

DBS Group Holdings Ltd and its Subsidiary Companies

Directors' Report

The Directors are pleased to submit their report to the Members together with the audited consolidated financial statements of DBS Group Holdings Ltd ("DBSH") for the financial year ended December 31, 2002, which have been prepared in accordance with the provisions of the Singapore Companies Act and Singapore Statements of Accounting Standard.

BOARD OF DIRECTORS

The Directors in office at the date of this report are:

S Dhanabalan	–	Chairman
Jackson Tai	–	Chief Executive Officer & Vice Chairman
Ng Kee Choe	–	Vice Chairman (Appointed on December 17, 2002)
Bernard Chen Tien Lap		
Fock Siew Wah		
Gail D. Fosler (Ms)		
Tommy Koh Thong-Bee		
Moses Lee Kim Poo		
Leung Chun Ying	–	(Appointed on July 22, 2002)
John Alan Ross	–	(Appointed on February 6, 2003)
Thean Lip Ping	–	(Appointed on September 9, 2002)
Yeo Ning Hong		

In accordance with Article 95 of DBSH's Articles of Association, Mr Jackson Tai and Ms Gail D. Fosler, will retire and being eligible, will offer themselves for re-election pursuant to Article 96.

In accordance with Article 101 of DBSH's Articles of Association, Messrs Ng Kee Choe, Leung Chun Ying and John Alan Ross will retire and, being eligible, will offer themselves for re-election pursuant to Article 101.

Mr Thean Lip Ping will retire pursuant to Section 153(2) of the Singapore Companies Act, Chapter 50. A resolution will be proposed for his reappointment under Section 153(6) of the said Act to hold office until the next Annual General Meeting of DBSH.

PRINCIPAL ACTIVITIES

The principal activities of DBSH Group consist of the business of investment holding, banking and financing, the provision of mortgage financing, lease and hire purchase financing, corporate advisory services, nominee and trustee services, funds management services, stockbroking, primary dealership in Singapore Government securities, merchant banking, factoring, credit card and venture capital operations, and other financial services. There have been no significant changes in the nature of these activities during the financial year.

ACQUISITION AND DISPOSAL OF SUBSIDIARY COMPANIES

(a) Acquisition of additional interest in subsidiary companies

(i) DBS Diamond Holdings Ltd ("DDH")

On January 10, 2003, DBS Bank exercised its Call Option on the minority shareholders of DDH. Under the Call Option, DBS Bank had the right to require each DDH minority shareholder to sell his shares in DDH, by giving a notice within a period of seven business days following December 31, 2002, at a purchase price of HK\$21.70 per share. The financial statements of DBSH Group at December 31, 2002 took into account the effect of the exercise of the Call Option, and reflected an increase in DBS Bank's equity interest in DDH from 71.6% to 100%.

Goodwill arising from the acquisition of the remaining 28.4% interest in DDH amounted to S\$2,684 million. This was computed based on the difference between the total consideration paid of S\$3,555 million and DBS Bank's 28.4% interest in the fair values of identifiable assets and liabilities of DDH Group of S\$871 million at the same date. The goodwill will be amortised over a period of 19 years from January 2003.

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(ii) DBS Group Holdings (Hong Kong) Ltd ("DBSG HK")

On May 7, 2002, DBS Bank acquired the remaining 12.7% DBSG HK held by minority shareholders. DBSG HK owns all the issued share capital of DBS Kwong on Bank Limited ("DKOB"). The total consideration paid for the acquisition was HK\$907 million (S\$212 million). The consideration comprised 15,135,535 new DBSH ordinary shares of par value S\$1.00 each at an issue price of S\$13.92 per DBSH ordinary share, and cash consideration of HK\$4 million (S\$1 million). Upon completion of the transaction, DBSH's effective equity interest in DBSG HK increased from 87.3% to 100%.

Goodwill arising from the acquisition of the remaining 12.7% interest in DBSG HK amounted to S\$83 million. This was computed based on the difference between the total consideration paid of S\$212 million and DBS Bank's 12.7% interest in the fair values of identifiable assets and liabilities of DBSG HK Group of S\$129 million at the same date. The goodwill is amortised over a period of 17 years from May 2002.

