



# 大新銀行集團有限公司 DahSingBankingGroupLimited

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

The holding company of Dah Sing Bank, Limited and MEVAS Bank Limited

(Stock Code: 2356)

## ANNOUNCEMENT OF 2007 FINAL RESULTS

The Directors of Dah Sing Banking Group Limited (the “Company”) are pleased to present the consolidated audited results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2007.

### CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

<i>HK\$'000</i>	<i>Note</i>	<b>2007</b>	Restated 2006	Variance %
Interest income		<b>5,851,302</b>	5,095,597	
Interest expense		<b>(3,783,469)</b>	(3,134,538)	
<b>Net interest income</b>	5	<b>2,067,833</b>	1,961,059	5.4
Fee and commission income		<b>747,447</b>	612,100	
Fee and commission expense		<b>(100,014)</b>	(85,856)	
<b>Net fee and commission income</b>	6	<b>647,433</b>	526,244	23.0
Net trading income	7	<b>149,351</b>	56,537	164.2
Other operating income	8	<b>98,693</b>	64,205	53.7
<b>Operating income</b>		<b>2,963,310</b>	2,608,045	13.6
Operating expenses	9	<b>(1,272,957)</b>	(1,181,727)	7.7
<b>Operating profit before impairment losses</b>		<b>1,690,353</b>	1,426,318	18.5
Impairment losses on loans and advances	10	<b>(180,795)</b>	(161,389)	12.0

**CONSOLIDATED INCOME STATEMENT (Continued)**

For the year ended 31 December

<i>HK\$'000</i>	<i>Note</i>	<b>2007</b>	Restated 2006	Variance %
<b>Operating profit before gains or losses on certain investments and fixed assets</b>		<b>1,509,558</b>	1,264,929	19.3
Net gain on disposal of interests in subsidiaries		–	4,048	
Net gain on disposal/reversal of revaluation deficits of premises and other fixed assets	<i>11</i>	<b>134,804</b>	27,768	
Net gain on fair value adjustment on investment properties		<b>141,235</b>	27,995	
Net gain on disposal of available-for-sale securities		<b>85,141</b>	88,053	
Share of results of an associate		<b>72,070</b>	–	
Share of results of jointly controlled entities		<b>10,536</b>	7,008	
Impairment losses (charged)/reversed on available-for-sale securities	<i>12</i>	<b>(1,037,742)</b>	25,891	
<b>Profit before income tax</b>		<b>915,602</b>	1,445,692	–36.7
Income tax expense	<i>13</i>	<b>(109,318)</b>	(244,421)	
<b>Profit for the year</b>		<b>806,284</b>	1,201,271	–32.9
Profit attributable to minority interests		<b>(6,115)</b>	(5,285)	
<b>Profit attributable to shareholders of the Company</b>		<b>800,169</b>	1,195,986	–33.1
<b>Dividends</b>				
Interim dividend paid		<b>232,854</b>	232,854	
Proposed final dividend		<b>139,712</b>	419,137	
		<b>372,566</b>	651,991	
<b>Earnings per share</b>				
Basic	<i>14</i>	<b>HK\$0.86</b>	HK\$1.28	–32.8
Diluted	<i>14</i>	<b>HK\$0.86</b>	HK\$1.28	–32.8

