

# Dah Sing Bank, Limited



## ANNOUNCEMENT OF 2001 INTERIM RESULTS

The Directors of Dah Sing Bank, Limited (the “Bank”) announce that the unaudited net profit attributable to shareholders was HK\$434.9 million for the six months ended 30th June 2001, up 28.9% from the HK\$337.3 million for the same period in 2000.

### UNAUDITED INTERIM FINANCIAL STATEMENTS

The accounting policies used in preparing the unaudited interim financial statements of the Bank and its subsidiaries (the “Group”) are consistent with those adopted in the 2000 annual financial statements except that a proposed dividend declared after the period end is not accrued as liability in the Group’s balance sheet. This adjustment has resulted in a decrease in current liabilities at 30th June 2001 by HK\$200,000,000 (31st December, 2000: HK\$152,720,000) for provision for proposed dividends that is no longer required. This is to comply with SSAP9 (revised) “Events after the balance sheet date” which becomes effective in 2001. Prior year adjustments on the opening balances of retained earnings of the Group were put through accordingly.

### UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the six months ended 30th June

	<u>2001</u> HK\$' 000	<u>2000</u> HK\$' 000 Restated	<u>Variance</u> %
Interest income	1,733,215	1,808,632	
Interest expense	<u>(932,655)</u>	<u>(1,066,907)</u>	
Net interest income	800,560	741,725	7.9
Other operating income	<u>208,045</u>	<u>189,128</u>	10.0
Operating income	1,008,605	930,853	8.4
Operating expenses	<u>(418,018)</u>	<u>(355,940)</u>	17.4
Operating profit before provisions	590,587	574,913	2.7
Charge for bad and doubtful debts	<u>(135,131)</u>	<u>(180,887)</u>	-25.3
Operating profit after provisions	455,456	394,026	15.6
Loss on disposal of fixed assets	(220)	(2,062)	
Profit on disposal of held-to-maturity and non-trading securities	<u>45,563</u>	<u>2,046</u>	
Profit on ordinary activities	500,799	394,010	27.1
Share of net profits of associated companies	<u>2,710</u>	<u>3,635</u>	
Profit before taxation	503,509	397,645	26.6
Taxation	<u>(68,580)</u>	<u>(60,332)</u>	
Net profit for the period	<u>434,929</u>	<u>337,313</u>	28.9
Proposed interim dividend of HK\$25.00 (2000: HK\$12.92) per share	<u>200,000</u>	<u>103,360</u>	93.5

## UNAUDITED CONSOLIDATED BALANCE SHEET

	As at 30th June 2001 <u>HK\$' 000</u>	As at 31st Dec. 2000 <u>HK\$' 000</u> Restated
<b>ASSETS</b>		
Cash and short-term funds	4,555,393	6,501,793
Placements with banks and other financial institutions maturing between one and twelve months	230,000	-
Trade bills	484,815	454,826
Certificates of deposit held	273,977	347,882
Trading securities	3,163,171	1,509,439
Advances to customers and other accounts	30,536,345	30,230,956
Held-to-maturity securities	6,961,109	7,106,084
Non-trading securities	2,695,153	802,984
Investments in associated companies	103,746	101,036
Fixed assets	<u>1,068,302</u>	<u>1,083,063</u>
Total assets	<u>50,072,011</u>	<u>48,138,063</u>
<b>LIABILITIES</b>		
Deposits and balances of banks and other financial institutions	626,495	759,855
Current, fixed, savings and other deposits of customers	31,513,573	31,394,887
Certificates of deposit issued	6,166,769	6,094,799
Subordinated bonds	974,950	-
Other accounts and provisions	<u>6,538,024</u>	<u>5,906,902</u>
Total liabilities	<u>45,819,811</u>	<u>44,156,443</u>
<b>SHAREHOLDERS' FUNDS</b>		
Share capital	800,000	800,000
Reserves	3,252,200	3,028,900
Proposed dividends	<u>200,000</u>	<u>152,720</u>
Shareholders' funds	<u>4,252,200</u>	<u>3,981,620</u>
Total liabilities and shareholders' funds	<u>50,072,011</u>	<u>48,138,063</u>

