

DAO HENG BANK LIMITED

REPORT OF THE DIRECTORS

The directors of Dao Heng Bank Limited (the "Bank") submit their report together with the audited accounts of the Bank and the Group for the year ended 31st December 2002.

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 23 to the accounts.

Results and appropriations

The results of the Group for the year ended 31st December 2002 are set out in the consolidated profit and loss account on page 5.

For the year ended 31st December 2002, an interim dividend of approximately HK\$0.04504 per share totalling HK\$234,204,572 was paid on 21st October 2002 (18 month period ended 31st December 2001: first interim dividend of approximately HK\$0.05361 per share totalling HK\$278,780,000 and a second interim dividend of approximately HK\$0.06626 per share totalling HK\$344,544,112).

As of the date of this report, the directors have not yet recommended a final dividend in respect of the year ended 31st December 2002 (18 month period ended 31st December 2001: HK\$0.04627 per share totalling HK\$240,611,384).

Reserves

Details of the movements in the reserves of the Bank and the Group during the year are set out in Note 31 to the accounts.

Fixed assets

Details of the movements in fixed assets during the year are set out in Note 24 to the accounts.

Donations

Donations made by the Group during the year amounted to HK\$178,000 (18 month period ended 31st December 2001: HK\$1,312,000).

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 and Managing Director

Jackson Peter Tai

Fock Siew Wah

Leung Chun Ying

Fung Kwok King, Victor

Cheng Wai Chee, Christopher

Chan Tak Kin

Philippe Paillart

(resigned on 22nd June 2002)

In accordance with Article 98 of the Bank's Articles of Association, all the directors remain in office for the ensuing year.

DAO HENG BANK LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Interests in contracts

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

Arrangements to acquire shares

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

(a) *Share Option Scheme/Plan*

The DBSH Share Option Scheme (the “Option Scheme”) was adopted by the shareholders of DBSH at an Extraordinary General Meeting held on 18th September 1999, to replace the DBS Bank Share Option Scheme (the “DBS Bank Option Scheme”) implemented by The Development Bank of Singapore Ltd (“DBS Bank”) following the restructuring of DBS Bank as a wholly-owned subsidiary of DBSH. The Option Scheme was terminated on 18th October 1999 and the outstanding existing DBSH options will continue to remain valid until the date of expiration of the relevant DBS Bank options which they respectively replaced.

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 to replace the DBS Bank Share Option Plan (the “DBS Bank Option Plan”) implemented by DBS Bank. The DBS Bank Option Plan had, in turn, been adopted by the shareholders of DBS Bank at an Extraordinary General Meeting of DBS Bank held on 19th June 1999 to replace the DBS Bank Option Scheme.

During the year, options to subscribe for a total of 560,000 shares in DBSH were granted to Messrs. Wong Kwong Shing, Frank, Jackson Peter Tai, Randolph Gordon Sullivan, Chan Tak Kin and Philippe Paillart pursuant to the above DBSH option arrangements. None of the directors acquired shares in DBSH by exercising options granted pursuant to the DBSH option arrangements during the year under review.

(b) *Performance Share Plan*

The DBSH Performance Share Plan (“PSP”) is a stock-based plan where DBSH ordinary shares are given free of charge to eligible employees. The number of shares awarded is based on the DBSH Group’s 3-year period performance as well as the performance of the individual. At the start of the 3-year performance period, an eligible employee will be advised of the number of DBSH ordinary shares that he could receive at the end of the performance period, which is based on his demonstrated performance. During the year, Messrs. Wong Kwong Shing, Frank, Jackson Peter Tai, Chan Tak Kin and Philippe Paillart were eligible to receive performance shares under the PSP.

(c) *Vesting of Shares*

During the year, a total of 178,100 DBSH shares were vested in Messrs. Wong Kwong Shing, Frank, Jackson Peter Tai and Randolph Gordon Sullivan under the PSP or as part of the retention packages to the relevant director(s).

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.

DAO HENG BANK LIMITED

REPORT OF THE DIRECTORS (CONTINUED)

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Bank were entered into or existed during the year.

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

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

Auditors

The accounts have been audited by PricewaterhouseCoopers who will retire at the forthcoming annual general meeting.

A members’ resolution was passed on 12th November 2002 to appoint Ernst & Young as auditors of the Bank for the financial year ending 31st December 2003 until the conclusion of the annual general meeting in 2004.

On behalf of the Board

Wong Kwong Shing, Frank
Director

Hong Kong, 10th February 2003

DAO HENG BANK LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF DAO HENG BANK LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the accounts set out on pages 5 to 54 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts 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 accounts and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Bank and of the Group, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Bank and the Group as at 31st December 2002 and of the Group's profit and cash flows for the year then ended, and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 10th February 2003

DAO HENG BANK LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER 2002

	Note	Year ended 31st December 2002 HK\$'000	18 months ended 31st December 2001 HK\$'000
Interest income	3	4,856,198	13,206,143
Interest expense	4	(2,144,036)	(8,880,266)
Net interest income		2,712,162	4,325,877
Other operating income	5	961,735	1,465,779
Operating income		3,673,897	5,791,656
Operating expenses	6	(1,648,498)	(2,730,563)
Restructuring charges	7	-	(114,379)
Impairment of fixed assets	8	(241,136)	(141,620)
Operating profit before provisions		1,784,263	2,805,094
Charge for bad and doubtful debts	9	(509,665)	(983,037)
Operating profit		1,274,598	1,822,057
Net gain on disposal of fixed assets		19,433	13,938
Net gain on disposal of non-trading securities and held-to-maturity securities	10	19,064	112,823
Impairment loss on non-trading securities		(13,998)	-
Loss on disposal of a subsidiary company	2(b)	-	(154,196)
Share of profit of a jointly controlled entity		1,299,097	1,794,622
		3,509	58,472
Profit before taxation		1,302,606	1,853,094
Taxation	12(a)	(168,651)	(218,639)
Profit after taxation		1,133,955	1,634,455
Minority interests		-	1,183
Profit attributable to shareholders	13	<u>1,133,955</u>	<u>1,635,638</u>
Dividends	14	<u>474,816</u>	<u>1,248,935</u>

DAO HENG BANK LIMITED

CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER 2002

	Note	2002 HK\$'000	2001 HK\$'000
Assets			
Cash and short-term funds	15	19,112,211	26,637,944
Placements with banks and other financial institutions maturing between one and twelve months		8,523,654	9,599,383
Certificates of deposit held	16	837,797	707,085
Trading securities	17	2,078,229	1,990,771
Held-to-maturity securities	18	18,300,704	16,757,853
Advances less provisions	19	69,740,474	71,580,844
Non-trading securities	21	2,190,166	267,176
Interest in a jointly controlled entity	22	72,471	68,980
Fixed assets	24	4,184,842	4,656,735
Other assets	25	3,693,970	2,921,077
Total assets		<u>128,734,518</u>	<u>135,187,848</u>
Liabilities			
Deposits and balances of banks and other financial institutions		1,387,039	4,058,391
Deposits from customers	27	92,242,833	93,080,587
Certificates of deposit issued		5,718,942	3,679,615
Other liabilities	29	12,234,315	18,108,989
Amount due to a jointly controlled entity	22	1,103,780	786,745
7.75% fixed rate subordinated notes	26	2,040,278	2,039,995
Total liabilities		<u>114,727,187</u>	<u>121,754,322</u>
Capital resources			
Share capital	30	5,200,000	5,200,000
Reserves	31	8,807,331	8,233,526
Shareholders' funds		<u>14,007,331</u>	<u>13,433,526</u>
Total liabilities and capital resources		<u>128,734,518</u>	<u>135,187,848</u>

Wong Kwong Shing, Frank
Director

Randolph Gordon Sullivan
Director

Chan Tak Kin
Director

Wong Wai Nar, Doris
Secretary

DAO HENG BANK LIMITED

BALANCE SHEET

AS AT 31ST DECEMBER 2002

	Note	2002 HK\$'000	2001 HK\$'000
Assets			
Cash and short-term funds	15	18,365,029	23,980,503
Placements with banks and other financial institutions maturing between one and twelve months		8,523,654	9,599,383
Certificates of deposit held	16	837,797	707,085
Trading securities	17	2,078,229	1,988,272
Held-to-maturity securities	18	18,298,704	16,755,849
Advances less provisions	19	51,422,488	50,750,071
Non-trading securities	21	2,190,066	254,404
Interest in a jointly controlled entity	22	500	500
Investment in subsidiaries	23	4,002,411	3,991,690
Amount due from subsidiaries		270,650	8,853,971
Fixed assets	24	3,267,783	3,475,175
Other assets	25	2,992,453	2,312,048
Total assets		112,249,764	122,668,951
Liabilities			
Deposits and balances of banks and other financial institutions		1,302,210	3,971,142
Deposits from customers	27	72,516,328	71,603,898
Certificates of deposit issued		5,718,942	3,679,615
Other liabilities	29	12,078,077	17,846,326
Amount due to subsidiaries		5,489,308	11,191,698
Amount due to a jointly controlled entity	22	1,103,701	786,701
7.75% fixed rate subordinated notes	26	2,040,278	2,039,995
Total liabilities		100,248,844	111,119,375
Capital resources			
Share capital	30	5,200,000	5,200,000
Reserves	31	6,800,920	6,349,576
Shareholders' funds		12,000,920	11,549,576
Total liabilities and capital resources		112,249,764	122,668,951

Wong Kwong Shing, Frank
Director

Randolph Gordon Sullivan
Director

Chan Tak Kin
Director

Wong Wai Nar, Doris
Secretary

DAO HENG BANK LIMITED

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST DECEMBER 2002

	Note	Year ended 31st December 2002 HK\$'000	18 months ended 31st December 2001 HK\$'000
Net cash outflow from operating activities before taxation	36(a)	(719,617)	(8,271,373)
Hong Kong profits tax paid		(128,472)	(165,202)
Overseas tax paid		(3,896)	(7,909)
Net cash outflow from operating activities		(851,985)	(8,444,484)
Investing activities			
Repayment of loan capital from a jointly controlled entity		-	15,000
Placements from a jointly controlled entity		317,034	195,387
Purchase of fixed assets		(157,493)	(191,334)
Proceeds from disposal of fixed assets		161,124	29,668
Disposal of subsidiary	36(d)	-	(30,820)
Net cash inflow from investing activities		320,665	17,901
Financing activities			
Dividends paid		(474,816)	(1,248,935)
Interest paid for certificates of deposit issued		(216,379)	(669,403)
Interest paid for 7.75% fixed rate subordinated notes		(159,670)	(239,487)
Issue of certificates of deposit		3,892,628	2,474,391
Redemption of certificates of deposit		(1,853,399)	(5,855,797)
Net cash inflow/(outflow) from financing activities		1,188,364	(5,539,231)
Increase/(decrease) in cash and cash equivalents		657,044	(13,965,814)
Cash and cash equivalents at 1st January/1st July		17,391,700	31,384,177
Effect of foreign exchange movements		(2,287)	(26,663)
Cash and cash equivalents at 31st December	36(c)	<u>18,046,457</u>	<u>17,391,700</u>

