend be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Board of Directors may think fit. Notwithstanding the above, the Company may, upon the recommendation of the Board of Directors, by ordinary resolution resolve in respect of any one particular dividend that a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to Shareholders to elect to receive such dividend in cash in lieu of such allotment.

The Directors may distribute in kind among the Shareholders in satisfaction in whole or in part of any dividend any of the assets of the Company, and in particular any shares or securities of other companies to which the Company is entitled.

All dividends unclaimed after a period of one year from the date of declaration of such dividends may be invested or otherwise made use of by the Board of Directors for the benefit of the Company until claimed, and all dividends unclaimed after a period of six years from having become payable may be forfeited by the Board of Directors and cease to remain owing by the Company.

INDEMNITY

Each of the Directors or other officer or auditors of the Company shall be indemnified out of the assets of the Company against all liabilities incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted or in connection with any application in which relief from liability is granted to him by the court.

Subject to the provisions of the Companies Ordinance, the Directors may exercise all the powers of the Company to purchase and maintain insurance for the benefit of a person who is a director, alternate director, manager, secretary or officer of the Company or the auditors of the Company for the purpose of indemnifying such persons and keeping them indemnified against liability for negligence, default, breach of duty or breach of trust or other liability which may lawfully be insured against by the Company and any liability which may be incurred by him in defending any proceedings, whether civil or criminal, taken against him for any negligence, default, breach of duty or breach of trust (including fraud) of which he may be guilty in relation to the Company or a related company.

The following is the text of a letter, summary of valuation and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Knight Frank, an independent valuer, in connection with its valuation as at 31 March 2004 of the property interests of the Group. Under paragraph 34(4) of the Third Schedule to the Companies Ordinance, the Company would normally be required to include a copy of the valuation report prepared for DSFH for the purposes of DSFH's audited consolidated accounts for the year ended 31 December 2003. The SFC has granted an exemption from strict compliance with paragraph 34(4) of the Third Schedule to the Companies Ordinance on the condition that the value of each of the properties owned by the Group as at 31 December 2003 is included. For further details of the exemption from the SFC, see the section headed "The Company and its Business — Exemption from the SFC" in this prospectus. Details of the open market valuations of Property Nos. 1 to 25 in Groups I, II and III as at 31 December 2003 conducted by Knight Frank are also included in the summary of valuation and valuation certificates.



29th Floor
Office Tower
Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

18 June 2004

The Directors
Dah Sing Banking Group Limited
36th Floor, Dah Sing Financial Centre
108 Gloucester Road
Wan Chai
Hong Kong

Dear Sirs

We refer to your instructions for us to value the properties in Hong Kong and the People's Republic of China (the "PRC") in which Dah Sing Banking Group Limited (the "Company") and/or its subsidiaries (collectively the "Group") have interests as at the date of this report, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of such interests as at 31 March 2004.

Our valuation of each of the properties is our opinion of the open market value which we would define as meaning “the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuations have been made on the assumption that the owners sell the properties on the open market in their existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to increase the value of each of the properties.

In valuing the property interest in the PRC as set out in Group III on page 10 below, we have assumed that a transferable land use right in respect of this property for a specific term at a normal annual use fee has been granted and that any premium payable has already been fully paid. We have also assumed that the grantee or the user of the property interest has free and uninterrupted rights to use or to assign the property interest for the whole of the unexpired term as granted. We have also relied on the advice given by the Group and its legal adviser on PRC laws, Guangdong Gain Law Firm, regarding the title to this property interest and the interest of the Group in this property.

In valuing the property interests in Groups I and III, and the portion of properties in Group II, which are vacant or occupied by the Group, we have valued such properties by the Direct Comparison Method assuming sale of the respective properties on an immediate vacant possession basis and by making reference to comparable sales transactions.

In valuing the property interests that are subject to existing tenancies in Group II, we have valued them by the Investment Method whereby the current rents passing are capitalised for the residue of their tenancy terms, with reversionary interests to vacant possession deferred for the same periods.

The properties in Groups IV, V and VI, which are leased by the Group in Hong Kong and the PRC, have no commercial value due to the short term nature of the tenancies, the prohibitions against assignment or the lack of substantial profit rent.

In undertaking our valuation, we have disregarded the special fixtures and fittings such as safes, vaults and deposit boxes installed in the properties.

In valuing those properties in Hong Kong the Government leases of which expired before 30 June 1997, we have taken into account the stipulations contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the question of Hong Kong and the New Territories Leases (Extension) Ordinance that such lease terms have been extended without premium until 30 June 2047 and that annual rents at three per cent. of the then rateable values of the properties are charged from the date of extension.

In respect of the properties situated in Hong Kong, we have caused searches to be made at the Land Registry. Regarding the property in the PRC, we have been provided with a copy of the title document. However, we have not scrutinised the original documents to verify ownership nor to ascertain the existence of any amendments which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a considerable extent on the information provided by the Group and its legal adviser on PRC laws and have accepted the advice given to us on such matters as statutory notices, easements, tenure, particulars of occupancy, floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation certificates are based on the information contained in the documents and leases provided to us and are therefore only approximations. We have no reason to doubt the truth and accuracy of the information provided to us by the Group and/or its legal adviser. We were also advised that no material facts have been omitted from the information so supplied. We consider that we have been provided with sufficient information to reach an informed view.

We have inspected the exterior of all the properties valued and, where possible the interior of the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the properties are or are not free from rot, infestation or any other structural defects. No tests were carried out on any of the services of the properties.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

Unless otherwise stated, all sums stated in our valuation are in Hong Kong dollars. The exchange rate adopted in our valuation is approximately HK\$1 = RMB1.06 and there has been no significant fluctuation in such exchange rate between our valuation date and the date of this letter.

We enclose herewith our summary of valuation and valuation certificates.

Yours faithfully
for and on behalf of
KNIGHT FRANK
C.K. Lau
MHKIS MRICS RPS (GP)
Executive Director

Note: Mr C.K. Lau, who is a professional member of the Hong Kong Institute of Surveyors, a professional member of the Royal Institution of Chartered Surveyors and a Registered Professional Surveyor in General Practice, has over 10 years of post-qualification experience in valuing properties in Hong Kong and the PRC.

SUMMARY OF VALUATION

| Property | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|--|---|
| Group I — Property interests owned and occupied by the Group in Hong Kong | | |
| 1. Shop A on Ground Floor including one open yard, Chu Kee Building, 433-437 King's Road, North Point, Hong Kong | HK\$20,000,000 | HK\$22,000,000 |
| 2. Shop No. G8 on Ground Floor and Car Parking Space No. 6 on First Floor, Tai On Building, 57-87 Shau Kei Wan Road and 15 Tai On Street, Sai Wan Ho, Hong Kong | HK\$8,300,000 | HK\$9,000,000 |
| 3. Ground Floor of 164 Johnston Road and First Floors of 164 and 166 Johnston Road, Mei Wah Building, Wan Chai, Hong Kong | HK\$11,000,000 | HK\$13,000,000 |
| 4. Shop No. A on Ground Floor, Worldwide House, 19 Des Voeux Road Central, Hong Kong | HK\$150,000,000 | HK\$175,000,000 |
| 5. Shops E and F on Ground Floor, Golden Crown Court, 66-70 Nathan Road, Tsim Sha Tsui, Kowloon | HK\$36,500,000 | HK\$42,000,000 |
| 6. Ground and First Floors of 561 Nathan Road and 22 Hamilton Street, Mong Kok, Kowloon | HK\$27,000,000 | HK\$30,000,000 |

| Property | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|--|--|---|
| 7. Shop Nos. 109 and 120 on Ground Floor of Block B, I-Feng Mansions, 237A To Kwa Wan Road, To Kwa Wan, Kowloon | HK\$6,200,000 | HK\$6,500,000 |
| 8. Ground Floor together with open yard and exterior walls of shop, 10 Choi Hung Road, San Po Kong, Kowloon | HK\$4,000,000 | HK\$4,000,000 |
| 9. Ground Floor (Shop No. 4) and First Floor (Flat C), Wah On Building, 49 Mut Wah Street, Kwun Tong, Kowloon | HK\$16,000,000 | HK\$18,000,000 |
| 10. Shop A on Ground Floor, Tak Yue Mansion, 4-6 Dock Street, Hung Hom, Kowloon | HK\$6,000,000 | HK\$6,200,000 |
| 11. The whole of Basement of 695, 695A and 697 Nathan Road, Ground Floor of 697 Nathan Road, roofs and external walls of 695, 695A and 697 Nathan Road, Winner Mansion, 691-697 Nathan Road, Mong Kok, Kowloon | HK\$45,000,000 | HK\$51,500,000 |
| 12. Basement, Ground Floor and office unit on First Floor, 335 Nathan Road, Yau Ma Tei, Kowloon | HK\$40,000,000 | HK\$45,000,000 |

| Property | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|--|---|
| 13. Shop 9 on Level 1, Shatin New Town, 1-15 Wang Pok Street, Shatin, New Territories | HK\$22,000,000 | HK\$22,000,000 |
| 14. Shops 2 and 3 on Ground Floor, Tung Chong Mansion, 59B Yuen Long On Ning Road, Yuen Long, New Territories | HK\$6,100,000 | HK\$6,500,000 |
| Sub-total: | <u>HK\$398,100,000</u> | <u>HK\$450,700,000</u> |

| Property | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|--|--|---|
| Group II — Property interests held by the Group in Hong Kong for occupation and investment | | |
| 15. Units 1, 6, 7, 8, 9 and 10 on 17th Floor, Units 1-10 on 18th to 20th Floors, Island Place Tower, Island Place, 510 King's Road, North Point, Hong Kong | HK\$170,756,000 <i>(see Note)</i> | HK\$195,000,000 |
| 16. Portion "AA" on Ground Floor and Flat A in Basement, Thai Kong Building, 482 Hennessy Road, Causeway Bay, Hong Kong | HK\$77,000,000 | HK\$90,000,000 |
| 17. Shop D on Ground Floor, Flat A on First Floor, main roof and the exterior south-west walls, Hung On Building, 2-4A King's Road and 3 Tin Hau Temple Road, Tin Hau, Hong Kong | HK\$22,300,000 | HK\$22,300,000 |
| 18. Flat Nos. 26 and 28 on Ground Floor, Man King Building, 26 and 28 Man Wui Street, Yau Ma Tei, Kowloon | HK\$3,900,000 | HK\$3,900,000 |
| 19. Shops A and B on Ground Floor, Hong Lee Building, 444-450 Castle Peak Road, Lai Chi Kok, Kowloon | HK\$7,700,000 | HK\$7,700,000 |

Note: This is the value apportioned from our valuation at HK\$185,000,000 as at 31 December 2003 for Units 1-10 on 17th, 18th, 19th and 20th Floors.

| Property | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|--|--|---|
| 20. Ground Floor (including its open yards) with Cockloft (including external wall up to the ceiling level of the Cockloft) Wing Yip Building, 193A Castle Peak Road, Sham Shui Po, Kowloon | HK\$11,000,000 | HK\$11,000,000 |
| 21. Ground Floor, 301 and 303 Ngau Tau Kok Road and 1, 3, 5 and 7 Luen On Street, Ngau Tau Kok, Kowloon | HK\$20,000,000 | HK\$21,000,000 |
| 22. Units 5, 6, 7 and 8 on Upper Ground Floor, South Seas Centre, 75 Mody Road, Tsim Sha Tsui East, Kowloon | HK\$4,700,000 | HK\$4,800,000 |
| 23. Ground Floor including the Cockloft, 142 Cheung Sha Wan Road and the External Wall of 140-142 Cheung Sha Wan Road, Dah Sing Building, 140-142 Cheung Sha Wan Road, Sham Shui Po, Kowloon | HK\$14,500,000 | HK\$16,000,000 |
| 24. Shop Nos. 5 and 6A on Ground Floor and the External Walls of the said shops (up to the First Floor canopy level), Dang Fat Mansion, 10-16 & 20 Tai Ho Road and 7-11 On Wing Street, Tsuen Wan, New Territories | HK\$38,000,000 | HK\$48,000,000 |
| Sub-total: | <u>HK\$369,856,000</u> | <u>HK\$419,700,000</u> |

| Property | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|--|---|
| Group III — Property interest held by the Group in the PRC for occupation and investment | | |
| 25. Room 1504 on 15th Floor, Shenzhen Development Centre, Ren Min Road South, Luo Hu, Shenzhen, Guangdong Province, The PRC | HK\$1,400,000 | HK\$1,400,000 |
| Sub-total: | <u>HK\$1,400,000</u> | <u>HK\$1,400,000</u> |

Group IV — Property interests leased by the Group in Hong Kong

| | |
|---|---------------------|
| 26. Shop B on Ground Floor and First Floor, Suites 3107-3110 on 31st Floor, the whole of 33rd-37th Floors and Car Parking Space Nos. 2-22, 2-23 and 2-32 to 2-43 on 2nd Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wan Chai, Hong Kong | No commercial value |
| 27. Ground Floor and Cockloft, 20 Wu Pak Street, Aberdeen, Hong Kong | No commercial value |
| 28. Shop No. 10 on First Floor of the Podium, Admiralty Centre, 18 Harcourt Road, Central, Hong Kong | No commercial value |
| 29. Ground Floor, 85 Queen's Road Central, Hong Kong | No commercial value |

| Property | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|--|--|---|
| 30. Shop A on Ground Floor, 212-214 Des Voeux Road Central, Sheung Wan, Hong Kong | | No commercial value |
| 31. Shop A on Ground Floor, Hooley Mansions, 21-23 Wong Nai Chung Road, Happy Valley, Hong Kong | | No commercial value |
| 32. Unit G59 on Ground Floor (also known as Bank 3), Central Commercial Block, Heng Fa Chuen Shopping Centre, Heng Fa Chuen, 100 Shing Tai Road, Hong Kong | | No commercial value |
| 33. Ground Floor, 963 King's Road, Quarry Bay, Hong Kong | | No commercial value |
| 34. Shop No. 15 on Ground Floor, Pacific Plaza, 410-424B Des Voeux Road West, Western District, Hong Kong | | No commercial value |
| 35. Shops E and F on Ground Floor, 45 Haiphong Road, Tsim Sha Tsui, Kowloon | | No commercial value |
| 36. Shop units F5A-F6A on Level 2, Telford Plaza, 33 Wai Yip Street, Kowloon Bay, Kowloon | | No commercial value |

| Property | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|--|---|
| 37. Machine Corner Space No. MC-02 between the shop fronts of Shop Unit G53A and Shop Unit G96 at Ground Floor of Telford Plaza I of Telford Gardens, 33 Wai Yip Street, Kowloon Bay, Kowloon | | No commercial value |
| 38. Units 909 - 910 on 9th Floor of Tower I, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road, Lai Chi Kok, Kowloon | | No commercial value |
| 39. Bank Counter, Ground Floor of Block C, New Kwai Fong Gardens, 2-20 Kwai Yi Road, Kwai Chung, New Territories | | No commercial value |
| 40. Shop No. P8 of Podium Floor, Luk Yeung Galleria, 22-66 Wai Tsuen Road, Tsuen Wan, New Territories | | No commercial value |
| 41. Shop No. 316 on Level 3, Maritime Square, 33 Tsing King Road, Tsing Yi, New Territories | | No commercial value |
| 42. Shop No. 223 on UG-A, Tuen Mun Jusco Stores, Tuen Mun Town Plaza Phase I, 1 Tuen Shing Street and 1 Tuen Shun Street, Tuen Mun, New Territories | | No commercial value |

| Property | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|--|---|
| 43. Shop No. 16 on Upper Ground Floor, Tuen Mun Town Plaza Phase II, 3 Tuen Lung Street, Tuen Mun, New Territories | | No commercial value |
| 44. Shop No. 124 of the Commercial Accommodation of Pierhead Garden, 168-236 Wu Chui Road, Tuen Mun, New Territories | | No commercial value |
| 45. Shop No. 111A, Shopping Centre, Kin Sang Estate, 3 Leung Wan Street, Tuen Mun, New Territories | | No commercial value |
| 46. ATM at Atrium Corner 1 on Ground Floor, Commercial Complex of Chelsea Heights, 1 Shek Pai Tau Path, Tuen Mun, New Territories | | No commercial value |
| 47. Shop No. 132, Chung Fu Shopping Centre, 30-33 Tin Wah Road, Tin Shui Wai, Yuen Long, New Territories | | No commercial value |
| 48. Unit 248 on 2nd Floor, Citygate, Tung Chung, Lantau Island, New Territories | | No commercial value |
| 49. Shop 4 on Ground Floor, Block 7, Verbena Heights, 8 Mau Tai Road, Tseung Kwan O, New Territories | | No commercial value |

| Property | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|--|---|
| 50. Shop Nos. 287-288 on Level 2 of the Podium, Ma On Shan Plaza, 608 Sai Sha Road, Ma On Shan, Sha Tin, New Territories | | No commercial value |
| 51. Shop No. 012d on Level 1, Zone A, Tai Po Mega Mall, On Pong Road, Tai Po, New Territories | | No commercial value |
| 52. Shop No. 201 and Unit 3, Wah Ming Shopping Centre, 21 Wah Ming Road, Fanling, New Territories | | No commercial value |
| Sub-total: | | <u>No commercial value</u> |
| Group V — Property interest leased by the Group in the PRC | | |
| 53. Shop at Level 1, Xi Long Building (熙龍大廈), 2055 Ren Min Road South, Luo Hu, Shenzhen, Guangdong Province, The PRC | | No commercial value |
| Sub-total: | | <u>No commercial value</u> |

| Property | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|--|--|---|
| Group VI — Property interest contracted to be leased by the Group in Hong Kong | | |
| 54. Portion C of Shop No. N95 on First Floor, 1-11, 15-17 Mount Sterling Mall and 10-16 Lai Wan Road, Mei Foo Sun Chuen, Lai Chi Kok, Kowloon | _____ | No commercial value |
| Sub-total: | _____ | <u>No commercial value</u> |
| Grand total: | <u>HK\$769,356,000</u> | <u>HK\$871,800,000</u> |

VALUATION CERTIFICATE

Group I — Property interests owned and occupied by the Group in Hong Kong

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|--|---|---|--|---|
| 1. Shop A on Ground Floor including one open yard, Chu Kee Building, 433-437 King's Road, North Point, Hong Kong 8/79th shares of and in Sections B and C of Inland Lot No. 3504. | <p>The property comprises a shop unit on the Ground Floor of a 22-storey composite building completed in about 1974.</p> <p>The saleable area of the property is approximately 1,755 sq.ft. (163.04 sq.m.) plus a yard of approximately 50 sq.ft. (4.65 sq.m.)</p> <p>The property is held under a Conditions of Sale for a term of 75 years from 17 October 1932 renewable for a further term of 75 years.</p> <p>The Government rent payable for the subject sections of the lot is HK\$92 per annum.</p> | The property is occupied by the Group for its banking business. | HK\$20,000,000 | HK\$22,000,000 |

