

DBS BANK (HONG KONG) LIMITED

CONTENTS

Report of the directors	1
Report of the auditors	4
Consolidated profit and loss account	5
Consolidated balance sheet	6
Balance sheet	7
Consolidated cash flow statement	8
Consolidated statement of changes in equity	9
Notes to the accounts	10
Unaudited supplementary information	51

DBS BANK (HONG KONG) LIMITED

REPORT OF THE DIRECTORS

The directors of DBS Bank (Hong Kong) Limited (the “Bank”) submit their report together with the audited accounts of the Bank and its subsidiaries (the “Group”) for the year ended 31st December 2004.

Principal activities

The principal activity of the Bank is the provision of banking and related financial services. The principal activities of the subsidiaries are shown in Note 24 to the accounts.

Results and appropriations

The results of the Group for the year ended 31st December 2004 are set out in the consolidated profit and loss account on page 5.

No interim dividend was paid for the year ended 31st December 2004 (year ended 31st December 2003: no interim dividend was paid and a special dividend of approximately HK\$0.653846 per share totalling HK\$3,400,000,000 was paid).

The directors do not recommend the payment of a final dividend for the year ended 31st December 2004 (year ended 31st December 2003: nil).

Reserves

Details of the movements in the reserves of the Bank and the Group during the year are set out in Note 33 to the accounts.

Fixed assets

Details of the movements in fixed assets during the year are set out in Note 25 to the accounts.

Donations

Donations made by the Group during the year amounted to HK\$714,000 (year ended 31st December 2003: HK\$827,000).

Directors

The directors during the year and up to the date of this report are:–

Wong Kwong Shing, Frank – Chairman

Randolph Gordon Sullivan – Chief Executive

Jackson Peter Tai

Fock Siew Wah

Leung Chun Ying

Cheng Wai Chee, Christopher

Chan Tak Kin

Leung Ting Mow, Kenneth

Lo Chung Wing, Victor

(appointed on 16th February 2004)

In accordance with Article 98 of the Bank’s Articles of Association, Mr. Randolph Gordon Sullivan will retire from office at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

In accordance with Article 90 of the Bank’s Articles of Association, Mr. Lo Chung Wing, Victor will retire from office at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

DBS BANK (HONG KONG) LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Interests in contracts

No contract of significance, to which the Bank or any of its subsidiaries or its holding companies or any subsidiary of its holding companies was a party and in which a director of the Bank had a material interest, subsisted at the end of the year or at any time during the year.

Arrangements to acquire shares

The following were arrangements which subsisted at the end of the year or at any time during the year which enabled the directors of the Bank to acquire benefits by means of the acquisition of shares of DBS Group Holdings Ltd. (“DBSH”), the ultimate holding company of the Bank, or to be awarded shares of DBSH.

(a) *DBSH Share Option Plan*

The DBSH Share Option Plan (the “Option Plan”) was adopted by the shareholders of DBSH at an Extraordinary General Meeting held on 18th September 1999.

During the year, options to subscribe for a total of 152,000 shares in DBSH were granted to Messrs. Wong Kwong Shing, Frank, Jackson Peter Tai, Randolph Gordon Sullivan and Chan Tak Kin pursuant to the Option Plan. Mr. Randolph Gordon Sullivan had acquired shares in DBSH by exercising options granted pursuant to the Option Plan during the year under review.

(b) *DBSH Performance Share Plan*

The DBSH Performance Share Plan (“PSP”) is a stock-based plan where DBSH ordinary shares are given free of charge to eligible employees. During the year, Messrs. Wong Kwong Shing, Frank, Jackson Peter Tai, Randolph Gordon Sullivan and Chan Tak Kin were eligible to receive performance shares under the PSP.

(c) *Vesting of Shares*

During the year, a total of 20,870 DBSH shares were vested in Messrs. Wong Kwong Shing, Frank, Jackson Peter Tai and Chan Tak Kin under the PSP.

Apart from the above, at no time during the year was the Bank or any of its subsidiaries or its holding companies or any subsidiary of its holding companies a party to any arrangement to enable the directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Management contracts

On 12th November 2002, an Information Technology Outsourcing Agreement (the “IBM Agreement”) was entered into between the Bank and IBM China/Hong Kong Limited (“IBM”) in relation to the provision by IBM of certain information technology and related services to the Bank. The IBM Agreement was in line with the spirit of the Master Agreement dated 12th November 2002 entered into between DBS Bank Ltd., the Bank’s holding company, and IBM Singapore Pte. Limited. The IBM Agreement commenced on 12th November 2002 and continues until 23:59 (Singapore Time) on 11th November 2012, unless terminated earlier pursuant to the terms of the Master Agreement.

On 1st April 2004, a Management Country Agreement (the “JLL Agreement”) was entered into between the Bank and Jones Lang LaSalle Limited (“JLL”) in relation to the provision by JLL of certain property management and related services to the Bank in Hong Kong. The JLL Agreement was in line with the spirit of the Master Agreement dated 1st April 2004 entered into between DBS Bank Ltd., the Bank’s holding company, and Jones Lang LaSalle Property Consultants Pte Ltd. The JLL Agreement commenced on 1st April 2004 and continues until 31st December 2006, or for so long as the Master Agreement remains in effect, unless terminated earlier or extended under the terms of the JLL Agreement.

Apart from the foregoing, no contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

DBS BANK (HONG KONG) LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Compliance with the guideline on “Financial Disclosure by Locally Incorporated Authorized Institutions”

The Group has fully complied with the requirements set out in the guideline on “Financial Disclosure by Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority.

Auditors

The accounts have been audited by Ernst & Young who will retire at the forthcoming annual general meeting and offer themselves for re-appointment.

On behalf of the Board

Wong Kwong Shing, Frank
Chairman

Hong Kong, 28th January 2005

DBS BANK (HONG KONG) LIMITED

REPORT OF THE AUDITORS

TO THE MEMBERS

DBS BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 5 to 50 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Bank's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Bank and of the Group as at 31st December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong
28th January 2005

DBS BANK (HONG KONG) LIMITED**CONSOLIDATED PROFIT AND LOSS ACCOUNT**
FOR THE YEAR ENDED 31ST DECEMBER 2004

	Note	2004 HK\$'000	2003 HK\$'000
Interest income	3	5,264,175	5,331,490
Interest expense	4	(1,435,279)	(1,681,330)
Net interest income		3,828,896	3,650,160
Other operating income	5	1,808,523	1,755,111
Operating income		5,637,419	5,405,271
Operating expenses	6	(2,372,261)	(2,202,378)
Operating profit before provisions		3,265,158	3,202,893
Charge for bad and doubtful debts	7	(431,505)	(821,003)
Operating profit		2,833,653	2,381,890
Net gain on disposal of fixed assets		6,940	9,550
Impairment of fixed assets	8	–	(25,236)
Net gain on disposal of non-trading securities and held-to-maturity securities	9	61,310	10,338
Share of profit of a jointly controlled entity		2,901,903	2,376,542
		51,244	10,022
Profit before taxation		2,953,147	2,386,564
Taxation	11	(410,594)	(379,154)
Profit attributable to shareholders	12	2,542,553	2,007,410
Dividends	13	–	3,603,523

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2004

	Note	2004 HK\$'000	2003 HK\$'000
Assets			
Cash and short-term funds	14	25,614,013	23,274,188
Placements with banks maturing after one month	15	6,523,808	5,080,459
Certificates of deposit held	16	972,405	1,216,013
Trading securities	17	1,494,940	1,147,080
Held-to-maturity securities	18	26,780,812	24,719,284
Trade bills less provisions	19	1,621,669	1,246,106
Advances to customers less provisions	20	102,407,980	91,191,089
Non-trading securities	22	7,487,919	5,789,244
Interest in a jointly controlled entity	23	124,598	80,481
Fixed assets	25	4,512,285	4,734,347
Other assets	26	4,624,915	4,226,391
		<u>182,165,344</u>	<u>162,704,682</u>
Total assets		<u>182,165,344</u>	<u>162,704,682</u>
Liabilities			
Deposits and balances of banks		4,569,568	1,070,642
Deposits from customers	27	130,572,495	121,604,354
Certificates of deposit issued		9,773,801	7,865,776
Deferred tax liabilities	31	103,871	134,243
Other liabilities	30	15,429,823	13,020,057
Amount due to a jointly controlled entity	23	1,236,109	1,122,438
7.75% fixed rate subordinated notes	28	2,033,860	2,030,956
		<u>163,719,527</u>	<u>146,848,466</u>
Total liabilities		<u>163,719,527</u>	<u>146,848,466</u>
Shareholders' funds			
Share capital	32	5,200,000	5,200,000
Reserves	33	13,245,817	10,656,216
		<u>18,445,817</u>	<u>15,856,216</u>
Total liabilities and shareholders' funds		<u>182,165,344</u>	<u>162,704,682</u>

Wong Kwong Shing, Frank
Director

Randolph Gordon Sullivan
Director

Chan Tak Kin
Director

Wong Wai Nar, Doris
Secretary

DBS BANK (HONG KONG) LIMITED

BALANCE SHEET

AS AT 31ST DECEMBER 2004

	Note	2004 HK\$'000	2003 HK\$'000
Assets			
Cash and short-term funds	14	25,612,278	23,272,681
Placements with banks maturing after one month	15	6,523,808	5,080,459
Certificates of deposit held	16	972,405	1,216,013
Trading securities	17	1,494,940	1,147,080
Held-to-maturity securities	18	26,780,812	24,719,284
Trade bills less provisions	19	1,621,669	1,246,106
Advances to customers less provisions	20	102,407,980	91,191,089
Non-trading securities	22	7,487,919	5,789,244
Interest in a jointly controlled entity	23	500	500
Investments in subsidiaries	24	153,901	171,179
Amount due from subsidiaries		214,309	615,946
Fixed assets	25	4,499,694	4,721,596
Other assets	26	4,624,758	4,225,408
Total assets		<u>182,394,973</u>	<u>163,396,585</u>
Liabilities			
Deposits and balances of banks		4,569,568	1,070,642
Deposits from customers	27	130,572,495	121,604,354
Certificates of deposit issued		9,773,801	7,865,776
Deferred tax liabilities	31	103,863	134,074
Other liabilities	30	15,421,123	12,972,678
Amount due to subsidiaries		441,061	897,644
Amount due to a jointly controlled entity	23	1,236,109	1,122,438
7.75% fixed rate subordinated notes	28	2,033,860	2,030,956
Total liabilities		<u>164,151,880</u>	<u>147,698,562</u>
Shareholders' funds			
Share capital	32	5,200,000	5,200,000
Reserves	33	13,043,093	10,498,023
		<u>18,243,093</u>	<u>15,698,023</u>
Total liabilities and shareholders' funds		<u>182,394,973</u>	<u>163,396,585</u>

Wong Kwong Shing, Frank
Director

Randolph Gordon Sullivan
Director

Chan Tak Kin
Director

Wong Wai Nar, Doris
Secretary

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2004

	Note	2004 HK\$'000	2003 HK\$'000
Net cash inflow/(outflow) from operating activities before taxation	38(a)	5,016,836	(4,709,766)
Hong Kong profits tax paid		(337,683)	(222,934)
Overseas tax paid		(6,220)	(5,141)
Net cash inflow/(outflow) from operating activities		4,672,933	(4,937,841)
Investing activities			
Placements from a jointly controlled entity		113,671	18,659
Purchase of fixed assets		(92,377)	(74,273)
Proceeds from disposal of fixed assets		92,827	160,980
Net cash inflow from investing activities		114,121	105,366
Financing activities			
Dividends paid		–	(3,603,523)
Interest paid for certificates of deposit issued		(150,290)	(158,525)
Interest paid for 7.75% fixed rate subordinated notes		(159,366)	(159,705)
Issue of certificates of deposit		5,969,917	5,247,185
Redemption of certificates of deposit		(4,068,903)	(3,411,710)
Net cash inflow/(outflow) from financing activities		1,591,358	(2,086,278)
Increase/(decrease) in cash and cash equivalents		6,378,412	(6,918,753)
Cash and cash equivalents at 1st January		18,289,622	18,046,457
Additions through merger		–	7,162,456
Effect of foreign exchange movements		(575)	(538)
Cash and cash equivalents at 31st December	38(c)	24,667,459	18,289,622

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2004

	Note	2004 HK\$'000	2003 HK\$'000
Total equity as at 1st January		<u>15,856,216</u>	<u>13,989,948</u>
Impairment of fixed assets	33(c) & (d)	(6,138)	(84,753)
Change in fair value of non-trading securities	33(e)	50,927	77,844
Exchange differences arising on translation of net investments in overseas branches and subsidiary companies	33(g)	<u>(575)</u>	<u>(538)</u>
Net gain/(loss) not recognised in the profit and loss account		<u>44,214</u>	<u>(7,447)</u>
Additions through merger			
Share premium		–	564,152
Premises revaluation reserve		–	715,926
Investment properties revaluation reserve		–	81,752
Investments revaluation reserve		–	6,550
General reserve		–	1,715,543
Retained earnings		–	403,719
		<u>–</u>	<u>3,487,642</u>
Profit attributable to shareholders	33(g)	2,542,553	2,007,410
Reserves transferred to profit and loss account upon disposal of non-trading securities	33(e)	(7,700)	(8,794)
Dividends	33(g)	–	(3,603,523)
Release from/(to) deferred taxation	33(c) & (e)	<u>10,534</u>	<u>(9,020)</u>
Total equity as at 31st December		<u>18,445,817</u>	<u>15,856,216</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS

1 Principal activities

The principal activities of the Bank and its subsidiary companies (the “Group”) are the provision of banking and related financial services.