DAO HENG BANK LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31ST DECEMBER 2002

	Note	Year ended 31st December 2002 HK\$'000	18 months ended 31st December 2001 HK\$'000
Total equity as at 1st January/1st July as previously reported		13,421,310	12,356,978
Effect of changes in accounting policies	31(e) & (f)	12,216	639,427
Total equity as at 1st January/1st July, as restated		13,433,526	12,996,405
Impairment of fixed assets	31(c)	(59,537)	(46,950)
Exchange differences arising on translation of net investments in overseas branches and subsidiary companies	31(f)	(2,287)	(55,228)
Change in fair value of non-trading securities	31(e)	(7,560)	(1,600)
Net losses not recognised in the profit and loss account		(69,384)	(103,778)
Profit attributable to shareholders	31(f)	1,133,955	1,635,638
Reserves transferred to profit and loss account upon disposal of non-trading securities	31(e)	(15,950)	-
Exchange differences realised on disposal of a subsidiary company	31(f)	-	154,196
Dividends	31(f)	(474,816)	(1,248,935)
Total equity as at 31st December		14,007,331	13,433,526

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS

1 Principal activities

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

2 Principal accounting policies

(a) *Basis of preparation*

The accounts have been prepared under the historical cost convention modified by the revaluation of certain fixed assets and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong and comply with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants (“HKSA”).

In the current year, the Group has adopted a number of new Statements of Standard Accounting Practice (“SSAP”)s issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001. The effect of adopting the new standards is included in the respective policy note.

The accounts for the period ended 31st December 2001 of the Group were prepared for a period of 18 months (“the period”) from 1st July 2000 to 31st December 2001. As a result of this change, the comparative amounts for the profit and loss account, statement of changes in equity, cash flow statement and related notes will not be comparable.

As a result of the adoption of new accounting standards and changes in current year disclosures, certain comparative amounts in the accounts have been reclassified to conform to the current year presentation.

(b) *Basis of consolidation*

The consolidated accounts include the accounts of the Bank and all its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital. The results of any subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intra-group transactions and balances within the Group are eliminated upon consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the net proceeds of the sale and the Groups’ share of its net assets, excluding any goodwill previously taken to reserves on acquisition.

In accordance with SSAP 32 “Consolidated financial statements and accounting for investments in subsidiaries”, the accumulated foreign exchange translation difference arising from the translation of net investments in overseas subsidiary companies should be recognised as a profit or loss item upon the disposal of the subsidiary. As the Group had previously recognised such differences in reserves over the holding period of the subsidiary and had not recognised these exchange differences in the profit and loss account on disposal, the adoption of this new standard requires a restatement of prior year results to show a loss on disposal of the Group’s interest in Dao Heng Bank, Inc., a former subsidiary of the Group, in the period ended 31st December 2001.

(c) *Subsidiary companies*

Investments in subsidiaries are stated in the Bank’s balance sheet at cost less provision for diminution in value which is other than temporary as determined by the directors. The results of subsidiaries are accounted for by the Bank on the basis of dividends received or receivable.

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(d) *Investments in jointly controlled entities*

A joint venture is an entity which operates under a contractual agreement whereby the Group or Bank and at least one other party undertake an economic activity which is subject to joint control and none of the parties involved has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the post acquisition results of its jointly controlled entities for the year. In the consolidated balance sheet, investments in jointly controlled entities are accounted for under the equity method and are stated at cost and adjusted for the post acquisition change in the Group's share of jointly controlled entities' net assets.

(e) *Revenue recognition*

- (i) Interest income is recognised in the profit and loss account as it accrues. In the case of doubtful debts, interest is credited to a suspense account which is netted off against accrued interest receivable except for credit card advances and overdrafts, where interest is accrued and the related specific provision on the interest receivable is included in the charge for bad and doubtful debts.
- (ii) Fees and commission income are recognised when earned or incurred 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.
- (iii) Dividend income is recognised when the right to receive payment is established.
- (iv) Cash rebates granted in relation to residential mortgage loans are capitalised and amortised on a straight-line basis over the prepayment penalty period not exceeding three years.

(f) *Provisions for bad and doubtful debts*

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

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

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

When there is no realistic prospect of recovery, the outstanding debt is written off.

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(g) *Repossessed assets*

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

(h) *Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(i) *Fixed assets and depreciation*

(i) Premises

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

Freehold land	Not depreciated
Leasehold land	Over the unexpired period of leases
Buildings	Higher of 2% per annum, or over the unexpired period of leases
Leasehold improvements	Lesser of period of lease, or 8 years

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

(ii) Investment properties

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

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

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(i) Fixed assets and depreciation (continued)

(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 15 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 profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease. The impairment losses were assessed in accordance with the requirements of SSAP 31 "Impairment of assets" which the Group adopted in the current year.

(v) Gain or loss on disposal

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

(j) Investments in securities

(i) Held-to-maturity securities

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

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

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(j) *Investments in securities (continued)*

(ii) Trading and non-trading securities

In order to align with the accounting policies of other DBS entities in Hong Kong, the Group has changed its accounting policy on the treatment of securities which are not held-to-maturity. The Group has adopted the alternative treatment as set out in SSAP 24 “Accounting for investments in securities”, to replace the benchmark treatment used in prior years. The effect of this change in accounting policy is set out below:

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

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

(k) *Deferred taxation*

Deferred taxation is accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(l) *Hire purchase contracts and finance leases*

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

(m) *Operating leases*

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

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

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(n) Provisions

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 will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(o) Sale and repurchase agreements

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

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

(p) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition including cash, balance with banks and other financial institutions, treasury bills, other eligible bills and certificates of deposit.

(q) Off-balance sheet financial instruments

Off-balance sheet financial instruments arise from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets. The accounting treatment adopted for these instruments is dependent upon the intention for which the transactions are undertaken, as elaborated below.

(i) Trading transactions

Derivative transactions undertaken for trading purposes include transactions to service customers’ needs and for proprietary purposes, as well as any related hedges. Derivative transactions undertaken for trading purposes are measured at fair value. The resultant profits and losses arising on re-measurement of trading transactions at fair value are included in the profit and loss account as “Other operating income”. Unrealised gains on derivative transactions which are held at fair value are included in “Other assets” in the balance sheet. Unrealised losses on transactions which are held at fair value are included in “Other liabilities”.

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(q) *Off-balance sheet financial instruments (continued)*

(ii) Non-trading transactions

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

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

- a) the derivative instrument must be reasonably expected to match or eliminate a significant proportion of the risk inherent in the assets, liabilities, other positions or cashflows being hedged and which results from potential movements in interest rates, exchange rates and market values; and
- b) there is adequate evidence of the intention to hedge. Linkage with the underlying risk inherent in the assets, liabilities, other positions or cashflows being hedged, must be established at the outset of the transaction.

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

Hedging transactions, which have been superseded, cease to be effective or are terminated prior to the end of the life of the assets, liabilities, other positions or cashflows being hedged, are measured at fair value. Any profit or loss arising is deferred and amortised as interest income or expense in the profit and loss account over the remaining life of the items previously being hedged.

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

Derivative transactions which do not meet the criteria required to be classified as a hedge but which are entered into to manage the interest rate positions of the Group are also classified as non-trading transactions. Income and expenses arising on derivative transactions undertaken for this purpose are accounted for on an accruals basis within interest income and expense.

(iii) Fair values of derivative transactions

The fair value of a derivative is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction. Where available, quoted and observable market prices are used as the measure of fair value. Where such quoted and observable market prices are not available, fair values are estimated based on a range of methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. Changes in the assumptions could materially affect the resulting fair value estimates.

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(q) *Off-balance sheet financial instruments (continued)*

- (iv) Offsetting of assets and liabilities arising from derivative transactions

Derivative transactions are offset only when the Group has the ability to insist on net settlement such as by means of entering into a master netting agreement or other legally enforceable arrangements. Any right to insist on a net settlement that is contingent is only taken into account when the Group is able to enforce net settlement in all situations of default by the other party or parties including insolvency of any parties to the contract, and the ability to insist on a net settlement is assured beyond doubt.

Derivative transactions are not offset unless the related settlement currencies are the same, or are denominated in freely convertible currencies for which quoted exchange rates are available in an active market.

(r) *Employee benefits*

- (i) Profit sharing and bonus plans

Liabilities for profit sharing and 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 operated by a subsidiary of the Group's ultimate holding company, the assets of which are generally held in separate trustee — administered funds. These pension plans are generally funded by payments from employees and by the Group.

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

- (iii) Equity compensation benefits

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

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

(s) *Contingent liabilities*

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

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

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

2 Principal accounting policies (continued)

(t) Related party transactions

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

3 Interest income

	Year ended 31st December 2002 HK\$'000	18 months ended 31st December 2001 HK\$'000
Interest income on listed investments	410,755	1,176,273
Interest income on unlisted investments	723,909	2,234,665
Other interest income	3,721,534	9,795,205
	<u>4,856,198</u>	<u>13,206,143</u>

4 Interest expense

Interest expense includes interest on the 7.75% fixed rate subordinated notes amounting to HK\$159,679,000 (18 months ended 31st December 2001: HK\$239,505,000).

