

# Dah Sing Bank, Limited



## ANNOUNCEMENT OF 2002 INTERIM RESULTS

The Directors of Dah Sing Bank, Limited (the "Bank") are pleased to present the unaudited consolidated interim results of the Bank and its subsidiaries (the "Group") for the six months ended 30th June 2002 as follows:

### UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30th June

	<u>2002</u>	<u>2001</u>	<u>Variance</u>
	<u>HK\$' 000</u>	<u>HK\$' 000</u>	<u>%</u>
Interest income	<b>1,267,062</b>	1,733,215	
Interest expense	<b>(360,445)</b>	(932,655)	
Net interest income	<b>906,617</b>	800,560	13.2
Other operating income	<b>262,202</b>	208,045	26.0
Operating income	<b>1,168,819</b>	1,008,605	15.9
Operating expenses	<b>(379,439)</b>	(418,018)	-9.2
Operating profit before provisions	<b>789,380</b>	590,587	33.7
Charge for bad and doubtful debts	<b>(313,814)</b>	(125,131)	150.8
Operating profit after provisions	<b>475,566</b>	465,456	2.2
Net loss on disposal of fixed assets	<b>(947)</b>	(220)	
Net (loss) / gain on disposal of held-to-maturity securities	<b>(58)</b>	33,195	
Net gain on disposal of non-trading securities	<b>17,622</b>	12,368	
Profit on ordinary activities	<b>492,183</b>	510,799	-3.6
Share of net losses of jointly controlled entities	<b>(3,600)</b>	(10,000)	
Share of net profits of associates	<b>-</b>	2,710	
Profit before taxation	<b>488,583</b>	503,509	-3.0
Taxation	<b>(53,098)</b>	(68,580)	
Profit attributable to shareholders	<b>435,485</b>	434,929	0.1
Proposed interim dividend of HK\$25.00 (2001: HK\$25.00) per share	<b>200,000</b>	200,000	

**UNAUDITED CONSOLIDATED BALANCE SHEET**

	<b>As at 30th June 2002 HK\$' 000</b>	<b>As at 31st Dec. 2001 HK\$' 000</b>
<b>ASSETS</b>		
Cash and short-term funds	6,261,940	6,717,867
Trade bills	606,834	535,645
Certificates of deposit held	485,569	524,766
Trading securities	2,022,530	2,980,255
Advances to customers and other accounts	29,681,924	29,618,979
Held-to-maturity securities	6,593,970	4,433,955
Non-trading securities	5,795,864	5,956,876
Investments in associates	-	99,866
Investments in jointly controlled entities	23,400	27,000
Fixed assets	1,023,183	1,036,184
Total assets	<b>52,495,214</b>	<b>51,931,393</b>
<b>LIABILITIES</b>		
Deposits and balances of banks and other financial institutions	1,546,634	944,154
Current, fixed, savings and other deposits of customers	34,556,718	31,910,056
Certificates of deposit issued	6,402,786	5,652,190
Other accounts and accruals	4,264,872	7,931,815
Total liabilities	<b>46,771,010</b>	<b>46,438,215</b>
<b>CAPITAL RESOURCES</b>		
Loan capital	974,994	974,719
Share capital	800,000	800,000
Reserves	3,749,210	3,478,459
Proposed dividend	200,000	240,000
Shareholders' funds	<b>4,749,210</b>	<b>4,518,459</b>
Total capital resources	<b>5,724,204</b>	<b>5,493,178</b>
Total liabilities and capital resources	<b>52,495,214</b>	<b>51,931,393</b>

**SHAREHOLDERS' FUNDS**

	<u>As at 30th June 2002</u> HK\$' 000	<u>As at 31st Dec. 2001</u> HK\$' 000
Share capital	<u>800,000</u>	<u>800,000</u>
Reserves		
Capital reserve	-	4,968
Investment properties revaluation reserve	24,876	24,876
Premises revaluation reserve	308,107	308,107
Investments revaluation reserve	39,529	(705)
General reserve	700,254	700,254
Retained earnings	<u>2,676,444</u>	<u>2,440,959</u>
	<u>3,749,210</u>	<u>3,478,459</u>
Proposed dividend	<u>200,000</u>	<u>240,000</u>
Total	<u>4,749,210</u>	<u>4,518,459</u>