2 Summary of significant accounting policies

The following is a summary of the significant accounting policies applied by the Group and, except where noted, are consistent with those applied in the previous financial year. The principal accounting policies adopted in the preparation of the accounts are set out below:

(a) *Basis of presentation*

The accounts are prepared in accordance with the historical cost convention, modified by the revaluation of certain fixed assets and investments in securities to market value. They are prepared in accordance with the requirements of the Companies Ordinance and the accounting principles generally accepted in Hong Kong and complied with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice (“SSAP”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The HKICPA has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group is in the process of making an assessment of the impact of these new HKFRSs but has not concluded on the effects of these new HKFRSs. The Group will be continuing with this assessment and will identify significant changes as a result.

(b) *Basis of consolidation*

The consolidated accounts incorporate the accounts of the Bank and all its subsidiary companies. These subsidiary companies are companies in which the Bank has an interest of more than 50% in the issued share capital at balance sheet date.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

The results of subsidiary companies acquired or disposed of during the year are included from the date of acquisition or up to the date of disposal.

Intercompany balances and transactions and resulting unrealised profits or losses are eliminated on consolidation.

(c) *Subsidiary companies*

Investments in subsidiaries (as defined in Note 2(b)) are stated in the accounts of the Bank at cost less provision for impairment losses. The results of subsidiary companies are accounted for by the Bank on the basis of dividends received or receivable.

(d) *Investment in jointly controlled entities*

A joint venture is a contractual agreement whereby the Group or Bank and its joint venture partners undertake an economic activity, which is subject to joint control, and none of the parties involved unilaterally have control over the economic activity.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(d) *Investment in jointly controlled entities (continued)*

Investments in jointly controlled entities are accounted for under the equity method of accounting. The Group's share of the results of its jointly controlled entities are included in the consolidated profit and loss account. The Group's share of the post acquisition reserves of its jointly controlled entities is included in the carrying value of its investments in jointly controlled entities in the consolidated balance sheet.

In the Bank's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Bank on the basis of dividends received and receivable.

(e) *Advances to customers, banks and other financial institutions*

Advances to customers, banks and other financial institutions are reported on the balance sheet at the principal amount outstanding net of provisions for bad and doubtful debts. Advances to banks and other financial institutions include placements with banks and other financial institutions of more than one year.

All advances are recognised when cash is advanced to borrowers.

(f) *Provisions for bad and doubtful debts*

Provisions for bad and doubtful debts comprises specific provisions against certain loans and advances and a general provision on total loans and advances.

A specific provision is made when the Group has doubt on the ultimate recoverability of principal or interest in full. Specific provision is made to reduce the carrying value of loan or advance, taking into account available collateral, to the expected net realisable value based on the Group's assessment of the potential losses on those identified loans and advances on a case-by-case basis. Where it is not possible to estimate the loss realistically, the Group applies pre-determined provisioning levels to the unsecured portion of loans and advances based on the classification of the respective loans and advances.

The Group internally classifies loans and advances into pass, special mention, substandard, doubtful and loss. The classification of loans and advances is largely based on the assessment of the borrower's capacity to repay and on the degree of doubt about the collectibility of interest and/or principal. The periods that payments of interest and/or principal have been overdue are also taken into account when classifying the loans and advances. A specific provision is made against loans and advances where there is doubt about the collectibility of interest and/or principal.

In addition, amounts have been set aside as a general provision for bad and doubtful debts. Both specific and general provisions are deducted from "Advances to customers" in the balance sheet.

Bad debts are written off against provisions when recovery action has been instituted and the losses can be determined with reasonable certainty. The Group continues to make every effort to recover amounts owing, even after write-offs have been recorded.

(g) *Repossessed assets*

Assets acquired by repossession of collateral for realisation continue to be reported as advances. Provision is made on the shortfall between the expected sales proceeds from realisation of the repossessed assets and the outstanding advances.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(h) *Hire purchase contracts and finance leases*

Where the Group is a lessor under finance leases and hire purchase transactions, the amounts due under the leases, net of unearned finance income, are recognised as a receivable and are included in “Advances to customers”. Finance income implicit in rentals receivable is credited to the profit and loss account over the lease period so as to produce an approximately constant periodic rate of return on the net investment outstanding for each accounting period. Dealer commissions paid for hire purchase contracts or lease financing loans are included in “Other assets” and are amortised against interest income over the life of the contract or lease term on an effective yield basis.

(i) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases net of any incentives received from the lessor are charged to the profit and loss account on a straight line basis over the lease term.

Where the Group is a lessor under operating leases, rentals receivable under operating leases are credited to the profit and loss account on a straight line basis over the lease term.

(j) *Investments in securities*

(i) Held-to-maturity securities

Held-to-maturity securities are dated debt securities which the Group has the expressed intention and ability to hold to maturity. These securities are stated at cost adjusted for the amortisation of premiums or discounts arising on acquisition over the periods to maturity, less provision for diminution in their value which is other than temporary. Provisions are made for the amount of the carrying value which the Group does not expect to recover and are recognised as a charge in the profit and loss account as they arise.

In addition, amounts have been set aside as a general provision for certain held-to-maturity debt securities. General provisions are deducted from “Held-to-maturity securities” in the balance sheet.

The amortisation of premiums and discounts arising on acquisition of dated debt securities and interest earned are included in interest income. Profits or losses on realisation of held-to-maturity securities are accounted for in the profit and loss account as they arise.

(ii) Trading and non-trading securities

Securities which are not held-to-maturity are classified as being either trading securities or non-trading securities. Trading securities are stated at fair value. Changes in fair value of trading securities are recognised in the profit and loss account as they arise. Fair value represents the quoted market price for securities that are actively traded in a liquid market. For securities which are not actively traded, fair value is estimated by way of various pricing techniques including discounted cash flow analyses. Interest earned is included in interest income. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

Non-trading securities include debt and equity securities which are not held for trading purposes and are stated at fair value on the balance sheet. Changes in fair value of non-trading securities are recognised in the investments revaluation reserve until the security is sold or determined to be impaired, at which time the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investments revaluation reserve, is included in the profit and loss account.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(k) *Sale and Repurchase agreements*

Securities sold under sale and repurchase agreements are considered to be, in substance, secured loans. Therefore the securities are maintained on the balance sheet at amortised cost or fair value depending on their classification as held to maturity securities, non-trading securities or trading securities and the proceeds of the sale are included in “Deposits from customers” or “Deposits and balance of banks and other financial institutions” depending on the identity of the counterparty. The difference between the sale price and the repurchase price is amortised to interest expense on an effective yield basis over the period from the date of sale to the date of repurchase.

Conversely, securities purchased under agreements to resell are not recognised on the balance sheet and the purchase cost is recorded as “Advances to customers” or “Placements with banks and other financial institutions” depending on the identity of the counterparty. The difference between the purchase price and resale price is amortised to interest income on an effective yield basis over the period from the date of purchase to the date of resale.

(l) *Fixed assets and depreciation*

(i) Premises

Premises are stated at cost or valuation, less accumulated impairment losses and depreciation calculated to write off the assets over their estimated useful lives on a straight line basis as follows:

Freehold land	Not depreciated
Leasehold land	Over the remaining terms of leases
Buildings	Over the remaining lease period of the land on which it is situated or 50 years, whichever is shorter
Leasehold improvements	Over the lease term of leased premises or 5 years, whichever is shorter

Some of the Group’s premises are included at directors’ valuation made having regard to independent professional valuations carried out in 1993. The surplus arising on revaluation is credited to the revaluation reserve. Additions to revalued premises made subsequent to the revaluation are included at cost. Premises which have not been the subject of a revaluation are included at cost. The Group places reliance on paragraph 80 of SSAP 17 which provides exemption from the need to make regular revaluations of premises.

(ii) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm’s length.

Investment properties are stated at cost or estimated open market value as determined by the directors less accumulated impairment losses. Investment properties are not depreciated except where the unexpired term of the lease is 20 years or less in which case depreciation is provided on the carrying amount over the remaining term of the lease.

(iii) Furniture, fixtures and equipment

Furniture, fixtures and equipment are stated at cost less accumulated impairment losses and accumulated depreciation. Depreciation on furniture, fixtures and equipment is calculated to write off the assets on a straight line basis over their estimated useful lives of between 3 and 8 years.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(l) *Fixed assets and depreciation (continued)*

(iv) Impairment

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that premises, investment properties, furniture, fixtures and equipment are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

(v) Gain or loss on disposal

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of any previous valuation is released from the investment properties revaluation reserve to the profit and loss account. For premises, any premises revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings on disposal and shown as a movement in reserves.

(m) *Provisions and other liabilities*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made.

(n) *Treasury related off-balance sheet financial instruments*

The accounting treatment applied to treasury related off-balance sheet financial instruments, including forward, swap, futures and options, is based upon the intention for entering into the transactions as elaborated below.

(i) Non-trading transactions

Derivatives may be designated as a hedge of interest rate, exchange rate or price exposures that are inherent in the assets and liabilities of the Group.

The criteria required for a derivative to be classified as a designated hedge are:

- a) the derivative instrument must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets, liabilities, other positions or cash flows being hedged; and
- b) there is adequate evidence of the intention to hedge. Linkage with the underlying risk inherent in the assets, liabilities, other positions or cash flows being hedged, must be established at the outset of the transaction.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(n) Treasury related off-balance sheet financial instruments (continued)

(i) Non-trading transactions (continued)

Profits and losses on derivatives entered into for specifically designated hedging purposes against assets, liabilities, other positions or cash flows measured on an accrual accounting basis are included in the related category of income or expense in the profit and loss account on the same basis as that arising from the underlying hedging transactions.

Hedging transactions, which have been superseded, or ceased to be effective prior to the end of the life of the assets, liabilities, other positions or cash flows being hedged, are measured at fair value. Any profit or loss arising from the fair value measurement or on termination of hedging transaction is deferred and amortised as interest income or expense in the profit and loss account over the remaining life of the items previously being hedged.

When the underlying assets, liabilities, other positions or cash flows are terminated prior to the hedging transactions, or anticipated transactions are no longer likely to occur, the hedging transactions are measured on a fair value accounting basis prior to being transferred to the trading portfolio. The profit or loss arising from the fair value measurement prior to the transfer to the trading portfolio is included in the category of income and expense in the profit and loss account relating to the previously hedged transactions.

(ii) Trading transactions

Transactions undertaken for trading purposes are stated at fair value. Quoted market prices, when available, are used to determine the fair values of derivatives held for trading. Where mid prices are used, a bid-offer spread adjustment will be made to ensure that all long positions are marked to bid prices and short positions to offer prices. Liquidity reserve is taken when a market price may not be achievable as a result of certain material positions held by the Group. Methodology Deficiency Reserves address approximation uncertainties from modeling methods and numerical methods. When parameters are unobservable or stem from illiquid markets, uncertainty in their true (market implied) value arises and a parameter deficiency reserve is taken for the potential impact on mark to market valuations.

Resultant gains and losses from changes in fair value of trading transactions are recognised as “Other operating income” in the profit and loss account. Unrealised valuation gains or losses are included in “Other assets” or “Other liabilities” respectively.

(o) Offsetting financial instruments

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

(p) Interest income

Interest income is recognised on an accrual basis.

In the case of doubtful debts, interest is credited to a suspense account which is netted off against accrued interest receivable except for credit card advances and overdrafts, where interest is accrued and the related specific provision on the interest receivable is included in the charge for bad and doubtful debts.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(q) Fees and commission income

Fees and commission income are recognised in the profit and loss account as and when service is performed and when considered recoverable except where the fees are charged to cover the costs of a continuing service to, or risk borne for, the customer, or are interest in nature. In these cases, the fees are recognised on an appropriate basis over the relevant period.

(r) Dividend income

Dividend income from equities are recognised when declared payable.