**SHAREHOLDERS' FUNDS**

	<b>As at 30th June 2001 HK\$' 000</b>	<b>As at 31st Dec. 2000 HK\$' 000 Restated</b>
Share capital	<b>800,000</b>	800,000
Reserves		
Capital reserve	<b>4,968</b>	4,968
Investment properties revaluation reserve	<b>29,933</b>	29,933
Premises revaluation reserve	<b>321,002</b>	321,002
General reserve	<b>700,254</b>	700,254
Investment revaluation reserve	<b>(35,414)</b>	(23,785)
Retained profits (Note)	<b>2,431,457</b>	2,149,248
Proposed dividends	<b>(200,000)</b>	(152,720)
	<b>3,252,200</b>	3,028,900
Proposed dividends	<b>200,000</b>	152,720
Total	<b>4,252,200</b>	3,981,620
Note:		
Retained profits		
As previously reported		1,996,528
Proposed final dividends restated		152,720
As restated		2,149,248

**CHARGE FOR BAD AND DOUBTFUL DEBTS**

for the six months to 30th June

	<b>2001 HK\$' 000</b>	<b>2000 HK\$' 000</b>	<b>Variance %</b>
Specific provision charged	<b>134,945</b>	168,138	-19.7
General provision charged	<b>186</b>	12,749	-98.5
	<b>135,131</b>	180,887	-25.3

**TAXATION**

Hong Kong profits tax has been provided at 16% (2000: 16%) on the estimated assessable profit for the period.

Included in the taxation is the attributable share of estimated Hong Kong profits tax losses arising from investments in limited partnerships. The Group's investments in limited partnerships are written off in the same period as the taxation benefits resulting from those investments are received and utilised.

There is no significant deferred taxation liability not provided for.

**ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS**

	As at 30th June 2001 <u>HK\$' 000</u>	As at 31st Dec. 2000 <u>HK\$' 000</u>	Variance <u>%</u>
Advances to customers	29,668,182	29,446,017	0.8
Provisions for bad and doubtful debts			
Specific	(222,570)	(218,601)	
General	<u>(269,857)</u>	<u>(269,992)</u>	
	29,175,755	28,957,424	0.8
Accrued interest	331,905	367,348	
Other accounts	1,033,192	910,673	
Provisions against accrued interest and other accounts			
Specific	(4,400)	(4,400)	
General	<u>(107)</u>	<u>(89)</u>	
	<u>30,536,345</u>	<u>30,230,956</u>	1.0

**GROSS ADVANCES TO CUSTOMERS BY INDUSTRY SECTOR**

	As at 30th June 2001 <u>HK\$' 000</u>	As at 31st Dec. 2000 <u>HK\$' 000</u>	Variance <u>%</u>
Loans for use in Hong Kong			
Industrial, commercial and financial			
Property development	435,065	247,580	75.7
Property investment	2,239,029	2,040,681	9.7
Financial concerns	387,591	219,453	76.6
Stockbrokers	13,465	13,245	1.7
Wholesale and retail trade	1,237,224	1,303,074	-5.1
Manufacturing	2,347,681	2,099,579	11.8
Transport and transport equipment	3,181,896	4,669,011	-31.9
Others	783,957	823,379	-4.8
Individuals			
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	2,113,894	1,833,809	15.3
Loans for the purchase of other residential properties	8,369,195	8,457,202	-1.0
Credit card advances	2,491,637	2,275,706	9.5
Others	<u>3,566,862</u>	<u>3,049,969</u>	16.9
Loans for use in Hong Kong	27,167,496	27,032,688	0.5
Trade finance	2,038,616	1,989,595	2.5
Loans for use outside Hong Kong	<u>462,070</u>	<u>423,734</u>	9.0
	<u>29,668,182</u>	<u>29,446,017</u>	0.8

Over 90% of gross advances to customers were extended to customers located in Hong Kong.

