LETTER OF OFFER

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This Letter of Offer is sent to you as a shareholder of IL&FS Investsmart Limited. If you require any clarifications about the action to be taken, you should consult your stockbroker or investment consultant or the Manager/Registrar to the Offer. In case you have sold your Shares, please hand over this Letter of Offer, the accompanying Form of Acceptance cum Acknowledgement, Form of Withdrawal and Transfer Deed to the member of the Stock Exchange through whom the said sale was effected.

CASH OFFER AT Rs. 200/- (Rupees Two Hundred Only) PER FULLY PAID-UP EQUITY SHARE OF Rs. 10/- (Rupees Ten Only)

Pursuant to Regulations 10 and 12 of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and subsequent amendments thereto ("Takeover Regulations"/ "SEBI (SAST) Regulations")

TO ACQUIRE UPTO

1,44,22,255 fully paid-up Equity Shares of face value Rs. 10/- each, representing 20.65% of the paid-up equity capital

("OFFER")

OF

IL&FS Investsmart Limited ("IIL")

having its registered office at

The IL&FS Financial Centre, Plot C - 22, G-Block, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051, India
Tel: +91-22-2659 3469 Fax +91-22-2653 3075

BY

HSBC Securities and Capital Markets (India) Private Limited ("HSCI"),

having its registered office at

52/60 Mahatma Gandhi Road, Hong Kong Bank Building, Fort, Mumbai - 400001
Tel: +91-22-2267 4921 Fax: +91-22-2263 1979

AND

HSBC Violet Investments (Mauritius) Limited ("Violet"),

having its registered office at

Manor House, 1st Floor, Cnr S. George/Chazal Streets, Port Louis, Mauritius
Tel: +230 203 6600 Fax: +230 203 6650

ALONG WITH PERSONS ACTING IN CONCERT

HSBC Investment Bank Holdings BV ("HIBH") (Person acting in concert with HSCI)

having its registered office at

8 Canada Square, London, E14 5HQ, United Kingdom.
Tel: +44 20 7991 8888 Fax: +44 20 7991 4639

The Hongkong and Shanghai Banking Corporation Limited, Hong Kong ("HBAP") (Person acting in concert with Violet)

having its registered office at

HSBC Main Building, 1 Queen's Road Central, Hong Kong
Tel: +852 2822 1111 Fax: +852 2810 1112

MANAGER TO THE OFFER	REGISTRAR TO THE OFFER
SBI Capital Markets Limited **SBI Capital Markets Limited** 202 Maker Tower 'E', Cuffe Parade, Mumbai – 400 005 **Tel:** (91) 22 2218 4704 **Fax:** (91) 22 2218 6367 **E-mail:** iil.openoffer@sbicaps.com **Contact Persons**: Ms. Kavita Tanwani Mr. Gitesh Vargantwar	KARVY Karvy Computershare Private Limited **Karvy Computershare Private Limited** Karvy House, 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad – 500 034 **Tel:** (91) 40 23420815-23 **Fax:** (91) 40 23420814 **Email:** murali@karvy.com **Contact Person:** Mr. M Murali Krishna

SCHEDULE OF MAJOR ACTIVITIES OF THE OFFER

Activity	Date	Day
Public Announcement Date	May 20, 2008	Tuesday
Specified Date*	May 30, 2008	Friday
Last date for a competitive bid	June 10, 2008	Tuesday
Date by which individual Letter of Offer will be dispatched to Shareholders	July 02, 2008	Wednesday
Date of opening of the Offer	July 11, 2008	Friday
Last date for revising the Offer Price/number of Shares	July 21, 2008	Monday
Last date for withdrawing acceptances by the shareholder	July 25, 2008	Friday
Date of closure of the Offer	July 30, 2008	Wednesday
Date by which acceptance/rejection would be intimated and the corresponding payment for the acquired shares and/or the share certificate(s)/demat delivery instruction for the rejected/ withdrawn Shares will be dispatched/credited to the beneficiary account in case of dematerialized Shares.	August 13, 2008	Wednesday

* Specified Date is only for the purpose of determining the names of the Shareholders as on such date to whom the Letter of Offer will be sent. However, all owners (registered or unregistered) of the Shares of the Target Company are eligible to participate in the Offer anytime before the closure of the Offer.

ATTENTION:

a) The acquisition of shares by the Acquirers under the Share Purchase Agreements and under the Offer is subject to the satisfaction of certain conditions precedent as detailed in the Share Purchase Agreements including receipt of necessary regulatory and governmental approvals inter alia from the Foreign Investment Promotion Board ("FIPB"), the Securities and Exchange Board of India ("SEBI"), the Monetary Authority of Singapore ("MAS") and applicable stock exchanges. The Acquirers have made an application to the FIPB on June 2, 2008 and the approval is currently awaited. The applications seeking approval from SEBI, MAS and stock exchanges are yet to be made.

b) If there is any upward revision in the Offer Price prior to or on the last date for revising the Offer Price of Rs. 200 i.e. July 21, 2008, or if the offer is withdrawn, you will be informed by way of another public announcement in the same newspapers where the Public Announcement had appeared. The Acquirers would pay such revised price for all the Shares validly tendered at any time during the Offer and accepted under the Offer.

c) This offer is not conditional on any minimum level of acceptance by the Shareholders.

d) Shareholders who have accepted the Offer by tendering the requisite documents in terms of this Letter of Offer shall have the option to withdraw acceptance tendered by them up to Friday, July 25, 2008, i.e., three (3) working days prior to the date of closure of the Offer i.e. Wednesday, July 30, 2008.

e) This document has not been filed, registered or approved in any jurisdiction outside India. Recipients of this document resident in jurisdictions outside India should inform themselves of and observe any applicable legal requirements.

f) There has been no competitive bid.

g) The Form of Acceptance cum acknowledgement and Form of Withdrawal are enclosed with this Letter of Offer.

h) This Letter of Offer, Form of Acceptance and Form of Withdrawal will also be available on SEBI's website (www.sebi.gov.in) from the date of the Offer, being Friday, July 11, 2008.

RISK FACTORS

Relating to the Offer

i. In the event that either (a) the statutory approvals as stated in para 8.1 of this Letter of Offer are not received; or (b) there is any litigation leading to stay on the Offer; or (c) SEBI instructs the Acquirers not to proceed with the Offer, then the Offer process may be delayed beyond the schedule of activities indicated in this Letter of Offer. Consequently, the payment of consideration to those IIL Shareholders whose IIL Shares have been accepted in the Offer as well as the return of those IIL Shares not accepted by the Acquirers may be delayed. Further, in case of delay due to non-receipt of statutory approval(s), as per Regulation 22(12) of the SEBI (SAST) Regulations, SEBI may, if satisfied, that non-receipt of approvals was not due to any willful default or negligence on the part of the Acquirers / PACs, grant an extension for the purpose of completion of the Offer subject to HSCI agreeing to pay interest to the eligible Shareholders. IIL Shares tendered in the Offer shall be held in trust for HSCI and shall lie to the credit of a designated escrow account until the completion of the Offer formalities.

ii. Further, the Shareholders should note that after the last date of withdrawal i.e. Friday, July 25, 2008, the Shareholders who have lodged their acceptances would not be able to withdraw them even if the acceptance of Shares under the Offer and dispatch of consideration gets delayed. The tendered Shares and documents would be held by the Registrar to the Offer in trust for HSCI, till such time the process of acceptance of tenders, the payment of consideration and other Offer obligations are completed.

iii. The Shares tendered in the Offer will be held in trust for HSCI, by the Registrar to the Offer till the completion of the Offer formalities and the Shareholders will not be able to trade in such Shares. During such period there may be fluctuations in the market price of the Shares. The Acquirers / PACs make no assurance with respect to the market price of the Shares that would prevail both during the Offer period and after completion of the Offer and disclaim any responsibility with respect to any decision by the Shareholders on whether or not to participate in the Offer.

iv. If the number of IIL Shares assented to the Offer exceeds the Offer Size, then HSCI shall accept IIL Shares assented to the Offer, in accordance with Regulation 21 (6) of the SEBI (SAST) Regulations, i.e. on a proportionate basis, to be decided in a fair and equitable manner, in consultation with the Manager to the Offer, irrespective of whether the Shares are held in physical or dematerialized form.

v. The transaction is subject to completion risks which includes the receipt of the statutory / regulatory approvals mentioned in para 8.1 of this Letter of Offer as would be applicable to similar transactions.

Relating to the Transaction

In the event of non compliance by the Acquirers of any provisions of the SEBI (SAST) Regulations, SEBI may pass appropriate directions with regard to the acquisition of the IL&FS Sale Shares and E*Trade Sale Shares, pursuant to which this Offer has been made to the shareholders of the Target Company.

Relating to the Acquirer

The financial service industry in which HSCI operates is highly regulated and any change in the policies, rules and regulations by the government and the regulators could have an adverse impact on its business. Any change in regulations governing Violet may impact the activities that it is allowed to carry out

CURRENCY OF PRESENTATION

In this Letter of Offer, all references to "USD" is to the US Dollar; "HKD" is to the Hong Kong Dollar and "€" is to Euro. Certain financial details contained herein are denominated in USD, HKD and Euro. Except where otherwise indicated, the Rupee equivalent quoted in each case is calculated in accordance with the RBI Reference rate as on May 16, 2008 namely 1 USD = Rs. 42.64, 1 Euro = Rs. 66.00, 1HKD = Rs. 5.45 (Source: RBI)

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1. DEFINITIONS

Acquirers	HSBC Securities and Capital Markets (India) Private Limited and HSBC Violet Investments (Mauritius) Limited
BSE	The Bombay Stock Exchange Limited
DP	Depository Participant
Eligible Person(s) for the Offer	All owners (registered or unregistered) of Shares of IL&FS Investsmart Limited (other than parties to the Share Purchase Agreements) whose name appear on the register of members as on or any time before the closure of the Offer
ESOP	Employee Stock Option Plan
E*TRADE	E*TRADE Mauritius Limited
E*TRADE Sale Shares	Violet has, entered into a share purchase agreement dated May 16, 2008 with E*Trade Mauritius Limited, whereby Violet has agreed to acquire 3,06,25,692 fully paid-up Shares of the Target Company forming 43.854% of the issued and fully paid-up share capital of the Target Company
FIPB	Foreign Investment Promotion Board
Form of Acceptance	Form of Acceptance cum Acknowledgement
GDR	Global Depository Receipt
HBAP	The Hongkong and Shanghai Banking Corporation Limited, Hong Kong
HHPLC	HSBC Holdings plc
HIBH	HSBC Investment Bank Holdings BV
HSCI	HSBC Securities and Capital Markets (India) Private Limited
HUF	Hindu Undivided Family
IICL	IL&FS Investsmart Commodities Limited
IIL / Target Company	IL&FS Investsmart Limited
IL&FS	Infrastructure Leasing and Financial Services Limited
IL&FS Sale Shares	HSCI has entered into a share purchase agreement dated May 16, 2008 with IL&FS, whereby HSCI has agreed to acquire 2,05,01,922 fully paid-up Shares of the Target Company forming 29.357% of the issued and fully paid-up share capital of the Target Company.
Letter of Offer / LoF	This Letter of Offer dated June 27, 2008
Manager/ Manager to the Offer	SBI Capital Markets Limited
MAS	Monetary Authority of Singapore
MCX	Multi Commodities Exchange of India
Mn	Million (1 Million = Rs. 10 lacs)
NCDEX	National Commodities and Derivatives Exchange Limited, (“NCDEX”)
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
OCB	Overseas Corporate Bodies
Offer or Open Offer	The Offer for the acquisition by HSCI & Violet along with HIBH & HBAP of 1,44,22,255 fully paid up Shares of Rs. 10/- each, representing in the aggregate 20.65% of the paid-up equity capital as set out in this document
Offer Price	Rs. 200/- (Rupees Two Hundred only) per fully paid-up equity share of Rs.10/- each of IL&FS Investsmart Limited.

PAC / PACs	Persons acting in concert with the Acquirers
Public Announcement/ PA	Announcement of the Offer made by the Acquirers on May 20, 2008 in all editions of The Financial Express, Navbharat Times and Navshakti (Mumbai edition only)
RBI	Reserve Bank of India
Registrar/ Registrar to Offer	Karvy Computershare Private Limited
SEBI	Securities and Exchange Board of India
Shareholders	Holders of IIL Shares except IL&FS and E*TRADE
SEBI Act	Securities and Exchange Board of India Act, 1992, as amended
SEBI (SAST) Regulations/ Regulations	Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and subsequent amendments thereto
Share(s) or IIL Share(s) or Equity Share(s)	Fully paid-up equity shares of face value of Rs. 10/- each of IIL
Share Purchase Agreements	The IL&FS Share Purchase Agreement and the E*TRADE Share Purchase Agreement
SPA	Share Purchase Agreement
Specified Date	Friday, May 30, 2008
Violet	HSBC Violet Investments (Mauritius) Limited

Note: All terms beginning with a capital letter used in this Letter of Offer, but not otherwise defined herein, shall have the meaning ascribed thereto in the Regulations.

2. DISCLAIMER CLAUSE

"IT IS TO BE DISTINCTLY UNDERSTOOD THAT FILING OF THE DRAFT LETTER OF OFFER WITH SEBI SHOULD NOT IN ANY WAY BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED, VETTED OR APPROVED BY SEBI. THE LETTER OF OFFER HAS BEEN SUBMITTED TO SEBI FOR A LIMITED PURPOSE OF OVERSEEING WHETHER THE DISCLOSURES CONTAINED THEREIN ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH THE SEBI (SAST) REGULATIONS. THIS REQUIREMENT IS TO FACILITATE THE SHAREHOLDERS OF IL&FS INVESTSMART LIMITED TO TAKE AN INFORMED DECISION WITH REGARD TO THE OFFER. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR FINANCIAL SOUNDNESS OF THE ACQUIRERS, PACs OR THE COMPANY WHOSE SHARES / CONTROL ARE PROPOSED TO BE ACQUIRED OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THE LETTER OF OFFER. IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE ACQUIRERS ARE PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THIS LETTER OF OFFER, THE MANAGER TO THE OFFER IS EXPECTED TO EXERCISE DUE-DILIGENCE TO ENSURE THAT THE ACQUIRERS DULY DISCHARGE THEIR RESPONSIBILITIES ADEQUATELY. IN THIS BEHALF, AND TOWARDS THIS PURPOSE, THE MANAGER TO THE OFFER, SBI CAPITAL MARKETS LIMITED, HAS SUBMITTED A DUE-DILIGENCE CERTIFICATE DATED JUNE 02, 2008 TO SEBI IN ACCORDANCE WITH THE SEBI (SAST) REGULATIONS, 1997 AND SUBSEQUENT AMENDMENT(S) THEREOF. THE FILING OF THE LETTER OF OFFER DOES NOT, HOWEVER, ABSOLVE THE ACQUIRERS FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE OFFER".

3. DETAILS OF THE OFFER

3.1 Background of the Offer

a) This open offer ("Offer") is being made by HSBC Securities and Capital Markets (India) Private Limited, HSBC Violet Investments (Mauritius) Limited, together referred to as "the Acquirers" alongwith HSBC Investment Bank Holdings BV (person acting in concert with HSCI) and The Hongkong and Shanghai Banking Corporation Limited, Hong Kong (person acting in concert with Violet) (collectively being the Persons Acting in Concert ("PACs") with the Acquirers) to all Shareholders of IL&FS Investsmart Limited (except to the parties to the Share Purchase Agreements) in terms of Regulations 10 and 12 of the SEBI (SAST) Regulations since there is substantial acquisition of shares/ voting rights accompanied with change in control/management.

b) HSCI is a company incorporated and registered under the laws of India having its registered office and principal place of business located at 52/60 Mahatma Gandhi Road, Hongkong Bank Building, Fort, Mumbai - 400001. HSCI is a wholly-owned subsidiary of HIBH, a company incorporated and registered under the laws of Netherlands having its registered office and principal place of business located at 8 Canada Square, London, E14 5HQ, United Kingdom.

c) Violet is a company incorporated and registered under the laws of Mauritius having its registered office located at Manor House, 1st Floor, Cnr St George/Chazal Streets, Port Louis, Mauritius and principal place of business located at 5th floor, Les Cascades Building, Edith Cavell Street, Port Louis, Mauritius. Violet is a wholly owned subsidiary of HBAP, a company incorporated and registered under the laws of Hong Kong Special Administrative Region having its registered office and principal place of business located at HSBC Main Building, 1 Queen's Road Central, Hong Kong.

d) HIBH and HBAP are ultimately held by HHPLC, a company incorporated and registered under the UK Companies Act having its registered office and principal place of business located at 8 Canada Square, London E14 5HQ, United Kingdom.

e) HSCI has entered into a share purchase agreement dated May 16, 2008, (the "IL&FS Share Purchase Agreement") with the Infrastructure Leasing and Financial Services Limited ("IL&FS") having its registered office at IL&FS Financial Centre, Plot No. C-22, G Block, Bandra Kurla Complex, Bandra (East), Mumbai 400 051 (Tel: +91 22 26533333 Fax:+91 22 26533069), whereby HSCI has agreed to acquire 2,05,01,922 fully paid-up Shares of the Target Company (the "IL&FS Sale Shares") forming 29.357% of the issued and fully paid-up share capital of the Target Company at a price of Rs.200/- per equity share (the "IL&FS Sale Price") aggregating Rs. 4,10,03,84,400 (Rupees Four hundred ten crores three lakhs eighty four thousand four hundred only) (the "IL&FS Sale Consideration") payable in cash on the closing of the IL&FS Share Purchase Agreement. As per the Stock Exchange filings at the Bombay Stock Exchange Limited ("BSE") and the National Stock Exchange of India Limited ("NSE"), IL&FS belongs to the promoter group of the Target Company.

   In addition to the IL&FS Sale Consideration, HSCI has also agreed with IL&FS to pay an aggregate non-compete consideration of Rs.82,00,76,880 (Rupees Eighty two crores seventy six thousand eight hundred and eighty only) ("Non-Compete Consideration") to IL&FS, which is equal to Rs.40/- per IL&FS Sale Share, payable in cash on the closing of the IL&FS Share Purchase Agreement. In terms of the IL&FS Share Purchase Agreement, IL&FS and its affiliates shall, for an initial period of 1 year extendable twice after the expiry of the initial period for a further period of 1 year each at the sole discretion of HSCI, not directly or indirectly participate as an investor, manager, consultant or in any other capacity in the following regulated and/or licensed (including by way of a registration certificate) businesses, namely (i) stock or securities broking (including sub-broking); (ii) insurance broking; (iii) commodities and/or commodities derivatives broking; and (iv) investment banking or merchant banking; solicit any client or agent or supplier of the Target Company and/or its subsidiaries; supply any product or service which is similar to that provided by the Target Company and/or its subsidiaries; engage or employ, canvass, solicit, induce or seek to canvass, solicit or induce any restricted employee to become employed whether as employee, consultant or otherwise by any member of IL&FS and its affiliates.

The IL&FS Share Purchase Agreement provides for the obligation of HSCI to acquire the IL&FS Sale Shares subject to the satisfaction of certain conditions precedent as detailed in the IL&FS Share Purchase Agreement including receipt of necessary regulatory and governmental approvals inter alia from the Foreign Investment Promotion Board ("FIPB"), Securities and Exchange Board of India ("SEBI") Monetary Authority of Singapore ("MAS") and applicable stock exchange for the acquisition of the shares from IL&FS and under the present Offer and the consequent change of control of the Target Company and receipt of necessary consents, waivers, resolutions and permissions required inter alia with any of the existing shareholders of the Target Company or any third party in respect of the transactions contemplated by the IL&FS Share Purchase Agreement.

Some of the salient features of IL&FS Share Purchase Agreement

1) Violet will acquire 3,06,25,692 Shares, forming 43.854% of the issued and fully paid up share capital of the Target Company at a price of Rs. 200/- per equity share by way of direct purchase from E*TRADE.

2) E*TRADE Financial Corporation and HBAP are E*TRADE's Guarantor and Violet's Guarantor respectively.

3) The conditions precedent to the IL&FS Share Purchase Agreement are :

   - Completion of the E*TRADE Share Purchase Agreement between E*TRADE and Violet
   - Receipt of all necessary governmental and regulatory approvals
   - Completion of the obligations by HSCI under the SEBI (SAST) Regulations
   - Resignation of the nominated Directors

f) Violet has, simultaneously with the execution of the IL&FS Share Purchase Agreement executed a share purchase agreement dated May 16, 2008 (the "E*TRADE Share Purchase Agreement") with E*TRADE Mauritius Limited ("E*TRADE") having its registered office at Level 6, One Cathedral Square, Jules Koenig Street, Port Louis, Mauritius (Tel:+230 207 1000 Fax: +230 208 7949), whereby Violet has agreed to acquire 3,06,25,692 fully paid-up Shares of the Target Company (the "E*TRADE Sale Shares") forming 43.854% of the issued and fully paid-up share capital of the Target Company at a price of Rs.200/- per equity share (the "E*TRADE Sale Price") aggregating Rs. 6,12,51,38,400 (Rupees Six hundred twelve crores fifty one lakhs thirty eight thousand four hundred only) (the "E*TRADE Sale Consideration") payable in cash on the closing of the E*TRADE Share Purchase Agreement. As per the Stock Exchange filings at BSE and NSE, E*TRADE belongs to the promoter group of the Target Company.

The terms of the E*TRADE Share Purchase Agreement inter alia provide that the obligation of Violet to acquire the E*TRADE Sale Shares is subject to the satisfaction of certain conditions precedent as detailed in the E*TRADE Share Purchase Agreement including receipt of necessary regulatory and governmental approvals inter alia from the FIPB, SEBI, MAS and applicable stock exchanges for the acquisition of the shares from E*TRADE and under the present Offer and the consequent change of control of the Target Company and receipt of necessary consents, waivers, resolutions and permissions required inter alia with any of the existing shareholders of the Target Company in respect of the transactions contemplated by the E*TRADE Share Purchase Agreement.

In accordance with the terms of the Escrow Agreement dated May 16, 2008 (the "Escrow Agreement"), it has been agreed between E*TRADE and Violet that the E*TRADE Sale Shares and the E*TRADE Sale Consideration would be held in escrow accounts, to be released in accordance with and subject to the terms and conditions of the Escrow Agreement. Additionally, Violet has executed a letter agreement with E*TRADE and the Target Company in terms of which the Target Company and E*TRADE have agreed to execute a transitional agreement. Under the transitional agreement E*TRADE would agree that certain of its employees (currently seconded with the Target Company) would continue to be so seconded with the Target Company to ensure transition of services. In terms of the Share Purchase Agreements, in addition to the conditions precedent mentioned above, completion (i.e. acquisition of the IL&FS Sale Shares and the E*TRADE Sale Shares) shall occur only after the Acquirers have completed their obligations under the SEBI (SAST) Regulations and the requisite certificate by the Manager to the Offer in terms of Regulation 23(6) of SEBI (SAST) Regulations has been released by the Manager to the Offer.

Some of the salient features of E*TRADE Share Purchase Agreement

1) Violet will acquire 3,06,25,692 Shares, forming 43.854% of the issued and fully paid up share capital of the Target Company at a price of Rs. 200/- per equity share by way of direct purchase from E*TRADE.

2) E*TRADE Financial Corporation and HBAP are E*TRADE's Guarantor and Violet's Guarantor respectively.

3) The conditions precedent to the E*TRADE Share Purchase Agreement are :

- Receipt of all necessary governmental and regulatory approvals
- Completion of the obligations by Violet under the SEBI (SAST) Regulations
- Resignation of the nominated Directors

g) The Share Purchase Agreements provide that IL&FS and E*TRADE shall ensure that, from the date of execution of the respective Share Purchase Agreements until completion, they will carry on business of the Target Company in all material respect in the ordinary and usual course with due care and diligence and in the manner and scope carried on as at the date of execution of the Share Purchase Agreements. Further in terms of regulation 22(16) of SEBI (SAST) Regulations, the Share Purchase Agreements provide that the consummation of the sale and purchase shall be subject to the Acquirers having completed all their obligations under the SEBI (SAST) Regulations in relation to the present Offer.

h) The Acquirers, PACs, Target Company, IL&FS and E*TRADE have not been prohibited by SEBI from dealing in securities under directions issued pursuant to Section 11B of Securities Exchange Board of India Act, 1992.

i) Pursuant to the substantial acquisition, the Acquirers and the PACs will be in control of the management of the Target Company. The Acquirers propose to reconstitute the board of directors of the Target Company upon completion of Offer formalities. The Board of Directors will make decisions on these matters in accordance with the requirements of the business of the Target Company. Such approvals and decisions will be governed by the provisions of the relevant regulations or any other applicable laws or legislation at the relevant time.