(b) Disposal of subsidiary companies

(i) Dao Heng Assurance Ltd ("DHA") and DBS Kwong On Insurance Ltd ("DKOI")

On June 6, 2002, Dao Heng Bank Group Limited ("DHG"), an indirect 71.6% owned subsidiary company of DBSH, and DBS Kwong On Bank Limited ("DKOB"), an indirect wholly owned subsidiary company of DBSH, under a conditional sale and purchase agreement, disposed their wholly owned insurance subsidiary companies, DHA and DKOI, to Commercial Union International Holdings Limited for a total cash consideration of HK\$295 million (S\$66 million) and HK\$31 million (S\$7 million) respectively. The net attributable tangible assets of DHA and DKOI at the date of disposal were HK\$142 million (S\$32 million) and HK\$31 million (S\$7 million) respectively. On completion of the sale, DHA and DKOI have ceased to be subsidiary companies of DBSH Group.

As part of this transaction, DHG Group also entered into a Life Insurance Bancassurance Distribution Agreement and a General Insurance Bancassurance Distribution Agreement (the "Agreements") with Aviva Ltd (formerly known as CGNU International Insurance PLC ("CGNU")). Under the Agreements, DHG Group entered into an exclusive arrangement to distribute CGNU life and general insurance products throughout its banking network in Hong Kong. The term of the Agreements is ten years.

The difference between the consideration received and the fair value of the assets and liabilities disposed will be recognised over the term of the Agreements as commission income to offset the costs incurred to meet DHG Group's obligations and responsibilities over the life of the Agreements, including the provision of employees, IT and other resources.

(ii) DBS Capital Trust Securities India Pvt Ltd ("DBS CT")

On October 8, 2002, DBS Vickers Securities Holdings Pte Ltd, an indirect 59.5% owned subsidiary company of DBSH, disposed its 75% equity stake in DBS CT for a total cash consideration of INR107 million (S\$4 million). The net attributable tangible assets of DBS CT at the date of disposal was INR144 million (S\$5 million). On completion of the sale, DBS CT has ceased to be a subsidiary company of DBSH Group.

- (iii) During the financial year, indirect subsidiary companies liquidated include DBS Pte Ltd, Thai Danu-DBS Co Ltd, Singapore Bankers Club Pte Ltd, Oriental Hearts International Limited, Pan Shine Investments Limited, and DBS Kwong On Property Agency Company Limited.

Save as aforesaid, there have been no other acquisition or disposal of subsidiary companies during the financial year.

RESULTS FOR THE FINANCIAL YEAR ENDED DECEMBER 31, 2002

S\$'million	DBSH	DBSH GROUP
Net profit after taxation	1,505	1,150
Less: Minority interests	–	133
Net profit attributable to members	1,505	1,017

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TRANSFERS TO/(FROM) RESERVES

Material movements to or from reserves during the financial year are set out in the notes to the financial statements.

SHARE AND DEBENTURE ISSUES

During the financial year:

- (a) On May 7, 2002, DBSH issued 15,135,535 ordinary shares of par value S\$1.00 each at an issue price of S\$13.92 per share, amounting to S\$211 million, as purchase consideration for the acquisition of additional interest in a subsidiary company.
- (b) During the financial year, pursuant to the DBSH Share Option Scheme (the "Option Scheme") and DBSH Share Option Plan (the "Option Plan"), DBSH issued the following ordinary shares of par value S\$1.00 each, fully paid in cash upon the exercise of options granted:

DBSH Share Option Scheme	Number of ordinary shares issued	Subscription price per ordinary share
1997 DBSH Options	1,163,596	S\$7.29
1998 DBSH Options	213,156	S\$7.69
	<hr/> 1,376,752 <hr/>	

- (c) During the financial year, DBSH issued 5,497,260 ordinary shares of par value S\$1.00 each, fully paid in cash upon the conversion of the non-voting convertible preference shares.

The newly issued shares rank pari passu in all respects with the previously issued shares.