5 Other operating income

	Year ended 31st December 2002 HK\$'000	18 months ended 31st December 2001 HK\$'000
Fees and commission income	840,663	1,257,664
Less: fees and commission expenses	(130,148)	(123,984)
Net fees and commission income	710,515	1,133,680
Net income from foreign exchange operations	132,275	133,567
Dividend income from listed investments	10,237	18,537
Dividend income from unlisted investments	8,729	5,848
Gross rental income from investment properties	3,134	4,901
Net profits from other dealing activities		
- Net gain from trading securities	37,437	21,298
- Net (loss)/gain from other dealing activities	(2,197)	138,470
Others	61,605	9,478
	<u>961,735</u>	<u>1,465,779</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

6 Operating expenses

	Year ended 31st December 2002 HK\$'000	18 months ended 31st December 2001 HK\$'000
Staff costs		
- Salaries and other costs	839,057	1,448,230
- Pension costs	53,453	49,862
Premises and equipment expenses excluding depreciation		
- Rental of premises	41,107	76,335
- Others	155,738	221,980
Depreciation	187,571	348,850
Management fees	38,646	63,906
Auditors' remuneration	5,866	6,399
Other operating expenses	327,060	515,001
	<u>1,648,498</u>	<u>2,730,563</u>

The costs above include staff costs and other operating expenses of HK\$18,100,000 (18 months ended 31st December 2001: HK\$79,436,000) relating to retention packages for certain key staff of the Group and other costs incurred as a result of the reorganisation of the Group.

7 Restructuring charges

The restructuring charges incurred in 2001 are related to initiatives to streamline the Group's operating functions and realign certain business activities following the acquisition of the Group by DBS Group. These costs principally comprise severance costs in connection with the planned rationalisation of the Group's branches and replacement of computer systems. (Note 29(b))

8 Impairment of fixed assets

An impairment loss of HK\$241,136,000 (18 months ended 31st December 2001: HK\$141,620,000) was recognised during the year as a result of the impairment of certain premises within fixed assets. The impairment loss was primarily a result of a reduction in property values and partly due to a reduction in the expected future cash inflows generated by those premises, including those branches scheduled for closure.

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

9 Charge for bad and doubtful debts

	Year ended 31st December 2002 HK\$'000	18 months ended 31st December 2001 HK\$'000
Specific provisions		
- New provisions	1,056,901	1,430,948
- Releases	(452,001)	(281,518)
- Recoveries	(43,561)	(100,525)
General provisions	(51,674)	(65,868)
	<u>509,665</u>	<u>983,037</u>
Charge for bad and doubtful debts (Note 20)		

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

	Year ended 31st December 2002 HK\$'000	18 months ended 31st December 2001 HK\$'000
Net gain/(loss) on disposal of non-trading securities	18,175	(431)
Net gain on disposal of held-to-maturity securities	889	113,254
	<u>19,064</u>	<u>112,823</u>

11 Directors' emoluments

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

	Year ended 31st December 2002 HK\$'000	18 months ended 31st December 2001 HK\$'000
Salaries, housing and other allowances and benefits in kind	<u>17,585</u>	<u>19,074</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

12 Taxation

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

	Year ended 31st December 2002 HK\$'000	18 months ended 31st December 2001 HK\$'000
Hong Kong profits tax on estimated assessable profit for the year/period	166,207	224,414
Attributable share of estimated Hong Kong profits tax losses arising from investments in partnerships	(14,928)	(119,475)
	151,279	104,939
Investments in limited partnerships written off	11,880	97,735
	163,159	202,674
Hong Kong profits tax	5,473	5,500
Overseas taxation	168,632	208,174
	19	10,465
Share of a jointly controlled entity's taxation	168,651	218,639
	168,651	218,639

The provision for Hong Kong profits tax is calculated at 16% (18 months ended 31st December 2001: 16%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries and branches is charged at the appropriate current rates of taxation ruling in the countries in which they operate.

The Group has entered into a number of aircraft leasing transactions involving special purpose partnerships in which the Group is the only general partner. As at 31st December 2002, the Group's investment in such partnerships, which is included in "Other assets" in the balance sheet amounted to HK\$237,070,000 (31st December 2001: HK\$491,333,000). The Group's investments in limited partnerships are amortised over the life of the partnership in proportion to the taxation benefits resulting from those investments. The total assets and liabilities of such partnerships at 31st December 2002 are HK\$822,000,000 and HK\$581,000,000 respectively (31st December 2001: HK\$2,077,000,000 and HK\$1,442,000,000 respectively).

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

12 Taxation (continued)

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

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax payable	114,835	92,028	113,262	44,426
Overseas tax payable	3,035	1,150	468	105
	<u>117,870</u>	<u>93,178</u>	<u>113,730</u>	<u>44,531</u>

(c) No deferred taxation has been provided as there are no material timing differences which would result in a liability payable or an asset receivable in the foreseeable future.

Net deferred taxation assets that have not been recognised in the balance sheet comprise:

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Accelerated depreciation allowances	(5,354)	(38,810)	(4,380)	(35,743)
General provisions for bad and doubtful debts	109,299	116,958	79,423	73,406
	<u>103,945</u>	<u>78,148</u>	<u>75,043</u>	<u>37,663</u>

The surplus arising on the revaluation of premises and impairment losses on premises do not constitute timing differences as the disposal of these assets at their carrying values would result in capital gains or losses which are not subject to tax.

13 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Bank to the extent of HK\$999,872,000 (18 months ended 31st December 2001: HK\$1,362,120,000).

14 Dividends

	Year ended 31st December 2002 HK\$'000	18 months ended 31st December 2001 HK\$'000
Final dividend proposed and paid for 2001 after the balance sheet date of HK\$0.04627 per share (year ended 30th June 2000: HK\$0.12031 per share)	240,611	625,611
1st interim dividend paid of HK\$0.04504 per share (2001: HK\$0.05361 per share)	234,205	278,780
2nd interim dividend paid for 2001 of HK\$0.06626 per share	-	344,544
	<u>474,816</u>	<u>1,248,935</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

15 Cash and short-term funds

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Cash and balances with banks and other financial institutions	987,085	931,234	817,778	690,735
Money at call and short notice	12,853,685	9,252,527	12,853,685	8,815,864
Treasury bills (including Exchange Fund Bills)	5,271,441	16,454,183	4,693,566	14,473,904
	19,112,211	26,637,944	18,365,029	23,980,503

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

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Held-to-maturity securities, unlisted at amortised cost	1,387,224	2,859,596	1,208,689	2,840,660
Trading securities, unlisted at fair value	2,386,256	13,594,587	2,386,256	11,633,244
Non-trading securities, unlisted at fair value	1,497,961	-	1,098,621	-
	5,271,441	16,454,183	4,693,566	14,473,904

16 Certificates of deposit held

	Group and Bank	
	2002 HK\$'000	2001 HK\$'000
Held-to-maturity securities, unlisted at amortised cost	460,000	660,000
Trading securities, listed outside Hong Kong at fair value	-	47,085
Non-trading securities, unlisted at fair value	377,797	-
	837,797	707,085

During the year, certificates of deposit held classified as held-to-maturity amounting to HK\$200,000,000 (18 months ended 31st December 2001: Nil) were sold to reduce exposures in accordance with DBS Group credit limits.

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

17 Trading securities

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Debt securities, at fair value				
- Listed in Hong Kong	2,067,187	1,159,461	2,067,187	1,159,461
- Listed outside Hong Kong	-	248,697	-	248,697
	2,067,187	1,408,158	2,067,187	1,408,158
- Unlisted	11,042	336,635	11,042	336,635
	2,078,229	1,744,793	2,078,229	1,744,793
Equity securities, at fair value				
- Listed in Hong Kong	-	236,471	-	236,472
- Listed outside Hong Kong	-	7,007	-	7,007
	-	243,478	-	243,479
- Unlisted	-	2,500	-	-
	-	245,978	-	243,479
	2,078,229	1,990,771	2,078,229	1,988,272

Trading securities are analysed by issuer as follows:

- Central governments and central banks	2,039,209	1,064,268	2,039,209	1,064,268
- Public sector entities	38,580	406,162	38,580	406,162
- Banks and other financial institutions	440	487,530	440	487,530
- Corporate entities	-	32,811	-	30,312
	2,078,229	1,990,771	2,078,229	1,988,272

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

18 Held-to-maturity securities

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Balance as at				
1st January 2002/1st July 2000	16,757,853	25,250,803	16,755,849	22,252,338
Amortisation of (premium)/discount	(3,585)	476,054	(3,581)	474,830
Additions	15,884,786	17,823,658	15,884,786	19,733,056
Amortised cost of securities redeemed	(9,920,610)	(18,171,862)	(9,920,610)	(17,562,866)
Amortised cost of securities sold during the year/period	(4,586,632)	(8,560,877)	(4,586,632)	(8,102,350)
Exchange differences	168,892	(59,923)	168,892	(39,159)
Balance as at 31st December	<u>18,300,704</u>	<u>16,757,853</u>	<u>18,298,704</u>	<u>16,755,849</u>
Listed securities, at amortised cost				
- Listed in Hong Kong	3,727,261	1,450,209	3,727,261	1,450,209
- Listed outside Hong Kong	5,389,115	6,511,667	5,389,115	6,511,667
	9,116,376	7,961,876	9,116,376	7,961,876
- Unlisted	9,184,328	8,795,977	9,182,328	8,793,973
	<u>18,300,704</u>	<u>16,757,853</u>	<u>18,298,704</u>	<u>16,755,849</u>
Market value of listed securities	<u>9,226,706</u>	<u>8,009,830</u>	<u>9,226,706</u>	<u>8,009,830</u>
Held-to-maturity securities are analysed by issuer as follows:				
- Central governments and central banks	2,976,503	349,230	2,976,503	349,230
- Public sector entities	3,539,524	4,542,605	3,539,524	4,542,601
- Banks and other financial institutions	11,238,736	11,005,242	11,238,736	11,005,242
- Corporate entities	545,941	860,776	543,941	858,776
	<u>18,300,704</u>	<u>16,757,853</u>	<u>18,298,704</u>	<u>16,755,849</u>

During the year, securities classified as held-to-maturity amounting to HK\$4,586,632,000 (18 months ended 31st December 2001: HK\$8,560,877,000) were sold to reduce exposures in accordance with DBS Group credit limits. In 2001, the disposals were due to the restructuring of the Group's portfolio following the acquisition of the Group by DBS Group.