3.2 Details of the proposed offer

a) This Offer is made to all Shareholders of the Target Company in terms of Regulations 10 and 12 of the SEBI (SAST) Regulations (except to the parties to the Share Purchase Agreements), to acquire up to 1,44,22,255 fully paid-up Shares of face value Rs. 10/- each of the Target Company forming 20.65% of the paid-up equity capital of the Target Company at a price of Rs. 200/- (Rupees Two hundred only) for each fully paid-up equity share ("Offer Price") to be paid in cash aggregating Rs.2,88,44,51,000 (Rupees Two hundred eighty eight crores forty four lakhs fifty one thousand only) ("Offer Size") in accordance with the SEBI (SAST) Regulations, and subject to the terms and conditions mentioned in this Letter of Offer in relation to the Offer ("Letter of Offer"). All Shares validly tendered under the Offer will be acquired by HSCI.

b) The Public Announcement was published on May 20, 2008 and Corrigenda to the Public Announcement were published on June 3, 2008 and June 10, 2008 in the following newspapers, in accordance with Regulation 15 of the SEBI (SAST) Regulations:

Publication	Language	Editions
Financial Express	English	All Editions
Jansatta	Hindi	All Editions
Navshakti,	Marathi	Mumbai Edition

(The Public Announcement and the Corrigenda to the Public Announcement are also available at the SEBI website, www.sebi.gov.in)

c) There are no partly paid up Shares in the Target Company as on March 31, 2008.

d) This is not a competitive bid. This Offer is not pursuant to any global acquisition resulting in an indirect acquisition of Shares of the Target Company.

e) The Offer is not conditional upon any minimum level of acceptance i.e. HSCI will acquire all the fully paid-up Shares of the Target Company that are validly tendered by the Shareholders in terms of the Offer up to 1,44,22,255 Shares representing in the aggregate 20.65% of paid-up equity capital of the Target Company, subject to the conditions specified in this Letter of Offer.

f) The Acquirers and the PACs have neither acquired nor been allotted any Shares of the Target Company in the 12 months prior to the date of the Public Announcement ("PA"). As at date of the PA, neither the Acquirers nor the PACs hold any Shares of the Target Company.

g) The Shares acquired by HSCI, pursuant to this Offer, will be free from all liens, charges and encumbrances and together with all rights attached thereto.

h) As of the date of this Letter of Offer, there has been no competitive bid.

i) As the Offer Price can not be revised during seven working days prior to the date of closure of this Offer, it would, therefore, be in the interest of Shareholders to wait till the commencement of that period to know the final Offer Price and tender their acceptance accordingly. In case the offer price is revised, the same shall be given to all shareholders who tender their shares in the open offer.

j) As on the date of the PA and this Letter of Offer, the Manager to the Offer, does not hold any Shares in the Target Company.

3.3. Objects of the Offer and Acquirers' future plans for IIL

(a) The Target Company is one amongst the top retail brokerage firms in India. This acquisition will allow HSCI to enter into the retail brokerage market. The Target Company offers a branch based and internet based retail brokerage platform. This will allow HSCI to offer this product to customers in India. The Target Company through its subsidiaries also operates an IPO distribution / financing business which will provide strength to HSCI's existing businesses *inter alia* capital markets and investment banking business.

(b) The acquisition will not impact HSCI's business as is being currently undertaken. However, it will allow HSCI to offer its product to retail customers in India thereby increasing its spread in the Indian financial market.

(c) The Acquirers do not have any plans at present to dispose of or otherwise encumber any assets of the Target Company in the next two years, except in the ordinary course of business of the Target Company and/or to the extent required for the purpose of restructuring and / or rationalization of assets, investments or liabilities of the Target Company for commercial reasons, operational efficiencies or on account of regulatory approvals / directions.

In addition to the above, the Shareholders may note that in terms of extant regulations and policies, banks in India are not being permitted to engage, directly or indirectly, in any commodities business or activities. As stated above, Violet is a wholly owned subsidiary of HBAP which has a banking branch in India. Although the present acquisition is not being made by the said Indian banking branch of HBAP, to ensure compliance of the prevailing policy relating to commodities business, the Acquirers propose to discontinue the commodities broking business currently being undertaken through IL&FS Investsmart Commodities Limited ("IICL") (a wholly owned subsidiary of the Target Company). This will be implemented by surrendering of the current memberships held by IICL in MCX and NCDEX. The surrender will be effected post completion of the Offer formalities and the consummation of the underlying transaction with IL&FS and E*TRADE.

The Acquirers undertake that they shall not sell, dispose of or otherwise encumber any substantial asset(s) of the Target Company except with the prior approval of the shareholders of the Target Company to the extent required by applicable laws.

(d) Pursuant to the substantial acquisition, the Acquirers will be in control of the management of the Target Company. The Acquirers propose to reconstitute the board of directors of the Target Company upon completion of Offer formalities. The Board of Directors will make decisions on these matters in accordance with the requirements of the business of the Target Company. Such approvals and decisions will be governed by the provisions of the relevant regulations or any other applicable laws or legislation at the relevant time.

4. BACKGROUND OF THE ACQUIRERS AND PACs

ACQUIRERS

4.1 HSBC Securities and Capital Markets (India) Private Limited (HSCI)

a) HSCI is an unlisted company originally incorporated as James Capel (B&K) Private Limited on September 29, 1994 under the laws of India. The name was changed to James Capel Batlivala & Karani Private Limited w.e.f. January 13, 1995, which was further changed to HSBC Batlivala & Karani Securities (Holdings) Private Limited w.e.f. April 29, 1997. This was further changed to HSBC Securities India Holdings Private Limited w.e.f. May 20, 1998 and was further changed to HSBC Securities India Holdings Limited w.e.f. April 1, 1998. A fresh certificate of incorporation was issued on May 13, 1999 changing the name of the company to HSBC Securities India Holdings Private Limited. This was further changed to HSBC Securities and Capital Markets (India) Private Limited w.e.f. February 9, 2000. This was changed to HSBC Securities and Capital Markets (India) Limited w.e.f. April 1, 2000, which was subsequently changed to HSBC Securities and Capital Markets (India) Private Limited w.e.f December 14, 2000.

b) The registered office of HSCI is located at 52/60 Mahatma Gandhi Road, Hong Kong Bank Building, Fort, Mumbai – 400001.

c) The principal business of HSCI is that of institutional equity trading operations (including securities broking) and investment banking (mergers and acquisitions and equity capital markets).

d) HSCI is a directly and a wholly-owned subsidiary of HIBH.

e) The issued and paid up share capital of HSCI is Rs. 78,10,71,600 consisting of 78,10,716 equity shares each of a value of Rs. 100/- per equity share.

f) The provisions of Chapter II of the Regulations are not applicable to HSCI as it does not hold any Shares in the Target Company.

g) The Board of Directors of HSCI comprises of 7 members as of date. Their details are as below:

Sr No	Name	Designation and appointment date as director	Qualification and Experience	Residential Address
1	Mr. Tarun Kataria	Chairman $ Appointed on November 30, 2007	B.Com, MBA Experience in securities market: • 1986 to 1989: Merrill Lynch Capital Markets, New York • 1989 to 1998: The Chase Manhattan Bank • He joined HSBC Group in 1998 and is currently designated as Managing Director and Chief Executive of Global Banking and Markets in India. Total experience: 22 years	93 Samath, 59 Bhulabhai Desai Road, Mumbai 400 026
2	Ms. Sonal Dave	Vice Chairman & Chief Operating Officer Appointed on February 29, 2000	B. Com, ACA Working experience includes management consultancy and various positions (covering finance, documentation and as profit center head) in the shipping industry. She joined HSBC Group in 1996. As Vice Chairman & Chief Operating Officer, currently, she is responsible for the support side of the Securities and Investment Banking businesses Total experience: 21 years	B-401 Chaitanya Towers, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025
3	Mr. Mark Boyne	Director $ Appointed on June 28, 2007	BSc. Hons. - University of Southampton, England Experience in securities market: • April 1992 - November 1999: Head of Global Markets, Philippines; • November 1999 - March 2003: Head of Global Markets, Thailand • March 2003 - October 2005: Chief Operating Officer, Asia Pacific Global Markets, • October 2005 - till date: Chief Operating Officer, Asia Pacific, Global Banking and Markets. Total experience: 20 years	Flat 4, 10A Stanley Beach Road, Stanley, Hong Kong
4	Mr. Yung Ching Chang	Director $ Appointed on November 30, 2007	MBA Experience in securities market: • 1995-1997: Risk Control - Sanwa Financial Products, NY. • 1997-2006: Equity Trading Merrill Lynch Hong Kong, • Joined HSBC Group in 2006 and currently designated as Co- Head of Equities, Asia Pacific Global Markets Total experience: 13 years	Flat D, 27/F, Block 5, The Waterfront, 1 Austin Road West, Tsimshatusi, Kowloon, Hong Kong.

Sr No	Name	Designation and appointment date as director	Qualification and Experience	Residential Address
5	Mr. Ravi Menon	Director $ Appointed on November 1, 2007	MSc. (Hons) in Economics and MBA Experience in all areas of banking, privatisation transactions. Has worked on advisory transactions with several leading companies. Currently, designated as Chief Executive Officer - HSBC Private Equity Advisors India Limited. Total experience: 22 years	12th Floor Gautam Apartments, 72 Pali Hill, Bandra (W), Mumbai - 400 050
6	Mr. Sanjay Bajaj	Director - Equity Capital Markets Appointed on March 4, 2008	BE, MMS He has handled the Merchant Banking activities and held various positions in the Financial Services Sector. Currently designated as Director - Equity Capital Markets. Total experience: 14 years	6/103, Seawoods Estates, NRI Complex, Sector 54, 56 & 58, Nerul, Navi Mumbai - 400706
7	Mr. V Anand	Director - Investment Banking Appointed on March 4, 2008	B.Com, CA, CS He has handled the Merchant Banking activities and has held various positions in the Financial Services Sector. Currently designated as Director - Investment Banking. Total experience: 22 years	Flat No. 11, Plot No. 310, 12th Road, Khar (west) Mumbai 400 052

$ Non- Executive Director

h) None of the directors of HSCI are on the board of the Target Company.

i) None of the directors of HSCI has acquired any Shares of the Target Company during the 12 months prior to the date of the PA.

j) Based on the latest audited financial statements prepared in accordance with the Indian Generally Accepted Accounting Principles ("Indian GAAP"), the financial information of HSCI is as follows:

Profit & Loss Statement	**Nine months ending December 31, 2007 (Certified)**	**Year Ending March 31, 2007 (Audited)**	**Year Ending March 31, 2006 (Audited)**	**Year Ending March 31, 2005 (Audited)**
Particulars	**INR (in lacs)**	**INR (in lacs)**	**INR (in lacs)**	**INR (in lacs)**
Income from operations	10,506.56	12,591.38	10,019.98	6,697.37
Other Income#	1,208.01	547.43	60.06	12.53
Total Income	11,714.57	13,138.81	10,080.04	6,709.90
Total Expenditure (excluding Depreciation and Interest)	6,318.28	6,386.50	3,997.69	3,565.09
Profit Before Depreciation, Interest and Tax	5,396.29	6,752.31	6,082.35	3,144.81
Depreciation	172.45	162.97	149.06	229.81
Interest	31.26	9.54	22.73	25.39
Profit Before Tax	5,192.58	6,579.80	5,910.56	2,889.61
Prior period expense	-	-	76.28	-
Provision for Tax	1,717.80	2,161.43	1,957.15	1,325.28
Profit After Tax	3,474.78	4,418.37	3,877.13	1,564.33*

Note : * Includes provision for prior year taxation of Rs. 280.35 lacs.

The reason for substantial increase in other income in the 9 month period ending December 2007 compared to financial year 2007, was on the account of a higher research fees earned in the 9 month period (Rs 940 lakhs) compared to the corresponding earning in financial Year 2007 (Rs 210 lakhs).

Balance Sheet Statement	Nine months ending December 31, 2007 (Certified)	Year Ending March 31, 2007 (Audited)	Year Ending March 31, 2006 (Audited)	Year Ending March 31, 2005 (Audited)
Particulars	**INR (in lacs)**	**INR (in lacs)**	**INR (in lacs)**	**INR (in lacs)**
Sources of Funds				
Paid up share capital				
Equity	7,810.72	7,810.72	7,810.72	7,810.72
Reserves & Surplus (excluding revaluation reserves)	10,804.29	7,786.40	4,292.55	1,339.94
Total shareholders fund (excluding preference capital)	18,615.01	15,597.12	12,103.27	9,150.66
Preference Share Capital	2,500.00	2,500.00	2,500.00	2,500.00
Secured Loan	162.70	228.55	289.05	140.62
Unsecured Loans	-	-	-	-
Total	162.70	228.55	289.05	140.62
Total Equity and Liability	**21,277.71**	**18,325.67**	**14,892.32**	**11,791.28**
Uses of funds				
Net fixed assets (including Capital work in progress)	630.33	552.64	273.87	324.90
Investments	13,525.10	5,225.10	6,330.76	5,950.00
Net current assets	6,850.86	12,362.71	8,073.04	5,195.83
Deferred Tax asset	271.42	185.22	214.65	320.55
Total Assets	**21,277.71**	**18,325.67**	**14,892.32**	**11,791.28**

Other Financial Data	Nine months ending December 31, 2007 (Certified)	Year Ending March 31, 2007 (Audited)	Year Ending March 31, 2006 (Audited)	Year Ending March 31, 2005 (Audited)
Dividend (%) on equity share capital	5.0%	7.5%	7.5%	5.0%
Dividend (%) on preference share capital	0.0%	9.0%	9.0%	9.0%
Earnings per share (in unit currency) # - Not Annualized (i)	44.49	56.57	49.64	20.03
Return on Net worth# (%) - Not Annualized (ii)	18.67%	28.33%	32.03%	17.10%
Book Value per share (in unit currency) # (iii)	238.33	199.69	154.96	117.15

Note : # Excluding Preference Shares (There are 25,00,000, 9% redeemable preference shares of Rs 100/- each fully paid-up allotted to parent company HSBC Investment Bank Holdings B.V.

(i) Profit/(loss) for the year attributable to equity shareholders divided by the number of equity shares outstanding at the date of the balance sheet; (ii) Profit/(loss) after tax divided by HSCI's total shareholders fund (excluding preference capital) at the date of the balance sheet; (iii) Networth divided by the number of equity shares outstanding at the date of the balance sheet.

k) The contingent liabilities for FY 2006-2007 is as under:

Demand raised by Income tax department (net of provisions made)	For A.Y.2001-02	Rs. 1,67,51,000

l) Reason for rise/fall in income and profitability

FY 2006- 2007 compared with FY 2005-2006

The gross income for the year ended March 31, 2007 was Rs 13,138.81 lakhs as compared to Rs.10,080.04 lakhs in FY 2006, an increase of 30.34% from the previous year. The profit after tax increased to Rs.4,418.37 lakhs in FY 2007 from Rs. 3,877.13 lakhs registering a growth of 13.95%. This is because the Investment Banking business had a good year with the mergers and acquisitions advisory business maintaining its robust trend. The Equity Capital Markets business was further strengthened with the execution of transactions involving delisting, open offer and qualified institutional placement.

FY 2005- 2006 compared with FY 2004-2005

The gross income for the year ended March 31, 2006 was Rs 10,080.04 lakhs as compared to Rs.6,709.90 lakhs in FY 2005, an increase of 50.23% from the previous year. The profit after tax increased to Rs.3,877.13 lakhs in FY 2007 from Rs. 1564.33 lakhs registering a growth of 147.85%. During FY 2006, HSCI recorded historically high revenues from the equities business due to acceptance of the research and execution capabilities by the clients. With the transition into the HSBC Global model, local research as well as distribution got further integrated during the year and have acquired a regional and global flavor. Further it successfully managed big ticket public issues of Reliance Petroleum Ltd, Bank of Baroda, Gujarat Industrial Power Corporation Limited and Gujarat State Petronet Limited during the year.

m) Significant Accounting policies of HSCI as mentioned in the audited financial statements for FY 2006-2007

(a) Basis of preparation of financial statements

The accompanying financial statements have been prepared and presented under the historical cost convention, on the accrual basis of accounting, except as otherwise stated and comply with the accounting standards issued by the Institute of Chartered Accountants of India ('ICAI') to the extent applicable and in accordance with generally accepted accounting principles and the relevant provisions of the Companies Act, 1956. The financial statements are presented in Indian rupees rounded off to the nearest thousand.

(b) Use of estimates

The preparation of the financial statements is in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenditures and the disclosure of contingent liabilities on the date of the financial statements. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in current and future periods.

(c) Fixed assets, depreciation amortization

Fixed assets are recorded at cost less accumulated depreciation. Cost includes inward freight, duties, taxes and incidental expenses related to acquisition and installation. Provision is made where, in the opinion of directors, there has been diminution other than temporary in value. Depreciation is charged on the straight-line method from/upto the month of addition/deletion at the following rates:

- On furniture and fixtures and lease hold improvements, over the leave and licence period of the premises.
- On computers, office equipment, air conditioning and motor cars at the rate of 25% per annum.
- Assets individually costing less than Rs 5,000 are fully depreciated in the year in which they are purchased.
- Assets acquired on finance lease after 1 April 2002 are depreciated over the lease period in accordance with AS 19-Leases issued by the ICAI.
- Intangible assets have been amortised with effect from 1 January 2003 at the following rates in accordance with AS 26-Intangible Assets issued by the ICAI:
- Bombay Stock Exchange Limited Membership Rights over a period of 10 years.
- Computer Software over a period of 4 years.

(d) Impairment of assets

HSCI assesses at each balance sheet date whether there is any indication that an asset may be impaired. If any such indication exists, HSCI estimates the recoverable amount of the assets. If such recoverable amount of the asset or the recoverable amount of the cash generating unit which the asset belongs to, is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the profit and loss account. If at the balance sheet date there is an indication that previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciable historical cost.

(e) Investments

Investments are classified as long term and current based on intention of management. Investments classified as 'long term' are valued at cost. Provision is made where, in the opinion of directors, there has been diminution other than temporary in value. Current investments are valued at lower of cost and fair value.

(f) Stock-in-trade

Stock-in-trade is valued on first-in first-out 'FIFO' basis at the lower of cost and market value for long positions and higher of cost and market value for short positions, except for stocks provided for.

(g) Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction. Exchange differences arising on foreign exchange transactions settled during the year are recognised in the profit and loss account of the year, except that exchange differences related to acquisition of imported fixed assets which are adjusted in the carrying amount of the related fixed assets. Monetary assets and liabilities denominated in foreign currencies as at the balance date are translated at the closing exchange rate on that date; the resultant exchange differences are recognised in the profit and loss account, except those related to acquisition of imported fixed assets which are adjusted in the carrying amount of the related fixed assets.

(h) Revenue recognition

- Brokerage is recognised on trade date, inclusive of service tax.
- Fee income is accounted for in the period when receivable.
- Profit/loss on sale of investments / stock-in-trade is recognised on trade date.
- Interest income is recognised as it accrues.
- Dividend income is recognised when the right to receive dividend is established.

(i) Taxation

(a) Income tax

Current tax expense is recognised on an annual basis under the taxes payable method, based on the estimated tax liability computed after taking credit for allowances and exemption in accordance with the Income Tax Act, 1961. In case of matters under appeal due to disallowance or otherwise, full provision is made when the said liabilities are accepted by HSCI.

(b) Fringe benefit tax

Provision for fringe benefit tax (FBT) is made on the basis of applicable FBT on the taxable value of the eligible expenses of HSCI as prescribed under the Income Tax Act, 1961.

(c) Deferred Tax

HSCI accounts for deferred tax in accordance with the provisions of AS 22 "Accounting for Taxes on Income" Deferred taxation is provided on timing differences between accounting profits and taxable income. Deferred tax assets are recognised only if there is reasonable certainty that they will be realised, except for deferred tax assets in respected of unabsorbed depreciation and carry forward losses, in which case deferred tax assets are recognised only to the extent there is virtual certainty that they will be realised. These assets are reviewed for the appropriateness of their carrying value at each balance sheet date. Deferred tax assets and liabilities are measured using the tax rates that have been enacted or substantially enacted by the balance sheet date.

(j) Retirement benefits

- Gratuity, a defined benefit scheme, is provided for on the basis of an actuarial valuation as at reporting date.
- Company's contributions of all employees towards Provident Fund, a defined contribution scheme, is charged to profit and loss account.

(k) Earnings per share (EPS)

The basic earnings per share is computed by dividing the net profit attributable to the equity shareholders for the year by the weighted average number of equity shares outstanding during the year. The number of shares used in computing diluted earnings per share comprises the weighted average number of shares considered for deriving basic earnings per share, and also the weighted average number of equity shares, which may be issued on the conversion of all dilutive potential shares. In computing dilutive earnings per share, only potential equity shares that are dilutive are included *(l)* ***Provision and contingent liabilities***

HSCI creates a provision when there is present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that the outflow of resources would be required to settle the obligation, the provision is reversed. Contingent asset are not recognised in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an economic benefit will arise, the asset and related income are recognised in the period in which the change occurs.

n) HSCI has promoted the following companies in India. The brief information about these companies alongwith their last three years financials is given below:

A) HSBC Asset Management (India) Private Limited:

Name of the Company	HSBC Asset Management (India) Private Limited
Date of Incorporation	December 12, 2001
Nature of business activity	Principal activity is to act as an Investment Manager to HSBC Mutual Fund i.e it manages the investment portfolio of the fund and provides various administrative services to the fund. The company has also received a certificate from SEBI to act as a portfolio manager with effect from September 16, 2005.

Brief Financial Performance

(Rs in lakhs)

Particulars	**For the year ended March 31**		
	2007	**2006**	**2005**
Equity Capital	1,200	1,200	1,200
Preference Capital	0	0	1,000
Reserves & Surplus (excluding revaluation reserves)	7,107.24	6,412.67	1,380.99
Sales/ Gross Total Income	6,472.69	12,257.48	6,062.54
Profit After Tax	776.67	5,137.76	1,768.44
EPS (Rs.)	6.47	42.79	14.34
Book Value per share (Rs.)	69.23	63.44	21.51

It is not a Sick Industrial Company within the meaning of Clause (O) of Sub-Section (1) of Sec. 3 of the Sick Industrial Companies (Special Provisions) Act, 1985

B) HSBC Pragati Finance (India) Private Limited

Name of the Company	HSBC Pragati Finance (India) Private Limited
Date of Incorporation	September 14, 1995
Nature of business activity	Established to carry the consumer finance business. Licence/ approval from RBI is awaited.

Brief Financial Performance

(Rs in lakhs)

Particulars	For the year ended March 31		
	2007	2006	2005
Equity Capital	5,500.00	5,500.00	5,500.00
Reserves & Surplus (excluding revaluation reserves)	2,803.25	2,612.81	2,526.73
Sales/ Gross Total Income	856.05	1,054.35	1,093.47
Profit After Tax	504.02	387.11	373.50
EPS (Rs.)	0.92	0.70	0.68
Book Value per share (Rs.)	15.10	14.75	14.59

It is not a Sick Industrial Company within the meaning of Clause (O) of Sub-Section (1) of Sec. 3 of the Sick Industrial Companies (Special Provisions) Act, 1985

4.2 HSBC Violet Investments (Mauritius) Limited ("Violet")

a) Violet is an unlisted company incorporated on May 8, 2007 under the laws of Mauritius.

b) The registered office of Violet is located at Manor House, 1st Floor, Cnr St George/Chazal Streets, Port Louis, Mauritius

c) The Principal activity of Violet is that of investment holding.

d) Violet is a directly and wholly-owned subsidiary of HBAP.

e) The issued and paid up share capital of Violet is USD 5,000 (equivalent to Rs. 2.13 Lacs) consisting of 500 equity shares each of a value of USD 10 (equivalent to Rs. 426.4 per equity share).

f) The provisions of Chapter II of the Regulations are not applicable to Violet as it does not hold any equity shares in the Target Company.

g) The Board of Directors of Violet comprises of 3 members as at date. Their details are as below:

Name	Designation and appointment date as director	Experience and qualification	Residential address
Sandeep Uppal	Director Appointed on 08 May 2007	He is the Chief Executive Officer of HSBC Mauritius since October 2006. Prior to this he covered various senior management roles in UK over a period of six years, including Regional Commercial Manager. He holds a Post Graduate Diploma in Business Administration from XLRI, Jamshedpur India, 1990 BA (Hons) Economics, Delhi University, Delhi, India, 1987	Ave De Burgh Edward, Floreal, Mauritius
Blair D Harden	Director Appointed on 17 September 2007	He joined the HSBC Group in 1996 and has held various managerial positions with the Bank globally, primarily in Asia and Middle East before assuming his current role as Head Global Business in Mauritius. Holds a BA (Hons) International Business, from Sheffield Hallam University, UK. In 1996.	46 King George VI Avenue, Floreal, Mauritius
Jennifer Foo Chin Hau Kau Fong	Director Appointed on 08 May 2007	She holds a Certificate in Banking Studies, University of Mauritius, Mauritius. She joined HSBC in 1993 and has held various executive positions with the Bank in Mauritius before assuming her current role of VP Customer Services in Global Business.	127, Avenue des Capucines, Morcellement Swan, Baie du Tombeau, Mauritius

h) None of the directors of Violet are on the board of the Target Company.

i) None of the directors of Violet have acquired any Shares of the Target Company during the 12 months prior to the date of the PA.

j) Since Violet was incorporated in May 2007, there is only one set of audited financials available on the date of the PA. Based on the latest audited financial statements prepared in accordance with the International Financial Reporting Standards ("IFRSs") and in compliance with the requirements of the Mauritius Companies Act, the financial information of Violet is as follows:

Profit & Loss Statement	**From May 8, 2007 to December 31, 2007 (Audited)**	
Particulars	**USD**	**INR (in lacs)**
Income from operations	–	–
Other Income	–	–
Total Income	–	-
Total Expenditure (excluding Depreciation and Interest)	11,808.00	**5.03**
Profit/ (Loss) Before Depreciation, Interest and Tax	(11,808.00)	**(5.03)**
Depreciation	–	–
Interest	–	–
Profit/ (Loss) Before Tax	(11,808.00)	**(5.03)**
Provision for Tax	–	–
Profit/ (Loss) After Tax	(11,808.00)	**(5.03)**

Balance Sheet Statement	**From May 8, 2007 to December 31, 2007 (Audited)**	
Particulars	**USD**	**INR (in lacs)**
Sources of Funds		
Paid up share capital	5,000.00	2.13
Reserves & Surplus (excluding revaluation reserves)	(11,808.00)	(5.03)
Total shareholders fund	(6,808.00)	(2.90)
Secured Loan	–	–
Unsecured Loans	7,438.00	3.17
Total	7,438.00	3.17
	630.00	**0.27**
Uses of funds		
Net fixed assets	–	–
Investments	–	–
Net current assets	630.00	0.27
Total miscellaneous expenditure note written off	–	–
	630.00	**0.27**

Violet has incurred losses during the period May 08, 2007 - December 31, 2007 resulting into negative networth, its Book Value, Earning Per Share and Return on Networth are negative.

k) There are no contingent liabilities for the period 8 May 2007 to 31 December 2007.

l) Being the first year of operations for the Violet, there are no past financial statements to compare with.

m) Significant Accounting policies of Violet as per the audited financial statements for the period May 08, 2007 to December 31, 2007.