Note: The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|--|---|--|---|
| 2. Shop No. G8 on Ground Floor and Car Parking Space No. 6 on First Floor, Tai On Building, 57-87 Shau Kei Wan Road and 15 Tai On Street, Sai Wan Ho, Hong Kong | <p>The property comprises a shop unit on the Ground Floor and an open car parking space on the First Floor of a 29-storey composite building completed in about 1968.</p> <p>The saleable area of the shop unit is approximately 850 sq.ft. (78.97 sq.m.).</p> <p>The property is held under a Conditions of Exchange for a term of 75 years from 24 December 1906 renewed for a further term of 75 years.</p> <p>The Government rent payable for the property is HK\$936 per annum.</p> | The property is occupied by the Group for its banking business. | HK\$8,300,000 | HK\$9,000,000 |
| 2/2,094th shares of and in the Remaining Portion of Section A of Shau Kei Wan Inland Lot No. 738 and the Remaining Portion of Shau Kei Wan Inland Lot No. 738. | | | | |

Notes:

- (1) The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.
- (2) The property is subject to Order No. D0011/HK/01 under Sec. 26 of the Buildings Ordinance issued by the Building Authority registered by Memorial No. 8455303 dated 18 July 2001. This Order requires the owners of Tai On Building to carry out repair works for the exterior and common areas of the building. The said Order would not have any material impact on our valuation and the Company has also confirmed that it is being complied with.

| Property | Description and tenure | Particulars of occupancy | Capital value | Capital value |
|--|--|---|--|---------------------------------------|
| | | | in existing state as at 31 December 2003 | in existing state as at 31 March 2004 |
| 3. Ground Floor of 164 Johnston Road and First Floors of 164 and 166 Johnston Road, Mei Wah Building, Wan Chai, Hong Kong 3/106th shares of and in the Remaining Portion of Marine Lot No. 119. | <p>The property comprises a shop unit on the Ground Floor and two units on the First Floor of a 14-storey composite building completed in about 1963.</p> <p>The saleable areas of the property are approximately as follows:</p> <p>Ground Floor: 547 sq.ft. (50.82 sq.m.)</p> <p>First Floor: 887 sq.ft. (82.41 sq.m.)</p> <p>The property is held under a Government lease for a term of 999 years from 15 May 1855.</p> <p>The Government rent payable for Marine Lot No. 119 is HK\$206.58 per annum.</p> | The property is occupied by the Group for its banking business. | HK\$11,000,000 | HK\$13,000,000 |

Note: The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.

| | | | | |
|---|--|---|-----------------|-----------------|
| 4. Shop No. A on Ground Floor, Worldwide House, 19 Des Voeux Road Central, Hong Kong 1,866/123,000th shares of and in Inland Lot No. 8432. | <p>The property comprises a corner shop unit on the Ground Floor of a 28-storey commercial building completed in about 1981.</p> <p>The saleable area of the property is approximately 3,150 sq.ft. (292.64 sq.m.).</p> <p>The property is held under a Conditions of Grant for a term of 75 years from 15 April 1978 renewable for a further term of 75 years.</p> <p>The Government rent payable for Inland Lot No. 8432 is HK\$1,000 per annum.</p> | The property is occupied by the Group for its banking business. | HK\$150,000,000 | HK\$175,000,000 |
|---|--|---|-----------------|-----------------|

Note: The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|--|---|--|---|
| 5. Shops E and F on Ground Floor, Golden Crown Court, 66-70 Nathan Road, Tsim Sha Tsui, Kowloon | The property comprises two shop units on the Ground Floor of a 17-storey composite building completed in about 1964. | The property is occupied by the Group for its banking business. | HK\$36,500,000 | HK\$42,000,000 |
| 2/155th shares of and in the Remaining Portions of Kowloon Inland Lots Nos. 6824 and 6726. | The saleable area of the property is approximately 1,580 sq.ft. (146.79 sq.m.). The property is held under two Conditions of Regrant each for a term of 150 years from 24 June 1889. The Government rent payable for the property is HK\$18 per annum. | | | |

Notes:

- (1) The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.
- (2) The property is subject to a payment to the Government an instalment of premium of HK\$458 per annum until June 2038.
- (3) The property is subject to Order No. DRZ/U17/0002/03 under Sec. 28(3) of the Buildings Ordinance issued by the Building Authority registered by Memorial No. 9190710 dated 13 February 2004. This Order requires the owners of Golden Crown Court to repair and renew the defective common drains. The said Order would not have any material impact on our valuation and the Company has also confirmed that it is being complied with.

| Property | Description and tenure | Particulars of occupancy | Capital value | Capital value |
|---|---|--|---|--|
| | | | in existing state as at 31 December 2003 | in existing state as at 31 March 2004 |
| 6. Ground and First Floors of 561 Nathan Road and 22 Hamilton Street, Mong Kok, Kowloon | The property comprises two shop units on the Ground Floor and two units on the First Floor of an 8-storey composite building completed in about 1958. | The front portion of the Ground and First Floors of the property is occupied by the Group for its banking business whilst the remainder of the property is vacant. The total vacant area is approximately 1,256 sq.ft. (116.69 sq.m.). | HK\$27,000,000 | HK\$30,000,000 |
| 4/16th shares of and in Kowloon Inland Lot No. 2083. | The saleable areas of the property are approximately as follows: Ground Floor: 1,226 sq.ft. (113.90 sq.m.) plus a yard: 40 sq.ft. (3.72 sq.m.) First Floor: 1,602 sq.ft. (148.83 sq.m.) plus a terrace: 173 sq.ft. (16.07 sq.m.) The property is held under a Government lease for a term of 75 years from 28 December 1921 renewed for a further term of 75 years. The Government rent payable for the property is HK\$73,564 per annum. | | | |

Notes:

- (1) The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.
- (2) The property is subject to Order No. INVO 29/K/97/P2 under Sec. 26A(1) and 28(3) of the Buildings Ordinance issued by the Building Authority registered by Memorial No. 7009606 dated 4 March 1997. This Order requires the owners of the building at 561 Nathan Road and 22 Hamilton Street to appoint an Authorised Person to investigate and report on the extent and location of dilapidation/defects in the common areas, common drains and the exterior of the building and to submit proposals for remedial works as regards the dilapidation/defects found in the investigation. The Company has confirmed that the Government's appointed contractor has carried out the works as required by the said Order on behalf of the owners of the building and the Company is waiting for the notification of the cost apportionment. The said Order would not have any material impact on our valuation.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|---|---|--|---|
| 7. Shop Nos. 109 and 120 on Ground Floor of Block B, I-Feng Mansions, 237A To Kwa Wan Road, To Kwa Wan, Kowloon 52/7,432nd shares of and in the Remaining Portion of Section A of Kowloon Marine Lot No. 73. | <p>The property comprises two shop units on the Ground Floor of a 15-storey composite building completed in about 1972.</p> <p>The saleable area of the property is approximately 957 sq.ft. (88.91 sq.m.) plus a yard of approximately 40 sq.ft. (3.72 sq.m.).</p> <p>The property is held under a Government lease for a term of 75 years from 7 April 1902 renewed for a further term of 75 years.</p> <p>The Government rent payable for the property is HK\$1,818 per annum.</p> | The property is occupied by the Group for its banking business. | HK\$6,200,000 | HK\$6,500,000 |

Note: The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|--|---|---|--|---|
| 8. Ground Floor together with open yard and exterior walls of shop, 10 Choi Hung Road, San Po Kong, Kowloon 3/16th shares of and in Section A of New Kowloon Inland Lot No. 4640. | <p>The property comprises a shop unit on the Ground Floor of a 6-storey composite building completed in about 1964.</p> <p>The saleable area of the property is approximately 734 sq.ft. (68.19 sq.m.) plus a yard of approximately 22 sq.ft. (2.04 sq.m.).</p> <p>The property is held under a Conditions of Sale for a term of 99 years less the last three days from 1 July 1898 and the lease term is statutorily extended to 30 June 2047.</p> <p>The annual Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property.</p> | The property is occupied by the Group for its banking business. | HK\$4,000,000 | HK\$4,000,000 |

Notes:

- (1) The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.
- (2) The property is subject to Order No. D10019/K/00/BZ/TC under Sec. 26 of the Buildings Ordinance issued by the Building Authority registered by Memorial No. 9119170 dated 19 December 2003. This Order requires the owners of the building at 8 and 10 Choi Hung Road to carry out repair works for the common areas and the exterior of the building. The said Order would not have any material impact on our valuation and the Company has also confirmed that it is being complied with.
- (3) The property is subject to Order No. DR 02403/K/03/TCW/TC under Sec. 28(3) of the Buildings Ordinance issued by the Building Authority registered by Memorial No. 9119185 dated 19 December 2003. This Order requires the owners of the building at 8 and 10 Choi Hung Road to repair and renew the defective common drains. The said Order would not have any material impact on our valuation and the Company has also confirmed that it is being complied with.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|---|---|--|---|
| 10. Shop A on Ground Floor, Tak Yue Mansion, 4-6 Dock Street, Hung Hom, Kowloon 40/267th shares of and in Hung Hom Inland Lots Nos. 421 and 426. | <p>The property comprises a shop unit on the Ground Floor of a 14-storey composite building completed in 1990.</p> <p>The saleable area of the property is approximately 746 sq.ft. (69.31 sq.m.).</p> <p>The property is held under a Conditions of Regrant and a Government lease each for a term of 150 years from 9 May 1887.</p> <p>The total Government rent payable for Hung Hom Inland Lots Nos. 421 and 426 is HK\$92 per annum.</p> | The property is occupied by the Group for its banking business. | HK\$6,000,000 | HK\$6,200,000 |

Note: The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|--|---|--|---|
| 11. The whole of Basement of 695, 695A and 697 Nathan Road, Ground Floor of 697 Nathan Road, roofs and external walls of 695, 695A and 697 Nathan Road, Winner Mansion, 691-697 Nathan Road, Mong Kok, Kowloon 6/60th shares of and in the Remaining Portions of Kowloon Inland Lots Nos. 2260 and 2262. | <p>The property comprises the Basement, a shop unit on the Ground Floor and a portion of the roof and the external walls of an 18-storey composite building completed in about 1968.</p> <p>The saleable areas of the property are approximately as follows:</p> <p>Basement: 2,665 sq.ft. (247.59 sq.m.)</p> <p>Ground Floor: 1,328 sq.ft. (123.38 sq.m.)</p> <p>Yard: 107 sq.ft. (9.94 sq.m.)</p> <p>Roof: 2,120 sq.ft. (196.95 sq.m.)</p> | The property is occupied by the Group for its banking business. | HK\$45,000,000 | HK\$51,500,000 |
| | <p>The property is held under two Government leases each for a term of 75 years from 18 February 1910 renewed for a further term of 75 years.</p> <p>The Government rent payable for the property is HK\$27,540 per annum.</p> | | | |

Notes:

- The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.
- The property is subject to Order No. DR03041/K/03/TCW/TF under Sec. 28(3) of the Buildings Ordinance issued by the Building Authority registered by Memorial No. 9173248 dated 5 February 2004. This Order requires the owners of the building at 695, 695A and 697 Nathan Road to repair and renew the defective common drains. The said Order would not have any material impact on our valuation and the Company has also confirmed that it is being complied with.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|---|---|--|---|
| 12. Basement, Ground Floor and office unit on First Floor, 335 Nathan Road, Yau Ma Tei, Kowloon | The property comprises the whole of the Basement and the Ground Floor and an office unit on the First Floor of a 19-storey commercial building completed in about 1971 and was renovated in the 1990's. | The property is occupied by the Group for its banking business. | HK\$40,000,000 | HK\$45,000,000 |
| 111/292nd shares of and in the Remaining Portion of Kowloon Inland Lot No. 1352. | The saleable areas of the property are approximately as follows: Basement: 1,670 sq.ft. (155.15 sq.m.) Ground Floor: 1,175 sq.ft. (109.16 sq.m.) Yard: 40 sq.ft. (3.72 sq.m.) First Floor: 1,528 sq.ft. (141.96 sq.m.) The property is held under a Government lease for a term of 75 years from 26 November 1917 renewed for a further term of 75 years. The Government rent payable for the property is HK\$100,764 per annum. | | | |

Note: The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|---|---|--|---|
| 13. Shop 9 on Level 1, Shatin New Town, 1-15 Wang Pok Street, Shatin, New Territories 1,158/83,186th shares of and in Sha Tin Town Lot No. 15. | <p>The property comprises a shop unit on Level 1 of the shopping arcade in a residential development completed in about 1983.</p> <p>The saleable area of the property is approximately 2,365 sq.ft. (219.71 sq.m.).</p> <p>The property is held under New Grant No. 11167 for a term of 99 years less the last three days from 1 July 1898 and the lease term is statutorily extended to 30 June 2047.</p> <p>The annual Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property.</p> | The property is occupied by the Group for its banking business. | HK\$22,000,000 | HK\$22,000,000 |

Note: The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|--|---|---|--|---|
| 14. Shops 2 and 3 on Ground Floor, Tung Chong Mansion, 59B Yuen Long On Ning Road, Yuen Long, New Territories 37/200th shares of and in Yuen Long Town Lot No. 264. | <p>The property comprises two shop units on the Ground Floor of a 14-storey composite building completed in about 1979.</p> <p>The saleable area of the property is approximately 835 sq.ft. (77.57 sq.m.) plus a yard of approximately 100 sq.ft. (9.29 sq.m.).</p> <p>The property is held under a New Grant for a term of 99 years less the last three days from 1 July 1898 and the lease term is statutorily extended to 30 June 2047.</p> <p>The annual Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property.</p> | The property is occupied by the Group for its banking business. | HK\$6,100,000 | HK\$6,500,000 |

Notes:

- (1) The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.
- (2) The property is subject to Order No. DR 00105/NT/03/TF under Sec. 28(3) of the Buildings Ordinance issued by the Building Authority registered by Memorial No. 1049917 dated 2 July 2003. This Order requires the owners of Tung Chong Mansion (except those of Flat B on the 3rd Floor, Flat B on the 13th Floor and the roof) to repair or renew the defective common drains. The said Order would not have any material impact on our valuation and the Company has also confirmed that it is being complied with.

Group II — Property interests held by the Group in Hong Kong for occupation and investment

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|--|--|--|---|
| 15. Units, 1, 6, 7, 8, 9 and 10 on 17th Floor, Units 1-10 on 18th to 20th Floors, Island Place Tower, Island Place, 510 King's Road, North Point, Hong Kong | <p>The property comprises 6 office units on the 17th Floor and the whole of the 18th, 19th and 20th Floors of a 27-storey office building completed in about 1997.</p> <p>The total gross floor area of the property is approximately 77,228 sq.ft. (7,174.72 sq.m.)</p> | <p>A portion of Unit 1 on 17th Floor, the whole of 19th Floor and a portion of 20th Floor are occupied by the Group as offices.</p> <p>A portion of Unit 6 on 17th Floor is subject to a tenancy for a term of 3 years from 1 May 2004 at a rent of HK\$18,176.40 per month exclusive of rates and service charges with an option to renew for a further term of 3 years at the then open market rent.</p> <p>A portion of 17th Floor with a gross floor area of approximately 2,256 sq.ft. (209.59 sq.m.) will be leased by the Group to DSIS for a term of 3 years from 1 July 2004 at a rent of HK\$20,304 per month exclusive of management fees, government rates, electricity, service charges and air-conditioning charges.</p> <p>The remaining portion of 17th Floor is vacant and the area of which is approximately 7,878 sq.ft. (731.89 sq.m.).</p> <p>18th Floor of the property is subject to a tenancy for a term of 3 years from 1 March 2003 at a rent of HK\$199,234 per month exclusive of rates and service charges.</p> | <p>HK\$170,756,000 (see Note 2)</p> | <p>HK\$195,000,000</p> |
| 1,981/62,411th shares of and in Inland Lot No. 8849. | <p>The property is held under a Conditions of Exchange for a term commencing on 22 June 1995 and expiring on 30 June 2047.</p> <p>The annual Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property.</p> | | | |

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|----------|------------------------|---|--|---|
| | | <p>A portion of 20th Floor with a gross floor area of approximately 9,936 sq.ft. (923.08 sq.m.) is leased by the Group to DSIS for a term of 3 years from 1 January 2004 at a rent of HK\$64,728 per month exclusive of management fees, government rates, electricity, service charges and air-conditioning charges. Out of the 9,936 sq.ft. (923.08 sq.m.), 3,690 sq.ft. (342.81 sq.m.) are used in common by DSIS and DSB.</p> | | |
| | | <p>Another portion of 20th Floor with a gross floor area of approximately 1,438 sq.ft. (133.59 sq.m.) is leased by the Group to DSIA for a term of 3 years from 1 January 2004 at a rent of HK\$11,504 per month exclusive of management fees, government rates, electricity, service charges and air-conditioning charges.</p> | | |

Notes:

- (1) The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.
- (2) This is the value apportioned from our valuation at HK\$185,000,000 as at 31 December 2003 for Units 1-10 on 17th, 18th, 19th and 20th Floors.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|--|---|---|--|---|
| 16. Portion "AA" on Ground Floor and Flat A in Basement, Thai Kong Building, 482 Hennessy Road, Causeway Bay, Hong Kong 6/120th shares of and in Inland Lot No. 3582. | <p>The property comprises a corner shop unit on the Ground Floor and a unit in the Basement of a 21-storey composite building completed in about 1966.</p> <p>The saleable areas of the property are approximately as follows:</p> <p>Ground Floor: 1,420 sq.ft. (131.92 sq.m.)</p> <p>Basement: 1,928 sq.ft. (179.12 sq.m.)</p> <p>The property is held under a Government lease for a term of 999 years from 25 June 1862.</p> <p>The Government rent payable for Inland Lot No. 3582 is HK\$104 per annum.</p> | <p>With the exception of a portion of the Ground Floor with a saleable area of approximately 1,000 sq.ft. (92.9 sq.m.) which is subject to a tenancy for a term of 3 years from 1 September 2002 at a rent of HK\$260,000 per month exclusive of rates and service charge, the remaining portion of the property is occupied by the Group for its banking business.</p> | HK\$77,000,000 | HK\$90,000,000 |