(s) Cash rebates

Cash rebates granted in relation to residential mortgage loans are capitalised and amortised on a straight line basis over the prepayment penalty period not exceeding three years.

(t) Employee benefits

(i) Bonus plans

Liabilities for bonus plans due wholly within twelve months after the balance sheet date are recognised when the Group has a present or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(ii) Pension obligations

The Group offers a mandatory provident fund scheme and participates in a defined contribution plan, the assets of which are generally held in separate trustee-administered funds. These pension plans are generally funded by payments from employees and by the Group.

The Group's contributions to the mandatory provident fund scheme and defined contribution plan are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme or the plan prior to vesting fully in the contributions.

(iii) Equity compensation benefits

There is a Share Option Plan run by DBS Group Holdings Ltd ("DBSH"), the ultimate holding company of the Bank. Under the Plan, share options are granted to eligible staff. There is also a Performance Share Plan run by DBSH. Under this plan, ordinary shares in DBSH are given free of charge to eligible employees based on the performance of the DBS Group and of the individual.

Under the DBSH Performance Share Plan, when the shares are awarded, remuneration expenses are computed using the average purchase price (adjusted for provision for diminution in value) and recognised in the profit and loss account on a straight-line basis over the relevant performance period.

Equity compensation benefits resulting from the issue of share options to the Group's employees are not recognised in the Group's accounts.

The Bank has taken advantage of the provisions of paragraph 4(c) of SSAP 20 "Related party disclosures", which exempt the Bank from disclosing details of the equity compensation benefits as a related party transaction. The Bank is a wholly-owned subsidiary of DBSH and DBSH has issued consolidated financial statements that include the Bank and include the disclosures of the relevant Plans as required by the SSAP.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(u) *Taxation*

The current taxation charged to the profit and loss account represents tax at the current rate based on taxable profits earned during the financial year. Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used in the determination of deferred income tax.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax liabilities are provided on temporary differences arising on investments in subsidiary companies and joint venture company, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are credited or charged in the profit and loss account, except when they relate to items credited or charged directly to reserves, in which case the deferred tax assets and liabilities are also dealt with in reserves.

(v) *Foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Assets and liabilities in foreign currencies are translated into Hong Kong dollars at the exchange rates prevailing at balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and overseas branches in foreign currencies are translated at exchange rate prevailing at balance sheet date. Exchange differences are dealt with as a movement in reserves.

(w) *Cash and cash equivalents*

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition including cash, balance with banks and other financial institutions, treasury bills, other eligible bills and certificates of deposit.

(x) *Contingent liabilities*

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

The Group conducts business of acceptances that comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group expects most acceptances to be settled simultaneously with the reimbursement from the customers. Acceptances are accounted for as off-balance sheet transactions and are disclosed as contingent liabilities.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(y) *Related party transactions*

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

(z) *Fiduciary activities*

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from the accounts where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

3 Interest income

	2004 HK\$'000	2003 HK\$'000
Interest income on listed investments	430,345	393,474
Interest income on unlisted investments	427,516	407,014
Other interest income	4,406,314	4,531,002
	<u>5,264,175</u>	<u>5,331,490</u>

4 Interest expense

Interest expense includes interest on the 7.75% fixed rate subordinated notes amounting to HK\$159,464,000 (2003: HK\$159,390,000).

5 Other operating income

	2004 HK\$'000	2003 HK\$'000
Fees and commission income	1,244,189	998,123
Less: fees and commission expenses	(153,776)	(128,039)
Net fees and commission income	1,090,413	870,084
Net income from foreign exchange operations (Note)	170,268	201,289
Dividend income from listed investments	16,291	13,792
Dividend income from unlisted investments	10,773	6,793
Gross rental income from investment properties	3,785	4,151
Net profits from other dealing activities		
– Net gain from trading securities	38,801	36,195
– Net gain from other dealing activities (Note)	475,981	608,394
Others	2,211	14,413
	<u>1,808,523</u>	<u>1,755,111</u>

Note: Net income from foreign exchange operations and net gain from other dealing activities include gains from sales of treasury and treasury investment products.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

6 Operating expenses

	2004 HK\$'000	2003 HK\$'000
Staff costs		
– Salaries and other costs	1,152,947	1,082,106
– Pension costs	65,293	62,214
Premises and equipment expenses excluding depreciation		
– Rental of premises	64,249	62,791
– Others	173,035	193,128
Depreciation	216,942	244,884
Auditors' remuneration	7,632	7,327
Other operating expenses	692,163	549,928
	<u>2,372,261</u>	<u>2,202,378</u>

7 Charge for bad and doubtful debts

	2004 HK\$'000	2003 HK\$'000
Specific provisions		
– New provisions	669,721	1,193,252
– Releases	(282,421)	(315,157)
– Recoveries	(70,323)	(84,223)
	<u>316,977</u>	<u>793,872</u>
General provisions		
– Advances to customers	111,253	11,250
– Trade bills receivable from customers	1,357	3
– Held-to-maturity securities	1,918	15,878
	<u>114,528</u>	<u>27,131</u>
Charge for bad and doubtful debts	<u>431,505</u>	<u>821,003</u>

8 Impairment of fixed assets

No impairment loss (2003: HK\$25,236,000) was recognised in the profit and loss account during the year. Impairment loss was primarily a result of a reduction in property values and partly due to a reduction in the expected future cash inflows generated by those premises, including those branches scheduled for closure.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

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

	2004 HK\$'000	2003 HK\$'000
Net gain on disposal of non-trading securities	61,310	8,794
Net gain on disposal of held-to-maturity securities	–	1,544
	<u>61,310</u>	<u>10,338</u>

10 Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Bank during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	725	520
Salaries, housing and other allowances and benefits in kind	13,175	13,026
Pension	275	401
	<u>14,175</u>	<u>13,947</u>

11 Taxation

(a) Taxation in the consolidated profit and loss account represents:

	2004 HK\$'000	2003 HK\$'000
<u>Current taxation:</u>		
Hong Kong profits tax	422,031	391,028
Overseas taxation	1,274	3,719
	<u>423,305</u>	<u>394,747</u>
<u>Deferred taxation:</u>		
Deferred taxation relating to the origination and reversal of temporary differences	(19,838)	(9,288)
Deferred taxation resulting from an increase in tax rate	–	(8,316)
	<u>(19,838)</u>	<u>(17,604)</u>
Share of a jointly controlled entity's taxation	7,127	2,011
	<u>410,594</u>	<u>379,154</u>

The provision for Hong Kong profits tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries and branches is charged at the appropriate current rates of taxation ruling in the countries in which they operate.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

11 Taxation (continued)

(b) *The deferred taxation credit in the profit and loss account comprises the following temporary differences:*

	2004 HK\$'000	2003 HK\$'000
Accelerated depreciation allowances	(291)	(1,693)
General provisions for bad and doubtful debts	(19,547)	(15,911)
	<u>(19,838)</u>	<u>(17,604)</u>

(c) *The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the Hong Kong basic tax rate as follows:*

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<u>2,953,147</u>	<u>2,386,564</u>
Calculated at a taxation rate of 17.5%	516,801	417,649
Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships	–	(130,015)
Investments in limited partnerships written off	–	98,139
Effect of different tax rates in other countries	(212)	(824)
Income not subject to tax	(37,427)	(37,783)
Increase in opening net deferred tax assets resulting from an increase in tax rates	–	(8,316)
Expenses not deductible for taxation purposes	15,738	39,696
Release of provision from prior period	(88,000)	–
Others	3,694	608
	<u>410,594</u>	<u>379,154</u>

12 Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of HK\$2,498,247,000 (2003: HK\$3,108,060,000) which has been dealt with in the accounts of the Bank.

Reconciliation of the above amount to the Bank's profit for the year:

	2004 HK\$'000	2003 HK\$'000
Amount of consolidated profit attributable to shareholders dealt with in the Bank's accounts	2,498,247	1,986,735
Dividends declared during the year by subsidiary companies from retained profits	–	1,121,325
The Bank's profit for the year (Note 33(g))	<u>2,498,247</u>	<u>3,108,060</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

13 Dividends

	2004 HK\$'000	2003 HK\$'000
Final dividend in respect of the previous year, approved and paid during the year, of HK\$Nil (2003: HK\$0.039139 per share)	–	203,523
Special dividend paid of HK\$Nil (2003: HK\$0.653846 per share)	–	3,400,000
	<u>–</u>	<u>3,603,523</u>

14 Cash and short-term funds

	Group		Bank	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cash and balances with banks and other financial institutions	1,662,751	1,354,415	1,662,751	1,354,415
Money at call and short notice	18,429,727	18,315,557	18,427,992	18,314,050
Treasury bills (including Exchange Fund Bills)	5,521,535	3,604,216	5,521,535	3,604,216
	<u>25,614,013</u>	<u>23,274,188</u>	<u>25,612,278</u>	<u>23,272,681</u>

The analysis of treasury bills (including Exchange Fund Bills) is as follows:

	Group and Bank	
	2004 HK\$'000	2003 HK\$'000
Held-to-maturity securities, at amortised cost	272,857	242,404
Trading securities, at fair value	4,035,352	2,761,886
Non-trading securities, at fair value	1,213,326	599,926
	<u>5,521,535</u>	<u>3,604,216</u>

15 Placements with banks maturing after one month

	Group and Bank	
	2004 HK\$'000	2003 HK\$'000
Remaining maturity:		
– one year or less but over one month	6,238,304	4,794,928
– over one year	285,504	285,531
	<u>6,523,808</u>	<u>5,080,459</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

16 Certificates of deposit held

	Group and Bank	
	2004	2003
	HK\$'000	HK\$'000
Held-to-maturity securities, unlisted at amortised cost	233,223	–
Non-trading securities, unlisted at fair value	739,182	1,216,013
	972,405	1,216,013
	<u>972,405</u>	<u>1,216,013</u>

17 Trading securities

	Group and Bank	
	2004	2003
	HK\$'000	HK\$'000
Debt securities, at fair value		
– Listed in Hong Kong	1,410,630	1,089,769
– Listed outside Hong Kong	16,277	39,258
	1,426,907	1,129,027
– Unlisted	68,033	18,053
	1,494,940	1,147,080
	<u>1,494,940</u>	<u>1,147,080</u>

Trading securities are analysed by issuer as follows:

– Central governments and central banks	1,439,527	1,087,757
– Public sector entities	33,557	21,664
– Banks and other financial institutions	21,856	17,659
– Corporate entities	–	20,000
	1,494,940	1,147,080
	<u>1,494,940</u>	<u>1,147,080</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

18 Held-to-maturity securities

	Group and Bank	
	2004	2003
	HK\$'000	HK\$'000
Balance as at 1st January	24,719,284	18,298,518
Additions through merger	–	469,779
Amortisation of premium	(147,653)	(82,423)
Additions	7,463,580	12,921,480
Amortised cost of securities redeemed	(5,457,117)	(7,460,763)
General provision charged	(1,918)	(15,878)
Exchange differences	204,636	588,571
	26,780,812	24,719,284
	4,407,897	4,680,551
Listed securities, at amortised cost less provision	6,938,994	7,840,330
– Listed in Hong Kong		
– Listed outside Hong Kong		
	11,346,891	12,520,881
Unlisted	15,433,921	12,198,403
	26,780,812	24,719,284
Market value of listed securities	11,421,449	12,654,411
Held-to-maturity securities are analysed by issuer as follows:		
– Central governments and central banks	4,061,673	4,094,176
– Public sector entities	745,307	1,263,720
– Banks and other financial institutions	20,676,285	18,507,741
– Corporate entities	1,297,547	853,647
	26,780,812	24,719,284

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

19 Trade bills less provisions

	Group and Bank	
	2004	2003
	HK\$'000	HK\$'000
Trade bills receivable from customers	1,056,811	913,461
Provisions for bad and doubtful debts (Note 21)		
– General	(10,568)	(9,211)
– Specific	(19,755)	–
	1,026,488	904,250
Trade bills receivable from banks	595,181	341,856
	1,621,669	1,246,106

20 Advances to customers less provisions

	Group and Bank	
	2004	2003
	HK\$'000	HK\$'000
Advances to customers	104,166,429	92,871,278
Provisions for bad and doubtful debts (Note 21)		
– General	(1,021,114)	(909,861)
– Specific	(737,335)	(770,328)
	102,407,980	91,191,089

(a) Non-performing advances and provisions

The gross amount of non-performing advances, net of suspended interest, which represent advances on which interest is being placed in suspense or on which interest accrual has ceased, and specific provisions attributable to such advances are as follows:

	Group and Bank			
	2004		2003	
	HK\$'000	% of total advances to customers*	HK\$'000	% of total advances to customers*
Gross non-performing advances	1,773,587	1.69	2,228,288	2.38
Specific provisions made in respect of such advances	(739,996)		(727,047)	
	1,033,591		1,501,241	
Suspended interest	268,088		266,611	

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

20 Advances to customers less provisions (continued)

(a) Non-performing advances and provisions (continued)

The specific provisions were made after taking into account the value of collateral in respect of such advances.