Revenue recognition

Revenue is recognized on the following basis:

-Interest income: on an accrual basis

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into United States Dollar at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign exchange differences arising on translation are recognized in the income statement.

Taxation

Income tax on the profit or loss for the period comprises of current and deferred tax. Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the balance sheet date.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date.

A deferred tax assets is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax asset are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Financial instruments

(i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise cash and cash equivalents, amount due to related companies and other payables.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(ii) *Share capital*

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Related parties

Related parties are individuals and companies where the individual or Company has the ability directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Other payables

Other payables are measured at cost.

Financial instruments

Financial instruments carried on the balance sheet include amount due to related companies other payables and cash and cash equivalents. The particular recognition methods are disclosed in the individual policy statements associated with each item.

Provisions

Provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is possible that an outflow of economic benefits will be required to settle the obligation.

n) Violet has not promoted any company.

PERSONS ACTING IN CONCERT

4.3 HSBC Investment Bank Holdings BV ("HIBH")

a) HIBH is an unlisted company incorporated on July 20, 1987 under the laws of Netherlands and is a person acting in concert with HSCI.

b) The registered office of HIBH is located at 8 Canada Square, London, E14 5HQ, United Kingdom.

c) The principal activities of HIBH are the holding of investments in, and the financing of, subsidiary companies.

d) HIBH is a directly and a wholly owned subsidiary of HHPLC.

e) The issued and paid up share capital of HIBH is USD 358,000 (equivalent to Rs. 152.65 Lacs) consisting of 4,866 equity shares each of a value of Euro 50 (equivalent to Rs. 3,300 per equity share).

f) The provisions of Chapter II of the Regulations are not applicable to HIBH as it does not hold any Shares in the Target Company.

g) The Board of Directors of HIBH comprises of four directors as at date. Their details are as below:

Name	Designation and appointment date as director	Experience and qualification	Residential address
Mr. Douglas Jardine Flint	Director Appointed on July 9, 1996	Group Finance Director, HSBC Holdings plc; BAcc (Hons), CA, FCMA, PMD (Harvard) ● 1988 to 1995: KPMG (Audit Partner) ● 1995 to date: HSBC Holdings plc (Group Finance Director)	Soggs House, Ewhurst Green, East Sussex, TN32 5TL, UK
Mr. John Hume McKenzie	Director, Appointed on April 4, 2002	Company Secretary, HSBC Bank plc; FCIS ● 1982 to 1987: British-American Tobacco Company Limited (Assistant Company Secretary) ● 1987 to 2001: Forward Trust Group Limited (Company Secretary) ● 2001 to 2002: HSBC Investment Bank plc (Company Secretary) ● 2002 to 2004: HSBC Investment Banking and Markets (Company Secretary) ● 2004 to present: HSBC Bank plc (Company Secretary)	37 Lime Trees, Staplehurst, Tonbridge, Kent, TN12 OSS, UK
Mr. Menasey Marc Moses	Director, Appointed on May 1, 2006	Chief Financial and Risk Officer and Chief of Staff, Global Banking and Markets; Chartered Accountant ● 1983 to 1989: Bankers Trust, London (Fixed Income Trader) ● 1989 to 1999: Price waterhouse Coopers (Audit Partner) ● 1999 to 2005: JP Morgan Chase (European CFO) ● He joined HSBC late in 2005 and is currently designated as Chief Financial and Risk Officer as well as Chief of Staff (HSBC Global Banking and Markets).	16 Crespigny Road, Hendon, London, NW4 3DY, UK

Name	Designation and appointment date as director	Experience and qualification	Residential address
Mr. Peter John Reid	Director, Appointed on September 15, 2003	Chief Financial Officer, Global Banking and Markets; Chartered Accountant • 1983 to 1989 : Abbey Life Assurance Company, UK (Accountant) • 1989 to 1992 : Midland Bank plc, London (Corporate Finance) • 1993 to 1996 : HSBC Holdings plc (Group Finance) • 1996 to 2003 : HSBC Hong Kong (Head of Asset and Liability Management; Financial Controller Hong Kong) • 2003 to present : HSBC Global Banking and Markets, London (Chief Financial Officer and Global Controller)	Rooksthorne, Narrow Lane, Poulner Hill, Ringwood, Hampshire, BH24 3EN, UK

h) None of the directors of HIBH are on the board of the Target Company.

i) None of the directors of HIBH have acquired any Shares of the Target Company during the 12 months prior to the date of the PA.

j) Based on the latest audited financial statements prepared in accordance with the IFRSs as adopted by the European Union ("EU") and with Part 9 of Book 2 of the Netherlands Civil Code, the financial information of HIBH is as follows:

Profit & Loss Statement	Year Ending December 31, 2007 (Audited)		Year Ending December 31, 2006 (Audited)		Year Ending December 31, 2005 (Audited)	
Particulars	**USD (in '000)**	**INR (in lacs)**	**USD (in '000) (in '000)**	**INR (in lacs)**	**USD (in '000)**	**INR (in lacs)**
Income from operations	65,433.00	27,900.63	43,538.00	18,564.60	24,374.00	10,393.07
Other Income	12,328.00	5,256.66	-	-	-	-
Total Income	77,761.00	33,157.29	43,538.00	18,564.60	24,374.00	10,393.07
Total Expenditure (excluding Depreciation and Interest)	421.00	179.51	762.00	324.92	(72.00)	(30.70)
Profit Before Depreciation, Interest and Tax	77,340.00	32,977.78	42,776.00	18,239.69	24,446.00	10,423.77
Depreciation	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Profit Before Tax	77,340.00	32,977.78	42,776.00	18,239.69	24,446.00	10,423.77
Provision for Tax	18,844.00	8,035.08	12,376.00	5,277.13	5,907.00	2,518.74
Profit After Tax	58,496.00	24,942.69	30,400.00	12,962.56	18,539.00	7,905.03

Balance Sheet Statement	Year Ending December 31, 2007 (Audited)		Year Ending December 31, 2006 (Audited)		Year Ending December 31, 2005 (Audited)	
Particulars	**USD (in '000)**	**INR (in lacs)**	**USD (in '000)**	**INR (in lacs)**	**USD (in '000)**	**INR (in lacs)**
Sources of Funds						
Paid up share capital	358.00	152.65	320.00	136.45	287.00	122.38
Reserves & Surplus (excluding revaluation reserves)	1,130,613.00	482,093.38	1,142,154.00	487,014.47	1,141,787.00	486,857.98
Total shareholders fund	1,130,971.00	482,246.03	1,142,474.00	487,150.91	1,142,074.00	486,980.35
Secured Loan	-	-	-	-	-	-
Unsecured Loans	-	-	-	-	-	-
Total	**1,130,971.00**	**482,246.03**	**1,142,474.00**	**487,150.91**	**1,142,074.00**	**486,980.35**
Uses of funds						
Net fixed assets	-	-	-	-	-	-
Investments	46,513.00	19,833.14	25,262.00	10,771.72	34,782.00	14,831.04
Loans & Advances	1,060,145.00	452,045.83	1,060,482.00	452,189.52	-	-
Net current assets	24,313.00	10,367.06	56,730.00	24,189.67	1,107,292.00	472,149.31
Total miscellaneous expenditure note written off	-	-	-	-	-	-
Total	**1,130,971.00**	**482,246.03**	**1,142,474.00**	**487,150.91**	**1,142,074.00**	**486,980.35**

Other Financial Data	**Year Ending December 31, 2007 (Audited)**		**Year Ending December 31, 2006 (Audited)**		**Year Ending December 31, 2005 (Audited)**	
	in USD	**in INR**	**in USD**	**in INR**	**in USD**	**in INR**
Dividend per share (in unit currency)	14,385.53	613,399.10	14,385.53	613,399.10	14,385.53	613,399.10
Earnings per share (in unit currency)(i)	12,021.37	512,591.22	6,247.43	266,390.42	3,809.91	162,454.56
Return on Net worth (%)(ii)		5.17%		2.66%		1.62%
Book Value per share (iii)	232,423.14	9,910,522.69	234,787.09	10,011,321.52	234,704.89	10,007,816.51

(i) Profit/(loss) for the year attributable to equity shareholders divided by the number of equity shares outstanding at the date of the balance sheet; (ii) Profit/(loss) after tax divided by HIBH's total shareholder's fund at the date of the balance sheet; (iii) Networth divided by the number of equity shares outstanding at the date of the balance sheet;

k) There are no contingent liabilities during the FY 2006-07.

l) Reason for rise/fall in income and profitability

The principal activities of HSBC Investment Bank Holdings BV are the holding of investments in, and the financing of, subsidiary companies. Consequently, nearly all transactions and balance sheet positions are with fellow group companies.

m) Significant Accounting policies of HIBH as mentioned in the audited financial statements for FY 2006-2007

(a) Functional currency

(i) Statement of justification of use of functional currency

Following the criteria as set out in IAS 21, the functional currency of the Company has been determined to be US Dollar. This is in line with the Company's choice to use the US Dollar as functional currency for fiscal and group reporting purposes.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated into US Dollars at the exchange rate ruling at the date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to US Dollars at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement as "Foreign exchange (gain)/loss". Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into US Dollars using the exchange rate at the date of the transaction.

(ii) Share capital

In accordance with Book 2, Title 9 of the Dutch Civil Code, the EURO share capital of the Company has been restated into US Dollars using the relating EUR/USD year end closing rate. The movements in exchange of the share capital remain within equity and are captured in 'Capital exchange reserve', which is a legal reserve and not distributable.

(c) Investments in subsidiary companies

Investments in subsidiary companies are held at cost less impairment loss where necessary. Dividend income is recognised when companies dividends have been declared (see accounting policy 'f') and the company is legally entitled to receive the dividend.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(e) Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated as the difference between its carrying amount, and the present value of the estimated discounted future cash flows.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

If the amount of the impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. The impairment reversal is recognised in the income statement for the year.

(f) Share capital

Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are declared.

(g) Provisions

A provision is recognised in the balance sheet when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of a past event. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(h) Trade and other payables

Accrued expenses and other amounts payables are stated at cost.

(i) Income

(i) Interest income

Interest income is recognised in the income statement as it accrues, using the effective interest method.

(ii) Dividend income

Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

(j) Expenses

(i) Interest payable

Interest payable on borrowings is calculated using the effective interest rate method.

(ii) Investment related expenses

Investment related expenses comprise expenses which do not qualify as acquisition costs and are therefore not costs which are capitalised. The expenses either represent expenses normally levied on the shareholder directly or expenses of which payment and absorption has been agreed by the Company.

(k) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(ii) Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(l) Derivative liabilities

Derivative liabilities are recognised initially, and are subsequently re-measured, at fair value. Movements in fair value are recognised in the income statement for the year.

(m) Related parties

For the purposes of these financial statements, a party is considered to be related to the Company if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Company or exercise significant influence over the Company in making financial and operating policy decisions, or has joint control over the Company; or

(ii) the Company and the party are subject to common control; or

(iii) the party is a subsidiary, an associate of the Company or a joint venture in which the Company is a venturer; or

(iv) the party is a member of key management personnel of the Company or the Company's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals; or

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or the party is a post-employment benefit plan which is for the benefit of employees of the Company or of any entity that is a related party of the Company.

n) HIBH has promoted the following companies in India. The brief information about these companies alongwith their last three years financials is given below:

A) HSBC Financial Holdings (India) Private Limited

Name of the Company	HSBC Financial Holdings (India) Private Limited
Date of Incorporation	July 19, 2005
Nature of business activity	Holding company. Licence/ approval from RBI is awaited.

Brief Financial Performance

(Rs in lakhs)

Particulars	For the year ended on March 31, 2007	From July 19, 2005 to March 31, 2006
Equity Capital	228.69	228.69
Reserves & Surplus (excluding revaluation reserves)	8.04	2.84
Sales/ Gross Total Income	14.23	5.30
Profit After Tax	5.20	2.84
EPS (Rs.)	0.23	0.12
Book Value per share (Rs.)	10.35	10.12

It is not a Sick Industrial Company within the meaning of Clause (O) of Sub-Section (1) of Sec. 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

B) HSBC Consumer Services (India) Private Limited

Name of the Company	HSBC Consumer Services (India) Private Limited
Date of Incorporation	July 19, 2005
Nature of business activity	Established to carry the consumer finance business. It has not yet commenced its operations.

Brief Financial Performance

(Rs in lakhs)

Particulars	For the year ended on March 31, 2007	From July 19, 2005 to March 31, 2006
Equity Capital	1.01	1.01
Reserves & Surplus (excluding revaluation reserves)	(0.36)	(0.15)
Sales/ Gross Total Income	-	-
Profit After Tax	(0.21)	(0.15)
EPS (Rs.)	-	-
Book Value per share (Rs.)	6.51	8.60

It is not a Sick Industrial Company within the meaning of Clause (O) of Sub-Section (1) of Sec. 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

4.4 The Hongkong and Shanghai Banking Corporation Limited, Hong Kong ("HBAP")

a) HBAP was incorporated on August 14, 1866 under the laws of Hong Kong Special Administrative Region and is a person acting in concert with Violet.

b) HBAP is the founding member of the HSBC Group - one of the world's largest banking and financial services organizations and its flagship in the Asia-Pacific region.

c) The registered office of HBAP is located at HSBC Main Building, 1 Queen's Road Central, Hong Kong;

d) The principal business of HBAP is to provide a comprehensive range of financial services, principally in the Asia-Pacific region.

e) HBAP is ultimately held by HHPLC, the holding company of the HSBC Group.

f) The paid up share capital of HBAP is HKD 22,494 million (equivalent to Rs. 1,225,923.00 lacs) consisting of 8,997.6 million equity shares each of a value of HKD 2.50 (equivalent to Rs. 13.625 per equity share). The equity shares of HBAP are not listed on any stock exchange.

g) The provisions of Chapter II of the Regulations are not applicable to HBAP as it does not hold any Shares in the Target Company.

h) The Board of Directors of HBAP comprises of 20 members as of date. Their details are as below:

Name	**Designation and appointment date as director**	**Experience and qualification**	**Residential address**
Ms. Cha May Lung, Laura	Non-Executive Directors, Deputy Chairman Appointed on 01/10/2004	She has been on the HBAP Board for about 3.7 years. Ms. Cha was Vice Chairman of China Securities Regulatory Commission from 2001 to September 2004. Prior to her post at the CSRC, Ms. Cha worked at the Securities and Futures Commission in Hong Kong from 1991 to early 2001. She headed the Corporate Finance Division for five years before being appointed as Deputy Chairman in 1998. ● Bachelor of Arts, University of Wisconsin-Madison, 1972 ● Juris Doctor, University of Santa Clara Law School, 1982 ● Admitted to practice in the State of California and in Federal Courts, 1983	B1 Country Villa, 28 Shouson Hill Road, Hong Kong
Mr. Cheng Hoi Chuen, Vincent	Executive Directors, Chairman Appointed on 01/11/1995	He has been on the HBAP Board for about 12.6 years. He has an exposure to the Finance and Planning functions. He has also worked as Chief Economist. He has served the government in advisory roles such as Member of the Executive Council (1995 to 1997), Hong Kong Affairs Adviser to the People's Republic of China (1994 to 1997) as well as Member of the Legislative Council of the Hong Kong Government (1991 to 1995). ● B.Soc. Sc. (Hon), Chinese University of Hong Kong, 1973 ● M. Phil, University of Auckland, 1978 ● Fellow of The Hong Kong Institute of Bankers, 1996	19 Middle Gap Road, The Peak, Hong Kong
Mr. Ch'ien Kuo Fung, Raymond	Non-Executive Directors Appointed on 25/11/1997	He has been on the HBAP Board for about 10.5 years. He is the Chairman of CDC Corporation, China.com Inc and MTR Corporation Limited. He was a member of the Executive Council of Hong Kong (1992 to 1997) and member of the Executive Council of the Hong Kong SAR (1997- 2002). ● Bachelor of Arts, Rockford College, 1973 ● Master of Arts, University of Pennsylvania, 1976 ● Doctor of Philosophy (Economics), University of Pennsylvania, 1978	11A Braga Circuit, Kowloon, Hong Kong

Name	Designation and appointment date as director	Experience and qualification	Residential address
Mr. Flockhart Alexander Andrew	Executive Director, Chief Executive Officer Appointed on 25/07/2007	He has been on the HBAP Board for about 0.9 years. He is also currently Global Head of Commercial Banking. He has worked as Group General Manager, Chairman and Chief Executive Officer of HSBC in Mexico (2002-2006) and Group Managing Director Latin America (2006-2007). From December 1999 to July 2002, he was Senior Executive Vice President, Commercial Banking, HSBC Bank USA and Chairman, HSBC Bank Mexico S.A., heading the businesses of personal and commercial banking in the USA, Panama and Mexico. ● Bachelor of Laws, Edinburgh University, 1973	4 Pollock's Path, The Peak, Hong Kong
Dr. Fung Kwok Lun, William	Non-Executive Director, Deputy Chairman Appointed on 01/11/1995	He has been on the HBAP Board for about 12.6 years. He is the Managing Director of Li & Fung Limited and has helped it transform into a multinational trading company with a sourcing network of close to 40 countries. He had held key positions in major trade and business associations. ● B.Sc.E., Princeton University, 1970 ● MBA, Harvard Graduate School of Business, 1972 ● Honorary Doctorate of Business Administration, Hong Kong University of Science & Technology, 1999	30 A&B, The Harbourview, 11 Magazine Gap Road, Hong Kong
Mr. Geoghegan Michael Francis	Executive Director, HSBC's Group Chief Executive Appointed on 01/06/2006	He has been on the HBAP Board for about 2 years. He joined the HSBC Group in 1973 and, since then, has spent 12 years in North and South America, eight years in Asia, seven years in the Middle East and three years in Europe. He is Chairman of Young Enterprise, United Kingdom. ● O Levels, Douai Public School, Berks, 1970 ● Leaving Certificate of Commerce, Rathmines College, 1972	Larchmont House, Golf Club Road, St George's Hill, Weybridge, Surrey, KT13 0NN, England

Name	Designation and appointment date as director	Experience and qualification	Residential address
Mr. Stephen Keith Green	Executive Director, HSBC's Group Chairman Appointed on 01/06/2003	He has been on the HBAP Board for about 5 years. He is the Group Chairman of HSBC Holdings plc. He began his career with the British Government's Ministry of Overseas Development. He has worked with McKinsey & Co Inc, management consultants. He has shouldered the responsibility of corporate planning activities, global treasury operations. and global capital markets business. ● First Class Honours Degree in Politics, Philosophy & Economics, Exeter College, Oxford University, 1969 ● Master of Science Degree in Political Science, Massachusetts Institute of Technology, 1975	44 Scarsdale Villas, Kensington, London W8 6PP, England
Mr. Gulliver Stuart Thomson	Executive Director, Head of Global Banking and Markets and HSBC Global Asset Management of HSBC Holdings plc Appointed on 22/09/2006	He has been on the HBAP Board for about 1.7 years. He has held a number of key roles including postings various countries. He has an experience of working in Treasury and Capital Markets and has discharged the responsibility for trading and sales of foreign exchange, fixed income, derivatives, precious metals, futures broking, and management of the balance sheet. ● Masters Degree in Jurisprudence, Worcester College, Oxford University, 1980.	36 Drayton Gardens, London, SW10 9SA, United Kingdom
Mr. Li Tzar Kuoi, Victor	Non-Executive Director Appointed on 26/05/1992	He has been on the HBAP Board for about 16 years. He is the Managing Director & Deputy Chairman of Cheung Kong (Holdings) Limited and Deputy Chairman of Hutchison Whampoa Limited and is on Board of Directors of various Companies. ● B.Sc., Stanford University, 1986 ● M.Sc., Stanford University, 1986	2 Shouson Hill Drive, via 22 Shouson Hill Road, Hong Kong

Name	Designation and appointment date as director	Experience and qualification	Residential address
Dr. Lo Ka-Shui	Non-Executive Director Appointed on 26/05/1992	He has been on the HBAP Board for about 16 years. He joined the Board of Great Eagle Holdings in 1980 and is now the Deputy Chairman and Managing Director. He is also the Chairman of the Langham Hotels International Group. ● B.Sc. (Hon) Biophysics, McGill University, 1970 ● M.D. Cornell University, 1974 ● Residency, American Board of Internal Medicine, University of Michigan, 1976 ● Fellowship, American Board of Cardiology, University of Michigan, 1979	22 Mount Cameron Road, Unit 2A, Hong Kong
Ms. Mody Zia	Non-Executive Director Appointed on 12/01/2006	She has been on the HBAP Board for about 2.4 years. She is a Partner, AZB & Partners, Advocates & Solicitors since 2004. She has worked with Baker & McKenzie, New York. ● Bachelor of Arts (Law), Cambridge University, 1978 ● Enrolled as an Advocate, Bar Council of Maharashtra & Goa in India, 1978 ● Master of Laws, Harvard University, 1979 ● Admitted as a member of the New York State Bar by examination, New York State Bar Association, 1980	Barry Villa, 2, Tejpal Road, Krishna Sanghi Path, Gamdevi, Mumbai - 400 007, India
Mr. Or Ching Fai, Raymond Alias : Qua Ching Tue	Executive Director Appointed on 01/01/2005	He has been on the HBAP Board for about 3.4 years. He has worked in a variety of positions in Personnel, Securities, Retail Banking and Corporate Banking. He is the Chairman of Hang Seng Bank (China) Limited since May 2007. ● Bachelor in Economics and Psychology, University of Hong Kong, 1972	Flat A, 25th Floor, Block 10, Provident Centre, 41 Wharf Road, North Point, Hong Kong
Mr. Pratt Christopher Dale	Non-Executive Director Appointed on 27/02/2006	He has been on the HBAP Board for about 2.2 years. He has earlier worked with Steamships Trading Ltd, John Swire & Sons Pty Ltd. and Cathay Pacific Ltd. Australia. ● MA Modern History, Oxford University, 1978	25 Peak Road, Hong Kong

Name	Designation and appointment date as director	Experience and qualification	Residential address
Mr. Sohmen-Pao Andreas	Non-Executive Director Appointed on 01/05/2008	He has recently joined the HBAP Board. He is the Managing Director of BW Shipping in Singapore, Vice Chairman of BW Gas and a Director of BW Offshore in Norway. He has previously worked for Goldman Sachs International in London. ● First Class Honors Degree in Oriental Studies, Oxford University, 1994 ● Master in Business Administration with distinction, Harvard University Graduate School of Business, 1997 ● Master of Arts, Oxford University, 2000	27A Swiss Club Road, Singapore 288144
Mr. Stevenson Thomas Brian	Non-Executive Director Appointed on 01/09/2001	He has been on the HBAP Board for about 6.7 years. He is the non-executive Director of MTR Corporation Limited. He is also a Member of the Hong Kong Government's Public Service Commission and has served in the past as President of the Hong Kong Institute of Certified Public Accountants and was Senior Partner of Ernst & Young's Hong Kong and China firms. ● Bachelor of Laws Degree, Glasgow University, Scotland, 1965 ● Member, Institute of Chartered Accountants of Scotland, 1968 ● Fellow, Hong Kong Society of Accountants ● Member, Certified Public Accountants of Singapore	18 Manderly Garden, 48 Deep Water Bay Road, Hong Kong
Dr. Wang Shui Chung, Patrick	Non-Executive Director Appointed on 13/08/1997	He has been on the HBAP Board for about 10.8 years. He is the Chairman and Chief Executive Officer of Johnson Electric Holdings Limited. He is a member of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority. ● B.Sc. and M.Sc., Electrical Engineering, Purdue University, Indiana USA, 1972 ● Honorary Doctorate of Engineering, Purdue University in Indiana, USA, 2004	House F, Country Villa, 28 Shouson Hill Road, Hong Kong

Name	Designation and appointment date as director	Experience and qualification	Residential address
Mr. Wei Zhe Alias : David Wei	Non-Executive Director Appointed on 01/01/2008	He has recently joined the HBAP Board. He is the Chief Executive Officer and Executive Director of Alibaba.com Limited. His prior experience include seven years with B&Q China, spearheading the leading home improvement retail group's global sourcing operations from the Mainland. He was Managing Director and Head of Investment Banking at Orient Securities Company Limited from 1998 to 2000 and worked at Coopers & Lybrand (now Price waterhouseCoopers) from 1995 to 1998. ● Bachelor's Degree in International Business Management, Shanghai International Studies University, 1993 ● Corporate Finance Program, London Business School, 1998	N51, Thomson Golf Villa, No. 1 Long Dong Avenue, Pudong, Shanghai 201213, China
Mr. Wong Tung Shun, Peter	Executive Director Appointed on 01/04/2005	He has been on the HBAP Board for about 3.2 years. He is the Group General Manager and Executive Director, Hong Kong and Mainland China operations of HBAP since April 2005. He has worked with Citibank and Standard Chartered Bank. ● Bachelor of Arts, Indiana University, 1974 ● MBA, Indiana University, 1976 ● M.Sc., Indiana University, 1978	House 6, La Palais, 8 Pak Pat Shan Road, Tai Tam, Hong Kong
Dr. Wong Yick-ming, Rosanna	Non-Executive Director Appointed on 26/11/1996	She has been on the HBAP Board for about 11.5 years. She is a former Member of the Executive and Legislative Councils, former Chairperson of the Education Commission, the Hong Kong Housing Authority, the Commission on Youth and the Social Welfare Advisory Committee and a former Member of the United Nations High Level Panel on Youth Employment. ● B.Soc. Sc., University of Hong Kong 1975 ● MSW., University of Toronto 1979	7B Vienna Court, Realty Gardens, 41 Conduit Road, Hong Kong