**CHARGE FOR BAD AND DOUBTFUL DEBTS**

For the six months ended 30th June

	<u>2002</u> HK\$' 000	<u>2001</u> HK\$' 000	<u>Variance</u> %
Specific provision charged	314,715	124,945	151.9
General provision (written back) / charged	<u>(901)</u>	<u>186</u>	
	<u>313,814</u>	<u>125,131</u>	150.8

**TAXATION**

Hong Kong profits tax has been provided at 16.0% (2001: 16.0%) 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.

**Dah Sing Bank, Limited****ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS**

	<b>As at 30th June 2002 HK\$' 000</b>	<b>As at 31st Dec. 2001 HK\$' 000</b>	<b>Variance %</b>
Advances to customers	<b>28,689,284</b>	28,882,677	-0.7
Provisions for bad and doubtful debts			
Specific	<b>(339,392)</b>	(305,223)	
General	<b>(257,676)</b>	(259,306)	
	<b>28,092,216</b>	28,318,148	-0.8
Accrued interest	<b>277,726</b>	363,349	
Other accounts	<b>1,312,113</b>	937,603	
Provisions against accrued interest and other accounts			
General	<b>(131)</b>	(121)	
	<b>29,681,924</b>	29,618,979	0.2

**GROSS ADVANCES TO CUSTOMERS BY INDUSTRY SECTOR**

	<b>As at 30th June 2002 HK\$' 000</b>	<b>As at 31st Dec. 2001 HK\$' 000</b>	<b>Variance %</b>
Industrial, commercial and financial			
- Property development	<b>268,228</b>	447,730	-40.1
- Property investment	<b>2,502,209</b>	2,366,716	5.7
- Financial concerns	<b>353,124</b>	363,192	-2.8
- Stockbrokers	<b>11,903</b>	12,512	-4.9
- Wholesale and retail trade	<b>1,124,033</b>	1,168,226	-3.8
- Manufacturing	<b>2,130,943</b>	2,134,177	-0.2
- Transport and transport equipment	<b>2,005,534</b>	2,180,592	-8.0
- Others	<b>931,981</b>	888,068	4.9
	<b>9,327,955</b>	9,561,213	-2.4
Individuals			
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	<b>2,458,628</b>	2,464,066	-0.2
- Loans for the purchase of other residential properties	<b>8,235,325</b>	8,277,027	-0.5
- Credit card advances	<b>2,708,101</b>	2,758,453	-1.8
- Others	<b>3,404,503</b>	3,498,757	-2.7
	<b>16,806,557</b>	16,998,303	-1.1
Loans for use in Hong Kong	<b>26,134,512</b>	26,559,516	-1.6
Trade finance	<b>2,123,009</b>	1,879,976	12.9
Loans for use outside Hong Kong	<b>431,763</b>	443,185	-2.6
	<b>28,689,284</b>	28,882,677	-0.7

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

**Dah Sing Bank, Limited****NON-PERFORMING LOANS**

	<u>As at 30th June 2002</u> HK\$' 000	<u>% of Total Advances</u>	<u>As at 31st Dec. 2001</u> HK\$' 000	<u>% of Total Advances</u>
Gross advances	586,364	2.04	602,714	2.09
Specific provisions made	<u>(313,548)</u>		<u>(264,116)</u>	
	<u>272,816</u>		<u>338,598</u>	
Market value of security held	<u>254,867</u>		<u>328,420</u>	
Interest in suspense	<u>39,988</u>		<u>53,123</u>	

Non-performing loans are loans and advances to customers on which interest is being placed in suspense or on which interest accrual has ceased.