* Total advances to customers include trade bills receivable from customers and advances to customers.

(b) Advances to customers include finance lease receivables and hire purchase contracts and are analysed as follows:

	Group and Bank	
	2004	2003
	HK\$'000	HK\$'000
Gross investment in finance leases and hire purchase contracts receivable:		
Not later than one year	1,906,360	1,217,722
Later than one year and not later than five years	3,818,731	2,715,657
Later than five years	7,049,595	5,321,763
	12,774,686	9,255,142
Unearned future finance income	(94,602)	(72,738)
Net investment in finance leases and hire purchase contracts	<u>12,680,084</u>	<u>9,182,404</u>

The net investment in finance leases and hire purchase contracts is analysed as follows:

Not later than one year	1,856,299	1,189,658
Later than one year and not later than five years	3,775,853	2,677,195
Later than five years	7,047,932	5,315,551
	<u>12,680,084</u>	<u>9,182,404</u>

The unguaranteed residual values included in the gross investment in finance leases and hire purchase contracts as at 31st December 2004 and 31st December 2003 are not considered to be material.

The allowance for uncollectable finance lease receivables and hire purchase contracts included in the provision for bad and doubtful debts amounted to HK\$43,724,000 as at 31st December 2004 (2003: HK\$25,599,000).

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

21 Provisions for bad and doubtful debts

	Group and Bank			
	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended Interest HK\$'000
2004				
At 1st January 2004	770,328	919,072	1,689,400	266,611
Amounts written off	(400,523)	–	(400,523)	(72,002)
Recoveries of advances written off in previous years	70,323	–	70,323	–
Net charge to profit and loss account	316,977	112,610	429,587	–
Interest suspended during the year	–	–	–	117,074
Suspended interest recovered	–	–	–	(43,573)
Exchange differences	(15)	–	(15)	(22)
At 31st December 2004	<u>757,090</u>	<u>1,031,682</u>	<u>1,788,772</u>	<u>268,088</u>
			Group	
2003				
At 1st January 2003	736,183	694,040	1,430,223	273,450
Additions through merger	163,453	217,465	380,918	10,463
Amounts written off	(1,007,352)	–	(1,007,352)	(229,746)
Recoveries of advances written off in previous years	84,223	–	84,223	–
Net charge to profit and loss account	793,872	11,253	805,125	–
Disposal of overseas branch	–	(3,570)	(3,570)	–
Interest suspended during the year	–	–	–	234,964
Suspended interest recovered	–	–	–	(23,271)
Exchange differences	(51)	(116)	(167)	751
At 31st December 2003	<u>770,328</u>	<u>919,072</u>	<u>1,689,400</u>	<u>266,611</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

21 Provisions for bad and doubtful debts (continued)

2003	Bank			Suspended Interest HK\$'000
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
At 1st January 2003	570,128	503,987	1,074,115	174,463
Additions through merger	329,508	407,518	737,026	109,450
Amounts written off	(1,007,352)	–	(1,007,352)	(229,746)
Recoveries of advances written off in previous years	84,223	–	84,223	–
Net charge to profit and loss account	793,872	11,253	805,125	–
Disposal of overseas branch	–	(3,570)	(3,570)	–
Interest suspended during the year	–	–	–	234,964
Suspended interest recovered	–	–	–	(23,271)
Exchange differences	(51)	(116)	(167)	751
At 31st December 2003	<u>770,328</u>	<u>919,072</u>	<u>1,689,400</u>	<u>266,611</u>

22 Non-trading securities

	Group and Bank	
	2004 HK\$'000	2003 HK\$'000
Debt securities, at fair value		
– Listed outside Hong Kong	2,470,046	1,114,002
– Unlisted	4,677,388	4,228,021
	<u>7,147,434</u>	<u>5,342,023</u>
Equity securities, at fair value		
– Listed in Hong Kong	207,401	230,354
– Listed outside Hong Kong	131,754	215,053
	<u>339,155</u>	<u>445,407</u>
– Unlisted	1,330	1,814
	<u>340,485</u>	<u>447,221</u>
	<u>7,487,919</u>	<u>5,789,244</u>
Non-trading securities are analysed by issuer as follows:		
– Public sector entities	118,609	122,946
– Banks and other financial institutions	7,355,442	5,649,757
– Corporate entities	3,256	7,708
– Others	10,612	8,833
	<u>7,487,919</u>	<u>5,789,244</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

23 Interest in a jointly controlled entity

	Group		Bank	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Share of net assets	<u>124,598</u>	<u>80,481</u>	<u>500</u>	<u>500</u>
Amount due to a jointly controlled entity	<u>1,236,109</u>	<u>1,122,438</u>	<u>1,236,109</u>	<u>1,122,438</u>

Details of the jointly controlled entity are as follows:

Name of company	Country of Incorporation	Principal place of operation	Particulars of issued shares held	Interest held	Principal Activities
Hutchison DBS Card Limited	British Virgin Islands	Hong Kong	500,000 class A shares of HK\$1 each 500,000 class B shares of HK\$1 each	50%	Provision of credit card services

24 Investments in subsidiaries

	Bank	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost after provisions	<u>153,901</u>	<u>171,179</u>

Details of the principal subsidiaries which are wholly and directly owned by the Bank are as follows:

Name of company	Place of operation and incorporation	Particulars of issued share capital	Principal activities
Dao Heng Finance Limited	Hong Kong	250,000 shares of HK\$100 each	Money lending
DBS Corporate Services (Hong Kong) Limited	Hong Kong	500,000 shares of HK\$1 each	Corporate services
Ting Hong Nominees Limited	Hong Kong	10,000 shares of HK\$1 each	Nominee services
Overseas Trust Bank Nominees Limited	Hong Kong	50,000 shares of HK\$1 each	Nominee services
DBS Trustee H.K. (Jersey) Limited	Jersey	100,000 shares of £1 each	Trustee services

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

25 Fixed assets

(a) Fixed assets

Group

	Premises HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2004	5,315,307	80,397	952,971	6,348,675
Additions	17,733	–	74,644	92,377
Disposals	(182,706)	–	(50,470)	(233,176)
Transfers	82,928	5,850	(91,930)	(3,152)
Exchange adjustments	2	–	(15)	(13)
	<u>5,233,264</u>	<u>86,247</u>	<u>885,200</u>	<u>6,204,711</u>
	At 31st December 2004			
Accumulated depreciation and impairment				
At 1st January 2004	948,413	2,498	663,417	1,614,328
Charge for the year	127,421	–	89,521	216,942
Impairment loss recognised directly in equity (Note 33(c))	6,138	–	–	6,138
Disposals	(95,067)	–	(46,754)	(141,821)
Transfers	7,129	–	(10,281)	(3,152)
Exchange adjustments	(1)	–	(8)	(9)
	<u>994,033</u>	<u>2,498</u>	<u>695,895</u>	<u>1,692,426</u>
	At 31st December 2004			
Net book value				
At 31st December 2004	<u>4,239,231</u>	<u>83,749</u>	<u>189,305</u>	<u>4,512,285</u>
At 31st December 2003	<u>4,366,894</u>	<u>77,899</u>	<u>289,554</u>	<u>4,734,347</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

25 Fixed assets (continued)

(a) Fixed assets (continued)

The net book values of premises and investment properties are analysed as follows:

Group

	2004		2003	
	Premises HK\$'000	Investment properties HK\$'000	Premises HK\$'000	Investment Properties HK\$'000
In Hong Kong				
– Leasehold with over 50 years unexpired	1,565,584	77,152	1,645,234	71,302
– Leasehold with 10 to 50 years unexpired	2,652,142	6,597	2,700,282	6,597
Outside Hong Kong				
– Freehold	11,767	–	11,742	–
– Leasehold with 10 to 50 years unexpired	9,738	–	9,636	–
	4,239,231	83,749	4,366,894	77,899
	4,239,231	83,749	4,366,894	77,899
The analysis of cost or valuation of premises and investment properties is as follows:				
At cost	2,640,483	86,247	2,547,954	80,397
At professional valuation in 2001	749,425	–	802,597	–
At directors' valuation in 1993	1,843,356	–	1,964,756	–
	5,233,264	86,247	5,315,307	80,397
	5,233,264	86,247	5,315,307	80,397

All other fixed assets are stated at cost.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

25 Fixed assets (continued)

(a) Fixed assets (continued)

Bank

	Premises HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2004	5,292,507	80,397	952,971	6,325,875
Additions	17,733	–	74,644	92,377
Disposals	(182,706)	–	(50,470)	(233,176)
Transfers	82,928	5,850	(91,930)	(3,152)
Exchange adjustments	2	–	(15)	(13)
	<u>5,210,464</u>	<u>86,247</u>	<u>885,200</u>	<u>6,181,911</u>
Accumulated depreciation and impairment				
At 1st January 2004	938,364	2,498	663,417	1,604,279
Charge for the year	127,261	–	89,521	216,782
Impairment loss recognised directly in equity (Note 33(c))	6,138	–	–	6,138
Disposals	(95,067)	–	(46,754)	(141,821)
Transfers	7,129	–	(10,281)	(3,152)
Exchange adjustments	(1)	–	(8)	(9)
	<u>983,824</u>	<u>2,498</u>	<u>695,895</u>	<u>1,682,217</u>
Net book value				
At 31st December 2004	<u>4,226,640</u>	<u>83,749</u>	<u>189,305</u>	<u>4,499,694</u>
At 31st December 2003	<u>4,354,143</u>	<u>77,899</u>	<u>289,554</u>	<u>4,721,596</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

25 Fixed assets (continued)

(a) Fixed assets (continued)

The analysis of net book value of premises and investment properties is as follows:

Bank

	2004		2003	
	Premises HK\$'000	Investment properties HK\$'000	Premises HK\$'000	Investment Properties HK\$'000
In Hong Kong				
– Leasehold with over 50 years unexpired	1,552,993	77,152	1,632,483	71,302
– Leasehold with 10 to 50 years unexpired	2,652,142	6,597	2,700,282	6,597
Outside Hong Kong				
– Freehold	11,767	–	11,742	–
– Leasehold with 10 to 50 years unexpired	9,738	–	9,636	–
	4,226,640	83,749	4,354,143	77,899
	4,226,640	83,749	4,354,143	77,899

The analysis of cost or valuation of premises and investment properties is as follows:

At cost	2,617,683	86,247	2,514,423	80,397
Additions through merger	–	–	10,731	–
At professional valuation in 2001	749,425	–	802,597	–
At directors' valuation in 1993	1,843,356	–	1,964,756	–
	5,210,464	86,247	5,292,507	80,397
	5,210,464	86,247	5,292,507	80,397

All other fixed assets are stated at cost.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

25 Fixed assets (continued)

(b) Operating lease arrangements

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one to five years, and may contain an option to renew the lease after that date at which time all terms are renegotiated. None of the leases include contingent rentals.

During the current year, HK\$3,785,000 (2003: HK\$4,151,000) was recognised as rental income in the profit and loss account in respect of operating leases.

At 31st December 2004, the Group and the Bank had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2004	2003
	HK\$'000	HK\$'000
Not later than one year	4,013	3,638
Later than one year and not later than five years	7,050	5,810
	<u>11,063</u>	<u>9,448</u>

26 Other assets

	Group		Bank	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accrued interest	445,476	427,671	445,476	427,671
Other accounts	4,179,439	3,798,720	4,179,282	3,797,737
	<u>4,624,915</u>	<u>4,226,391</u>	<u>4,624,758</u>	<u>4,225,408</u>

27 Deposits from customers

	Group and Bank	
	2004	2003
	HK\$'000	HK\$'000
Demand deposits and current accounts	10,267,275	8,484,415
Savings deposits	38,707,637	35,075,148
Time, call and notice deposits	81,597,583	78,044,791
	<u>130,572,495</u>	<u>121,604,354</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

28 7.75% fixed rate subordinated notes

The 7.75% fixed rate subordinated notes (“Notes”) with an aggregate principal amount of US\$350,000,000 were issued by the Bank on 24th January 1997. The Notes will mature on 24th January 2007. Interest is payable semi-annually on 24th January and 24th July, commencing 24th July 1997. Subsequent to the issue, the Bank repurchased and cancelled part of the Notes. At 31st December 2004 and 2003, the outstanding principal amount of the Notes is US\$261,620,000.