# CONSOLIDATED BALANCE SHEET

As at 31 December

HK\$'000	Note	2007	2006
<b>ASSETS</b>			
Cash and balances with banks		10,025,003	6,988,137
Placements with banks maturing between one and twelve months		1,919,342	596,659
Trading securities	15	2,281,409	4,792,830
Financial assets at fair value through profit or loss	15	1,351,698	1,276,671
Derivative financial instruments	16	758,047	366,708
Advances and other accounts	17	65,438,768	51,730,681
Available-for-sale securities	18	25,434,195	32,923,713
Held-to-maturity securities	19	4,354,181	300,701
Investment in an associate		800,989	–
Investments in jointly controlled entities		63,852	37,192
Goodwill		811,690	811,690
Intangible assets		145,911	168,663
Premises and other fixed assets		1,785,033	1,386,636
Investment properties		658,588	642,140
Current tax assets		102,224	10,763
Deferred income tax assets		9,228	3,377
<b>Total assets</b>		<b>115,940,158</b>	<b>102,036,561</b>
<b>LIABILITIES</b>			
Deposits from banks		2,651,668	2,110,097
Derivative financial instruments	16	970,781	317,655
Trading liabilities		2,689,069	6,526,233
Deposits from customers designated at fair value through profit or loss		3,142,488	3,393,048
Deposits from customers		75,940,861	63,885,058
Certificates of deposit issued		8,843,414	8,768,472
Issued debt securities		2,794,861	2,299,574
Subordinated notes		5,147,837	3,480,127
Other accounts and accruals		4,394,590	1,706,839
Current income tax liabilities		27,256	79,268
Deferred income tax liabilities		88,862	134,949
<b>Total liabilities</b>		<b>106,691,687</b>	<b>92,701,320</b>
<b>EQUITY</b>			
Minority interests		19,045	19,000
<b>Equity attributable to the Company's shareholders</b>			
Share capital		931,416	931,416
Reserves	20	8,158,298	7,965,688
Proposed final dividend	20	139,712	419,137
<b>Shareholders' funds</b>		<b>9,229,426</b>	<b>9,316,241</b>
<b>Total equity</b>		<b>9,248,471</b>	<b>9,335,241</b>
<b>Total equity and liabilities</b>		<b>115,940,158</b>	<b>102,036,561</b>

*Note:*

## **1. STATUTORY FINANCIAL STATEMENTS**

The financial information set out in this results announcement does not constitute the Group's statutory consolidated financial statements for the year ended 31 December 2007 but is derived from those statutory financial statements. The consolidated financial statements of the Group for the year ended 31 December 2007 will be available from the website of The Stock Exchange of Hong Kong Limited in due course. The auditors have expressed an unqualified opinion on those financial statements in their report dated 25 March 2008.

## **2. BASIS OF PREPARATION AND ACCOUNTING POLICIES**

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs" which is a collective term including all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of properties (including investment properties), available-for-sale financial assets, financial assets and financial liabilities held for trading, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

With effect from 1 January 2007, interest income or expense arising from trading assets and liabilities, financial instruments designated at fair value through profit or loss, and interest rate derivatives not held for trading purposes are reported under "Interest income" and "Interest expense" instead of "Net trading income/(loss)" in the previous year. Comparative figures have been restated to conform with the current year's presentation. This revised classification has been made mainly to match interest expense on financial liabilities designated at fair value through profit or loss with the interest income and expense of the interest rate derivatives entered to hedge these liabilities. This revised classification also facilitates comparison of the Group's net interest income and net interest margin with other banks in the industry.

With effect from 1 January 2007, the difference between depreciation based on the revalued carrying amount of premises charged to the income statement and depreciation based on the premises' original cost is transferred from premises revaluation reserve to retained earnings. This represents a change in accounting policy which has been applied retrospectively. The opening balances of retained profit and premises revaluation reserve and the corresponding comparative figures have been restated accordingly and there is no net impact to the total shareholders' equity.

With the exception of the restatements described above, the accounting policies and methods of computation used in the preparation of the 2007 consolidated financial statements are consistent with those used and described in the Group's annual audited financial statements for the year ended 31 December 2006.

The financial information in this results announcement is presented in thousands of Hong Kong dollars (HK\$'000), unless otherwise stated.

## **3. NEW AND INTERPRETATIONS TO EXISTING HKFRSS**

The Group has adopted the new HKFRSs and the amendments and interpretations to existing HKFRSs issued by the HKICPA which are effective in 2007 and which are relevant to the Group's operation.