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

19 Advances less provisions

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Advances to customers	70,931,406	73,226,739	52,257,312	51,864,802
Provisions for bad and doubtful debts (Note 20)				
- General	(696,226)	(747,380)	(506,173)	(471,964)
- Specific	(736,183)	(898,515)	(570,128)	(642,767)
	69,498,997	71,580,844	51,181,011	50,750,071
Advances to banks and other financial institutions	241,477	-	241,477	-
	69,740,474	71,580,844	51,422,488	50,750,071
Included in advances to customers are:				
Trade bills	602,986	665,707	458,978	458,422
General provisions	(6,030)	(6,663)	(4,590)	(4,590)
	596,956	659,044	454,388	453,832

(a) *Non-performing advances to customers and provisions*

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

	Group		Group	
	2002 HK\$'000	% of total advances to customers	2001 HK\$'000	% of total advances to customers
Gross non-performing advances	1,719,730	2.42	2,092,584	2.86
Specific provisions made in respect of such advances	(631,939)		(836,617)	
	1,087,791		1,255,967	
Suspended interest	273,450		377,820	

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

19 Advances to customers less provisions (continued)

	2002		Bank	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Gross non-performing advances	1,259,931	2.41	1,411,584	2.72
Specific provisions made in respect of such advances	(477,324)		(593,759)	
	<u>782,607</u>		<u>817,825</u>	
Suspended interest	<u>174,463</u>		<u>260,571</u>	

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

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

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Gross investment in finance leases and hire purchase contracts, receivable :				
Not later than one year	519,208	698,038	25,048	-
Later than one year and not later than five years	1,558,189	2,018,738	97,061	-
Later than five years	4,274,468	4,958,719	387,536	-
	<u>6,351,865</u>	<u>7,675,495</u>	<u>509,645</u>	-
Unearned future finance income	<u>(74,759)</u>	<u>(205,395)</u>	<u>(1,630)</u>	-
Net investment in finance leases and hire purchase contracts	<u>6,277,106</u>	<u>7,470,100</u>	<u>508,015</u>	-

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

Not later than one year	491,881	634,073	24,326	-
Later than one year and not later than five years	1,518,745	1,908,154	96,165	-
Later than five years	4,266,480	4,927,873	387,524	-
	<u>6,277,106</u>	<u>7,470,100</u>	<u>508,015</u>	-

The unguaranteed residual values included in the gross investment in finance leases and hire purchase contracts as at 31st December 2002 and 31st December 2001 are not considered to be material.

The allowance for uncollectable finance lease receivables and hire purchase contracts included in the provision for bad and doubtful debts amounted to HK\$8,417,000 as at 31st December 2002 (31st December 2001: HK\$3,042,000).

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

20 Provisions for bad and doubtful debts

2002	Group			Suspended Interest HK\$'000
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
At 1st January 2002	898,515	747,380	1,645,895	377,820
Amounts written off	(767,651)	-	(767,651)	(162,132)
Recoveries of advances written off in previous years	43,561	-	43,561	-
Net charge/(release) to profit and loss account (Note 9)	561,339	(51,674)	509,665	-
Interest suspended during the year	-	-	-	174,538
Suspended interest recovered	-	-	-	(117,099)
Exchange differences	419	520	939	323
At 31st December 2002	<u>736,183</u>	<u>696,226</u>	<u>1,432,409</u>	<u>273,450</u>
	Bank			Suspended Interest HK\$'000
2002	Specific HK\$'000	General HK\$'000	Total HK\$'000	
At 1st January 2002	642,767	471,964	1,114,731	260,571
Amounts written off	(635,228)	-	(635,228)	(125,804)
Recoveries of advances written off in previous years	28,609	-	28,609	-
Net charge to profit and loss account	533,700	33,704	567,404	-
Interest suspended during the year	-	-	-	143,383
Suspended interest recovered	-	-	-	(103,892)
Exchange differences	280	505	785	205
At 31st December 2002	<u>570,128</u>	<u>506,173</u>	<u>1,076,301</u>	<u>174,463</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

20 Provisions for bad and doubtful debts (continued)

2001	Group			Suspended interest HK\$'000
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
At 1st July 2000	718,973	821,012	1,539,985	387,906
Amounts written off	(919,982)	-	(919,982)	(336,388)
Recoveries of advances written off in previous years	100,525	-	100,525	-
Net charge/(release) to profit and loss account (Note 9)	1,048,905	(65,868)	983,037	-
Interest suspended during the period	-	-	-	403,058
Suspended interest recovered	-	-	-	(75,441)
Exchange differences	(8,084)	(1,504)	(9,588)	(1,315)
Disposal of a subsidiary	(41,822)	(6,260)	(48,082)	-
At 31st December 2001	<u>898,515</u>	<u>747,380</u>	<u>1,645,895</u>	<u>377,820</u>
	Bank			Suspended interest HK\$'000
2001	Specific HK\$'000	General HK\$'000	Total HK\$'000	
At 1st July 2000	434,050	524,961	959,011	248,815
Amounts written off	(645,223)	-	(645,223)	(224,365)
Recoveries of advances written off in previous years	42,515	-	42,515	-
Net charge/(release) to profit and loss account	808,566	(56,823)	751,743	-
Interest suspended during the period	-	-	-	266,004
Suspended interest recovered	-	-	-	(30,287)
Transfer from a subsidiary	2,595	3,807	6,402	744
Exchange differences	264	19	283	(340)
At 31st December 2001	<u>642,767</u>	<u>471,964</u>	<u>1,114,731</u>	<u>260,571</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

21 Non-trading securities

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Debt securities, at fair value				
- Listed outside Hong Kong	20,819	-	20,819	-
- Unlisted	1,800,328	4,170	1,800,228	4,070
	1,821,147	4,170	1,821,047	4,070
Equity securities, at fair value				
- Listed in Hong Kong	133,335	-	133,335	-
- Listed outside Hong Kong	234,918	12,349	234,918	-
	368,253	12,349	368,253	-
- Unlisted	766	250,657	766	250,334
	369,019	263,006	369,019	250,334
	2,190,166	267,176	2,190,066	254,404
Non-trading securities are analysed by issuer as follows:				
- Public sector entities	52,229	-	52,229	-
- Banks and other financial institutions	2,130,300	238,403	2,130,300	243,490
- Corporate entities	3,166	24,603	3,166	6,843
- Others	4,471	4,170	4,371	4,071
	2,190,166	267,176	2,190,066	254,404

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

22 Interest in a jointly controlled entity

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Share of net assets	<u>72,471</u>	<u>68,980</u>	<u>500</u>	<u>500</u>
Amount due to a jointly controlled entity	<u>1,103,780</u>	<u>786,745</u>	<u>1,103,701</u>	<u>786,701</u>

Details of the jointly controlled entity are as follows:

Name of company	Country of Incorporation	Principal place of operation	Particulars of issued shares held	Interest held	Principal activities
Hutchison Dao Heng 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

23 Investments in subsidiaries

	Bank	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost after provisions	<u>4,002,411</u>	<u>3,991,690</u>

Details of the principal subsidiaries incorporated and operating in Hong Kong are as follows:

Name of company	Particulars of issued shares held	Percentage held by the		Principal activities
		Bank	Group	
Dao Heng Finance Limited	250,000 shares of HK\$100 each	100	-	Finance
Dao Heng Bank Trustee Limited	30,000 shares of HK\$100 each	100	-	Trustee services
Dao Heng Corporate Services Limited	500,000 shares of HK\$1 each	100	-	Corporate services

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

23 Investments in subsidiaries (continued)

Name of company	Particulars of issued shares held	Percentage held by the		Principal activities
		Bank	Group	
Ting Hong Nominees Limited	10,000 shares of HK\$1 each	100	-	Nominee services
Hang Lung Bank (Nominee) Limited	100 shares of HK\$100 each	100	-	Nominee services
Hang Lung Godown Company, Limited	3,500,000 shares of HK\$1 each	100	-	Property holding
OTB Card Company Limited	700,000 shares of HK\$100 each	100	-	Property investment
Overseas Trust Bank, Limited	2,000,000,000 shares of HK\$1 each	100	-	Banking
EFI Nominees Limited	2 shares of HK\$1 each	-	100	Nominee services
Overseas Trust Bank Nominees Limited	50,000 shares of HK\$1 each	-	100	Nominee services
O.T.B. Investment Limited	50,000 shares of HK\$1 each	-	100	Property investment
OTB Property Management Limited	10,000 shares of HK\$1 each	-	100	Property management

(b) Details of the principal subsidiaries incorporated and operating outside Hong Kong are as follows:

Name of company	Country of incorporation and operation	Particulars of issued shares held	Percentage held by the		Principal activities
			Bank	Group	
Dao Heng Trustee (Jersey) Limited	Jersey	100,000 shares of £1 each	100	-	Corporate services
Dao Heng Bank Trustee (BVI) Limited	British Virgin Islands	250,000 shares of US\$1 each	100	-	Trustee services
Dao Heng Nominees Limited	United Kingdom	2 shares of £1 each	-	100	Nominee services
Dransfield Resources Limited	British Virgin Islands	1 share of US\$1 each	-	100	Property investment

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

24 Fixed assets

(a) Fixed assets

Group

	Premises HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2002	4,967,614	29,098	867,944	5,864,656
Additions	62,808	-	94,685	157,493
Disposals	(220,165)	-	(177,279)	(397,444)
Transfers	(170,364)	64,049	-	(106,315)
Exchange adjustments	419	-	2,019	2,438
	<u>4,640,312</u>	<u>93,147</u>	<u>787,369</u>	<u>5,520,828</u>
At 31st December 2002				
Accumulated depreciation and impairment				
At 1st January 2002	553,399	-	654,522	1,207,921
Charge for the year	110,285	-	77,286	187,571
Impairment loss recognised directly in equity (Note 31 (c))	59,537	-	-	59,537
Impairment loss recognised in the profit and loss account (Note 8)	241,136	-	-	241,136
Disposals	(81,965)	-	(173,788)	(255,753)
Transfers	(106,315)	-	-	(106,315)
Exchange adjustments	106	-	1,783	1,889
	<u>776,183</u>	<u>-</u>	<u>559,803</u>	<u>1,335,986</u>
At 31st December 2002				
Net book value				
At 31st December 2002	<u>3,864,129</u>	<u>93,147</u>	<u>227,566</u>	<u>4,184,842</u>
At 31st December 2001	<u>4,414,215</u>	<u>29,098</u>	<u>213,422</u>	<u>4,656,735</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

24 Fixed assets (continued)

(a) Fixed assets (continued)

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

Group	2002		2001	
	Premises HK\$'000	Investment properties HK\$'000	Premises HK\$'000	Investment properties HK\$'000
In Hong Kong				
- Leasehold with over 50 years unexpired	1,121,032	73,800	1,396,826	22,501
- Leasehold with 10 to 50 years unexpired	2,670,620	19,347	2,871,180	6,597
- Leasehold with less than 10 years unexpired	42,085	-	20,435	-
Outside Hong Kong				
- Freehold	12,278	-	65,353	-
- Leasehold with 10 to 50 years unexpired	18,114	-	60,421	-
	<u>3,864,129</u>	<u>93,147</u>	<u>4,414,215</u>	<u>29,098</u>
The analysis of cost or valuation of premises and investment properties is as follows:				
At cost	2,662,475	93,147	2,715,650	29,098
At directors' valuation in 1993	1,977,837	-	2,251,964	-
	<u>4,640,312</u>	<u>93,147</u>	<u>4,967,614</u>	<u>29,098</u>

All other fixed assets are stated at cost.