29 Maturity profile

2004	Group						
	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets							
– Cash and short-term funds	1,668,864	22,331,674	1,613,475	–	–	–	25,614,013
– Placements with banks maturing after one month	–	5,478,483	759,821	285,504	–	–	6,523,808
– Certificates of deposit held	–	120,005	200,058	652,342	–	–	972,405
– Trading debt securities	–	2,610	599,889	468,772	423,669	–	1,494,940
– Trade bills (before provisions)	77,712	1,373,028	174,947	–	–	26,305	1,651,992
– Advances to customers (before provisions)	6,826,471	19,824,681	11,696,592	23,091,849	40,686,088	2,040,748	104,166,429
– Held to maturity securities	–	1,070,850	7,036,788	17,411,938	1,261,236	–	26,780,812
– Non-trading debt securities	–	882,004	1,308,989	4,945,829	–	10,612	7,147,434
	<u>8,573,047</u>	<u>51,083,335</u>	<u>23,390,559</u>	<u>46,856,234</u>	<u>42,370,993</u>	<u>2,077,665</u>	<u>174,351,833</u>
Liabilities							
– Deposits and balances of banks	286,182	3,523,705	759,681	–	–	–	4,569,568
– Deposits from customers	48,974,912	61,310,945	7,787,241	8,984,953	3,514,444	–	130,572,495
– Certificates of deposit issued	–	1,410,000	4,446,458	3,917,343	–	–	9,773,801
– 7.75% fixed rate subordinated notes	–	–	–	2,033,860	–	–	2,033,860
	<u>49,261,094</u>	<u>66,244,650</u>	<u>12,993,380</u>	<u>14,936,156</u>	<u>3,514,444</u>	<u>–</u>	<u>146,949,724</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

29 Maturity profile (continued)

2004	Bank						
	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets							
– Cash and short-term funds	1,667,129	22,331,674	1,613,475	–	–	–	25,612,278
– Placements with banks maturing after one month	–	5,478,483	759,821	285,504	–	–	6,523,808
– Certificates of deposit held	–	120,005	200,058	652,342	–	–	972,405
– Trading debt securities	–	2,610	599,889	468,772	423,669	–	1,494,940
– Trade bills (before provisions)	77,712	1,373,028	174,947	–	–	26,305	1,651,992
– Advances to customers (before provisions)	6,826,471	19,824,681	11,696,592	23,091,849	40,686,088	2,040,748	104,166,429
– Held to maturity securities	–	1,070,850	7,036,788	17,411,938	1,261,236	–	26,780,812
– Non-trading debt securities	–	882,004	1,308,989	4,945,829	–	10,612	7,147,434
	<u>8,571,312</u>	<u>51,083,335</u>	<u>23,390,559</u>	<u>46,856,234</u>	<u>42,370,993</u>	<u>2,077,665</u>	<u>174,350,098</u>
Liabilities							
– Deposits and balances of banks	286,182	3,523,705	759,681	–	–	–	4,569,568
– Deposits from customers	48,974,912	61,310,945	7,787,241	8,984,953	3,514,444	–	130,572,495
– Certificates of deposit issued – 7.75% fixed rate subordinated notes	–	1,410,000	4,446,458	3,917,343	–	–	9,773,801
	–	–	–	2,033,860	–	–	2,033,860
	<u>49,261,094</u>	<u>66,244,650</u>	<u>12,993,380</u>	<u>14,936,156</u>	<u>3,514,444</u>	<u>–</u>	<u>146,949,724</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

29 Maturity profile (continued)

2003	Group						
	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets							
– Cash and short-term funds	1,365,680	20,769,832	1,138,676	–	–	–	23,274,188
– Placements with banks maturing after one month	–	3,729,148	1,065,780	285,531	–	–	5,080,459
– Certificates of deposit held	–	178,108	598,003	439,902	–	–	1,216,013
– Trading debt securities	–	1,353	158,906	846,550	140,271	–	1,147,080
– Trade bills (before provisions)	59,726	1,063,459	120,328	–	–	11,804	1,255,317
– Advances to customers (before provisions)	6,409,272	14,439,676	10,761,847	21,785,362	37,213,401	2,261,720	92,871,278
– Held to maturity securities	–	1,099,015	4,129,090	18,466,988	1,024,191	–	24,719,284
– Non-trading debt securities	–	835,515	719,800	3,777,875	–	8,833	5,342,023
	<u>7,834,678</u>	<u>42,116,106</u>	<u>18,692,430</u>	<u>45,602,208</u>	<u>38,377,863</u>	<u>2,282,357</u>	<u>154,905,642</u>
Liabilities							
– Deposits and balances of banks	111,021	934,297	25,324	–	–	–	1,070,642
– Deposits from customers	43,559,563	60,588,032	5,670,750	9,085,980	2,700,029	–	121,604,354
– Certificates of deposit issued – 7.75% fixed rate subordinated notes	–	160,000	2,985,087	4,580,689	140,000	–	7,865,776
	–	–	–	2,030,956	–	–	2,030,956
	<u>43,670,584</u>	<u>61,682,329</u>	<u>8,681,161</u>	<u>15,697,625</u>	<u>2,840,029</u>	<u>–</u>	<u>132,571,728</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

29 Maturity profile (continued)

2003	Bank						
	Repayable on demand HK\$'000	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000	Undated HK\$'000	Total HK\$'000
Assets							
– Cash and short-term funds	1,364,173	20,769,832	1,138,676	–	–	–	23,272,681
– Placements with banks maturing after one month	–	3,729,148	1,065,780	285,531	–	–	5,080,459
– Certificates of deposit held	–	178,108	598,003	439,902	–	–	1,216,013
– Trading debt securities	–	1,353	158,906	846,550	140,271	–	1,147,080
– Trade bills (before provisions)	59,726	1,063,459	120,328	–	–	11,804	1,255,317
– Advances to customers (before provisions)	6,409,272	14,439,676	10,761,847	21,785,362	37,213,401	2,261,720	92,871,278
– Held to maturity securities	–	1,099,015	4,129,090	18,466,988	1,024,191	–	24,719,284
– Non-trading debt securities	–	835,515	719,800	3,777,875	–	8,833	5,342,023
	<u>7,833,171</u>	<u>42,116,106</u>	<u>18,692,430</u>	<u>45,602,208</u>	<u>38,377,863</u>	<u>2,282,357</u>	<u>154,904,135</u>
Liabilities							
– Deposits and balances of banks	111,021	934,297	25,324	–	–	–	1,070,642
– Deposits from customers	43,559,563	60,588,032	5,670,750	9,085,980	2,700,029	–	121,604,354
– Certificates of deposit issued – 7.75% fixed rate subordinated notes	–	160,000	2,985,087	4,580,689	140,000	–	7,865,776
	–	–	–	2,030,956	–	–	2,030,956
	<u>43,670,584</u>	<u>61,682,329</u>	<u>8,681,161</u>	<u>15,697,625</u>	<u>2,840,029</u>	<u>–</u>	<u>132,571,728</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

30 Other liabilities

	Group		Bank	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short positions in securities	9,443,403	7,700,545	9,443,403	7,700,545
Other liabilities and provisions	5,986,420	5,319,512	5,977,720	5,272,133
	<u>15,429,823</u>	<u>13,020,057</u>	<u>15,421,123</u>	<u>12,972,678</u>

31 Tax liabilities

(a) Current taxation

Taxation in the balance sheet which is included in "Other liabilities" represents:

	Group		Bank	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax payable	284,049	202,901	284,481	202,458
Overseas tax payable	1,977	2,186	1,977	2,186
	<u>286,026</u>	<u>205,087</u>	<u>286,458</u>	<u>204,644</u>

(b) Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement on the deferred tax liabilities/(assets) account is as follows:

	Group		Bank	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	134,243	17,383	134,074	39,228
Additions through merger	–	125,444	–	103,438
Deferred taxation credited to profit and loss account (Note 11)	(19,838)	(17,604)	(19,677)	(17,612)
Deferred taxation (released) / charged to equity (Note 33(c) & (e))	(10,534)	9,020	(10,534)	9,020
At 31st December	<u>103,871</u>	<u>134,243</u>	<u>103,863</u>	<u>134,074</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

31 Tax liabilities (continued)

(b) Deferred taxation (continued)

Deferred tax assets and liabilities are attributable to the following items:

	Group		Bank	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Deferred income tax liabilities				
Accelerated tax depreciation	53,405	53,696	53,397	53,527
Other temporary differences	230,018	240,552	230,018	240,552
	<u>283,423</u>	<u>294,248</u>	<u>283,415</u>	<u>294,079</u>
Deferred income tax assets				
Provision for loan losses	179,552	160,005	179,552	160,005
	<u>179,552</u>	<u>160,005</u>	<u>179,552</u>	<u>160,005</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

	Group		Bank	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Deferred tax assets	179,552	160,005	179,552	160,005
Deferred tax liabilities	(283,423)	(294,248)	(283,415)	(294,079)
	<u>(103,871)</u>	<u>(134,243)</u>	<u>(103,863)</u>	<u>(134,074)</u>

Deferred income tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unremitted earnings of overseas branches, as such amounts are permanently reinvested; such unremitted earnings totalled HK\$126,154,000 at 31st December 2004 (2003: HK\$142,890,000).

32 Share capital

	Bank	
	2004 HK\$'000	2003 HK\$'000
Authorised, issued and fully paid 5,200,000,000 shares of HK\$1.00 each	<u>5,200,000</u>	<u>5,200,000</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

33 Reserves

	Group		Bank	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
(a) Share premium				
At 1st January	595,503	31,351	595,503	31,351
Addition through merger	–	564,152	–	564,152
At 31st December	<u>595,503</u>	<u>595,503</u>	<u>595,503</u>	<u>595,503</u>
(b) Capital reserve				
At 1st January and 31st December	<u>11,636</u>	<u>11,636</u>	<u>–</u>	<u>–</u>
(c) Premises revaluation reserve				
At 1st January	979,509	437,358	979,509	423,395
Additions through merger	–	715,926	–	713,267
Transfer to retained earnings on disposal of premises	(40,933)	(96,837)	(40,933)	(96,837)
Impairment of fixed assets (Note 25)	(6,138)	(84,501)	(6,138)	(67,879)
Release from deferred taxation (Note 31(b))	8,237	7,563	8,237	7,563
At 31st December	<u>940,675</u>	<u>979,509</u>	<u>940,675</u>	<u>979,509</u>
(d) Investment properties revaluation reserve				
At 1st January	81,500	–	81,500	–
Additions through merger	–	81,752	–	81,752
Impairment of fixed assets	–	(252)	–	(252)
At 31st December	<u>81,500</u>	<u>81,500</u>	<u>81,500</u>	<u>81,500</u>
(e) Investments revaluation reserve				
At 1st January	48,817	(10,200)	48,817	(10,794)
Additions through merger	–	6,550	–	594
Change in fair value of non-trading securities	50,927	77,844	50,927	76,804
Disposal of non-trading securities	(7,700)	(8,794)	(7,700)	(1,204)
Release from/(to) deferred taxation (Note 31(b))	2,297	(16,583)	2,297	(16,583)
At 31st December	<u>94,341</u>	<u>48,817</u>	<u>94,341</u>	<u>48,817</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

33 Reserves (continued)

	Group		Bank	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
(f) General reserve				
At 1st January	2,398,792	683,249	2,283,928	649,942
Additions through merger	–	1,715,543	–	1,633,986
At 31st December	<u>2,398,792</u>	<u>2,398,792</u>	<u>2,283,928</u>	<u>2,283,928</u>
(g) Retained earnings				
At 1st January	6,540,459	7,636,554	6,508,766	5,667,798
Additions through merger	–	403,719	–	1,239,415
Profit attributable to shareholders	2,542,553	2,007,410	2,498,247	3,108,060
Transfer from premises revaluation reserve on disposal of premises	40,933	96,837	40,933	96,837
Dividends (Note 13)	–	(3,603,523)	–	(3,603,523)
Translation of net investments in overseas branches and subsidiary companies	(575)	(538)	(800)	179
At 31st December	<u>9,123,370</u>	<u>6,540,459</u>	<u>9,047,146</u>	<u>6,508,766</u>
	<u>13,245,817</u>	<u>10,656,216</u>	<u>13,043,093</u>	<u>10,498,023</u>

Note: The premises, investment properties and investments revaluation reserves do not represent realised profits and are not available for distribution.

The general reserve is comprised of transfers from the previous years' retained earnings and is distributable.