During the financial year, the following subsidiary company issued shares and debentures as stated below:

The Development Bank of Singapore Ltd ("DBS Bank")

- (i) On May 7, 2002, DBS Bank issued 210,686,648 ordinary shares of par value S\$1.00 each for S\$211 million to DBSH, for general corporate purposes.
- (ii) On December 23, 2002, DBS Bank issued 115,570,480 ordinary shares of par value S\$1.00 each for S\$1,306 million to DBSH, for general corporate purposes.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Neither at the end of nor at any time during the financial year, was DBSH a party to any arrangement, the object of which, is to enable the Directors to acquire benefits through the acquisition of shares in or debentures of DBSH or any other body corporate save as disclosed in this report under the headings "DIRECTORS' INTEREST IN SHARES AND DEBENTURES", "SHARE OPTIONS" and "DBSH PERFORMANCE SHARE PLAN".

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DIRECTORS' INTEREST IN SHARES AND DEBENTURES

According to the register of Directors' shareholdings kept pursuant to Section 164 of the Singapore Companies Act, the under-mentioned persons were Directors of DBSH at the end of the financial year and their interests in shares in DBSH/DBS Bank were as follows:

	Holdings in which Directors have a direct interest		Holdings in which Directors are deemed to have an interest	
	As at Dec 31 2002	As at Dec 31 2001 (or date of appointment if later)	As at Dec 31 2002	As at Dec 31 2001 (or date of appointment if later)
Ordinary shares of par value S\$1.00 each				
S Dhanabalan	35,000	25,000	31,534	31,534
Jackson Tai	44,050	11,250	–	–
Ng Kee Choe (as at 17/12/02)	286,473	286,473	–	–
Bernard Chen Tien Lap	19,000	19,000	–	–
Fock Siew Wah	50,000	50,000	–	–
Gail D. Fosler	3,400	3,400	–	–
Tommy Koh Thong-Bee	4,200	4,200	–	–
Moses Lee Kim Poo	–	–	–	–
Leung Chun Ying (as at 22/7/02)	–	–	–	–
John Alan Ross (as at 6/2/03)	–	–	–	–
Thean Lip Ping (as at 9/9/02)	6,448	6,448	15,004	15,004
Yeo Ning Hong	10,000	10,000	–	–
Unissued ordinary shares of par value S\$1.00 each under the DBSH share option scheme				
Ng Kee Choe (as at 17/12/02)	75,600	75,600	–	–
Unissued ordinary shares of par value S\$1.00 each under the DBSH share option plan				
Jackson Tai	287,375	187,375	–	–
Ng Kee Choe (as at 17/12/02)	364,400	364,400	–	–
Number of DBS Bank 6% non-cumulative non-convertible perpetual preference shares of par value S\$0.01 each				
	As at Dec 31 2002	As at Dec 31 2001 (or date of appointment if later)	As at Dec 31 2002	As at Dec 31 2001 (or date of appointment if later)
S Dhanabalan	500	500	–	–
Jackson Tai	250	250	–	–
Ng Kee Choe (as at 17/12/02)	2,500	–	–	–
Thean Lip Ping (as at 9/9/02)	–	–	500	500

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DIVIDENDS

Dividends paid or proposed since the end of DBSH's last financial year ended December 31, 2001 were as follows:

	S\$ million
(a) paid in respect of the financial year ended December 31, 2001:	
(i) a final dividend on ordinary shares of 16% less 22% income tax:	
– as proposed in the Directors' Report for that year	175
– not provided for in the 2001 financial statements arising from conversion of DBSH non-voting convertible preference shares (CPS) to ordinary shares and exercise of options under the Option Scheme and Option Plan; and change in tax rate	8
(ii) a final dividend on DBSH non-voting CPS of 16% less 22% income tax:	
– as proposed in the Directors' Report for that year	3
– write-back of excess provisions in 2001 financial statements arising from conversion of DBSH non-voting CPS to ordinary shares	#
(iii) a final dividend on DBSH non-voting redeemable CPS of 16% less 22% income tax:	
– as proposed in the Directors' Report for that year	8
(b) paid in respect of the financial year ended December 31, 2002:	
(i) an interim dividend on ordinary shares of 14% less 22% income tax	160
(ii) an interim dividend on DBSH non-voting CPS of 14% less 22% income tax	3
(iii) an interim dividend on DBSH non-voting redeemable CPS of 14% less 22% income tax	7
(c) proposed in respect of the financial year ended December 31, 2002:	
(i) a final dividend on ordinary shares of 16% less 22% income tax	183
(ii) a final dividend on DBSH non-voting CPS of 16% less 22% income tax	3
(iii) a final dividend on DBSH non-voting redeemable CPS of 16% less 22% income tax	8
# Amount under S\$500,000	

The Directors will at the Annual General Meeting recommend for approval the payment of the final dividend as per (c) above.