Notes:

- (1) The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.
- (2) The property is subject to a Memorandum of Charge registered by Memorial No. 8852474 dated 27 December 2002. This Memorandum gives notice to any person dealing with the property that the sum of HK\$60,000 in respect of repair costs remains unpaid and is hence outstanding. The said Memorandum would not have any material impact on our valuation and the Company has also confirmed that it is being complied with.
- (3) Our above valuation has disregarded the existence of sub-division of the property.

| Property | Description and tenure | Particulars of occupancy | Capital value | Capital value |
|---|--|---|---|--|
| | | | in existing state as at 31 December 2003 | in existing state as at 31 March 2004 |
| 17. Shop D on Ground Floor, Flat A on First Floor, main roof and the exterior south-west walls, Hung On Building, 2-4A King's Road and 3 Tin Hau Temple Road, Tin Hau, Hong Kong 6/90th shares of and in Inland Lot No. 2615. | <p>The property comprises a corner shop unit on the Ground Floor, a unit on the First Floor, the main roof and a portion of the external wall of a 21-storey composite building completed in about 1971.</p> <p>The saleable areas of the property are approximately as follows:</p> <p>Ground Floor: 1,190 sq.ft. (110.55 sq.m.)</p> <p>First Floor: 3,850 sq.ft. (357.68 sq.m.)</p> <p>Main roof: 1,267 sq.ft. (117.71 sq.m.)</p> <p>The property is held under a Government lease for a term of 75 years from 9 October 1926 renewed for a further term of 75 years.</p> <p>The Government rent payable for the property is HK\$71,820 per annum.</p> | <p>The property (except a portion on the First Floor) is occupied by the Group for its banking business.</p> <p>A portion of the First Floor with a saleable area of approximately 2,795 sq.ft. (259.66 sq.m.) is subject to a tenancy for a term of 3 years from 19 July 2003 at a rent of HK\$36,500 per month exclusive of government rent, rates and management fees.</p> | HK\$22,300,000 | HK\$22,300,000 |

Notes:

- (1) The registered owner of Shop D on Ground Floor and Flat A on First Floor is Dah Sing Bank (a wholly-owned subsidiary of the Company) whilst that of the main roof and the exterior south-west walls is Dah Sing Properties Limited (an indirect wholly-owned subsidiary of the Company).
- (2) We are advised by the Group that the Building Authority has issued an Order (Order No. CWP/S1/94002/04/HK) on 9 January 2004 under Sec. 24(1) of the Buildings Ordinance requiring the owner of the external south-west walls to demolish a metal frame attached to the external walls from 2nd to 15th Floors facing the junction of Tin Hau Temple Road and King's Road and to reinstate the part(s) of the building so affected by the said works. The said Order would not have any material impact on our valuation and the Company has also confirmed that it is being complied with.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|---|---|--|---|
| 18. Flat Nos. 26 and 28 on Ground Floor, Man King Building, 26 and 28 Man Wui Street, Yau Ma Tei, Kowloon 2/448th shares of and in the Remaining Portion of Subsection 2 of Section A of Kowloon Inland Lot No. 8279. | <p>The property comprises two shop units on the Ground Floor of a 19-storey composite building completed in about 1967.</p> <p>The saleable area of the property is approximately 1,152 sq.ft. (107.02 sq.m.).</p> <p>The property is held under a Conditions of Exchange for a term of 75 years from 18 September 1899 renewed for a further term of 75 years.</p> <p>The Government rent payable for the property is HK\$756 per annum.</p> | <p>The property is subject to three tenancies with the latest one expiring on 31 August 2005 at a total rent of HK\$23,090 per month.</p> <p>The rents of two of the tenancies are inclusive of rates and management fees whilst that of the remaining one is exclusive of rates and management fees.</p> | HK\$3,900,000 | HK\$3,900,000 |

Note: The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|---|--------------------------|--|---|
| 19. Shops A and B on Ground Floor, Hong Lee Building, 444-450 Castle Peak Road, Lai Chi Kok, Kowloon 10/90th shares of and in the Remaining Portions of Sections A and C of New Kowloon Inland Lot No. 1183, the Remaining Portion of New Kowloon Inland Lot No. 1182 and the Remaining Portion of Section A of New Kowloon Inland Lot No. 1182. | <p>The property comprises two shop units on the Ground Floor of a 23-storey composite building completed in about 1980.</p> <p>The saleable area of the property is approximately 1,719 sq.ft. (159.70 sq.m.) plus a yard of approximately 30 sq.ft. (2.79 sq.m.).</p> <p>The property is held under two Government leases each for a term of 75 years from 1 July 1898 renewed for a further term of 24 years less the last three days and the lease term is statutorily extended to 30 June 2047.</p> <p>The annual Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property.</p> | The property is vacant. | HK\$7,700,000 | HK\$7,700,000 |

Note: The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|--|---|--|---|
| 20. Ground Floor (including its open yards) with Cockloft (including external wall up to the ceiling level of the Cockloft), Wing Yip Building, 193A Castle Peak Road, Sham Shui Po, Kowloon 200/320th shares of and in Section B and the Remaining Portion of New Kowloon Inland Lot No. 2863. | <p>The property comprises the whole of the Ground Floor and Cockloft of a 6-storey (excluding Cockloft) composite building completed in about 1982.</p> <p>The saleable areas of the property are approximately as follows:</p> <p>Ground Floor: 2,150 sq.ft. (199.74 sq.m.)</p> <p>Yard: 72 sq.ft. (6.69 sq.m.)</p> <p>Cockloft: 1,937 sq.ft. (179.95 sq.m.)</p> <p>The property is held under a Government lease for a term of 75 years from 1 July 1898 renewed for a further term of 24 years less the last three days and the lease term is statutorily extended to 30 June 2047.</p> <p>The annual Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property.</p> | <p>The property is subject to a tenancy for a term commencing on 8 March 2001 and expiring on 7 June 2004 at a rent of HK\$45,000 per month exclusive of rates and management fees.</p> <p>The parties have agreed to renew the tenancy for a further term of 2 years from 8 June 2004 at a rent of HK\$46,800 per month exclusive of management fees and rates. However, the formal tenancy agreement has not yet been signed.</p> | HK\$11,000,000 | HK\$11,000,000 |

Note: The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|--|--------------------------|--|---|
| 22. Units 5, 6, 7 and 8 on Upper Ground Floor, South Seas Centre, 75 Mody Road, Tsim Sha Tsui East, Kowloon 173/26,000th shares of and in Kowloon Inland Lot No. 10549. | <p>The property comprises 4 arcade shop units on the Upper Ground Floor of a 15-storey (excluding carparking level) commercial building completed in about 1982.</p> <p>The saleable area of the property is approximately 1,180 sq.ft. (109.62 sq.m.).</p> <p>The property is held under a Conditions of Sale for a term of 75 years from 14 October 1977 renewable for a further term of 75 years.</p> <p>The Government rent payable for Kowloon Inland Lot No. 10549 is HK\$1,000 per annum.</p> | The property is vacant. | HK\$4,700,000 | HK\$4,800,000 |

Note: The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|--|--|--|--|---|
| 23. Ground Floor including the Cockloft, 142 Cheung Sha Wan Road and the External Wall of 140-142 Cheung Sha Wan Road, Dah Sing Building, 140-142 Cheung Sha Wan Road, Sham Shui Po, Kowloon | <p>The property comprises a shop unit on the Ground Floor with its Cockloft appurtenant thereto and the external wall of a 6-storey (excluding Cockloft) composite building completed in about 1979.</p> <p>The saleable areas of the property are approximately as follows:</p> <p>Ground Floor: 1,030 sq.ft. (95.69 sq.m.)</p> <p>Cockloft: 813 sq.ft. (75.53 sq.m.)</p> <p>Yard: 42 sq.ft. (3.90 sq.m.)</p> | <p>The property is subject to a tenancy for a term of 2 years and 2 months from 13 March 2003 at a rent of HK\$85,000 per month exclusive of rates and management fees with an option to renew for a further term of 2 years at the then open market rent.</p> | HK\$14,500,000 | HK\$16,000,000 |
| 100/440th shares of and in the Remaining Portion of Section A of New Kowloon Inland Lot No. 949 and the Remaining Portion of New Kowloon Inland Lot No. 949. | <p>The property is held under a Government lease for a term of 75 years from 1 July 1898 renewed for a further term of 24 years less the last three days and the lease term is statutorily extended to 30 June 2047.</p> <p>The annual Government rent payable for the property is an amount equal to 3% of the then rateable value of the property.</p> | | | |

Note: The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|--|--|---|--|---|
| 24. Shop Nos. 5 and 6A on Ground Floor and the External Walls of the said shops (up to the First Floor canopy level), Dang Fat Mansion, 10-16 & 20 Tai Ho Road and 7-11 On Wing Street, Tsuen Wan, New Territories 6/256th shares of and in Tsuen Wan Town Lot No. 206. | <p>The property comprises two shop units on the Ground Floor of a 24-storey composite building completed in about 1974.</p> <p>The saleable area of the property is approximately 1,090 sq.ft. (101.26 sq.m.).</p> <p>The property is held under New Grant No. 4970 for a term of 99 years less the last three days from 1 July 1898 and the lease term is statutorily extended to 30 June 2047.</p> <p>The annual Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property.</p> | <p>With the exception of a portion having a saleable area of approximately 490 sq.ft. (45.52 sq.m.) which is subject to a tenancy for a term of 2 years from 16 July 2002 at a rent of HK\$100,000 per month exclusive of rates and management fees, the remaining portion of the property is occupied by the Group for its banking business.</p> | HK\$38,000,000 | HK\$48,000,000 |

Notes:

- (1) The registered owner of the property is Dah Sing Bank, a wholly-owned subsidiary of the Company.
- (2) Our above valuation has disregarded the existence of sub-division of the property.

Group III — Property interest held by the Group in the PRC for occupation and investment

| Property | Description and tenure | Particulars of occupancy | Capital value in existing state as at 31 December 2003 | Capital value in existing state as at 31 March 2004 |
|---|--|--|--|---|
| 25. Room 1504 on 15th Floor, Shenzhen Development Centre, Ren Min Road South, Luo Hu, Shenzhen, Guangdong Province, The PRC | <p>The property comprises an office unit on the 15th Floor of a 43-storey commercial building completed in about 1992.</p> <p>The gross floor area of the property is approximately 2,720 sq.ft. (252.7 sq.m.).</p> <p>The land use rights of the property has been granted for a term of 50 years from 16 January 1992.</p> | <p>The property is occupied by the Group as an office. A portion of the property with an area of approximately 1,420 sq.ft. (132 sq.m.) will be leased by the Group to DSLA for a term of 3 years from 1 July 2004 at a rent of HK\$4,800 per month exclusive of management fees, electricity, service charges, air-conditioning charges, telephone fees and property tax.</p> | HK\$1,400,000 | HK\$1,400,000 |

Notes:

- (1) According to Real Property Ownership Certificate 深房地字第 0209740 號 dated 15 December 1994, the ownership of the property is vested in Vanishing Border Investment Services Ltd. (域寶投資有限公司) ("Vanishing Border"), an indirect wholly-owned subsidiary of the Company.
- (2) The opinion of the Group's legal adviser on PRC laws states, inter-alia, that:
 - (i) Vanishing Border is entitled to use, occupy and dispose of the property;
 - (ii) the property can be transferred in the open market; and
 - (iii) the property is free from any mortgages.
- (3) The status of the title and grant of major approvals and licences in accordance with the information provided by the Group and the aforesaid legal opinion are as follows:

| | |
|-------------------------------------|-----|
| Real Property Ownership Certificate | Yes |
|-------------------------------------|-----|

Group IV — Property interests leased by the Group in Hong Kong

| Property | Description | Particulars of occupancy | Capital value in existing state as at 31 March 2004 | | | | | | | | | | |
|--|--|--|---|--------------|------|--|------|------------------|------|--|------|------------------|---------------------|
| 26. Shop B on Ground Floor and First Floor, Suites 3107-3110 on 31st Floor, the whole of 33rd-37th Floors and Car Parking Space Nos. 2-22, 2-23 and 2-32 to 2-43 on 2nd Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wan Chai, Hong Kong | <p>The property comprises a shop unit on the Ground Floor, a commercial unit on the First Floor, an office unit on the 31st Floor, the whole office floors from 33rd to 37th Floors and 14 carparking spaces on the 2nd Floor of a 40-storey commercial building completed in about 1991.</p> <p>The total lettable area of the property (excluding the carparking spaces) is approximately 64,688 sq.ft. (6,009.7 sq.m.).</p> | <p>The property (excluding the carparking spaces) is leased to the Group for a term of 6 years from 1 December 2003 at the following monthly rents:</p> <table border="1" data-bbox="754 520 1014 758"> <thead> <tr> <th data-bbox="754 551 808 571">Term</th> <th data-bbox="924 520 1014 571">Monthly Rent</th> </tr> </thead> <tbody> <tr> <td data-bbox="754 613 808 634">Year</td> <td></td> </tr> <tr> <td data-bbox="754 644 808 665">1-3:</td> <td data-bbox="847 644 1014 665">HK\$1,066,104.80</td> </tr> <tr> <td data-bbox="754 706 808 727">Year</td> <td></td> </tr> <tr> <td data-bbox="754 737 808 758">4-6:</td> <td data-bbox="896 706 1014 758">Open market rent</td> </tr> </tbody> </table> <p>All the above rents are exclusive of rates and service charges.</p> <p>A portion of 33rd Floor with a lettable area of approximately 2,826 sq.ft. (262.54 sq.m.) is subleased by the Group to DSIS for a term of 3 years from 1 January 2004 at a rent of HK\$38,438 per month exclusive of management fees, government rates, electricity, service charges and air-conditioning charges.</p> <p>The carparking spaces are licensed to the Group for a term of 6 years from 1 December 2003 at a total licence fee of HK\$50,400 per month.</p> <p>The property is occupied by the Group for its banking business and carparking purpose except for the subleased portion.</p> | Term | Monthly Rent | Year | | 1-3: | HK\$1,066,104.80 | Year | | 4-6: | Open market rent | No commercial value |
| Term | Monthly Rent | | | | | | | | | | | | |
| Year | | | | | | | | | | | | | |
| 1-3: | HK\$1,066,104.80 | | | | | | | | | | | | |
| Year | | | | | | | | | | | | | |
| 4-6: | Open market rent | | | | | | | | | | | | |

| Property | Description | Particulars of occupancy | Capital value in existing state as at 31 March 2004 |
|--|--|---|---|
| 27. Ground Floor and Cockloft, 20 Wu Pak Street, Aberdeen, Hong Kong. | <p>The property comprises the Ground Floor and Cockloft of a 7-storey (including Cockloft) composite building completed in about 1966.</p> <p>The saleable areas of the property are approximately as follows:</p> <p>Ground Floor: 870 sq.ft. (80.83 sq.m.)</p> <p>Cockloft: 608 sq.ft. (56.49 sq.m.)</p> | <p>The property is leased to the Group for a term of 3 years from 1 December 2003 at a rent of HK\$69,000 per month exclusive of rates and management fee. The lease contains an option for the tenant to renew for a further term of 3 years at the then open market rent.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value |
| 28. Shop No. 10 on First Floor of the Podium, Admiralty Centre, 18 Harcourt Road, Central, Hong Kong | <p>The property comprises a shop unit on the First Floor of a 3-storey commercial podium on which two office towers are erected. The development was completed in about 1980.</p> <p>The saleable area of the property is approximately 1,900 sq.ft. (176.52 sq.m.).</p> | <p>The property is leased to the Group for a term of 4 years from 1 August 2002 at a rent of HK\$140,000 per month exclusive of rates and management charges. The lease contains an option for the tenant to renew for a further term of 3 years at the then open market rent.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value |

| Property | Description | Particulars of occupancy | Capital value in existing state as at 31 March 2004 |
|---|--|--|---|
| 29. Ground Floor, 85 Queen's Road Central, Hong Kong | <p>The property comprises the Ground Floor of an 8-storey commercial building completed in about 1957.</p> <p>The saleable area of the property is approximately 600 sq.ft. (55.74 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 27 October 2003 at a rent of HK\$96,000 per month exclusive of rates and management charges. The tenancy contains an option for the tenant to renew for a further term of 3 years at the then market rent but not less than HK\$96,000 per month.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value |
| 30. Shop A on Ground Floor, 212-214 Des Voeux Road Central, Sheung Wan, Hong Kong | <p>The property comprises a shop unit on the Ground Floor of a 22-storey commercial building completed in about 1985.</p> <p>The saleable area of the property is approximately 535 sq.ft. (49.7 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 1 June 2003 at a rent of HK\$31,000 per month exclusive of rates and management fees.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value |

| Property | Description | Particulars of occupancy | Capital value in existing state as at 31 March 2004 | | | | | | |
|--|--|--|---|--------------|-----------|------------|-----------|------------|---------------------|
| 31. Shop A on Ground Floor, Hooley Mansions, 21-23 Wong Nai Chung Road, Happy Valley, Hong Kong | <p>The property comprises a shop unit on the Ground Floor of a 12-storey composite building completed in about 1967.</p> <p>The saleable area of the property is approximately 1,023 sq.ft. (95.03 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 1 May 2002 at a rent of HK\$38,000 exclusive of rates and management fees. The tenancy contains an option for the tenant to renew for a further term of 3 years at the then open market rent.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value | | | | | | |
| 32. Unit G59 on Ground Floor (also known as Bank 3), Central Commercial Block, Heng Fa Chuen Shopping Centre, Heng Fa Chuen, 100 Shing Tai Road, Hong Kong | <p>The property comprises a shop unit on the Ground Floor of a large-scale private residential estate completed in 1986.</p> <p>The lettable area of the property is approximately 839 sq.ft. (77.95 sq.m.).</p> | <p>The property is leased to the Group for a term of 6 years from 16 November 2000 at the following monthly rents:</p> <table border="1" data-bbox="754 990 1012 1176"> <thead> <tr> <th data-bbox="754 1027 808 1048">Term</th> <th data-bbox="924 990 1012 1048">Monthly Rent</th> </tr> </thead> <tbody> <tr> <td data-bbox="754 1089 847 1110">Year 1-3:</td> <td data-bbox="899 1089 1012 1110">HK\$58,730</td> </tr> <tr> <td data-bbox="754 1152 847 1172">Year 4-6:</td> <td data-bbox="899 1152 1012 1172">HK\$70,476</td> </tr> </tbody> </table> <p>All the above rents are exclusive of rates, management charges and air-conditioning charges.</p> <p>The property is occupied by the Group for its banking business.</p> | Term | Monthly Rent | Year 1-3: | HK\$58,730 | Year 4-6: | HK\$70,476 | No commercial value |
| Term | Monthly Rent | | | | | | | | |
| Year 1-3: | HK\$58,730 | | | | | | | | |
| Year 4-6: | HK\$70,476 | | | | | | | | |