**NON-PERFORMING LOANS**

	<b>As at 30th June 2001 HK\$' 000</b>	% of Total Advances	<b>As at 31st Dec. 2000 HK\$' 000</b>	% of Total Advances
Gross advances	<b>558,915</b>	1.88	666,535	2.26
Specific provisions made	<b>(172,397)</b>		<b>(164,161)</b>	
	<b>386,518</b>		<b>502,374</b>	
Market value of security held	<b>338,450</b>		<b>442,714</b>	
Interest in suspense	<b>47,051</b>		<b>63,019</b>	

**OVERDUE ADVANCES**

	<b>As at 30th June 2001 HK\$' 000</b>	% of Total Advances	<b>As at 31st Dec. 2000 HK\$' 000</b>	% of Total Advances
Gross advances overdue for				
Six months or less but over three months	<b>133,995</b>	0.45	256,138	0.87
One year or less but over six months	<b>150,098</b>	0.51	78,746	0.27
Over one year	<b>191,417</b>	0.65	<b>264,913</b>	0.90
	<b>475,510</b>	1.60	<b>599,797</b>	2.04
The amount on which interest is still being accrued	<b>66,958</b>		<b>106,463</b>	
Market value of security held against the secured advances	<b>301,336</b>		<b>405,506</b>	
Secured overdue advances	<b>283,667</b>		402,331	
Unsecured overdue advances	<b>191,843</b>		<b>197,466</b>	
Specific provisions made	<b>153,965</b>		<b>155,858</b>	

**OVERDUE ADVANCES ARE RECONCILED TO NON-PERFORMING ADVANCES AS FOLLOWS:**

	<b>As at 30th June 2001 HK\$' 000</b>	<b>As at 31st Dec. 2000 HK\$' 000</b>
Advances which are overdue for more than three months	<b>475,510</b>	599,797
Add: advances which are overdue for three months or less and on which interest is being placed in suspense or on which interest accrual has ceased	<b>12,679</b>	8,425
Add: advances which are not overdue and on which interest is being placed in suspense or on which interest accrual has ceased	<b>69,265</b>	61,426
Add: rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	<b>68,419</b>	103,350
Less: advances which are overdue for more than three months and on which interest is still being accrued	<b>(66,958)</b>	<b>(106,463)</b>
Non-performing loans	<b>558,915</b>	<b>666,535</b>

Over 90% of non-performing loans and overdue loans were due from customers located in Hong Kong.

**RESCHEDULED ADVANCES (net of those which have been overdue for over three months and reported as part of Overdue Advances above)**

	<u>As at 30th June 2001</u> HK\$' 000	% of Total Advances	<u>As at 31st Dec. 2000</u> HK\$' 000	% of Total Advances
Rescheduled advances	<u>367,565</u>	1.24	<u>460,574</u>	1.56
Specific provisions made	<u>25,993</u>		<u>25,523</u>	

**CONTINGENT LIABILITIES, COMMITMENTS AND DERIVATIVES**

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

	<u>As at 30th June 2001</u> HK\$' 000	<u>As at 31st Dec. 2000</u> HK\$' 000
Direct credit substitutes	74,609	75,149
Transaction related contingencies	34,280	34,060
Trade-related contingencies	734,488	731,291
Other commitments with an original maturity of:		
under 1 year or which are unconditionally cancellable	16,086,259	14,984,965
1 year and over	<u>637,806</u>	<u>509,360</u>
	<u>17,567,442</u>	<u>16,334,825</u>

The following is a summary of the aggregate notional contract amounts of each significant type of derivatives:

	<u>As at 30th June 2001</u> HK\$' 000	<u>As at 31st Dec. 2000</u> HK\$' 000
Exchange rate contracts		
Forward contracts	29,509,913	21,895,764
Currency swaps	57,717	57,718
Foreign exchange options contracts:		
Currency options purchased	201,783	20,250
Currency options written	<u>209,350</u>	<u>20,355</u>
	<u>29,978,763</u>	<u>21,994,087</u>
Interest rate contracts		
Forward and futures contracts	7,843,278	7,212,021
Interest rate swaps	<u>3,440,923</u>	<u>1,840,226</u>
	<u>11,284,201</u>	<u>9,052,247</u>
Equity contracts		
Options written	<u>126,570</u>	<u>50,426</u>

**Dah Sing Bank, Limited**

The credit risk weighted amounts and replacement costs of the above off-balance sheet exposures, without taking into account the effect of bilateral netting arrangements, are as follows:

	As at 30th June 2001		As at 31st Dec. 2000	
	Credit risk weighted amount	Replacement cost	Credit risk weighted amount	Replacement cost
	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000
Contingent liabilities and commitments	<b>461,671</b>		395,358	
Derivatives				
Exchange rate contracts	123,221	287,201	75,484	131,837
Interest rate contracts	<b>13,989</b>	<b>54,427</b>	13,398	35,163
	<b>137,210</b>	<b>341,628</b>	88,882	167,000
	<b>598,881</b>		484,240	

The contract amounts of these instruments indicate the volume of transactions outstanding as at the balance sheet date. They do not represent the 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 considered to be a close approximation of the credit risk for these contracts at the balance sheet date.

**FOREIGN EXCHANGE RISK**

The following is the Group's net foreign exchange position in individual currency that constitutes 10% or more of the total net position in all foreign currencies:

Equivalent in millions of HK\$	As at 30th June 2001		As at 31st Dec. 2000	
	US\$	Yen	US\$	Yen
	Spot assets	23,041	2,670	21,330
Spot liabilities	(22,881)	(2,670)	(21,250)	(1,125)
Forward purchases	32,460	5,863	24,667	1,409
Forward sales	<b>(31,222)</b>	<b>(5,876)</b>	(24,123)	(1,388)
Net long / (short) position	<b>1,398</b>	<b>(13)</b>	624	(1)

**CAPITAL ADEQUACY RATIO**

	<u>As at 30th June 2001</u>	<u>As at 31st Dec. 2000</u>
Capital adequacy ratio	<u>16.5%</u>	<u>13.0%</u>
Adjusted capital adequacy ratio	<u>16.4%</u>	<u>12.9%</u>

The capital adequacy ratio represents the consolidated ratio of the Group. The capital adequacy ratio of each entity within the Group is computed in accordance with the Third Schedule of the Banking Ordinance.

The adjusted capital adequacy ratio represents the consolidated ratio of the Group. The adjusted capital adequacy ratio of each authorized institution within the Group is computed in accordance with the Guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority. The adjusted ratio takes into account market risk.

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

	<u>As at 30th June 2001 HK\$' 000</u>	<u>As at 31st Dec. 2000 HK\$' 000</u>
Core capital		
Paid up ordinary share capital	800,000	800,000
Reserves	<u>2,911,104</u>	<u>2,681,706</u>
Total core capital	<u>3,711,104</u>	<u>3,481,706</u>
Supplementary capital		
Reserve on revaluation of land and interests in land	232,084	232,084
Reserve on revaluation of holding of securities not held for trading purposes	(35,414)	(23,785)
General provisions for doubtful debts	274,755	274,586
Term subordinated debts	<u>974,950</u>	<u>-</u>
Total eligible supplementary capital	<u>1,446,375</u>	<u>482,885</u>
Total capital base before deductions	5,157,479	3,964,591
Deductions from total capital base	<u>(117,901)</u>	<u>(122,701)</u>
Total capital base after deductions	<u>5,039,578</u>	<u>3,841,890</u>

**LIQUIDITY RATIO**

	<u>Period ended 30th June 2001</u>	<u>Year ended 31st Dec. 2000</u>	<u>Period ended 30th June 2000</u>
Liquidity ratio	<u>42.9%</u>	<u>44.4%</u>	<u>47.2%</u>

The liquidity ratio is calculated as the simple average of each calendar month's average consolidated liquidity ratio for the period for the Bank and its deposit-taking subsidiary in accordance with the Fourth Schedule of the Banking Ordinance.

**FINANCIAL RATIOS**

	<b>Period ended 30th June 2001</b>	Year ended 31st Dec. 2000	Period ended 30th June 2000
Net interest income / operating income	<b>79.4%</b>	79.4%	79.7%
Cost to income ratio	<b>41.4%</b>	40.4%	38.2%
Net interest margin (annualised)	<b>3.72%</b>	3.79%	3.75%
Loan to deposit (including subordinated bonds) ratio (as at period end)	<b>75.5%</b>	77.2%	70.4%

**REVIEW OF BUSINESS**

Despite the series of interest rate cuts since January 2001 led by the reduction in the US interest rates, the local economic performance has been mixed. Against a background of a strong economic recovery in 2000, unemployment and deflation in the period under review did not register any clear improvement, whilst the rate of GDP growth slowed down considerably. The slowdown in the US economy dampened Hong Kong's exports and re-export activities and exerted pressure on domestic consumption and economic growth. These factors combined to cause weak loan demand, which in turn contributed to depress loan growth and the net interest margin for banks in general.