BAD AND DOUBTFUL DEBTS

Before the financial statements of DBSH were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of and provision for bad and doubtful debts. They have satisfied themselves that all known bad debts have been written off and that, where necessary, adequate provision has been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances that would render the amounts written off or provided for bad and doubtful debts in the financial statements of DBSH and of DBSH Group inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of DBSH were made out, the Directors took reasonable steps to ensure that any current assets of DBSH which were unlikely to realise their book values in the ordinary course of business have been written down to their estimated realisable values or that adequate provision has been made for the diminution in values of such current assets.

At the date of this report, the Directors are not aware of any circumstances that would render the values attributed to current assets in the financial statements of DBSH and of DBSH Group misleading.

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CHARGES AND CONTINGENT LIABILITIES

At the date of this report:

- (a) no charge on the assets of DBSH or of DBSH Group has arisen since the end of the financial year which secures the liabilities of any other person, and
- (b) no contingent liability of DBSH or of DBSH Group has arisen since the end of the financial year other than those normally undertaken in the course of the activities of DBSH or of DBSH Group.

ABILITY TO MEET OBLIGATIONS

No contingent or other liability has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of DBSH and of DBSH Group to meet their obligations as and when they fall due.

OTHER CIRCUMSTANCES AFFECTING THE FINANCIAL STATEMENTS

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of DBSH and of DBSH Group which would render any amounts stated in the financial statements of DBSH and of DBSH Group misleading.

UNUSUAL ITEMS

In the opinion of the Directors, no item, transaction or event of a material and unusual nature has:

- (a) substantially affected the results of the operations of DBSH and of DBSH Group during the financial year, and
- (b) arisen in the interval between the end of the financial year and the date of this report which would affect substantially the results of the operations of DBSH and of DBSH Group for the financial year in which this report is made, other than post balance sheet events as described under "SUBSEQUENT EVENTS".

DIRECTORS' CONTRACTUAL BENEFITS

Since the end of the previous financial year, no Director has received or has become entitled to receive a benefit under a contract which is required to be disclosed by Section 201(8) of the Singapore Companies Act save as disclosed in this report or in the financial statements of DBSH and of DBSH Group.

SHARE OPTIONS

(a) DBSH SHARE OPTION SCHEME

The DBSH Share Option Scheme (the "Option Scheme") was adopted by the shareholders of DBSH at an Extraordinary General Meeting held on September 18, 1999, to replace the DBS Bank Share Option Scheme (the "DBS Bank Option Scheme") previously implemented by DBS Bank, following the restructuring of DBS Bank as a wholly owned subsidiary company of DBSH.

The Option Scheme was terminated on October 18, 1999, and the outstanding existing unexercised options (the "DBSH Options") will continue to remain valid until the date of expiration of the relevant DBSH Options. Particulars of the share options granted under the Option Scheme in 1998 (herewith called "1998 DBSH Options") have been set out in the Directors' Report for the year ended December 31, 1998 except for the modification in Rules 1, 4 and 8 of the Option Scheme.

Save as disclosed in this report under the heading "SHARE AND DEBENTURE ISSUES", no shares of DBSH were issued during the financial year to which this report relates by virtue of the exercise of the DBSH Options to take up unissued ordinary shares of DBSH pursuant to the Option Scheme, whether granted before or during the financial year.

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At the end of the financial year, unissued ordinary shares of DBSH of par value S\$1.00 each comprised in outstanding DBSH Options granted under the Option Scheme are as follows:

	Number of unissued ordinary shares	Subscription price per ordinary share	Date of expiration
1998 DBSH Options	906,788	S\$7.69	April 7, 2003
	<u>906,788</u>		

The persons to whom the DBSH Options have been granted do not have any right to participate by virtue of the DBSH Options in any share issue of any other company.