| Property | Description | Particulars of occupancy | Capital value in existing state as at 31 March 2004 |
|---|--|---|---|
| 33. Ground Floor, 963 King's Road, Quarry Bay, Hong Kong | <p>The property comprises a shop unit on the Ground Floor of a 9-storey composite building completed in about 1963.</p> <p>The saleable area of the property is approximately 750 sq.ft. (69.68 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 8 February 2002 at a rent of HK\$31,000 per month exclusive of rates, government rent and management fees.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value |
| 34. Shop No. 15 on Ground Floor, Pacific Plaza, 410-424B Des Voeux Road West, Western District, Hong Kong | <p>The property comprises a shop unit on the Ground Floor of a 26-storey commercial building completed in about 1992.</p> <p>The gross floor area of the property is approximately 762 sq.ft. (70.79 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 1 August 2003 at a rent of HK\$30,900 per month exclusive of rates, government rent and management fee.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value |

| Property | Description | Particulars of occupancy | Capital value in existing state as at 31 March 2004 |
|---|---|--|---|
| 35. Shops E and F on Ground Floor, 45 Haiphong Road, Tsim Sha Tsui, Kowloon | <p>The property comprises a shop unit on the Ground Floor of a 7-storey composite building completed in about 1958.</p> <p>The saleable area of the property is approximately 180 sq.ft. (16.72 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 1 July 2002 at a rent of HK\$48,000 per month exclusive of rates and management charges. The lease contains an option for the tenant to renew for a further term of 3 years at the then open market rent.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value |
| 36. Shop units F5A - F6A on Level 2, Telford Plaza, 33 Wai Yip Street, Kowloon Bay, Kowloon | <p>The property comprises two adjoining shop units on Level 2 of a 2-storey shopping centre of a residential development known as Telford Garden which is erected above the MTR (Kowloon Bay) Station. The property was completed in 1981.</p> <p>The lettable area of the property is approximately 1,206 sq.ft. (112.04 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 16 September 2003 at a rent of HK\$144,720 per month exclusive of rates and management fee.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value |

| Property | Description | Particulars of occupancy | Capital value in existing state as at 31 March 2004 | | | | | | |
|---|---|---|---|---------------------|---------|-----------|---------|------------|---------------------|
| 37. Machine Corner Space No. MC-02 between the shop fronts of Shop Unit G53A and Shop Unit G96 at Ground Floor of Telford Plaza I of Telford Gardens, 33 Wai Yip Street, Kowloon Bay, Kowloon | <p>The property comprises a space on Level 1 of a 2-storey shopping centre of a residential development known as Telford Garden which is erected above the MTR (Kowloon Bay) Station. The property was completed in about 1981.</p> <p>The saleable area of the property is approximately 16 sq.ft. (1.49 sq.m.).</p> | <p>The property is licensed to the Group for a term of 2 years from 17 March 2003 at the following monthly licence fees:</p> <table border="1" data-bbox="754 472 1012 654"> <thead> <tr> <th data-bbox="754 505 808 526">Term</th> <th data-bbox="880 472 1012 526">Monthly Licence Fee</th> </tr> </thead> <tbody> <tr> <td data-bbox="754 567 825 588">Year 1:</td> <td data-bbox="911 567 1012 588">HK\$9,680</td> </tr> <tr> <td data-bbox="754 629 825 650">Year 2:</td> <td data-bbox="902 629 1012 650">HK\$10,650</td> </tr> </tbody> </table> <p>All the above licence fees are exclusive of rates.</p> <p>The property is occupied by the Group's ATM machine.</p> | Term | Monthly Licence Fee | Year 1: | HK\$9,680 | Year 2: | HK\$10,650 | No commercial value |
| Term | Monthly Licence Fee | | | | | | | | |
| Year 1: | HK\$9,680 | | | | | | | | |
| Year 2: | HK\$10,650 | | | | | | | | |
| 38. Units 909 - 910 on 9th Floor of Tower I, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road, Lai Chi Kok, Kowloon | <p>The property comprises two office units on the 9th Floor of a 14-storey (including Basement) commercial building completed in about 1989.</p> <p>The saleable area of the property is approximately 4,400 sq.ft. (408.77 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 1 December 2001 at a rent of HK\$59,850 per month exclusive of rates, government rent, management and air-conditioning fees. The tenancy contains an option for the tenant to renew for a further term of 3 years at the then open market rent.</p> <p>The property is occupied by the Group as an office.</p> | No commercial value | | | | | | |

| Property | Description | Particulars of occupancy | Capital value in existing state as at 31 March 2004 | | | | | | | | |
|--|---|---|---|--------------|---------|------------|---------|------------|---------|------------|---------------------|
| 39. Bank Counter, Ground Floor of Block C, New Kwai Fong Gardens, 2-20 Kwai Yi Road, Kwai Chung, New Territories | <p>The property comprises a unit on the podium floor of a 3-storey commercial, carparking, bus terminus and recreational podium on which 5 high-rise residential blocks are erected. The property was completed in about 1983.</p> <p>The gross floor area of the property is approximately 372 sq.ft. (34.56 sq.m.).</p> | <p>The property is licensed to the Group for a term of 3 years from 1 April 2001 at a licence fee of HK\$15,730 per month. The Group has renewed the licence for a further term of 2 years from 1 April 2004 at a licence fee of HK\$20,000 per month.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value | | | | | | | | |
| 40. Shop No. P8 of Podium Floor, Luk Yeung Galleria, 22-66 Wai Tsuen Road, Tsuen Wan, New Territories | <p>The property comprises a shop unit on the podium floor of a 3-storey commercial podium on which 17 residential blocks are erected. The development was completed in about 1983.</p> <p>The lettable area of the property is approximately 718 sq.ft. (66.70 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 1 October 2002 at the following monthly rents:</p> <table border="1" data-bbox="754 990 1014 1245"> <thead> <tr> <th data-bbox="754 1023 808 1046">Term</th> <th data-bbox="924 990 1014 1046">Monthly Rent</th> </tr> </thead> <tbody> <tr> <td data-bbox="754 1085 825 1108">Year 1:</td> <td data-bbox="899 1085 1014 1108">HK\$53,830</td> </tr> <tr> <td data-bbox="754 1147 825 1170">Year 2:</td> <td data-bbox="899 1147 1014 1170">HK\$56,520</td> </tr> <tr> <td data-bbox="754 1210 825 1232">Year 3:</td> <td data-bbox="899 1210 1014 1232">HK\$59,340</td> </tr> </tbody> </table> <p>All the above rents are exclusive of rates and management charges.</p> <p>The property is occupied by the Group for its banking business.</p> | Term | Monthly Rent | Year 1: | HK\$53,830 | Year 2: | HK\$56,520 | Year 3: | HK\$59,340 | No commercial value |
| Term | Monthly Rent | | | | | | | | | | |
| Year 1: | HK\$53,830 | | | | | | | | | | |
| Year 2: | HK\$56,520 | | | | | | | | | | |
| Year 3: | HK\$59,340 | | | | | | | | | | |

| Property | Description | Particulars of occupancy | Capital value in existing state as at 31 March 2004 |
|---|---|--|---|
| 41. Shop No. 316 on Level 3, Maritime Square, 33 Tsing King Road, Tsing Yi, New Territories | <p>The property comprises a shop unit on Level 3 of a 7-storey commercial, carparking and recreational podium on which 12 high-rise residential blocks are erected. The property was completed in about 1998.</p> <p>The lettable area of the property is approximately 1,138 sq.ft. (105.72 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 1 March 2002 at a rent of HK\$91,040 per month exclusive of rates and management fees.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value |
| 42. Shop No. 223 on UG-A, Tuen Mun Jusco Stores, Tuen Mun Town Plaza Phase I, 1 Tuen Shing Street and 1 Tuen Shun Street, Tuen Mun, New Territories | <p>The property comprises a unit on the Upper Ground Floor of a department store which is situated in a 4-storey shopping complex of a residential development known as Tuen Mun Town Plaza. The property was completed in about 1987.</p> <p>The saleable area of the property is approximately 100 sq.ft. (9.29 sq.m.).</p> | <p>The property is licensed to the Group for a term of 2 years from 1 November 2002 at a licence fee of HK\$13,500 per month exclusive of rates and management fees.</p> <p>The property is occupied by the Group as a sales and service centre.</p> | No commercial value |
| 43. Shop No. 16 on Upper Ground Floor, Tuen Mun Town Plaza Phase II, 3 Tuen Lung Street, Tuen Mun, New Territories | <p>The property comprises a shop unit on the Upper Ground Floor of a 4-storey commercial podium on which 2 residential blocks are erected. The development was completed in about 1988.</p> <p>The gross floor area of the property is approximately 597 sq.ft. (55.46 sq.m.).</p> | <p>The property is leased to the Group for a term of 2 years from 1 October 2003 at a rent of HK\$45,600 per month exclusive of rates, government rent, management fees and air-conditioning charges.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value |

| | Property | Description | Particulars of occupancy | Capital value in existing state as at 31 March 2004 |
|-----|---|--|--|--|
| 44. | Shop No. 124 of the Commercial Accommodation of Pierhead Garden, 168-236 Wu Chui Road, Tuen Mun, New Territories | <p>The property comprises a shop unit within the commercial accommodation of a residential development erected above a Light Railway Terminus. The development was completed in about 1988.</p> <p>The gross floor area of the property is approximately 1,615 sq.ft. (150.04 sq.m.).</p> | <p>The property is leased to the Group for a term of 2 years from 19 July 2003 at a rent of HK\$78,900 per month exclusive of rates and management charges.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value |
| 45. | Shop No. 111A, Shopping Centre, Kin Sang Estate, 3 Leung Wan Street, Tuen Mun, New Territories | <p>The property comprises a space on the Ground Floor of a 3-storey commercial complex within a public housing estate known as Kin Sang Estate. The property was completed in about 1989.</p> <p>The saleable area of the property is approximately 65 sq.ft. (6.04 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 1 March 2004 at a rent of HK\$6,300 per month exclusive of rates.</p> <p>The property is occupied by the Group's ATM machine.</p> | No commercial value |
| 46. | ATM at Atrium Corner 1 on Ground Floor, Commercial Complex of Chelsea Heights, 1 Shek Pai Tau Path, Tuen Mun, New Territories | <p>The property comprises a space on the Ground Floor of a 6-storey commercial, carparking and recreational complex on which 6 high-rise residential blocks are erected. The property was completed in about 1998.</p> <p>The saleable area of the property is approximately 15 sq.ft. (1.39 sq.m.).</p> | <p>The property is licensed to the Group for a term of 2 years from 1 July 2002 at a licence fee of HK\$1,500 per month exclusive of rates and management fees.</p> <p>The property is occupied by the Group's ATM machine.</p> | No commercial value |

| Property | Description | Particulars of occupancy | Capital value in existing state as at 31 March 2004 | | | | | | |
|--|---|---|---|--------------|-----------------|------------|----------------|------------|---------------------|
| 47. Shop No. 132, Chung Fu Shopping Centre, 30-33 Tin Wah Road, Tin Shui Wai, Yuen Long, New Territories | <p>The property comprises a shop unit on the 1st Floor of a 3-storey commercial complex completed in about 2000.</p> <p>The saleable area of the property is approximately 1,442 sq.ft. (134 sq.m.).</p> | <p>The property is leased to the Group for a term of 6 years from 1 November 2002 at the following monthly rents:</p> <table border="1" data-bbox="754 437 1012 613"> <thead> <tr> <th data-bbox="754 468 808 488">Term</th> <th data-bbox="924 437 1012 488">Monthly Rent</th> </tr> </thead> <tbody> <tr> <td data-bbox="754 530 842 551">Year 1-3</td> <td data-bbox="899 530 1012 551">HK\$46,800</td> </tr> <tr> <td data-bbox="754 592 842 613">Year 4-6</td> <td data-bbox="899 592 1012 613">HK\$54,600</td> </tr> </tbody> </table> <p>All the above rents are exclusive of rates.</p> <p>The property is occupied by the Group for its banking business.</p> | Term | Monthly Rent | Year 1-3 | HK\$46,800 | Year 4-6 | HK\$54,600 | No commercial value |
| Term | Monthly Rent | | | | | | | | |
| Year 1-3 | HK\$46,800 | | | | | | | | |
| Year 4-6 | HK\$54,600 | | | | | | | | |
| 48. Unit 248 on 2nd Floor, Citygate, Tung Chung, Lantau Island, New Territories | <p>The property comprises a shop unit on the 2nd Floor of a 4-storey commercial podium on which a high-rise office tower is erected. The property was completed in 1999.</p> <p>The gross floor area of the property is approximately 889 sq.ft. (82.59 sq.m.).</p> | <p>The property is leased to the Group for a term of 36 months from 18 December 2003 at the following monthly rents:</p> <table border="1" data-bbox="754 1058 1012 1297"> <thead> <tr> <th data-bbox="754 1089 808 1110">Term</th> <th data-bbox="924 1058 1012 1110">Monthly Rent</th> </tr> </thead> <tbody> <tr> <td data-bbox="754 1152 832 1193">First 24 months</td> <td data-bbox="899 1172 1012 1193">HK\$59,500</td> </tr> <tr> <td data-bbox="754 1234 832 1276">Next 12 months</td> <td data-bbox="899 1255 1012 1276">HK\$65,000</td> </tr> </tbody> </table> <p>All the above rents are exclusive of rates and service charge.</p> <p>The property is occupied by the Group for its banking business.</p> | Term | Monthly Rent | First 24 months | HK\$59,500 | Next 12 months | HK\$65,000 | No commercial value |
| Term | Monthly Rent | | | | | | | | |
| First 24 months | HK\$59,500 | | | | | | | | |
| Next 12 months | HK\$65,000 | | | | | | | | |

| Property | Description | Particulars of occupancy | Capital value in existing state as at 31 March 2004 | | | | | | |
|--|--|--|---|--------------|-----------|-------------|---------|-------------|---------------------|
| 49. Shop 4 on Ground Floor, Block 7, Verbena Heights, 8 Mau Tai Road, Tseung Kwan O, New Territories | <p>The property comprises a shop unit on the Ground Floor of a 4-storey commercial, carparking and recreational podium on which 7 residential blocks are erected. The development is known as Verbena Heights and was completed in about 1996.</p> <p>The gross floor area of the property is approximately 1,278 sq.ft. (118.73 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 1 January 2003 at a rent of HK\$34,500 per month exclusive of rates and management fee. The tenancy contains an option for the tenant to renew for a further term of 3 years at the then market rent.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value | | | | | | |
| 50. Shop Nos. 287-288 on Level 2 of the Podium, Ma On Shan Plaza, 608 Sai Sha Road, Ma On Shan, Sha Tin, New Territories | <p>The property comprises two shop units on Level 2 of a 5-storey (including Basement) commercial/carparking podium on which 6 residential blocks are erected. The development was completed in about 1994.</p> <p>The gross floor area of the property is approximately 778 sq.ft. (72.28 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 1 May 2001 at the following monthly rents:</p> <table border="1" data-bbox="754 965 1012 1141"> <thead> <tr> <th data-bbox="754 990 808 1011">Term</th> <th data-bbox="924 965 1012 1017">Monthly Rent</th> </tr> </thead> <tbody> <tr> <td data-bbox="754 1052 847 1073">Year 1-2:</td> <td data-bbox="886 1052 1012 1073">HK\$105,000</td> </tr> <tr> <td data-bbox="754 1114 825 1135">Year 3:</td> <td data-bbox="886 1114 1012 1135">HK\$120,750</td> </tr> </tbody> </table> <p>All the above rents are exclusive of rates, government rent and management fees.</p> <p>The Group has renewed the tenancy for a further term of 2 years from 1 May 2004 at a rent of HK\$128,000 per month exclusive of rates, government rent and management fees.</p> <p>The property is occupied by the Group for its banking business.</p> | Term | Monthly Rent | Year 1-2: | HK\$105,000 | Year 3: | HK\$120,750 | No commercial value |
| Term | Monthly Rent | | | | | | | | |
| Year 1-2: | HK\$105,000 | | | | | | | | |
| Year 3: | HK\$120,750 | | | | | | | | |

| Property | Description | Particulars of occupancy | Capital value in existing state as at 31 March 2004 |
|---|--|---|---|
| 51. Shop No. 012d on Level 1, Zone A, Tai Po Mega Mall, On Pong Road, Tai Po, New Territories | <p>The property comprises a shop unit on Level 1 of a 2-storey commercial podium on which 3 residential blocks are erected. The property was completed in about 1985.</p> <p>The saleable area of the property is approximately 655 sq.ft. (60.85 sq.m.).</p> | <p>The property is leased to the Group for a term of 2 years from 29 June 2003 at a rent of HK\$32,000 per month exclusive of rates, management and air-conditioning charges.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value |
| 52. Shop No. 201 and Unit 3, Wah Ming Shopping Centre, 21 Wah Ming Road, Fanling, New Territories | <p>The property comprises a shop unit on Level 2 and a space on Level 1 of a 2-storey commercial complex within a public housing estate known as Wah Ming Estate. The property was completed in about 1990.</p> <p>The saleable area of the property is approximately 2,820 sq.ft. (261.99 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 1 May 2001 at a rent of HK\$100,000 per month exclusive of rates.</p> <p>The Group has renewed the tenancy for a further term of 3 years from 1 May 2004 at a rent of HK\$81,000 per month exclusive of rates.</p> <p>The property is occupied by the Group for its banking business and its ATM machine.</p> | No commercial value |