Name	Designation and appointment date as director	Experience and qualification	Residential address
		• M.Sc., Social Policy & Planning, London School of Economics & Political Science, University of London 1983 • Diploma in Executive Management, Chinese University of Hong Kong 1985 • M.A., University of California, Davis 1993 • Ph.D in Sociology, University of California, Davis 1997 • Honorary Member, Chartered Institute of Housing 1994 • Honorary Fellow, Hong Kong Institute of Housing 1994	
Mr. Yang Mun Tak, Marjorie	Non-Executive Director Appointed on 01/07/2003	He has been on the HBAP Board for about 4.9 years. He is the Chairman of Esquel Group since 1995 and has previously worked with YTT Tourism Advisor Limited and The First Boston Corporation. . • B.Sc. in Mathematics, Massachusetts Institute of Technology, 1974 • MBA, Harvard Business School, 1976	Flat 5A, Cragside Mansion, 23 Barker Road, The Peak, Hong Kong

i) None of the directors of HBAP are on the board of the Target Company.

j) None of the directors of HBAP have acquired any Shares of the Target Company during the 12 months prior to the date of this PA.

k) Based on the latest audited financial statements prepared in accordance with Hong Kong Financial Reporting Standards, the provisions of the Hong Kong Companies Ordinance and accounting principles generally accepted in Hong Kong, the financial information of HBAP is as follows:

Profit & Loss Statement	Year Ending December 31, 2007 (Audited)		Year Ending December 31, 2006 (Audited)		Year Ending December 31, 2005 (Audited)	
Particulars	**HKD (in mn.)**	**INR (in lacs)**	**HKD (in mn.)**	**INR (in lacs)**	**HKD (in mn.)**	**INR (in lacs)**
Income from operations	121,204.00	6,605,618.00	87,516.00	4,769,622.00	75,158.00	4,096,111.00
Other Income	-	-	-	-	-	-
Total Income	121,204.00	6,605,618.00	87,516.00	4,769,622.00	75,158.00	4,096,111.00
Total Expenditure	44,470.00	2,423,615.00	35,991.00	1,961,509.50	29,831.00	1,625,789.50
Profit Before Depreciation and Tax	76,734.00	4,182,003.00	51,525.00	2,808,112.50	45,327.00	2,470,321.50
Depreciation & Amortisation	2,708.00	147,586.00	2,248.00	122,516.00	1,983.00	108,073.50
Share of Profit in associates and JV	4,735.00	258,057.50	2,739.00	149,275.50	1,905.00	103,822.50
Profit Before Tax	78,761.00	4,292,474.50	52,016.00	2,834,872.00	45,249.00	2,466,070.50
Provision for Tax/ Tax expense	13,456.00	733,352.00	9,411.00	512,899.50	8,051.00	438,779.50
Profit After Tax	65,305.00	3,559,122.50	42,605.00	2,321,972.50	37,198.00	2,027,291.00

Profit & Loss Statement	Year Ending December 31, 2007 (Audited)		Year Ending December 31, 2006 (Audited)		Year Ending December 31, 2005 (Audited)	
Particulars	**HKD (in mn.)**	**INR (in lacs)**	**HKD (in mn.)**	**INR (in lacs)**	**HKD (in mn.)**	**INR (in lacs)**
Total Assets						
Cash and short-term funds	794,923.00	43,323,303.50	518,022.00	28,232,199.00	502,730.00	27,398,785.00
Items in the course of collection from other banks	20,357.00	1,109,456.50	46,519.00	2,535,285.50	17,782.00	969,119.00
Placing with banks maturing after one month	60,328.00	3,287,876.00	104,037.00	5,670,016.50	69,554.00	3,790,693.00
Certificate of deposit	97,358.00	5,306,011.00	73,200.00	3,989,400.00	53,831.00	2,933,789.50
Hong Kong SAR Government certificates of indebtedness	108,344.00	5,904,748.00	102,374.00	5,579,383.00	97,344.00	5,305,248.00
Trading assets	360,704.00	19,658,368.00	338,792.00	18,464,164.00	215,681.00	11,754,614.50
Financial assets designated at fair value	63,152.00	3,441,784.00	50,514.00	2,753,013.00	37,073.00	2,020,478.50
Derivatives	180,440.00	9,833,980.00	99,167.00	5,404,601.50	72,039.00	3,926,125.50
Advances to customers	1,212,086.00	66,058,687.00	1,043,782.00	56,886,119.00	999,326.00	54,463,267.00
Financial investments	532,243.00	29,007,243.50	484,841.00	26,423,834.50	394,497.00	21,500,086.50
Amounts due from Group companies	364,724.00	19,877,458.00	161,118.00	8,780,931.00	101,173.00	5,513,928.50
Investments in associates and joint ventures	39,832.00	2,170,844.00	25,534.00	1,391,603.00	23,061.00	1,256,824.50
Goodwill and intangible assets	12,309.00	670,840.50	10,428.00	568,326.00	7,252.00	395,234.00
Property, plant and equipment	33,356.00	1,817,902.00	29,159.00	1,589,165.50	29,805.00	1,624,372.50
Deffered tax assets	1,566.00	85,347.00	1,245.00	67,852.50	1,272.00	69,324.00
Retirement benefit assets	123.00	6,703.50	2,191.00	119,409.50	1,788.00	97,446.00
Other assets	70,094.00	3,820,123.00	59,917.00	3,265,476.50	48,324.00	2,633,658.00
Total Assets	**3,951,939.00**	**215,380,675.50**	**3,150,840.00**	**171,720,780.00**	**2,672,532.00**	**145,652,994.00**
Total Liabilities	3,706,005.00	201,977,272.50	2,985,395.00	162,704,027.50	2,558,107.00	139,416,831.50
Equity Capital	22,494.00	1,225,923.00	22,494.00	1,225,923.00	22,494.00	1,225,923.00
Reserves & Surplus (excluding revaluation reserves)	198,360.00	10,810,620.00	122,956.00	6,701,102.00	74,840.00	4,078,780.00
Minority Interest	25,080.00	1,366,860.00	19,995.00	1,089,727.50	17,091.00	931,459.50
Total Equity	245,934.00	13,403,403.00	165,445.00	9,016,752.50	114,425.00	6,236,162.50
Total Equity and Liabilities	**3,951,939.00**	**215,380,675.50**	**3,150,840.00**	**171,720,780.00**	**2,672,532.00**	**145,652,994.00**

Other Financial Data	Year Ending December 31, 2007 (Audited)		Year Ending December 31, 2006 (Audited)		Year Ending December 31, 2005 (Audited)	
	HKD	**INR**	**HKD**	**INR**	**HKD**	**INR**
Dividend per share (in unit currency)*	2.56	13.95	2.08	11.34	2.29	12.48
Earnings per share (in unit currency) (i)	7.30	39.79	4.70	25.62	4.10	22.35
Return on Net worth (%) (ii)	26.55%		25.75%		32.51%	
Book Value per share (iii)	27.30	148.79	18.40	100.28	12.70	69.22

Note: * Ordinary Dividend for each financial year includes first interim dividend paid, second interim dividend paid, third interim dividend paid and fourth interim dividend in respect of the previous financial year approved and paid during the year. For 2007, the dividends corresponding to these four interim dividends were 0.56, 0.61, 0.67 and 0.72 HKD per share respectively. For 2006, the dividends corresponding to these four interim dividends were 0.42, 0.61, 0.55 and 0.50 HKD per share respectively. For 2005, the dividends corresponding to these four interim dividends were 0.51, 0.67, 0.58 and 0.53 HKD per share respectively.

(i) Profit/(loss) for the year attributable to equity shareholders divided by the number of equity shares outstanding at the date of the balance sheet; (ii) Profit/(loss) after tax divided by HBAP's total equity at the date of the balance sheet; (iii) Networth divided by the number of equity shares outstanding at the date of the balance sheet;

l) The contingent liabilities for FY 2006-2007 is as under:

(i) Off balance sheet contingent liability and commitments as 31st December 2007

Particulars	Group		Bank	
	HKD(in mn)	INR (in lacs)	HKD(in mn.)	INR (in lacs)
Total financial guarantee contracts	161,615	689.13	141,004	601.24
Total commitments	1,186,066	5,057.39	894,563	3,814.42
Total	**1,347,681**	**5,746.51**	**1,035,567**	**4,415.66**

Contingent liabilities and commitments are mainly credit-related instruments which include non-financial guarantees and commitments to extend credit.

(ii) Guarantees as on 31st December 2007

Particulars	In favour of the third parties		In favour of other HSBC group entities	
	HKD(in mn)	INR (in lacs)	HKD(in mn.)	INR (in lacs)
Total Guarantees (for the Group)	152,297	649.39	12,382	52.80
Total Guarantees (for the Bank)	129,204	550.93	11,679	49.80
Total	**281,501**	**1,200.32**	**24,061**	**102.60**

m) Reason for rise/fall in income and profitability

HBAP reported another year of profit in 2007, driven by the successful execution of its strategy and robust economic conditions and markets. It continued to implement its core strategies of building an emerging markets-led and financing-focused Global Banking and Markets business, a wealth management and consumer banking focused Personal Financial Services operation and a Commercial Banking business that capitalises on Asia's growing trade and investment flows. It is also continuously growing its physical network in Asia Pacific region. Its customer group business expansion is self funding and fully exploits the Group's unique reach to capture geographic and cross-customer group opportunities.

HBAP made significant progress growing its regional insurance platform to complement existing operations in Hong Kong, Singapore and Malaysia.

Personal Financial Services reported exceptional profit before tax growth, driven by strong performance in net interest income. In addition, fee income rose as a result of significant growth in wealth management sales in Hong Kong with contributions from key markets in the region. Fee income from stockbroking and custody services increased on the back of buoyant equity market conditions.

Commercial Banking also reported strong profit growth. Net interest income rose on strong balance sheet growth resulting from customer acquisition. Net fee income was up boosted by increasing sales of wealth management and insurance products to existing customers.

Global Banking and Markets also enjoyed an exceptional year supported by strong equity market conditions and a significant improvement in net interest income driven by better investment returns. In Hong Kong it continued to lead in key activities, including foreign exchange, debt capital markets, structured products, payments and cash management and securities services. Debt underwriting enjoyed a record year as the business focused on meeting existing clients' expanding capital needs. Its investment banking and equity capital markets businesses made significant progress, advancing to No.1 in the targeted Hong Kong High Yield Bond league table.

n) Significant Accounting policies of HBAP as mentioned in the audited financial statements for FY 2006-2007

a Interest income and expense

Interest income and expense for all interest-bearing financial instruments except those classified as held for trading or designated at fair value are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts. Such transaction costs (for example, mortgage rebates) are incremental to the group and are directly attributable to a transaction.

Interest on impaired financial assets is recognised at the original effective interest rate of the financial asset applied to the impaired carrying amount.

b Non interest income

(i) Fee income

The group earns fee income from a diverse range of services it provides to its customers. Fee income is accounted for as follows:

- if the income is earned on the execution of a significant act, it is recognised as revenue when the significant act has been completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement for the acquisition of shares or other securities);
- if the income is earned as services are provided, it is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
- if the income is an integral part of the effective interest rate of a financial instrument, it is recognised as an adjustment to the effective interest rate (for example, loan commitment fees) and recorded in 'Interest income'.

(ii) Dividend income

Dividend income is recognised when the right to receive payment is established. This is the ex-dividend date for equity securities.

(iii) Net income from financial instruments designated at fair value

Net income from financial instruments designated at fair value comprises all gains and losses from changes in the fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense and dividend income attributable to those financial instruments.

(iv) Net trading income

Net trading income comprises interest income and expense and dividend income attributable to trading financial assets and liabilities, together with all gains and losses from changes in fair value. Income and expenses arising from economic hedging activities which do not qualify for hedge accounting under HKAS 39, as well as from the ineffective portion of qualifying hedges, are also included in 'Net trading income'.

c Advances to customers and placings with banks

Advances to customers and placings with banks are loans and advances originated by the group, which have not been classified as held for trading or designated at fair value. Loans and advances are recognised when cash is advanced to borrowers. They are initially recorded at fair value plus any transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less impairment losses. Loans and advances classified as held for trading or designated at fair value are reported as trading instruments, or financial instruments designated at fair value, respectively

d Loan impairment

It is the group's policy to make provisions for impaired loans and advances promptly where there is objective evidence that impairment of a loan or portfolio of loans has occurred.

Impairment losses are assessed for all credit exposures. Loans that are individually significant are assessed and where impairment is identified, impairment losses are recognised. Loans that have been subject to individual assessment, but for which no impairment has been identified are then assessed collectively to estimate the amount of impairment at the reporting date, which has not been specifically identified. Loans which are not individually significant, but which can be aggregated into groups of exposures sharing similar characteristics, are then assessed collectively to identify and calculate impairment losses which have occurred by the reporting date. This methodology is explained in greater detail below.

Impairment losses are only recognised when there is evidence that they have been incurred prior to the reporting date. Losses which may be expected as a result of future events, no matter how likely, are not recognised.

(i) *Individually significant loans*

Impairment losses on individually significant accounts are assessed by an evaluation of the exposures on a case-by-case basis. The group assesses at each reporting date whether there is any objective evidence that a loan is impaired. This procedure is applied to all accounts that are considered individually significant. In determining the impairment losses on individually assessed accounts, the following factors are considered:

- the group's aggregate exposure to the customer;
- the viability of the customer's business model and capability to trade successfully out of financial difficulties and generate sufficient cash flow to service their debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, HSBC and the likelihood of other creditors continuing to support the company;
- the complexity of determining the aggregate amount and ranking of all creditor claims and the extent to which legal and insurance uncertainties are evident;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;
- the ability of the borrower to obtain and make payments in the relevant foreign currency if loans are not in local currency; and
- where available, the secondary market price for the debt.

The impairment loss is calculated by comparing the present value of the expected future cash flows, discounted at the original effective interest rate of the loan, with its current carrying value and the amount of any loss is charged to the income statement. The carrying amount of impaired loans is reduced through the use of an allowance account.

(ii) *Collectively assessed loans*

Impairment losses are calculated on a collective basis in two different scenarios:

- in respect of losses which have been incurred but have not yet been identified on loans subject to individual assessment for impairment (see section (i) above); and
- for homogeneous groups of loans that are not considered individually significant.

Incurred but not yet identified impairment

Where loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of calculating a collective impairment loss. The loss calculated by this method represents impairments that have occurred at the balance sheet date but which will not be individually identified as such until some time in the future.

The collective impairment loss is determined after taking into account:

- historical loss experience in portfolios of similar risk characteristics (for example, by industry and geographical sectors, loan grade or product);
- the estimated period between a loss occurring and the establishment of an allowance against the loss on an individual loan; and
- management's experienced judgement as to whether the current economic and credit conditions are such that the actual level of incurred losses is likely to be greater or less than that suggested by historical experience.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio.

Homogeneous groups of loans

For homogeneous groups of loans that are not considered individually significant, two alternative methods are used to calculate allowances on a portfolio basis.

- When appropriate empirical information is available, the group utilises a roll rate methodology. This methodology utilises a statistical analysis of historical trends of the probability of default and amount of consequential loss, assessed for each time period during which the customer's contractual payments are overdue. The amount of loss is based on the present value of expected future cash flows, discounted at the original effective interest rate of the portfolio. Other historical data and an evaluation of current economic conditions are also considered to calculate the appropriate level of impairment allowance based on inherent loss.
- In other cases, when the portfolio size is small or when information is insufficient or not sufficiently reliable to adopt a roll rate methodology, the group adopts a formulaic approach which allocates loss rates having regard to the period of time for which a customer's loan is overdue. Loss rates are based on the discounted expected future cash flows from a portfolio.

Roll rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

(iii) Loan write-offs

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery of these amounts and, for collateralised loans, when the proceeds from the realisation of security have been received.

(iv) Reversals of impairment

If the amount of an impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reduced accordingly. The reduction of an impairment loss under these circumstances is recognised in the income statement in the period in which it occurs.

(v) Assets acquired in exchange for loans

Non-financial assets acquired in exchange for loans in order to achieve an orderly realisation are recorded as assets held for sale and reported in 'Other assets'. The asset acquired is recorded at the lower of its fair value less costs to sell and the carrying amount of the loan, net of impairment allowance amounts, at the date of exchange. No depreciation is provided in respect of assets held for sale. Any subsequent write-down of the acquired asset to fair value less costs to sell is recorded as an impairment loss and included within 'Other operating income' in the income statement. Any subsequent increase in the fair value less costs to sell, to the extent this does not exceed the cumulative impairment loss, is recognised as a gain in 'Other operating income' in the income statement.

Debt securities or equities acquired in debt-to-debt/equity swaps are included in 'Financial investments' and are classified as available-for-sale.

(vi) Renegotiated loans

Loans that have been individually identified as impaired and whose terms have been subsequently renegotiated and which have been performing satisfactorily for a certain period are no longer treated as impaired.

e Trading assets and trading liabilities

Treasury bills, loans and advances to and from customers, loans and advances to and from banks, debt securities, structured deposits, equity shares, own debt issued and short positions in securities which have been acquired or incurred principally for the purpose of selling or repurchasing in the near term or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking are classified as held for trading. This designation, once made, is irrevocable in respect of the financial instruments to which it is made. Such financial assets or financial liabilities are recognised initially at fair value, with transaction costs taken to the income statement, and are subsequently remeasured at fair value. All subsequent gains and losses from changes in the fair value of these assets and liabilities, together with related interest income and expense and dividends, are recognised in the income statement within 'Net trading income' as they arise. Financial assets and financial liabilities are recognised using trade date accounting.

f Financial instruments designated at fair value

A financial instrument, other than one held for trading, is classified in this category if it meets the criteria set out below, and is so designated by management.

Financial assets and financial liabilities so designated are recognised initially at fair value, with transaction costs taken directly to the income statement, and are subsequently remeasured at fair value. This designation, once made, is irrevocable in respect of the financial instruments to which it is made. Financial assets and financial liabilities are recognised using trade date accounting.

Gains and losses from changes in the fair value of such assets and liabilities are recognised in the income statement as they arise, together with related interest income and expense and dividends, within 'Net income from financial instruments designated at fair value' (except as noted below).

Gains and losses arising from the changes in fair value of derivatives that are managed in conjunction with financial assets or financial liabilities designated at fair value are included in 'Net income from financial instruments designated at fair value' (except as noted below).

Where issued debt has been designated at fair value and there is a related derivative, then the interest components of the debt and the derivative are recognised in 'Interest expense'.

The group may designate financial instruments at fair value where the designation:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities or recognising the gains and losses on them on different bases; examples include unit-linked investment contracts, and certain portfolios of securities and debt issuances that are managed in conjunction with financial assets or liabilities measured on a fair value basis;
- applies to a group of financial assets, financial liabilities, or both, that is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; examples include financial assets held to back certain insurance contracts, and certain asset-backed securities; or
- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments, and which would otherwise be required to be accounted for separately; examples include certain debt issuances and debt securities held.

g Financial investments

Available-for-sale securities

Treasury bills, debt securities and equity shares intended to be held on a continuing basis are classified as available-for-sale securities unless they have been designated at fair value or they are classified as held-to-maturity (see below). Available-for-sale securities are initially measured at fair value (which is usually the same as the consideration paid) plus direct and incremental transaction costs. They are subsequently remeasured at fair value. Changes in fair value, net of accrued interest, are recognised in equity until the securities are either sold or impaired. On the sale of available-for-sale securities, cumulative gains or losses previously recognised in equity are recognised through the income statement and classified as 'Gains less losses from financial investments'. An assessment is made at each balance sheet date as to whether there is any objective evidence of impairment, being circumstances where an adverse impact on estimated future cash flows of the financial asset or group of assets can be reliably estimated. If an available-for-sale security is determined to be impaired, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. Impairment losses on equity instruments previously recognised in the income statement that are no longer required are reversed through reserves, not through the income statement. Gains and losses resulting from foreign exchange are recognised in reserves for available-for-sale equity securities and in the income statement for available-for sale debt securities.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group has the positive intention and ability to hold until maturity. Held-to-maturity investments are initially recorded at fair value plus any directly attributable transaction costs, and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Financial investments are recognised using trade date accounting.

h Determination of fair value

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets. Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For certain investments, fair values may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

A number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques. If the fair value of a financial asset measured at fair value becomes negative, it is recorded as a financial liability until its fair value becomes positive, at which time it is recorded as a financial asset, or it is extinguished.

i Sale and repurchase agreements (including stock lending and borrowing)

Where securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Conversely, securities purchased under commitments to sell ('reverse repos') are not recognised on the balance sheet and the consideration paid is recorded in 'Trading assets'.

The difference between the sale and repurchase price is recognised as 'Net trading income' over the life of the agreement.

Securities lending and borrowing transactions are generally entered into on a collateralised basis, with securities or cash advanced or received as collateral. The transfer of the securities to counterparties is not normally reflected on the balance sheet. If cash collateral is advanced or received, an asset or liability is recorded at the amount of cash collateral advanced or received within 'Trading assets'.

Securities borrowed are not recognised on the balance sheet, unless they are sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value and any gains or losses are included in 'Net trading income'.

j Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value from the date a derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date. Fair values are obtained from quoted market prices in active markets, or by using valuation techniques, including recent market transactions, where an active market does not exist. Valuation techniques include discounted cash flow models and option pricing models as appropriate. All derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative.

In the normal course of business, the fair value of a derivative on initial recognition is considered to be the transaction price (i.e. the fair value of the consideration given or received). However, in certain circumstances the fair value of an instrument will be evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, including interest rate yield curves, option volatilities and currency rates. When such evidence exists and results in a value which is different from the transaction price, the group recognises a trading profit or loss on inception of the derivative. If observable market data are not available, the initial change in fair value indicated by the valuation model, but based on unobservable inputs, is not recognized immediately in the income statement but is recognised in the income statement either: over the life of the transaction on an appropriate basis; or recognised in the income statement when the inputs become observable; or when the transaction matures or is closed out.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not designated at fair value through profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Derivative assets and liabilities from different transactions are only netted if the transactions are with the same counterparty, a legal right of set-off exists, and the cash flows are intended to be settled either simultaneously or on a net basis. The method of recognising the resulting fair value gains or losses depends on whether the derivative is held for trading, or is designated as a hedging instrument, and if so, the nature of the risk being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the income statement in 'Net trading income'. All gains and losses from changes in the fair value of any derivative instrument that does not qualify for hedge accounting under HKAS 39 are recognised immediately in the income statement and reported in 'Net trading income', except where derivative contracts are used with financial instruments designated at fair value, in which case gains and losses are reported in 'Net income from financial instruments designated at fair value'.

Where derivatives are designated and highly effective as hedges, the group classifies them as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedge'); or (iii) hedges of net investments in a foreign operation ('net investment hedge'). Hedge accounting is applied for derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

Hedge accounting

It is the group's policy to document, at the inception of a hedging relationship, the relationship between the hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. Such policies also require documentation of the assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks. Interest on designated qualifying hedges where interest rate risk is hedged is included in 'Net interest income'.

Fair value hedge

Changes in the fair value of derivatives (net of interest accrual) that are designated and qualify as fair value hedging instruments are recorded as 'Net trading income' in the income statement, together with changes in the fair value of the asset or liability attributable to the hedged risk.

If the hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the residual period to maturity in 'Net interest income'. Where the adjustment relates to the carrying amount of a hedged available-for-sale equity security, this remains in equity until the disposal of the equity security.

Cash flow hedge

The effective portion of changes in the fair value of derivatives (net of interest accrual) that are designated and qualify as cash flow hedges are recognised in shareholders' equity. Any gain or loss relating to an ineffective portion is recognised immediately in the income statement within 'Net trading income' along with accrued interest. Amounts accumulated in shareholders' equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from shareholders' equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in shareholders' equity at that time remains in shareholders' equity until the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in shareholders' equity is immediately transferred to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in shareholders' equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'Net trading income'. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Hedge effectiveness testing

To qualify for hedge accounting, HKAS 39 requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness). Actual effectiveness (retrospective effectiveness) must also be demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method adopted for assessing hedge effectiveness will depend on the risk management strategy.

For fair value hedge relationships, the cumulative dollar offset method or regression analysis are used to test hedge effectiveness. For cash flow hedge relationships, effectiveness is tested by applying the change in variable cash flow method or the cumulative dollar offset method using the hypothetical derivative approach.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows, at each reporting date or based on recent history, must offset each other. The group considers that a hedge is highly effective when the offset is within the range of 80 per cent to 125 per cent.

k Derecognition of financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the group has transferred its contractual rights to receive the cash flows of the financial assets and has transferred substantially all the risks and rewards of ownership; or where both control and substantially all the risks and rewards are not retained.

Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged or cancelled or expires.

l Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and the group intends to settle on a net basis, or realise the asset and settle the liability simultaneously.

m Subsidiaries, associates and joint venture

The group

Subsidiaries are companies which the group, directly or indirectly, control. Subsidiaries are controlled if the group has the power to govern their financial and operating policies so as to obtain benefits from their activities. Control exists where the group holds more than half of the issued share capital, controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are consolidated in the group's financial statements from the date on which the group obtains control until control ceases.

Balances and transactions between entities that comprise the group, together with unrealised gains and losses thereon, are eliminated in the consolidated financial statements. Minority interests represent the portion of the profit or loss and net assets of subsidiaries attributable to equity interests in those subsidiaries that are not held by the group.

Associates are entities over which the group has significant influence but not control or joint control. Joint ventures involve contractual arrangements whereby the group undertakes an economic activity with one or more parties and that economic activity is subject to joint control. Investments in associates and joint venture in the consolidated balance sheet are stated at the group's attributable share of the net assets of the associates and joint venture using the equity method of accounting.

Share of profit in associates and joint venture is stated in the income statement net of tax.

The Bank

The Bank's investments in subsidiaries, associates and joint venture are stated at cost less impairment losses, if any.

n Goodwill and intangible assets

(i) Goodwill arises on business combinations, including the acquisition of subsidiaries or associates when the cost of acquisition exceeds the fair value of the group's share of the identifiable assets, liabilities and contingent liabilities acquired. Goodwill on acquisitions of associates is included in 'Investments in associates'. Goodwill is tested for impairment annually by comparing the present value of the expected future cash flows from a business with the carrying value of its net assets, including attributable goodwill.

Goodwill is allocated to cash generating units for the purposes of impairment testing. Goodwill is tested for impairment at the lowest level at which goodwill is monitored for internal management purposes. Goodwill is stated at cost less accumulated impairment losses which are charged to the income statement.

Negative goodwill is recognised immediately in the income statement when it arises.

At the date of disposal of a business, attributable goodwill is included in the group's share of net assets in the calculation of the gain or loss on disposal.

(ii) Intangible assets include the value of in-force long-term assurance business, computer software, trade names, customer relationships and core deposit relationships. Intangible assets that have an indefinite useful life, or are not yet ready for use, are tested for impairment annually.

Intangible assets that have a finite useful life, except for the value of in-force long-term assurance business, are stated at cost less amortisation and accumulated impairment losses and are amortised over their estimated useful lives. Estimated useful life is the lower of legal duration and expected economic life.

Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

o Property, plant and equipment

(*i*) *Premises*

Premises held for own use, comprising freehold land and buildings, and leasehold land and buildings where the value of the land cannot be reliably separated from the value of the building at inception of the lease and the premises are not clearly held under an operating lease, are stated at valuation less accumulated depreciation and impairment losses.

Such premises are revalued by professionally qualified valuers, on a market basis, with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. Surpluses arising on revaluation are credited firstly to the income statement to the extent of any deficits arising on revaluation previously charged to the income statement in respect of the same premises, and are thereafter taken to the Property revaluation reserve'. Deficits arising on revaluation are firstly set off against any previous revaluation surpluses included in the 'Property revaluation reserve' in respect of the same premises, and are thereafter recognised in the income statement.

Buildings held for own use which are situated on leasehold land where it is possible to reliably separate the value of the building from the value of the leasehold land at inception of the lease are revalued by professionally qualified valuers, on a depreciated replacement cost basis, with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value.

Depreciation on premises is calculated to write off the assets over their estimated useful lives as follows:

- freehold land is not depreciated;
- leasehold land is depreciated over the unexpired terms of the leases;
- buildings and improvements thereto are depreciated at the greater of 2% per annum on the straight line basis or over the unexpired terms of the leases or over the remaining useful lives of the buildings.

(ii) Other plant and equipment

Equipment, fixtures and fittings (including equipment on operating leases where the group is the lessor) are stated at cost less any impairment losses. Depreciation is calculated on a straight-line basis to write off the assets over their useful lives, which are generally between 5 and 20 years.

(iii) Investment properties

The group holds certain properties as investments to earn rentals, or for capital appreciation, or both. Investment properties are stated at fair value with changes in fair value being recognised in 'Other operating income'. Fair values are determined by independent professional valuers, primarily on the basis of capitalisation of net incomes with due allowance for outgoings and reversionary income potential. Property interests which are held under operating leases to earn rentals, or for capital appreciation or, both, are classified and accounted for as investment property on a property-by-property basis. Such property interests are accounted for as if they were held under finance leases.

(iv) Leasehold land and land use rights

The Government of the Hong Kong SAR owns all the land in Hong Kong and permits its use under leasehold arrangements. Where the cost of land is known or can be reliably determined at the inception of the lease, the Group records its interest in leasehold land and land use rights separately as operating leases. These leases are recorded at original cost and amortised over the term of the lease. Where the cost of the land is unknown, or cannot be reliably determined, the land and buildings are accounted for together as premises, as discussed above.

Property, plant and equipment is subject to review for impairment if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

p Finance and operating leases

(i) Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. Where the group is a lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'Advances to customers' as appropriate. Finance income receivable is recognised over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

(ii) Where the group is a lessee under finance leases, the leased assets are capitalised and included in 'Property, plant and equipment' and the corresponding liability to the lessor is included in 'Other liabilities'. The finance lease and corresponding liability are recognised initially at the fair value of the asset or, if lower, the present value of the minimum lease payments. Finance charges payable are recognised over the periods of the leases based on the interest rates implicit in the leases so as to give a constant rate of interest on the remaining balance of the liability.

(iii) All other leases are classified as operating leases. Where the group is the lessor, the assets subject to the operating leases are included in 'Property, plant and equipment' and accounted for accordingly. Impairment losses are recognised to the extent that the carrying value of equipment is impaired through residual values not being fully recoverable. Where the group is the lessee, the leased assets are not recognised on the balance sheet. Rentals payable and receivable under operating leases are accounted for on a straight-line basis over the periods of the leases and are included in 'General and administrative expenses' and 'Other operating income' respectively.

(iv) There are no freehold interests in land in Hong Kong. Accordingly all such land is considered to be held under operating leases. Unless it qualifies for inclusion in 'Property, plant and equipment', such land is included under 'Other assets' in the balance sheet and is stated at cost less amortization and impairment losses. Amortisation is calculated to write off the cost of the land on a straight-line basis over the terms of the leases, which are generally between 20 and 999 years.

q *Income tax*

(i) Income tax for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in reserves, in which case it is recognised in reserves.

(ii) Current tax is the expected tax payable on the taxable income for the year, calculated using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are offset when the group intends to settle on a net basis and the legal right to set off exists.

(iii) Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated using the tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply in the periods in which the assets will be realised or the liabilities settled. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group, relate to income taxes levied by the same taxation authority, and a legal right to set off exists in the entity.

Deferred tax relating to actuarial gains and losses arising from post-employment benefit plans which are recognised directly in equity, is also credited or charged directly to equity.

Deferred tax relating to changes in the fair value of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

r ***Pension and other post-retirement benefits***

The group operates a number of pension plans which include both defined benefit and defined contribution plans.

Payments to defined contribution plans and state-managed retirement benefit plans, where the group's obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as they fall due.

The costs recognised for funding defined benefit plans are determined using the projected unit credit method, with annual actuarial valuations performed on each plan. Actuarial differences that arise are recognised in shareholders' equity and presented in the statement of recognised income and expense in the period they arise. Past service costs are recognised immediately to the extent the benefits are vested, and are otherwise recognised on a straight-line basis over the average period until the benefits are vested. The current service costs and any past service costs together with the expected return on plan assets less the unwinding of the discount on the plan liabilities are charged to 'Employee compensation and benefits'.

The net defined benefit asset recognised in the balance sheet represents the excess of the fair value of plan assets over the present value of the defined benefit obligations adjusted for unrecognised past service costs. The asset is limited to unrecognised past service costs plus the present value of available refunds and reductions in future contributions to the plan.

s ***Share-based payments***

The group grants shares of HSBC Holdings plc to certain employees under various vesting conditions and the group has the obligation to acquire HSBC Holdings plc shares to deliver to the employees upon vesting. The group's liability under such arrangements is measured at fair value at each reporting date. The changes in fair value are recognised as an expense in each period. The main kinds of awards in this category are as follows:

- shares awarded to an employee to join HSBC that are made available immediately, with no vesting period attached to the award, are expensed immediately;
- when an inducement in the form of shares is awarded to an employee on commencement of employment with HSBC, and the employee must complete a specified period of service before the inducement vests, the expense is spread over the period to vesting;
- discretionary bonuses awarded in respect of service in the past, are expensed over the vesting period which, in this case, is the period from the date the bonus is announced until the award vests.

For share options granted to employees of the group directly by HSBC Holdings plc, the compensation expense to be spread over the vesting period is determined by reference to the fair value of the options on grant date, and the impact of any non-market vesting conditions such as option lapses. The expense is recognised over the vesting period. The corresponding amount is credited to 'Other reserves'.

t ***Foreign currencies***

(i) Items included in each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The group's financial statements are presented in Hong Kong dollars which is the Bank's functional and presentation currency.

(ii) Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined.

(iii) The results of branches, subsidiaries and associates not reporting in Hong Kong dollars are translated into Hong Kong dollars at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period-end are accounted for in a separate foreign exchange reserve in the consolidated financial statements. Exchange differences on a monetary item that is part of a net investment in a foreign operation are recognised in the income statement of the separate subsidiary financial statements. In the consolidated financial statements, these exchange differences are recognised in the foreign exchange reserve in shareholders' equity. On disposal of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the income statement.

u ***Provisions***

Provisions for liabilities and charges are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation arising from past events and a reliable estimate can be made of the amount of the obligation.

v ***Insurance contracts***

Through its insurance subsidiaries, the group issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which the group accepts significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant.

Insurance contracts are accounted for as follows:

Premiums

Gross insurance premiums for general insurance business are reported as income over the term of the insurance contract attributable to the risks borne during the accounting period. The unearned premium or the proportion of the business underwritten in the accounting year relating to the period of risk after the balance sheet date is calculated on a daily or monthly pro-rata basis.

Premiums for life assurance are accounted for when receivable, except in unit-linked business where premiums are accounted for when liabilities are established.

Reinsurance premiums are accounted for in the same accounting period as the premiums for the direct insurance to which they relate.

Claims and reinsurance recoveries

Gross insurance claims for general insurance business include paid claims and movements in outstanding claims reserves. The outstanding claims reserves are based on the estimated ultimate cost of all claims that have occurred but not settled at the balance sheet date, whether reported or not, together with related claim handling costs and a reduction for the expected value of salvage and other recoveries. Reserves for claims incurred but not reported ('IBNR') are made on an estimated basis, using appropriate statistical techniques.

Gross insurance claims for life assurance reflect the total cost of claims arising during the year, including claim handling costs and any policyholder bonuses allocated in anticipation of a bonus declaration. The reserves for nonlinked liabilities (long-term business provision) are calculated by each life assurance operation based on local actuarial principles. The reserves for linked liabilities are at least the element of any surrender or transfer value which is calculated by reference to the relevant fund or funds or index. Some insurance contracts may contain discretionary participation features whereby the policyholder is entitled to additional payments whose amount and/or timing is at the discretion of the issuer. The discretionary element of these contracts is included in 'Liabilities under insurance contracts issued'.

Reinsurance recoveries are accounted for in the same period as the related claim.

Value of long-term assurance business

A value is placed on insurance contracts that are classified as long-term assurance business, and are in force at the balance sheet date.

The value of in-force long-term assurance business is determined by discounting future earnings expected to emerge from business currently in force, using appropriate assumptions in assessing factors such as recent experience and general economic conditions. Movements in the value of in-force long-term assurance business are included in 'Other operating income' gross of tax.

w ***Investment contracts***

Customer liabilities under unit-linked investment contracts, along with the linked financial assets, are designated as held at fair value, and the movements in fair value are recognised in the income statement in 'Net income from financial instruments designated at fair value'. Premiums receivable and amounts withdrawn are accounted for as increases or decreases in the liability recorded in respect of investment contracts.

Investment management fees receivable are recognised in the income statement over the period of the provision of the investment management services.

x ***Dividends***

Dividends proposed or declared after the balance sheet date are disclosed as a separate component of shareholders' equity.

y ***Debt securities in issue and subordinated liabilities***

Debt securities issued for trading purposes or designated at fair value are reported under the appropriate balance sheet captions. Other debt securities in issue and subordinated liabilities are measured at amortised cost using the effective interest rate method and are reported under 'Debt securities in issue' or 'Subordinated liabilities'.

z ***Cash and cash equivalents***

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

Such investments comprise cash and balances with banks maturing within one month, and treasury bills and certificates of deposit with less than three months' maturity from the date of acquisition.

aa ***Share capital***

The shares are classified as equity when the group has the unconditional right to avoid transferring cash or other financial assets.

o) HBAP has promoted the following company in India. The brief information about the company alongwith its last three years financials is given below:

HSBC Agency

Name of the Company	HSBC Agency (India) Private Limited
Date of Incorporation	11 June 1928
Nature of business activity	The company has very limited activity which comprises of being a trustee and to hold certain securities / immovable property on behalf of The Hongkong and Shanghai Banking Corporation Limited - India Branches

Brief Financial Performance

(Rs in lacs except per share data)

Particulars	**For the year ended on March 31, 2007**	**For the year ended on March 31, 2006**	**For the year ended on March 31, 2005**
Equity Capital (100 ordinary shares of Rs 10 each, fully paid up 99,900 ordinary shares of Rs 10 each, Rs 5 paid up)	5.00	5.00	5.00
Reserves & Surplus (excluding revaluation reserves)	(0.98)	(0.69)	(0.46)
Total Income	0.14	0.14	0.14
Profit After Tax	(0.29)	(0.23)	(0.22)
EPS (Rs.)	(0.58)	(0.46)	(0.44)
Book Value per share (Rs.)	8.04	8.62	9.08

It is not a Sick Industrial Company within the meaning of Clause (O) of Sub-Section (1) of Sec. 3 of the Sick Industrial Companies (Special Provisions) Act, 1985

5. DISCLOSURE UNDER REGULATION 21(2) OF THE SEBI (SAST) REGULATIONS:

As per Clause 40A of the listing agreement with the BSE and NSE ("Listing Agreement"), the Target Company is required to maintain at least 10% public shareholding on a continuous basis. In the event that the acquisition made in pursuance to the Offer results in the public shareholding of the Target Company falling below such minimum level, the Acquirers undertake to comply with the requirements of Clause 40A of the Listing Agreement or such other directions as may be provided by the relevant stock exchanges to restore the minimum public shareholding.

6. INFORMATION ABOUT THE TARGET COMPANY

a) The Target Company is a public limited company incorporated on September 1, 1997 under the Companies Act, 1956 and was granted Certificate for Commencement of Business on October 7, 1997. The registered office of the

Target Company is presently located at The IL&FS Financial Centre, Plot No. C-22, G Block, Bandra-Kurla Complex, Bandra (East), Mumbai - 400 051, India (Tel: +91-22-2653 3333; Fax +91-22-2653 3075). The Target Company was incorporated as "Investsmart India Limited" and the name was changed to "IL&FS Investsmart Limited" on March 25, 2003. The registered office was earlier located at Mahindra Towers, 4th Floor, B Wing, Dr. G.M. Bhonsale Marg, Worli, Mumbai 400 018 till June 14, 2000.

b) The Target Company is presently a holding company and offers a broad platform of services through its subsidiaries including broking (equity, debt, commodities, futures, insurance), wealth management, investment banking, IPO distribution, distribution of financial products, PMS, securities and commodities related financing, insurance training and other related activities, etc. The Target Company operates through a sub-broker / remisier model in addition to its own branches and outlets.

c) The Shares of the Target Company are listed on the NSE and the BSE and one GDR of the Target Company is listed on the Luxembourg Stock Exchange.

d) The share capital structure (including Shares underlying GDRs) of IIL is as follows:

Paid-up Shares of Target Company	No. of shares/voting rights	% of shares/voting rights
Fully paid up Shares	6,98,36,273	100%
Partly paid up Shares	–	–
Total paid up Shares	6,98,36,273	100%
Total voting rights	6,98,36,273	100%

e) As on the date, there are no warrants/fully convertible debentures/partly convertible debentures issued by the Target Company pending conversion into shares of IIL. There are no partly paid-up Shares.

f) As on March 31, 2008, the Target Company has 22,75,000 outstanding Employees Stock Options (ESOPs) which are granted but not vested. There are no equity shares that are expected to be vested and exercised on conversion of ESOPs granted as at the expiration of 15 days after the closure of the offer in terms of Regulation. 21(5) of the SEBI (SAST) Regulations.

g) Current capital structure of IIL since inception and the disclosure status of compliance with applicable provisions of SEBI (SAST) Regulations/other applicable Regulations under the SEBI Act, 1992 and other statutory requirements as applicable:

Date of allotment	No. and % of shares issued	Cumulative paid up capital	Mode of allotment	Identity of allottees	Status of compliance
September 25, 1997	7	70	Allotment to subscribers to the memorandum	Infrastructure Leasing & Financial Services Limited (IL&FS)	Complied with provisions of Companies Act, 1956. SEBI Regulations are not applicable, as the Target Company was not listed at that time
April 02, 1998	33,00,000	3,30,00,070	Allotment to Promoter	IL&FS	Complied with provisions of Companies Act, 1956. SEBI Regulations are not applicable, as the Target Company was not listed at that time
June 11, 1998	22,00,000	5,50,00,070	Preferential Allotment to Promoter	IL&FS	Complied with provisions of Companies Act, 1956. SEBI Regulations are not applicable, as the Target Company was not listed at that time
March 22, 1999	20,00,000	7,50,00,070	Preferential Allotment to Promoter	IL&FS	Complied with provisions of Companies Act, 1956. SEBI Regulations are not applicable, as the Target Company was not listed at that time
September 30, 1999	50,00,000	12,50,00,070	Preferential Allotment to AIG Indian Sectoral Equity Fund	AIG Indian Sectoral Equity Fund	Complied with provisions of Companies Act, 1956. SEBI Regulations are not applicable, as the Target Company was not listed at that time

Date of allotment	No. and % of shares issued	Cumulative paid up capital	Mode of allotment	Identity of allottees	Status of compliance
September 30, 1999	24,99,993	15,00,00,000	Preferential Allotment to Promoter	IL&FS	Complied with provisions of Companies Act, 1956. SEBI Regulations are not applicable, as the Target Company was not listed at that time
January 17, 2000	30,00,000	18,00,00,000	Preferential Allotment to Investsmart India Employee Welfare Trust	Investsmart India Employee Welfare Trust pursuant to ESOP Scheme 2000	Complied with provisions of Companies Act, 1956. SEBI Regulations are not applicable, as the Target Company was not listed at that time
March 30, 2000	30,00,000	21,00,00,000	Preferential Allotment to K. Raheja Private Limited	K. Raheja Private Limited	Complied with provisions of Companies Act, 1956. SEBI Regulations are not applicable, as the Target Company was not listed at that time
March 30, 2000	80,00,000	29,00,00,000	Preferential Allotment to ORIX	ORIX Corporation, Japan	Complied with provisions of Companies Act, 1956 and relevant RBI & other regulations. SEBI Regulations are not applicable, as the Target Company was not listed at that time
June 01, 2000	10,00,000	30,00,00,000	Preferential Allotment to Promoter	IL&FS	Complied with provisions of Companies Act, 1956. SEBI Regulations are not applicable, as the Target Company was not listed at that time
October 16, 2002	49,99,716	34,99,97,160	Allotment to Promoter pursuant to merger of IMBSL and DIL with the Target Company *	IL&FS	Complied with provisions of Companies Act, 1956. SEBI Regulations are not applicable, as the Target Company was not listed at that time
July 21, 2005	88,00,000	43,79,97,160	Allotment to various Investors pursuant to Initial Public Issue (IPO) of the Target Company	Various Investors in terms of the IPO of the Target Company	Complied with the provisions of Companies Act, 1956 and all relevant SEBI / Exchange Regulations in respect of the Public Issue
December 19, 2005	2,10,19,091	64,81,88,070	Allotment of 2,10,19,091 GDSs (being equal number of the underlying equity shares in respect of GDSs allotted) to Eligible Investors pursuant to GDR program of the Target Company	Eligible Investors in terms of the GDSs Issue of the Target Company	Complied with the provisions of Companies Act, 1956 and all SEBI / Exchange, RBI and other relevant regulation in respect of the GDR Issue
January 6, 2006	21,01,909	66,92,07,160	Allotment of 21,01,909 GDSs to Eligible Investors (being equal number of underlying equity shares in respect of GDSs allotted) representing Green Shoe Option pursuant to GDR program of the Target Company	Eligible Investors in terms of the GDSs Issue of the Target Company	Complied with the provisions of Companies Act, 1956 and all SEBI Exchange, RBI and other relevant regulation in respect of the GDR Issue

Date of allotment	No. and % of shares issued	Cumulative paid up capital	Mode of allotment	Identity of allottees	Status of compliance
April 20, 2006	22,98,970	69,21,96,860	Allotment of equity shares to eligible employees having exercised their options in terms of the ESOP Scheme 2005	Eligible Employees	Complied with the provisions of Companies Act, 1956 and all SEBI / Exchange, RBI and other relevant regulation in respect of the ESOPs allotted
June 8, 2006	87,852	69,30,75,380	Allotment of equity shares to eligible employees having exercised their options in terms of the ESOP Scheme 2005	Eligible Employees	Complied with the provisions of Companies Act, 1956 and all SEBI / Exchange, RBI and other relevant regulation in respect of the ESOPs allotted
March 30, 2007	528,735	69,83,62,730	Allotment of equity shares to eligible employees having exercised their options in terms of the ESOP Scheme 2005	Eligible Employees	Complied with the provisions of Companies Act, 1956 and all SEBI / Exchange, RBI and other relevant regulation in respect of the ESOPs allotted

* Pursuant to the amalgamation of IL&FS Merchant Banking Services Limited (IMBSL) and DebtonNet India Limited (DIL) with IIL, in terms of the scheme of amalgamation approved by the Honourable High Court of Bombay, the existing shareholders of IMBSL viz., IL&FS, holding 1,00,00,000 shares in IMBSL were issued 42,85,714 fully paid shares of Rs. 10 each in IIL. Similarly, the existing shareholders of DIL viz., IL&FS holding 21,00,008 shares in DIL were issued 7,14,002 fully paid shares of Rs. 10 each in IIL. Thus a total of 49,99,716 shares of Rs. 10 each in IIL were issued to IL&FS

h) IIL is complying with all the provisions of the listing agreements entered into with the National Stock Exchange of India Limited and Bombay Stock Exchange Limited, where the Target Company's Shares are listed and traded and no actions, penal or otherwise, has been initiated by these Exchanges against the Company. There has been no suspension of trading of the Shares in any of these Stock Exchanges.

i) Save and except as stated under para (r) no punitive action has been initiated against IIL as a corporate broker and as listed entity by the stock exchanges

j) IIL, its promoters and major shareholders have complied with the applicable provisions of Chapter II of the Regulations, except as mentioned below:

Particulars	Details of non-compliance	Remarks
IIL	15 days delay in intimation of promoter shareholding under Regulation 8 (3) for FY 2005-06	SEBI has imposed penalty of Rs.50,000/- under the Consent Order process which has been paid
IL&FS	179 days delay in intimation of its shareholding under Regulation 8 (2) at the time of the record date fixed by the Target Company during FY 2006-2007	SEBI may take action for non compliance with Chapter II of the Regulations.