(b) DBSH SHARE OPTION PLAN

The DBS Bank Share Option Plan (the "DBS Bank Option Plan") was adopted by the shareholders of DBS Bank at an Extraordinary General Meeting of DBS Bank held on June 19, 1999 to replace the DBS Bank Option Scheme. At an Extraordinary General Meeting held on September 18, 1999, the shareholders of DBSH adopted the DBSH Share Option Plan (the "Option Plan") to replace the DBS Bank Option Plan, following the restructuring of DBS Bank as a wholly owned subsidiary company of DBSH. Particulars of the share options granted under the Option Plan in 1999, 2000 and 2001 (herewith called "1999 DBSH Options", "March/July 2000 DBSH Options" and "March/June/August 2001 DBSH Options" respectively) have been set out in the Directors' Reports for the years ended December 31, 1999, 2000 and 2001 respectively.

During the financial year, in consideration of the payment of S\$1.00 for each option granted, options in respect of 14,285,000 (January 2002: 50,500; March 2002: 12,876,240; August 2002: 1,329,000; October 2002: 9,260; December 2002: 20,000) unissued ordinary shares of par value S\$1.00 each in DBSH ("January 2002 DBSH Options", "March 2002 DBSH Options", "August 2002 DBSH Options", "October 2002 DBSH Options" and "December 2002 DBSH Options") were granted pursuant to the Option Plan to executives of DBSH Group of the rank of Vice President (or equivalent) and above; as well as to selected employees of DBSH Group of a rank below the rank of Vice President (or equivalent). Options in respect of a total of 300,000 unissued ordinary shares were granted to executive directors Mr Philippe Paillart (resigned on June 22, 2002) and Mr Jackson Tai during the financial year.

Statutory and other information regarding the Option Plan and the "January 2002 DBSH Options", "March 2002 DBSH Options", "August 2002 DBSH Options", "October 2002 DBSH Options" and "December 2002 DBSH Options" granted under the Option Plan are as follows:

- (i) Subject to prevailing legislation, the following categories of individuals are currently eligible to participate in the Option Plan:
- DBSH Group executives who hold the rank of Vice President (or equivalent or analogous rank) and above and selected employees of the DBSH Group of a rank below the rank of Vice President (or equivalent or analogous rank);
 - Executives of associated companies of the DBSH Group over which DBSH has control who hold the rank of Vice President (or equivalent or analogous rank) and above; and
 - Non-executive directors of DBSH.

The persons to whom the "January 2002 DBSH Options", "March 2002 DBSH Options", "August 2002 DBSH Options", "October 2002 DBSH Options" and "December 2002 DBSH Options" have been granted may be eligible to participate in the DBSH Performance Share Plan or other equivalent plans, but shall not be eligible to participate in the DBSH Employee Share Plan or other equivalent plans.

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- (ii) The dates of expiration of the "January 2002 DBSH Options", "March 2002 DBSH Options", "August 2002 DBSH Options", "October 2002 DBSH Options" and "December 2002 DBSH Options" are January 1, 2012, March 27, 2012, August 15, 2012, October 9, 2012 and December 17, 2012 respectively unless any such Option lapses prior to such date by reason of Rules 7 and 8 of the Option Plan relating to the cessation of service of the participant, or the retirement, redundancy, ill health, injury, disability, death, bankruptcy or misconduct of the participant, or the participant, being a non-executive director, ceases to be a director, or a takeover, winding-up or reconstruction of DBSH, after the grant of the DBSH Option.
- (iii) The subscription price for each share in respect of which a DBSH Option (other than "January 2002 DBSH Options", "March 2002 DBSH Options", "August 2002 DBSH Options", "October 2002 DBSH Options" and "December 2002 DBSH Options") is exercisable is the average of the last dealt prices ("Market Price") for the DBSH shares, as determined by reference to the daily official list published by the Singapore Exchange Securities Trading Ltd ("SGX-ST"), for the three consecutive trading days immediately preceding the date of the grant.
- (iv) DBSH Options with subscription prices that are equal to the Market Price may be exercised, in whole or in part, one year after the date of the grant up to the date of expiration of the options, and in accordance with a vesting schedule to be determined by the Compensation Committee.
- (v) Adjustments may be made to the number of DBSH shares which may be acquired by a participant, or the subscription price or both, in the event of any variation in the issued ordinary share capital of DBSH (whether by way of a capitalisation of profits or reserves or rights issue, reduction, subdivision, consolidation, or distribution), upon the written confirmation of the auditors of DBSH that such adjustment (other than in the case of a capitalisation issue) is fair and reasonable.