Group V — Property interest leased by the Group in the PRC

| Property | Description | Particulars of occupancy | Capital value in existing state as at 31 March 2004 | | | | | | |
|--|--|--|---|--------------|----------|------------|----------|------------|---------------------|
| 53. Shop at Level 1, Xi Long Building (熙龍大廈), 2055 Ren Min Road South, Luo Hu, Shenzhen, Guangdong Province, The PRC | <p>The property comprises a shop unit on Level 1 of a 23-storey composite building completed in about 1984.</p> <p>The gross floor area of the property is approximately 2,152 sq.ft. (200 sq.m.).</p> | <p>The property is leased to the Group for a term of 6 years from 11 November 2003 at the following monthly rents:</p> <table border="1"> <thead> <tr> <th>Term</th> <th>Monthly Rent</th> </tr> </thead> <tbody> <tr> <td>Year 1-3</td> <td>RMB110,000</td> </tr> <tr> <td>Year 4-6</td> <td>RMB118,800</td> </tr> </tbody> </table> <p>The property is occupied by the Group for its banking business.</p> | Term | Monthly Rent | Year 1-3 | RMB110,000 | Year 4-6 | RMB118,800 | No commercial value |
| Term | Monthly Rent | | | | | | | | |
| Year 1-3 | RMB110,000 | | | | | | | | |
| Year 4-6 | RMB118,800 | | | | | | | | |

Group VI — Property interest contracted to be leased by the Group in Hong Kong

| | | | |
|---|--|---|---------------------|
| 54. Portion C of Shop No. N95 on First Floor, 1-11, 15-17 Mount Sterling Mall and 10-16 Lai Wan Road, Mei Foo Sun Chuen, Lai Chi Kok, Kowloon | <p>The property comprises a shop unit on the First Floor of a 5-storey commercial and carparking podium on which 12 residential blocks are erected. The property was completed in about 1977.</p> <p>The gross floor area of the property is approximately 800 sq.ft. (74.32 sq.m.).</p> | <p>The property is leased to the Group for a term of 3 years from 30 April 2004 at a rent of HK\$50,000 per month exclusive of rates, management charges and all other charges and outgoings. The tenancy contains an option for the tenant to renew for a further term of 3 years at the then open market rent.</p> <p>The property is occupied by the Group for its banking business.</p> | No commercial value |
|---|--|---|---------------------|

Set out below is a list of the branches and sales and service centres of Dah Sing Bank as at the Latest Practicable Date:

| Branch/Sales and Service Centre | Address |
|--|---|
| Hong Kong | |
| <i>Hong Kong Island</i> | |
| Aberdeen | Ground Floor and Cockloft, 20 Wu Pak Street, Aberdeen |
| Admiralty Centre | Shop No. 10, 1st Floor of the Podium, Admiralty Centre, No. 18 Harcourt Road, Central |
| Causeway Bay | Thai Kong Building, 482 Hennessy Road, Causeway Bay |
| Central | Worldwide House, 19 Des Voeux Road, Central |
| Heng Fa Chuen | Unit G59, Ground Floor, Heng Fa Chuen Paradise Mall, 100 Shing Tai Road, Heng Fa Chuen |
| Gloucester Road | Ground Floor, Dah Sing Financial Centre, 108 Gloucester Road, Wanchai |
| Happy Valley | Shop A, Ground Floor, Hooley Mansions, 21-23 Wong Nai Chung Road, Happy Valley |
| Johnston Road | Mei Wah Building, 164 Johnson Road, Wanchai |
| North Point | Shop A, Ground Floor, Chu Kee Building, 433-437 King's Road, North Point |
| Quarry Bay | Ground Floor, 963 King's Road, Quarry Bay |

| Branch/Sales and Service Centre | Address |
|--|---|
| Shau Kei Wan | Shop G8, Ground Floor, Tai On Building, 57-87 Shau Kei Wan Road Sai Wan Ho |
| Shek Tong Tsui | Shop 15, Ground Floor, Pacific Plaza, 410 Des Voeux Road West, Western District |
| Sheung Wan | Shop A, Ground Floor, Nos 212 & 214 Des Voeux Road Central, Sheung Wan |
| Tin Hau | Shop D, Ground Floor Hung On Building, 2 King's Road, Causeway Bay |
| <i>Kowloon</i> | |
| Hunghom | Shop A, Ground Floor, Tak Yue Mansion, 4-6 Dock Street, Hunghom |
| Jordan | 335 Nathan Road, Jordan |
| Kwun Tong | Ground Floor & 1st Floor, 49 Mut Wah Street, Kwun Tong |
| Mei Foo Sun Chuen | Portion C of shop N95, First Floor, 1-17 Mount Sterling Mall, 10-16 Lai Wan Road, Mei Foo Sun Chuen |
| Mongkok | 697 Nathan Road, Mongkok |
| Ngau Tau Kok Road | 301 Ngau Tau Kwok Road, Kwun Tong |
| San Po Kong | Ground Floor, 10 Choi Hung Road, San Po Kong |
| Telford Gardens | Units F5A-F6A, Level 2, Telford Plaza 1, Kowloon Bay |

| Branch/Sales and Service Centre | Address |
|---|--|
| Tokwawan | Shops 109 and 120, Ground Floor, Block B, I-Feng Mansion, 237A Tokwawan Road, Tokwawan |
| Tseung Kwan O | Shop 4, Ground Floor, Block 7, Verbena Heights, Tseung Kwan O |
| Tsim Sha Tsui | Shops E and F, Golden Crown Court, 66-70 Nathan Road, Tsim Sha Tsui |
| Yaumatei | Ground Floor & 1st Floor, 561 Nathan Road and 22 Hamilton Street, Yaumatei |
| <i>New Territories</i> | |
| Citygate, Tung Chung | Unit 248, 2nd Floor, Citygate, 20 Tat Tung Road, Tung Chung, Lantau |
| Wah Wing Estate | Shop 201, Wah Ming Shopping Centre, Wah Ming Estate, Fanling |
| Jusco (Tuen Mun) Sales and Service Centre | Shop No. 223, UG-A, Tuen Mun Jusco Stores, Tuen Mun Town Plaza, 3 Tuen Long Street, Tuen Mun |
| Kwai Fong | Block C, Ground Floor, New Kwai Fong Gardens, Kwai Chung |
| Luk Yeung Sun Chuen | Unit P8, Block H, Podium Level, Luk Yeung Galleria, 22-66 Wai Tsuen Road, Tsuen Wan |

| Branch/Sales and Service Centre | Address |
|--|---|
| Ma On Shan Plaza | Shop Nos. 287-288, Level 2, Ma On Shan Plaza, 608 Sai Sha Road, Ma On Shan, Shatin |
| Maritime Square | Shop 316, Maritime Square, 33 Tsing King Road, Tsing Yi |
| Pierhead Garden | Shop 124, Pierhead Plaza, Pierhead Garden, 168-236 Wu Chui Road, Tuen Mun |
| Shatin | Shop 9, Level 1, Lucky Plaza, 1-15 Wang Pok Street, Shatin |
| Tai Po | Shop 012D, Tai Po Mega Mall, On Pong Road, Tai Po |
| Tin Shui Wai Chung Fu | Shop No. 132, Chung Fu Shopping Centre, 30-33 Tin Wah Road, Tin Shui Wai |
| Tsuen Wan | Dang Fat Mansion, 14-16 Tai Ho Road, Tsuen Wan |
| Yuen Long | Shops 2 and 3, Ground Floor, Tung Chong Mansion, 59B On Ning Road, Yuen Long |
| Mainland China | |
| Shenzhen | Shop at Level 1, Xi Long Building, 2055 Ren Min Road South, Luo Hu, Shenzhen, Guangdong Province |

Set out below is a list of the branches of MEVAS Bank as at the Latest Practicable Date:

| Branch | Address |
|--------------------------------|---|
| Hong Kong | |
| <i>Hong Kong Island</i> | |
| Causeway Bay | Thai Kong Building, 482 Hennessy Road, Causeway Bay |
| Central | A2 Worldwide House, 19 Des Voeux Road, Central |
| Queen's Road Central | Ground Floor, 85 Queen's Road Central, Central |
| <i>Kowloon</i> | |
| Tsim Sha Tsui | Shops E & F, 45 Haiphong Road, Tsim Sha Tsui |
| Nathan Road | 335 Nathan Road, Jordan |
| <i>New Territories</i> | |
| Tuen Mun | UG Shop 16, Tuen Mun Town Plaza Phase 2, Tuen Mun |

The following summary of the supervisory framework of AIs in Hong Kong has been prepared by the Company. It is not and is not intended to be read as a comprehensive review of the same. Please refer to the Banking Ordinance and other official publications of the HKMA for further information about banking supervision in Hong Kong.

LICENSING AND AUTHORISATION

Licensing Requirements

In order to be authorised under the Banking Ordinance, an applicant must satisfy the authorisation criteria specified in the Seventh Schedule (the “Schedule”) to the Banking Ordinance.

The HKMA has a general discretion to grant or refuse applications for authorisation. Normally, it will not refuse to authorise an applicant if all the criteria in the Schedule are satisfied with respect to it. However, the HKMA does have a discretionary power to refuse to grant authorisation. For example, this power may be exercised where the application in question gives rise to prudential concerns which are not covered in the existing criteria in the Schedule.

All three types of authorisation in relation to licensed banks, restricted licence banks and deposit-taking companies are subject to the same criteria, except that:

- the requirement for the aggregate amount of paid-up capital and the balance of share premium account in respect of licensed banks incorporated in Hong Kong is higher than for restricted licence banks and deposit-taking companies (i.e. HK\$300 million against HK\$100 million and HK\$25 million, respectively);
- applicants which apply for a banking licence in Hong Kong are subject to a minimum asset size requirement (i.e. HK\$4 billion) and a minimum customer deposit requirement (i.e. HK\$3 billion) which does not apply to restricted licence banks and deposit-taking companies; and
- for banking licence applicants incorporated in Hong Kong, the applicant must have been a deposit-taking company or restricted licence bank (or any combination thereof) for not less than three continuous years prior to the application or a subsidiary of a bank incorporated outside Hong Kong or a subsidiary of a holding company of such bank, and such bank has been authorised to carry on banking business in Hong Kong for not less than three continuous years.

Some other criteria specified in the Schedule cover the generally accepted features of a prudent licensing system as set out in the Core Principles for Effective Banking Supervision published in September 1997 by the Basel Committee on Banking Supervision and adopted by the HKMA in July 1999 (the “**Core Principles**”), including:

- whether the chief executive, directors and controllers of the applicant are “fit and proper”;

- the financial soundness of the applicant in respect of capital adequacy, liquidity and asset quality;
- the adequacy of internal controls and accounting systems; and
- whether the business of the applicant is, and will continue to be, carried on with integrity, prudence and competence.

Applicants which are incorporated in Hong Kong are required to maintain a CAR (calculated in accordance with the Third Schedule to the Banking Ordinance) of at least 8%.

BANKING SUPERVISION

Under the Banking Ordinance, the principal function of the HKMA is to “promote the general stability and effective working of the banking system”, and the HKMA is responsible for the supervision of AIs operating in Hong Kong. The HKMA’s supervisory approach, which is consistent with the Core Principles, is based on a policy of “continuous supervision”. This involves the on-going monitoring of AIs under a risk-based supervisory framework. It is a structured approach to supervision designed to establish a forward-looking view on the risk profile of AIs. This results in a direct and specific supervisory focus on the areas of greatest risk to an AI.

The risk-based supervisory approach puts emphasis on the evaluation of the quality of risk management systems and internal controls of the various types of risks faced by AIs. The eight major types of inherent risks identified by the HKMA are:

- credit;
- interest rate;
- market;
- liquidity;
- operational;
- legal;
- reputation; and
- strategic.

In administering the risk-based supervisory approach, the HKMA makes use of a variety of techniques which aim at detecting problems at an early stage. These techniques include on-site examinations, off-site reviews, prudential meetings, meetings with the board of directors, co-operation with external auditors and sharing information with other supervisors.

The risk profile of an AI is ascertained by balancing the level of inherent risks with the quality of risk management systems at the AI. A risk management rating is then assigned and factored into the management and other relevant components of the CAMEL rating system.

The HKMA uses the CAMEL rating system for evaluating the safety and soundness of AIs by reference to the AI's capital adequacy, asset quality, management, earnings and liquidity. Its primary purpose is to help the HKMA to identify those AIs whose weaknesses in the aforementioned areas require special supervisory attention and warrant a higher than normal level of supervisory concern.

Under the system, each AI is assigned a composite rating based on an evaluation of the individual CAMEL components. A set of qualitative factors and quantitative measurement yardsticks have been developed internally by the HKMA to facilitate the rating process. The CAMEL system factors the evaluation of an AI's quality of risk management practices and internal controls into the rating of management and other relevant components.

Under the CAMEL rating system, AIs are assigned an overall rating expressed through the use of a numerical scale of 1 to 5 in ascending order of supervisory concern. AIs rated 3 are considered to be less than satisfactory and those rated 4 or 5 are considered problem AIs. Supervisory actions are required for AIs in these categories, such as an increase in their minimum CAR or the imposition of formal supervisory conditions or requirements relating to the business of the AI.

The CAMEL rating system applies to both locally incorporated AIs and branches of foreign banks. The HKMA aims to review the CAMEL ratings of all AIs once a year, in particular locally incorporated AIs. The composite rating will be disclosed to the board of directors (or the head office in the case of foreign bank branches) and senior management of an AI together, where necessary, with recommendations to strengthen its financial position or management. The board is expected to take a close interest in management's efforts to rectify any problems underlying a composite rating of 3 or worse. The board and management of AIs are required to keep the composite rating confidential. This is to avoid the risk of possible misinterpretation of the composite rating assigned to individual AIs.

PRINCIPAL REGULATORY REQUIREMENTS FOR AIs IN HONG KONG

Capital Adequacy

The HKMA imposes requirements on locally incorporated AIs to maintain certain minimum levels of capital adequacy. Capital adequacy is measured on a basis consistent with the Basel Capital Accord. Under the provisions of the Banking Ordinance, AIs incorporated in Hong Kong are required to maintain a minimum CAR of 8%. The HKMA is, however, empowered to specify a higher minimum CAR for any particular locally incorporated AI, which may be up to 12% in the case of a licensed bank and up to 16% in the case of a restricted licence bank or a deposit-taking company. At present, the minimum capital adequacy rates to be observed by all AIs incorporated in Hong Kong have been raised to 10% or above. In addition to the minimum ratio imposed by the

HKMA, AIs are required to observe a trigger ratio which is normally set at 1% above the minimum ratio. The trigger ratio is intended to provide an early warning signal of deterioration in capital adequacy. Locally incorporated AIs will generally be required to meet the minimum and trigger ratio requirements on both a solo and consolidated basis.

In addition to the requirements on CAR, AIs are required to maintain minimum absolute levels of the aggregate amount of paid-up share capital and the balance of share premium account. These are currently HK\$300 million for banks, HK\$100 million for restricted licence banks and HK\$25 million for deposit-taking companies.

Asset Quality

It is an authorisation criterion that each AI should maintain adequate provisions for bad and doubtful debts. The HKMA monitors asset quality and adequacy of provisions through its on-site examinations and off-site analysis, in particular by means of its loan classification. Under the loan classification system, all AIs are required to report their loans according to five categories, i.e. Pass, Special Mention, Substandard, Doubtful and Loss. The three latter categories are collectively known as “classified loans” and generally treated as non-performing. Locally incorporated AIs report in respect of their combined branch operations within and outside Hong Kong.

Details of the loan classification system are set out in the section headed “Description of the Assets and Liabilities of the Group — Loan Classification”.

The HKMA defines non-performing assets as loans and advances to customers on which interest is placed in suspense or on which interest accrual has ceased. Interest should be placed in suspense or cease to be accrued when a number of criteria have been met, including:

- when there is reasonable doubt as to the ultimate collectability of principal and interest;
- where a specific provision has been made;
- where the payment of principal and/or interest is over three months overdue and the net realisable value of the collateral is insufficient to cover all payments of principal and accrued interest;
- where payments of principal and accrued interest are overdue for over one year, regardless of the value of the collateral;
- where an overdraft has remained above the limit approved for the customer for more than three months, and where the net realisable value of collateral is insufficient to cover repayment of principal and accrued interest; or
- where an overdraft has remained above the limit approved for the customer for more than 12 months, regardless of the net realisable value of the collateral.

The HKMA does not currently mandate minimum levels of provisions, either general or specific, in relation to the various categories of classified loans. It would, however, require an AI to increase provisions if it considered these to be inadequate.

Large Exposure Limits

Under Section 81 of the Banking Ordinance and paragraph 8 of the Schedule, AIs incorporated in Hong Kong are subject to a statutory limit of 25% of capital base on the credit exposure to any one person. For the purpose of this limit, the exposure to a group of related borrowers is treated as a single exposure. The limit may be applied to AIs on a sole and/or consolidated basis. There are various statutory exemptions including, for example, exposures to other AIs or banks abroad which, in the opinion of the HKMA, are adequately supervised, governments and multilateral development banks and exposures which are appropriately secured or guaranteed by a third party, as accepted by the HKMA.

There are also limits on unsecured exposure to persons connected with a lending AI. Such persons include any director, controller or any employee who is responsible for approving loan applications, relatives of these persons and non-listed companies which are controlled by them. The maximum unsecured exposure to such persons who are individuals should not exceed HK\$1 million per person and 5% of capital base in aggregate. The aggregate unsecured exposure to all connected persons and the companies connected to such persons should not exceed 10% of the capital base of the lending AI.

In addition, locally incorporated AIs are required to seek the HKMA's prior approval for any major acquisition or investment in a company (including the establishment of a company) which constitutes 5% or more of the capital base of the AI concerned. It should be noted that this requirement may be applied to an AI on a solo and/or consolidated basis.

There is no statutory limitation on lending to any particular economic sector, although the AIs' aggregate holdings of interests in land (excluding bank premises) or in shares are limited to a maximum of 25% of their capital base in each case. However, AIs are expected to have internal limits to control their exposure to different sectors. In addition, the aggregate total of connected lending, the value of all holdings of share capital and the value of all holdings of interests in land is limited to a maximum of 80% of an AI's capital base at any time.

Apart from adhering to statutory limitations on exposures as mentioned above, locally incorporated AIs are required to maintain adequate controls over large exposures, including maximum limits for different types of exposure (e.g. by counterparty, industry, sector or country etc.) and an internal clustering limit to control the aggregate amount of its large exposures which are not currently exempted from Section 81 of the Banking Ordinance.

Country Risk

Where an AI engages in international lending or incurs a cross-border exposure, it is required to ensure that:

- there are appropriate policies and procedures for the management of country risk;
- there is a robust system for assessing the country risk in their cross-border exposures;
- there are proper controls (e.g. through establishing and monitoring country exposure limits) in place to manage the concentration risk associated with such exposures;
- adequate resources are devoted to managing country risk; and
- adequate provisions for country risk are maintained.