The Bank operates under regulatory jurisdictions which require the maintenance of minimum capital adequacy ratios and which could therefore potentially restrict the amount of retained earnings which can be distributed to shareholders.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

34 Balances with group companies

(a) *Included in the following balance sheet captions are balances with DBS Bank Ltd, an intermediate holding company as at 31st December detailed as follows:*

	2004		2003	
	Group HK\$'000	Bank HK\$'000	Group HK\$'000	Bank HK\$'000
Cash and short-term funds	1,644,882	1,643,147	377,001	377,001
Placements with banks maturing after one month	626,099	626,099	885,531	885,531
Other assets	380,052	380,052	310,525	310,525
	<u>2,651,033</u>	<u>2,649,298</u>	<u>1,573,057</u>	<u>1,573,057</u>
Deposits and balances of banks	930,529	930,529	7,257	7,257
Other liabilities	1,516,170	1,516,170	1,059,559	1,059,559
	<u>2,446,699</u>	<u>2,446,699</u>	<u>1,066,816</u>	<u>1,066,816</u>

(b) *Included in the following balance sheet captions are balances due from and due to fellow subsidiaries as at 31st December detailed as follows:*

	Group and Bank	
	2004 HK\$'000	2003 HK\$'000
Cash and short-term funds	–	465
Other assets	32,819	24,338
	<u>32,819</u>	<u>24,803</u>
Deposits and balances of banks	999,847	845,232
Other liabilities	39	70
	<u>999,886</u>	<u>845,302</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

35 Material related party transactions

(a) *Transactions with an intermediate holding company and fellow subsidiaries*

As part of the Bank and the Group's normal course of business, it entered into various transactions with its intermediate holding company and fellow subsidiaries on normal commercial terms. These transactions include interbank placements, taking of deposits and foreign exchange and derivatives.

Information relating to income and expenses from these transactions during the year and balances outstanding at the balance sheet date are set out below:

(i) Income and expenses with an intermediate holding company

	2004	2003
	HK\$'000	HK\$'000
Interest income	213,702	218,106
Interest expense	126,416	26,290
Other income	840,007	745,110
Other expenses	75,548	337,975

(ii) Balances as at 31st December 2003 and 2004

Details of balances due from and due to the intermediate holding company and fellow subsidiaries are set out in Note 34 "Balances with group companies".

(b) *Transactions with a jointly controlled entity*

Under the Joint Venture Agreement (the "Agreement") between the Bank, Whampoa Limited and Hutchison DBS Card Limited ("HDCL"), the Bank issues and services credit cards under the Compass brand. The Compass credit card receivable balances are included under "Advances to customers" in the Group's balance sheet. Under the Agreement, loan losses on the Compass cards are borne by HDCL and accordingly, no provisions have been made in the Group accounts for these balances. The revenues and expenses (including interest income and expense, fee income and loan losses) associated with the Compass cards are recognised by the Group through its 50% share of net profits of HDCL in the "Share of profit of a jointly controlled entity" line in the Group's consolidated accounts.

Deposits taken from the jointly controlled entity amounted to HK\$864,000,000 as at 31st December 2004 (2003: HK\$864,000,000). Interest expense for the year ended 31st December 2004 paid and payable to HDCL amounted to HK\$30,431,000 (2003: HK\$30,958,000). The transactions were priced based on relevant market rates at the time of each transaction and were under normal commercial terms. Gross service fee income from HDCL to the Group for the year ended 31st December 2004 amounted to HK\$84,585,000 (2003: HK\$91,447,000).

(c) *Transactions with key management personnel*

Loans and credit card advances as at 31st December 2004 for key management personnel of the Group amounted to HK\$18,386,000 (2003: HK\$14,799,000). All interest rates in connection with the credit facilities extended are under terms and conditions normally applicable to customers of comparable standing. The interest income from key management personnel receivable by the Group for the year ended 31st December 2004 amounted to HK\$364,000 (2003: HK\$381,000)

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

36 Off-balance sheet exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liability and commitment:

	Group and Bank	
	2004	2003
	HK\$'000	HK\$'000
Direct credit substitutes	890,713	899,191
Transaction-related contingencies	375,989	444,189
Trade-related contingencies	5,134,251	4,758,968
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	54,403,562	47,256,608
	<u>60,804,515</u>	<u>53,358,956</u>

(b) Derivatives

The following is an analysis of the aggregate notional amount of each significant type of derivative:

	Group and Bank					
	2004			2003		
	Trading	Non-trading	Total	Trading	Non-trading	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts						
– Forwards	5,412,660	–	5,412,660	3,208,703	–	3,208,703
– Swaps	53,028,498	–	53,028,498	75,639,612	–	75,639,612
– Options purchased	29,078,149	–	29,078,149	1,886,608	–	1,886,608
– Options written	28,867,857	–	28,867,857	1,851,456	–	1,851,456
Interest rate contracts						
– Futures	15,705,503	–	15,705,503	18,239,962	–	18,239,962
– Swaps	77,816,506	17,087,579	94,904,085	117,042,845	23,659,036	140,701,881
– Options purchased	12,435,169	–	12,435,169	16,547,957	–	16,547,957
– Options written	12,430,745	–	12,430,745	16,535,149	–	16,535,149
Equity contracts						
– Options purchased	19,504,760	–	19,504,760	9,683,731	–	9,683,731
– Options written	19,504,760	–	19,504,760	9,683,731	–	9,683,731
	<u>273,784,607</u>	<u>17,087,579</u>	<u>290,872,186</u>	<u>270,319,754</u>	<u>23,659,036</u>	<u>293,978,790</u>

Non-trading transactions as at 31st December 2004 include HK\$2,536,899,000 (2003: HK\$4,428,843,000) of interest rate swaps that were entered into to manage the interest rate positions of the Group.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

36 Off-balance sheet exposures (continued)

(c) Contract amounts, credit risk-weighted amounts and replacement costs

The contract amounts, credit risk-weighted amounts and replacement costs of the above off-balance sheet exposures are as follows:

	Group and Bank					
	2004			2003		
	Contract amount HK\$'000	Credit risk weighted amount HK\$'000	Replacement Cost HK\$'000	Contract amount HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000
Contingent liabilities and commitments	60,804,515	1,909,538	–	53,358,956	1,867,016	–
Derivatives						
– Exchange rate contracts	116,387,164	464,677	513,207	82,586,379	243,149	252,260
– Interest rate contracts	135,475,502	184,116	1,272,023	192,024,949	358,283	1,751,698
– Equity contracts	39,009,520	242,726	198,173	19,367,462	78,115	106,241
	351,676,701	2,801,057	1,983,403	347,337,746	2,546,563	2,110,199

The above amounts are shown on a gross basis without taking into account the effect of bilateral netting arrangements.

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date; they do not represent amounts at risk.

The credit risk-weighted amounts are the amounts which have been calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

Replacement cost is the cost of replacing all contracts which have a positive value when marked to market (should the counterparty default on its obligations) and is obtained by marking to market contracts with a positive value. Replacement cost is a close approximation of the credit risk for these contracts at the balance sheet date.

(d) Other contingent liabilities

In November 2002, the Group entered into a ten-year outsourcing agreement with IBM with respect to the provision of information technology and related support to the Group's operation in Hong Kong. As with all similar market standard arrangements, there are various termination clauses contained within the agreement that under certain circumstances could require the Group to pay a penalty on early termination of the contract. The exact amount of any penalty amount cannot be reliably determined as it is dependent upon business volumes over the period of the contract and on the timing of the termination itself.

In February 2002, the Bank entered into a Life Insurance Bancassurance Distribution Agreement ("Agreement") with Aviva Life Insurance Company Ltd. Under the Agreement, the Bank have to pay a termination fee if the Bank terminates the Agreement. The amount of termination fee payable as at 31st December 2004 is determined in accordance with the schedule of termination fees included in the Agreement, and ranges from HK\$140,000,000 to HK\$38,000,000, depending on when the Agreement is terminated.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

37 Capital and lease commitments

(a) Capital commitments

Capital commitments for fixed assets outstanding at the balance sheet date not provided for in the accounts were as follows:

	Group and Bank	
	2004 HK\$'000	2003 HK\$'000
Expenditure contracted but not provided for	27,294	21,584
Expenditure authorised but not contracted for	35,989	42,354
	63,283	63,938

(b) Lease commitments

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	Group and Bank			
	2004		2003	
	Properties HK\$'000	Others HK\$'000	Properties HK\$'000	Others HK\$'000
Within 1 year	76,582	17,158	63,328	22,531
After 1 year but within 5 years	127,271	15,439	88,751	26,962
Over 5 years	–	–	800	–
	203,853	32,597	152,879	49,493

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

38 Reconciliation for cash flow statement

(a) Reconciliation of operating profit to net cash inflow/(outflow) from operating activities

	2004	2003
	HK\$'000	HK\$'000
Operating profit	2,833,653	2,381,890
Net gain on disposal of non-trading securities and held-to-maturity securities	61,310	10,338
Charge for bad and doubtful debts	431,505	821,003
Write-off of fixed assets	5,468	30,924
Depreciation	216,942	244,884
Advances written off net of recoveries	(330,200)	(926,699)
Interest expense for certificates of deposit issued	156,761	154,515
Interest expense for the 7.75% fixed rate subordinated notes	159,464	159,390
	<hr/>	<hr/>
Net cash inflow from trading activities	3,534,903	2,876,245
Net decrease/(increase) in money at call and short notice maturing beyond three months	3,742,775	(4,573,733)
Net (increase)/decrease in treasury bills maturing beyond three months	(1,233,965)	735,603
Net decrease in placements with banks maturing beyond three months	85,853	4,326,890
Net decrease in certificates of deposit held	243,608	320,871
Net (increase)/decrease in trading securities	(347,860)	940,453
Net increase in held-to-maturity securities	(2,063,446)	(5,966,865)
Net increase in advances less provisions	(11,691,826)	(704,538)
Net increase in non-trading securities	(1,655,448)	(3,530,028)
Net (increase)/decrease in other assets	(398,524)	76,504
Net increase/(decrease) in deposits and balances of banks	3,498,926	(836,976)
Net increase in deposits from customers	8,968,141	1,871,454
Net increase/(decrease) in other liabilities	2,322,748	(248,826)
Exchange differences and other adjustments	10,951	3,180
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	<u>5,016,836</u>	<u>(4,709,766)</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

38 Reconciliation for cash flow statement (continued)

(b) Analysis of changes in financing during the period

	Share capital and share premium HK\$'000	Certificates of deposit issued HK\$'000	7.75% Fixed rate subordinated notes HK\$'000
Balance as at 31st December 2002	5,231,351	5,718,942	2,040,278
Additions through merger	564,152	300,000	–
Cash inflow from financing	–	5,247,185	–
Cash outflow from financing	–	(3,411,710)	–
Effect of foreign exchange movements	–	11,359	(9,322)
	<hr/>	<hr/>	<hr/>
Balance as at 31st December 2003	5,795,503	7,865,776	2,030,956
Cash inflow from financing	–	5,969,917	–
Cash outflow from financing	–	(4,068,903)	–
Effect of foreign exchange movements	–	7,011	2,904
	<hr/>	<hr/>	<hr/>
Balance as at 31st December 2004	<u>5,795,503</u>	<u>9,773,801</u>	<u>2,033,860</u>

(c) Analysis of the balances of cash and cash equivalents

	2004 HK\$'000	2003 HK\$'000
Cash and balances with banks and other financial institutions	1,662,751	1,354,415
Money at call and short notice repayable with original maturity within three months	15,190,500	11,333,555
Placements with banks repayable with original maturity within three months	5,088,483	3,559,281
Treasury bills repayable with original maturity within three months	2,725,725	2,042,371
	<hr/>	<hr/>
	<u>24,667,459</u>	<u>18,289,622</u>

39 Loans to officers

Particulars of loans made to officers and disclosed pursuant to Section 161B(4B) of the Hong Kong Companies Ordinance:

	Balance outstanding as at 31st December		Maximum balance during the year	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Aggregate amount outstanding in respect of principal and interest	<u>200</u>	<u>1,080</u>	<u>1,080</u>	<u>1,437</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

40 Assets pledged as security

The aggregate amount of secured liabilities and the nature and carrying values of the assets pledged as security are as follows:

	Group and Bank	
	2004	2003
	HK\$'000	HK\$'000
Secured liabilities (Note 30)	9,443,403	7,700,545
Assets pledged as security		
– Treasury bills	5,248,677	3,556,654
– Other securities	4,841,877	5,066,656
	10,090,554	8,623,310

41 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

42 Ultimate holding company

The ultimate holding company is DBS Group Holdings Ltd, a listed company incorporated in Singapore.

43 Approval of accounts

The accounts were approved and authorized for issue by the board of directors on 28th January 2005.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION

The following information is disclosed as part of the accompanying information to the accounts and does not form part of the audited accounts.

1 Capital adequacy and liquidity ratios

	2004	2003
Capital adequacy ratio	<u>19.40%</u>	<u>19.47%</u>
Adjusted capital adequacy ratio	<u>19.04%</u>	<u>19.05%</u>
Average liquidity ratio	<u>47.50%</u>	<u>45.26%</u>

The capital adequacy ratio represents the combined ratio of the Bank as required by the Hong Kong Monetary Authority for its regulatory purposes, and is computed in accordance with the Third Schedule of the Banking Ordinance.

The adjusted capital adequacy ratio represents the capital adequacy ratio adjusted to take into account market risk as at the balance sheet date computed in accordance with the guideline "Maintenance of Adequate Capital against Market Risks" issued by the Hong Kong Monetary Authority.

The average liquidity ratio is the simple average of each calendar month's average liquidity ratio for the relevant period calculated for Hong Kong offices of the Bank, and is in accordance with the Fourth Schedule of the Banking Ordinance.

2 Components of capital base after deductions

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 31st December and reported to the Hong Kong Monetary Authority is analysed as follows:

	2004 HK\$'000	2003 HK\$'000
Core capital		
Paid up ordinary share capital	5,200,000	5,200,000
Share premium	595,503	595,503
Reserves (eligible for inclusion in core capital)	<u>11,331,074</u>	<u>8,792,694</u>
	<u>17,126,577</u>	<u>14,588,197</u>
Supplementary capital		
Reserve on revaluation of land and interests in land	715,522	742,706
Reserve on revaluation of holding of securities not held for trading purposes	66,039	34,172
General provisions for doubtful debts	1,051,665	937,135
Term subordinated debt	<u>1,220,316</u>	<u>1,624,765</u>
Gross and eligible value of supplementary capital	<u>3,053,542</u>	<u>3,338,778</u>
Total capital base before deductions	20,180,119	17,926,975
Deductions from total capital base	<u>(497,633)</u>	<u>(617,194)</u>
Total capital base after deductions	<u>19,682,486</u>	<u>17,309,781</u>

The capital base represents the capital base of the Bank as at 31st December computed in accordance with the Third Schedule of the Banking Ordinance.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

3 Currency concentrations

HK\$' million	Group		
	US\$	Others	Total
2004			
Hong Kong dollar equivalents			
Spot assets	42,562	15,702	58,264
Spot liabilities	(43,344)	(15,128)	(58,472)
Forward purchases	30,606	3,353	33,959
Forward sales	(28,963)	(3,879)	(32,842)
Net option position	(2)	(30)	(32)
Net long non-structural position	<u>859</u>	<u>18</u>	<u>877</u>
Net structural position	<u>–</u>	<u>236</u>	<u>236</u>
2003			
Hong Kong dollar equivalents			
Spot assets	36,449	14,886	51,335
Spot liabilities	(36,795)	(13,318)	(50,113)
Forward purchases	39,284	2,965	42,249
Forward sales	(38,482)	(4,458)	(42,940)
Net option position	(18)	22	4
Net long non-structural position	<u>438</u>	<u>97</u>	<u>535</u>
Net structural position	<u>–</u>	<u>215</u>	<u>215</u>

The net structural position for 2004 represents the Group's Peso investment of HK\$142 million equivalent in Philippines and Renminbi investment of HK\$94 million equivalent in China.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

4 Segmental information

(a) *By geographical area*

Over 90% of the Group's operating income, profit before taxation, total assets, total liabilities, contingent liabilities and commitments arise from or are booked in Hong Kong.

(b) *By class of business*

	Group			
	Commercial and retail banking HK\$'000	Treasury HK\$'000	Subsidiaries, overseas branches and others HK\$'000	Total HK\$'000
Year ended 31st December 2004				
Operating income	<u>4,536,251</u>	<u>1,043,506</u>	<u>57,662</u>	<u>5,637,419</u>
Operating profit / (loss) before provisions	<u>2,393,626</u>	<u>874,262</u>	<u>(2,730)</u>	<u>3,265,158</u>
Operating profit / (loss)	<u>1,982,146</u>	<u>872,372</u>	<u>(20,865)</u>	<u>2,833,653</u>
Profit before taxation	<u>2,050,396</u>	<u>872,372</u>	<u>30,379</u>	<u>2,953,147</u>
Year ended 31st December 2003				
Operating income	<u>4,111,788</u>	<u>1,253,857</u>	<u>39,626</u>	<u>5,405,271</u>
Operating profit / (loss) before provisions	<u>2,178,988</u>	<u>1,025,479</u>	<u>(1,574)</u>	<u>3,202,893</u>
Operating profit / (loss)	<u>1,423,340</u>	<u>1,009,577</u>	<u>(51,027)</u>	<u>2,381,890</u>
Profit / (loss) before taxation	<u>1,417,992</u>	<u>1,009,577</u>	<u>(41,005)</u>	<u>2,386,564</u>

Commercial and retail banking business mainly comprises deposit account services, residential mortgage and other consumer lending, credit card services, corporate lending, trade finance and international banking.

Treasury activities are mainly the provision of foreign exchange services and centralised cash management for deposit taking and lending, trading activities and management of investment securities and the overall funding of the Banking Group.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

4 Segmental information (continued)

(c) Total advances to customers*

(i) By industry sectors

The information concerning gross advances to customers by industry sectors has been classified according to the usage of the loan and is stated gross of any provisions.

	2004 HK\$'000	2003 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	146,883	162,640
– Property investment	11,957,859	10,766,258
– Financial concerns	594,975	1,039,712
– Stockbrokers	74,374	141,876
– Wholesale and retail trade	2,893,873	2,231,798
– Manufacturing	7,855,387	5,666,365
– Transport and transport equipment	10,203,854	7,864,913
– Others	4,157,714	3,330,415
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	2,920,838	3,470,608
– Loans for the purchase of other residential properties	36,278,336	36,143,250
– Credit card advances	5,605,390	5,185,788
– Others	4,372,241	4,046,157
	<u>87,061,724</u>	<u>80,049,780</u>
Trade finance	15,575,862	12,532,177
Loans for use outside Hong Kong	<u>2,585,654</u>	<u>1,202,782</u>
	<u>105,223,240</u>	<u>93,784,739</u>

* Total advances to customers include trade bills receivable from customers and advances to customers.

(ii) By geographical areas

Over 90% of the gross advances to customers and the related non-performing loans and overdue advances were located in Hong Kong after taking into account the transfer of risks. In general, transfer of risk applies when an advance is guaranteed by a party in a country which is different from that of the counterparty.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

4 Segmental information (continued)

(d) Cross-border claims

HK\$' million	Group			Total
	Banks and Other Financial Institutions	Public sector entities	Others	
2004				
Asia Pacific excluding Hong Kong	15,613	389	3,054	19,056
North and South America	5,214	281	411	5,906
Europe	29,210	8	834	30,052
Others	306	–	492	798
	<u>50,343</u>	<u>678</u>	<u>4,791</u>	<u>55,812</u>
2003				
Asia Pacific excluding Hong Kong	9,475	287	1,559	11,321
North and South America	5,208	392	110	5,710
Europe	30,682	4	93	30,779
Others	299	–	240	539
	<u>45,664</u>	<u>683</u>	<u>2,002</u>	<u>48,349</u>

5 Overdue and rescheduled advances to customers

(a) Overdue advances to customers and trade bills receivable from customers

The gross amount of advances, net of accrued interest that has been capitalised but accrued to a suspense account, which have been overdue for:

	2004		2003	
	HK\$'000	% of total advances to customers*	HK\$'000	% of total advances to customers*
Six months or less but over three months	314,703	0.30	385,890	0.41
One year or less but over six months	238,525	0.23	418,878	0.44
Over one year	512,145	0.48	561,400	0.60
	<u>1,065,373</u>	<u>1.01</u>	<u>1,366,168</u>	<u>1.45</u>

* Total advances to customers include trade bills receivable from customers and advances to customers.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

5 Overdue and rescheduled advances to customers (continued)

(b) Rescheduled advances

The rescheduled advances (net of those which have been overdue for over three months and reported in item (a) above):

	2004		Group		2003	
	HK\$'000	% of total advances to customers*	HK\$'000	% of total advances to customers*	HK\$'000	% of total advances to customers*
Performing loans	18,417	0.02	57,889	0.06		
Non-performing loans	225,494	0.21	304,999	0.33		
Rescheduled advances	<u>243,911</u>	<u>0.23</u>	<u>362,888</u>	<u>0.39</u>		

* Total advances to customers include trade bills receivable from customers and advances to customers.

(c) Reconciliation of overdue advances to non-performing advances

	Group	
	2004 HK\$'000	2003 HK\$'000
Overdue advances to customers as per (a) above	1,065,373	1,366,168
Less: Advances which are overdue for more than three months and on which interest is still being accrued	(105,534)	(61,651)
Add: Advances which are overdue for three months or less, or which are not yet overdue, and on which interest is being placed in suspense or on which interest accrual has ceased		
– included in rescheduled advances	225,494	304,999
– others	588,254	618,772
Non-performing loans	<u>1,773,587</u>	<u>2,228,288</u>

(d) Repossessed assets

At 31st December 2004, the repossessed assets of the Group amounted to HK\$93,903,000 (2003: HK\$217,751,000).

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

6 Corporate governance

The Board has delegated certain responsibilities to various committees while reserving certain key matters for its approval. The following specialized committees of the Bank were established:–

(a) *Board Executive Committee and Sub-committee*

The Board Executive Committee has all the powers of the Board except those powers that can only be exercised by the Board under the law and other matters specified under the terms of reference which require board approval. Without prejudice to the foregoing, the Board Executive Committee functions as a discussion forum for all matters that would, in accordance with the Bank's practice, be approved by the Board. The Board Executive Committee comprises four directors appointed by the Board.

For operational efficiency, a Board Executive Sub-committee comprising two executive directors in Hong Kong has been established pursuant to the Articles of Association of the Bank. The Board Executive Sub-committee is authorized to do all things which are in the ordinary course of business of the Bank as stipulated under the terms of reference. The Board Executive Sub-committee shall report to the Board Executive Committee in respect of the matters which are not on normal commercial terms or which are outside the ordinary course of the business of the Bank, in such manner and at such time or occasion as the Board Executive Committee at its discretion may deem fit.

(b) *Board Audit Committee*

The Board Audit Committee is authorized by the Board to investigate any activity within its terms of reference. Its main duties include inter alia, the review of the Bank's financial statements before submission to the Board, the nomination and appointment of the external auditor, the audit fee and any questions of resignation or dismissal, to review the internal audit programme and consider the major findings of internal investigations and management's response. The Board Audit Committee comprises the four independent non-executive directors of the Bank.

(c) *Board Risk Management Committee*

The Board Risk Management Committee provides comprehensive and Bank-wide oversight of all risks and their management. It represents the focus of enterprise-wide risk management policy and review and provides oversight, direction and counsel to other risk committees and risk management processes. Its critical responsibilities include the review of risk profiles in relation to returns, reviewing changes in risk limits, policies and practices and helping to identify opportunities to optimize risk-based return on capital. The Board Risk Management Committee comprises the Chairman of the Bank, the Chief Executive Officer and two independent non executive directors.

(d) *Management Committee*

The Management Committee formulates a bank-wide strategy and is responsible for its implementation and results. It ensures that all the Bank's resources and activities contribute to fulfilling its mission and objectives. The Management Committee members work together to ensure effective integration between the various business and support units, and it will prioritize and determine the allocation of resources and capital to those units that have growth potential. The Committee is responsible for the maintenance of high corporate governance, risk management and compliance standards in Hong Kong. The Committee sets policy and guideline on human resources, training and investments that will help the Bank to build and sustain its future. The Committee comprises the Chairman of the Bank, the Chief Executive Officer and other members of senior management.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

6 Corporate governance (continued)

(e) Credit Committee

The Credit Committee services as a high level review body for the Bank's credit portfolio and non-performing loans, and an executive forum for discussion and decisions on all aspects of credit risk and its management, including establishing limits and processes for influencing and managing credit risk of all kinds. The members of the Credit Committee are the Chief Country Credit Officer and other members nominated by the Chief Executive Officer.

(f) Asset and Liability Committee

The Asset and Liability Committee manages the Bank's income against changing interest and currency rate conditions and maturities/duration. It decides on appropriate liquidity adequacy and management and oversees the structure and effects of the entire balance sheet as well as significant off balance sheet assets and liabilities. Its key responsibilities include identifying, measuring and monitoring the liquidity profile, ensuring that current and future funding requirements are met and determining appropriate mismatching, liquidity and other asset/liability position targets and limits from regulatory, product/market and profitability perspectives. The members of the Asset and Liability Committee are the Chief Executive Officer and representatives from Central Treasury Unit, Finance, Risk Management, Treasury & Markets and others nominated by the Chief Executive Officer/Head of Central Treasury Unit.

(g) Human Resources Committee

The Human Resources Committee coordinates, discusses and decides through consensus building on selected human resources topics, such as policies, processes and activities related to recruitment, training, performance measurement, compensation and team building of staff. Members of the Committee are Head of Human Resources and others nominated by the Chief Executive Officer.

(h) Project Council

The Project Council serves as the forum to provide perspective and oversight over the project portfolio of the Bank. It provides guidance and approval for a framework and a set of criteria to achieve a balanced portfolio of projects that are aligned to the core strategies of the DBS Group including the Bank. The Project Council comprises the Chief Executive Officer, representatives from the relevant business units and support units and others nominated by the Chief Executive Officer.

(i) Service Quality Steering Committee

The Service Quality Steering Committee provides oversight, direction and counsel relating to the management of customer service quality. The overall vision is "to differentiate DBS through superior customer service, thereby maximizing customer satisfaction and loyalty". The Service Quality Steering Committee comprises the Chief Executive Officer, Chairman of the Service Quality Council, representatives from the relevant business units and support units and others nominated by the Chief Executive Officer.

(j) Outsourcing Supervisory Committee

The Outsourcing Supervisory Committee provides enterprise-wide oversight, direction and counsel relating to the management of outsourcing activities. It serves as the executive forum for review and discussion of matters concerning the outsourcing arrangements excluding the Regional IT outsourcing project (Project RIO) which scope is beyond the entity coverage of the committee. There is a regional governance structure for the arrangement of RIO. The Outsourcing Supervisory Committee comprises the Alternate Chief Executive and representatives from the relevant support units and others nominated by the Chief Executive Officer.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

6 Corporate governance (continued)

(k) Market Risk Committee

The Market Risk Committee provides comprehensive and enterprise-wide oversight, direction and counsel relating to the management of market risk. It serves as an executive forum for discussion and decisions on all aspects of market risk and its management. The Market Risk Committee comprises the Chief Executive Officer, representatives from relevant business units and support units and others nominated by the Chief Executive Officer.

(l) Operational Risk Committee

The Operational Risk Committee provides comprehensive and enterprise-wide oversight, direction and counsel relating to the management of operational, reputation and legal risks. It serves as an executive forum for discussion and decisions on all aspects of these risks and their management. The Operational Risk Committee comprises the Head of Risk Management, representatives from the relevant support units and others nominated by the Chief Executive Officer.

7 Risk management

The Group has implemented policies and procedures to identify, mitigate and monitor risk across the firm. These policies and procedures rely on constant communication, judgement, and knowledge of products, markets and controls by business and support units. The Group believes that business and support units have the primary responsibility for managing risk. At the same time, we insist on independent risk management and oversight.

The Group considers having world-class skills in monitoring, interpreting and forecasting our risk profile to be a critical internal capability. Our approach to risk management has several components: comprehensive risk management processes, early identification systems, accurate risk measures, investments in people and technology to interpret and manage risk on a daily basis, stress tests and comprehensive process reviews in conjunction with internal auditors, external auditors and regulatory officials.

(i) Group Audit

Group Audit in Hong Kong is an independent function that reports directly to Group Audit in Singapore and the Audit Committee with dotted reporting line to the Chief Executive Officer in Hong Kong. Its scope of work covers all business and support functions in the Group. It follows a consistent code of ethics based on principles recommended by the USA Institute of Internal Auditors.

The annual audit plan is developed under a structured Risk Assessment Approach that examines all of the Group's activities and entities, the inherent risks and internal controls. Audit assignments are identified based on this approach and audit resources are focused on the higher risk activities.

The progress of corrective actions on all outstanding audit issues is monitored monthly through Group Audit's centralised Global Audit Tracking System. Information on outstanding issues is categorised and reported to senior and line management through the Monthly Control Reports.

All audit reports are copied to the Audit Committee, external auditors and senior executives of the Group, including the Chief Executive Officer, Chief Financial Officer, Chief Compliance Officer and Head of Group Risk Management.

Group Audit meets regularly with the external auditors to strengthen working relationships between both parties, discuss matters of mutual interest, develop a common understanding and co-ordinate the audit efforts.

During 2004, Group Audit carried out its functions in accordance with the general description provided above.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Risk management (continued)

(i) Group Audit (continued)

The professional competence of the internal auditors is maintained through Group Audit's continuing professional development programme, which focuses on updating auditors' knowledge of auditing techniques, regulations and banking products and services.

As stated above, Group Audit works closely with the external auditors, Ernst & Young. The external auditors carry out, in the course of their annual statutory audit, a review of the effectiveness of the Group's material internal controls and risk management to the extent of their audit plan. Material non-compliance and internal control weaknesses noted during their audit, along with any recommendations, are reported to the Audit Committee.

(ii) Capital management

It is the Group's policy to maintain a strong capital base to support the development of the Group's business and to meet the statutory capital adequacy ratio. Capital is allocated to the various activities of the Group depending on the risk reward criteria and regulatory requirements.

(iii) Credit Risk Management

Credit risk is the risk of loss due to the inability or unwillingness of a customer or counterparty to meet its payment obligations.

The Group's Credit Policies and Procedures Manual defines the credit extension and measurement criteria, the credit review, approval and monitoring processes and the system of loan classification and provision. Credit applications are guided by a set of credit principles which all extensions of credit must adhere to and these applications are subject to regular independent review. The Business uses various internal and external risk rating systems (credit scorecards, customer risk grading, bureau score) to control the level of credit risk accepted by the Bank. Business units and credit approvers have the responsibility to ensure that credits are properly assessed and classified. Business units also assume the responsibility to ensure all crucial information is included in the application for the purpose of assessment and approval.

The Group adopts a multi-level credit approval process requiring loan approval at successively higher levels and/or committees (as delegated) depending on, among other things, the size and nature of the proposed transactions.

Credit exposure is represented by the notional or principal value of on and off-balance sheet financial instruments. For derivatives, potential credit loss is measured by Pre-settlement Credit Exposure, which is in general only a fraction of the derivative contract or notional amount used to express the volume of instruments. Exposures are monitored against credit limits and other control limits (such as large exposures and concentration limits) by independent credit control units at both the transaction and portfolio levels.

These credit policies and limits are established taking into account factors such as prevailing business and economic conditions, the Group's risk appetite to a single customer, or particular industries or sectors and regulatory requirements.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Risk management (continued)

(iv) Liquidity Risk Management

Liquidity obligations arise from withdrawals of deposits, repayments of purchased funds at maturity, extensions of credit and working capital needs. The Group seeks to manage its liquidity risk across all classes of assets and liabilities to ensure that even under adverse conditions, the Group has access to funds at a reasonable cost.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. This analysis includes behavioral assumptions on, inter-alia, customer loans, customer deposits, and reserve assets. This is tested under normal and adverse market scenario conditions. Limits are established for the cumulative negative cash flow over successive time bands. Various liquidity ratios, concentration and stress limits are additional tools employed by the Bank to manage funding liquidity risk.

The Group maintains a diverse source of funding that includes liquid bonds and maturing assets.

(v) Structural Market Risk Management

The Asset and Liability Committee oversees the structural interest rate risk, exchange rate risk and funding liquidity risk in the Bank. It sets overall limits on each of these risk types for the Bank.

Structural interest rate risk arises from mismatches in the interest rate profile of customer loans and deposits. The structural interest rate relates to basis risk arising from different interest rate benchmarks, interest rate repricing risk, yield curve movements and embedded optionality.

In managing structural interest rate risk, the Group tries to achieve a desired profile given the strategic considerations and market conditions of the various business segments. To monitor the structural interest rate risk, various tools are used including repricing gap reports, sensitivity analysis and income simulations under various scenarios. These measures take into account both economic value and earnings perspectives.

The Group attempts to limit the effect of exchange rate movements on its earnings where possible. Our policy is to fund foreign currency lending with the same foreign currencies. For foreign currency investments, the Bank's general policy is to borrow fundable currencies. Non-fundable or illiquid currencies may be hedged using other instruments. Where appropriate for currencies with high hedging costs or lack of liquidity, alternative hedging strategies may be used.

An Investment Framework governs the Bank's investment of funds arising from the banking business. The investment portfolio is subject to Board and senior management limits on the portfolio size, credit quality, product and sector concentrations and market risk sensitivities under the Framework.

(vi) Operational Risk Management

Operational risk is the risk of loss arising from inadequate or failed internal processes, people or systems, or from external events. An Operational Risk Management Framework has been developed to ensure that operational risks within the Group are properly identified, monitored, managed and reported. Key elements of the framework include operational risk policies, risk and control self assessment, risk event management, key risk indicators reporting, process risk mapping, risk analysis and reporting, Global Insurance Program and Business Continuity Planning Program.

Each new product introduced is subject to a risk review and sign-off process where all relevant risks are identified and assessed by departments independent of the risk-taking unit proposing the product. Variations of existing products, as well as outsourcing initiatives, are also subject to a similar process.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Risk management (continued)

(vii) Trading Market Risk Management

Trading market risk arises from changes in market rates such as interest rates, foreign exchange rates and equity prices, as well as in their correlation and implied volatilities. The Group takes trading market risk in the course of making market to meet customer requirements as well as to benefit from market opportunities.

The trading market risk framework establishes limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by senior management and the Board. The framework also requires independent validation of valuation and risk models and methodologies as well as independent mark-to-market valuation, reconciliation of positions and tracking of stop-loss for trading positions on a timely basis. Risk issues are identified for new products and services before launch.

The Group adopts a Daily Earnings at Risk (DEaR) methodology to estimate the Bank's trading market risk with a 99% level of confidence over a one-day horizon. DEaR is computed using a combination of parametric and historical simulation approaches. It takes into account all pertinent risk factors and covers all financial instruments which expose the Bank to market risk, across all geographies. On a daily basis, the Group estimates DEaR for each trading business unit, as well as for the Bank. These daily reports also provide DEaR for individual activity and risk type such as foreign exchange, interest rate or equity. To complement the DEaR framework, daily stress testing is carried out to monitor the Bank's vulnerability to unlikely but plausible events in extreme market conditions. The DEaR figures are backtested against profit or loss of the trading books to validate its effectiveness.

The average daily revenue arising from the Group's market risk related treasury activities for the period ended 31st December 2004 was HK\$1,477,000 (2003: HK\$1,951,000) and the standard deviation for such daily revenue was HK\$1,787,000 (2003: HK\$4,732,000). The average daily revenue/(loss) and its standard deviation are analysed by principal dealing activities as follows:

	Average daily revenue/(loss)		Standard deviation	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Interest rate dealing	307	926	1,400	4,488
Foreign exchange dealing	759	660	987	1,394

DBS BANK (HONG KONG) LIMITED

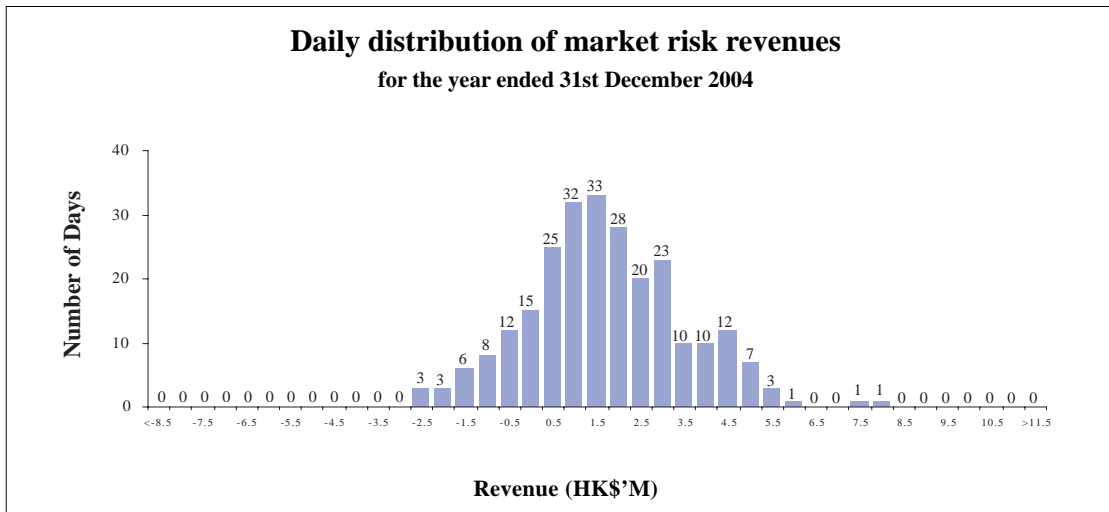
UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Risk management (continued)

(vii) Trading Market Risk Management (continued)

The following histograms show the frequency of daily revenues related to market risk trading activities:

2004



2003