Save as disclosed in this report under the heading **"SHARE AND DEBENTURE ISSUES"**, no shares of DBSH were issued during the financial year to which this report related by virtue of the exercise of any DBSH Options, whether granted before or during the financial year.

At the end of the financial year, unissued ordinary shares of DBSH of par value S\$1.00 each comprised in outstanding DBSH Options granted under the Option Plan were as follows:

	Number of unissued ordinary shares	Subscription price per ordinary share	Date of expiration
1999 DBSH Options	4,256,461	S\$15.30	July 27, 2009
March 2000 DBSH Options	1,697,000	S\$20.87	March 5, 2010
July 2000 DBSH Options	1,153,800	S\$22.33	July 26, 2010
March 2001 DBSH Options	12,193,000	S\$17.70	March 14, 2011
June 2001 DBSH Options	21,000	S\$14.76	May 31, 2011
August 2001 DBSH Options	1,500,000	S\$12.93	July 31, 2011
October 2001 DBSH Options	11,655	S\$10.73	October 30, 2011
January 2002 DBSH Options	50,500	S\$13.70	January 1, 2012
March 2002 DBSH Options	12,328,240	S\$14.73	March 27, 2012
August 2002 DBSH Options	1,290,000	S\$12.27	August 15, 2012
October 2002 DBSH Options	9,260	S\$11.73	October 9, 2012
December 2002 DBSH Options	20,000	S\$11.47	December 17, 2012
	34,530,916		

Other than the DBSH Options granted under the Option Scheme and the DBSH Options granted under the Option Plan as disclosed herein, there were no outstanding options granted by DBSH as at the end of the financial year.

The persons to whom the DBSH Options have been granted do not have any right to participate by virtue of the DBSH Options in any share issue of any other company.

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DBSH PERFORMANCE SHARE PLAN

The DBS Bank Performance Share Plan was adopted by the shareholders of DBS Bank at an Extraordinary General Meeting of DBS Bank held on June 19, 1999. At an Extraordinary General Meeting held on September 18, 1999, the shareholders of DBSH adopted the DBSH Performance Share Plan (the "Performance Share Plan"), to replace the DBS Bank Performance Share Plan, following the restructuring of DBS Bank as a wholly owned subsidiary of DBSH.

During the financial year, awards in respect of an aggregate of 598,380 ordinary shares of par value S\$1.00 each were granted, pursuant to the DBSH Performance Share Plan, to selected employees of DBSH Group.

Statutory and other information regarding the Performance Share Plan are as follows:

- (i) Subject to prevailing legislation, the following categories of individuals are currently eligible to participate in the Performance Share Plan:
 - DBSH Group executives who hold the rank of Vice President (or equivalent or analogous rank) and above and selected employees of the DBSH Group of a rank below the rank of Vice President (or equivalent or analogous rank);
 - Executives of associated companies of the DBSH Group over which DBSH has control who hold the rank of Vice President (or equivalent or analogous rank) and above; and
 - Non-executive directors of DBSH.

The participants of the Performance Share Plan may be eligible to participate in the DBSH Share Option Plan or other equivalent plans, but shall not be eligible to participate in the DBSH Employee Share Plan or other equivalent plans.