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

24 Fixed assets (continued)

(a) Fixed assets (continued)

Bank

	Premises HK\$'000	Investment properties HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation				
At 1st January 2002	3,716,276	-	754,066	4,470,342
Additions	62,808	-	90,759	153,567
Disposals	(88,760)	-	(166,764)	(255,524)
Transfers	(11,400)	2,805	-	(8,595)
Exchange adjustments	419	-	1,994	2,413
	<u>3,679,343</u>	<u>2,805</u>	<u>680,055</u>	<u>4,362,203</u>
At 31st December 2002	3,679,343	2,805	680,055	4,362,203
Accumulated depreciation and impairment				
At 1st January 2002	428,300	-	566,867	995,167
Charge for the year	95,943	-	71,331	167,274
Impairment loss recognised directly in equity	59,537	-	-	59,537
Impairment loss recognised in the profit and loss account	93,213	-	-	93,213
Disposals	(49,141)	-	(164,915)	(214,056)
Transfers	(8,595)	-	-	(8,595)
Exchange adjustments	106	-	1,774	1,880
	<u>619,363</u>	<u>-</u>	<u>475,057</u>	<u>1,094,420</u>
At 31st December 2002	619,363	-	475,057	1,094,420
Net book value				
At 31st December 2002	<u>3,059,980</u>	<u>2,805</u>	<u>204,998</u>	<u>3,267,783</u>
At 31st December 2001	<u>3,287,976</u>	<u>-</u>	<u>187,199</u>	<u>3,475,175</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

24 Fixed assets (continued)

(a) Fixed assets (continued)

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

Bank

	2002		2001
	Premises HK\$'000	Investment Properties HK\$'000	Premises HK\$'000
In Hong Kong			
- Leasehold with over 50 years unexpired	493,224	2,805	577,861
- Leasehold with 10 to 50 years unexpired	2,506,557	-	2,632,794
- Leasehold with less than 10 years unexpired	42,085	-	20,435
Outside Hong Kong			
- Leasehold with 10 to 50 years unexpired	18,114	-	56,886
	3,059,980	2,805	3,287,976
The analysis of cost or valuation of premises and investment properties is as follows:			
At cost	2,651,744	2,805	2,656,629
At directors' valuation in 1993	1,027,599	-	1,059,647
	3,679,343	2,805	3,716,276

All other fixed assets are stated at cost.

(b) Operating lease arrangements

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

During the current year, HK\$3,134,000 (2001: HK\$4,901,000) was recognised as rental income in the profit and loss account in respect of operating leases.

At 31 December 2002, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	2002 HK\$'000	2001 HK\$'000
Not later than one year	3,835	2,493
Later than one year and not later than five years	8,920	65
	12,755	2,558

The Bank had no future aggregate minimum lease receipts under non-cancellable operating leases.

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

25 Other assets

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Accrued interest	308,806	714,748	298,967	687,324
Other accounts	3,385,164	2,206,329	2,693,486	1,624,724
	<u>3,693,970</u>	<u>2,921,077</u>	<u>2,992,453</u>	<u>2,312,048</u>

26 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 Dao Heng Bank Limited ("DHB") 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, DHB repurchased and cancelled part of the Notes. At 31st December 2002, the outstanding amount of the Notes is US\$261,620,000 (2001: US\$261,620,000).

27 Deposits from customers

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Demand deposits and current accounts	3,796,130	3,308,162	2,501,265	2,033,605
Savings deposits	14,295,442	12,103,208	10,606,492	8,612,670
Time, call and notice deposits	74,151,261	77,669,217	59,408,571	60,957,623
	<u>92,242,833</u>	<u>93,080,587</u>	<u>72,516,328</u>	<u>71,603,898</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

28 Maturity profile

2002	Group						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	985,026	16,616,876	1,510,309	-	-	-	19,112,211
- Placements with banks and other financial institutions maturing between one and twelve months	-	6,156,770	2,366,884	-	-	-	8,523,654
- Certificates of deposit held	-	-	537,984	299,813	-	-	837,797
- Trading securities - debt securities	-	331,424	101,434	1,510,077	135,294	-	2,078,229
- Advances to customers (before provisions)	4,278,425	10,553,306	6,519,931	16,124,977	31,183,204	2,271,563	70,931,406
- Advances to banks and other financial institutions	-	-	-	241,477	-	-	241,477
- Held to maturity securities	-	1,062,023	3,245,946	13,977,762	14,973	-	18,300,704
- Non-trading securities - debt securities	-	820,818	280,344	663,285	52,229	4,471	1,821,147
	<u>5,263,451</u>	<u>35,541,217</u>	<u>14,562,832</u>	<u>32,817,391</u>	<u>31,385,700</u>	<u>2,276,034</u>	<u>121,846,625</u>
Liabilities							
- Deposits and balances of banks and other financial institutions	772,308	614,731	-	-	-	-	1,387,039
- Deposits from customers	18,091,572	69,677,920	4,057,212	416,129	-	-	92,242,833
- Certificates of deposit issued	-	454,973	820,000	4,443,969	-	-	5,718,942
- 7.75% Fixed rate subordinated notes	-	-	-	2,040,278	-	-	2,040,278
	<u>18,863,880</u>	<u>70,747,624</u>	<u>4,877,212</u>	<u>6,900,376</u>	<u>-</u>	<u>-</u>	<u>101,389,092</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

28 Maturity profile (continued)

2002	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	815,719	16,039,001	1,510,309	-	-	-	18,365,029
- Placements with banks and other financial institutions maturing between one and twelve months	-	6,156,770	2,366,884	-	-	-	8,523,654
- Certificates of deposit held	-	-	537,984	299,813	-	-	837,797
- Trading securities - debt securities	-	331,424	101,434	1,510,077	135,294	-	2,078,229
- Advances to customers (before provisions)	3,206,455	8,853,027	5,224,963	11,335,135	21,897,837	1,739,895	52,257,312
- Advances to banks and other financial institutions	-	-	-	241,477	-	-	241,477
- Held to maturity securities	-	1,062,023	3,245,946	13,977,762	12,973	-	18,298,704
- Non-trading securities - debt securities	-	820,818	280,344	663,285	52,229	4,371	1,821,047
	<u>4,022,174</u>	<u>33,263,063</u>	<u>13,267,864</u>	<u>28,027,549</u>	<u>22,098,333</u>	<u>1,744,266</u>	<u>102,423,249</u>
Liabilities							
- Deposits and balances of banks and other financial institutions	687,479	614,731	-	-	-	-	1,302,210
- Deposits from customers	13,107,757	55,690,639	3,394,533	323,399	-	-	72,516,328
- Certificates of deposit issued	-	454,973	820,000	4,443,969	-	-	5,718,942
- 7.75% Fixed rate subordinated notes	-	-	-	2,040,278	-	-	2,040,278
	<u>13,795,236</u>	<u>56,760,343</u>	<u>4,214,533</u>	<u>6,807,646</u>	<u>-</u>	<u>-</u>	<u>81,577,758</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

28 Maturity profile (continued)

2001	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	931,179	18,607,761	7,099,004	-	-	-	26,637,944
- Placements with banks and other financial institutions maturing between one and twelve months	-	3,619,598	5,979,785	-	-	-	9,599,383
- Certificates of deposit held	-	-	247,085	460,000	-	-	707,085
- Trading securities - debt securities	-	60,311	677,462	607,955	399,065	-	1,744,793
- Advances to customers (before provisions)	4,358,340	8,755,232	5,748,912	19,139,684	32,882,647	2,341,924	73,226,739
- Held to maturity securities	-	1,185,135	3,406,119	11,638,253	528,346	-	16,757,853
- Non-trading securities - debt securities	-	-	-	-	-	4,170	4,170
	<u>5,289,519</u>	<u>32,228,037</u>	<u>23,158,367</u>	<u>31,845,892</u>	<u>33,810,058</u>	<u>2,346,094</u>	<u>128,677,967</u>
Liabilities							
- Deposits and balances of banks and other financial institutions	184,058	3,523,343	350,990	-	-	-	4,058,391
- Deposits from customers	15,411,370	72,474,765	5,139,168	55,284	-	-	93,080,587
- Certificates of deposit issued	-	722,000	1,131,392	1,726,223	100,000	-	3,679,615
- 7.75% Fixed rate subordinated notes	-	-	-	-	2,039,995	-	2,039,995
	<u>15,595,428</u>	<u>76,720,108</u>	<u>6,621,550</u>	<u>1,781,507</u>	<u>2,139,995</u>	<u>-</u>	<u>102,858,588</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

28 Maturity profile (continued)

2001	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	690,734	16,190,765	7,099,004	-	-	-	23,980,503
- Placements with banks and other financial institutions maturing between one and twelve months	-	3,619,598	5,979,785	-	-	-	9,599,383
- Certificates of deposit held	-	-	247,085	460,000	-	-	707,085
- Trading securities - debt securities	-	60,311	677,462	607,955	399,065	-	1,744,793
- Advances to customers (before provisions)	3,216,109	7,016,866	4,263,228	13,646,831	22,117,264	1,604,504	51,864,802
- Held to maturity securities	-	1,185,131	3,406,119	11,638,253	526,346	-	16,755,849
- Non-trading securities - debt securities	-	-	-	-	-	4,070	4,070
	<u>3,906,843</u>	<u>28,072,671</u>	<u>21,672,683</u>	<u>26,353,039</u>	<u>23,042,675</u>	<u>1,608,574</u>	<u>104,656,485</u>
Liabilities							
- Deposits and balances of banks and other financial institutions	96,809	3,523,343	350,990	-	-	-	3,971,142
- Deposits from customers	10,646,275	56,693,469	4,216,156	47,998	-	-	71,603,898
- Certificates of deposit issued	-	722,000	1,131,392	1,726,223	100,000	-	3,679,615
- 7.75% Fixed rate subordinated notes	-	-	-	-	2,039,995	-	2,039,995
	<u>10,743,084</u>	<u>60,938,812</u>	<u>5,698,538</u>	<u>1,774,221</u>	<u>2,139,995</u>	<u>-</u>	<u>81,294,650</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

29 Other liabilities

(a) Other liabilities

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Short positions in securities	8,967,137	15,261,355	8,967,137	15,261,355
Other liabilities and provisions	3,267,178	2,847,634	3,110,940	2,584,971
	<u>12,234,315</u>	<u>18,108,989</u>	<u>12,078,077</u>	<u>17,846,326</u>

(b) Provisions included in other liabilities represent:

	Group and Bank HK\$'000
At 1st January 2002	79,015
Less: Amounts utilised	<u>(33,958)</u>
At 31st December 2002	<u>45,057</u>

The restructuring provision as described in Note 7 is expected to be utilised within the next two years.