**OVERDUE ADVANCES**

	<u>As at 30th June 2002</u> HK\$' 000	<u>% of Total Advances</u>	<u>As at 31st Dec. 2001</u> HK\$' 000	<u>% of Total Advances</u>
Gross advances overdue for:				
Six months or less but over three months	196,833	0.69	177,754	0.62
One year or less but over six months	85,900	0.30	113,761	0.39
Over one year	<u>158,305</u>	0.55	<u>191,569</u>	0.66
	<u>441,038</u>	1.54	<u>483,084</u>	1.67
The amount on which interest is still being accrued	<u>66,701</u>		<u>60,536</u>	
Market value of security held against the secured advances	<u>254,738</u>		<u>308,015</u>	
Secured overdue advances	243,728		290,424	
Unsecured overdue advances	<u>197,310</u>		<u>192,660</u>	
Specific provisions made	<u>171,924</u>		<u>182,731</u>	

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

	<u>As at 30th June 2002</u> HK\$' 000	<u>As at 31st Dec. 2001</u> HK\$' 000
Advances which are overdue for more than three months	441,038	483,084
Add: non-performing loans which are overdue for three months or less	126,381	107,822
Add: non-performing loans which are not yet overdue	24,006	20,442
Add: rescheduled advances net of amounts included in overdue advances	61,640	51,902
Less: advances which are overdue for more than three months and on which interest is still being accrued	<u>(66,701)</u>	<u>(60,536)</u>
Non-performing loans	<u>586,364</u>	<u>602,714</u>

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

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

	<b>As at 30th June 2002 HK\$' 000</b>	<b>% of Total Advances</b>	<b>As at 31st Dec. 2001 HK\$' 000</b>	<b>% of Total Advances</b>
Rescheduled advances	<u>231,465</u>	<b>0.81</b>	<u>268,364</u>	0.93
Specific provisions made	<u>35,003</u>		<u>20,349</u>	

There were no advances to banks and financial institutions nor other assets that were classified under non-performing, overdue and rescheduled assets as at 30th June 2002 and 31st December 2001.

**CROSS-BORDER CLAIMS**

	<b>As at 30th June 2002</b>			
	<b>Banks and other financial institutions</b>	<b>Public sector entities</b>	<b>Others</b>	<b>Total</b>
Equivalent in millions of HK\$				
Asia Pacific excluding Hong Kong	597	-	524	1,121
North and South America	544	3,463	4,708	8,715
Middle East and Africa	-	-	1	1
Europe	<u>1,428</u>	<u>-</u>	<u>220</u>	<u>1,648</u>
	<u>2,569</u>	<u>3,463</u>	<u>5,453</u>	<u>11,485</u>
	<b>As at 31st Dec. 2001</b>			
	<b>Banks and other financial institutions</b>	<b>Public sector entities</b>	<b>Others</b>	<b>Total</b>
Equivalent in millions of HK\$				
Asia Pacific excluding Hong Kong	839	-	267	1,106
North and South America	823	1,889	3,584	6,296
Middle East and Africa	1	-	-	1
Europe	<u>2,576</u>	<u>-</u>	<u>479</u>	<u>3,055</u>
	<u>4,239</u>	<u>1,889</u>	<u>4,330</u>	<u>10,458</u>

The information of cross-border claims discloses exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. In general, transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country.

**CONTINGENT LIABILITIES, COMMITMENTS AND DERIVATIVES**

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

	<b>As at 30th June 2002 HK\$' 000</b>	<b>As at 31st Dec. 2001 HK\$' 000</b>
Direct credit substitutes	65,907	67,087
Transaction related contingencies	40,195	14,014
Trade-related contingencies	772,484	859,371
Other commitments with an original maturity of:		
- under 1 year or which are unconditionally cancellable	17,084,743	17,741,695
- 1 year and over	1,075,772	740,487
	<b>19,039,101</b>	<b>19,422,654</b>