Major Shareholders of the Target Company

	Particulars	Details of non-compliance	Remarks
1.	FMR Corp and its direct and indirect subsidiaries and Fidelity International and its direct and indirect subsidiaries	22 days delay in intimation of disposition of shares under Regulation 7(1) & 7 (2) during FY 2005-06	SEBI may take action for non compliance with Chapter II of the Regulations.
2.	T. Rowe Price Associates, Inc.	3 days delay in intimation of acquisition of shares under Regulation 7(1) & 7 (2) during FY 2005-06	

k) The Board of Directors of IIL as on the date of the Public Announcement was as follows:

Sr. No.	Name	Designation and Date of Appointment as Director	Qualification and Experience	Address
(1)	Mr. Ravi Parthasarathy	Chairman April 2, 1998	B Sc, MBA 34 years experience He has a varied experience in the infrastructure, banking and financial services sector for over three decades. He has worked with private sector companies like 20th Century Finance Corporation and Citibank N.A. He is currently heading IL&FS as the Chairman & Managing Director and has been at the helm of affairs since the organization commenced operations in 1988.	12th Floor, Vinayak Angan Coop. Hsg. Society, Old Prabhadevi Road, Behind Bengal Chemicals, Prabhadevi, Mumbai 400 025
(2)	Mr. Arun K Saha	Director April 2, 1998	B.Com, ACA, ACS 31 years experience He has over three decades of experience in the financial sector in the areas of financial services, infrastructure, asset management and distribution, etc. He has been associated with IL&FS for around 17 years. Prior to joining IL&FS he worked for about 4 years with WIMCO Limited, where he handled finance, accounts, budgets, MIS and dealing with banks and financial institutions.	Flat No. E, Raheja Towers, Aga Ali Abbas Road, Bangalore – 560 025
(3)	Mr. Jarrett Lilien	Director * January 13, 2005	B.A. 22 years experience He is a President, Chief Operating Officer and Director of E*TRADE FINANCIAL. He joined E*TRADE FINANCIAL Corporation in August, 1999. Prior to his election as President and COO in March, 2003, Mr. Lilien served as Chief Brokerage Officer and President, E*TRADE Securities LLC.	1200, Broad way Appts, 8A/B, New York, US 10001
(4)	Mr. Ravi Adusumalli	Director January 13, 2005	B.A. More than 7 years experience. He joined SAIF in early 2002 and is currently a General Partner and head of SAIFs India operations. Prior to joining SAIF, Mr. Adusumalli was an Associate Partner with Mobius Venture Capital. He previously worked at Credit Suisse First Boston and Wasatch Funds. He was elected to Board of Directors of the Company in January, 2005.	Two Palo Alto Square, Suite 500, 3000, El Camino Real, Palo Alto, CA 94 306

Sr. No.	Name	Designation and Date of Appointment as Director	Qualification and Experience	Address
(5)	Mr. Anirudha Barwe	Director July 12, 1999	M Sc, CAIIB More than 40 years experience He has varied experience in the areas of Commercial Banking, Merchant Banking, Securities Management, Term Lending and Institutional Finance. He has worked with SBI Group as Managing Director of SBI Capital Markets and as CFO at IDFC.	B1, Bageshree, Shankar Ghanekar Marg, Prabhadevi, Mumbai 400025
(6)	Mr. Girish Dave	Director February 19, 2003	M.Com, LLB, CAIIB More than 40 years experience. He has the requisite expertise and vast knowledge in respect of matters relating to company laws, securities legislation and other general provisions of law. He is the senior partner in Dave and Girish & Co. Prior to this he acted as a legal officer in merchant banking division of Grindlays Bank Plc. He has also worked as Law officer to Reserve Bank of India and State Bank of India.	1704, 'B', Wing, 17th Floor, Phoenix Tower, Senapati Bapat Marg, Lower Parel (W), Mumbai 400 013
(7)	Mr. Vibhav Kapoor	Director September 1, 1997	B A, MBA 27 years experience He has been a part of the financial services sector for over more than two decades and is experienced in equity research, merchant banking, mutual funds, treasury management, investment strategies, etc. He joined Infrastructure Leasing & Financial Services Limited in July, 2002 and is presently working as Group Chief Investment Officer. Prior to this, he worked as the Managing Director of IL&FS Finvest Limited (formerly IL&FS Asset Management Company) and as Portfolio Manager at ANZ Grindlays Bank.	1-A, Woodlands, Peddar Road, Mumbai 400 026
(8)	Mr. Neel Raheja	Director February 19, 2003	M. Com, LL.B 12 years experience He has work experience in the real estate development and hospitality industry and also in retail industry. He, on behalf of the K Raheja Corp group, overlooks the day to day functioning of the hospitality business of the group.	Raheja House, Auxillium Convent Road, Palli Hill, Bandra (W), Mumbai – 400 050
(9)	Mr. Sunil Alagh	Director October 11, 2005	B.A., MBA 37 years experience He owns a business advisory and consultancy firm. Prior to this, he was associated with Britannia Industries Limited, Jagatjit Industries and ITC Limited.	12 C, IL Palazzo, Little Gibbs Road, Malabar Hill, Mumbai 400006
(10)	Mr. Steven Christensen	(Alternate to Mr. Jarrett Lilien) January 19, 2006	B.A. 14 years experience He serves as the International Affiliate Director at E*TRADE Financial. Prior to this current role, he served as Sr. International Partnership Manager for E*TRADE Financial.	39 Briar Court, Hamburg, US-07419872
(11)	Mr. Ramesh C Bawa	Director July 14, 2003	BA/ MA/ PGPM&IR 34 years experience He has more than three decades of experience in the Indian banking sector. After being associated with organizations like Syndicate Bank and the National Housing Bank, he joined IL&FS in 1996 and moved to IL&FS Investsmart Limited (IIL) on April 1, 2002. He was Managing Director & CEO of IIL from September 1, 2006 to April 30, 2007.	W-78, Greater Kailash, Part I, New Delhi-110048

Sr. No.	Name	Designation and Date of Appointment as Director	Qualification and Experience	Address
(12)	Mr. James Leslie Whiteford	Managing Director & CEO May 1, 2007	Graduate, Bachelors of Law, C.A. 25 years experience He has wide experience in financial services industry through various global professional organisations and industry participants. He has previously worked with Thomson McLintock & Co, UK Price Waterhouse (Now PriceWaterhouse Coopers) and E*TRADE Financial where he continued to be employed until his appointment as MD & CEO of IL&FS Investsmart in May, 2007.	Apartment 3351, Grand Hyatt, Off Western Express Highway, Santacruz (E), Mumbai - 400 055
(13)	Mr. Sachin Joshi	Executive Director – Finance & Operations April 18, 2007	B.Com, LLB(Gen), CWA, ACA, BLPII- IIM, Calcutta He has over 18 years of financial management experience. He started his career at Navneet Publications Limited and has worked with Lupin Laboratories Limited before joining IL&FS group in April 1994.	503/A, Glengate, Cliff Avenue, Nr. Lake Castle, Hiranandani Gardens, Powai,Mumbai - 400 076
(14)	Mr. Sandeep Presswala	Executive Director – Retail Business April 18, 2007	B.Com, CA 16 years experience He has over 16 years of experience in capital markets. He was a whole time Director in Infin Equity Services (P) Ltd. He joined IL&FS Group in 1997.	Flat No. 403, Varun Amin Villa, Dattatray Road, Santacruz (W), Mumbai - 400 054
(15)	Mr. Mathias Helleu	Director March 14, 2008	French Baccalaureat A, with honours Institut d'Etudes Politiques de Paris, 1 year 22 years experience He has been associated with E*TRADE since 2001 as Managing Director of retail operations in Europe, Middle East and Asia. He has previously served Banque Paribas Capital Markets, London, Latour S.A. Paris and TIR SECURITIES, Paris.	146, rue de Grenelle, Paris 75007,France
(16)	Mr. Gregory Framke	Director March 14, 2008	BA in International Finance 20 years experience He is the Chief Information Officer and Managing Director of E*TRADE FINANCIAL. He has been associated with financial services and technology industries and has an experience in sales, marketing and technology. Prior to joining E*TRADE FINANCIAL in 2000, Mr. Framke has worked with Deutsche Bank Securities, Morgan Stanley & Co, IBM and Wall Street.	48, Hillside Avenue, Short Hills NJ, USA – 070782054

* Resigned with effect from May 12, 2008. To be taken up in the next Board Meeting of the Company

l) The Target Company has confirmed that, there has been no merger / demerger or spin off involving IL&FS Investsmart Limited (IIL) during the past 3 years. However, following are the events pertaining to the Target Company's organization and restructuring:

- IIL has incorporated a wholly owned subsidiary, M/s. IL&FS Investsmart Securities Limited on February 23, 2006 and has entered into a business transfer agreement on April 26, 2006to transfer, inter alia, securities broking business, financial products distribution business, portfolio management services business and investment banking business
- The Target Company has entered into an agreement on November 02, 2006 with IL&FS Financial Services Limited (IFIN) for the sale of the loan syndication business to IFIN. Although the agreement references a non-compete agreement to be entered into between the Target Company and IFIN, the same was never executed.

- IIL had acquired Tajir Investments & Properties Limited, a Non-Banking Finance Company registered under Reserve Bank of India in October 2006 to pursue securities related financing activities and changed the name of the Company from Tajir Investments & Properties Limited (TIPL) to IL&FS Investsmart Financial Services Limited (IIFSL) with effect from December 19, 2006. Subsequently, the name of the Company was changed from IL&FS Investsmart Financial Services Limited (IIFSL) to Investsmart Financial Services Limited (IFSL) w.e.f. August 8, 2007. IFSL is a non-banking financial company ("NBFC") registered with the Reserve Bank of India under Section 45-IA of the Reserve Bank of India Act, 1934 and has been licensed to undertake all activities permitted under Section 45-IA (other than acceptance of public deposits). IFSL has launched products like Margin Trade Financing, IPO Financing, Loan against Securities, Loan against Commodities, Loan against Mutual Funds, etc.

m) Key consolidated audited financials of IIL for FY2006, FY2007 and FY2008 is given below.

Profit and Loss Account	**Year ended March 31, 2008 (in lacs) (Audited)**	**Year ended March 31, 2007 (in lacs) (Audited)**	**Year ended March 31, 2006 (in lacs) (Audited)**
Income from operations, training and Brokerage - Insurance products	39,209.13	23,508.90	22,071.45
Other Income	276.24	560.50	364.04
Total Income	39,485.37	24,069.40	22,435.48
Total Expenditure before Depreciation, Interest and taxation	23,629.72	16,129.87	11,744.78
Profit Before Depreciation, Interest and Tax	15,855.65	7,939.53	10,690.70
Depreciation	1,043.73	913.76	494.29
Interest	5,807.88	499.38	194.40
Profit Before Tax	9,004.04	6,526.38	10,002.01
Provision for Tax	3,587.27	2,517.97	3,144.04
Profit After Tax Before Profit of an Associate and Minority Interest	5,416.77	4,008.41	6,857.97
Add: Share of Post acquisition	33.21	8.40	1.69
Profit of an Associate			
Add: Minority Interest	46.41	9.09	(0.64)
Less:Adj. for Employees Benefits of earlier years	-	25.29	-
Profit after Tax	5,496.39	4,000.61	6,859.02

Balance Sheet Statement	**Year ended March 31, 2008 (in lacs) (Audited)**	**Year ended March 31, 2007 (in lacs) (Audited)**	**Year ended March 31, 2006 (in lacs) (Audited)**
SOURCES OF FUNDS			
Paid up Share Capital	6,983.63	6,983.63	6,692.07
Reserves & Surplus (Excluding revaluation reserves)	65,266.01	62,264.18	59,143.42
Minority Interest	45.14	91.55	100.64
Networth	72,294.78	69,339.36	65,936.13
Share application money	-	-	161.83
Secured loans	29,504.11	7,485.11	152.92
Unsecured loans	12,500.00	593.11	-
Total sources of funds	**114,298.89**	**77,417.57**	**66,250.88**

Balance Sheet Statement	Year ended March 31, 2008 (in lacs) (Audited)	Year ended March 31, 2007 (in lacs) (Audited)	Year ended March 31, 2006 (in lacs) (Audited)
APPLICATION OF FUNDS			
Goodwill on Consolidation	1,063.77	1,063.77	1,048.03
Net fixed assets	2,628.20	2,524.53	1,561.53
Capital Work-in-Progress	637.44	13.86	-
Investments	137.59	1,005.40	166.41
Net Current assets	109,661.85	72,667.29	63,421.75
Deferred Tax Asset (net)	170.05	142.72	51.32
Total miscellaneous expenditure not written off	-	-	1.84
Total application of funds	**114,298.89**	**77,417.57**	**66,250.88**

Other Financial Data

	Year ended March 31, 2008 (Audited)	Year ended March 31, 2007 (Audited)	Year ended March 31, 2006 (Audited)
Dividend/ share	3.00	2.50	3.00
Basic Earning Per Share (Rs.)(i)	7.87	5.78	10.25
Return on Net worth (%) (ii)	7.60	5.78	10.40
Book Value Per Share (Rs.)(iii)	103.52	99.29	98.53

(i) Profit/(loss) for the year attributable to equity shareholders after considering the minority interest divided by the number of equity shares outstanding at the date of the balance sheet; (ii) Profit/(loss) after tax after considering the minority interest divided by IIL's Networth at the date of the balance sheet ; (iii) Networth divided by the number of equity shares outstanding at the date of the balance sheet;

n) Reasons for the fall/rise in the total income and Net Income:

- **Year ended March 31, 2008 compared to the year ended March 31, 2007**

The gross income for FY 2008 increased to Rs. 39,485.37 lakhs from Rs. 24,069.40 lakhs in FY 2007 registering a growth of 64%. The profit after tax stood at Rs. 5496.38 lakhs for FY 2008 as compared to 4,000.61 lakhs for the previous year registering a growth of 37.39 %. This was on account of increased retail broking business, substantial increase in the income from Interest on Margin Trade Finance and income from sales of securities/commodities held as stock-in-trade.

- **Year ended March 31, 2007 compared to the year ended March 31, 2006**

During FY 2007, gross revenue on a consolidated basis increased to Rs. 24069.40 lakhs from Rs. 22435.48 lakhs in the previous year. This is on account of focused approach towards value added advisory services, expansion of retail network, technology upgradation and prompt professional customer servicing However, profit after tax on a consolidated basis decreased to Rs. 4000.61 lakhs from Rs. 6859.02 lakhs in the previous year. This is on account of significant reduction in IPO financing activity and increase in competition from existing and new players from both the domestic and international arena, leading to increased employee and other administrative expenses.

o) The pre and post Offer shareholding pattern of IIL is as follows:

Shareholders' category	Shareholding And voting rights prior to the Open Offer (as at May 16, 2008)		Shares/voting rights agreed to be acquired which triggered off the Regulations		Shares/voting rights to be acquired in the Open Offer (assuming full acceptances)		Shares/voting rights after the Acquisition Open Offer (assuming full acceptances)	
	No.	%	No.	%	No.	%	No.	%
1 Promoters								
a. Parties to the agreement								
Infrastructure Leasing & Financial Services Limited	2,05,01,922	29.36	-	-	-	-	-	-
E*TRADE Mauritius Limited, Mauritius	3,06,25,692	43.85	-	-	-	-	-	-
b. Promoters other than (a) above	-	-	-	-	-	-		
Sub-total 1 [(a) and (b)]	**5,11,27,614**	**73.21**	**-**	**-**	**-**	**-**		
2 a. Acquirers								
HSCI	-	-	2,05,01,922	29.36	1,44,22,255	20.65	3,49,24,177	50.01
Violet	-	-	3,06,25,692	43.85	-	-	3,06,25,692	43.85
2 b. PACs								
HIBH	-	-	-	-	-	-	-	-
HBAH	-	-	-	-	-	-	-	-
Sub-total 2 [(a) and (b)]			**5,11,27,614**	**73.21**			**6,55,49,869**	**93.86**
3. Parties to the agreement other than 1 (a) and 2	-	-	-	-	-	-	-	-
4 Public (Other than parties to the agreement, Acquirers and PACs)								
(a) Mutual Funds and UTI	5,49,571	0.79	-	-				
(b) Foreign Institutional Investors	51,42,387	7.36	-	-				
(c) Foreign Bodies Corporate	69,99,644	10.02	-	-				
(d) Private Bodies Corporate	23,90,920	3.42						
(e) Indian Public & HUF	24,43,321	3.50	-	-	(1,44,22,255)	(20.65)	42,86,404	6.14
(f) NRIs	30,369	0.04	-	-				
(g) Employees & Directors	7,79,514	1.12						
(h) Others (Clearing Member & Trusts)	3,47,633	0.50	-	-				
(i) Shares held by Custodians and against which Depository Receipts have been issued	25,300	0.04						
Sub - total 4 [(a) to (i)]	**1,87,08,659**	**26.79**						
Grand total	**6,98,36,273**	**100**	**-**	**-**	**-**	**-**	**6,98,36,273**	**100**

The total number of public shareholder of IIL as on June 20, 2008 is 13,359.

p) Details of the change in the shareholding of the promoters as and when it happened in IIL :

Infrastructure Leasing & Financial Services Limited

Date on which Equity Shares were allotted / Acquired / Disposed	Number of Equity Shares Issued / acquired / sold by IL&FS	Cumulative Paid-up Capital of IL&FS, Promoter	Cumulative Paid-up Capital of the Target Company	% of Paid-up Capital held by IL&FS, Post Issue / Acquisition / Sale	Nature
		Rs.	Rs.		
Sept. 25, 1997	7	70	70	100.00%	Held in trust on behalf of IL&FS by the signatories to MoA and AoA
April 02, 1998	33,00,000	3,30,00,070	3,30,00,070	100.00%	Allotment
June 11, 1998	22,00,000	5,50,00,070	5,50,00,070	100.00%	Allotment
March 22, 1999	20,00,000	7,50,00,070	7,50,00,070	100.00%	Allotment
September 30, 1999	–	7,50,00,070	12,50,00,070	60.00%	Dilution of stake of IL&FS on account of allotment of 50,00,000 shares to IL&FS Trust Company Limited (AIG Indian Sectoral Equity Fund)
Sept. 30, 1999	24,99,993	10,00,00,000	15,00,00,000	66.67%	Allotment
January 17, 2000	–	10,00,00,000	18,00,00,000	55.55%	Dilution of stake of IL&FS on account of allotment of 30,00,000 shares to Investsmart India Employee Welfare Trust pursuant to ESOP Scheme 2000
March 30, 2000	–	10,00,00,000	29,00,00,000	34.48%	Dilution of stake of IL&FS on account of allotment of 30,00,000 shares to K. Raheja Private Limited and 80,00,000 shares to ORIX Corporation, Japan
June 01, 2000	10,00,000	11,00,00,000	30,00,00,000	36.67%	Allotment
November 21, 2000	50,00,000	16,00,00,000	30,00,00,000	53.33%	Purchased from IL&FS Trust Company Limited (AIG Indian Sectoral Equity Fund)
October 16, 2002	49,99,716	20,99,97,160	34,99,97,160	59.99%	Allotted Pursuant to Merger of IMBSL and DIL with IIL
October 22, 2002	30,00,000	23,99,97,160	34,99,97,160	68.57%	Purchased by IL&FS from K. Raheja Private Limited
April 05, 2004 to April 15, 2004	28,67,150	26,86,68,660	34,99,97,160	76.76%	Purchase made pursuant to offer made by IL&FS to existing shareholders
January 14, 2005	(52,08,265)	21,65,86,010	34,99,97,160	61.88%	Sold to SAIF Investment Company Limited, Mauritius

Date on which Equity Shares were allotted / Acquired / Disposed	Number of Equity Shares Issued / acquired / sold by IL&FS	Cumulative Paid-up Capital of IL&FS, Promoter	Cumulative Paid-up Capital of the Target Company	% of Paid-up Capital held by IL&FS, Post Issue / Acquisition / Sale	Nature
		Rs.	Rs.		
February 14, 2005	(36,91,582)	17,96,70,190	34,99,97,160	51.33%	Sold to E*TRADE Mauritius Limited, Mauritius
July 12, 2005	51,34,903	23,10,19,220	23,10,19,220	66.01%	Acquired from ORIX Corporation, Japan
July 21, 2005	(26,00,000)	20,50,19,220	43,79,97,160	46.81%	Offer for Sale in IPO of the Target Company
December 19, 2005	–	20,50,19,220	64,81,88,070	31.63%	Dilution of stake of IL&FS on account of allotment of 21019091 GDSs (being equal number of the underlying equity shares in respect of GDSs allotted) to Eligible Investors pursuant to GDR program of the Target Company
January 6, 2006	–	20,50,19,220	66,92,07,160	30.64%	Dilution of stake of IL&FS on account of allotment of 2101909 GDSs to Eligible Investors (being equal number of underlying equity shares in respect of GDSs allotted) representing Green Shoe Option pursuant to GDR program of the Company
April 20, 2006	–	20,50,19,220	69,21,96,860	29.62%	Dilution of stake of IL&FS on account of allotment of equity shares to eligible employees having exercised their options in terms of the ESOP Scheme 2005
June 8, 2006	–	20,50,19,220	69,30,75,380	29.58%	Dilution of stake of IL&FS on account of allotment of equity shares to eligible employees having exercised their options in terms of the ESOP Scheme 2005
March 30, 2007	–	20,50,19,220	69,83,62,730	29.36%	Dilution of stake of IL&FS on account of allotment of equity shares to eligible employees having exercised their options in terms of the ESOP Scheme 2005
Net Shares	**2,05,01,922**				

*E*TRADE Mauritius Limited*

Date on which Equity Shares were allotted / Acquired / Disposed	Number of Equity Shares Issued / acquired / sold by IL&FS	Cumulative Paid-up Capital of IL&FS, Promoter	Cumulative Paid-up Capital of the Target Company	% of Paid-up Capital held by IL&FS, Post Issue / Acquisition / Sale	Nature
		Rs.	Rs.		
February 3, 2005	11,88,418	1,18,84,180	34,99,97,160	3.39%	Acquired from ORIX Corporation, Japan
February 14, 2005	36,91,582	4,88,00,000	34,99,97,160	13.94%	Acquired from IL&FS
July 21, 2005	–	4,88,00,000	43,79,97,160	11.14%	Dilution of stake of E*TRADE on account of allotment of 88,00,000 equity shares in terms of IPO of the Company
December 19, 2005	75,00,000	12,38,00,000	64,81,88,070	19.09%	Acquired GDRs pursuant to GDRs Issue of the Company (21019091 GDSs were allotted to Eligible Investors pursuant to GDR program of the Company
January 6, 2006	–	12,38,00,000	66,92,07,160	18.50%	Dilution of stake of E*TRADE on account of allotment of 2101909 GDSs to Eligible Investors (being equal number of underlying equity shares in respect of GDSs allotted) representing Green Shoe Option pursuant to GDR program of the Target Company
April 20, 2006	–	12,38,00,000	69,21,96,860	17.88%	Dilution of stake of E*TRADE on account of allotment of equity shares to eligible employees having exercised their options in terms of the ESOP Scheme 2005
June 8, 2006	-	12,38,00,000	69,30,75,380	17.86%	Dilution of stake of E*TRADE on account of allotment of equity shares to eligible employees having exercised their options in terms of the ESOP Scheme 2005
July, 2006 to November, 2006	1,37,32,919	26,11,29,190	69,30,75,380	37.67%	Acquired GDRs though open market *(Source : Letter of Offer to Open Offer)*
December, 2006	11,04,135	27,21,70,540	69,30,75,380	39.27%	Acquired Shares in open market by CLSA on behalf of ETM and converted into GDRs *(Source : Letter of Offer to Open Offer)*
March 30, 2007	-	27,21,70,540	69,83,62,730	38.97%	Dilution of stake of E*TRADE on account of allotment of equity shares to eligible employees having exercised their options in terms of the ESOP Scheme 2005
March 31, 2007	34,08,638	30,62,56,920	69,83,62,730	43.85%	Acquired shares in Open Offer launched in October 2006
Net Shares	**3,06,25,692**				

q) Contingent liabilities not provided as on March 31, 2008:

(i) Claim against the Company not acknowledged as debt in respect of Income Tax matters amounting to Rs.6,329,534 (Previous year: Rs. Nil) pending with CIT (Appeals) and ITAT.

(ii) (a) The Company has provided Corporate Guarantee of Rs.2,300,000,000/- (Previous year Rs.1,750,000,000/-) in favour of Banks on behalf of its Wholly Owned Subsidiaries, IL&FS Investsmart Commodities Limited and IL&FS Investsmart Securities Limited respectively for providing Bank guarantees to various Exchanges for dealing in various commodities / Securities / Derivatives segment as a Broker and for Short term loan and Line of credit facilities of Subsidiaries. The Company has also provided Corporate Guarantee of Rs.1,150,000,000/- (Previous year Rs.1,150,000,000/-) to Infrastructure Leasing & Financial Services Limited (IL&FS) for Line of Credit extended by IL&FS to its wholly owned Subsidiary Investsmart Financial Services Limited (erstwhile IL&FS Investsmart Financial Services Limited)

(b) Of the above Corporate guarantees given by the Company, the bank guarantees and line of credit outstanding as at March 31, 2008 is Rs.1,430,000,000/- (Previous year Rs.1,050,000,000/-)

(iii) Claim against the Company not acknowledged as debt Rs.1,249,005/- (Previous year Rs. Nil)

r) Outstanding litigations:

1. Litigation involving Civil and Economic Offences -

Details of Legal Cases filed against IIL

Sr. No.	Appeal No./ Case No.	Dated	Applicant	Respondents	Name & Address of the Court/ Arbitration Panel	Amount Under Consideration	Brief Description of Case	Status
1.	1403/07	Sep, 2005	Rahul Dusad	IL&FS Investsmart	Court of Divisional Consumer Forum, Jaipur	94,996/-	Complaint Filed in Consumer Court for delay in payment by couple of days and setting aside our letter of termination of service. The court has rejected his claim of interest payment but has asked us to pay Rs.5,000/- as compensation for suo moto termination of agreement without consent of the Client	The Target Company has filed an appeal against the said order before the State Commission. The hearing will be held on July 3, 2008
2.	424 of 2007	June 2007	Vikram Agarwal	IL&FS Investsmart Ltd.	Court of Divisional Consumer Forum, Jaipur	12,44,005/-	Complainant is claiming that due to squaring up of his position for shortfall of margin he has incurred a heavy loss	The Target Company has filed detailed reply in the matter. Next date of hearing is June 19, 2008
3.	81/128 of 2007	Dec 2007	Yaelstar Diomonds Private Limited	IL&FS Investsmart Ltd.	In the court of Small causes at Bombay	Claimed - Rs. 9 crores (approx).#	Yaelstar (New Owner of the Premises) has filed suit against the Target Company for vacating the Premises.	We have filed our response stating that Original Leave and License Agreement executed with M/s. Vithal Leasefin (Original Licensor) shall be read in conjunction with the letter of even date and accordingly the Agreement cannot be terminated. Next date of hearing is July 21, 2008

Claim amount as claimed by the Complainant is on the following assumption:

(a) To pay 150 times of the rent fees and support service charges aggregating to 5.62 crores

(b) Rent per sq. ft. is Rs. 400/- per day upto December 18, 2007 aggregating to Rs.3.60 crores*

* Rent of Rs. 400/- per sq. ft. is per month and not per day. Accordingly, the maximum incremental amount (based on Rs 300 per sq ft per month) of Rs. 9 lacs could have been claimed as on December 18, 2007 in addition to a penalty of Rs. 4.5 Lacs for 18 days at the time of filing the suit in term of clause no.26 of the compliant/ application filed by Yaelstar Diamonds Pvt. Ltd.