30 Share capital

	Bank	
	2002 HK\$'000	2001 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>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

31 Reserves

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
(a) Share premium				
At 1st January/1st July and 31st December	<u>31,351</u>	<u>31,351</u>	<u>31,351</u>	<u>31,351</u>
(b) General reserve				
At 1st January/1st July and 31st December	<u>683,249</u>	<u>683,249</u>	<u>649,942</u>	<u>649,942</u>
(c) Premises revaluation reserve (undistributable)				
At 1st January/1st July	580,201	633,660	563,579	617,038
Transfer to retained earnings on disposal of premises	-	(6,509)	-	(6,509)
Impairment of fixed assets (Note 24)	<u>(59,537)</u>	<u>(46,950)</u>	<u>(59,537)</u>	<u>(46,950)</u>
At 31st December	<u>520,664</u>	<u>580,201</u>	<u>504,042</u>	<u>563,579</u>
(d) Capital reserve				
At 1st January/1st July and 31st December	<u>11,636</u>	<u>11,636</u>	<u>-</u>	<u>-</u>
(e) Investments revaluation reserve (undistributable)				
At 1st January/1st July				
- as previously reported	-	-	-	-
- prior year adjustment in respect of changes in accounting policies	<u>12,216</u>	<u>13,816</u>	<u>-</u>	<u>-</u>
- as restated	<u>12,216</u>	<u>13,816</u>	<u>-</u>	<u>-</u>
Change in fair value of non-trading securities	<u>(7,560)</u>	<u>(1,600)</u>	<u>(8,154)</u>	<u>-</u>
Disposal of non-trading securities	<u>(15,950)</u>	<u>-</u>	<u>(3,734)</u>	<u>-</u>
At 31st December	<u>(11,294)</u>	<u>12,216</u>	<u>(11,888)</u>	<u>-</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

31 Reserves (continued)

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
(f) Retained earnings				
At 1st January/1st July				
- as previously reported	6,914,873	5,797,082	5,104,704	4,359,268
- prior year adjustment in respect of dividend proposed (Note 14)	-	625,611	-	625,611
- at 1st January/1st July, as restated	6,914,873	6,422,693	5,104,704	4,984,879
Profit attributable to shareholders	1,133,955	1,635,638	999,872	1,362,120
Transfer from premises revaluation reserve on disposal of premises	-	6,509	-	6,509
Exchange difference realised on disposal of a subsidiary company	-	154,196	-	-
Dividends (Note 14)	(474,816)	(1,248,935)	(474,816)	(1,248,935)
Translation of net investments in overseas branches and subsidiary companies	(2,287)	(55,228)	(2,287)	131
At 31st December	7,571,725	6,914,873	5,627,473	5,104,704
	8,807,331	8,233,526	6,800,920	6,349,576

Note:

During the year, the Bank adopted the revised SSAP 9 "Events after the balance sheet date". The Bank no longer recognises dividends proposed or declared after the balance sheet date as a liability as at the balance sheet date. This change in accounting policy is applied retrospectively. No adjustment is required to total liabilities and shareholders' funds as of 31st December 2001 as no dividend had been declared but not yet paid on that date. Opening retained earnings as at 1st July 2000 have been increased to reflect a proposed dividend of HK\$0.12031 per share for the year ended 30th June 2000.

The premises and investments revaluation reserves do not represent realised profits and are not available for distribution.

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

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

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

32 Balances with Group companies

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

	2002		2001	
	Group HK\$'000	Bank HK\$'000	Group HK\$'000	Bank HK\$'000
Cash and short-term funds	889,150	887,635	409,363	407,270
Other assets	160,872	160,872	707	707
	1,050,022	1,048,507	410,070	407,977
Deposits and balances of banks and other financial institutions	602,159	602,159	5,124	5,122
Other liabilities	218,715	218,715	55,523	55,523
	820,874	820,874	60,647	60,645

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

	2002		2001	
	Group HK\$'000	Bank HK\$'000	Group HK\$'000	Bank HK\$'000
Cash and short-term funds	7,090	7,090	185	185
Other assets	45,006	45,006	1,792	1,792
	52,096	52,096	1,977	1,977
Deposits and balances of banks and other financial institutions	23,000	23,000	-	-
Other liabilities	54,499	54,499	912	912
	77,499	77,499	912	912

33 Material related party transactions

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

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

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

33 Material related party transactions (continued)

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

- (i) Income and expenses with an intermediate holding company

	Year ended 31st December 2002 HK\$'000	6 months ended 31st December 2001 HK\$'000
Interest income	41,684	723
Interest expense	22,256	9
Other income	171,691	9,298
Other expenses	32,108	10,497

- (ii) The Group has provided IT services to and received operation services from DBS Kwong On Bank Limited, a subsidiary of DBS Bank during the year. The Group has paid a net amount of HK\$7,080,000 to DBS Kwong On Bank Limited for such services.

- (iii) Balances as at 31st December

Details of balances due from and due to the intermediate holding company and fellow subsidiaries are set out in Note 32 "Balances with Group companies".

(b) Transactions with a jointly controlled entity

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

Deposits taken from the jointly controlled entity amounted to HK\$874,000,000 as at 31st December 2002 (2001: HK\$545,000,000). Interest expense for the year ended 31st December 2002 paid and payable to HDHCL amounted to HK\$24,897,000 (18 months ended 31st December 2001: HK\$50,790,000). The transactions were priced based on relevant market rates at the time of each transaction and were under normal commercial terms. Gross service fee income from HDHCL to the Group for the year ended 31st December 2002 amounted to HK\$117,542,000 (18 months ended 31st December 2001: HK\$183,000,000).

(c) Transactions with key management personnel

Loans and credit card advances as at 31st December 2002 for key management personnel of the Group amounted to HK\$15,389,000 (2001: HK\$17,101,000). All interest rates in connection with the credit facilities extended are under terms and conditions normally applicable to customers of comparable standing. The interest income from key management personnel receivable by the Group for the year ended 31st December 2002 amounted to HK\$413,000 (18 months ended 31st December 2001: HK\$1,005,000).

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

34 Off-balance sheet exposures

(a) Contingent liabilities and commitments

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

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Direct credit substitutes	596,809	668,077	490,744	555,335
Transaction-related contingencies	321,484	258,338	268,880	203,598
Trade-related contingencies	2,582,329	2,201,223	2,038,699	1,613,518
Forward deposits placed	757,035	-	879,214	-
Other commitments with an original maturity of under 1 year or which are unconditionally cancellable	40,147,396	36,707,871	36,122,101	33,731,042
	<u>44,405,053</u>	<u>39,835,509</u>	<u>39,799,638</u>	<u>36,103,493</u>

(b) Derivatives

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

Group	2002			2001		
	Trading HK\$'000	Non-trading HK\$'000	Total HK\$'000	Trading HK\$'000	Non-trading HK\$'000	Total HK\$'000
Exchange rate contracts						
- Spot and forwards	1,770,604	-	1,770,604	2,884,920	-	2,884,920
- Swaps	65,174,806	-	65,174,806	84,502,474	-	84,502,474
- Options purchased	639,824	-	639,824	507,015	-	507,015
- Options written	271,317	-	271,317	525,530	-	525,530
Interest rate contracts						
- Forwards and futures	9,764,075	-	9,764,075	8,451,780	-	8,451,780
- Swaps	140,356,210	14,045,777	154,401,987	47,614,352	1,931,662	49,546,014
- Options purchased	5,993,399	-	5,993,399	38,988	-	38,988
- Options written	5,993,399	-	5,993,399	-	-	-
Equity contracts						
- Options purchased	1,604,743	-	1,604,743	654,653	-	654,653
- Options written	1,604,743	-	1,604,743	654,653	-	654,653
	<u>233,173,120</u>	<u>14,045,777</u>	<u>247,218,897</u>	<u>145,834,365</u>	<u>1,931,662</u>	<u>147,766,027</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

34 Off-balance sheet exposures (continued)

(b) Derivatives (continued)

Bank

	2002			2001		
	Trading HK\$'000	Non-trading HK\$'000	Total HK\$'000	Trading HK\$'000	Non-trading HK\$'000	Total HK\$'000
Exchange rate contracts						
- Spot and forwards	1,914,093	-	1,914,093	2,889,148	-	2,889,148
- Swaps	65,251,194	-	65,251,194	84,594,595	-	84,594,595
- Options purchased	639,824	-	639,824	507,015	-	507,015
- Options written	271,317	-	271,317	525,530	-	525,530
Interest rate contracts						
- Forwards and futures	9,764,075	-	9,764,075	8,451,780	-	8,451,780
- Swaps	140,356,210	14,045,777	154,401,987	47,614,352	1,931,662	49,546,014
- Options purchased	5,993,399	-	5,993,399	38,988	-	38,988
- Options written	5,993,399	-	5,993,399	-	-	-
Equity contracts						
- Options purchased	1,604,743	-	1,604,743	654,653	-	654,653
- Options written	1,604,743	-	1,604,743	654,653	-	654,653
	<u>233,392,997</u>	<u>14,045,777</u>	<u>247,438,774</u>	<u>145,930,714</u>	<u>1,931,662</u>	<u>147,862,376</u>

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

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

Group

	2002			2001		
	Contract amount HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Contract amount HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000
Contingent liabilities and commitments	44,405,053	1,273,971	-	39,835,509	1,078,537	-
Derivatives						
- Exchange rate contracts	67,856,551	169,901	56,849	88,419,939	214,860	118,012
- Interest rate contracts	176,152,860	395,941	1,405,811	58,036,782	112,992	483,399
- Equity contracts	3,209,486	100,678	62,947	1,309,306	26,703	4,221
	<u>291,623,950</u>	<u>1,940,491</u>	<u>1,525,607</u>	<u>187,601,536</u>	<u>1,433,092</u>	<u>605,632</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

34 Off-balance sheet exposures (continued)

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

Bank

	2002			2001		
	Contract amount HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000	Contract amount HK\$'000	Credit risk weighted amount HK\$'000	Replacement cost HK\$'000
Contingent liabilities and commitments	39,799,638	1,108,965	-	36,103,493	852,192	-
Derivatives						
- Exchange rate contracts	68,076,428	168,538	57,305	88,516,288	214,420	118,490
- Interest rate contracts	176,152,860	395,941	1,405,811	58,036,782	112,992	483,399
- Equity contracts	3,209,486	91,924	62,947	1,309,306	26,703	4,221
	<u>287,238,412</u>	<u>1,765,368</u>	<u>1,526,063</u>	<u>183,965,869</u>	<u>1,206,307</u>	<u>606,110</u>

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

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

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

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

(d) Other contingent liabilities

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

In February 2002, the Group entered into a Life Insurance Bancassurance Distribution Agreement ("Agreement") with CGNU International Insurance PLC. Under the Agreement, the Group and a subsidiary of the Group's ultimate holding company, have a joint and several obligation, to pay a termination fee if the Group terminates the Agreement. The amount of termination fee payable is determined in accordance with the schedule of termination fees included in the Agreement, and ranges from HK\$145,000,000 to HK\$38,000,000, depending on when the Agreement is terminated.