#### 4. SEGMENT REPORTING

##### (A) By business segments

For the year ended 31 December 2007

HK\$'000

Group	Personal Banking	Commercial Banking	Treasury	Unallocated	Elimination	Total
Interest income from						
– external customers	1,755,688	2,002,556	2,067,856	25,202	–	5,851,302
– inter-segments	1,244,272	–	–	879,809	(2,124,081)	–
Interest expense to						
– external customers	(1,964,856)	(646,870)	(401,187)	(770,556)	–	(3,783,469)
– inter-segments	–	(586,451)	(1,537,630)	–	2,124,081	–
Net interest income	1,035,104	769,235	129,039	134,455	–	2,067,833
Fee and commission income	582,247	128,903	9,920	26,377	–	747,447
Fee and commission expense	(83,564)	(1,011)	(10,330)	(5,109)	–	(100,014)
Net fee and commission income/(expense)	498,683	127,892	(410)	21,268	–	647,433
Net trading income	10,760	9,087	98,953	30,551	–	149,351
Other operating income	60,613	8,021	7,037	23,022	–	98,693
Operating income	1,605,160	914,235	234,619	209,296	–	2,963,310
Operating expenses	(858,485)	(290,587)	(88,667)	(35,218)	–	(1,272,957)
Operating profit before impairment losses	746,675	623,648	145,952	174,078	–	1,690,353
Impairment losses on loans and advances	(97,637)	(83,178)	23	(3)	–	(180,795)
Operating profit before gains or losses on certain investments and fixed assets	649,038	540,470	145,975	174,075	–	1,509,558
Net gain/(loss) on disposal/reversal of revaluation deficits of premises and other fixed assets	(7)	4	7	134,800	–	134,804
Net gain on fair value adjustment on investment properties	–	–	–	141,235	–	141,235
Net gain on disposal of available-for-sale securities	9,603	–	75,538	–	–	85,141
Share of results of an associate	–	–	–	72,070	–	72,070
Share of results of jointly controlled entities	–	–	–	10,536	–	10,536
Impairment losses charged on available-for-sale securities	–	–	–	(1,037,742)	–	(1,037,742)
Profit before income tax	658,634	540,474	221,520	(505,026)	–	915,602
<b>As at 31 December 2007</b>						
Total assets	27,267,243	35,957,780	48,482,583	4,232,552	–	115,940,158
Total liabilities	55,411,277	19,761,043	17,146,476	14,372,891	–	106,691,687
<b>For the year ended 31 December 2007</b>						
Depreciation	49,977	20,663	6,373	7,869	–	84,882
Capital expenditure incurred	43,341	7,748	884	16,801	–	68,774

#### 4. SEGMENT REPORTING (Continued)

##### (A) By business segments (Continued)

For the year ended 31 December 2006 (Restated)

HK\$'000

Group	Personal Banking	Commercial Banking	Treasury	Unallocated	Elimination	Total
Interest income from						
– external customers	1,667,172	1,689,235	1,723,951	15,239	–	5,095,597
– inter-segments	1,189,284	–	–	714,630	(1,903,914)	–
Interest expense to						
– external customers	(1,846,478)	(448,551)	(289,713)	(549,796)	–	(3,134,538)
– inter-segments	–	(526,669)	(1,377,245)	–	1,903,914	–
Net interest income	1,009,978	714,015	56,993	180,073	–	1,961,059
Fee and commission income	455,550	126,727	16,554	13,269	–	612,100
Fee and commission expense	(74,958)	(922)	(9,947)	(29)	–	(85,856)
Net fee and commission income	380,592	125,805	6,607	13,240	–	526,244
Net trading income/(loss)	6,234	8,566	121,001	(79,264)	–	56,537
Other operating income	17,059	3,347	18,658	25,141	–	64,205
Operating income	1,413,863	851,733	203,259	139,190	–	2,608,045
Operating expenses	(811,853)	(259,763)	(78,572)	(31,539)	–	(1,181,727)
Operating profit before impairment losses	602,010	591,970	124,687	107,651	–	1,426,318
Impairment losses on loans and advances	(98,593)	(62,884)	–	88	–	(161,389)
Operating profit before gains or losses on certain investments and fixed assets	503,417	529,086	124,687	107,739	–	1,264,929
Net gain on disposal of interest in subsidiaries	–	–	–	4,048	–	4,048
Net gain/(loss) on disposal/reversal of revaluation deficits of premises and other fixed assets	(33)	(530)	(1)	28,332	–	27,768
Net gain on fair value adjustment on investment properties	–	–	–	27,995	–	27,995
Net gain on disposal of available-for-sale securities	5,061	–	82,992	–	–	88,053
Share of results of jointly controlled entities	–	–	–	7,008	–	7,008
Impairment losses reversed on available-for-sale securities	–	–	25,891	–	–	25,891
Profit before income tax	<u>508,445</u>	<u>528,556</u>	<u>233,569</u>	<u>175,122</u>	<u>–</u>	<u>1,445,692</u>
<b>As at 31 December 2006</b>						
Total assets	24,952,007	27,542,139	47,003,768	2,538,647	–	102,036,561
Total liabilities	50,418,508	14,752,513	15,672,008	11,858,291	–	92,701,320
<b>For the year ended 31 December 2006</b>						
Depreciation	47,945	18,462	5,922	7,028	–	79,357
Capital expenditure incurred	24,314	6,416	1,086	6,775	–	38,591