Details of Legal Case filed by IL&FS Investsmart Limited (IIL)

Sr. No.	Appeal No./ Case No.	Dated	Applicant	Respondents	Name & Address of the Court/ Arbitration Panel	Amount Under Consideration	Brief Description of Case	Status
1.	3535 of 2007	Nov 2007	IL&FS Investsmart Ltd.	Anil Kumar Gupta	In the High Court of judicature at Bombay	10,00,000/-	We have filed summary suit in the High Court for recovery of Security Deposit Amount from the Respondents.	We have served the summons through court bailiff in the last week of March 2008. We are awaiting for the date of the first hearing

2. **Details of disciplinary / penal actions / proceedings, if any, taken / pending by Stock Exchanges against IIL during the last 3 financial years**

Date of show cause notice/ action	Name of Regulator	Nature and Action
May 2, 2005	BSE	BSE has issued a show cause notice bearing reference no. SURV/INV/MB/MMTC/01/ 2005-06/SC dated May 2, 2005 warning the Company that its client contributed to the rise in the price of a scrip by entering into self-trades during the period February 15, 2005 to March 9, 2005. The same was replied by IIL vide its letter dated May 10, 2005 and BSE has advised the Company to exercise caution and due diligence while dealing on behalf of its clients vide letter dated June 2, 2005
November 25, 2005	SEBI	SEBI has instituted an enquiry vide its letter dated November 25, 2005 in respect of shortfall of Rs.1.26 lakhs in payment of turnover based fees pertaining to transactions on Delhi Stock Exchange for the period upto 2002-2003. Company has given detailed clarification vide its letter dated December 23, 2005 and has requested for personal hearing. Matter has been informally cleared by SEBI after personal hearing
June 20, 2006	NSE	NSE - F&O Inspection conducted pertaining to F&O operations for the period from March 2005 to February 2006, regarding non-compliance pertaining to delay in payment of corporate benefits, inaccurate submission of CTCL data, etc. which were of technical nature and for which necessary corrective action had been taken by IIL. IIL had made its submissions to the Disciplinary Action Bench of NSE in personal appearance before the Bench on September 22, 2006. The Exchange given certain directions and levied a fine of Rs. 17,500

3. **Penalties imposed by SEBI or any other regulatory body in India or abroad during the period of two years against IIL:**

- As a part of an adjudication proceeding in June 2004, pertaining to broking activity, SEBI imposed a monetary penalty of Rs. 2,00,000/- on the Target Company on November 18, 2004 which was duly paid
- NSE issued notice regarding F & O Inspection findings, pertaining to 2002-03 and raised issued regarding non-compliance pertaining to client documentation, margin collection, etc. which were technical in nature

and for which necessary corrective action had been taken by IIL. NSE debited Rs. 42,400/- as fine on January 14, 2004

- NSE vide its letter dated April 7, 2004 observed that some of the trades in F&O segment by a Kolkata based client of IIL were purportedly synchronized trades. IIL had replied to this notice vide letter dated April 23, 2004. Further, IIL suspended the relevant client code and the concerned dealer was shifted to Back Office operations. NSE has debited Rs. 50,000/- as fine
- NSE issued a notice dated July 22, 2004 based on F & O Inspection findings, pertaining to 2003-04 and raised issues regarding non-compliance pertaining to delay in payment of corporate benefits, in accurate margin reporting, etc. which were of technical nature and for which necessary corrective action had been taken by IIL. IIL had replied to this notice vide letter dated August 18, 2004. Hearing on the inspection report was held on March 9, 2005. NSE has debited Rs. 75,000/- as penalty
- NSE has issued Inspection Report vide its letter dated September 30, 2005 pertaining to the operations of the Target Company at Ahmedabad and had sought explanation based on preliminary observations for prima facie violation of certain provisions of Rules, Byelaws, Regulations and Circulars of the Exchange related to operations on the Capital Market. The submissions of the Target Company were made to the Disciplinary Action Bench of NSE on November 7, 2005 and personal hearing was held on December 16, 2005. NSE has debited Rs. 5,00,000/- as penalty vide its letter No. NSE/INSP/DABII-30/CMLPI/05-06/ACT/22093-R dated May 12, 2006. Target Company responded to the penal action vide letter dated June 26, 2006
- NSE has vide its letter No. NSE/MEM/4C/PF/1270/23480-V dated June 15, 2006 has noted that the Qualified / Designated Director of the Target Company has resigned from the Target Company without taking prior approval from NSE and penalty of Rs. 5,000/- is levied for the said non-compliance by NSE
- SEBI had appointed an adjudicating officer to inquire into and adjudge under section 15A(b) of SEBI Act for the alleged violation of Regulation 8 (3) of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 in respect of reporting deadline of April 30, 2006. In terms of Circular No. EFD / Ed / Cir-1 / 2007 dated April 20, 2007, the Target Company opted to avail the consent order procedure since the violation was in the nature of minor delay in the filing and accordingly, the Target Company vide its letter dated November 7, 2007 filed Consent Application with Division of Regulatory Action, Enforcement Department of SEBI. SEBI vide its letter No. EFD/DRAIII/VRP/SS/ 119267/2008 dated March 2, 2008 has advised the Company to pay Rs. 50,000/- without admitting or denying any charge towards consent terms. The Target Company has made the said payment on March 24, 2008
- Occasional fines, penalties and penalty points imposed by SEBI, NSE and BSE for routine operational delays and minor regulatory deficiencies arising in the normal course of business

s) IIL, its Promoters and Directors of the Company have not been prohibited by SEBI from dealing in securities in terms of directions issued under section 11B of SEBI Act or under any other Regulation.

t) IIL is complying with all the provisions of Clause 49 (in regard to the corporate governance) of the Listing Agreement entered with the National Stock Exchange of India Limited and Bombay Stock Exchange Limited, where the Target Company's Shares are listed and traded except that during the period from May 1, 2007 to July 14, 2007 and from October 25, 2007 to December 23, 2007, there was imbalance in the composition of the Board to the extent of one non-independent director. No actions, penal or otherwise, have been initiated by these Exchanges against the Target Company in respect of the above

u) The compliance officer of IIL is:

Mr. Shekhar Deshpande
Company Secretary & Head-Legal
IL&FS Investsmart Limited
The IL&FS Financial
Centre, Plot C-22, G Block,
Bandra-Kurla Complex,
Bandra (E), Mumbai 400 051
Tel: +91-22-2659 3469
Fax: +91-22-2653 3075
E-mail: shekhar.deshpande@investsmartindia.com

7. OFFER PRICE AND FINANCIAL ARRANGEMENTS

7.1 Justification of Offer Price

a) The Shares of the Target Company are presently listed on BSE and NSE.

b) The annualized trading turnover of the equity shares of the Target Company during the six months preceding the date of the PA (November 2007-April 2008) on each of the stock exchanges on which the Shares of the Target Company are listed is detailed below:

Name of Stock Exchange	Total no. of Shares traded during the 6 calendar months prior to the month in which the PA was made	Total no. of listed Shares	Annualised trading turnover (in terms of % of total listed Shares)
BSE	93,78,057	6,98,36,273	26.86%
NSE	1,32,19,052	6,98,36,273	37.86%

c) Based on the information available, the Shares of the Target Company are frequently traded on the stock exchanges i.e. BSE and NSE (Source: www.bseindia.com and www.nseindia.com) within the meaning of explanation (i) of Regulation 20 (5) of the SEBI (SAST) Regulations and are most frequently traded on NSE.

d) The Offer Price of Rs. 200 (Rupees Two Hundred only) per equity share is justified in terms of Regulation 20(4) of the SEBI (SAST) Regulations as it is equal to the highest of the following:

i.	**Negotiated Price**	
	IL&FS	Rs. 200.00
	E*TRADE	Rs. 200.00
ii.	Highest Price paid by Acquirers for any acquisition (including by way of allotment in a public or rights or preferential issue) during the 26 week prior to the date of the PA.	Not Applicable
iii.	The average of the weekly high and low of the closing prices of Shares of the Target Company on NSE during the 26 week period preceding the date of the PA.	Rs. 186.12
iv.	The average of the daily high and low of the Shares of the Target Company on NSE during the 2 week period preceding the date of the PA.	Rs. 180.24

The details of closing prices and volume on NSE for the 26-week period prior to the date of the Public Announcement are as under:

Week #	End date	High (Rs.)	Low (Rs.)	Average (Rs.)	Volume
1	Friday, May 16, 2008	201.00	192.50	186.50	2,179,921
2	Friday, May 09, 2008	180.00	163.15	175.85	954,685
3	Friday, May 02, 2008	173.80	167.95	171.75	186,868
4	Friday, April 25, 2008	174.45	166.00	174.95	773,875
5	Thursday, April 17, 2008	167.90	160.10	155.75	761,312
6	Friday, April 11, 2008	145.00	132.00	130.83	1,068,077
7	Friday, April 04, 2008	115.00	110.35	115.73	254,565
8	Friday, March 28, 2008	116.80	107.00	105.80	468,756
9	Wednesday, March 19, 2008	114.85	101.00	111.35	382,650
10	Friday, March 14, 2008	134.85	125.15	134.53	183,187
11	Friday, March 07, 2008	148.00	134.20	151.08	423,644
12	Friday, February 29, 2008	169.85	160.45	167.08	77,408
13	Friday, February 22, 2008	171.90	164.05	169.03	40,122
14	Friday, February 15, 2008	176.00	160.50	163.50	123,001
15	Friday, February 08, 2008	199.90	179.00	182.03	566,932
16	Friday, February 01, 2008	163.50	150.10	153.93	270,876
17	Friday, January 25, 2008	165.00	148.00	161.13	177,057
18	Friday, January 18, 2008	226.90	212.10	227.53	152,863
19	Friday, January 11, 2008	246.00	231.00	250.88	331,561

Week #	End date	High (Rs.)	Low (Rs.)	Average (Rs.)	Volume
20	Friday, January 04, 2008	269.90	245.00	263.30	319,836
21	Friday, December 28, 2007	275.00	261.00	258.20	328,418
22	Thursday, December 20, 2007	240.00	223.00	235.50	180,362
23	Friday, December 14, 2007	260.00	242.95	266.83	470,941
24	Friday, December 07, 2007	279.40	259.00	276.98	973,987
25	Friday, November 30, 2007	289.40	259.00	252.40	2,748,746
26	Friday, November 23, 2007	214.00	201.00	196.70	1,752,218
	26 weeks average			**186.12**	

The details of intra-day price and volume on NSE for the 2-week period prior to the date of the Public Announcement are as below:

Day and Date #	High Price (Rs.)	Low Price (Rs.)	Average (Rs.)	Volume
Friday, May 16, 2008	201.00	192.50	196.75	597,604
Thursday, May 15, 2008	194.00	186.20	190.10	450,855
Wednesday, May 14, 2008	190.80	179.00	184.90	447,617
Tuesday, May 13, 2008	188.80	175.00	181.90	559,348
Monday, May 12, 2008	179.40	160.05	169.73	124,497
Friday, May 09, 2008	180.00	163.15	171.58	237,629
Thursday, May 08, 2008	188.00	177.00	182.50	154,189
Wednesday, May 07, 2008	188.40	170.10	179.25	496,355
Tuesday, May 06, 2008	175.00	170.00	172.50	29,193
Monday, May 05, 2008	176.00	170.40	173.20	37,319
2 Weeks average			**180.24**	

e) **Non-Compete fee:**

HSCI has also agreed with IL&FS to pay an aggregate non-compete consideration of Rs.82,00,76,880 (Rupees Eighty two crores seventy six thousand eight hundred and eighty only) ("Non-Compete Consideration") to IL&FS, which is equal to Rs.40/- per IL&FS Sale Share, payable in cash on the closing of the IL&FS Share Purchase Agreement. In terms of the IL&FS Share Purchase Agreement, IL&FS and its affiliates shall, for an initial period of 1 year extendable twice after the expiry of the initial period for a further period of 1 year each at the sole discretion of HSCI, not directly or indirectly participate as an investor, manager, consultant or in any other capacity in the following regulated and/or licensed (including by way of a registration certificate) businesses, namely (i) stock or securities broking (including sub-broking); (ii) insurance broking; (iii) commodities and/or commodities derivatives broking; and (iv) investment banking or merchant banking; solicit any client or agent or supplier of the Target Company and/or its subsidiaries; supply any product or service which is similar to that provided by the Target Company and/or its subsidiaries; engage or employ, canvass, solicit, induce or seek to canvass, solicit or induce any restricted employee to become employed whether as employee, consultant or otherwise by any member of IL&FS and its affiliates.

The Non-Compete Consideration is not in excess of 25% of the Offer Price arrived at as per paragraph 7.1(d) above.

f) Based on the above and in the opinion of the Manager to the Offer, the Offer Price of Rs 200 per Share offered by HSCI to the shareholders of the Target Company under the proposed Offer is justified in terms of Regulation 20 (4) of the SEBI (SAST) Regulations.

g) If the Acquirers / PACs acquire Shares of the Target Company after the date of the PA and up to seven working days prior to the closure of the Offer at a price higher than the Offer Price, then the highest price paid for such acquisition shall be payable for all the valid applications received under the Offer.

7.2 Financial Arrangements

a) The total funding requirement for the acquisition of up to 1,44,22,255 Shares held by the Shareholders of the Target Company at Rs. 200 per Share is Rs. 2,88,44,51,000 (Rupees Two hundred eighty eight crores forty four lakhs fifty one thousand only) (the "Maximum Consideration").

b) On behalf of HSCI, State Bank of India through its branch in Mumbai located at Mumbai Main Branch at Mumbai Samachar Marg, Mumbai - 400023 has issued a bank guarantee for Rs 45,00,00,000 (Rupees Forty Five crores only) in favour of the Manager to the Offer. The bank guarantee is valid upto November 16, 2008. The said amount is equal to the minimum prescribed amount of 25% of the value of the total consideration payable under the Offer (assuming full acceptance) up to Rs. 100 crores and 10% thereafter as per Regulation 28(2) of the SEBI (SAST) Regulations. The said bank guarantee entitles the Manager to the Offer to realise the value thereof in terms of the SEBI (SAST) Regulations.

c) HSCI, the Manager to the Offer and the State Bank of India, a banking corporation constituted under the of State Bank of India Act, 1955 and having one of its branch offices at Mumbai Main Branch, Mumbai Samachar Marg, Fort, Mumbai - 400 023, India ("SBI, India") have entered into an Open Offer Escrow Agreement, (the "Escrow Agreement") dated May 17, 2008 in accordance with Regulation 28 of the SEBI (SAST) Regulations. Pursuant to the Escrow Agreement, HSCI has transferred an amount of Rs. 2,89,00,000 (Rupees Two crore eighty nine lakhs only) which is in excess of 1% of the value of the total consideration payable under the Offer (assuming full acceptances) into an escrow account with the SBI, India. The Manager to the Offer has been duly authorised to operate the aforesaid escrow account in accordance with the terms of the SEBI (SAST) Regulations.

d) HSCI shall fund the open offer out of existing funds and advance monies received from HIBH towards share subscription.

e) BSR & Associates, Chartered Accountants (Membership No.046768) located at KPMG House, Kamala Mills Compound, 448, Senapati Bapat Marg, Lower Parel, Mumbai - 400013 (Tel: +91 22 3989 6000; Fax: +91 22 3983 6000) have in their letter dated May 17, 2008 certified that HSCI has made firm arrangements to meet its financial obligations under the open offer to be made by the Acquirers to the Shareholders of the Target Company.

f) Accordingly, the Manager to the Offer is satisfied that HSCI has adequate and firm financial resources to fulfill the obligations under the open offer and has the ability to implement the Offer in accordance with the SEBI (SAST) Regulations as firm financial arrangements are in place to fulfill the obligations under the SEBI (SAST) Regulations.

8. TERMS AND CONDITIONS OF OFFER

8.1 Statutory Approvals required for the Offer

a) The Offer is subject to the Acquirers or the Target Company and/or its subsidiaries obtaining the approvals from the FIPB, SEBI, MAS and applicable stock exchanges for the acquisition of (i) the E*TRADE Sale Shares by Violet, (ii) the IL&FS Sale Shares by HSCI, and (iii) Shares by HSCI from the shareholders of the Target Company under the Offer, in terms of the applicable rules and regulations prescribed by the said authorities. The Acquirers have made an application to the FIPB on June 2, 2008 and the approval is currently awaited. The applications seeking approval from SEBI, MAS and stock exchanges are yet to be made. The Offer shall proceed upon obtaining such approval. In addition to the above, as stated in paragraph 3.3(b) above, IICL would be applying to MCX and NCDEX for surrendering of the respective memberships upon completion of the Offer and the acquisition of the IL&FS Sale Shares and the E*TRADE Sale Shares in accordance with the respective rules, regulations and bye-laws of MCX and NCDEX.

b) As of the date of the PA, to the best of the knowledge of the Acquirers, there are no other statutory approvals required to implement the Offer other than those specified above in Paragraph 8.1 (a). If any other statutory approvals become applicable prior to completion of the Offer, the Offer will also be subject to obtaining such other statutory approvals.

c) In case of delay in receipt of any statutory approval(s), SEBI has the power to grant an extension of time to HSCI for payment of consideration to shareholders, subject to HSCI agreeing to pay interest for the delayed period as directed by SEBI in terms of Regulation 22(12) of the SEBI (SAST) Regulations. Further, if the delay occurs on account of the willful default or neglect or inaction or non-action by the Acquirers in obtaining the requisite approvals, Regulation 28(12) of the SEBI (SAST) Regulation will also become applicable.

d) HSCI does not require any approvals from financial institutions or banks for the Offer.

e) If any other approvals are required or become applicable subsequently, the Offer would be subject to such approvals. The Acquirers will have a right not to proceed with the Offer in the event the approvals are refused, in terms of Regulation 27(1)(b) of the SEBI (SAST) Regulations.

8.2 Others

a) The Letter of Offer together with the Form of Acceptance cum Acknowledgement will be mailed to the shareholders of IIL (other than the parties to the SPA), whose names appear on the Register of Members of IIL and to the beneficial owners of the Shares of IIL, whose names appear as beneficiaries on the records of the respective Depositories, at the close of business on Friday, May 30, 2008 ("Specified Date").

b) All owners (registered or unregistered) of shares of IIL (other than the parties to the SPA) are eligible to participate in the Offer anytime before the closure of the Offer i.e. Wednesday, July 30, 2008. Unregistered owners can send their application in writing to the Registrar to the Offer, on a plain paper stating the Name, Address, Number of shares held, Number of shares offered, Distinctive Numbers, Folio Number, together with the original share certificate(s), valid transfer deeds and the original contract notes issued by the broker through whom they acquired their shares. No indemnity is required from the unregistered owners.

c) The acceptance of locked-in shares by the Acquirers is subject to the continuation of the residual lock-in period in the hands of the Acquirers.

d) The acceptance of the Offer is entirely at the discretion of the Shareholders of IIL. The Acquirers will not be responsible in any manner for any loss of share certificate(s) and offer acceptance documents during transit and the Shareholders of IIL are advised to adequately safeguard their interest in this regard.

e) Shares that are subject to any charge, lien or encumbrance are liable to be rejected. HSCI will acquire the Shares, free from all liens, charges and encumbrances and together with all rights attached thereto, including the right to all dividends, bonus and rights declared hereafter.

f) Each Shareholder of IIL to whom this Offer is being made is free to offer his shareholding in IIL in whole or in part while accepting this Offer. The acceptance must be unconditional and should be absolute and unqualified.

9. PROCEDURE FOR ACCEPTANCE AND SETTLEMENT

IIL Shareholders who wish to accept this Offer are free to offer their shareholding in whole or in part and should forward the under mentioned documents to the Registrar to the Offer at their office at Karvy Computershare Private Limited, Karvy House, 46, Avenue 4,Street No. 1, Banjara Hills, Hyderabad - 500 034 Tel: (91) - 40 - 23420815-23; Fax : (91) - 40 - 23420814 either by hand delivery on weekdays or by registered post, on or before the closure of the Offer, i.e., no later than Wednesday, July 30, 2008 or at the collection centres, so as to reach the Registrar/ collection centres on or before the close of business hours, i.e., no later than on Wednesday, July 30, 2008 in accordance with the instructions specified in this Letter of Offer and in the Form of Acceptance. Shareholders are advised to ensure that the Form of Acceptance and other documents are complete in all respects, otherwise the same is liable to be rejected. In the case of Shares in dematerialized form, Shareholders are advised to ensure that their Shares are credited in favour of the Special Depository Account before the closure of the Offer i.e. Wednesday, July 30, 2008. The Form of Acceptance of such Shares in dematerialised form, not credited in favour of the Special Depository Account before the closure of the Offer, will be rejected.

i. For Shares held in physical form:

Registered Shareholders should enclose:

- Form of Acceptance duly completed and signed in accordance with the instructions contained therein, by all Shareholders whose names appear on the share certificates;
- Original share certificate(s); and
- Valid share transfer forms duly signed as transferors by all registered Shareholders (in case of joint holdings) in the same order and as per specimen signatures registered with IIL and duly witnessed at the appropriate place. A blank share transfer form is enclosed along with this Letter of Offer.

Unregistered owners should enclose:

- Form of Acceptance duly completed and signed in accordance with the instructions contained therein;
- Original share certificate(s);
- Original broker contract note; and
- Valid share transfer form(s) as received from the market.

The details of buyer should be left blank failing which the same will be invalid under the Offer. The details of HSCI as buyer will be filled upon verification of the Form of Acceptance and the same being found valid. All other requirements for valid transfer will be preconditions for valid acceptance.

ii. **For Shares held in dematerialised form:**

Beneficial owners should enclose:

- Form of Acceptance duly completed and signed in accordance with the instructions contained therein, as per the records of the DP; and
- Photocopy of the delivery instruction in "Off-market" mode or counterfoil of the delivery instruction in "Off-market" mode, duly acknowledged by the DP. For each delivery instruction, the beneficial owner should submit separate Form of Acceptance.
- For Shareholders holding Shares in dematerialised form, Karvy Computershares Private Limited has opened a Special Depository Account with National Securities Depository Limited (NSDL). Beneficial owners are requested to fill in the following details in the delivery instructions for the purpose of crediting their Shares in the special depository account:

DP Name	KARVY STOCK BROKING LTD
DP ID	IN302470
Client ID	40232039
Account Name	KCPL ESCROW A/c - IIL OPEN OFFER
Depository	National Securities Depository Limited

Shareholders having their beneficiary account in Central Depository Service (India) Limited (CDSL) have to use the inter-depository delivery instruction slip for the purpose of crediting their Shares in favour of the Special Depository Account with NSDL.