Liquidity

One of the criteria for authorisation is that every AI maintain adequate liquidity and comply with a statutory liquidity ratio. The HKMA's approach to the supervision of liquidity aims to ensure, as far as possible, that AIs:

- can meet their obligations when they fall due in normal circumstances; and
- maintain an adequate stock of high quality liquid assets to assist them in the event of a liquidity crisis.

The HKMA adopts a risk-based supervisory approach that includes continuous supervision of AIs' liquidity risk through a combination of risk-focused on-site examinations, off-site reviews and prudential meetings. The objectives are to obtain sufficient and timely information for evaluation of AIs' liquidity risk profile and to assess the adequacy and effectiveness of their liquidity risk management process. The principal supervisory tool is the statutory liquidity ratio. All AIs in Hong Kong are required to maintain a statutory liquidity ratio of not less than 25% on average in each calendar month, and are required to submit monthly liquidity ratio returns. Broadly, the liquidity ratio is expressed in terms of each AI's liquefiable assets which can be realised within one month as a percentage of its qualifying liabilities which will, or could, mature within one month. Liquefiable assets include cash, gold, net interbank placements, marketable debt securities, export bills, eligible loan repayments and residential mortgage loans covered by Hong Kong Mortgage Corporation's irrevocable Forward Commitment Facility. Qualifying liabilities include customer deposits, net interbank borrowings and other liabilities. Discounts (known as "liquidity conversion factors") ranging from 0% to 20% are applied to various types of liquefiable assets for the purposes of calculating the ratio.

According to the Supervisory Policy Manual (“SPM”) module on Liquidity Risk Management which is currently under consultation, in assessing an AI’s liquidity risk profile and the adequacy of its liquidity risk management process, the HKMA will have particular regard to the following factors:

- the level and trend of the AI’s liquidity ratio as well as the quality and composition of its liquid assets to withstand a liquidity crisis;
- the adequacy of the AI’s liquidity risk management framework, including the level of oversight exercised by its board and senior management and the propriety of its liquidity management policies and reporting systems;
- staff knowledge and expertise in identifying and managing sources of liquidity risk;
- the ability of the AI to measure, monitor and control cash flow positions under both normal and stress scenarios and for the management of liquidity in foreign currencies in which it has significant positions;
- the funding capacity of the AI in both normal and crisis situations, including its ability to borrow in the interbank and wholesale markets, the diversification and volatility of its deposit base and the availability and reliability of standby facilities and intragroup funding;
- the adequacy and effectiveness of the AI’s risk tolerance limits and ratios for managing liquidity; and
- the adequacy and effectiveness of the AI’s contingency planning for a liquidity crisis, including such aspects as warning signs of an approaching crisis, emergency funding sources and the actions that would be taken to pre-empt it.

In considering whether an AI has appropriate systems for managing liquidity risk, the HKMA will also take into account the nature and complexity of its business.

Apart from the liquidity ratio return, all AIs are required to submit a quarterly maturity profile return and, when the SPM module on Liquidity Risk Management comes into effect, internal liquidity management reports.

Foreign Exchange Risk

The HKMA requires AIs to establish internal control systems to monitor their foreign exchange risks, to set limits on risk exposures and to earmark capital against the possibility of loss, as well as to report their foreign currency positions (including options) monthly. Locally incorporated AIs are required to report their consolidated foreign currency positions. The aggregate net overnight open position (calculated as the sum of net long/short positions of individual currencies) should not normally exceed 5% of the capital base of the AI and the net overnight open position in any individual currency should not exceed 10% of capital base. In

particular cases, if an AI has a high degree of market and system proficiency, the normal aggregate limit might be higher than 5%, but in any event it should not exceed 15% of its capital base. For subsidiaries of foreign banks, where the parent consolidates the foreign exchange risk on a global basis and there is adequate home supervision, the HKMA may accept limits at higher levels. For branches of foreign banks, the HKMA reviews and monitors their internal limits which are usually set by their head offices. All AIs (i.e. both local and overseas incorporated AIs) are required to report to the HKMA any breaches of the agreed limits when making their monthly report on foreign currency positions. Positions in the Hong Kong dollar against the U.S. dollar are excluded from the guidelines on net open positions. AIs are, however, expected to have internal limits for such positions.

Derivatives and other Off-Balance Sheet Items

The HKMA has issued certain guidelines on the risk management of derivatives activities of AIs. A separate guideline on the use of credit derivatives is contained in the SPM.

The basic principles of a prudent system to control the risks in derivatives activities of an AI include:

- appropriate oversight by an AI's board of directors and senior management;
- adequate risk management process; and
- comprehensive internal controls and audit procedures.

For locally incorporated AIs, the HKMA takes into account positions in derivatives and other off-balance sheet items in assessing capital adequacy and large exposures (credit risk), foreign currency risk, interest rate risk and liquidity risk. In addition, positions arising from such activities have been incorporated within the market risk reporting framework. For branches of foreign banks, the HKMA considers that, in general, it is more appropriate for the banks' home supervisor to monitor the impact on capital adequacy of their derivatives and other off-balance-sheet activities on a consolidated basis. However, these AIs are required to provide regular information on positions in such instruments.

Accounting Systems and Internal Control Systems

One of the criteria for authorisation is that all AIs should have in place adequate accounting and internal control systems. Every AI is subject to examination of the adequacy of such systems by the HKMA's own bank examiners and/or its external auditors. "Adequacy" of systems covers both their existence and whether they are working effectively.

The aspects of internal controls which may be subject to ad-hoc reports by external auditors include the following:

- high level controls;

- specific controls relating to the financial accounting and management reporting systems;
- specific controls relating to functional areas of AIs' operations (such as loans and advances, electronic banking etc.);
- computer controls;
- contingency planning; and
- controls to prevent money laundering.

Public Disclosure of Financial and Prudential Information

Disclosure of information by AIs in Hong Kong is subject to relevant HKMA guidelines, as well as the appropriate accounting practice, and, if the AI or its holding company is listed, by the Listing Rules. The HKMA's requirements for financial disclosure are contained in the SPM. As a result, the AIs incorporated in Hong Kong with the exception of the smaller restricted licence banks and deposit-taking companies (being those which do not have total assets of HK\$1 billion or more or total customer deposits of HK\$300 million or more) now provide information on the following in their accounts:

- the nature and quality of earnings and cost structure: including breakdown of income, operating expenses, bad debt charges and taxation;
- profits;
- the nature and quality of assets in which assets are grouped by type and maturity. General and specific provisions are separately disclosed. Securities are analysed according to the purpose for which they are held, and the market value of listed investment securities is disclosed. The maturity profiles of all major assets and liabilities are disclosed. Counterparty analysis on securities and standardised disclosure of advances by industry sector is disclosed. There is also information on the overdue and non-accrual status of loans, the overdue status of other assets, the level of loan loss provisions analysed into specific and general and movements in provisions during the year;
- sources of funding: liabilities are analysed into various main constituents, namely, customer deposits, interbank deposits and other accounts;
- capital resources: analysed into loan capital, minority interests, share capital and various material types of reserves including general reserves and property revaluation reserves. Components of capital are split between core and eligible supplementary capital;

- cashflow statement;
- off-balance sheet exposures: disclosure of the contractual or notional amounts of each significant class of off-balance sheet financial instrument or contracts outstanding; disclosure of the aggregate notional amounts of each significant class of derivative instruments; disclosure of purpose of holding (i.e. trading or hedging) and the current replacement costs and credit risk;
- principal accounting policies: the policies adopted in determining the profit or loss for the period and in stating the financial position; the policies, practices and methods adopted for credit risk exposures in particular for loans and advances which should include *inter alia* the basis of measurement at the time of acquisition and at subsequent periods, the recognition of interest income, and the determination of specific and general provisions and write-offs; the policies in respect of off-balance sheet exposures, valuation and income recognition; and voluntary disclosure on accounting treatment of related fees and expenses, including whether any incentives relating to residential mortgages or other advances have been written off or amortised;
- segmental reporting: forms part of the supplementary information to the audited accounts. Total assets and liabilities, total operating income and profit/loss before tax, and off-balance sheet exposures are analysed by geographical areas and classes of business. Advances to customers are broken down by industry sectors and geographical areas and cross-border claims are analysed by geographical areas and the types of counterparties;
- other financial information: transactions with group companies, assets of the AI pledged as security, capital adequacy and liquidity ratios;
- corporate governance: disclosure of the roles, functions and composition of key specialised committees established under the board of directors, including the executive committee, credit committee, asset and liability committee and audit committee; and
- risk management: for qualitative information, AIs are required to provide a description of the main types of risk arising out of their businesses (including credit, liquidity, interest rate, foreign exchange and market risk) and the policies, procedures and controls used for measuring, monitoring and controlling those risks and for managing the capital required to support them. AIs should disclose quantitative information about the amount and volatility of market risk if market risk is regarded as material, and foreign currency exposures.

The HKMA requires AIs to include a statement of compliance in the directors' report, stating whether the Guideline for Financial Disclosure has been fully complied with and, if not, the areas of, and reasons for, non-compliance. In addition, banks which are listed on the Stock Exchange are subject to its listing requirements. In general, these require disclosure of information in line with the HKMA's minimum standards on financial disclosure.

While the requirements outlined above relate specifically to AIs incorporated in Hong Kong, the HKMA also expects adequate financial disclosure to be made by the larger AIs (being those which have total assets of HK\$10 billion or more or total customer deposits of HK\$2 billion or more) incorporated outside Hong Kong.

External Audit

Companies incorporated under the Companies Ordinance (including AIs) are required to appoint an external auditor at each annual general meeting of the company. The auditor is required to examine the accounts of the company and to report to the Shareholders on whether, in the auditor's opinion, the balance sheet and profit and loss account have been prepared in accordance with the provisions of the Companies Ordinance and whether they give a true and fair view of the company's financial position.

An AI incorporated outside Hong Kong is required, within six months (four months for AIs incorporated in Hong Kong) after the close of each financial year, to submit to the HKMA a copy of its audited accounts, the auditors' report on the accounts and the directors' report prepared under the laws of the place in which the AI is incorporated.

An AI incorporated in Hong Kong is required under the Banking Ordinance immediately to give written notice to the HKMA if it proposes to give notice to its members of an ordinary resolution to remove an auditor before or at the expiration of his normal term of office or if a person ceases to be an auditor of the AI otherwise than in consequence of such a resolution. Similarly, an auditor must give written notice to the HKMA if he:

- resigns before the expiration of his term of office;
- does not seek to be re-appointed; or
- decides to include in his report on the AI's accounts any qualification or adverse statement.

Under the Banking Ordinance, AIs are required to submit reports by auditors on certain internal control systems on a recurring annual basis and on other internal control systems on an ad hoc basis as required by the HKMA. An ad hoc report would be commissioned where an independent review is required in particular areas and where, amongst other things, significant weaknesses in internal controls have been revealed at the AI. The HKMA may require that such a report be obtained from another firm of auditors in order to obtain a fresh and independent perspective on the matters which are the subject of a review.

Relationship with Internal Auditors

It is the HKMA's policy to require AIs to maintain a proper internal audit function as part of an effective system of internal controls. AIs are also recommended to establish an audit committee under the board of directors to oversee the operation of the internal auditors and to provide an independent reporting line.

The HKMA attaches particular importance to the role of internal auditors of AIs to ensure that the internal controls and operating procedures of AIs are adequate and functioning properly in accordance with board policies and to assist management in developing appropriate solutions to problems. During on-site examinations, the HKMA would normally review the audit programme of the internal auditors and the work conducted by them, and discuss with the internal auditors their major findings to ascertain the performance and adequacy of the AI's internal audit function. Internal auditors are normally invited to participate in tripartite meetings of the HKMA, the senior management of the AI and their external auditors.

Other Supervisory Methods

The HKMA has issued guidelines on various activities, such as taxi financing, lending to stockbrokers and financing of the subscription of new share issues.

SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme which does not form, nor is intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme.

For the purposes of this section, unless the context otherwise requires or specifies, the following terms have the meanings set out below:

| | |
|-------------------|---|
| “Eligible Person” | any director of, manager of, or other employee holding an executive, managerial or supervisory position in, the Group as the Board may in its sole discretion determine to be eligible to be made an offer; |
| “Grantee(s)” | persons who are offered or granted Options pursuant to the Share Option Scheme; and |
| “Option(s)” | options that may be granted pursuant to the Share Option Scheme. |

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide incentive and/or reward to Grantees for their contribution to, and continuing efforts to promote the interests of, the Group.

(b) Who may join

Any director of, manager of, or other employee holding an executive, managerial or supervisory position in, the Group as the Board may in its sole discretion determine to be eligible to be made an offer, is eligible to participate in the Share Option Scheme.

(c) Maximum number of Shares

The total number of Shares which may be issued upon the exercise of all options granted and yet to be exercised under the Share Option Scheme or any other share option scheme adopted by the Company must not exceed 5% of the Shares in issue from time to time (as at the date of this prospectus such 5% being 40,495,000). The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 5% of the Shares in issue as to the date of approval of the Share Option Scheme, such 5% being 40,495,000. Options which have lapsed shall not be counted in calculating the 5% limit. However, the Company may renew this 5% limit with Shareholders' approval provided that each such renewal may not exceed 5% of the Shares in issue as at the date of the Shareholders' approval of the limit. The Company shall also send a circular to the Shareholders setting out such information as required under the Listing Rules.

The Directors consider that it is not appropriate to state the value of all Options that can be granted pursuant to the Share Option Scheme as if they had been granted on the Latest Practicable Date as a number of variables which are crucial for the calculation of the value of the Options have not been determined. Such variables include the exercise price, exercise period, any lock up period, any performance targets set and other relevant variables. The Directors believe that any calculation of the value of the Options as at the Latest Practicable Date based on a large number of speculative assumptions would not be meaningful and would be misleading to Shareholders.

(d) Maximum number of Shares per Grantee

- (i) Subject to paragraphs (d)(iii) and (d)(iv) below, the total number of Shares issued and to be issued upon the exercise of the Options granted to each Grantee (including both exercised and unexercised Options) under the Share Option Scheme or any other share option scheme adopted by the Company in any 12-month period must not exceed 1% of the Shares in issue.
- (ii) Notwithstanding paragraph (d)(i) above, any further grant of Options to a Grantee in excess of the 1% limit shall be subject to Shareholders' approval with such Grantee and his associates abstaining from voting. The number of Shares subject to the Options to be granted and the terms of the Options to be granted to such Grantee shall be fixed before seeking Shareholders' approval and the date of the meeting of the Board for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price. In such a case, the Company shall send a circular to its Shareholders containing the information required under the Listing Rules.
- (iii) In addition to paragraphs (d)(i) and (d)(ii) above, any grant of Options to a Grantee who is a Director, chief executive or substantial Shareholder or their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the Grantee).
- (iv) Where the Board proposes to grant any Option to a Grantee who is a substantial Shareholder or an independent non-executive Director of the Company or any of their respective associates and such Option which if exercised in full, would result in such Grantee becoming entitled to subscribe for such number of Shares, when aggregated with the total number of Shares already issued, and issuable, to him pursuant to all the Options granted and to be granted (including Options exercised, cancelled and outstanding) to him in the 12-month period up to and including the proposed offer date of such grant (the "Relevant Date"):
 - (a) representing in aggregate more than 0.1% of the relevant class of securities of the Company in issue at the Relevant Date; and
 - (b) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the Relevant Date and if the Relevant Date is not a trading day, the trading day immediately preceding the Relevant Date, in excess of HK\$5 million,

such proposed grant of Options must be approved by the Shareholders in general meeting and the Grantee concerned and all other connected persons of the Company shall abstain from voting in favour of the resolution at the general meeting. Any vote taken at the general meeting to approve the grant of such options must be taken on a poll. The Company shall send a circular to its Shareholders setting out such information as required under the Listing Rules.

(e) Exercise of Options

- (i) The period within which the Options must be exercised will be specified by the Company at the time of grant. This period must expire no later than ten years from the date on which the offer in relation to the Option is deemed to have been accepted, subject to the provisions of the Share Option Scheme relating to early termination as summarised below.
- (ii) Subject to paragraphs (e)(iii) and (l)(v) below, where the holder of an outstanding Option ceases to be an Eligible Person under the Share Option Scheme for any reason, the Option shall lapse on the date of cessation and shall not be exercisable unless the Board otherwise determines in which event the Option shall be exercisable to the extent and within such period as the Board may determine. The date of such cessation shall be his last actual working day at his work place with the Group whether salary is paid in lieu of notice or not.
- (iii) Where the Grantee of an outstanding Option dies before exercising the Option in full or at all, the Option may be exercised up to the entitlement of such Grantee or, if appropriate, an election made pursuant to paragraphs (e)(iv), (v) or (vi) below by his personal representatives within 12 months of the date of death or such longer period as the Board may determine.
- (iv) If a general offer by way of a take-over is made to all the Shareholders (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional, the Company shall give notice thereof to the Grantee and the Grantee (or his personal representatives) may by notice in writing to the Company within 30 days after such offer becoming or being declared unconditional exercise the Option to its full extent or to the extent specified in such notice.
- (v) If a general offer by way of a scheme of arrangement is made to all the Shareholders and the scheme has been approved by the necessary number of Shareholders at the requisite meetings, the Company shall give notice thereof to the Grantee and the Grantee (or his personal representatives) may thereafter (but before such time as shall be notified by the Company) by notice in writing to the Company exercise the Option to its full extent or to the extent specified in such notice.

(vi) In the event that a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all Grantees (together with a notice of the existence of the provisions of this paragraph) and thereupon, each Grantee (or his personal representatives) shall be entitled to exercise all or any of his Options at any time not later than two Business Days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than three Business Days immediately prior to the date of the proposed general meeting referred to above, issue and allot the relevant Shares to the Grantee credited as fully paid.

(f) Minimum holding period

At the time of the grant of the Options, the Company may specify a minimum period for which an Option must be held before it can be exercised.

(g) Performance targets

At the time of the grant of the Options, the Company may specify performance targets which must be achieved before the Options can be exercised.

(h) Option price

The amount payable on acceptance of an Option is HK\$1.00.

(i) Subscription price

The subscription price for the Shares the subject of the Options shall be no less than the higher of:

- (i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant;
- (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Business Days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

For the purpose of calculating the exercise price where the Company has been listed for less than five Business Days, the new issue price shall be used as the closing price for any Business Day falling within the period before listing of the Shares.

The Board will specify the subscription price at the time the Option is offered to the Grantee.