Our Group was able to sustain profit growth and to improve profitability over the period. Operating profit before provisions was 2.7% higher.

Net interest income grew by 7.9% in the first six months of the year. Our net interest margin of 3.72% in the period tightened slightly relative to the 3.75% level reported for the first half of 2000. The minor contraction was mainly caused by loan repricing in commercial and mortgage lending, and also by our decision to reclassify the net interest income generated from trading in high credit quality securities to other operating income to properly reflect the nature of such revenue. No prior year adjustment was made as it was immaterial.

Other operating income was 10.0% higher than the same period in 2000, driven mainly by stronger credit card income, insurance commission, lending related fees, and the debt securities trading income.

Operating expenses increased by 17.4% relative to the same period in 2000. Our continued investment in IT and higher spending on marketing promotion, together with a higher level of staffing, contributed to the higher rate of expense increase. Our Group's cost to income ratio for the period increased to 41.4%. This would however drop to 39.7% if the profit on disposal of held-to-maturity and non-trading securities was included as income.

The Group's charge for bad and doubtful debts was 25.3% lower compared to that for the first six months in 2000. This largely reflected a lower amount of new problem loans and an absence of general provision charge in the period due to minimal loan growth. Continued attention to and improvement in the asset quality of the commercial banking and hire purchase loan portfolios contributed to a reduction in the specific provision charge. The combined ratio of overdue and rescheduled loans to total loans dropped from 3.60% at the end of 2000 to 2.84% at the end of June 2001.

Total loans and advances to customers were 0.8% higher compared to the end of 2000. The growth in retail and commercial lending was offset by the contraction in hire purchase lending. We adopted a more conservative pricing in response to the keen competition and repricing in the transport financing market and as a result we experienced a significant reduction in our hire purchase loan book. Our focus on growing the retail lending portfolio helped sustain the strong pace of growth in credit card and other consumer loans.

Due to the high level of surplus liquidity in the local banking sector and the slow rate of loan growth, we exercised tight control over deposit pricing, which resulted in a flat deposit balance and lowering of our cost of funds. In March 2001, we completed a US\$125 million 10-year subordinated bond issue to bolster our capital adequacy ratio. The subordinated bond enabled us to achieve a better capital structure mix and ensures that we are well positioned to pursue added business growth on the back of a stronger capital adequacy ratio. This was the first time we had issued Tier 2 capital in the capital market.

**PROSPECTS**

The slowdown in the US economy has had an adverse impact on the global economic growth and Hong Kong's economic performance in 2001 is directly affected. With the repeated cuts in US interest rates in the first half, the US economy may gradually reverse its current downturn toward the end of the year or next year. The current uncertainties and mixed sentiment on Hong Kong's economic growth prospects may give way to renewed confidence and an improvement in investment and domestic consumption. China's continued economic growth and its imminent accession to the WTO are positive factors underpinning this optimism.

We are of the view that the second half of 2001 will be challenging and anticipate continued soft loan demand for the local banking market, with keen pricing competition amongst banks. As the scope for any major cuts in interest rates in the second half of the year is likely to be limited and the interest spread on most lending products is tightening, we are of the view that our net interest margin in the second half is unlikely to expand from the current level.

Going forward and in the medium term, we anticipate a higher level of loan losses based on our current assessment of local economic performance.

Although growing revenue is our key focus, we are working diligently to contain the increase in the Group's cost base and believe our full-year expense growth rate will be smaller when compared with the increase in the first half year.

**STATEMENT OF COMPLIANCE**

In preparing the 2001 interim financial disclosure, the Bank has fully complied with the recommendations on "Interim Financial Disclosure by Authorized Institutions incorporated in Hong Kong" issued by the Hong Kong Monetary Authority.

By Order of the Board  
H.L. Soo  
Secretary

Hong Kong, Tuesday, 7th August 2001