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

	<b>As at 30th June 2002 HK\$' 000</b>	<b>As at 31st Dec. 2001 HK\$' 000</b>
Exchange rate contracts		
Forward and futures contracts	21,824,171	16,665,041
Currency swaps	57,720	57,703
Foreign exchange options contracts		
- Currency options purchased	361,082	437,773
- Currency options written	360,978	437,853
	<b>22,603,951</b>	<b>17,598,370</b>
Interest rate contracts		
Forward and futures contracts	9,431,990	9,304,892
Interest rate swaps	3,561,113	3,166,208
Interest rate option contracts		
- Options written	4,485,595	1,169,663
	<b>17,478,698</b>	<b>13,640,763</b>
Other contracts		
Equity index futures contracts	19,311	31,331
Equity option contracts		
- Options purchased	178,407	71,424
- Options written	179,332	71,424
	<b>377,050</b>	<b>174,179</b>

**CONTINGENT LIABILITIES, COMMITMENTS AND DERIVATIVES (Continued)**

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 that the Group and the Bank entered into, are as follows:

	As at 30th June 2002		As at 31st Dec. 2001	
	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>751,836</b>		582,207	
Derivatives				
Exchange rate contracts	<b>86,634</b>	<b>200,548</b>	111,927	347,158
Interest rate contracts	<b>25,574</b>	<b>85,425</b>	24,766	89,772
Other contracts	<b>582</b>	<b>4</b>	1,067	253
	<b>112,790</b>	<b>285,977</b>	137,760	437,183
	<b>864,626</b>		719,967	

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 2002		As at 31st Dec. 2001	
	US\$	EUR	US\$	EUR
Spot assets	<b>21,552</b>	<b>807</b>	20,457	657
Spot liabilities	<b>(21,349)</b>	<b>(806)</b>	(20,295)	(672)
Forward purchases	<b>29,814</b>	<b>925</b>	20,832	622
Forward sales	<b>(26,410)</b>	<b>(910)</b>	(19,047)	(609)
Net long / (short) position	<b>3,607</b>	<b>16</b>	1,947	(2)

**CAPITAL ADEQUACY RATIO**

	<u>As at 30th June 2002</u>	<u>As at 31st Dec. 2001</u>
Capital adequacy ratio	<u>18.0%</u>	<u>17.5%</u>
Adjusted capital adequacy ratio	<u>17.9%</u>	<u>17.4%</u>

The capital adequacy ratio is computed in accordance with the Third Schedule of the Banking Ordinance and on a consolidated basis as specified by the Hong Kong Monetary Authority.

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 2002 HK\$' 000</u>	<u>As at 31st Dec. 2001 HK\$' 000</u>
Core capital		
Paid up ordinary share capital	800,000	800,000
Reserves	<u>3,373,377</u>	<u>3,128,159</u>
Total core capital	<u>4,173,377</u>	<u>3,928,159</u>
Supplementary capital		
Reserve on revaluation of land and interests in land	229,354	229,354
Reserve on revaluation of holding of securities not held for trading purposes	27,670	(705)
General provisions for doubtful debts	263,805	264,717
Term subordinated debts	<u>974,994</u>	<u>974,719</u>
Total eligible supplementary capital	<u>1,495,823</u>	<u>1,468,085</u>
Total capital base before deductions	5,669,200	5,396,244
Deductions from total capital base	<u>(26,301)</u>	<u>(119,901)</u>
Total capital base after deductions	<u>5,642,899</u>	<u>5,276,343</u>

**LIQUIDITY RATIO**

	<u>Period ended 30th June 2002</u>	<u>Year ended 31st Dec. 2001</u>	<u>Period ended 30th June 2001</u>
Liquidity ratio	<u>50.9%</u>	<u>45.0%</u>	<u>42.9%</u>

The liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio for the period for the Bank in accordance with the Fourth Schedule of the Banking Ordinance.