(j) Rights on a liquidation

The Shares to be allotted and issued upon the exercise of an Option will be subject to all the provisions of the constitutional documents of the Company for the time being in force and will rank *pari passu* with the fully paid Shares in issue as at the date of allotment and will entitle the holders to participate in all dividends or other distributions declared or recommended or resolved to be paid or made in respect of a record date falling on or after the date of allotment.

(k) Period of Share Option Scheme

The Share Option Scheme shall be valid and effective for a period of ten years commencing on the adoption of the Share Option Scheme.

(l) Lapse of Options

An Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:

- (i) the expiry of the Option period;
- (ii) the expiry of any of the periods referred to in paragraphs (e)(ii), (iii) or (iv) above;
- (iii) subject to the scheme of arrangement becoming effective, the expiry of the period set out in the notice referred to in paragraph (e)(v) above;
- (iv) subject to paragraph (e)(vi) above, the date of the commencement of the winding-up of the Company;
- (v) the date on which the Grantee ceases to be an Eligible Person by reason of summary dismissal for misconduct or other breach of the terms of his employment or other contract constituting him an Eligible Person, or the date on which he begins to appear to be unable to pay or has no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally or on which he has been convicted of any criminal offence involving his integrity or honesty. A resolution of the Board to the effect that the employment or other relevant contract of a Grantee has or has not been terminated on one or more of the grounds specified in this paragraph (l)(v) shall be conclusive; or
- (vi) the date on which the Grantee transfers or encumbers any interest in his Option.

(m) Adjustments in the capital structure of the Company

In the event of a capitalisation issue, rights issue, subdivision, consolidation or reduction of the share capital of the Company, the number of Shares to be issued on exercise of the Options and/or the subscription price shall be adjusted accordingly; provided that no such adjustment shall be made in respect of an issue of securities by the Company as consideration in a transaction, any

such adjustments must be made so that each Grantee is given the same proportion of the equity capital of the Company as that to which he was previously entitled and no such adjustments shall be made which would result in the subscription price for a Share being less than its nominal value (provided that in such circumstances the subscription price shall be reduced to the nominal value). In respect of any such adjustment, other than any made on a capitalisation issue, an independent financial adviser or the Company's auditors must confirm to the Board in writing that the adjustments satisfy the above requirements.

(n) Cancellation of Options granted

Any Options granted but not exercised may be cancelled if the Grantee so agrees and new Options may be granted to the Grantee provided such Options fall within the limits specified in paragraph (c) above and are otherwise granted in accordance with the terms of the Share Option Scheme or any new scheme adopted by the Company.

(o) Ranking of Shares

The Shares issued on exercise of the Options will be identical to the then existing issued ordinary shares of the Company.

(p) Termination of Share Option Scheme

The Company, by resolution of Shareholders or the Board, may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered or granted. Any unexercised Options shall continue to be exercisable in accordance with their terms of issue after the termination of the Share Option Scheme.

(q) Transfers of Options

Options may not be transferred or assigned and are personal to the Grantee.

(r) Alterations to the Share Option Scheme

Those specific provisions of the Share Option Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules, or any change to the authority of the Directors in relation to any alteration of the terms, cannot be altered to the advantage of Grantees without the prior approval of Shareholders in general meeting. Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, or any change to the terms of Options granted, must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme. The amended terms of the Share Option Scheme or the Options must still comply with Chapter 17 of the Listing Rules.

(s) Redemption of Options

The Board may at its sole discretion elect to cancel any Option and pay to the Grantee the aggregate of:

- (i) the subscription price received by the Company from the Grantee with the notice of exercise of the Option, if the Option has been exercised; and
- (ii) if the average closing price of the Shares (as stated in the daily quotations sheets issued by the Stock Exchange for the five Business Days immediately preceding the cancellation) exceeds the subscription price, an amount equal to such excess multiplied by the number of Shares which would be or would have been issued upon exercise of the Option.

Any payment made by the Company pursuant to paragraph (ii) above shall be charged to its profit and loss account.

(t) Shareholders' approval

Where the provisions of the Share Option Scheme require the Share Option Scheme or any related matters to be approved by the Shareholders and/or the independent non-executive Directors, the Share Option Scheme or such related matters must be simultaneously approved by the shareholders of DSFH and/or independent non-executive directors of DSFH while DSFH remains the listed holding company of the Company.

(u) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on:

- (i) the passing of an ordinary resolution approving the adoption of the Share Option Scheme by the Shareholders and authorising the Board to grant options and to allot and issue Shares pursuant to any Options granted under the Share Option Scheme;
- (ii) the approval of the Share Option Scheme by the shareholders of DSFH;
- (iii) the Listing Committee granting approval of the listing of, and permission to deal in:
 - (aa) any Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued upon the exercise of the Over-allotment Option); and
 - (bb) Shares which may fall to be issued pursuant to the exercise of Options;
- (iv) the commencement of dealings in the Shares on the Stock Exchange; and

- (v) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by, or on behalf of, the Underwriters) and not being terminated in accordance with the terms of such agreements or otherwise.

If all of the above conditions are not satisfied on or before the date falling two months after the date of adoption of the Share Option Scheme, the Share Option Scheme shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme. The sole Shareholder passed a written resolution dated 12 June 2004 in accordance with condition (i) above and the shareholders of DSFH approved the Share Option Scheme at an extraordinary general meeting of DSFH held on 12 June 2004.

Application has been made to the Listing Committee for the approval of the Share Option Scheme and the subsequent granting of Options and for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the Options.

As at the Latest Practicable Date, no Option has been granted or agreed to be granted by the Company under the Share Option Scheme.

FURTHER INFORMATION ABOUT THE COMPANY**(a) Incorporation of the Company**

The Company was incorporated in Hong Kong under the Companies Ordinance as a limited liability company on 11 March 2004. Its registered office is at 36th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Hong Kong. As the Company was incorporated in Hong Kong, it is subject to the laws of Hong Kong and to its constitution which comprises a memorandum and articles of association. A summary of the Articles of Association is set out in Appendix IV to this prospectus.

(b) Changes in share capital of the Company

- (1) As at the date of incorporation of the Company, its authorised share capital was HK\$10,000 divided into 10,000 Shares. Two Shares were issued and credited as fully paid to the subscriber, DSFH, on 11 March 2004.
- (2) The authorised share capital of the Company was increased from HK\$10,000 to HK\$1,500,000,000 by the creation of 1,499,990,000 new Shares pursuant to a resolution passed by the sole Shareholder referred to in the section below headed "Written resolutions of the sole Shareholder passed on 12 June 2004".
- (3) On 12 June 2004, the Company allotted and issued 809,899,998 Shares to DSFH credited as fully paid in part consideration of DSFH transferring its beneficial interest in:
 - (i) 8,000,000 ordinary shares of par value HK\$100 each in Dah Sing Bank to the Company;
 - (ii) 27,256,850 "A" ordinary shares of par value HK\$10 each and 12,743,150 convertible non-voting "B" ordinary shares of par value HK\$10 each in MEVAS Bank to the Company;
 - (iii) 10,000,000 ordinary shares of par value HK\$1.00 each in GC Securities to Dah Sing Bank; and
 - (iv) 755,000 ordinary shares of par value US\$1.00 each in D.A.H. Holdings to the Company.
- (4) Immediately upon completion of the Global Offering becoming unconditional and the issue of Offer Shares as mentioned in this prospectus being made (assuming that the Over-allotment Option and the options granted under the Share Option Scheme are not exercised), the authorised share capital of the Company will be HK\$1,500,000,000 divided into 1,500,000,000 Shares, of which 910,000,000 Shares will be issued fully paid or credited as fully paid, and 590,000,000 Shares will remain unissued. In the event that the Over-allotment Option is exercised in full, 925,015,000 Shares will be issued fully paid or credited as fully paid and 574,985,000 Shares will remain unissued. Other

than pursuant to the exercise of the Over-allotment Option or options to be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of the Company. Without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

- (5) Save as disclosed herein, there has been no alteration in the share capital of the Company since its incorporation.

(c) Written resolutions of the sole Shareholder passed on 12 June 2004

By written resolutions of the sole Shareholder passed on 12 June 2004:

- (1) the authorised share capital of the Company was increased from HK\$10,000 to HK\$1,500,000,000 by the creation of a further 1,499,990,000 Shares; and
- (2) the Directors were authorised to allot and issue, credited as fully paid, a total of 809,899,998 Shares, to rank pari passu in all respects with the Shares in issue, as part consideration for the transfer by DSFH of:
- (i) its legal and beneficial interest in 8,000,000 ordinary shares of par value HK\$100 each, representing 100% of the issued share capital of Dah Sing Bank, to the Company;
 - (ii) its legal and beneficial interest in 27,256,850 "A" ordinary shares of par value HK\$10 each and 12,743,150 convertible non-voting "B" ordinary shares of par value HK\$10 each, representing 100% of the issued share capital of MEVAS Bank, to the Company;
 - (iii) its legal and beneficial interest in 10,000,000 ordinary shares of par value HK\$1.00 each, representing 100% of the issued share capital of GC Securities, to Dah Sing Bank; and
 - (iv) its legal and beneficial interest in 755,000 shares of par value US\$1.00 each, representing 75.5% of the issued share capital of D.A.H. Holdings, to the Company.

By further written resolutions of the sole Shareholder passed on 12 June 2004:

- (1) the Company approved and adopted the Articles of Association, the terms of which are summarised in Appendix IV to this prospectus;

- (2) conditional on the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein (including any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme and any additional Shares made available pursuant to the exercise of the Over-allotment Option) and on the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (unless and to the extent such conditions are validly waived) and not being terminated in accordance with the terms of those agreements or otherwise, in each case on or before the day immediately before the date on which trading in the Shares commences on the Stock Exchange and in any event on or before 18 July 2004, being the date falling 30 days after the date of this prospectus:
- (i) the Global Offering and the Over-allotment Option were approved and the Directors were authorised to allot and issue the New Shares pursuant to the Global Offering and any Shares which may be required to be issued by the Company if the Over-allotment Option is exercised; and
 - (ii) the rules of the Share Option Scheme were approved and adopted and the Directors were authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights attaching to any options granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement and give effect to the Share Option Scheme;
- (3) a general unconditional mandate was given to the Directors to allot, issue and deal with unissued Shares, other than pursuant to, or in consequence of, the Global Offering, a rights issue, the exercise of any subscription rights under the options granted under the Share Option Scheme, any scrip dividend or similar arrangement, any adjustment of rights to subscribe for Shares under options and warrants or a specific authority granted by the Shareholders. Such mandate is limited to Shares with an aggregate nominal value not exceeding 20% of the aggregate of (i) the total nominal value of the share capital of the Company in issue immediately following completion of the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option) and (ii) the nominal amount of the share capital of the Company which may be purchased by the Company under the authority referred to in sub-paragraph (4) below, such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or the Companies Ordinance or any other applicable laws of Hong Kong to be held; or
 - (iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting of the Company;

- (4) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares with a total nominal value as will represent up to 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option), such mandate to remain in effect until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or the Companies Ordinance or any other applicable laws of Hong Kong to be held; or
 - (iii) the time when such mandate is revoked or varied by an ordinary resolution of the Shareholders in general meeting of the Company; and
- (5) the general unconditional mandate mentioned in sub-paragraph (3) above was extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in sub-paragraph (4) above, provided that such extended amount shall not exceed 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Global Offering (including the Shares which may be issued pursuant to the exercise of the Over-allotment Option).

(d) **Corporate reorganisation**

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Shares on the Stock Exchange. As a result, the Company became the holding company of the Group. The major steps of the reorganisation involved the following:

- (1) On 12 June 2004, the Company and Dah Sing Bank entered into a reorganisation agreement with DSFH in relation to the acquisition from DSFH of:
 - (i) 8,000,000 ordinary shares of par value HK\$100 each then held beneficially by DSFH representing 100% of the issued share capital of Dah Sing Bank;

- (ii) 27,256,850 “A” ordinary shares of par value HK\$10 each and 12,743,150 convertible non-voting “B” ordinary shares of par value HK\$10 each then held beneficially by DSFH representing 100% of the issued share capital of MEVAS Bank;
- (iii) 10,000,000 ordinary shares of par value HK\$1.00 each then held beneficially by DSFH representing 100% of the issued share capital of GC Securities to be acquired by Dah Sing Bank; and
- (iv) 755,000 shares of par value US\$1.00 each in the capital of D.A.H. Holdings representing 75.5% of the issued share capital of D.A.H. Holdings,

in consideration for the issue and allotment of 809,899,998 Shares to DSFH credited as fully paid and the transfer to DSFH from Dah Sing Bank and its nominee, Dah Sing Nominees Limited, of 50,000 shares of par value HK\$10.00 each in the capital of DSIA, representing 100% of the issued share capital of DSIA.

(e) Changes in share capital of subsidiaries of the Company

The subsidiaries of the Company are listed in the “Accountants’ Report” in Appendix I to this prospectus.

The following alterations in the share capital of the Company’s subsidiaries have taken place within the two years preceding the date of this prospectus:

- (1) On 31 January 2002, Dah Sing MTN Financing Limited was incorporated in the British Virgin Islands (“BVI”) with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of par value US\$1.00 each, of which one ordinary share was issued to Dah Sing Bank;
- (2) On 19 February 2002, Dah Sing SAR Financing Limited was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 ordinary shares of par value US\$1.00 each, of which one ordinary share was issued to Dah Sing Bank;
- (3) On 12 June 2004, the Company acquired from DSFH 8,000,000 ordinary shares of par value HK\$100 each in the capital of Dah Sing Bank, 27,256,850 “A” ordinary shares of par value HK\$10 each and 12,743,150 convertible non-voting “B” ordinary shares of par value HK\$10 each in the capital of MEVAS Bank, 755,000 shares of par value US\$1.00 each in the capital of D.A.H. Holdings and Dah Sing Bank acquired from DSFH the shares in GC Securities referred to in sub-paragraph (4) below, in consideration of the issue and allotment of 809,899,998 Shares to DSFH credited as fully paid and the transfer to DSFH from Dah Sing Bank and its nominee, Dah Sing Nominees Limited, of 50,000 shares of par value HK\$10 each in the capital of DSIA;

- (4) On 12 June 2004, Dah Sing Bank acquired from DSFH 10,000,000 ordinary shares of par value HK\$1.00 each in the capital of GC Securities as part consideration for the issue of Shares in the Company to DSFH referred to in sub-paragraph (3) above; and
- (5) On 12 June 2004, Dah Sing Bank and its nominee, Dah Sing Nominees Limited, disposed of 50,000 shares of par value HK\$10 each in the capital of DSIA, representing 100% of the issued share capital of DSIA, to DSFH in part consideration of the transfers to the Company referred to in sub-paragraph (3) above.

Save as disclosed in this paragraph (e), there has been no alteration in the share capital of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

(f) Repurchase by the Company of its own securities

This section includes information required by the Stock Exchange to be included in the prospectus concerning the repurchase by the Company of its own securities.

(1) *Regulations of the Listing Rules*

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarised below:

(i) *Shareholders' approval*

All repurchases of securities on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transactions.

Pursuant to written resolutions of the sole Shareholder passed on 12 June 2004, the Repurchase Mandate was given to the Directors authorising any repurchases by the Company of Shares on the Stock Exchange or any other stock exchange recognised by the SFC and the Stock Exchange of such number of Shares as will represent up to 10% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering (which shall include the Shares which may be issued pursuant to the exercise of the Over-allotment Option); such mandate is to expire at the conclusion of the next annual general meeting of the Company or the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association or the Companies Ordinance or any other applicable laws of Hong Kong to be held, or when revoked or varied by an ordinary resolution of the Shareholders in general meeting of the Company, whichever comes first.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for such purposes in accordance with the Memorandum of Association and Articles of Association, the Listing Rules and the applicable laws of Hong Kong. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange.

(iii) *Trading restrictions*

A company is authorised to repurchase on the Stock Exchange or on any other stock exchange recognised by the SFC and the Stock Exchange the total number of shares which represent up to a maximum of 10% of the aggregate nominal value of the existing issued share capital of that company or warrants to subscribe for shares in the company representing up to 10% of the amount of warrants then outstanding at the date of the passing of the relevant resolution granting the repurchase mandate. A company may not issue or announce an issue of new securities of the type that have been repurchased for a period of 30 days immediately following a repurchase of securities (except pursuant to the exercise of share options or similar instruments requiring the company to issue securities which were outstanding prior to the repurchase) without the prior approval of the Stock Exchange. In addition, a listed company is prohibited from repurchasing its shares on the Stock Exchange if the purchase price is higher by 5% or more than the average closing market price for the five preceding trading days on which its shares were traded on the Stock Exchange. A company is also prohibited from making securities repurchases on the Stock Exchange if the result of the repurchases would be that the number of the listed securities in public hands would fall below the relevant prescribed minimum percentage as required by the Stock Exchange, which is currently 20% in the case of the Company. A company shall procure that any broker appointed by it to effect the purchase of securities shall disclose to the Stock Exchange such information with respect to purchases made on behalf of the Company as the Stock Exchange may request.

(iv) *Status of repurchased securities*

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) is automatically cancelled and the relevant certificates must be cancelled upon repurchase and destroyed as soon as reasonably practicable following settlement of any such repurchase.

(v) *Suspension of repurchase*

Any securities repurchase programme is required to be suspended after a price-sensitive development has occurred or has been the subject of a decision until such time as the price-sensitive information is made publicly available. In particular, during the period of one month immediately preceding the earlier of:

- (aa) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the issuer's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (bb) the deadline for the issuer to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules).

(vi) *Reporting requirements*

Repurchases of securities on the Stock Exchange or otherwise must be reported to the Stock Exchange in the prescribed form not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening session on the business day (as defined in the Listing Rules) following any day on which the issuer makes a repurchase of shares. In addition, a company's annual report and accounts are required to disclose details regarding securities repurchases made during the financial year under review, including the number of securities repurchased each month (whether on the Stock Exchange or otherwise), the purchase price per share or the highest and lowest prices paid for all such repurchases and the aggregate prices paid. The directors' report is also required to include reference to the purchases made during the year and the directors' reasons for making such purchases.

(vii) *Connected parties*

A company is prohibited from knowingly repurchasing securities of the company on the Stock Exchange from a connected person (as defined under the Listing Rules), and a connected person shall not knowingly sell his securities to the company on the Stock Exchange.

(2) ***Reasons for repurchases***

The Directors believe that it is in the best interests of the Company and the Shareholders for the Directors to have a general authority from Shareholders to enable the Company to repurchase Shares in the market at any appropriate time. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the Company's net asset value and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders.