General

a) The share certificate(s), share transfer form(s) and the Form of Acceptance should be sent only to the Registrar to the Offer and not to the Manager to the Offer, the Acquirers or the Target Company.

b) In case of non-receipt of the Letter of Offer, the eligible persons may send their consent to the Registrar to the Offer on a plain paper stating acceptance of the Offer along with documents as mentioned above, so as to reach the Registrar to the Offer on or before the closure of the Offer, i.e., no later than on Wednesday, July 30, 2008. Persons holding Shares in physical form are required to state the following details: name; address; number of Shares held; distinctive number; folio number, number of Shares offered. Persons holding Shares in dematerialized form are required to state the following details: name; address; number of Shares held; number of Shares offered; DP name; DP ID; beneficiary account number and a photocopy of the delivery instruction in "Off-market" mode or counterfoil of the delivery instruction in "Off-market" mode, duly acknowledged by the DP, in favour of the Special Depository Account. Eligible persons can also write to the Manager to the Offer requesting for the Letter of Offer and Form of Acceptance and fill up the same in accordance with the instructions given therein, so as to reach the Registrar to the Offer on or before the closure of the Offer, i.e. Wednesday, July 30, 2008. Unregistered owners should not sign the transfer deed and the transfer deed should be valid for transfer. Alternatively, the Letter of Offer and Form of Acceptance will be available on SEBI's website (www.sebi.gov.in), from the date of opening of the Offer. Eligible persons can download the Form of Acceptance from the SEBI website and apply using the same.

c) In case the number of Shares validly tendered in the Offer by the Shareholders of the Target Company are more than the Shares to be acquired under the Offer, the acquisition of Shares from each Shareholder will be, as per the provisions of Regulations 21(6) of the Regulations, on a proportional basis in such a way that the acquisition from any Shareholder shall not be less than the minimum marketable lot, or the entire holding if it is less than the marketable lot. As the Shares trade in the compulsory dematerialized settlement segment of BSE and NSE, the minimum marketable lot for the Shares is 1(one).

d) In case of delay in receipt of any statutory approval(s) stated under para 8.1 , SEBI has the power to grant an extension of time to HSCI for payment of consideration to Shareholders, subject to HSCI agreeing to pay interest for the delayed period as directed by SEBI in terms of Regulation 22(12) of the SEBI (SAST) Regulations.

e) Shareholders who have sent their Shares for dematerialization need to ensure that the process of getting Shares dematerialized is completed well in time so that the credit in the Special Depository Account is received on or before the date of closure of the Offer, i.e., no later than 19.00 hours on Wednesday, July 30, 2008, failing which their application is liable to be rejected.

f) While tendering Shares under the Offer, non-resident Indians ("NRIs"), overseas corporate bodies ("OCBs") or foreign Shareholders will be required to submit the previous approvals from the RBI (specific or general) that they would have obtained for acquiring IIL Shares. In case the previous approvals from the RBI are not submitted, the Acquirers reserves the right to reject such tendered Shares.

g) While tendering the Shares under the Offer, non resident Shareholders will be required to submit a Tax Clearance certificate from the Income Tax authorities, indicating the amount of tax to be deducted by the Acquirers under the IT Act before remitting the consideration. In case the aforesaid Tax Clearance Certificate is not submitted, the Acquirers will arrange to deduct tax at the rate as may be applicable to the category of the shareholder under the IT Act, on the entire consideration amount payable to such non resident Shareholders.

h) The Shareholders who wish to avail of and accept the Offer can submit the Form of Acceptance-cum-Acknowledgement and the relevant documents at the following centers either by hand delivery (between 10.00 a.m. and 3 p.m. on all working days and between 10.30 a.m. and 1.00 p.m. on Saturdays) or by registered post, as specified below, on or before the closure of the Offer i.e. Wednesday, July 30, 2008:

Sr. No.	Collection Centre	Address of Collection Centre	Contact Person	Phone No.	Fax	Mode of delivery
1	Mumbai (Fort)	16-22 Bake House Maharashtra Chamber. of Commerce. Lane, Opp. MSC Bank, Fort Mumbai - 400 023	Ms. Varija Kotian	022-66382666	022-66331135	Hand Delivery
2	New Delhi	2E / 23, Jhandewalan Extn. New Delhi-110 055.	Mr. S N Jha	011-43681700	011-43681710	Hand Delivery
3	Ahmedabad	201-203, "Shail", Opp: Madhusudhan House Behind Girish Cold Drinks Off C G Road Ahmedabad - 380 006	Mr. Biswanath Mukherjee	079-26420422/ 26400528	079-26565551	Hand Delivery
4	Chennai	No. 33/1, Venkatraman Street, T.Nagar, Chennai - 600017	Mr. Gunashekhar	044-28151793/ 1794 / 4781	044-28153181	Hand Delivery
5	Hyderabad	Plot No 17-24, Vithalrao Nagar, Madhapur, Hyderabad - 500 081	Ms. Rinki Sareen	040-23420818	040-23420814	Hand Delivery/ Regd Post
6	Kolkata	49, Jatin Das road, Nr.Deshpriya park, Kolkata - 700 029	Mr. Sujit Kundu/ Mr. Debnath	033-24644891	033-24644866	Hand Delivery
7	Bangalore	No.59, Skanda, Putana Road, Basavanagudi Bangalore - 560 004	Ms. Sudha	080-26621192	080-26621169	Hand Delivery

Shareholders, who cannot hand deliver their documents at the collection centres referred above, may send the same by registered post, at their own risk and cost, to the Registrar to the Offer at the address given below:

Karvy Computershare Private Limited
Karvy House, 46, Avenue 4,
Street No. 1, Banjara Hills,
Hyderabad - 500 034
Tel: (91) - 40 - 23420815-23
Fax : (91) - 40 - 23420814

Withdrawal of acceptances

In terms of Regulation 22 (5A) of the SEBI (SAST) Regulations, Shareholders who wish to withdraw their acceptance tendered by them in the Offer may do so up to three (3) working days prior to the date of closure of the Offer. The withdrawal option can be exercised by submitting the documents as per the instructions below, so as to reach the Registrar to the Offer at any of the collection centres mentioned above as per the mode of delivery indicated therein on or before Friday, July 25, 2008.

The withdrawal option can be exercised by submitting the Form of Withdrawal as enclosed with this Letter of Offer.

Shareholders should enclose the following:

For Shares held in dematerialized form:

Beneficial owners should enclose:

- Duly signed and completed Form of Withdrawal;
- Acknowledgement slip in original/copy of the submitted Form of Acceptance in case delivered by Registered A.D.; and
- Photocopy of the delivery instruction in "Off-market" mode or counterfoil of the delivery instruction in "Off-market" mode, duly acknowledged by the DP.

For Shares held in physical form:

Registered Shareholders should enclose:

- Duly signed and completed Form of Withdrawal;
- Acknowledgement slip in original/ copy of the submitted Form of Acceptance in case delivered by Registered A.D.; and
- In case of partial withdrawal, valid share transfer form(s) duly signed as transferors by all registered Shareholders (in case of joint holdings) in the same order and as per specimen signatures registered with IIL and duly witnessed at the appropriate place.

Unregistered owners should enclose:

- Duly signed and completed Form of Withdrawal; and
- Acknowledgement slip in original/ copy of the submitted Form of Acceptance in case delivered by Registered A.D.

In case of non-receipt of Form of Withdrawal, the withdrawal option can be exercised by making a plain paper application along with the following details:

- In case of physical Shares: name; address; distinctive numbers; folio number; number of Shares tendered; and
- In case of Shares in dematerialised form: name; address; number of Shares offered; DP name; DP ID; beneficiary account number and a photocopy of the delivery instruction in "Offmarket" mode or counterfoil of the delivery instruction in "Off-market" mode, duly acknowledged by the DP, in favour of the Special Depository Account.

The withdrawal of Shares will be available only for the share certificates or Shares that have been received by the Registrar to the Offer or Special Depository Account.

The intimation of returned Shares to the Shareholders will be at the address as per the records of IIL or the Depositories as the case may be.

The Form of Withdrawal should be sent only to the Registrar to the Offer.

In case of partial withdrawal of Shares tendered in physical form, if the original share certificates are required to be split, the same will be returned on receipt of share certificates from IIL.

Partial withdrawal of tendered Shares can be done only by the registered Shareholders / beneficial owners. In case of partial withdrawal, the earlier Form of Acceptance will stand revised to that effect.

Shareholders holding Shares in dematerialized form are requested to issue the necessary standing instruction for receipt of the credit in their DP account.

Settlement

Payment to those Shareholders whose share certificates and/or other documents are found valid and in order and are approved by the Manager to the Offer and HSCI, will be by way of a crossed account payee cheque/ demand draft/ pay order. The decision regarding the acquisition (in part or full), or rejection of, the Shares tendered pursuant to this Offer and (i) any corresponding payment for the acquired Shares and/or (ii) share certificates for any rejected Shares or Shares withdrawn, will be dispatched to the Shareholders by registered post or by ordinary post as the case may be*, at the Shareholder's sole risk. Shares held in dematerialised form to the extent not acquired or Shares withdrawn will be credited back to the respective beneficiary account with their respective DPs as per the details furnished by the beneficial owners in the Form of Acceptance-cum-Acknowledgement.

* Dispatches involving payment of a value in excess of Rs.1,500 will be made by registered post at the Shareholder's sole risk. All other dispatches will be made by ordinary post at the Shareholder's sole risk.

Unaccepted or withdrawn share certificate(s), transfer form(s) and other documents, if any, will be returned by registered post at the Shareholders' or unregistered owners' sole risk to the sole or first named Shareholder or unregistered owner. Unaccepted or withdrawn Shares held in dematerialised form will be credited back to the beneficial owners' depositary account with the respective depositary participant as per the details furnished by the beneficial owner in the Form of Acceptance.

The Registrar to the Offer will hold in trust the Share(s) or Share certificate(s), Shares lying in credit of the Special Depository Account, Form of Acceptance, if any, and the transfer form(s) on behalf of the Shareholders or unregistered owner(s) of IIL Shares, who have accepted the Offer, till the cheques or drafts for the consideration and/or the unaccepted Shares or share certificates are dispatched/returned.

10. TAX TO BE DEDUCTED AT SOURCE

Summary of various provisions related to Tax Deduction at Source (withholding tax) under the Income Tax Act.

a) All the shareholders should be classified as resident and non-resident. The status as resident / non-resident is to be determined on the basis of criteria laid down in section 6 of the Income Tax Act, 1961.

b) No tax is required to be deducted on payment of consideration to resident shareholders.

c) The Rate of Deduction of Tax in the case of non-resident is dependent on few other factors. Since the Acquirer does not have in-house information in respect of various shareholders, all the shareholders have to specify their category in the form of acceptance.

d) As per the provisions of the section 2(37A) (iii) of the Income Tax Act, 1961, for the purposes of deduction of tax under section 195, the rate or rates of income-tax specified in this behalf in the Finance Act of the relevant year i.e. 2007-08 or the rates or rates of income tax specified in an agreement entered into by the Central Government under section 90 or an agreement notified by the Central Government under section 90A, whichever is applicable by virtue of the provisions of section 90, or section 90A, as the case may be, i.e. whichever beneficial, would be the applicable rate of TDS.

e) In the event the aforementioned categories of shareholders require the Acquirer not to deduct tax or to deduct tax at a lower rate or on a lower amount, they would need to obtain a certificate from the income tax authorities either under section 195(3) or under section 197 of the Income Tax Act, and submit the same to Acquirer while submitting the Bid Form. In the absence of any such certificate from the income tax authorities, the Acquirer will deduct tax as aforesaid, and a certificate in the prescribed form shall be issued to that effect.

Shareholders are advised to consult their tax advisors for the treatment that may be given by their respective Assessing Officers in their case, and the appropriate course of action that they should take. The Acquirers and the Manager to the Offer do not accept any responsibility for the accuracy or otherwise of such advice.

The tax rate and other provisions may undergo changes.

11. DOCUMENTS FOR INSPECTION

The following material documents are available for inspection by Shareholders of IIL at the Mumbai office of the Manager to the Offer, SBI Capital Markets Limited, from 10.30 a.m. to 1.00 p.m. on any day, except Saturdays, Sundays and Holidays, until the Offer closes:

1. Memorandum and Articles of Association of the Acquirers and the PACs.
2. Memorandum & Articles of Association of IIL
3. Audited financial statements of HSCI for the financial years ended March 31, 2005, March 31, 2006, March 31, 2007 and the limited audit review for the nine months ended December 31, 2007
4. Audited financial statements of Violet for the period May 08, 2007 to December 31, 2007.
5. Audited financial statements of HIBH for the financial years ended December 31, 2005, December 31, 2006, December 31, 2007
6. Audited financial statements of HBAP for the financial years ended December 31, 2005, December 31, 2006, December 31, 2007.
7. Audited financial statements of IIL for the financial years ended March 31, 2006; March 31, 2007; March 31,2008

8. Copies of The IL&FS Share Purchase Agreement and the E*TRADE Share Purchase Agreement both dated May 16, 2008.

9. Copy of the non-compete agreement dated May 16, 2008 entered between HSCI and IL&FS.

10. Copy of the board resolution dated May 16, 2008 passed by the Acquirers.

11. Copy of the Escrow Agreement dated May 17, 2008 entered into between SBI Capital Markets Limited, State Bank of India and HSCI in accordance with Regulation 28 of the SEBI (SAST) Regulations.

12. Copy of the agreement with Depository Participant for opening a special depository Escrow account.

13. Published copy of Public Announcement dated May 19, 2008.

14. Copy of the letter from BSR & Associates, Chartered Accountants dated May 17, 2008 confirming that HSCI has made firm arrangements to meets its financial obligations under the open offer to be made by the Acquirers to the Shareholders of the Target Company.

15. SEBI observation letter no. CFD/DCR/TO/AK/129765/2008 dated June 24, 2008.

12. DECLARATION BY ACQUIRERS AND PACs

The directors of the Acquirers and PACs accept responsibility for the information contained in this Letter of Offer Form of Acceptance and Form of Withdrawal. The Acquirers and the PACs are jointly and severally responsible for fulfillment of their respective obligations under the SEBI (SAST) Regulations. Sonal Dave, Vice Chairman and Chief Operating Officer, HSCI has been authorized by HSCI, Blair Harden, Director, Violet has been authorized by Violet, Peter John Reid, Director, HIBH has been authorized by HIBH and Winston Cham Chiu, Director of Corporate Strategy and Development, HBAP has been authorized by HBAP to sign the Letter of Offer.

For **HSBC Securities and Capital Market India (Private) Limited**

Sd/-
Authorized Signatory

Date: June 27, 2008 Place : Mumbai

For **HSBC Violet Investments (Mauritius) Limited**

Sd/-
Authorized Signatory

Date: June 27, 2008 Place : Hong Kong

For **HSBC Investment Bank Holdings BV**

Sd/-
Authorized Signatory

Date: June 27, 2008 Place : London

For **The Hongkong and Shanghai Banking Corporation Limited, Hong Kong**

Sd/-
Authorized Signatory

Date: June 27, 2008 Place : Hong Kong

Encl :

1. Form of Acceptance
2. Form of Withdrawal
3. Transfer Deed for shareholders holding shares in physical form.

TEAR HERE

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION
FORM OF ACCEPTANCE-CUM-ACKNOWLEDGEMENT
IL&FS Investsmart Limited Open Offer

From
Folio No./DP ID No./Client ID No.:

OFFER OPENS ON	:	**Friday, July 11, 2008**
OFFER CLOSES ON	:	**Wednesday, July 30, 2008**

To,

The Acquirers : IIL - Open Offer
C/o Karvy Computershare Private Limited
Karvy House, 46, Avenue 4,
Street No. 1, Banjara Hills,
Hyderabad - 500 034

Please tick (✓) shareholders status (For taxation/TDS purpose)	
	Person resident in India who is an individual/HUF/Association of Persons, having an aggregate income upto Rs. 10,00,000
	Person resident in India who is an individual/HUF/Association of Persons, having an aggregate income exceeding Rs. 10,00,000
	Person resident in India who is a partnership firm
	Person resident in India who is a domestic company
	Person resident outside India who is a company
	Person resident outside India who is an individual/association of persons having an aggregate income upto Rs. 10,00,000
	Person resident outside India who is an individual/association of persons having an aggregate income exceeding Rs. 10,00,000
	Domestic venture capital fund and mutual Fund who is a domestic company
	International venture Capital Fund who is a domestic Company
	International venture Capital Fund who is a foreign Company
	Person resident outside India which is a Partnership firm
	Non-Resident Indian(s)
	Foreign Institutional Investors
	Multilateral Agency
	Bilateral Development Financial Institution
	Financial Institutions
	Banks
	Insurance Company
	Others (Specify ______________)

Dear Sir,

Sub: Open Offer to acquire up to 1,44,22,255 equity shares of Rs.10/- each representing 20.65% of the paid-up equity capital of IL&FS Investsmart Limited by HSBC Securities and Capital Markets (India) Private Limited ("HSCI"), HSBC Violet Investments (Mauritius) Limited ("Violet"), together referred to as "the Acquirers" alongwith HSBC Investment Bank Holdings BV ("HIBH") (person acting in concert with HSCI) and The Hongkong and Shanghai Banking Corporation Limited, Hong Kong ("HBAP") (person acting in concert with Violet) (collectively being the Persons Acting in Concert ("PACs") with the Acquirers) in terms of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and amendments thereto. ("Regulations")

I/We refer to the Letter of Offer dated June 27, 2008 for acquiring the equity shares held by me/us in IL&FS Investsmart Limited. I/We, the undersigned have read the Letter of offer and understood their contents including the terms and conditions as mentioned therein.

❑ SHARES IN DEMATERIALIZED FORM

I/We, holding Shares in the dematerialised form, accept the Offer and enclose the photocopy of the Delivery Instruction in "Off-market" mode, duly acknowledged by the Depository Participant ("DP") in respect of my shares as detailed below :

DP Name	DP ID	Client ID	Beneficiary Name	No. of Shares

Depository Name	National Securities Depository Limited
DP Name	Karvy Stock Broking Ltd
DP ID Number	IN302470
Client ID	40232039
Beneficiary Account Name	KCPL ESCROW A/c - IIL OPEN OFFER
ISIN	INE800B01013
Market	Off market

— — — — — — — — — — TEAR ALONG THIS LINE — — — — — — — — — —

ACKNOWLEDGEMENT SLIP
IL&FS Investsmart Limited Open Offer

Received from Mr./Ms./ M/s. ______________ residing at ______________________

a Form of Acceptance cum Acknowledgement for ______________________ shares along with :

☐ Copy of delivery instruction slip from DP ID ______________________ Client ID ______________

☐ __________ Share Certificate(s) __________ transfer deed(s) under folio number (s)__________ for accepting the Offer made by the Acquirers

Stamp of Collection Centre :		**Signature of Official :**		**Date of Receipt :**	

I/ We note and understand that the Shares would lie in the special depository account until the time the Acquirers dispatches the purchase consideration as mentioned in the Letter of Offer. I/We also note and understand that the Acquirers will pay the purchase consideration only after verification of the documents and signatures.

❑ SHARES IN PHYSICAL FORM

I/We, accept the Offer and enclose the original share certificate (s) and duly signed transfer deed(s) in respect of my/our Shares as detailed below:

S. No.	Ledger Folio No(s).	Certificate No(s)	Distinctive No(s)		No. of Shares
			From	To	
1					
2					
3					
4					
5					
(In case the space provided in inadequate, please attach a separate sheet with details) **Total No. of Equity Shares**					

I/We note and understand that the Registrar to the Offer will hold the original share certificate(s) and valid share transfer deed in trust for me/us until the time the Acquirers dispatches the purchase consideration as mentioned in the Letter of Offer. I/We also note and understand that the Acquirers will pay the purchase consideration only after verification of the documents and signatures.

For NRIs/OCBs/FIIs/Foreign Shareholders :

I/We have enclosed the following documents:

- ☐ No Objection Certificate/Tax Clearance Certificate from Income Tax Authorities.
- ☐ RBI approvals for acquiring Shares of IL&FS Investsmart Limited hereby tendered in the Offer.

Bank Details

So as to avoid fraudulent encashment in transit, the shareholder(s) holding Shares in physical form should provide details of bank account of the first/sole shareholder and the consideration cheque or demand draft will be drawn accordingly. For Shares that are tendered in demat form, the Bank account as obtained from the beneficiary download to be provided by the depositories will be considered and the warrants will be issued with the said Bank particulars, and not any details provided herein.

Name of the Bank		Branch	
Account No.		Current/Savings/ (Others : please specify)	

I/We confirm that the equity shares of IL&FS Investsmart Limited, which are being tendered herewith by me/us under this Offer, are free from liens, charges and encumbrances of any kind whatsoever.

I/We authorize the Acquirers to accept the Shares so offered which it may decide to accept in consultation with the Manger to the Offer and in terms of the Letter of Offer and I/We further authorize the Acquirers to return to me/us, Share certificates(s)/Shares in respect of which the Offer is not found valid/not accepted without specifying the reasons thereof.

I/We authorize the Acquirers and the Registrar to the Offer and the Manager to the Offer to send by Registered Post/UPC as may be applicable at my/our risk, the draft/cheque/warrant, in full and final settlement of the amount due to me/us and/or other documents or papers or correspondence to the sole/first holder at the address mentioned below. In case I have tendered my Shares in dematerialised form, I authorize Acquirers and the Registrar to the Offer and the Manger to the Offer to use my details regarding my address and bank account details as obtained from my depository participant for the purpose of mailing the aforementioned instruments.

I/we authorize the Acquirers to accept the Shares so offered or such lesser number of Shares that it may decide to accept in terms of the Letter of Offer and I/We authorize the Acquirers to split / consolidate the share certificates comprising the Shares that are not acquired to be returned to me/us and for the aforesaid purposes the Acquirers is hereby authorized to do all such things and execute such documents as may be found necessary and expedient for the purpose.

Yours faithfully,

Signed and Delivered

	FULL NAME(S) OF THE SHAREHOLDERS	SIGNATURE(S)
First / Sole Holder		
Joint Holder 1		
Joint Holder 2		
Joint Holder 3		

Address of First / Sole Shareholder

Place: Date:

— — — — — — — — — — — — — — — — TEAR ALONG THIS LINE — — — — — — — — — — — — — — — —

All future correspondence, if any, should be addressed to the Registrar to the Offer at the following address quoting your reference Folio No. / DP ID / Client ID

Karvy Computershare Private Limited
(Unit: IL&FS Investsmart Limited- Open Offer)
Karvy House, 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad – 500 034
Tel: (91) – 40 – 23420815-23; **Fax :** (91) – 40 – 23420814

FORM OF WITHDRAWAL

IL&FS Investsmart Limited Open Offer

From
Folio No./DP ID No./Client ID No.:

OFFER OPENS ON	:	**Friday, July 11, 2008**
LAST DATE OF WITHDRAWAL	:	**Friday, July 25, 2008**
OFFER CLOSES ON	:	**Wednesday, July 30, 2008**

To,

The Acquirers : IIL - Open Offer
C/o Karvy Computershare Private Limited
Karvy House, 46, Avenue 4,
Street No. 1, Banjara Hills,
Hyderabad - 500 034

Please tick (✓) shareholders status (For taxation/TDS purpose)	
	Person resident in India who is an individual/HUF/Association of Persons, having an aggregate income upto Rs. 10,00,000
	Person resident in India who is an individual/HUF/Association of Persons, having an aggregate income exceeding Rs. 10,00,000
	Person resident in India who is a partnership firm
	Person resident in India who is a domestic company
	Person resident outside India who is a company
	Person resident outside India who is an individual/association of persons having an aggregate income upto Rs. 10,00,000
	Person resident outside India who is an individual/association of persons having an aggregate income exceeding Rs. 10,00,000
	Domestic venture capital fund and mutual Fund who is a domestic company
	International venture Capital Fund who is a domestic Company
	International venture Capital Fund who is a foreign Company
	Person resident outside India which is a Partnership firm
	Non-Resident Indian(s)
	Foreign Institutional Investors
	Multilateral Agency
	Bilateral Development Financial Institution
	Financial Institutions
	Banks
	Insurance Company
	Others (Specify ______________________)

TEAR HERE

Dear Sir,

Sub: **Open Offer to acquire up to 1,44,22,255 equity shares of Rs.10/- each representing 20.65% of the paid-up equity capital of IL&FS Investsmart Limited by HSBC Securities and Capital Markets (India) Private Limited ("HSCI"), HSBC Violet Investments (Mauritius) Limited ("Violet"), together referred to as "the Acquirers" alongwith HSBC Investment Bank Holdings BV ("HIBH") (person acting in concert with HSCI) and The Hongkong and Shanghai Banking Corporation Limited, Hong Kong ("HBAP") (person acting in concert with Violet) (collectively being the Persons Acting in Concert ("PACs") with the Acquirers) in terms of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 and amendments thereto. ("Regulations")**

I/We refer to the Letter of Offer dated June 27, 2008 for acquiring the equity shares held by me/us in IL&FS Investsmart Limited. I/We, the undersigned have read the Letter of offer and understood their contents including the terms and conditions as mentioned therein.

I/We hereby consent unconditionally and irrevocable to withdraw my/our Shares from the Offer and I/we further authorize the Acquirers to return to me / us, the tendered Share Certificate(s) / Share (s) at my / our sole risk.

I/We note that upon withdrawal of my / our Shares from the Offer, no claim or liability shall lie against the Acquirers / Manager to the Offer / Registrar to the Offer.

I / We note that this Form of Withdrawal should reach the Registrar to the Offer on or before the last date of withdrawal i.e. Friday, July 25, 2008.

I / We note the Acquirers / Manager to the Offer / Registrar to the Offer shall not be liable for any postal delay / loss in transit of the Shares held in physical form and also for the non-receipt of Shares held in the dematerialised form in the DP account due to inaccurate / incomplete particulars / instructions.

I/ We also note and understand that the Acquirers will return the original share certificate(s), share transfer deed(s) / Shares in dematerialised form only on completion of verification of the documents, signatures and beneficiary position as available with the depositories from time to time.

— — — — — — — — — — — — — — — — TEAR ALONG THIS LINE — — — — — — — — — — — — — — — —

ACKNOWLEDGEMENT SLIP

IL&FS Investsmart Limited Open Offer

Received from Mr./Ms./ M/s. ____________________ residing at ____

______________________________ a Form of Withdrawal for ______________________ shares along with :

☐ Copy of delivery instruction slip from DP ID ______________________ Client ID ______________________

☐ Copy of acknowledgement slip issued when depositing dematerialised Shares

☐ Copy of acknowledgement slip issued when depositing physical Shares for withdrawing from the Offer made by the Acquirers

Stamp of Collection Centre :		**Signature of Official :**		**Date of Receipt :**	

The particulars of tendered original share certificate (s) and duly signed transfer deed(s) are detailed below:

S. No.	Ledger Folio No(s).	Certificate No(s).	Distinctive No(s)		No. of Shares
			From	To	
1					
2					
3					
4					
5					
(In case the space provided in inadequate, please attach a separate sheet with details) **Total No. of Equity Shares**					

I/ We hold the following Shares in dematerialised form and had executed an off-market transaction for crediting the Shares to the "KCPL ESCROW A/c - IIL OPEN OFFER". Please find enclosed a photocopy of the depository delivery instruction(s) duly acknowledged by DP. The particulars of the account from which my / our Shares have been tendered are as follows:

DP Name	DP ID	Client ID	Beneficiary Name	No. of Shares

I / We note that the Shares will be credited back only to that depository account, from which the Shares have been tendered and necessary standing instructions have been issued in this regard.

I/ We confirm that the particulars given above are true and correct.

In case of dematerialised Shares, I / we confirm that the signatures have been verified by the DP as per their records and the same have been duly attested.

Yours faithfully,

Signed and Delivered

	FULL NAME(S) OF THE SHAREHOLDERS	SIGNATURE(S)
First / Sole Holder		
Joint Holder 1		
Joint Holder 2		
Joint Holder 3		

Address of First / Sole Shareholder ______________________________

Place:

Date:

— — — — — — — — — — — — — — — — TEAR ALONG THIS LINE — — — — — — — — — — — — — — — —

All future correspondence, if any, should be addressed to the Registrar to the Offer at the following address quoting your reference Folio No. / DP ID /Client ID

Karvy Computershare Private Limited
(Unit: IL&FS Investsmart Limited- Open Offer)
Karvy House, 46, Avenue 4, Street No. 1, Banjara Hills, Hyderabad – 500 034
Tel: (91) – 40 – 23420815-23; **Fax :** (91) – 40 – 23420814

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