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

35 Capital and lease commitments

(a) Capital commitments

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

	Group		Bank	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Expenditure authorised and not provided for	53,977	32,070	52,173	27,344
Expenditure authorised but not contracted for	118,194	117,375	117,907	116,136
	<u>172,171</u>	<u>149,445</u>	<u>170,080</u>	<u>143,480</u>

(b) Lease commitments

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

	Group			
	2002		2001	
	Properties HK\$'000	Others HK\$'000	Properties HK\$'000	Others HK\$'000
Within 1 year	32,606	16,735	40,552	4,052
After 1 year but within 5 years	15,645	20,215	24,762	710
	<u>48,251</u>	<u>36,950</u>	<u>65,314</u>	<u>4,762</u>

	Bank			
	2002		2001	
	Properties HK\$'000	Others HK\$'000	Properties HK\$'000	Others HK\$'000
Within 1 year	30,454	16,735	37,046	4,052
After 1 year but within 5 years	15,224	20,215	22,326	710
	<u>45,678</u>	<u>36,950</u>	<u>59,372</u>	<u>4,762</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

36 Reconciliation for cash flow statement

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

	Year ended 31st December 2002 HK\$'000	18 months ended 31st December 2001 HK\$'000
Operating profit	1,274,599	1,822,057
Net gain on disposal of non-trading securities and held-to-maturity securities	19,064	112,823
Impairment loss on non-trading securities	(13,998)	-
Charge for bad and doubtful debts	509,665	983,037
Impairment of fixed assets	241,136	141,620
Depreciation	187,571	348,850
Advances written off net of recoveries	(724,090)	(819,457)
Interest expense for certificates of deposit issued	207,380	649,728
Interest expense for the 7.75% fixed rate subordinated notes	159,679	239,505
	<hr/>	<hr/>
Net cash inflow from trading activities	1,861,006	3,478,163
Net increase in money at call and short notice maturing beyond three months	(429,582)	(1,272,541)
Net decrease/(increase) in treasury bills maturing beyond three months	8,646,207	(2,113,172)
Net decrease/(increase) in placements with banks and other financial institutions maturing beyond three months	1,039,594	(5,309,836)
Net increase in certificates of deposit	(130,712)	(118,668)
Net increase in trading securities	(87,458)	(202,846)
Net (increase)/decrease in held-to-maturity securities	(1,542,851)	8,492,950
Net decrease/(increase) in advances to customers	2,295,333	(6,876,411)
Net increase in advances to banks and other financial institutions	(241,477)	-
Net (increase)/decrease in non-trading securities	(1,946,500)	18,426
Net increase in other assets	(772,893)	(640,410)
Net decrease in deposits and balances of banks and other financial institutions	(2,671,352)	(355,581)
Net decrease in deposits from customers	(837,754)	(8,596,667)
Net (decrease)/increase in other liabilities	(5,902,256)	5,334,519
Exchange differences and other adjustments	1,078	(109,299)
	<hr/>	<hr/>
Net cash outflow from operating activities	<u>(719,617)</u>	<u>(8,271,373)</u>

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

36 Reconciliation for cash flow statement (continued)

(b) Analysis of changes in financing during the period

	Share capital and share premium HK\$'000	Certificates of deposit issued HK\$'000	7.75% Fixed rate subordinated notes HK\$'000	Minority interest HK\$'000
Balance as at 1st July 2000	5,231,351	7,060,751	2,039,459	170,872
Cash inflow from financing	-	2,474,391	-	-
Cash outflow from financing	-	(5,855,797)	-	-
Minority interests' share of loss	-	-	-	(1,183)
Effect of foreign exchange movements	-	270	536	(27,075)
Disposal of a subsidiary	-	-	-	(142,614)
Balance as at 31st December 2001	5,231,351	3,679,615	2,039,995	-
Cash inflow from financing	-	3,892,628	-	-
Cash outflow from financing	-	(1,853,399)	-	-
Effect of foreign exchange movements	-	98	283	-
Balance as at 31st December 2002	5,231,351	5,718,942	2,040,278	-

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

	2002 HK\$'000	2001 HK\$'000
Cash and balances with banks and other financial institutions	987,085	931,234
Money at call and short notice repayable with original maturity within three months	11,121,968	7,950,392
Placements with banks and other financial institutions repayable with original maturity within three months	2,963,410	2,999,545
Treasury bills repayable with original maturity within three months	2,973,994	5,510,529
	18,046,457	17,391,700

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

36 Reconciliation for cash flow statement (continued)

(d) Disposal of subsidiary

During the 18 months ended 31st December 2001, the Group disposed of its interest in Dao Heng Bank, Inc., a subsidiary of the Group. The fair value of the assets and liabilities disposed of were as follows:

	HK\$'000
Cash and balances with banks and other financial institutions	25,519
Advances to customers	526,772
Other assets	12,290
Treasury bills	12,675
Investment securities	48,828
Fixed assets	10,983
Deposits and balance of banks and other financial institutions	(1,054)
Deposits from customers	(258,921)
Other accounts and provisions	(21,511)
	<u>355,581</u>
Less: Minority interests	<u>(142,614)</u>
	<u>212,967</u>
Satisfied by the fair value of equity securities received	<u>212,967</u>
Analysis of net cash outflow in respect of disposal of subsidiary:	
	HK\$'000
Cash consideration received	-
Cash and cash equivalents disposed	<u>(30,820)</u>
Net cash outflow in respect of disposal of subsidiary	<u>(30,820)</u>

The consideration received comprised an equity interest in Banco de Oro Universal Bank ("BDO"), a bank in the Philippines which is included in "Non-trading securities" in Note 21.

DAO HENG BANK LIMITED

NOTES TO THE ACCOUNTS (CONTINUED)

37 Loans to officers

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

	Balance outstanding as at 31st December		Maximum balance during the year/period	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Aggregate amount outstanding in respect of principal and interest	-	-	-	15,564

38 Assets pledged as security

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

	Group and Bank	
	2002 HK\$'000	2001 HK\$'000
Secured liabilities (Note 29)	<u>8,967,137</u>	<u>15,261,355</u>
Assets pledged as security		
- Treasury bills	4,693,566	13,537,170
- Other securities	<u>5,244,710</u>	<u>2,755,047</u>
	<u>9,938,276</u>	<u>16,292,217</u>

39 Ultimate holding company

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

40 Approval of accounts

The accounts were approved by the board of directors on 10th February 2003.

DAO HENG BANK LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION

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

1 Capital adequacy and liquidity ratios

	2002	2001
Capital adequacy ratio	<u>24.47%</u>	<u>22.89%</u>
Adjusted capital adequacy ratio	<u>23.42%</u>	<u>22.61%</u>
Average liquidity ratio	<u>38.41%</u>	<u>47.15%</u>

The capital adequacy ratio represents the consolidated ratio of Dao Heng Bank Limited 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 Dao Heng Bank Limited, 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:

	2002 HK\$'000	2001 HK\$'000
Core capital		
Paid up ordinary share capital	5,200,000	5,200,000
Share premium	31,351	31,351
Reserves (eligible for inclusion in core capital)	<u>8,149,464</u>	<u>7,518,588</u>
	<u>13,380,815</u>	<u>12,749,939</u>
Supplementary capital		
Reserve on revaluation of land and interests in land	358,301	395,207
Reserve on revaluation of holding of securities not held for trading purposes	(11,472)	-
General provisions for doubtful debts	696,227	747,380
Term subordinated debt	<u>2,040,278</u>	<u>2,039,995</u>
Gross and eligible value of supplementary capital	<u>3,083,334</u>	<u>3,182,582</u>
Total capital base before deductions	16,464,149	15,932,521
Deductions from total capital base	<u>(445,941)</u>	<u>(545,222)</u>
Total capital base after deductions	<u>16,018,208</u>	<u>15,387,299</u>

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

DAO HENG BANK LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

3 Currency concentrations

HK\$' million	Group		
	US\$	Others	Total
2002			
Hong Kong dollar equivalents			
Spot assets	34,188	11,366	45,554
Spot liabilities	(33,727)	(11,186)	(44,913)
Forward purchases	33,608	2,626	36,234
Forward sales	(33,743)	(2,737)	(36,480)
Net long non-structural position	<u>326</u>	<u>69</u>	<u>395</u>
Net structural position	<u>-</u>	<u>235</u>	<u>235</u>
2001			
Hong Kong dollar equivalents			
Spot assets	30,587	8,975	39,562
Spot liabilities	(29,795)	(8,767)	(38,562)
Forward purchases	44,280	2,296	46,576
Forward sales	(42,858)	(2,465)	(45,323)
Net options position	18	-	18
Net long non-structural position	<u>2,232</u>	<u>39</u>	<u>2,271</u>
Net structural position	<u>-</u>	<u>238</u>	<u>238</u>

The net options position is calculated using the worst case approach and the net structural position represents the Group's investment in the Philippines.