- (ii) Participants are awarded ordinary shares of DBSH, their equivalent cash value or combinations thereof ("DBSH Awards"), when the prescribed performance targets are met. The DBSH Awards are granted at the absolute discretion of the Compensation Committee.
- (iii) The Performance Share Plan shall continue to be in force at the discretion of the Compensation Committee, subject to a maximum period of four years from September 18, 1999, provided always that the Performance Share Plan may continue beyond the above stipulated period with the approval of the shareholders of DBSH in general meeting and of any relevant authorities which may then be required.
- (iv) DBSH Awards may be granted at any time in the course of a financial year, and may lapse by reason of cessation of service of the participant, or the retirement, redundancy, ill health, injury, disability, death, bankruptcy or misconduct of the participant, or the participant, being a non-executive director, ceases to be a director, or a takeover, winding-up or reconstruction of DBSH.
- (v) The aggregate nominal amount of new DBSH shares which may be delivered (pursuant to DBSH Awards granted) under the Performance Share Plan, when added to the nominal amount of new DBSH shares issued and issuable in respect of all DBSH Awards granted under the Performance Share Plan, and all options granted under the Option Plan, shall not exceed 15 per cent of the issued share capital of DBSH on the day preceding the relevant date of the DBSH Award. The number of existing DBSH shares purchased from the market which may be delivered pursuant to the DBSH Award will not be subject to any limit.
- (vi) Subject to the prevailing legislation and SGX-ST guidelines, DBSH will have the flexibility to deliver DBSH shares to participants upon vesting of their DBSH Awards by way of an issue of new DBSH shares and/or the purchase of existing DBSH shares.
- (vii) The nominal amount, class and/or number of DBSH shares comprised in a DBSH Award to the extent not yet vested, and/or which may be granted to participants, are subject to adjustment by reason of any variation in the issued ordinary share capital of DBSH (whether by way of a capitalisation of profits or reserves or rights issue, reduction, subdivision, consolidation, or distribution), upon the written confirmation of the auditors of DBSH that such adjustment (other than in the case of a capitalisation issue) is fair and reasonable.

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DBSH EMPLOYEE SHARE PLAN

The DBSH Employee Share Plan (the "Employee Share Plan") is intended to cater to all employees of the DBSH Group and associated companies of the DBSH Group over which DBSH has control who are not eligible to participate in the DBSH Share Option Plan, the DBSH Performance Share Plan or other equivalent plans.

Participants will receive ordinary shares of DBSH ("DBSH shares") free of charge, the equivalent in cash, or combinations thereof, provided that certain prescribed performance targets are met. Participants will be allocated DBSH shares acquired from the market in accordance with guidelines established by DBSH. In respect of each financial year, DBSH will determine the performance targets applicable and the number of DBSH shares to be allocated to each participant or category of participants upon the attainment of such targets. Upon the attainment of the prescribed performance targets, the DBSH shares will be vested with the participants on terms and conditions to be determined by DBSH.

The Employee Share Plan may be altered from time to time at the absolute discretion of DBSH.

During the financial year, an aggregate of 438,940 ordinary shares of par value S\$1.00 each were granted to eligible employees of DBSH Group pursuant to the Employee Share Plan.

SUBSEQUENT EVENTS

On January 10, 2003, DBS Bank exercised its Call Option on the minority shareholders of DBS Diamond Holdings Ltd. Please refer to heading "**ACQUISITION AND DISPOSAL OF SUBSIDIARY COMPANIES**", item (a)(i) for further details.

AUDIT COMMITTEE

The Audit Committee comprised non-executive directors Mr Bernard Chen Tien Lap (Chairman), Professor Tommy Koh Thong-Bee and Mr Moses Lee Kim Poo. As part of its functions, it assists the Board in discharging its responsibilities for the Group's financial announcements, internal control issues and regulatory compliance as well as to oversee the objectivity and effectiveness of the internal and external auditors.

In its review of the audited financial statements for the financial year ended 2002, the Audit Committee has discussed with management and the external auditors the accounting principles that were applied and their judgement on the items that might affect the financials. Based on the review and discussions with management and the external auditors, the Audit Committee is of the view that the financial statements are fairly presented in conformity with generally accepted accounting principles in all material aspects.

The Audit Committee has received the requisite information from PricewaterhouseCoopers (PwC) and has considered the financial, business and professional relationship between PwC and DBSH Group. It is of the view that such relationship is compatible with maintaining PwC's independence.

AUDITORS

In response to the requirement on rotation of auditors, Ernst & Young has been nominated to be the auditors for the ensuing year. The appointment is subject to shareholders' approval at the Annual General Meeting on April 21, 2003.

On behalf of the Directors

S DHANABALAN

JACKSON TAI

February 21, 2003
Singapore