**FINANCIAL RATIOS**

	<u>Period ended 30th June 2002</u>	<u>Year ended 31st Dec.2001</u>	<u>Period ended 30th June 2001</u>
Net interest income / operating income	<b>77.6%</b>	79.3%	79.4%
Cost to income ratio	<b>32.5%</b>	39.7%	41.4%
Return on total assets (annualised)	<b>1.7%</b>	1.8%	1.8%
Return on shareholders' funds (annualised)	<b>19.0%</b>	20.8%	21.3%
Net interest margin (annualised)	<b>4.08%</b>	3.79%	3.72%
Loan to deposit (including loan capital) ratio (as at period end)	<b>67.0%</b>	73.5%	75.4%
Loan to deposit (excluding loan capital) ratio (as at period end)	<b>68.6%</b>	75.4%	77.4%

**BUSINESS REVIEW**

Our Group achieved satisfactory results for the first six months of 2002 amidst a very difficult operating environment. The local economy suffered from slow investment and consumption, rising unemployment, weak sentiment and continued deflation.

Despite such market conditions and weak loan demand, our operating profit after provisions for the period under review, at HK\$475.6 million, was 2.2% higher than that of the first six months in 2001. Profit attributable to shareholders, at HK\$435.5 million, was flat on that of the same period last year.

The Bank achieved a sound performance in the first six months of this year. The strong growth in operating income was however offset by the significant rise in bad debt charges, which were mainly due to credit card and consumer lending being adversely affected by much higher personal bankruptcies. We continue to place emphasis on growing our customer base and cross-selling, offering additional products and services, enhancing our service quality, and upgrading our risk management capabilities.

**FINANCIAL REVIEW**

When compared with the first half of 2001, operating profit before provisions was 33.7% higher, mainly the result of stronger revenue contribution and savings in operating expenses. A significant increase in bad debt charges trimmed the growth of our operating profit after provisions to 2.2%.

Net interest income was up by 13.2% in the period. Lower interest rates, an increased average balance of high yielding assets relative to 2001, and our ability to sustain the higher interest yields in credit card and consumer loans, together with our investment in fixed income securities, assisted in boosting our net interest income. Our net interest margin widened from 3.72% in first half 2001 to 4.08% in the first six months period this year.

Other operating income was 26.0% higher. The growth was mainly driven by the increase in fee and commission income generated by credit card and wealth management businesses, and higher treasury contribution.

Operating expenses declined 9.2% when compared with the same period in 2001. A reduced staffing level and a tight control on expenses enabled us to record a lower cost base. Our cost to income ratio dropped from 41.4% in first half 2001 to 32.5% in the period.

Reflecting the deterioration in the asset quality of credit card and consumer lending brought about by the adverse economic conditions and the significant increase in personal bankruptcies, and with a higher average balance of consumer lending relative to the first half of 2001, the Group's charge for bad and doubtful debts increased significantly when compared with the same period last year. In line with the broader market, a higher charge-off rate for our credit card portfolio was recorded. The asset quality of our commercial banking and hire purchase finance businesses continued to hold up well despite the economic downturn. Our non-performing loan ratio remained healthy and eased slightly to 2.04%, against 2.09% at the end of 2001.

**Dah Sing Bank, Limited**

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Total loans and advances to customers were 0.7% lower than those at the end of 2001. Most lending categories were slightly down with the exception of trade finance, partly due to seasonal factors and partly due to an expanded commercial banking customer base. The flat loan book performance reflected a general weak loan demand, tight spread, and our more stringent credit control criteria and pricing requirements. Our total deposit base, comprising customer deposits and certificates of deposits, increased by 9.0% relative to the end of 2001.

**STATEMENT OF COMPLIANCE**

In preparing the 2002 interim financial disclosure, the Bank has fully complied with the requirements set out in the guideline on “Interim Financial Disclosure by Locally Incorporated Authorized Institutions” issued by the Hong Kong Monetary Authority.

By Order of the Board  
H L Soo  
Company Secretary

Hong Kong, Monday, 5th August 2002