(3) ***Exercise of the Repurchase Mandate***

Exercise in full of the Repurchase Mandate, on the basis of 910,000,000 Shares in issue after completion of the Global Offering (but taking no account of any Shares which may be issued upon the exercise of the Over-allotment Option) and on the basis of 925,015,000 Shares in issue after completion of the Global Offering (assuming exercise of the Over-allotment Option in full) could accordingly result in up to 91,000,000 Shares and 92,501,500 Shares, respectively, being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(4) ***Funding of repurchase***

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Memorandum of Association and Articles of Association, the Listing Rules and the applicable laws and regulations of Hong Kong.

On the basis of the current financial position of the Company as disclosed in the prospectus and taking into account the current working capital position of the Company, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Company as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(5) ***General***

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of Hong Kong.

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to the Company or its subsidiaries.

No repurchase of Shares has been made by the Company since its incorporation.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell any Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). As a result, a Shareholder or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase in the interest of the Shareholder(s), could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any other consequence under the Takeovers Code as a result of a repurchase of Shares made immediately after the listing of the Shares.

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

(a) Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (1) a deed of novation of option dated 12 June 2004, between the Company, DSFH and SG Hambros, whereby the parties agreed to novate to the Company the deed of option dated 30 December 2002 between DSFH and SG Hambros under which DSFH had granted a put option to SG Hambros and SG Hambros had agreed to grant a call option to DSFH over 245,000 shares of US\$1.00 each in the capital of D.A.H. Holdings, representing 24.5% of the issued share capital of D.A.H. Holdings. No monetary consideration was payable on the entering into of the deed of novation of option;
- (2) a reorganisation agreement dated 12 June 2004 entered into between DSFH, Dah Sing Bank and the Company pursuant to which DSFH agreed to:
 - (i) transfer its beneficial interest in 8,000,000 ordinary shares of par value HK\$100 each in the capital of Dah Sing Bank to the Company;
 - (ii) transfer its beneficial interest in 27,256,850 "A" ordinary shares of par value HK\$10 each and 12,743,150 convertible non-voting "B" ordinary shares of par value HK\$10 each in the capital of MEVAS Bank to the Company;

(iii) transfer its beneficial interest in 10,000,000 ordinary shares of par value HK\$1.00 each in GC Securities to Dah Sing Bank; and

(iv) transfer its beneficial interest in 755,000 shares of par value US\$1.00 each in D.A.H. Holdings (being 75.5% of the issued share capital) to the Company,

in consideration of the Company:

(i) issuing and allotting 809,899,998 Shares to DSFH credited as fully paid; and

(ii) procuring Dah Sing Bank and its nominee, Dah Sing Nominees Limited, to transfer its 50,000 shares of par value HK\$10 each in DSIA (being 100% of the issued share capital of DSIA) to DSFH;

(3) a deed of adherence dated 12 June 2004 between the Company, DSFH, SG Hambros and D.A.H. Holdings whereby the Company became a party, in place of DSFH, to the restated shareholders agreement dated 8 September 2000 between DSFH, Abbey, SG Hambros and D.A.H. Holdings with effect from the date of the transfer of the 755,000 shares of par value US\$1.00 each in the capital of D.A.H. Holdings from DSFH to the Company, which is referred to in paragraph (2)(iv) above;

(4) a trade mark licence agreement dated 12 June 2004, between DSFH and Dah Sing Bank pursuant to which Dah Sing Bank, for a nominal consideration of HK\$1.00, is granted a royalty free and exclusive licence to use certain trade marks on or in relation to the activities as described in the agreement and the right to sub-licence the same to any member of the Group;

(5) the deed of indemnity dated 12 June 2004 described in the section below headed “Tax indemnity”; and



(6) the Public Offer Underwriting Agreement, details of which are set out in the section headed “Underwriting” in this prospectus.

(b) Intellectual property rights

DSFH is the proprietor of the trade marks ,  大新銀行,  and 大新 in Hong Kong (the “Trade Marks”).

Pursuant to the trade mark licence agreement dated 12 June 2004 between DSFH and the Company, the Company has been granted a royalty free and exclusive licence to use the Trade Marks on or in relation to banking activities and the right to sub-licence the same to any member of the Group. The licence is perpetual and will remain in force from the date of the agreement until the agreement is terminated in accordance with its terms, further details of which can be found in the section headed “Connected Transactions” in this prospectus.

As at the Latest Practicable Date, details of the Trade Marks are as follows:

| <u>Trade Mark</u> | <u>Class (Note)</u> | <u>Territory of Registration</u> | <u>Expiry Date</u> | <u>Registration Number</u> |
|---|-------------------------|--------------------------------------|--------------------|--------------------------------|
|  | 9 | Hong Kong | 13 March 2007 | 1986/2002 |
| | 16 | Hong Kong | 13 March 2007 | 1987/2002 |
| | 35 | Hong Kong | 13 March 2007 | 1988/2002 |
| | 36 | Hong Kong | 13 March 2007 | 1989/2002 |
| | 42 | Hong Kong | 13 March 2007 | 8209/2002 |
|  大新銀行 DahSingBank | 9 | Hong Kong | 13 March 2007 | 1990/2002 |
| | 16 | Hong Kong | 13 March 2007 | 14092/2001 |
| | 35 | Hong Kong | 13 March 2007 | 14093/2001 |
| | 36 | Hong Kong | 13 March 2007 | 14094/2001 |
| | 42 | Hong Kong | 13 March 2007 | 8210/2002 |
| DahSing DAH SING | 9 | Hong Kong | 13 March 2007 | 14083(A-B)/2001 |
| | 16 | Hong Kong | 13 March 2007 | 14084(A-B)/2001 |
| | 35 | Hong Kong | 13 March 2007 | 14085(A-B)/2001 |
| | 36 | Hong Kong | 13 March 2007 | 14086(A-B)/2001 |
| | 42 | Hong Kong | 13 March 2007 | 8208(A-B)/2002 |
| 大新 | 9 | Hong Kong | 13 March 2007 | 14087/2001 |
| | 16 | Hong Kong | 13 March 2007 | 14088/2001 |
| | 35 | Hong Kong | 13 March 2007 | 14089/2001 |
| | 36 | Hong Kong | 13 March 2007 | 14090/2001 |
| | 42 | Hong Kong | 13 March 2007 | 14091/2001 |

Note:

| <u>Class</u> | <u>Specification</u> |
|--------------|---|
| 9 | <i>inter alia</i> , electronic apparatus and computers |
| 16 | <i>inter alia</i> , stationery |
| 35 | <i>inter alia</i> , business services |
| 36 | <i>inter alia</i> , financial, banking and insurance services |
| 42 | <i>inter alia</i> , computer and IT services |

As at the Latest Practicable Date, the Group had registered the following domain names:

| <u>Domain name</u> | <u>Date of registration</u> |
|----------------------------|-----------------------------|
| dahsing.com ⁽¹⁾ | 8 March 2000 |
| mevas.com ⁽¹⁾ | 12 May 2000 |

(1) Information contained in "www.dahsing.com" and "www.mevas.com" does not form part of this prospectus.

FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS AND EXPERTS

(a) Disclosure of interests

- (1) Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), the interests of each Director and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests which they have taken or deemed to have taken under such provisions) once the Shares are listed, or will be required, pursuant to Section 352 of the SFO, to be entered in the register required to be kept therein once the Shares are listed, or will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed (all of the aforesaid being “Discloseable Interests”), will be as follows:

- (i) *Beneficial interests and short positions in DSFH Shares as at the Latest Practicable Date*⁽¹⁾

| <u>Name of Director</u> | <u>Personal</u> | <u>Corporate</u> ⁽²⁾ | <u>Other</u> | <u>Total</u> | <u>Percentage</u> |
|---------------------------|-----------------|---------------------------------|---------------------------------|--------------|-------------------|
| David Shou-Yeh Wong | — | 4,344,746 <i>(Note (3))</i> | 87,379,236 <i>(Note (4))</i> | 91,723,982 | 37.18 |
| John William Simpson | 10,000 | — | — | 10,000 | 0.00 |
| Lung-Man Chiu (John Chiu) | 38,800 | — | — | 38,800 | 0.02 |

Notes:

- (1) These interests do not include those in underlying shares of equity derivatives of DSFH. These interests need to be aggregated with those set out in sub-paragraph (ii) below (if applicable) to give the total interests in DSFH beneficially owned by the Directors.
- (2) These DSFH Shares are beneficially owned by a company in which the relevant Director was deemed to be entitled under the SFO to exercise or control the exercise of one-third or more of the voting power at its general meeting.
- (3) The corporate interest of David Shou-Yeh Wong is in respect of shares held by a company in which he has an interest of one third or more.
- (4) Such shares are indirectly held by HSBC International Trustee Limited, the trustee of a discretionary trust established for the benefit of David Shou-Yeh Wong and his family.

(ii) *Beneficial interests and short positions in underlying shares of equity derivatives of associated corporations*

As at the Latest Practicable Date, the following Directors held outstanding share options granted under the share option scheme adopted by DSFH on 17 May 1995 entitling them to subscribe for such number of DSFH Shares as set out below:

| <u>Name of Director</u> | <u>Date of Grant</u> | <u>Number of share options outstanding with exercise price per DSFH Share of HK\$26.28</u> | <u>Period during which share options are exercisable</u> |
|----------------------------|----------------------|--|--|
| Hon-Hing Wong (Derek Wong) | 3 April 2000 | 200,000 | 3 April 2004 to 3 April 2005 |
| Lung-Man Chiu (John Chiu) | 3 April 2000 | 18,750 | 3 April 2004 to 3 April 2005 |

Note:

None of the Directors or chief executive held any short positions in underlying shares of equity derivatives of associated corporations.

(iii) *Beneficial interests and short positions in Shares immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised)*

Immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised), the following Director will have a beneficial interest in the following number of Shares⁽¹⁾:

| <u>Name of Director</u> | <u>Personal</u> | <u>Corporate⁽²⁾</u> | <u>Other</u> | <u>Total</u> | <u>Percentage</u> |
|-------------------------|-----------------|--------------------------------|--------------|--------------|----------------------|
| David Shou-Yeh Wong | — | 728,000,000 ⁽³⁾ | — | — | 80.00 ⁽³⁾ |

Notes:

- (1) None of the Directors or chief executive held any short positions in the Shares.
- (2) The interests of David Shou-Yeh Wong are deemed corporate interests through DSFH pursuant to Division 7 of Part XV of the SFO.
- (3) The figure is calculated on the assumption that the Over-allotment Option is not exercised and DSFH does not subscribe for any Public Offer Shares pursuant to its obligations under the Public Offer Underwriting Agreement.

- (2) Information on the person, not being a Director or chief executive of the Company, who has an interest in the Shares and underlying Shares under the provisions of Division 2 and 3 of Part XV of the SFO or who is, directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group is set out in the section headed "Substantial Shareholders" in this prospectus.

(b) **Directors' remuneration**

- (1) Approximately HK\$34.6 million in aggregate was paid to the Directors by the Group as remuneration (including benefits in kind) in respect of the financial year ended 31 December 2003.
- (2) Approximately HK\$42 million in aggregate is estimated to be paid to the Directors as remuneration (including benefits in kind) by the Group in respect of the financial year ending 31 December 2004.
- (3) Save as disclosed in the "Accountants' Report" in Appendix I to this prospectus and (1) above, no Director received any remuneration or benefits in kind from the Group for the three financial years ended 31 December 2003.
- (4) Pursuant to letters of appointment dated 3 June 2004, each of Robert Tsai-To Sze, John William Simpson, David Richard Hinde and Andrew Kwan-Yuen Leung has been appointed as an independent non-executive Director and Sohei Sasaki has been appointed as a non-executive Director, for a term of three years commencing on 11 June 2004.

(c) **Fees or commission received**

Save as disclosed in this prospectus, none of the Directors or the experts named in the section below headed "Consents of experts" had received any agency fee or commissions from the Group within the two years preceding the date of this prospectus.

(d) **Connected transactions and related party transactions**

Details of the related party transactions are set out in the section headed "Connected Transactions" in this prospectus and under Note 41 to the "Accountants' Report" set out in Appendix I to this prospectus.

(e) **Disclaimers**

Save as disclosed in this prospectus:

- (1) none of the Directors nor chief executive of the Company has any interest or short positions in the Shares, underlying Shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which will have to

be disclosed pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions in which they are taken or deemed to have taken under the SFO) once the Shares are listed, or will be required, pursuant to section 352 of the SFO, to be entered in the register required to be kept therein once the Shares are listed, or will be required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed;

- (2) none of the Directors nor any parties listed in the section below headed “Qualifications of experts” directly or indirectly is interested in the promotion of the Company or in any assets which have, within the two years immediately preceding the issue of this prospectus, been acquired or disposed of by or leased to the Company or its subsidiaries or are proposed to be acquired or disposed of by or leased to the Company or its subsidiaries;
- (3) save in connection with the Public Offer Underwriting Agreement, none of the Directors nor any parties listed in the section below headed “Qualifications of experts” is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Company or its subsidiaries;
- (4) save in connection with the Public Offer Underwriting Agreement, none of the parties listed in the section below headed “Qualifications of experts”:
 - (i) is interested legally or beneficially in any shares in the Company or its subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or its subsidiaries; and
- (5) save for the appointment letters of the non-executive Directors, details of which are set out in the section above headed “Directors’ remuneration”, none of the Directors has entered or has proposed to enter into a service contract with the Company or its subsidiaries (other than contracts expiring or determinable by the employer within two years without payment of compensation other than statutory compensation).

OTHER INFORMATION

(a) Tax indemnity

DSFH (the “Indemnifier”) has, under a deed of indemnity (“Deed of Indemnity”) referred to in paragraph 5 of the section headed “Summary of Material Contracts” above, given indemnities in connection with any tax which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received, or acts, omissions or events occurring, on or before the date on which the Global Offering becomes unconditional.

The Indemnifier will, however, not be liable under the Deed of Indemnity for taxation in circumstances where:

- (i) provision has been made for such taxation in the audited accounts of the relevant member of the Group for the year ended 31 December 2003;
- (ii) the taxation arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date on which the Global Offering becomes unconditional;
- (iii) the taxation liability would not have arisen, but for some act or omission of any member of the Group voluntarily effected after the date on which the Global Offering becomes unconditional outside the ordinary course of business (other than pursuant to a binding commitment existing at the date on which the Global Offering becomes unconditional, pursuant to an obligation imposed by law, or with the written approval of the Indemnifier or pursuant to the Global Offering);
- (iv) the taxation arises in the ordinary course of business of any member of the Group after 31 December 2003; and
- (v) the taxation comprises stamp duty arising on the acquisition by the Company of Dah Sing Bank, MEVAS Bank and D.A.H. Holdings, the acquisition by Dah Sing Bank of GC Securities or the disposal by Dah Sing Bank of DSIA pursuant to the reorganisation described in the section above headed “Corporate reorganisation”.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries under the laws of Hong Kong.

(b) Litigation

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

(c) Sponsor

HSBC, on behalf of the Company, has made an application to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may be issued upon the exercise of the Over-allotment Option and any Shares which may be granted under the Share Option Scheme).

(d) Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately HK\$27,800 and are payable by the Company.

(e) Promoter

The Company has no promoter.

(f) Exemptions from Companies Ordinance provisions

The Company has applied to the SFC for an exemption from strict compliance with paragraph 34(4) of the Third Schedule to the Companies Ordinance on the grounds that it would be irrelevant and unduly burdensome to include in this prospectus a copy of the full valuation report prepared by Knight Frank as at 31 December 2003 of the DSFH Group's properties (which included the Group's properties), and that the inclusion of such report in this prospectus is likely to be confusing to the public. The full valuation report in relation to the DSFH Group's properties as at 31 December 2003 will be made available to the public for inspection and accordingly, only a summary of the valuation of the Group's properties as at 31 December 2003 is included in Appendix V to this prospectus. For further details of the exemption from the SFC, see the section headed "The Company and its Business — Exemption from the SFC" in this prospectus.

(g) Qualifications of experts

The qualifications of the experts (as defined under the Listing Rules and the Companies Ordinance) who have given opinions in this prospectus are as follows:

| Name | Qualifications |
|---|---|
| The Hongkong and Shanghai Banking Corporation Limited | a deemed registered institution for Types 1, 4, 6, 7 and 9 regulated activities under the SFO and a licensed bank under the Banking Ordinance |
| PricewaterhouseCoopers | Certified Public Accountants |
| Knight Frank | Professional surveyors and property valuers |
| Guangdong Gain Law Firm | PRC Lawyers |

(h) Consents of experts

The Hongkong and Shanghai Banking Corporation Limited, PricewaterhouseCoopers, Knight Frank and Guangdong Gain Law Firm have each given and have not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or opinions and/or valuation certificates and/or summary thereof (as the case may be) and/or references to their names included herein in the form and context in which they are respectively included.

(i) Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

(j) Miscellaneous

(1) Save as disclosed in this prospectus:

(i) within the two years preceding the date of this prospectus:

(aa) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash; and

(bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries; and

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option.

(2) The Directors confirm that:

(i) there has not been any material adverse change in the financial or trading position or prospects of the Group since 31 December 2003 (being the date to which the latest combined audited financial statements of the Group were made up); and

(ii) there has not been any interruption in the business of the Company which may have or have had a significant effect on the financial position of the Company in the 12 months preceding the date of this prospectus.

(3) Save as disclosed in this prospectus, neither the Company nor any of its subsidiaries has issued or agreed to issue any founder shares, management shares, deferred shares or any debentures.

(4) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were copies of the **white, yellow, pink and blue** Application Forms, the written consents referred to in paragraph (h) of the section headed “Other Information” of Appendix IX to this prospectus, copies of each of the material contracts referred to in paragraph (a) of the section headed “Further Information about the Business of the Group” of Appendix IX to this prospectus, a statement of particulars of the selling Shareholder and a copy of the statement of adjustments relating to the “Accountants’ Report” set out in Appendix I to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Herbert Smith at 23rd Floor, Gloucester Tower, 11 Pedder Street, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and Articles of Association;
- (b) each contract disclosed as a letter of appointment for a non-executive Director, a director’s service contract or a material contract;
- (c) all reports, letters or other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this prospectus;
- (d) a written statement signed by the reporting accountants setting out the adjustments made by them in arriving at the figures shown in their report and giving the reasons therefore;
- (e) the audited accounts of the companies comprising the Group for each of the three financial years immediately preceding the issue of this prospectus together with all notes, certificates or information required by the Companies Ordinance; and
- (f) the Accountants’ Report prepared by PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus.