

DBS BANK (HONG KONG) LIMITED

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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 financial statements of the Bank and its subsidiaries (the “Group”) for the year ended 31st December 2005.

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 22 to the financial statements.

Results and appropriations

The results of the Group for the year ended 31st December 2005 are set out in the consolidated income statement on page 5.

An interim dividend of HK\$0.198 per share totalling HK\$1,029,600,000 was paid for the year ended 31st December 2005 (2004: Nil).

The directors do not recommend the payment of a final dividend for the year ended 31st December 2005 (2004: Nil).

Reserves

Details of the movements in the reserves of the Bank and the Group during the year are set out in Note 35 to the financial statements.

Fixed assets

Details of the movements in fixed assets during the year are set out in Note 23 to the financial statements.

Donations

Donations made by the Group during the year amounted to HK\$946,000 (2004: HK\$714,000).

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
Leung Chun Ying
Cheng Wai Chee, Christopher
Chan Tak Kin
Leung Ting Mow, Kenneth
Lo Chung Wing, Victor
Fock Siew Wah

(resigned on 29th April 2005)

In accordance with Article 98 of the Bank’s Articles of Association, Messrs. Wong Kwong Shing, Frank, Jackson Peter Tai, Leung Chun Ying, Cheng Wai Chee, Christopher, Chan Tak Kin and Leung Ting Mow, Kenneth retire from office at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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.

DBS BANK (HONG KONG) LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

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 under which options to subscribe for DBSH ordinary shares could be granted to DBSH Group executives.

At the beginning of the year, Messrs. Wong Kwong Shing, Frank, Jackson Peter Tai, Randolph Gordon Sullivan and Chan Tak Kin have outstanding options granted under the Option Plan.

During the year, options to subscribe for a total of 126,400 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.

(b) *DBSH Performance Share Plan*

The DBSH Performance Share Plan (the “PSP”) was adopted by the shareholders of DBSH at an Extraordinary General Meeting held on 18th September 1999. The PSP is a stock-based plan where DBSH ordinary shares are given free to DBSH Group executives when the prescribed performance targets are met.

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. A total of 36,098 DBSH shares were vested in Messrs. Wong Kwong Shing, Frank, Jackson Peter Tai, Randolph Gordon Sullivan and Chan Tak Kin under the PSP during the year.

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., 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 contract concerning the management and administration of the whole or any substantial part of the business of the Bank was 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 financial statements have been audited by Ernst & Young who 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, 10th February 2006

DBS BANK (HONG KONG) LIMITED

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS

DBS BANK (HONG KONG) LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 5 to 72 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 Hong Kong Standards on Auditing 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 2005 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
10th February 2006

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2005

	Note	2005 HK\$'000	As restated 2004 HK\$'000
Interest income	3	7,532,080	5,417,657
Interest expense	4	(3,305,806)	(1,465,974)
Net interest income		4,226,274	3,951,683
Other operating income	5	1,119,880	1,804,083
Operating income		5,346,154	5,755,766
Operating expenses	6	(2,630,294)	(2,406,729)
Operating profit before impairment allowances/operating profit before provisions		2,715,860	3,349,037
Impairment allowances/charge for bad and doubtful debts	7	(402,861)	(465,198)
Operating profit		2,312,999	2,883,839
Net gain on disposal of fixed assets		72,000	38,140
Impairment of fixed assets		(2,529)	–
Fair value adjustment on investment properties		12,325	–
Net gain on disposal of available-for-sale securities/non-trading securities		88,180	61,310
Profit before taxation		2,482,975	2,983,289
Taxation	9	(382,346)	(407,491)
Profit attributable to shareholders	10	2,100,629	2,575,798
Dividend	11	1,029,600	–

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2005

	Note	2005 HK\$'000	As restated 2004 HK\$'000
Assets			
Cash and short-term funds	12	18,950,002	25,614,013
Placements with banks maturing after one month	13	11,093,471	6,523,808
Trade bills less impairment			
allowances/trade bills less provisions	14	1,889,115	1,621,669
Certificates of deposit held	15	2,195,972	972,405
Trading securities	16	2,496,098	1,494,940
Advances to customers less impairment			
allowances/advances to customers less provisions	17	109,383,928	102,383,901
Available-for-sale securities/non-trading securities	19	32,877,711	7,487,919
Held-to-maturity securities	20	–	26,780,812
Deferred tax assets	33	85,920	114,743
Fixed assets	23	1,203,602	1,094,166
Lease premium for land	24	2,344,011	2,421,895
Other assets	25	3,745,731	4,626,145
		<u>186,265,561</u>	<u>181,136,416</u>
Total assets		<u>186,265,561</u>	<u>181,136,416</u>
Liabilities			
Deposits and balances of banks		2,277,937	4,569,568
Trading liabilities	26	4,971,799	–
Deposits from customers	27	141,784,625	130,572,495
Certificates of deposit issued	28	6,269,719	9,773,801
Other liabilities	29	9,566,578	15,637,232
Amount due to a jointly controlled entity	21	672,839	618,054
Current income tax liabilities	33	84,808	287,855
7.75% fixed rate subordinated notes	30	2,028,445	2,033,860
		<u>167,656,750</u>	<u>163,492,865</u>
Total liabilities		<u>167,656,750</u>	<u>163,492,865</u>
Equity			
Share capital	34	5,200,000	5,200,000
Reserves	35	13,408,811	12,443,551
		<u>18,608,811</u>	<u>17,643,551</u>
Total Equity		<u>18,608,811</u>	<u>17,643,551</u>
Total liabilities and equity		<u>186,265,561</u>	<u>181,136,416</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 2005

	Note	2005 HK\$'000	As restated 2004 HK\$'000
Assets			
Cash and short-term funds	12	18,948,383	25,612,278
Placements with banks maturing after one month	13	11,093,471	6,523,808
Trade bills less impairment			
allowances/trade bills less provisions	14	1,889,115	1,621,669
Certificates of deposit held	15	2,195,972	972,405
Trading securities	16	2,496,098	1,494,940
Advances to customers less impairment			
allowances/advances to customers less provisions	17	109,417,084	102,407,980
Available-for-sale securities/non-trading securities	19	32,877,711	7,487,919
Held-to-maturity securities	20	–	26,780,812
Deferred tax assets	33	82,606	112,962
Interest in a jointly controlled entity	21	500	500
Subsidiary companies	22	155,836	368,210
Fixed assets	23	1,191,755	1,092,358
Lease premium for land	24	2,344,011	2,409,988
Other assets	25	3,744,307	4,624,758
Total assets		<u>186,436,849</u>	<u>181,510,587</u>
Liabilities			
Deposits and balances of banks		2,277,937	4,569,568
Trading liabilities	26	4,971,799	–
Deposits from customers	27	141,784,625	130,572,495
Certificates of deposit issued	28	6,269,719	9,773,801
Other liabilities	29	9,054,553	15,161,020
Amounts due to subsidiaries	22	207,677	441,061
Amount due to a jointly controlled entity	21	1,345,679	1,236,109
Current income tax liabilities	33	83,665	281,846
7.75% fixed rate subordinated notes	30	2,028,445	2,033,860
Total liabilities		<u>168,024,099</u>	<u>164,069,760</u>
Equity			
Share capital	34	5,200,000	5,200,000
Reserves	35	13,212,750	12,240,827
Total Equity		<u>18,412,750</u>	<u>17,440,827</u>
Total liabilities and equity		<u>186,436,849</u>	<u>181,510,587</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 STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2005

	Share Capital HK\$'000	Share Premium HK\$'000	Capital Reserve HK\$'000	Premises Revaluation Reserve HK\$'000	Investment Properties Revaluation Reserve HK\$'000	Investments Revaluation Reserve HK\$'000	General Reserve HK\$'000	Retained Earnings HK\$'000	Total Equity HK\$'000
Balance as at 31st December 2004									
– as previously reported	5,200,000	595,503	11,636	940,675	81,500	94,341	2,398,792	9,123,370	18,445,817
– adjustments due to change in accounting policies including HKAS 17 and HKFRS 2	–	–	–	(940,675)	–	–	–	138,409	(802,266)
– as restated	5,200,000	595,503	11,636	–	81,500	94,341	2,398,792	9,261,779	17,643,551
On adoption of HKAS 39	–	–	–	–	–	52,495	–	259,103	311,598
On adoption of HKAS 40	–	–	–	–	(81,500)	–	–	78,953	(2,547)
As restated at 1st January 2005	5,200,000	595,503	11,636	–	–	146,836	2,398,792	9,599,835	17,952,602
Change in fair value of available-for-sale securities	–	–	–	–	–	(369,770)	–	–	(369,770)
Exchange differences arising on translation of net investments in overseas branches and subsidiary companies	–	–	–	–	–	–	–	(57)	(57)
Profit attributable to shareholders	–	–	–	–	–	–	–	2,100,629	2,100,629
Reserve transferred to income statement upon disposal of available-for-sale securities	–	–	–	–	–	(69,321)	–	–	(69,321)
Deferred taxation	–	–	–	–	–	24,328	–	–	24,328
Dividend	–	–	–	–	–	–	–	(1,029,600)	(1,029,600)
Balance as at 31st December 2005	5,200,000	595,503	11,636	–	–	(267,927)	2,398,792	10,670,807	18,608,811

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

FOR THE YEAR ENDED 31ST DECEMBER 2004

	Share Capital HK\$'000	Share Premium HK\$'000	Capital Reserve HK\$'000	Premises Revaluation Reserve HK\$'000	Investment Properties Revaluation Reserve HK\$'000	Investments Revaluation Reserve HK\$'000	General Reserve HK\$'000	Retained Earnings HK\$'000	Total Equity HK\$'000
Balance as at 1st January 2004									
– as previously reported	5,200,000	595,503	11,636	979,509	81,500	48,817	2,398,792	6,540,459	15,856,216
– adjustments due to change in accounting policies including HKAS 17 and HKFRS 2	–	–	–	(979,509)	–	–	–	146,096	(833,413)
As restated at 1st January 2004	5,200,000	595,503	11,636	–	81,500	48,817	2,398,792	6,686,555	15,022,803
Change in fair value of non-trading securities	–	–	–	–	–	50,927	–	–	50,927
Exchange differences arising on translation of net investments in overseas branches and subsidiary companies	–	–	–	–	–	–	–	(574)	(574)
Profit attributable to shareholders	–	–	–	–	–	–	–	2,575,798	2,575,798
Reserve transferred to income statement upon disposal of non-trading securities	–	–	–	–	–	(7,700)	–	–	(7,700)
Deferred taxation	–	–	–	–	–	2,297	–	–	2,297
Balance as at 31st December 2004	<u>5,200,000</u>	<u>595,503</u>	<u>11,636</u>	<u>–</u>	<u>81,500</u>	<u>94,341</u>	<u>2,398,792</u>	<u>9,261,779</u>	<u>17,643,551</u>

DBS BANK (HONG KONG) LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2005

	Note	2005 HK\$'000	As restated 2004 HK\$'000
Net cash inflow from operating activities	39(a)	4,340,722	7,080,507
Investing activities			
Purchase of held-to-maturity securities		–	(7,463,580)
Purchase of available-for-sale securities/non-trading securities		(12,233,482)	(5,507,563)
Purchase of fixed assets		(266,926)	(92,625)
Proceeds from disposal of available-for-sale securities/non-trading securities		12,863,960	4,135,405
Proceeds from disposal of fixed assets and lease premium for land		136,155	92,833
Proceeds from disposal of held-to-maturity securities		–	5,457,117
Interest received on held-to-maturity securities		–	894,078
Interest received on available-for-sale securities/non-trading securities		987,055	190,882
Net cash inflow/(outflow) from investing activities		1,486,762	(2,293,453)
Financing activities			
Dividend paid		(1,029,600)	–
Interest paid for certificates of deposit issued		(170,176)	(150,290)
Interest paid for 7.75% fixed rate subordinated notes		(157,837)	(159,366)
Issue of certificates of deposit	39(b)	2,686,696	5,969,917
Redemption of certificates of deposit	39(b)	(6,119,495)	(4,068,903)
Net cash (outflow)/inflow from financing activities		(4,790,412)	1,591,358
Increase in cash and cash equivalents		1,037,072	6,378,412
Cash and cash equivalents at 1st January		24,667,459	18,289,622
Effect of foreign exchange movements		(57)	(575)
Cash and cash equivalents at 31st December	39(c)	25,704,474	24,667,459

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 General information

The principal activities of the Bank and its subsidiary companies (the “Group”) are the provision of banking and related financial services. The Bank is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is 11th Floor, The Center, 99 Queen’s Road Central, Central, Hong Kong.

The ultimate holding company is DBS Group Holdings Ltd. (“DBSH”) which is listed, incorporated and domiciled in Singapore. The address of its registered office is 6 Shenton Way, DBS Building Tower One, Singapore 068809.

These consolidated financial statements are presented in thousands of units of HK dollars (HK\$’000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 10th February 2006.

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 financial statements are set out below:

(a) *Basis of presentation*

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs which is a collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Statements of Standard Accounting Practice and Interpretations) issued by Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale securities, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and investment properties.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from those estimates. Critical accounting estimates and assumptions used that are significant to the financial statements, and areas involving a higher degree of judgement and complexity are disclosed in Note 42.

The adoption of new/revised HKFRSs

In 2005, the Group adopted the new/revised Standards and Interpretations of HKFRSs as set out below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(a) Basis of presentation (continued)

HKAS 30	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases – Incentives
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HKFRS 2	Share-based Payment

The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or previous financial years. The changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. Except from the below changes, the adoption of the other new/revised accounting standards or interpretations did not result in substantial changes to the Group's accounting policies. In summary:

HKAS 17

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from fixed assets to lease premium for land. The revaluation reserve recognised prior to 2005 on the leasehold land was de-recognised and the related deferred taxation was reversed accordingly. HKAS 17 was applied retrospectively, which resulted in a decrease in premises revaluation reserve of HK\$979,509,000 and an increase in retained earnings of HK\$153,212,000 as at 1st January 2004.

HKAS 39

The implementation of HKAS 39 resulted in changes to accounting policies relating to the recognition and measurement of financial instruments. In accordance with the transitional provisions of HKAS 39, the Standard has been applied prospectively and an opening adjustment to equity was made, representing the reversal of impairment allowances and recognition of unrealised gains or losses on certain financial instruments. The transitional adjustment resulted in an increase in investments revaluation reserve of HK\$52,495,000 and retained earnings of HK\$259,103,000 respectively as at 1st January 2005.

HKAS 31

Investment in a jointly controlled entity is accounted for by proportionate consolidation where the Group combines its share of the jointly controlled entity's income and expenses, assets and liabilities on a line-by-line basis with similar items in the Group's financial statements. There was no impact on retained earnings or any other reserves.

HKAS 40/HKAS-Int 21

Upon adoption of HKAS 40, investment properties were stated at fair value and the differences between its carrying amount and fair value, together with the deferred tax on revaluation surplus, were adjusted to retained earnings in accordance with the transitional provisions prescribed in the Standard. These transitional adjustment resulted in an increase in retained earnings of HK\$78,953,000 and a decrease in investment properties revaluation reserves of HK\$81,500,000 as at 1st January 2005.

HKFRS 2

The adoption of HKFRS 2 resulted in a change in accounting policy for share based payments. The fair value of share options granted under the Share Option Plan and performance shares granted under the Performance Share Plan to directors and employees of the Group is amortised as staff cost in the income statement. HKFRS 2 was applied retrospectively for all equity instruments granted to staff and directors after 7th November 2002 that were unvested at 1st January 2005, which resulted in a decrease in retained earnings of HK\$7,116,000 as at 1st January 2004.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(a) *Basis of presentation (continued)*

The HKICPA has issued a number of new and revised HKFRSs which are effective for accounting period beginning on or after 1st January 2006. The Group has not early adopted the following new Standards and Amendments:

HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 (Amendment)	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures

(b) *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Bank and all its subsidiary companies.

(c) *Subsidiary companies*

Subsidiary companies are companies in which the Group has the power to govern the financial and operating policies to obtain benefits from its activities and this is generally accompanied by a shareholding of more than one half of the voting rights. Subsidiary companies are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Investments in subsidiaries are stated in the financial statements 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 dividend received or receivable.

(d) *Investment in jointly controlled entities*

A jointly controlled entity is an entity which are jointly controlled by the Group together with one or more parties, via contractual arrangements.

During 2005, the Group changed its accounting policy for investment in jointly controlled entity. The investment is accounted for by proportionate consolidation which involves combining the Group's share of jointly controlled entity's income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

In prior years, investment in the jointly controlled entity was accounted for under the equity method of accounting. The Group's share of the results of its jointly controlled entity was included in the consolidated income statement. The Group's share of the post acquisition reserves of its jointly controlled entity was included in the carrying value of its investment in a jointly controlled entity in consolidated balance sheet.

In the Bank's balance sheet, the investment in a jointly controlled entity is stated at cost less impairment losses. The results of a jointly controlled entity are accounted for by the Bank on the basis of dividend received and receivable.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(e) *Financial assets*

Financial assets are classified in accordance with the purpose for which the assets were acquired. Management determines the classification at initial recognition and re-evaluates the designation at every reporting date, with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

The classification of financial assets is as follows:

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

(iii) Held-to-maturity

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturity that the management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale

Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Recognition and derecognition

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are de-recognised when the Group has transferred substantially all risks and rewards of ownership.

Initial measurement

Financial assets are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial assets.

Subsequent measurement

Available-for-sale securities and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method, less impairment allowances.

Realised and unrealised gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” investment category are recognised in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of investments classified as available-for-sale are recognised in the investments revaluation reserve. When investments classified as available-for-sale are sold or impaired, the accumulated fair value adjustments in the investments revaluation reserve are included in the income statement.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(e) *Financial assets (continued)*

Determination of fair value

The fair values of quoted financial assets are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

In prior years, investments in securities were classified into held-to-maturity securities, trading securities and non-trading securities. Held-to-maturity securities were stated at cost adjusted for the amortisation of premiums or discounts, less provision for diminution in their value which was other than temporary. In addition, amounts had been set aside as a general provision for certain held-to-maturity debt securities. Trading securities were stated at fair value with changes in fair value recorded in the income statement. Non-trading securities were stated at fair value on the balance sheet. Changes in fair value of non-trading securities were recognised in the investments revaluation reserve until the security was 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, was included in the income statement.

(f) *Financial liabilities*

The Group classifies its financial liabilities in the following categories: (i) financial liabilities at fair value through profit or loss; and (ii) non-trading liabilities. Financial liabilities classified at fair value through profit or loss are carried at fair value, with gains and losses from change in fair value recognised through the income statement. Non-trading liabilities, except for hedged item as mentioned in note (n), are carried at amortised cost using the effective interest method.

Prior to HKAS 39, all financial liabilities except for trading liabilities, were carried at cost or amortised cost. Trading liabilities were carried at fair value and any gains and losses from changes in fair value were recognised in the income statement.

(g) *Impairment allowances*

Under HKAS 39, impairment allowances are made when there is objective evidence of impairment as a result of the occurrence of loss events that will impact on the estimated future cash flows.

Individual impairment allowances are assessed by a discounted cash flow method for loans and advances that are individually significant and have objective evidence of impairment. The individual impairment allowances are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate.

On collective impairment, individually insignificant advances or advances where no impairment has been identified individually are assessed on the basis of contractual cash flows and historical loss experience adjusted for current conditions.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

If, in a subsequent period, the amount of the impairment decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment allowances are reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(g) *Impairment allowances (continued)*

When a loan is uncollectable, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowances for loan impairment in the income statement.

In prior years, a specific provision was made where there was doubt about the collectibility of interest and/or principal based on the Group's assessment of the potential losses on those identified loans and advances on a case-by-case basis. Where it was not possible to estimate the loss realistically, the Group applied pre-determined provisioning levels to the unsecured portion of loans and advances based on the loan classification. In addition, amounts had been set aside as a general provision for bad and doubtful debts.

(h) *Repossessed assets*

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

(i) *Leases*

(i) 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 income statement over the lease period so as to produce an approximately constant periodic rate of return on the net investment outstanding for each accounting period.

(ii) 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 income statement on a straight-line basis over the lease term. The Group's interests in leasehold land are also accounted as operating leases.

Where the Group is a lessor under operating leases, rentals receivable under operating leases are credited to the income statement on a straight-line basis over the lease term.

(j) *Sale and Repurchase agreements*

Repos are treated as collateralised borrowing and the amount borrowed is shown as a liability and included in "Deposits from customers" or "Deposits and balance of banks". The securities sold under repos are treated as pledged assets and remain on the balance sheet at amortised cost or fair value depending on their classification as held-to-maturity securities, available-for-sale securities or financial assets at fair value through profit or loss. Reverse repos are treated as collateralised lending and the amount lent is shown as an asset and included in "Advances to customers" or "Placements with banks". The difference between the amount received and the amount paid under repos and reverse repos is amortised as interest expense and interest income respectively on an effective interest basis.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(k) Fixed assets and depreciation

(i) Premises

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

Freehold land	Not depreciated
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 the leased premises or 5 years, whichever is shorter

(ii) Investment properties

Investment properties are carried at fair value, representing estimated open market value determined by independent qualified valuers. The changes in fair value are recognised in the income statement. Deferred tax is recognised for the change in fair value of investment properties and charged to the income statement.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

In prior years, investment properties were stated at cost or estimated open market value as determined by the directors less accumulated impairment losses. Investment properties were not depreciated except where the unexpired term of the lease was 20 years or less in which case depreciation was 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.

(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, 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 income statement 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 income statement.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(l) *Lease premium for land*

Leasehold premises held for own use should be split into a lease of land and building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. Leasehold land premium that is up-front payment to acquire long-term interest in leasehold land is stated at cost and amortised over the period of the lease.

In prior years, leasehold land was stated at cost or valuation less accumulated impairment losses and depreciation.

(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) *Derivative financial instruments and hedge accounting*

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are included in other assets when fair value is positive and as other liabilities when fair value is negative. Changes in the fair value of derivatives held for trading are recognised in the income statement.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

For derivatives designated as hedging instruments, the Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge

For an effective hedge of an exposure to changes in the fair value, the changes in the fair value of the derivatives are recorded in the income statement, together with any changes in the fair value of the hedged item. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity of the hedged item.

(ii) Cash Flow Hedge

The changes in the fair value of derivatives designated and qualify as hedges of future cash flows are recognised directly in equity, and taken to the income statement in the periods when the hedged item affects profit or loss. The ineffective portion of the gain or loss is recognised immediately in the income statement.

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

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(n) *Derivative financial instruments and hedge accounting (continued)*

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

In prior years, there were two types of derivative financial instruments: trading and non-trading. Transactions undertaken for trading purposes were stated at fair value. Gains and losses from changes in fair value of trading transactions were recognised in the income statement and unrealised gains or losses were included in other assets or other liabilities respectively. Non-trading transactions were derivatives designated as a hedge of interest rate, exchange rate or price exposures that were inherent in the assets and liabilities of the Group. Profits or losses on derivatives entered into for specifically designated hedging purposes against assets, liabilities, other positions or cash flows measured on an accrual accounting basis were included in the related category of income or expense in the income statement on the same basis as that arising from the underlying hedging transactions.

(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 and expenses*

Interest income and expenses are recognised on a time-proportion basis using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes significant fees and transaction costs that are an integral part of the effective interest rate, and premiums or discounts.

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cashflow discounted at original effective interest rate of the instrument, and thereafter amortising the discount as interest income.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

In prior years, interest income on loans and advances and debt securities and interest expense on deposits and debt instruments in issue were recognised on an accrual basis using the contract or coupon interest rates. Amortisation of premium and discounts were recognised as interest expense and interest income respectively on a straight-line basis over the life of the asset or liability. In the case of doubtful debts, interest was credited to a suspense account which was netted off against accrued interest receivable except for credit card advances and overdrafts, where interest was accrued and the related specific provision on the interest receivable was included in the charge for bad and doubtful debts.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(q) *Fees and commission income*

Fees and commission income are recognised in the income statement 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 is recognised when the right to receive payment is established.

(s) *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 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 DBSH, the ultimate holding company of the Bank. Under this 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 subject to DBSH Group meeting certain prescribed performance targets.

HKFRS 2 is applied retrospectively for all equity instruments granted to staff and directors after 7th November 2002 that were unvested at 1st January 2005, and the comparative figures for 2004 were restated.

With the adoption of HKFRS 2, these share based payment expense which are measured at their fair value at grant date is amortised and recognised in the income statement over the relevant vesting periods. Non-market vesting conditions are included in assumption about the number of shares to be granted or number of options that are expected to become exercisable on vesting dates. The impact of subsequent revision of original estimates, if any, is recognised in the income statement.

Prior to the adoption of HKFRS 2, when shares were awarded under the DBSH Performance Share Plan, remuneration expenses were computed based on the average purchase price and recognised in the income statement on a straight-line basis over the relevant performance period. Options granted under the DBSH Share Option Plan were not recognised as staff cost.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(t) *Taxation*

The current taxation charged to the income statement represents tax at the current rate based on taxable profits earned during the 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 financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used in the determination of deferred 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 income statement, 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.

(u) *Foreign currencies*

(i) Functional and presentation currency

Items in the financial statements of each of the Group's subsidiaries are measured using their functional currency, being the currency of the primary economic environment in which the entity operates. The consolidated financial statements are presented in Hong Kong dollars, which is the functional and presentation currency of the Bank.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated at foreign exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at foreign exchange rate ruling at that date. Foreign exchange differences arising from translation are recognised in the income statement. Non-monetary assets and liabilities measured at cost in a foreign currency are translated using foreign exchange rates at the date of the transaction. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated to Hong Kong dollars at foreign exchange rates ruling at the dates the fair value was determined.

(iii) Foreign operations

The results and financial position of the Group operations that have a functional currency that is not Hong Kong dollars are translated into Hong Kong dollars as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet.
- Income and expenses for each income statement are translated at average exchange rate; and all resulting exchange differences are dealt with as a movement in retained earnings.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 Summary of significant accounting policies (continued)

(v) *Cash and cash equivalents*

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 treasury bills.

(w) *Related party transactions*

For the purposes of these financial statements, 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.

(x) *Fiduciary activities*

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

3 Interest income

	2005 HK\$'000	As restated 2004 HK\$'000
Interest income on listed investments	501,373	430,345
Interest income on unlisted investments	953,729	427,516
Other interest income	6,076,978	4,559,796
	<u>7,532,080</u>	<u>5,417,657</u>

Included in interest income is HK\$18,982,000 with respect to the time value of the impaired loans released from the impairment allowances (Note 18) and HK\$172,217,000 with respect to interest income recognised on financial assets at fair value through profit or loss.

4 Interest expense

Interest expense included interest on the 7.75% fixed rate subordinated notes amounting to HK\$159,184,000 (2004: HK\$159,464,000) and HK\$172,511,000 with respect to interest expense recognised on financial liabilities at fair value through profit or loss.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5 Other operating income

	2005	As restated 2004
	HK\$'000	HK\$'000
Fees and commission income	1,339,305	1,289,845
Less: fees and commission expense	(235,586)	(203,872)
Net fees and commission income	1,103,719	1,085,973
Net income from foreign exchange operations (Note)	409,554	281,580
Net (loss)/profit from treasury related activities (Note)	(416,675)	403,470
Dividend income from listed investments	8,653	16,291
Dividend income from unlisted investments	8,862	10,773
Others	5,767	5,996
	<u>1,119,880</u>	<u>1,804,083</u>

Note: Net income from foreign exchange operations and net (loss)/profit from treasury related activities included gains from sales of treasury and treasury investment products as well as the effect upon adoption of HKAS 39.

6 Operating expenses

	2005	As restated 2004
	HK\$'000	HK\$'000
Staff costs		
– Salaries and other short term employee benefits	1,319,024	1,142,952
– Pensions	69,069	65,293
– Share based payments	32,201	28,852
Premises and equipment expenses excluding depreciation		
– Amortisation of lease premium for land	48,627	49,207
– Rental of premises	60,337	64,321
– Others	178,721	174,173
Depreciation	144,477	151,947
Auditors' remuneration	7,983	7,682
Other operating expenses	769,855	722,302
	<u>2,630,294</u>	<u>2,406,729</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7 Impairment allowances/charge for bad and doubtful debts

	2005	As restated
	HK\$'000	2004
		HK\$'000
Impairment allowances		
– Individual impairment allowances	221,817	–
– Collective impairment allowances	181,044	–
– Specific provisions	–	349,847
– General provisions	–	115,351
	<u>402,861</u>	<u>465,198</u>
Of which:		
– New and additional	736,918	838,440
– Releases	(265,106)	(296,314)
– Recoveries	(68,951)	(76,928)
	<u>402,861</u>	<u>465,198</u>
Collective impairment allowances/general provisions:		
– Loans and advances	180,787	112,076
– Trade bills	257	1,357
– Held-to-maturity securities	–	1,918
	<u>181,044</u>	<u>115,351</u>

8 Directors' emoluments

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

	2005	2004
	HK\$'000	HK\$'000
Fees	838	725
Salaries, housing and other allowances and benefits in kind	17,251	13,175
Pensions	261	275
	<u>18,350</u>	<u>14,175</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Taxation

(a) Taxation in the consolidated income statement represents:

	2005	As restated
	HK\$'000	2004
		HK\$'000
Hong Kong profits taxation		
– Current year	413,790	516,153
– Overprovision in prior years	(14,000)	(88,000)
Overseas taxation	1,632	1,274
	<hr/>	<hr/>
Current taxation	401,422	429,427
Deferred taxation	(19,076)	(21,936)
	<hr/>	<hr/>
	382,346	407,491
	<hr/> <hr/>	<hr/> <hr/>

Hong Kong profits tax has been provided at 17.5% (2004: 17.5%) on the estimated assessable profits for the year. Taxation for overseas subsidiary and branches are charged at the appropriate current rates of taxation ruling in the countries in which they operate.

(b) The deferred taxation (credited)/charged in the consolidated income statement comprises the following temporary differences:

	2005	As restated
	HK\$'000	2004
		HK\$'000
Accelerated depreciation allowances	(11,334)	(403)
Impairment allowances/general provisions for bad and doubtful debts	(9,445)	(21,533)
Fair value adjustment on investment properties	1,703	–
	<hr/>	<hr/>
	(19,076)	(21,936)
	<hr/> <hr/>	<hr/> <hr/>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9 Taxation (continued)

(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 is as follows:*

	2005 HK\$'000	As restated 2004 HK\$'000
Profit before taxation	<u>2,482,975</u>	<u>2,983,289</u>
Calculated at a taxation rate of 17.5%	434,521	522,076
Effect of different tax rates in other countries	(487)	(410)
Income not subject to tax	(61,426)	(42,887)
Expenses not deductible for taxation purposes	24,567	12,820
Release of provision from prior years	(14,000)	(88,000)
Others	(829)	3,892
	<u><u>382,346</u></u>	<u><u>407,491</u></u>

10 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Bank to the extent of HK\$2,101,952,000 (2004 as restated: HK\$2,531,492,000).

11 Dividend

	2005 HK\$'000	2004 HK\$'000
Interim dividend paid of HK\$0.198 per share (2004: Nil)	<u><u>1,029,600</u></u>	<u><u>–</u></u>

12 Cash and short-term funds

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and balances with banks	1,880,706	1,662,751	1,880,706	1,662,751
Money at call and short notice	13,358,988	18,429,727	13,357,369	18,427,992
Treasury bills (including Exchange Fund Bills)	3,710,308	5,521,535	3,710,308	5,521,535
	<u><u>18,950,002</u></u>	<u><u>25,614,013</u></u>	<u><u>18,948,383</u></u>	<u><u>25,612,278</u></u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 Cash and short-term funds (continued)

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

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
Unlisted:		
Held-to-maturity securities, at amortised cost	–	272,857
Trading securities, at fair value	2,504,372	4,035,352
Available-for-sale securities/non-trading securities, at fair value	1,205,936	1,213,326
	3,710,308	5,521,535

13 Placements with banks maturing after one month

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
Remaining maturity:		
– One year or less but over one month	11,093,471	6,238,304
– Over one year	–	285,504
	11,093,471	6,523,808

14 Trade bills less impairment allowances/trade bills less provisions

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
Trade bills	1,931,291	1,651,992
Impairment allowances/provisions for bad and doubtful debts (Note 18)		
– Collective impairment allowances	(17,394)	–
– Individual impairment allowances	(24,782)	–
– General provisions	–	(10,568)
– Specific provisions	–	(19,755)
	1,889,115	1,621,669

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

15 Certificates of deposit held

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
Held-to-maturity securities, unlisted at amortised cost	–	233,223
Available-for-sale securities/non-trading securities, unlisted at fair value	2,195,972	739,182
	2,195,972	972,405

16 Trading securities

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
Debt securities, at fair value		
– Listed in Hong Kong	1,999,061	1,410,630
– Listed outside Hong Kong	–	16,277
	1,999,061	1,426,907
– Unlisted, at fair value	497,037	68,033
	2,496,098	1,494,940

Trading securities are analysed by issuer as follows:

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
– Central governments and central banks	2,489,346	1,439,527
– Public sector entities	6,114	33,557
– Banks and other financial institutions	638	21,856
	2,496,098	1,494,940

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Advances to customers less impairment allowances/advances to customers less provisions

	Group		Bank	
	2005	As restated 2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers				
– Corporate	62,367,743	54,860,116	62,367,743	54,860,116
– Individuals	48,598,800	49,306,313	48,598,800	49,306,313
	110,966,543	104,166,429	110,966,543	104,166,429
Impairment allowances/provisions for bad and doubtful debts (Note 18)				
– Collective impairment allowances	(914,099)	–	(880,943)	–
– Individual impairment allowances	(668,516)	–	(668,516)	–
– General provisions	–	(1,032,455)	–	(1,021,114)
– Specific provisions	–	(750,073)	–	(737,335)
	109,383,928	102,383,901	109,417,084	102,407,980

(a) Impaired advances/non-performing advances

Upon adoption of HKAS 39, the concept of suspended interest and non-performing advances are no longer relevant as interest is recognised on the recoverable element of impaired advances. Impaired advances are incurred if there is objective evidence of impairment resulting from loss event and the loss event has an impact on the estimated future cash flows of the advances that can be reliably estimated.

(i) Impaired advances

	Group and Bank	
	2005	% of gross
	HK\$'000	advances to
		customers *
Gross impaired advances subject to individual impairment allowances assessment	1,860,457	1.66
Individual impairment allowances	(693,298)	
	1,167,159	

The individual impairment allowances were made after taking into account the value of collateral in respect of such advances.

* Gross advances to customers include loans to customers and trade bills receivable from customers.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Advances to customers less impairment allowances/advances to customers less provisions (continued)

(a) Impaired advances/non-performing advances (continued)

(ii) Non-performing advances

The gross amount of non-performing advances, net of suspended interest, which represented advances on which interest was being placed in suspense or on which interest accrual had ceased, and specific provisions attributable to such advances were as follows:

	Group		Bank	
	As restated 2004 HK\$'000	% of gross advances to customers *	2004 HK\$'000	% of gross advances to customers *
Gross non-performing advances	1,773,587	1.69	1,773,587	1.69
Specific provisions	(752,734)		(739,996)	
	<u>1,020,853</u>		<u>1,033,591</u>	
Suspended interest	<u>268,088</u>		<u>268,088</u>	

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

* Gross advances to customers include loans to customers and trade bills receivable from customers.

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

	Group and Bank	
	2005 HK\$'000	2004 HK\$'000
Gross investment in finance leases and hire purchase contracts receivable:		
No later than one year	2,186,791	1,906,360
Later than one year and no later than five years	3,601,499	3,818,731
Later than five years	7,248,619	7,049,595
	<u>13,036,909</u>	<u>12,774,686</u>
Unearned future finance income	<u>(100,918)</u>	<u>(94,602)</u>
Net investment in finance leases and hire purchase contracts	<u>12,935,991</u>	<u>12,680,084</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 Advances to customers less impairment allowances/advances to customers less provisions (continued)

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

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

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
No later than one year	2,126,777	1,856,299
Later than one year and no later than five years	3,561,500	3,775,853
Later than five years	7,247,714	7,047,932
	<u>12,935,991</u>	<u>12,680,084</u>

The unguaranteed residual values included in the gross investment in finance leases and hire purchase contracts as at 31st December 2005 and 2004 are not considered to be material.

The allowance for uncollectable finance lease receivables and hire purchase contracts included in the impairment allowances amounted to HK\$70,510,000 as at 31st December 2005 (2004: HK\$43,724,000).

18 Impairment allowances/provisions for bad and doubtful debts

	Group		
	Individually assessed	Collectively assessed	Total
	HK\$'000	HK\$'000	HK\$'000
At 1st January 2005			
– as previously reported	757,090	1,031,682	1,788,772
– on adoption of HKAS 31	12,738	11,341	24,079
	<u>769,828</u>	<u>1,043,023</u>	<u>1,812,851</u>
– as restated	769,828	1,043,023	1,812,851
– on adoption of HKAS 39	(69,448)	(181,642)	(251,090)
	<u>700,380</u>	<u>861,381</u>	<u>1,561,761</u>
As restated at 1st January 2005	700,380	861,381	1,561,761
Amounts written off	(235,537)	(154,530)	(390,067)
Recoveries of advances written off in previous years	25,353	43,598	68,951
Net charge to income statement	221,817	181,044	402,861
Discounting effect released from impairment allowances (Note 3)	(18,982)	–	(18,982)
Exchange differences	267	–	267
	<u>693,298</u>	<u>931,493</u>	<u>1,624,791</u>
At 31st December 2005	693,298	931,493	1,624,791
Deducted from:			
– Trade bills (Note 14)	24,782	17,394	42,176
– Loans and advances (Note 17)	668,516	914,099	1,582,615
	<u>693,298</u>	<u>931,493</u>	<u>1,624,791</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Impairment allowances/provisions for bad and doubtful debts (continued)

	Group		
	Specific HK\$'000	General HK\$'000	Total HK\$'000
At 1st January 2004			
– as previously reported	770,328	919,072	1,689,400
– on adoption of HKAS 31	14,463	10,518	24,981
As restated at 1st January 2004	784,791	929,590	1,714,381
Amounts written off	(441,723)	–	(441,723)
Recoveries of advances written off in previous years	76,928	–	76,928
Net charge to income statement	349,847	113,433	463,280
Exchange differences	(15)	–	(15)
At 31st December 2004	<u>769,828</u>	<u>1,043,023</u>	<u>1,812,851</u>
Deducted from:			
– Trade bills (Note 14)	19,755	10,568	30,323
– Loans and advances (Note 17)	750,073	1,032,455	1,782,528
	<u>769,828</u>	<u>1,043,023</u>	<u>1,812,851</u>
	Bank		
	Individually assessed HK\$'000	Collectively assessed HK\$'000	Total HK\$'000
At 1st January 2005	757,090	1,031,682	1,788,772
– on adoption of HKAS 39	(56,710)	(201,047)	(257,757)
As restated at 1st January 2005	700,380	830,635	1,531,015
Amounts written off	(235,537)	(125,945)	(361,482)
Recoveries of advances written off in previous years	25,353	37,053	62,406
Net charge to income statement	221,817	156,594	378,411
Discounting effect released from impairment allowances	(18,982)	–	(18,982)
Exchange differences	267	–	267
At 31st December 2005	<u>693,298</u>	<u>898,337</u>	<u>1,591,635</u>
Deducted from:			
– Trade bills (Note 14)	24,782	17,394	42,176
– Loans and advances (Note 17)	668,516	880,943	1,549,459
	<u>693,298</u>	<u>898,337</u>	<u>1,591,635</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 Impairment allowances/provisions for bad and doubtful debts (continued)

	Bank		
	Specific HK\$'000	General HK\$'000	Total HK\$'000
At 1st January 2004	770,328	919,072	1,689,400
Amounts written off	(400,523)	–	(400,523)
Recoveries of advances written off in previous years	70,323	–	70,323
Net charge to income statement	316,977	112,610	429,587
Exchange differences	(15)	–	(15)
	<u>770,328</u>	<u>919,072</u>	<u>1,689,400</u>
At 31st December 2004	<u>757,090</u>	<u>1,031,682</u>	<u>1,788,772</u>
Deducted from:			
– Trade bills (Note 14)	19,755	10,568	30,323
– Loans and advances (Note 17)	737,335	1,021,114	1,758,449
	<u>757,090</u>	<u>1,031,682</u>	<u>1,788,772</u>

19 Available-for-sale securities/non-trading securities

	Group and Bank	
	2005 HK\$'000	2004 HK\$'000
Debt securities, at fair value		
– Listed in Hong Kong	3,698,958	–
– Listed outside Hong Kong	8,288,979	2,470,046
– Unlisted	20,780,219	4,677,388
	<u>32,768,156</u>	<u>7,147,434</u>
Equity securities, at fair value		
– Listed in Hong Kong	108,507	207,401
– Listed outside Hong Kong	–	131,754
	<u>108,507</u>	<u>339,155</u>
– Unlisted	1,048	1,330
	<u>109,555</u>	<u>340,485</u>
	<u>32,877,711</u>	<u>7,487,919</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

19 Available-for-sale securities/non-trading securities (continued)

Available-for-sale securities/non-trading securities are analysed by issuer as follows:

	Group and Bank	
	2005 HK\$'000	2004 HK\$'000
– Central governments and central banks	3,331,979	–
– Public sector entities	741,266	118,609
– Banks and other financial institutions	27,498,670	7,355,442
– Corporate entities	1,293,136	3,256
– Others	12,660	10,612
	<u>32,877,711</u>	<u>7,487,919</u>

20 Held-to-maturity securities

	Group and Bank
	2004 HK\$'000
Balance as at 1st January 2004	24,719,284
Amortisation of premium	(147,653)
Additions	7,463,580
Amortised cost of securities redeemed	(5,457,117)
General provision charged	(1,918)
Exchange differences	204,636
Balance as at 31st December 2004	<u>26,780,812</u>
Listed securities, at amortised cost less provision	
– Listed in Hong Kong	4,407,897
– Listed outside Hong Kong	6,938,994
	11,346,891
Unlisted	<u>15,433,921</u>
	<u>26,780,812</u>
Market value of listed securities	<u>11,421,449</u>
Held-to-maturity securities were analysed by issuer as follows:	
– Central governments and central banks	4,061,673
– Public sector entities	745,307
– Banks and other financial institutions	20,676,285
– Corporate entities	1,297,547
	<u>26,780,812</u>

On 1st January 2005, the Group reclassified all of its held-to-maturity securities as available-for-sale securities.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

21 Interest in a jointly controlled entity

	Group		Bank	
	2005 HK\$'000	As restated 2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Investment cost			<u>500</u>	<u>500</u>
Amount due to a jointly controlled entity	<u>672,839</u>	<u>618,054</u>	<u>1,345,679</u>	<u>1,236,109</u>

The Group's interest in the jointly controlled entity is as follows:

	2005 HK\$'000	2004 HK\$'000
Non-current assets	15,162	2,913
Current assets	640,698	595,206
Current liabilities	504,027	473,521
Share of income	147,985	149,042
Share of expenses	115,251	104,925

Details of the jointly controlled entity are as follows:

Name of company	Country of incorporation	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

22 Subsidiary companies

	Bank	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost after impairment (2005 and 2004: HK\$2,215,000)	144,752	153,901
Amounts due from subsidiaries	<u>11,084</u>	<u>214,309</u>
	<u>155,836</u>	<u>368,210</u>
Amounts due to subsidiaries	<u>207,677</u>	<u>441,061</u>

The amounts due from and due to subsidiaries are unsecured, interest free and have no fixed repayment term.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 Subsidiary companies (continued)

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

<u>Name of company</u>	<u>Place of operation and incorporation</u>	<u>Particulars of issued share capital</u>	<u>Principal activities</u>
DBS Corporate Services (Hong Kong) Limited	Hong Kong	500,000 shares of HK\$1 each	Provision of corporate services
Ting Hong Nominees Limited	Hong Kong	10,000 shares of HK\$1 each	Provision of nominee, trustee and agency services
Overseas Trust Bank Nominees Limited	Hong Kong	50,000 shares of HK\$1 each	Provision of nominee services
DBS Trustee H.K. (Jersey) Limited	Jersey	100,000 shares of £1 each	Provision of trustee and trust administration services

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Fixed assets

(a) Fixed assets

Group

	Freehold properties HK\$'000	Leasehold buildings HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation					
At 31st December 2004					
– as previously reported	35,069	5,198,195	86,247	885,200	6,204,711
– on adoption of HKAS 17	–	(3,992,512)	–	–	(3,992,512)
– on adoption of HKAS 31	–	–	–	14,036	14,036
As restated	35,069	1,205,683	86,247	899,236	2,226,235
On adoption of HKAS 40	–	–	11,703	–	11,703
As restated at 1st January 2005	35,069	1,205,683	97,950	899,236	2,237,938
Additions	304	10,602	–	256,020	266,926
Disposals	(12,000)	(49,600)	(2,500)	(81,888)	(145,988)
Transfers	–	1,156	(3,905)	(107)	(2,856)
Fair value adjustment	–	–	12,325	–	12,325
Exchange adjustments	(1)	–	–	(15)	(16)
At 31st December 2005	23,372	1,167,841	103,870	1,073,246	2,368,329
Accumulated depreciation and impairment					
At 31st December 2004					
– as previously reported	23,302	970,731	2,498	695,895	1,692,426
– on adoption of HKAS 17	–	(573,269)	–	–	(573,269)
– on adoption of HKAS 31	–	–	–	12,912	12,912
As restated	23,302	397,462	2,498	708,807	1,132,069
On adoption of HKAS 40	–	–	(2,498)	–	(2,498)
As restated at 1st January 2005	23,302	397,462	–	708,807	1,129,571
Charge for the year	106	62,334	–	82,037	144,477
Impairment losses recognised directly in the income statement	–	2,529	–	–	2,529
Disposals	(6,578)	(27,487)	–	(77,777)	(111,842)
Transfers	–	79	–	(79)	–
Exchange adjustments	(1)	–	–	(7)	(8)
At 31st December 2005	16,829	434,917	–	712,981	1,164,727
Net book value					
At 31st December 2005	6,543	732,924	103,870	360,265	1,203,602

The analysis of cost or valuation at 31st December 2005 of the above assets is as follows:

At cost	23,372	1,167,841	–	1,073,246	2,264,459
At valuation	–	–	103,870	–	103,870
	23,372	1,167,841	103,870	1,073,246	2,368,329

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Fixed assets (continued)

(a) Fixed assets (continued)

Group

	Freehold properties HK\$'000	Leasehold buildings HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost					
At 31st December 2003					
– as previously reported	34,500	5,280,807	80,397	952,971	6,348,675
– on adoption of HKAS 17	–	(4,143,231)	–	–	(4,143,231)
– on adoption of HKAS 31	–	–	–	13,836	13,836
	<u>34,500</u>	<u>1,137,576</u>	<u>80,397</u>	<u>966,807</u>	<u>2,219,280</u>
As restated at 1st January 2004	34,500	1,137,576	80,397	966,807	2,219,280
Additions	33	17,700	–	74,892	92,625
Disposals	(10)	(40,979)	–	(50,518)	(91,507)
Transfers	544	91,386	5,850	(91,930)	5,850
Exchange adjustments	2	–	–	(15)	(13)
	<u>35,069</u>	<u>1,205,683</u>	<u>86,247</u>	<u>899,236</u>	<u>2,226,235</u>
At 31st December 2004	35,069	1,205,683	86,247	899,236	2,226,235
Accumulated depreciation and impairment					
At 31st December 2003					
– as previously reported	22,860	925,553	2,498	663,417	1,614,328
– on adoption of HKAS 17	–	(577,776)	–	–	(577,776)
– on adoption of HKAS 31	–	–	–	12,069	12,069
	<u>22,860</u>	<u>347,777</u>	<u>2,498</u>	<u>675,486</u>	<u>1,048,621</u>
As restated at 1st January 2004	22,860	347,777	2,498	675,486	1,048,621
Charge for the year	92	61,449	–	90,406	151,947
Disposals	(10)	(21,684)	–	(46,796)	(68,490)
Transfers	361	9,920	–	(10,281)	–
Exchange adjustments	(1)	–	–	(8)	(9)
	<u>23,302</u>	<u>397,462</u>	<u>2,498</u>	<u>708,807</u>	<u>1,132,069</u>
At 31st December 2004	23,302	397,462	2,498	708,807	1,132,069
Net book value					
At 31st December 2004	<u>11,767</u>	<u>808,221</u>	<u>83,749</u>	<u>190,429</u>	<u>1,094,166</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Fixed assets (continued)

(a) Fixed assets (continued)

Bank

	Freehold properties HK\$'000	Leasehold buildings HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation					
At 31st December 2004					
– as previously reported	35,069	5,175,395	86,247	885,200	6,181,911
– on adoption of HKAS 17	–	(3,971,724)	–	–	(3,971,724)
As restated	35,069	1,203,671	86,247	885,200	2,210,187
On adoption of HKAS 40	–	–	11,703	–	11,703
As restated at 1st January 2005	35,069	1,203,671	97,950	885,200	2,221,890
Additions	304	11,269	–	244,687	256,260
Disposals	(12,000)	(48,255)	(2,500)	(81,888)	(144,643)
Transfers	–	1,156	(3,905)	(107)	(2,856)
Fair value adjustment	–	–	12,325	–	12,325
Exchange adjustments	(1)	–	–	(15)	(16)
At 31st December 2005	23,372	1,167,841	103,870	1,047,877	2,342,960
Accumulated depreciation and impairment					
At 31st December 2004					
– as previously reported	23,302	960,522	2,498	695,895	1,682,217
– on adoption of HKAS 17	–	(564,388)	–	–	(564,388)
As restated	23,302	396,134	2,498	695,895	1,117,829
On adoption of HKAS 40	–	–	(2,498)	–	(2,498)
As restated at 1st January 2005	23,302	396,134	–	695,895	1,115,331
Charge for the year	106	62,317	–	81,427	143,850
Impairment losses recognised					
directly in the income statement	–	2,529	–	–	2,529
Disposals	(6,578)	(26,142)	–	(77,777)	(110,497)
Transfers	–	79	–	(79)	–
Exchange adjustments	(1)	–	–	(7)	(8)
At 31st December 2005	16,829	434,917	–	699,459	1,151,205
Net book value					
At 31st December 2005	6,543	732,924	103,870	348,418	1,191,755

The analysis of cost or valuation at 31st December 2005 of the above assets is as follows:

At cost	23,372	1,167,841	–	1,047,877	2,239,090
At valuation	–	–	103,870	–	103,870
	23,372	1,167,841	103,870	1,047,877	2,342,960

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 Fixed assets (continued)

(a) Fixed assets (continued)

Bank

	Freehold properties HK\$'000	Leasehold buildings HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost					
At 31st December 2003					
– as previously reported	34,500	5,258,007	80,397	952,971	6,325,875
– on adoption of HKAS 17	–	(4,122,443)	–	–	(4,122,443)
As restated at 1st January 2004	34,500	1,135,564	80,397	952,971	2,203,432
Additions	33	17,700	–	74,644	92,377
Disposals	(10)	(40,979)	–	(50,470)	(91,459)
Transfers	544	91,386	5,850	(91,930)	5,850
Exchange adjustments	2	–	–	(15)	(13)
At 31st December 2004	35,069	1,203,671	86,247	885,200	2,210,187
Accumulated depreciation and impairment					
At 31st December 2003					
– as previously reported	22,860	915,504	2,498	663,417	1,604,279
– on adoption of HKAS 17	–	(569,004)	–	–	(569,004)
As restated at 1st January 2004	22,860	346,500	2,498	663,417	1,035,275
Charge for the year	92	61,398	–	89,521	151,011
Disposals	(10)	(21,684)	–	(46,754)	(68,448)
Transfers	361	9,920	–	(10,281)	–
Exchange adjustments	(1)	–	–	(8)	(9)
At 31st December 2004	23,302	396,134	2,498	695,895	1,117,829
Net book value					
At 31st December 2004	11,767	807,537	83,749	189,305	1,092,358

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 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 year, HK\$3,947,000 (2004: HK\$3,785,000) was recognised as rental income in the income statement in respect of operating leases.

The carrying value of investment properties are analysed as follows:

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
In Hong Kong held on:		
– Lease of over 50 years	103,870	77,152
– Lease of between 10 to 50 years	–	6,597
	103,870	83,749

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

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
No later than one year	3,919	4,013
Later than one year and no later than five years	3,053	7,050
	6,972	11,063

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 Lease premium for land

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Net book value at 1st January				
– as previously reported	–	–	–	–
– on adoption of HKAS 17	2,421,895	2,514,096	2,409,988	2,502,080
As restated	2,421,895	2,514,096	2,409,988	2,502,080
Addition	–	–	11,870	–
Disposals	(32,113)	(37,144)	(32,113)	(37,144)
Transfers	2,856	(5,850)	2,856	(5,850)
Amortisation	(48,627)	(49,207)	(48,590)	(49,098)
Net book value at 31st December	2,344,011	2,421,895	2,344,011	2,409,988

The Group's interests in leasehold land represent prepaid operating lease payment and their net book value are analysed as follows:

	Group		Bank	
	2005 HK\$'000	As restated 2004 HK\$'000	2005 HK\$'000	As restated 2004 HK\$'000
In Hong Kong held on :				
– Lease of over 50 years	497,953	513,687	497,953	501,779
– Lease of between 10 to 50 years	1,846,058	1,908,208	1,846,058	1,908,209
	2,344,011	2,421,895	2,344,011	2,409,988

25 Other assets

	Group		Bank	
	2005 HK\$'000	As restated 2004 HK\$'000	2005 HK\$'000	As restated 2004 HK\$'000
Accrued interest	684,202	445,476	684,202	445,476
Revaluation of financial derivatives	954,453	1,983,403	954,453	1,983,403
Other accounts	2,107,076	2,197,266	2,105,652	2,195,879
	3,745,731	4,626,145	3,744,307	4,624,758

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 Trading liabilities

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
Trading liabilities		
– Short positions in securities	4,971,799	–

27 Deposits from customers

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
Demand deposits and current accounts	8,978,602	10,267,275
Savings deposits	27,413,893	38,707,637
Time, call and notice deposits (Note)	105,392,130	81,597,583
	141,784,625	130,572,495

Note: Included in the time, call and notice deposits are structured deposits amounted to HK\$18,344,388,000 as at 31st December 2005 which are financial liabilities designated at fair value through profit or loss.

28 Certificates of deposit issued

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
Certificates of deposit issued		
– at amortised cost	1,553,940	9,773,801
– at fair value under fair value hedge	3,811,981	–
– designated at fair value through profit or loss	903,798	–
	6,269,719	9,773,801

29 Other liabilities

	Group		Bank	
	2005	As restated 2004	2005	As restated 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short positions in securities	3,165,844	9,443,403	3,165,844	9,443,403
Revaluation of financial derivatives	1,836,007	1,810,895	1,836,007	1,810,895
Other liabilities and provisions	4,564,727	4,382,934	4,052,702	3,906,722
	9,566,578	15,637,232	9,054,553	15,161,020

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 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 2005 and 2004, the outstanding principal amount of the Notes was US\$261,620,000.

31 Derivative financial instruments

The following is a summary of the contract/notional amounts of each significant type of derivative financial instruments:

	Group and Bank					
	2005			2004		
	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000	Trading HK\$'000	Non-Trading HK\$'000	Total HK\$'000
Exchange rate contracts						
– Forwards	14,307,710	–	14,307,710	5,412,660	–	5,412,660
– Swaps	30,540,720	–	30,540,720	53,028,498	–	53,028,498
– Options purchased	27,865,096	–	27,865,096	29,078,149	–	29,078,149
– Options written	27,820,794	–	27,820,794	28,867,857	–	28,867,857
	<u>100,534,320</u>	<u>–</u>	<u>100,534,320</u>	<u>116,387,164</u>	<u>–</u>	<u>116,387,164</u>
Interest rate contracts						
– Futures	4,127,006	–	4,127,006	15,705,503	–	15,705,503
– Swaps	83,907,279	4,849,184	88,756,463	77,816,506	17,087,579	94,904,085
– Options purchased	10,403,233	–	10,403,233	12,435,169	–	12,435,169
– Options written	10,396,944	–	10,396,944	12,430,745	–	12,430,745
	<u>108,834,462</u>	<u>4,849,184</u>	<u>113,683,646</u>	<u>118,387,923</u>	<u>17,087,579</u>	<u>135,475,502</u>
Equity contracts						
– Swaps	2,456,046	–	2,456,046	–	–	–
– Options purchased	2,991,188	–	2,991,188	19,504,760	–	19,504,760
– Options written	2,991,188	–	2,991,188	19,504,760	–	19,504,760
	<u>8,438,422</u>	<u>–</u>	<u>8,438,422</u>	<u>39,009,520</u>	<u>–</u>	<u>39,009,520</u>
Total	<u>217,807,204</u>	<u>4,849,184</u>	<u>222,656,388</u>	<u>273,784,607</u>	<u>17,087,579</u>	<u>290,872,186</u>

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

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.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

31 Derivative financial instruments (continued)

The credit risk weighted amounts and replacement costs of the above derivative financial instruments, which do not take into account the effects of bilateral netting arrangements are as follows:

	Group and Bank			
	Credit risk weighted amount		Replacement cost	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Exchange rate contracts	345,682	464,677	383,611	513,207
Interest rate contracts	91,359	184,116	1,452,920	1,272,023
Equity contracts	71,403	242,726	319,584	198,173
	508,444	891,519	2,156,115	1,983,403

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.

The following table summarises all of the unrealised gains or losses of each class of the above derivative financial instruments as at 31st December 2005:

	Group and Bank					
	Fair value assets			Fair value liabilities		
	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000	Trading HK\$'000	Hedging HK\$'000	Total HK\$'000
Exchange rate contracts	383,611	–	383,611	374,697	–	374,697
Interest rate contracts	1,440,195	12,725	1,452,920	1,439,536	83,012	1,522,548
Equity contracts	319,584	–	319,584	319,356	–	319,356
	2,143,390	12,725	2,156,115	2,133,589	83,012	2,216,601

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 Maturity profile

The maturity profile of assets and liabilities analysed by the remaining period as at 31st December to the contractual maturity dates is as follows:

2005	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	2,070,230	15,648,404	1,231,368	–	–	–	18,950,002
– Placements with banks maturing after one month	–	10,084,136	1,009,335	–	–	–	11,093,471
– Trade bills (before impairment allowances)	49,825	1,637,596	195,413	–	–	48,457	1,931,291
– Advances to customers (before impairment allowances)	7,347,820	22,018,280	12,138,763	22,502,200	44,901,958	2,057,522	110,966,543
– Securities							
Certificates of deposits held	–	–	259,094	1,936,878	–	–	2,195,972
Trading securities	–	272,678	518,338	1,102,857	602,225	–	2,496,098
Available-for-sale securities							
– Debts	–	3,897,613	7,815,961	19,607,615	1,435,356	11,611	32,768,156
– Equities	–	–	–	–	–	109,555	109,555
– Others	–	259,036	415,850	310,174	12,455	4,756,958	5,754,473
Total assets	9,467,875	53,817,743	23,584,122	45,459,724	46,951,994	6,984,103	186,265,561
Liabilities							
– Deposits and balances of banks	195,044	1,799,445	283,448	–	–	–	2,277,937
– Trading liabilities	–	1,329,025	2,380,120	1,051,863	210,791	–	4,971,799
– Deposits from customers	36,558,954	85,538,754	9,904,189	7,143,471	2,639,257	–	141,784,625
– Certificates of deposit issued	–	399,846	2,500,736	3,369,137	–	–	6,269,719
– 7.75% fixed rate subordinated notes	–	–	–	2,028,445	–	–	2,028,445
– Others	–	3,779,747	362,668	589,242	727,582	4,864,986	10,324,225
Total liabilities	36,753,998	92,846,817	15,431,161	14,182,158	3,577,630	4,864,986	167,656,750

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 Maturity profile (continued)

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
– 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
– Securities							
Certificates of deposits held	–	120,005	200,058	652,342	–	–	972,405
Trading securities	–	2,610	599,889	468,772	423,669	–	1,494,940
Non-trading securities							
– Debts	–	882,004	1,308,989	4,945,829	–	10,612	7,147,434
– Equities	–	–	–	–	–	340,485	340,485
Held-to-maturity securities	–	1,070,850	7,036,788	17,411,938	1,261,236	–	26,780,812
– Others	–	305,938	454,579	804,319	418,567	4,460,695	6,444,098
Total assets	8,573,047	51,389,273	23,845,138	47,660,553	42,789,560	6,878,845	181,136,416
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
– Others	–	6,757,716	2,029,449	2,295,472	603,660	4,856,844	16,543,141
Total liabilities	49,261,094	73,002,366	15,022,829	17,231,628	4,118,104	4,856,844	163,492,865

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 Maturity profile (continued)

2005	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	2,070,230	15,646,785	1,231,368	–	–	–	18,948,383
– Placements with banks maturing after one month	–	10,084,136	1,009,335	–	–	–	11,093,471
– Trade bills (before impairment allowances)	49,825	1,637,596	195,413	–	–	48,457	1,931,291
– Advances to customers (before impairment allowances)	7,347,820	22,018,280	12,138,763	22,502,200	44,901,958	2,057,522	110,966,543
– Securities							
Certificates of deposits held	–	–	259,094	1,936,878	–	–	2,195,972
Trading securities	–	272,678	518,338	1,102,857	602,225	–	2,496,098
Available-for-sale securities							
– Debts	–	3,897,613	7,815,961	19,607,615	1,435,356	11,611	32,768,156
– Equities	–	–	–	–	–	109,555	109,555
– Others	–	259,036	415,850	310,174	12,455	4,929,865	5,927,380
Total assets	9,467,875	53,816,124	23,584,122	45,459,724	46,951,994	7,157,010	186,436,849
Liabilities							
– Deposits and balances of banks	195,044	1,799,445	283,448	–	–	–	2,277,937
– Trading liabilities	–	1,329,025	2,380,120	1,051,863	210,791	–	4,971,799
– Deposits from customers	36,558,954	85,538,754	9,904,189	7,143,471	2,639,257	–	141,784,625
– Certificates of deposit issued	–	399,846	2,500,736	3,369,137	–	–	6,269,719
– 7.75% fixed rate subordinated notes	–	–	–	2,028,445	–	–	2,028,445
– Others	–	4,244,747	362,668	589,242	727,582	4,767,335	10,691,574
Total liabilities	36,753,998	93,311,817	15,431,161	14,182,158	3,577,630	4,767,335	168,024,099

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

32 Maturity profile (continued)

2004	Bank							Total HK\$'000
	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		
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	
– 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	
– Securities								
Certificates of deposits held	–	120,005	200,058	652,342	–	–	972,405	
Trading securities	–	2,610	599,889	468,772	423,669	–	1,494,940	
Non-trading securities								
– Debts	–	882,004	1,308,989	4,945,829	–	10,612	7,147,434	
– Equities	–	–	–	–	–	340,485	340,485	
Held-to-maturity securities	–	1,070,850	7,036,788	17,411,938	1,261,236	–	26,780,812	
– Others	–	305,938	454,579	804,319	418,567	4,836,601	6,820,004	
Total assets	8,571,312	51,389,273	23,845,138	47,660,553	42,789,560	7,254,751	181,510,587	
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	
– Others	–	7,189,716	2,029,449	2,295,472	603,660	5,001,739	17,120,036	
Total liabilities	49,261,094	73,434,366	15,022,829	17,231,628	4,118,104	5,001,739	164,069,760	

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 Tax liabilities

(a) Current income tax liabilities

	Group		Bank	
	2005	As restated 2004	2005	As restated 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax payable	80,911	285,878	80,592	279,869
Overseas tax payable	3,897	1,977	3,073	1,977
	84,808	287,855	83,665	281,846

(b) Deferred taxation

The movements on the deferred tax assets/(liabilities) account are as follows:

	Group		Bank	
	2005	As restated 2004	2005	As restated 2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January				
– as previously reported	(103,871)	(134,243)	(103,863)	(134,074)
– on adoption of HKAS 17 and HKAS 31	218,614	224,753	216,825	225,062
	114,743	90,510	112,962	90,988
– as restated	114,743	90,510	112,962	90,988
– on adoption of HKAS 39 and HKAS-Int 21	(72,227)	–	(73,395)	–
As restated at 1st January	42,516	90,510	39,567	90,988
Deferred taxation credited to income statement (Note 9)	19,076	21,936	18,711	19,677
Deferred taxation credited to equity	24,328	2,297	24,328	2,297
At 31st December	85,920	114,743	82,606	112,962

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 Tax liabilities (continued)

(b) Deferred taxation (continued)

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

	Group		Bank	
	2005 HK\$'000	As restated 2004 HK\$'000	2005 HK\$'000	As restated 2004 HK\$'000
Deferred tax assets				
Impairment allowances/provision for bad and doubtful debts	<u>146,638</u>	<u>181,537</u>	<u>143,234</u>	<u>179,552</u>
Deferred tax liabilities				
Accelerated depreciation allowances	42,267	53,601	42,177	53,397
Revaluation of investment properties	18,451	–	18,451	–
Revaluation of available-for-sale securities/ non-trading securities	–	13,193	–	13,193
	<u>60,718</u>	<u>66,794</u>	<u>60,628</u>	<u>66,590</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 taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheets:

	Group		Bank	
	2005 HK\$'000	As restated 2004 HK\$'000	2005 HK\$'000	As restated 2004 HK\$'000
Deferred tax assets	146,638	181,537	143,234	179,552
Deferred tax liabilities	(60,718)	(66,794)	(60,628)	(66,590)
	<u>85,920</u>	<u>114,743</u>	<u>82,606</u>	<u>112,962</u>

34 Share capital

	Group and Bank	
	2005 HK\$'000	2004 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 FINANCIAL STATEMENTS (CONTINUED)

35 Reserves

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
(a) Share premium				
At 1st January and 31st December	595,503	595,503	595,503	595,503
(b) Capital reserve				
At 1st January and 31st December	11,636	11,636	–	–
(c) Premises revaluation reserve				
At 1st January				
– as previously reported	940,675	979,509	940,675	979,509
– on adoption of HKAS 17	(940,675)	(979,509)	(940,675)	(979,509)
At 31st December	–	–	–	–
(d) Investment properties revaluation reserve				
At 1st January				
– on adoption of HKAS 40	81,500	81,500	81,500	81,500
	(81,500)	–	(81,500)	–
At 31st December	–	81,500	–	81,500
(e) Investments revaluation reserve				
At 1st January				
– as previously reported	94,341	48,817	94,341	48,817
– on adoption of HKAS 39	52,495	–	52,495	–
– as restated	146,836	48,817	146,836	48,817
Change in fair value of available-for-sale securities/non-trading securities	(369,770)	50,927	(369,770)	50,927
Disposal of available-for-sale securities/non-trading securities	(69,321)	(7,700)	(69,321)	(7,700)
Deferred taxation (Note 33(b))	24,328	2,297	24,328	2,297
At 31st December	(267,927)	94,341	(267,927)	94,341

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

35 Reserves (continued)

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
(f) General reserve				
At 1st January and 31st December	2,398,792	2,398,792	2,283,928	2,283,928
(g) Retained earnings				
At 1st January				
– as previously reported	9,123,370	6,540,459	9,047,146	6,508,766
– adjustments due to change in accounting policies including HKAS 17 and HKFRS 2	138,409	146,096	138,409	146,096
	9,261,779	6,686,555	9,185,555	6,654,862
– On adoption of HKAS 39	259,103	–	264,603	–
– On adoption of HKAS 40	78,953	–	78,953	–
As restated at 1st January	9,599,835	6,686,555	9,529,111	6,654,862
Profit attributable to shareholders	2,100,629	2,575,798	2,101,952	2,531,492
Dividend (Note 11)	(1,029,600)	–	(1,029,600)	–
Translation of net investments in overseas branches and subsidiary companies	(57)	(574)	(217)	(799)
At 31st December	10,670,807	9,261,779	10,601,246	9,185,555
Total reserves	13,408,811	12,443,551	13,212,750	12,240,827

Note: The premises revaluation reserve and investments revaluation reserve 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.

In accordance with the guidance note from the Hong Kong Monetary Authority, an authorised institution is required to hold a regulatory reserve in excess of impairment allowances. As at 31st December 2005, retained earnings of HK\$249,691,000 was earmarked.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 Material related party transactions

(a) Holding companies and fellow subsidiaries

The Group's immediate holding company is DHB Limited and the ultimate holding company is DBS Group Holdings Ltd. ("DBSH"), a listed company incorporated in Singapore. DBS Bank Ltd. is an intermediate holding company of the Group.

As part of the Bank and the Group's normal course of business, it enters into various transactions with holding companies and fellow subsidiaries on normal commercial terms. These transactions include interbank placements, taking of deposits, derivatives, contingent liabilities and commitments.

Information relating to income and expenses from these transactions during the year and balances outstanding at 31st December are set out below:

(i) Income and expenses with holding companies and fellow subsidiaries

	DBS Bank Ltd.		Fellow subsidiaries	
	2005 HK\$'000	As restated 2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Interest income	65,451	96,674	–	–
Interest expense	(12,141)	(8,351)	(10,261)	(1,037)
Other operating income	(157,681)	821,292	(3,290)	(17,333)
Operating expenses	(68,866)	(49,951)	12,038	10,451

(ii) Balances with DBS Bank Ltd. as at 31st December

	Group		Bank	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and short-term funds	1,450,562	1,644,882	1,448,943	1,643,147
Placements with banks maturing after one month	1,575,773	626,099	1,575,773	626,099
Other assets	718,368	380,052	718,368	380,052
	3,744,703	2,651,033	3,743,084	2,649,298
Deposits and balances of banks	303,305	930,529	303,305	930,529
Other liabilities	1,724,455	1,516,170	1,724,455	1,516,170
	2,027,760	2,446,699	2,027,760	2,446,699

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 Material related party transactions (continued)

(a) Holding companies and fellow subsidiaries (continued)

(iii) Contract/notional amount of derivative financial instruments with DBS Bank Ltd. as at 31st December

	2005 HK\$'000	2004 HK\$'000
Exchange rate contracts	61,611,393	47,039,186
Interest rate contracts	64,161,266	44,382,016
Equity contracts	4,219,211	19,504,759
	<u>129,991,870</u>	<u>110,925,961</u>

The unrealised gains and losses of the above derivative financial instruments amounted to HK\$635,990,000 and HK\$1,627,882,000 respectively.

(iv) Contingent liabilities and commitments with DBS Bank Ltd.

As at 31st December 2005, the total contingent liabilities and commitments with DBS Bank Ltd. amounted to HK\$3,644,098,000 (31st December 2004: HK\$388,705,000).

(v) Balances with ultimate holding company and other intermediate holding companies as at 31st December

	<u>Group and Bank</u>	
	2005 HK\$'000	2004 HK\$'000
Deposits from customers	561,536	561,903
Other liabilities	44	43
	<u>561,580</u>	<u>561,946</u>

(vi) Balances with fellow subsidiaries as at 31st December

	<u>Group and Bank</u>	
	2005 HK\$'000	2004 HK\$'000
Other assets	<u>28,886</u>	<u>32,819</u>
Deposits and balances of banks	1,127,656	999,847
Other liabilities	216	39
	<u>1,127,872</u>	<u>999,886</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 Material related party transactions (continued)

(b) 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 Bank’s balance sheet. Under the Agreement, all the revenue, expenses and loan impairment allowances on the Compass cards are recorded in the books of HDCL. The revenues and expenses; assets and liabilities of HDCL are recognised by the Group through proportionate consolidation on a line-by-line basis.

Deposits taken from the jointly controlled entity amounted to HK\$930,000,000 as at 31st December 2005 (2004: HK\$864,000,000). Interest expense for the year ended 31st December 2005 paid and payable to HDCL amounted to HK\$52,995,000 (2004: HK\$30,431,000). Gross service fee income from HDCL to the Group for the year ended 31st December 2005 amounted to HK\$83,603,000 (2004: HK\$84,585,000).

(c) Directors and key management personnel

(i) Transactions and balances with directors and key management personnel

During the year, the Group has banking transactions with directors and key management personnel of the DBSH Group, including deposit taking, loans and credit card facilities. These transactions are made in the ordinary course of business and carried out at arms length commercial terms, and are not material.

(ii) Compensation of directors and key management personnel

	Group and Bank	
	2005 HK\$'000	2004 HK\$'000
Directors’ fees, salaries and other short term employee benefits	73,570	54,679
Pensions	1,809	1,390
Share based payments	8,721	2,606
	84,100	58,675

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 Material related party transactions (continued)

(d) Share options

Under the DBSH Share Option Plan (the “Option Plan”), options to subscribe for DBSH ordinary shares could be granted to the Group executives who hold the rank of Vice President (or equivalent rank) and above and selected employees of the Group of a rank below the rank of Vice President (or equivalent rank).

The exercise price of the granted options is equal to the average of the last dealt prices (“Market Price”) for the DBSH shares, as determined by reference to the daily official list published by the Singapore Exchange Securities Trading Limited (“SGX-ST”), for the three consecutive trading days immediately preceding the date of the grant.

The share options vest over a period of 3 years in accordance with a vesting schedule determined by the Compensation Committee of DBSH, and are exercisable after the first anniversary of the date of the grant up to the date of expiration of the options. The share options have a validity period of ten years from the date of grant, unless they have been forfeited or have lapsed prior to that date.

On 1st March 2005, options (“2005 Options”) on 451,400 shares with an exercise price of Singaporean Dollars (“SG\$”) 15.07 per ordinary share were granted pursuant to the Option Plan. The 2005 Options are exercisable from 1st March 2006 and expire on 28th February 2015.

The following table sets out the movements of the unissued ordinary shares of DBSH of par value SG\$1.00 each under outstanding options for the years ended 31st December 2005 and 2004, their exercise prices and expiration dates.

DBSH Options	Number of unissued ordinary shares under Options outstanding		During the year			Number of unissued ordinary shares under Options outstanding		Range of exercise price SG\$
	1st January 2005	Granted	Exercised	Forfeited	Expired	31st December 2005		
	7,435,970	451,400	1,554,755	585,510	–	5,747,105	10.40–22.33	
Weighted average exercise price	13.37	15.07	12.12	14.83	–	13.69		
DBSH Options	Number of unissued ordinary shares under Options outstanding		During the year			Number of unissued ordinary shares under Options outstanding		Range of exercise price SG\$
	1st January 2004	Granted	Exercised	Forfeited	Expired	31st December 2004		
	6,880,260	1,685,400	741,990	387,700	–	7,435,970	10.40–22.33	
Weighted average exercise price	12.86	14.73	12.15	12.63	–	13.37		

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

36 Material related party transactions (continued)

(d) Share options (continued)

Of the 5,747,105 options (2004: 7,435,970) outstanding at 31st December 2005, options on 3,510,555 shares (2004: 3,662,600) were exercisable. The weighted average exercise price for the options exercisable as at 31st December 2005 was SG\$14.02 (2004: SG\$14.23). In 2005, 1,554,755 options (2004: 741,990) were exercised at their contractual exercise prices. During this year, the average market price of DBSH shares was SG\$15.68 (2004: SG\$15.50). Weighted average remaining contractual life of share option outstanding as at 31st December 2005 was 7.0 years (2004: 7.7 years).

The fair value of options granted during the year determined using the Binomial option valuation model was SG\$3.74 (2004: SG\$4.11). The fair value was determined based on a share price of SG\$14.70 (2004: SG\$14.40) at the date of grant, expected life of 7.53 years. The risk-free interest rates are based on yield curve of Singapore Government Securities as at grant date. The expected volatility is 34.23% (2004: 40.28%) measured based on statistical analysis of weekly share prices over the last five years.

(e) Performance Share Plan

Under the DBSH Performance Share Plan (the “PSP”) DBSH ordinary shares (“PSP shares”) could be granted to the Group executives who hold the rank of Vice President (or equivalent rank) and above and selected employees of the Group of rank below the rank of Vice President (or equivalent rank).

Participants are awarded ordinary shares of DBSH when the prescribed Group performance targets are met over a 3-year period (the “performance period”).

The PSP shares will vest 2 years from the date of grant and are exercisable anytime upon vesting. The fair value of PSP shares awarded is computed based on the market price of DBSH shares at the time of the award and is amortised through the income statement over the 2-year vesting period.

The following table sets out the movements of the PSP shares granted pursuant to the plan for the year ended 31st December 2005 and their fair values at grant date.

Date of Grant	PSP shares outstanding	During the year		PSP shares outstanding	Fair value per share SG\$
	1st January 2005	Granted	Forfeited	31st December 2005	
2005	–	454,940	48,900	406,040	14.70
2004	123,030	–	12,560	110,470	14.40
	<u>123,030</u>	<u>454,940</u>	<u>61,460</u>	<u>516,510</u>	

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

37 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	
	2005	As restated 2004
	HK\$'000	HK\$'000
Direct credit substitutes	922,049	890,713
Transaction-related contingencies	294,791	375,989
Trade-related contingencies	5,190,623	5,134,251
Forward forward deposits placements	3,256,428	–
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	62,742,377	54,742,309
Other commitments with an original maturity of over 1 year	73,380	49,958
	<u>72,479,648</u>	<u>61,193,220</u>
Credit risk weighted amount	<u>2,555,339</u>	<u>1,909,538</u>

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. 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 Limited. Under the Agreement, the Bank has to pay a termination fee if the Bank terminates the Agreement. The amount of termination fee payable as at 31st December 2005 is determined in accordance with the schedule of termination fees included in the Agreement, and ranges from HK\$38,000,000 to HK\$132,000,000, depending on when the Agreement is terminated.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

38 Capital and lease commitments

(a) Capital commitments

Capital commitments outstanding at the balance sheet date not provided for in the financial statements were as follows:

	Group and Bank	
	2005	2004
	HK\$'000	HK\$'000
Expenditure contracted but not provided for	25,476	27,294
Expenditure authorised but not contracted for	120,216	35,989
	145,692	63,283

(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			
	2005		2004	
	Properties	Others	Properties	Others
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	94,338	20,791	76,582	17,158
After 1 year but within 5 years	130,657	26,548	127,271	15,439
Over 5 years	–	3,406	–	–
	224,995	50,745	203,853	32,597

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 Reconciliation for cash flow statement

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

	2005 HK\$'000	As restated 2004 HK\$'000
Operating profit	2,312,999	2,883,839
Impairment allowances/charge for bad and doubtful debts	402,861	465,198
Discounting effect released from impairment allowances	(18,982)	–
Write-off of fixed assets	2,104	5,468
Depreciation	144,477	151,947
Amortisation of lease premium for land	48,627	49,207
Amortisation of held-to-maturity securities	–	147,653
Amortisation of available-for-sale securities/non-trading securities	100,204	(24,213)
Advances written off net of recoveries	(321,116)	(364,795)
Revaluation for certificates of deposit issued	(109,491)	–
Interest expense for certificates of deposit issued	186,563	156,761
Interest expense for 7.75% fixed rate subordinated notes	159,184	159,464
Interest income for held-to-maturity securities	–	(920,987)
Interest income for available-for-sale securities/non-trading securities	(1,315,035)	(204,638)
Net cash inflow from trading activities	1,592,395	2,504,904
Net decrease in money at call and short notice maturing beyond three months	3,159,227	3,742,775
Net decrease/(increase) in treasury bills maturing beyond three months	1,058,064	(1,233,965)
Net (increase)/decrease in placements with banks maturing beyond three months	(1,085,928)	85,853
Net (increase)/decrease in certificates of deposit held	(1,223,567)	243,608
Net increase in trading securities	(1,001,158)	(347,860)
Net increase in advances to customers and trade bills	(7,079,413)	(11,691,826)
Net decrease/(increase) in other assets	1,228,304	(356,471)
Net (decrease)/increase in deposits and balances of banks	(2,291,631)	3,498,926
Net increase in deposits from customers	11,241,167	8,968,141
Net increase in amount due to a jointly controlled entity	54,785	56,873
Net (decrease)/increase in other liabilities	(6,088,157)	2,348,424
Net increase in trading liabilities	4,971,799	–
Exchange differences and other adjustments	417,057	(391,452)
Cash inflow from operating activities before taxation	4,952,944	7,427,930
Hong Kong profits tax paid	(610,963)	(341,203)
Overseas tax paid	(1,259)	(6,220)
Net cash inflow from operating activities	<u>4,340,722</u>	<u>7,080,507</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

39 Reconciliation for cash flow statement (continued)

(b) Analysis of changes in financing during the year

	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 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	5,795,503	9,773,801	2,033,860
On adoption of HKAS 39	–	41,598	–
	<hr/>	<hr/>	<hr/>
As restated at 1st January 2005	5,795,503	9,815,399	2,033,860
Cash inflow from financing	–	2,686,696	–
Cash outflow from financing	–	(6,119,495)	–
Revaluation	–	(109,491)	–
Effect of foreign exchange movements	–	(3,390)	(5,415)
	<hr/>	<hr/>	<hr/>
Balance as at 31st December 2005	<u>5,795,503</u>	<u>6,269,719</u>	<u>2,028,445</u>

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

	2005 HK\$'000	2004 HK\$'000
Cash and balances with banks	1,880,706	1,662,751
Money at call and short notice repayable		
with original maturity within three months	13,278,988	15,190,500
Placements with banks repayable		
with original maturity within three months	8,572,218	5,088,483
Treasury bills repayable with original maturity within three months	1,972,562	2,725,725
	<hr/>	<hr/>
	<u>25,704,474</u>	<u>24,667,459</u>

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 Financial risk management

As part of overall corporate governance, the Board Risk Management Committee has approved a comprehensive Risk Governance Framework covering risk governance for all risk types.

This framework defines authority levels, oversight responsibilities, policy structures and risk appetite limits to manage the risks that arise in connection with the use of financial instruments.

On a day-to-day basis, business units have primary responsibility for managing specific risk exposures while Risk Management exercises independent risk oversight on the Group as a whole.

(a) Market risk

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 volatility levels.

The Group's trading and investment market risk appetite is determined by the Board Risk Management Committee, with detailed limit frameworks approved by senior management.

The principal market risk appetite measures are Value at Risk (VaR) and stress loss. VaR estimates the potential loss on the current portfolio assuming a 1-day holding period and a 99% level of confidence. Stress loss is assessed against a set of scenarios using stress moves in the market variables.

At the business unit level, trading exposures are measured and controlled by more granular risk and loss limits such as stop loss limits.

All trading activities are subject to mark-to-market valuation to reflect the current market value of the trading portfolio and their profit and loss. Investments are subject to limits by market risk type as well as concentration limits.

(b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or the interest income of a portfolio will fluctuate due to changes in market interest rates. Examples of financial assets and liabilities which have fixed and floating interest rate exposures include debt securities, loans and derivatives.

The Group manages its interest rate risk by changing duration of on-balance-sheet items and by way of entering into off-balance sheet interest rate hedging instruments to hedge the interest rate exposure based on market and economic conditions. To monitor the 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 following tables summarise the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. Actual dates may differ from contractual dates owing to prepayments and the exercise of options. It should also be noted that any representation of interest rate risk at a specific date offers only a snapshot of the risks taken by the Group, since the position is being actively managed and can vary significantly on a daily basis. As such, it may not be representative of the level of risk at other times.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 Financial risk management (continued)

(b) Interest rate risk (continued)

Group 2005 HK\$'million	Less than 7 days	1 week to 1 month	1 month to 3 months	3 months to 12 months	1 year to 3 years	3 years to 5 years	Over 5 years	Non-interest bearing	Total
Assets									
– Cash and short-term funds	4,335	9,374	1,940	1,231	–	–	–	2,070	18,950
– Placements with banks maturing after one month	–	–	10,084	1,009	–	–	–	–	11,093
– Trade bills (before impairment allowances)	1,603	83	208	37	–	–	–	–	1,931
– Advances to customers (before impairment allowances)	43,292	59,105	4,991	2,262	1,018	162	137	–	110,967
– Securities (Note)	1,003	2,977	10,124	6,582	11,387	3,337	2,038	121	37,569
– Others	6	110	169	1	–	–	–	5,470	5,756
Total assets	50,239	71,649	27,516	11,122	12,405	3,499	2,175	7,661	186,266
Liabilities									
– Deposits and balances of banks	699	234	875	283	–	–	–	187	2,278
– Trading liabilities	1,130	50	150	2,380	732	320	210	–	4,972
– Deposits from customers	50,576	38,096	39,748	5,120	534	356	–	7,355	141,785
– Certificates of deposit issued	39	1,008	1,175	2,018	2,030	–	–	–	6,270
– 7.75% fixed rate subordinated notes	–	–	–	–	2,028	–	–	–	2,028
– Others	2,561	422	2,086	10	5	–	–	5,240	10,324
Total liabilities	55,005	39,810	44,034	9,811	5,329	676	210	12,782	167,657
Total interest sensitivity gap	(4,766)	31,839	(16,518)	1,311	7,076	2,823	1,965		

Note: Securities include certificates of deposit held, trading securities and available-for-sale securities.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 Financial risk management (continued)

(b) Interest rate risk (continued)

Group 2004 HK\$'million	Less than 7 days	1 week to 1 month	1 month to 3 months	3 months to 12 months	1 year to 3 years	3 years to 5 years	Over 5 years	Non-interest bearing	Total
Assets									
– Cash and short-term funds	7,483	12,253	2,372	1,691	–	–	–	1,815	25,614
– Placements with banks maturing after one month	–	–	5,478	760	286	–	–	–	6,524
– Trade bills (before provisions)	1,328	83	198	43	–	–	–	–	1,652
– Advances to customers (before provisions)	34,492	54,125	5,328	2,649	773	246	642	5,911	104,166
– Securities (Note)	1,073	3,330	8,507	7,742	13,219	829	1,685	351	36,736
– Others	98	369	767	36	2	–	–	5,172	6,444
Total assets	44,474	70,160	22,650	12,921	14,280	1,075	2,327	13,249	181,136
Liabilities									
– Deposits and balances of banks	215	2,333	1,017	760	–	–	–	245	4,570
– Deposits from customers	60,774	34,758	21,294	4,770	362	–	–	8,614	130,572
– Certificates of deposit issued – 7.75% fixed rate subordinated notes	228	1,440	2,285	2,922	2,899	–	–	–	9,774
– Others	–	–	–	–	2,034	–	–	–	2,034
– Others	534	345	663	40	2	–	–	14,959	16,543
Total liabilities	61,751	38,876	25,259	8,492	5,297	–	–	23,818	163,493
Total interest sensitivity gap	(17,277)	31,284	(2,609)	4,429	8,983	1,075	2,327		
Off-balance sheet interest sensitivity gap									
– Financial derivatives	(874)	(3,326)	(7,736)	264	11,126	1,762	(1,216)		

Note: Securities include certificates of deposit held, trading securities, non-trading securities and held-to-maturity securities.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 Financial risk management (continued)

(b) Interest rate risk (continued)

The table below summarises the range of effective average interest rates at 31st December by major currencies for monetary financial instruments:

	2005		2004	
	HK dollar %	US dollar %	HK dollar %	US dollar %
Assets				
Cash and short-term funds and placements				
with banks maturing after one month	0-4.23	0-4.45	0-0.58	0-2.41
Trade bills and loans to customers	5.21-30.00	5.16-10.73	2.19-26.20	4.13-7.85
Securities (Note)	4.04-4.34	2.95-5.02	0.63-4.11	2.96-3.41
Liabilities				
Deposits and balance from banks	0-4.44	0-4.28	0-0.43	0-2.33
Deposits from customers	0-4.13	0-4.13	0-1.03	0-2.29
Certificates of deposit issued and subordinated notes	3.25	4.22-7.75	1.59	7.75

Majority of the loans to customers carry floating rate interest, while majority of the deposits from customers carry fixed rate interest.

Note: Securities include certificates of deposit held, trading securities, available-for-sale securities, non-trading securities and held-to-maturity securities.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 Financial risk management (continued)

(c) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The table below summarises the Group's assets and liabilities at carrying amounts, categorised by currency.

HK\$' million	2005			2004			
	Hong Kong dollar equivalents	HK dollar	US dollar	Others	HK dollar	US dollar	Others
Assets							
Cash and short-term funds		5,546	5,380	8,024	11,555	8,918	5,141
Placements with banks							
maturing after one month		4,054	5,755	1,284	1,848	4,648	28
Trade bills (before impairment allowances/provisions)		172	1,708	51	261	1,300	91
Loans to customers (before impairment allowances/provisions)		100,288	7,841	2,838	93,925	2,880	7,361
Securities (Note)		9,495	21,894	6,181	9,214	20,128	7,394
Others		3,354	2,084	317	4,678	1,543	223
Total assets		122,909	44,662	18,695	121,481	39,417	20,238
Liabilities							
Deposits and balance of banks		744	756	778	2,196	1,794	580
Trading liabilities		4,972	–	–	–	–	–
Deposits from customers		87,293	38,034	16,458	79,101	37,839	13,632
Certificates of deposit issued		6,162	108	–	9,708	–	66
7.75% fixed rate							
subordinated notes		–	2,028	–	–	2,034	–
Others		7,807	1,882	635	13,053	1,940	1,550
Total liabilities		106,978	42,808	17,871	104,058	43,607	15,828
Equity		18,609	–	–	17,643	–	–
Total liabilities and equity		125,587	42,808	17,871	121,701	43,607	15,828
Net on-balance sheet position		(2,678)	1,854	824	(220)	(4,190)	4,410
Net off-balance sheet position		276	443	(719)	(1,025)	2,569	(1,544)

Note: Securities include certificates of deposit held, trading securities, available-for-sale securities/non-trading securities and held-to-maturity securities.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 Financial risk management (continued)

(d) Credit Risk

Credit risk represents the loss which the Group would suffer if a client or counterparty failed to meet its contractual obligations. Senior management sets the overall direction and policy for managing credit risk at the enterprise level. In so doing, it directs the risk appetite and underwriting activities for various countries, industries and counterparties taking into account factors such as prevailing business and economic conditions. The Group is guided by a set of Group-wide credit principles and policies which have been developed with the objective of promoting best practices and consistent credit risk management standards throughout the organisation. 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.

Exposure to credit risk is managed through a sound, well-defined credit granting process which includes the assessment of repayment likelihood, the establishment of appropriate credit limits, and the employment of various credit risk mitigation techniques such as appropriate credit structuring, and posting of collateral and/or third party support. The Group also uses credit derivative instruments to manage its credit risk exposures through risk transfer to third parties.

The Group 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 Group. 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 others things, the size and nature of the proposed transactions.

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.

The maximum exposure to credit risk includes commitments to extend credit, without taking account of the fair value of any collateral and master netting arrangements.

– Derivatives

At any one time, the credit exposure of derivatives transactions is limited to the positive mark-to-market value to the Group, which in general is only a fraction of the derivative contract or notional amount used to express the volume of instruments. This credit exposure, together with potential exposures from market movements, is managed as part of the overall lending limits to the counterparties. Credit exposures on these instruments are usually unsecured, except where the Group enters into collateralised margin transactions with counterparties.

– Master Netting Arrangements

The Group further manages its credit exposure by entering into master netting arrangements with counterparties where appropriate and feasible to do so. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities as transactions are usually accounted for individually on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are settled on a net basis.

– Credit-Related Commitments

Financial guarantees and standby letters of credit, which represent undertakings that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans even though they are of contingent nature. Documentary and commercial letters of credit, which are undertakings by the Group on behalf of a customer, are usually collateralised by the underlying shipments of goods to which they relate and therefore exhibit different risk characteristics from direct borrowing.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

40 Financial risk management (continued)

(d) Credit Risk (continued)

– Credit-Related Commitments (continued)

Commitments to extend credit include unused portions of loan commitments, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is usually less than the total unused commitments since most commitments to extend credit are contingent upon customers observing or meeting certain credit terms and conditions.

(e) Liquidity risk

Liquidity risk is the potential earnings volatility arising from being unable to fund portfolio assets at reasonable rates over required maturities. 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 to meet its obligations under normal as well as adverse circumstances, and take advantage of arising lending and investment opportunities. As part of its liquidity risk management, the Group focuses on a number of components, including tapping available sources of liquidity, preserving necessary funding capacity and contingency planning.

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 Group to manage funding liquidity risk.

(f) Use of derivatives

The Group uses financial instruments to hedge for the positions of the Group. It also trades in financial instruments where it takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short term market movements in bonds, currency and interest rate. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

(g) Hedging activities

At 31st December 2005, the Group had interest rate swap agreements in place with a notional amount of HK\$4,849,184,000 to hedge the exposure to changes in the fair value as a result of market interest rate fluctuation of certain available-for-sale securities and certificates of deposit issued. The hedging derivatives and hedged items have the same critical terms.

(h) Geographical concentrations

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.

41 Fair value of financial assets and liabilities

Financial instruments comprise financial assets and financial liabilities. The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction. The information presented herein represents estimates of fair values as at the balance sheet date.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Fair value of financial assets and liabilities (continued)

Where available, quoted and observable market prices are used as the measure of fair values. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

Except for loans to and bills receivable from customers, the following table summarises the carrying amounts and fair values of the Group's financial assets and liabilities. The Group has computed the fair values of loans to customers, taking into account the relevant market interest rates and noted that the total fair value is not materially different from the total carrying amount at year end.

	Carrying value		Fair Value	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Financial assets:				
Placements with banks maturing after one month	11,093,471	6,523,808	11,089,762	6,518,298
Securities	41,280,089	42,257,611	41,280,089	42,368,327
	<u>52,373,560</u>	<u>48,781,419</u>	<u>52,369,851</u>	<u>48,886,625</u>
Financial liabilities:				
Deposits and balances of banks	2,277,937	4,569,568	2,267,464	4,570,037
Deposits from customers	141,784,625	130,572,495	141,796,957	130,575,954
Certificates of deposit issued	6,269,719	9,773,801	6,269,719	9,773,801
7.75% fixed rate subordinated notes	2,028,445	2,033,860	2,084,335	2,033,860
	<u>152,360,726</u>	<u>146,949,724</u>	<u>152,418,475</u>	<u>146,953,652</u>

Placements with banks maturing after one month

The estimated fair value of placements is based on the discounted cash flows using the prevailing money market interest rates for placements with similar credit risk and remaining maturity.

Securities

Securities include treasury bills, certificates of deposit held, trading securities, available-for-sale securities/non-trading securities and held-to-maturity securities. Fair value is based on the market prices or broker/dealer price quotations. Where market prices are not available, fair values are estimated based on the validated internal valuation models. For equities, where market price information is not available, fair value has been estimated by reference to the net tangible asset backing of the investee.

Deposits from customers and deposits and balances of banks

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings is based on discounted cash flows using prevailing interest rates with similar remaining maturity.

Certificates of deposit issued

The fair value approximates their carrying amounts.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

41 Fair value of financial assets and liabilities (continued)

7.75% fixed rate subordinated notes

The fair value is calculated with reference to market price.

Changes in the fair value of the financial liabilities designated at fair value through profit or loss are attributable mainly to equity, interest and currency risk changes. The remaining change that is not attributable to changes in the benchmark interest rate is considered not significant.

42 Critical accounting estimates and judgements in applying accounting policies

The Group makes certain assumptions and estimates in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

(a) *Impairment allowances*

The Group establishes, through charges against profit, impairment allowance in respect of estimated loss in loans and advances. The allowances consist of individual impairment allowances and collective impairment allowances. The overall impairment allowances should represent the aggregate amount by which management considers it necessary to write down its loan portfolio in order to state it in the balance sheet at its estimated ultimate net realisable value.

In determining individual impairment allowances, management considers objective evidence of impairments. When a loan is impaired, an individual impairment allowance is assessed by a discounted cash flow method, measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate. The quantum of the allowance is also impacted by the collateral value and this in turn, may be discounted in certain circumstances to recognise the impact of forced sale or quick liquidation.

In determining collective impairment allowances, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) *Fair value of financial instruments*

The Group carries its financial instruments classified as fair value through profit or loss and available-for-sale at fair value. Fair value is defined as the value at which positions could be closed out or sold in a transaction with a willing and knowledgeable counterparty over a period of time consistent with Group's trading or investment strategy. The majority of Group's financial instruments reported at fair value are based on quoted market prices or on internally developed models that are based on independently sourced market parameters, including interest rate yield curves, option volatilities and currency rates. Management applies judgement in determining the factors used in the valuation process. Also, judgement may be applied in estimating prices for less readily observable external parameters. Other factors such as model assumptions, market dislocations and unexpected correlations can also affect estimates of fair value.

DBS BANK (HONG KONG) LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

43 Loans to officers

Particulars of loans made to officers and disclosed pursuant to Section 161B of the Companies Ordinance:

	Balance outstanding as at 31st December		Maximum balance during the year	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Aggregate amount outstanding in respect of principal and interest	–	200	200	1,080

44 Assets pledged as security

The Group has liabilities secured by assets deposited with central depositories to facilities settlement operations. The aggregate amount of secured liabilities and the nature and carrying values of the assets pledged as security are as follows:

	Group and Bank	
	2005 HK\$'000	2004 HK\$'000
Secured liabilities – short positions in securities (Note 26 and 29)	8,137,643	9,443,403
Assets pledged as security		
– Treasury bills	3,339,881	5,248,677
– Other securities	5,739,862	4,841,877
	9,079,743	10,090,554

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION

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

1 Capital adequacy and liquidity ratios

	2005	2004
Capital adequacy ratio	<u>17.93%</u>	<u>19.40%</u>
Adjusted capital adequacy ratio	<u>17.71%</u>	<u>19.04%</u>
Average liquidity ratio	<u>48.96%</u>	<u>47.50%</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:

	2005 HK\$'000	2004 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>12,546,919</u>	<u>11,331,074</u>
	<u>18,342,422</u>	<u>17,126,577</u>
Supplementary capital		
Reserve on revaluation of land and interests in land	60,887	715,522
Reserve on revaluation of holding of securities not held for trading purposes	(280,062)	66,039
Collective impairment allowances and regulatory reserve/general provision	1,148,028	1,051,665
Term subordinated debt	<u>811,378</u>	<u>1,220,316</u>
Eligible supplementary capital	<u>1,740,231</u>	<u>3,053,542</u>
Total capital base before deductions	<u>20,082,653</u>	<u>20,180,119</u>
Deductions from total capital base	<u>(258,941)</u>	<u>(497,633)</u>
Total capital base after deductions	<u>19,823,712</u>	<u>19,682,486</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			Total
	AUD	USD	Others	
2005				
Hong Kong dollar equivalents				
Spot assets	6,400	44,191	12,332	62,923
Spot liabilities	(6,213)	(42,872)	(11,973)	(61,058)
Forward purchases	230	21,499	2,565	24,294
Forward sales	(293)	(21,847)	(2,994)	(25,134)
Net option position	(13)	(21)	(5)	(39)
Net long/(short) non-structural position	<u>111</u>	<u>950</u>	<u>(75)</u>	<u>986</u>
Net structural position	<u>–</u>	<u>–</u>	<u>343</u>	<u>343</u>
2004				
Hong Kong dollar equivalents				
Spot assets	6,333	42,562	9,369	58,264
Spot liabilities	(6,305)	(43,344)	(8,823)	(58,472)
Forward purchases	367	30,606	2,986	33,959
Forward sales	(316)	(28,963)	(3,563)	(32,842)
Net option position	2	(2)	(32)	(32)
Net long/(short) non-structural position	<u>81</u>	<u>859</u>	<u>(63)</u>	<u>877</u>
Net structural position	<u>–</u>	<u>–</u>	<u>236</u>	<u>236</u>

The net structural position for 2005 represented the Group's Renminbi investment of HK\$214,000,000 equivalent in China and Macau Pataca (MOP) investment of HK\$129,000,000 equivalent in Macau.

The net option position is calculated based on the worst-case approach set out in the prudential return "Foreign Currency Position" issued by the Hong Kong Monetary Authority.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

4 Segmental information

(a) By class of business

	Group			Total HK\$'000
	Commercial and retail banking HK\$'000	Treasury HK\$'000	Subsidiaries, overseas branches and others HK\$'000	
Year ended 31st December 2005				
Operating income	<u>4,501,446</u>	<u>678,211</u>	<u>166,497</u>	<u>5,346,154</u>
Operating profit before impairment allowances	<u>2,147,969</u>	<u>475,038</u>	<u>92,853</u>	<u>2,715,860</u>
Operating profit/(loss)	<u>1,843,232</u>	<u>476,407</u>	<u>(6,640)</u>	<u>2,312,999</u>
Profit before taxation	<u>1,843,232</u>	<u>472,568</u>	<u>167,175</u>	<u>2,482,975</u>
Year ended 31st December 2004, as restated				
Operating income	<u>4,630,521</u>	<u>1,043,507</u>	<u>81,738</u>	<u>5,755,766</u>
Operating profit before provisions	<u>2,456,826</u>	<u>874,262</u>	<u>17,949</u>	<u>3,349,037</u>
Operating profit/(loss)	<u>2,011,653</u>	<u>872,372</u>	<u>(186)</u>	<u>2,883,839</u>
Profit before taxation	<u>2,011,653</u>	<u>872,372</u>	<u>99,264</u>	<u>2,983,289</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)

(b) Advances to customers and trade bills receivable from 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.

	2005 HK\$'000	As restated 2004 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
– Property development	219,388	146,883
– Property investment	14,075,278	11,923,332
– Financial concerns	523,921	594,975
– Stockbrokers	124,795	74,374
– Wholesale and retail trade	2,240,217	2,151,914
– Manufacturing	6,352,956	5,318,598
– Transport and transport equipment	9,653,793	10,203,392
– Others	4,358,549	4,104,646
Individuals		
– Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	2,500,998	2,920,838
– Loans for the purchase of other residential properties	35,844,169	36,278,336
– Credit card advances	5,513,423	5,605,390
– Others	4,534,312	4,362,244
	<u>85,941,799</u>	<u>83,684,922</u>
Trade finance	18,406,410	16,073,562
Loans for use outside Hong Kong	7,671,099	5,464,756
	<u><u>112,019,308</u></u>	<u><u>105,223,240</u></u>

For the purpose of proper comparison, the prior year comparative figures for some items above have been restated.

* Gross advances to customers include loans to customers and trade bills receivable from customers.

(ii) By geographical areas

Over 90% of the gross advances to customers and the related impaired 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)

(c) Cross-border claims

HK\$' million	Group			Total
	Banks and other financial institutions	Public sector entities	Others	
2005				
Asia Pacific excluding Hong Kong	17,286	653	4,350	22,289
North and South America	3,345	277	337	3,959
Europe	31,399	8	656	32,063
Others	23	–	449	472
	<u>52,053</u>	<u>938</u>	<u>5,792</u>	<u>58,783</u>
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>

5 Overdue and rescheduled advances

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

The overdue advances are analysed as follows:

	Group			
	2005		2004	
	HK\$'000	% of gross advances to customers*	HK\$'000	% of gross advances to customers*
Six months or less but over three months	354,079	0.32	314,703	0.30
One year or less but over six months	267,211	0.24	238,525	0.23
Over one year	430,251	0.38	512,145	0.48
	<u>1,051,541</u>	<u>0.94</u>	<u>1,065,373</u>	<u>1.01</u>

* Gross advances to customers include loans to customers and trade bills receivable from 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) are analysed as follows:

	Group		Group	
	2005	% of gross advances to customers*	2004	% of gross advances to customers*
	HK\$'000		HK\$'000	
Rescheduled advances	<u>211,696</u>	<u>0.19</u>	<u>243,911</u>	<u>0.23</u>

* Gross advances to customers include loans to customers and trade bills receivable from customers.

(c) Repossessed assets

Assets acquired by repossession of collateral for realisation continue to be reported as advances. Allowance is made on the shortfall between the expected sales proceeds from realisation of the repossessed assets and the outstanding advances. At 31st December 2005, the repossessed assets held by the Group amounted to HK\$87,736,000 (2004: HK\$93,903,000).

6 Corporate governance

Under the corporate governance structure of the Bank, the role of the Board is to provide high-level guidance and effective oversight over management. To assist the Board in fulfilling its responsibilities and in accordance with the best corporate governance practice, the Board Audit Committee and Board Risk Management Committee were established and a number of specialised committees were formed to effectively contribute to the strategic and operational development of the Bank. The roles, functions and composition of these committees are listed below.

(a) Board Audit Committee

The Board Audit Committee is authorised 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, audit fee and any questions of resignation or dismissal of external auditor, the review of the internal audit programme and consideration of any major findings of internal investigations and management's response. The Board Audit Committee comprises the four independent non-executive directors of the Bank.

(b) Board Risk Management Committee

The Board Risk Management Committee provides comprehensive and bank-wide oversight of all risks and their management. It sets the overall and specific risk governance frameworks and obtains assurance that risk management activities are effective and that risk management activities have sufficient independence, status and visibility. It sets risk appetite capital and limits for delegation to the relevant risk committees and units and reviews risk reporting on significant risks and risk capital adequacy. It is also responsible for obtaining assurance that the Bank is on track in meeting the Basel II requirements according to approved plans. The Board Risk Management Committee comprises the Chairman of the Bank, the Chief Executive Officer and two independent non executive directors.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

6 Corporate governance (continued)

(c) *Greater China Management Committee*

The Greater China Management Committee formulates a bank-wide strategy and is responsible for its implementation and results. It provides leadership to the various business and support units and is responsible for prioritising business development initiatives and capital allocation. It ensures policies and practices are in place to maintain high corporate governance, risk management and compliance standards. The Committee formulates, approves and implements the Bank's strategy, reviews financial and non-financial results, reviews and assesses control, compliance, reputation and risk issues, identifies any financial and/or non-financial areas of concern, and develops and implements action plans to address areas of weakness. It also ensures that human resources policies, compensation and benefit programs and succession plans are aligned with Group policies and practices. The Greater China Management Committee comprises the Chief Executive Officer and other members of senior management.

(d) *Greater China Credit Risk Committee*

The Greater China Credit Risk Committee serves as an executive forum for discussion and decisions on all aspects of credit risk and its management. It assesses credit risk taking and risk-return tradeoffs and facilitates communication among the different business units on credit issues. The Committee identifies, measures and monitors credit risk portfolio and specific loan and asset review situations and identifies specific credit concentrations and credit trends affecting the portfolio. Formed under the Greater China Credit Risk Committee, the Approval Sub-Committee approves credit risk related limits and policies and the Regulatory Sub-Committee oversees compliance with credit related regulatory requirements. The members of the Greater China Credit Risk Committee are the Chief Credit Officer, representatives from relevant business units and support units and other members nominated by the Chief Executive Officer.

(e) *Greater China Market Risk Committee*

The Greater China 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 and maintains oversight on effectiveness of market risk management infrastructure, including framework, policies, people, processes, information, methodologies and systems on market risk. The Greater China Market Risk Committee comprises the Chief Executive Officer, representatives from relevant business units and support units and others nominated by the Chief Executive Officer.

(f) *Greater China Operational Risk Committee*

The Greater China Operational Risk Committee provides comprehensive and enterprise-wide oversight, direction and counsel relating to the management of operational risks. It is responsible for monitoring and reviewing the effectiveness of operational risk management framework, policy, process, methodology and infrastructure. It performs top-down assessment and monitors critical operational risk exposures and provides direction for resolution of critical operational risk issues and monitors issue resolution. The Greater China Operational Risk Committee comprises the Head of Risk Management, representatives from the relevant support units and others nominated by the Chief Executive Officer.

(g) *Greater China Asset and Liability Committee*

The Greater China Asset and Liability Committee supervises the asset and liability management including the management of liquidity, structural interest rate risk and structural FX risk activities. It manages the net interest income and margin of the region against changing interest and the currency rate conditions, and maturities/duration. It oversees the structure and composition of the balance sheets in the region, as well as the significant off-balance-sheet assets and liabilities. The members of the Greater China Asset and Liability Committee are the Head of Central Treasury Unit, representatives from the relevant business units and support units and others nominated by the Chief Executive Officer.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

6 Corporate governance (continued)

(h) *Greater China Project Council*

The Greater China 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 DBS Group including the Bank. The Greater China 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) *Greater China Commitments and Conflicts Committee*

The Greater China Commitments and Conflicts Committee reviews proposed commitments, transactions and other actions proposed by DBS Group in the Greater China region which might have a possible impact on DBS's reputation and standing and resolves all actual/potential conflicts that may arise in the course of DBS Group's financial services activities whether in Singapore or in the Greater China region, including ensuring that DBS Group and its employees do not benefit (or appear to benefit) from the use of confidential information. The Greater China Commitments and Conflicts Committee comprises the Chief Executive Officer, the Country Head of China, representatives from the relevant business units and support units and others nominated by the Chief Executive Officer and the Country Head of China.

7 Risk management

Approach to Risk Management

Strong risk management capabilities are critical to the financial soundness of the Group. The key components of the Group's risk management approach are: strong risk governance; sound capital assessment; robust and comprehensive processes to identify, measure, control, monitor and report risks; and a rigorous system of internal control reviews, involving internal and external auditors, as well as the relevant bank supervision authorities.

Risk Governance

The Group has implemented a framework to give greater clarity, focus and consistency across different risk areas in the governance of risks. Under the Risk Governance Framework, the Board of Directors, through the Board Risk Management Committee, oversees the establishment of a robust enterprise-wide risk management system and sets risk appetite limits to guide risk-taking within the Group. Management is accountable to the Board for ensuring effective risk management activities and adherence to the risk appetite limits. In this regard, various senior management risk committees provide oversight, and forums for discussions, on specific risk areas, including Credit Risk, Market Risk, Liquidity Risk and Operational Risk. Business units have primary responsibility for managing specific risk exposures. Risk Management is the central resource for quantifying and managing the portfolio of risks taken by the Group as a whole.

The Group has implemented policies and procedures to identify, measure, analyse and control risk across the enterprise. A governance framework has been established to provide a disciplined, consistent and tiered approach in the approval of the various risk frameworks/policies/procedures throughout the Group. The framework comprises four levels: Level 1 policies are Board-level approved enterprise-wide risk frameworks; Level 2 policies are minimum corporate-level and subject-specific risk principles and standards; Level 3 policies are business- or location-specific in nature; and Level 4 procedures underlie and support the policy implementation. These policies and procedures rely on constant communication, judgement, knowledge of products and markets, and controls by business and support units.

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UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Risk management (continued)

Apart from the financial risk management disclosed in Note 40, the other risk management aspects are disclosed below:

(a) *Group Audit*

Group Audit is an independent function that reports directly to the Audit Committee and the Chief Executive Officer. Its scope of work covers all business and support functions in the Group. In all key respects, Group Audit meets or exceeds the Standards for the Professional Practice of Internal Auditing set by The 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 monthly control reports.

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

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

In the course of 2005, Group Audit carried out its functions in accordance with the general description provided above. The department is adequately resourced and has the required mandate from the Audit Committee and the Chief Executive Officer to carry out its functions effectively.

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.

The appointment, resignation or dismissal of the Head of Group Audit is approved by the Audit Committee. The Head of Group Audit has full access to the Audit Committee, the Chief Executive Officer and to senior management. The Head of Group Audit Greater China in Hong Kong reports directly to the Head of Group Audit in Singapore and the Audit Committee in Hong Kong with dotted reporting line to the Chief Executive Officer in Hong Kong.

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, which ensure that outstanding matters are dealt with in a timely manner. An update on past due Audit issues is tabled at every Audit Committee meeting.

(b) *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.

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Risk management (continued)

(c) Operational Risk Management

Operational risk is the risk of loss resulting 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 in a structured, systematic and consistent manner. Key elements of the framework include control self-assessment (CSA), risk event management and key risk indicator monitoring. To reinforce accountability and ownership of risk and control by the business units and support units, Unit Operational Risk Managers are appointed to assist the unit heads in driving the overall risk and control agenda and programmes at the units. As part of Group Audit's review process, the quality of the operational risk management programmes of the business and support units are taken into account, including the quality of CSA performed, so as to assign a "Management Control Awareness Rating" to the business and support units.

The Operational Risk Committee oversees operational risk management infrastructure, including framework, policies, processes, information, methodologies and systems. The Committee also performs regular review of the operational risk profiles of the Group, and approves corporate operational risk policies.

The day-to-day management of operational risk exposures is through the maintenance of a comprehensive system of internal controls, supported by an infrastructure of robust systems and procedures to monitor transaction positions and documentation. A set of Core Operational Risk Standards have been established to provide guidance to business units and support units on the baseline internal controls to be put in place to ensure the safety and soundness of their operating environment. Other major operational risk mitigation programmes include Business Continuity Management and the Global Insurance Programme that applies to all DBS entities and units in all locations.

Each new product or service introduced is subject to a rigorous risk review and signoff 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 and process centralisation initiatives, are also subject to a similar process.

(d) Trading Market Risk Management

The Group adopts a Value at Risk (VaR) methodology to estimate the Group's trading market risk. VaR is computed using a parametric (variance-covariance) approach. It takes into account all pertinent risk factors and covers all financial instruments which expose the Group to market risk. On a daily basis, the Group computes VaR (in Singaporean Dollars "SG\$") for each risk type such as foreign exchange and interest rate. The VaR figures are back-tested against profit and loss of the trading book to validate its robustness.

The tables below provide the year end, average, highest and lowest VaR for the trading risk exposure of the Group for the years of 2004 and 2005 respectively:

In SG\$'million	As at	2005		
	31st December 2005	Average	Highest	Lowest
Interest rate	1.39	1.53	4.78	0.79
Foreign exchange	0.53	0.64	1.43	0.20
Diversification	(0.39)	(0.57)	–	–
Total	1.53	1.60	4.82	0.83

DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Risk management (continued)

(d) Trading Market Risk Management (continued)

In SG\$'million	As at 31st December 2004	2004		
		Average	Highest	Lowest
Interest rate	1.35	0.91	1.60	0.37
Foreign exchange	1.00	0.67	1.88	0.23
Diversification	(1.00)	(0.56)	–	–
Total	<u>1.35</u>	<u>1.02</u>	1.85	0.45

The highest (and lowest) VaR figures reported for each risk class did not necessarily occur on the same day as the highest (and lowest) reported for total. A corresponding diversification effect cannot be calculated and is therefore omitted from the above tables.

The average daily revenue arising from the Group's market risk related treasury activities for the year ended 31st December 2005 was HK\$1,436,000 (2004: HK\$1,477,000) and the standard deviation for such daily revenue was HK\$1,877,000 (2004: HK\$1,787,000). The average daily revenue/(loss) and its standard deviation are analysed by principal dealing activities as follows:

	Average daily revenue/(loss)		Standard deviation	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Interest rate dealing	18	307	1,585	1,400
Foreign exchange dealing	1,153	759	1,272	987

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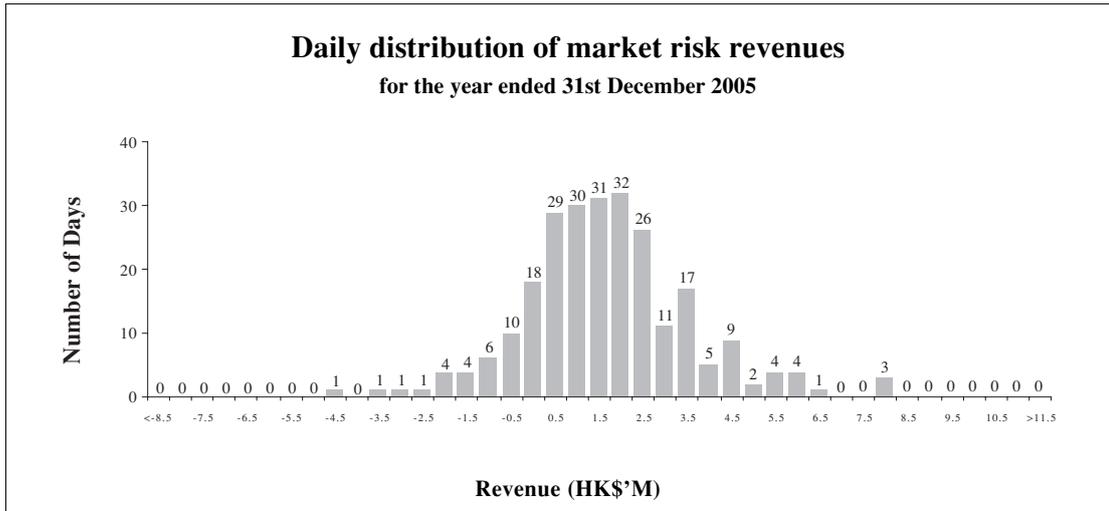
UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Risk management (continued)

(d) Trading Market Risk Management (continued)

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

2005



2004



DBS BANK (HONG KONG) LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Risk management (continued)

(e) *Basel II preparation*

The Group views Basel II as a Group-wide program that will ensure that our credit, market and operational risk management practices continue to meet international best practices. It is an initiative for us to further embed sound risk management practices and culture within our businesses, and ensure that the Group continues to expand our businesses across segments and markets with the right risk management discipline, practices and processes in place. To underscore the importance of this initiative and ensure a concerted effort towards the successful implementation of various aspects of the program, an integrated Basel II Governance and Program Management structure is put in place.

A Basel II Steering Committee (“Steering Committee”) has been set up to oversee the implementation of all program work streams to ensure that the Bank is on track for Basel II qualification. The Steering Committee is supported by the respective work stream sponsors and dedicated project managers to drive the overall Basel II program.