DAO HENG BANK LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

4 Segmental information

(a) By geographical area

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

(b) By class of business

	Group			Total HK\$'000
	Commercial and retail banking HK\$'000	Treasury HK\$'000	Overseas branches and subsidiaries HK\$'000	
Year ended 31st December 2002				
Operating income	<u>3,032,747</u>	<u>560,532</u>	<u>80,618</u>	<u>3,673,897</u>
Operating profit before provisions	<u>1,339,976</u>	<u>426,775</u>	<u>17,512</u>	<u>1,784,263</u>
Operating profit	<u>815,864</u>	<u>424,589</u>	<u>34,145</u>	<u>1,274,598</u>
Profit before taxation	<u>840,363</u>	<u>424,589</u>	<u>37,654</u>	<u>1,302,606</u>
18 months ended 31st December 2001				
Operating income	<u>4,885,157</u>	<u>680,100</u>	<u>226,399</u>	<u>5,791,656</u>
Operating profit before provisions	<u>2,259,515</u>	<u>482,700</u>	<u>62,879</u>	<u>2,805,094</u>
Operating profit	<u>1,324,551</u>	<u>482,700</u>	<u>14,806</u>	<u>1,822,057</u>
Profit before taxation	<u>1,355,619</u>	<u>482,700</u>	<u>14,775</u>	<u>1,853,094</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.

DAO HENG BANK LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

4 Segmental information (continued)

(c) Advances to customers

(i) By industry sectors

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

	2002 HK\$'000	2001 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	34,124	256,327
- Property investment	6,324,483	7,067,743
- Financial concerns	1,023,613	757,613
- Stockbrokers	53,937	27,331
- Wholesale and retail trade	1,428,279	1,495,117
- Manufacturing	2,697,662	2,479,655
- Transport and transport equipment	6,396,372	7,541,679
- Others	2,631,777	2,769,627
Individuals		
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	3,776,764	4,397,677
- Loans for the purchase of other residential properties	30,802,745	30,727,938
- Credit card advances	4,804,480	4,739,554
- Others	3,020,767	3,260,177
	<u>62,995,003</u>	<u>65,520,438</u>
Trade finance	6,782,632	6,281,523
Loans for use outside Hong Kong	1,153,771	1,424,778
	<u>70,931,406</u>	<u>73,226,739</u>

(ii) By geographical areas

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

DAO HENG BANK LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

4 Segmental information (continued)

(d) Cross-border claims

HK\$' million	Group			
	Banks and other financial institutions	Public sector entities	Others	Total
2002				
Asia Pacific excluding Hong Kong	6,795	222	1,013	8,030
North and South America	2,883	213	2,346	5,442
Europe	24,938	6	136	25,080
Others	236	-	424	660
	<u>34,852</u>	<u>441</u>	<u>3,919</u>	<u>39,212</u>
2001				
Asia Pacific excluding Hong Kong	5,102	68	743	5,913
North and South America	4,999	210	3,117	8,326
Europe	17,343	42	219	17,604
Others	13	-	193	206
	<u>27,457</u>	<u>320</u>	<u>4,272</u>	<u>32,049</u>

5 Overdue and rescheduled advances to customers

(a) Overdue advances to customers

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

	Group			
	2002		2001	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Six months or less but over three months	518,957	0.73	448,295	0.61
One year or less but over six months	211,633	0.30	511,915	0.70
Over one year	551,442	0.78	906,834	1.24
	<u>1,282,032</u>	<u>1.81</u>	<u>1,867,044</u>	<u>2.55</u>

DAO HENG BANK 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):

	Group		Group	
	2002	% of total advances to customers	2001	% of total advances to customers
	HK\$'000		HK\$'000	
Performing loans	154,449		234,295	
Non-performing loans	139,203		109,180	
Rescheduled advances	<u>293,652</u>	0.41	<u>343,475</u>	0.47

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

	Group	
	2002	2001
	HK\$'000	HK\$'000
Overdue advances to customers as per (a) above	1,282,032	1,867,044
Less: Advances which are overdue for more than three months and on which interest is still being accrued	(94,153)	(249,340)
Add: Advances which are overdue for three months or less, or which are not yet overdue, and on which interest is being placed in suspense or on which interest accrual has ceased		
- included in rescheduled advances	139,203	109,180
- others	392,648	365,700
Non-performing loans	<u>1,719,730</u>	<u>2,092,584</u>

(d) Repossessed assets

At 31st December 2002, the repossessed assets of the Group amounted to HK\$214,626,000 (31st December 2001: HK\$263,505,000).

DAO HENG BANK LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

6 Corporate governance

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

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

The Board Executive Committee has all the powers of the Board except those powers that can only be exercised by the Board under the law and other matters specified under the terms of reference which require board approval. In practice, the Board Executive Committee functions as a discussion forum for all matters that would, in accordance with the Bank's practice, be approved by the Board. The Board Executive Committee comprises four executive directors appointed by the Board.

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

(b) *Board Audit Committee*

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

(c) *Credit Committee*

The Credit Committee serves as an executive forum for discussion and decisions on all aspects of credit risk and its management. It defines the nature of credit risk and oversees the credit portfolio, limits and processes for influencing and managing credit risk of all kinds. Its major responsibilities include the discussion and approval of credit proposals, identification of the Bank's credit risk portfolio and assessment of credit risk taking and asset quality. The members of the Credit Committee are appointed by the Board Executive Committee.

(d) *Asset and Liability Committee*

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

DAO HENG BANK LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

6 Corporate governance (continued)

(e) *Risk Management Committee*

The Risk Management Committee provides comprehensive and enterprise - wide oversight, direction and counsel to the management of Market, Operational, Reputation and Legal risks. It serves as an executive forum for discussion and decisions on all aspects of the aforesaid risks and their management. Its key responsibilities include the definition and approval of policies, limit structures, processes and practices for the management and control of the Market, Operational, Reputation and Legal risks and the review and approval of major process reengineering initiatives and related risk measurement, risk monitoring and risk mitigation activities. The members of the Risk Management Committee are appointed by the Board Executive Committee.

(f) *Human Resources Committee*

The Human Resources Committee coordinates all policies, processes and activities across the Group pertaining to the recruitment, training, performance measurement, appraisal and development of staff of the Group. Its key responsibilities include the recruitment and training of staff and monitoring staff performance evaluation processes and coordination of compensation policies and practices. The members of the Human Resources Committee are appointed by the Board Executive Committee.

7 Risk management

The Board and the Senior Management of the Group believe that the ability to develop and maintain top-class risk management skills in measuring, monitoring, interpreting and forecasting the Group's risk profile is a critical internal capability.

The Group has developed and maintained a sound framework of policies and controls for identifying, evaluating, monitoring and controlling key risks pertaining to the Group's business. Key risks inherent in the Group's business include capital management, credit, liquidity, interest rate, market and operational risks where committees, policies, procedures and limits are established to manage them. A stringent product review and approval process is also in place for managing risks in new products and activities. All approval authorities are delegated by the Board and the Senior Management of the Group taking into account the experience of the relevant officers.

Risk related policies and controls are subject to regular review by the relevant business units, Risk Management, Senior Management and committees based on changing customer needs and business conditions. The internal auditors reporting directly to the Board also conduct independent reviews on the adequacy and effectiveness of these key policies and controls and ensure that the Group is operating within the established policies, procedures and limits.

(i) **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.

The Group's consolidated capital adequacy ratio of 24.47% as at 31st December 2002 (31st December 2001: 22.89%) was well above the statutory minimum ratio of 8%.

DAO HENG BANK LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Risk management (continued)

(ii) Credit Risk Management

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

The Group's Credit Policies and Procedures Manual defines the credit extension and measurement criteria, the credit review, approval and monitoring processes and the system of loan classification and provision. Credit applications are guided by a set of credit principles which all extensions of credit must adhere to and these applications are subject to regular independent review. Business units, credit units and approvers all have the responsibility to ensure that credits are properly assessed and classified and all crucial information is included in the application for the purpose of assessment and approval.

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

Credit exposure is represented by the notional or principal value of on and off-balance sheet financial instruments and derivatives. Exposures are monitored against credit limits and other control limits (such as large exposures and concentration limits) by independent credit control units at both the transaction and portfolio levels.

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

(iii) Liquidity management

Liquidity risk is the risk that the Group cannot meet its current obligations as and when they fall due and arises from the difference between the maturity profile of the Group's assets and liabilities. The Group's objective is to ensure that the Group can meet obligations at all times as they fall due and to maintain an adequate stock of high quality assets to provide the Group with sufficient resources for contingency purposes.

The Group measures and monitors its liquidity across all classes of assets and liabilities through maintenance of prudent ratios (such as liquidity, maturity mismatch and loan to deposit ratios) and funding policies approved by the Asset and Liability Committee ("ALCO") and Senior Management. ALCO also directs management to prepare contingency plans to meet the liquidity requirement in unexpected circumstances. A prudent level of realizable liquid assets is also maintained by the Group to meet unexpected and material cash requirements.

The Group's average liquidity ratio for the year ended 31st December 2002 was 38.41% (18 months ended 31st December 2001: 47.15%) which was well above the statutory minimum ratio of 25%.

DAO HENG BANK LIMITED

UNAUDITED SUPPLEMENTARY INFORMATION (CONTINUED)

7 Risk management (continued)

(iv) Interest rate risk management

Interest rate risk is the risk that the Group's position may be adversely affected by a change in market interest rate. The Group's interest rate open positions arise from investments and other normal banking activities.

The risk primarily results from the re-pricing gaping of interest-bearing assets and liabilities. Interest rates offered by the Group on lending and deposits are approved by Senior Management. The Group manages its interest rate risk by way of entering into on and off-balance sheet interest rate hedging instruments to hedge the interest rate risk exposure based on market and economic conditions. The interest rate risk exposure is managed by the Group's Central Treasury Unit subject to the limits approved by Senior Management and ALCO. The exposure is independently monitored by Risk Management and reviewed by the Senior Management and ALCO regularly.

(v) Market Risk Management

Market risk arises from the net effect of changes in interest rates, foreign exchange rates, securities, equities and commodity prices as well as in their correlations and volatility levels in the markets in which the Group operates. It arises primarily from the Group's holdings in the trading book of foreign exchange contracts, debt securities and derivatives and other financial contracts.

The Group's market risk limits of the different activities are approved by the Executive Committee. Exposures are measured and controlled by various market risk limits (such as stop loss and time bucket concentration limits). All trading activities are subject to mark-to-market valuation to reflect the current market value of the trading portfolios and their profit and loss. Market risk exposures are monitored independently by Risk Management. Exceptions are reviewed and approved by the appropriate level of Senior Management and the Executive Committee.

The Group adopts a Daily Earnings at Risk (DEaR) methodology in measuring the potential loss with a given confidence level, over a pre-specified horizon. It takes into account all pertinent risk factors and covers all financial instruments which expose the Group to market risk.