#### 4. SEGMENT REPORTING (Continued)

##### (A) By business segments (Continued)

Personal banking business includes the acceptance of deposits from individual customers and the extension of residential mortgage lending, personal loans, overdraft and credit card services, the provision of insurance sales and investment services.

Commercial banking business includes the acceptance of deposits from and the advance of loans and working capital finance to commercial, industrial and institutional customers, and the provision of trade financing. Hire purchase finance and leasing related to equipment, vehicle and transport financing are included.

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

Unallocated items include results of operations, corporate investments and debt funding (including subordinated notes) not directly identified under other business divisions.

##### (B) By geographical segments

<i>HK\$'000</i>	<b>Hong Kong and others</b>	<b>Macau</b>	<b>Inter-segment elimination</b>	<b>Total</b>
<b>For the year ended 31 December 2007</b>				
Operating income	2,667,751	295,559	–	2,963,310
Profit before income tax	853,589	62,013	–	915,602
Profit for the year	754,593	51,691	–	806,284
Depreciation	67,243	17,639	–	84,882
Capital expenditure incurred	50,393	18,381	–	68,774
<b>As at 31 December 2007</b>				
Total assets	107,127,748	11,047,005	(2,234,595)	115,940,158
Total liabilities	99,474,842	9,451,440	(2,234,595)	106,691,687
Contingent liabilities and commitments	<u>39,579,508</u>	<u>1,584,097</u>	<u>–</u>	<u>41,163,605</u>
	Hong Kong and others	Macau	Inter-segment elimination	Total
<b>For the year ended 31 December 2006 (Restated)</b>				
Operating income	2,344,304	263,741	–	2,608,045
Profit before income tax	1,341,458	104,234	–	1,445,692
Profit for the year	1,113,585	87,686	–	1,201,271
Depreciation	61,895	17,462	–	79,357
Capital expenditure incurred	30,454	8,137	–	38,591
<b>As at 31 December 2006</b>				
Total assets	93,575,958	10,346,607	(1,886,004)	102,036,561
Total liabilities	85,804,297	8,783,027	(1,886,004)	92,701,320
Contingent liabilities and commitments	<u>43,128,260</u>	<u>1,973,382</u>	<u>(163,408)</u>	<u>44,938,234</u>

## 5. NET INTEREST INCOME

<i>HK\$'000</i>	2007	Restated 2006
<b>Interest income</b>		
Cash and balances with banks	345,024	380,185
Investments in securities	1,829,103	1,454,111
Advances to customers and banks	3,674,735	3,257,589
Others	2,440	3,712
	<u>5,851,302</u>	<u>5,095,597</u>
<b>Interest expense</b>		
Deposits from banks/Deposits from customers	2,824,792	2,388,703
Certificates of deposit issued	436,710	364,750
Issued debt securities	115,338	111,150
Subordinated notes	311,402	190,299
Others	95,227	79,636
	<u>3,783,469</u>	<u>3,134,538</u>
<b>Included within interest income</b>		
Interest income on listed investments	957,198	680,893
Interest income on unlisted investments	871,905	773,218
	<u>1,829,103</u>	<u>1,454,111</u>
Interest income on financial assets not designated at fair value through profit or loss	<u>5,274,563</u>	<u>4,576,384</u>
Interest income on impaired assets	<u>17,969</u>	<u>5,756</u>
<b>Included within interest expense</b>		
Interest expenses on financial liabilities not designated at fair value through profit or loss	<u>3,144,650</u>	<u>2,585,036</u>

## 6. NET FEE AND COMMISSION INCOME

<i>HK\$'000</i>	2007	Restated 2006
<b>Fee and commission income</b>		
Fee and commission income from financial assets and liabilities not designated at fair value through profit or loss		
– Credit related fees and commissions	62,166	66,924
– Trade finance	63,878	64,122
– Credit card	197,854	195,279
Other fee and commission income		
– Securities brokerage and investment services	220,058	120,673
– Insurance distribution and others	56,635	44,466
– Retail investment funds and fiduciary services	80,660	64,233
– Other fees	66,196	56,403
	<u>747,447</u>	<u>612,100</u>
<b>Fee and commission expense</b>		
Handling fees and commission	86,736	73,946
Other fees paid	13,278	11,910
	<u>100,014</u>	<u>85,856</u>

The Group provides custody, trustee, corporate administration, and investment management services to third parties. Those assets that are held in a fiduciary capacity are not included in these financial statements.

## 7. NET TRADING INCOME

<i>HK\$'000</i>	2007	Restated 2006
Net gain arising from dealing in foreign currencies	174,866	136,304
Net loss from trading securities	(1,448)	(29,515)
Net loss from derivatives entered into for trading purpose	(20,830)	(2,096)
Net loss arising from financial instruments subject to fair value hedge	(38,270)	(2,663)
Net gain/(loss) arising from financial instruments designated at fair value through profit or loss	35,033	(45,493)
	<u>149,351</u>	<u>56,537</u>

## 8. OTHER OPERATING INCOME

<i>HK\$'000</i>	2007	2006
Dividend income from investments in available-for-sale securities		
– Listed investments	5,106	186
– Unlisted investments	5,188	21,796
Gross rental income from investment properties	16,713	16,714
Other rental income	6,678	6,506
Others	65,008	19,003
	<u>98,693</u>	<u>64,205</u>

## 9. OPERATING EXPENSES

<i>HK\$'000</i>	2007	2006
Employee compensation and benefit expenses (including directors' remuneration)	722,965	653,780
Premises and other fixed assets expenses, excluding depreciation	140,304	125,545
Depreciation	84,882	79,357
Advertising costs	95,808	73,373
Amortisation expenses of intangible assets	22,752	34,551
Auditors' remuneration	5,780	4,940
Others	200,466	210,181
	<u>1,272,957</u>	<u>1,181,727</u>

## 10. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

<i>HK\$'000</i>	2007	2006
Advances to customers	181,570	161,476
Advances to banks	(778)	2
Accrued interest and other accounts	3	(89)
	<u>180,795</u>	<u>161,389</u>
Net charge of impairment losses on loans and advances		
– Individually assessed	66,052	86,592
– Collectively assessed	114,743	74,797
	<u>180,795</u>	<u>161,389</u>
Of which		
– new allowances (including amounts directly written off in the year)	331,221	339,689
– releases	(66,049)	(81,166)
– recoveries	(84,377)	(97,134)
Net charge to income statement	<u>180,795</u>	<u>161,389</u>

## 11. NET GAIN ON DISPOSAL/REVERSAL OF REVALUATION DEFICITS OF PREMISES AND OTHER FIXED ASSETS

<i>HK\$'000</i>	2007	2006
Net gain from disposal of premises and investment properties	107,161	–
Reversal of revaluation deficits of premises	27,575	28,324
Net gain/(loss) from disposal of other fixed assets	68	(556)
	<u>134,804</u>	<u>27,768</u>

## 12. IMPAIRMENT LOSSES (CHARGED)/REVERSED ON AVAILABLE-FOR-SALE SECURITIES

The Group's investment in available-for-sale securities included leveraged/structured investment vehicles managed by third party portfolio managers.

During the year ended 31 December 2007, falls in the prices of bonds coupled with the leverage effect on the Group's holdings in leveraged/structured investment vehicles have resulted in a decrease in their values. As a result, the Group has assessed that there are objective indications that the investments have suffered impairment, and an impairment loss has therefore been recognised at the balance sheet date.

## 13. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Income tax expense on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Deferred taxation is calculated in full on temporary differences under the liability method using a taxation rate of 17.5% (2006: 17.5%).

<i>HK\$'000</i>	2007	2006
Current income tax:		
– Hong Kong profits tax	62,591	199,396
– Overseas taxation	19,954	17,170
– Underprovision in prior years	–	467
Deferred income tax	26,773	27,388
	<u>109,318</u>	<u>244,421</u>

## 14. BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share is based on earnings of HK\$800,169,000 (2006: HK\$1,195,986,000) and the weighted average number of 931,416,279 (2006: 931,416,279) shares in issue during the year.

The calculation of diluted earnings per share is based on earnings of HK\$800,169,000 (2006: HK\$1,195,986,000) and the weighted average number of 931,573,619 (2006: 931,484,065) shares in issue during the year after adjusting for the effect of all dilutive potential ordinary shares.

## 15. TRADING SECURITIES AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

<i>HK\$'000</i>	As at 31 Dec 2007	As at 31 Dec 2006
Trading securities:		
Debt securities:		
– Listed in Hong Kong	578,783	1,114,426
– Listed outside Hong Kong	20,094	–
– Unlisted	<u>1,682,532</u>	<u>3,678,404</u>
Total trading securities	<u>2,281,409</u>	<u>4,792,830</u>
Financial assets at fair value through profit or loss:		
Debt securities:		
– Unlisted	<u>1,351,698</u>	<u>1,276,671</u>
Total financial assets at fair value through profit or loss	<u>1,351,698</u>	<u>1,276,671</u>
Total trading securities and financial assets at fair value through profit or loss	<u><u>3,633,107</u></u>	<u><u>6,069,501</u></u>
Market value of listed securities	<u>598,877</u>	<u>1,114,426</u>
Included within debt securities are:		
– Government bonds included in trading securities	2,233,712	4,768,184
– Certificates of deposit held	381,171	367,572
– Other debt securities	<u>1,018,224</u>	<u>933,745</u>
	<u><u>3,633,107</u></u>	<u><u>6,069,501</u></u>

Financial assets at fair value through profit or loss (including trading securities) are analysed by categories of issuer as follows:

	As at 31 Dec 2007	As at 31 Dec 2006
– Central governments and central banks	2,233,712	4,768,184
– Public sector entities	24,748	1,098
– Banks and other financial institutions	682,773	622,415
– Corporate entities	<u>691,874</u>	<u>677,804</u>
	<u><u>3,633,107</u></u>	<u><u>6,069,501</u></u>

## 16. DERIVATIVE FINANCIAL INSTRUMENTS

The notional principal amounts of outstanding derivatives contracts and their fair values as of 31 December 2007 were as follows:

HK\$'000	Contract/ notional amount	Fair values	
		Assets	Liabilities
1) Derivatives held for trading			
a) <i>Foreign exchange derivatives</i>			
Forward and future contracts	71,133,159	207,811	(289,621)
Currency swaps	304,956	–	(28,892)
Currency options purchased and written	9,729,423	141,167	(139,271)
b) <i>Interest rate derivatives</i>			
Interest rate swaps	18,454,045	97,776	(92,154)
Interest rate options	200,000	10	(10)
c) <i>Equity derivatives</i>			
Equity options purchased and written	628,909	4,641	(4,143)
d) <i>Credit derivatives</i>			
Credit default swaps	390,045	–	(312)
Total derivative assets/(liabilities) held for trading	<u>100,840,537</u>	<u>451,405</u>	<u>(554,403)</u>
2) Derivatives held for hedging			
a) <i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	16,164,559	198,254	(399,531)
Total derivative assets/(liabilities) held for hedging	<u>16,164,559</u>	<u>198,254</u>	<u>(399,531)</u>
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
Currency swaps	443,337	59,052	(34)
Interest rate swaps	8,160,097	49,336	(16,813)
Total derivative assets/(liabilities) not qualified as hedges	<u>8,603,434</u>	<u>108,388</u>	<u>(16,847)</u>
Total recognised derivative financial assets/(liabilities)	<u><u>125,608,530</u></u>	<u><u>758,047</u></u>	<u><u>(970,781)</u></u>

## 16. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

The notional principal amounts of outstanding derivatives contracts and their fair values as of 31 December 2006 were as follows:

HK\$'000	Contract/ notional amount	Fair values	
		Assets	Liabilities
1) Derivatives held for trading			
a) <i>Foreign exchange derivatives</i>			
Forward and future contracts	49,360,369	131,565	(56,425)
Currency swaps	788,597	–	(27,559)
Currency options purchased and written	545,816	957	(957)
b) <i>Interest rate derivatives</i>			
Interest rate swaps	10,020,806	27,663	(20,636)
Interest rate options	200,000	–	–
c) <i>Equity derivatives</i>			
Equity options purchased and written	125,720	1,701	(1,701)
d) <i>Credit derivatives</i>			
Credit default swaps	1,088,913	6,570	(1,322)
Total derivative assets/(liabilities) held for trading	62,130,221	168,456	(108,600)
2) Derivatives held for hedging			
a) <i>Derivatives designated as fair value hedges</i>			
Interest rate swaps	10,684,881	137,693	(103,478)
Total derivative assets/(liabilities) held for hedging	10,684,881	137,693	(103,478)
3) Derivatives not qualified as hedges for accounting purposes but which are managed in conjunction with the financial instruments designated at fair value through profit or loss			
Currency swaps	582,103	45,470	–
Interest rate swaps	9,791,956	13,642	(104,130)
Interest rate options	406,320	1,447	(1,447)
Total derivative assets/(liabilities) not qualified as hedges	10,780,379	60,559	(105,577)
Total recognised derivative financial assets/(liabilities)	83,595,481	366,708	(317,655)

The effect of valid bilateral netting agreements has been taken into account in disclosing the fair value of derivatives.

## 16. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

As at 31 December 2007, the credit risk weighted amounts of the above off-balance sheet exposures (including credit default swaps) calculated under Basel II basis and without taking into account the effect of bilateral netting arrangement that the Group entered into, are as follows:

	As at 31 Dec 2007	As at 31 Dec 2006
Derivatives		
Exchange rate contracts	508,850	140,229
Interest rate contracts	141,282	111,404
Other contracts	18,563	2,524
	<u>668,695</u>	<u>254,157</u>

As at 31 December 2006, the credit risk weighted amount of credit default swaps calculated under Basel I basis amounting to HK\$855,575,000 is included in the total credit risk weighted amount of contingent liabilities and commitments in Note 21.

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 for 2007 are the amounts that have been calculated with reference to the Banking (Capital) Rules issued by the Hong Kong Monetary Authority (“HKMA”). The corresponding amounts for 2006 are the amounts that have been calculated with reference to the Third Schedule of the Hong Kong Banking Ordinance and guidelines issued by the HKMA. The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics of each type of contract.

## 17. ADVANCES AND OTHER ACCOUNTS

<i>HK\$'000</i>	As at 31 Dec 2007	As at 31 Dec 2006
Gross advances to customers	61,294,631	50,603,292
Gross advances to banks	160,426	155,102
Other assets	4,343,268	1,327,384
Gross advances and other accounts	<u>65,798,325</u>	<u>52,085,778</u>
Less: Impairment allowances		
– Individually assessed	(142,589)	(135,729)
– Collectively assessed	(216,968)	(219,368)
	<u>(359,557)</u>	<u>(355,097)</u>
Advances and other accounts	<u>65,438,768</u>	<u>51,730,681</u>

17. ADVANCES AND OTHER ACCOUNTS (Continued)

(a) Gross advances to customers by industry sector classified according to the usage of loans and analysed by percentage covered by collateral

	As at 31 Dec 2007		As at 31 Dec 2006	
	Outstanding balance	% of gross advances covered by collateral	Outstanding Balance	% of gross advances covered by collateral
Loans for use in Hong Kong				
Industrial, commercial and financial				
– Property development	389,293	95.6	409,887	99.9
– Property investment	9,523,416	85.7	6,107,283	94.6
– Financial concerns	528,728	47.5	424,368	82.6
– Stockbrokers	55,432	59.8	49,845	38.2
– Wholesale and retail trade	1,204,904	78.2	1,086,361	87.5
– Manufacturing	1,277,385	69.4	1,334,677	74.9
– Transport and transport equipment	3,755,326	93.1	3,563,617	91.2
– Recreational activities	58,083	–	49,086	2.4
– Information technology	2,214	27.4	36,087	4.0
– Others	1,671,503	80.2	1,325,409	82.9
	<u>18,466,284</u>	<u>83.9</u>	<u>14,386,620</u>	<u>89.4</u>
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,776,573	100.0	1,850,462	99.7
– Loans for the purchase of other residential properties	11,330,250	99.6	10,917,179	99.5
– Credit card advances	3,311,174	–	3,154,851	–
– Others	6,195,711	52.8	5,614,419	53.7
	<u>22,613,708</u>	<u>72.2</u>	<u>21,536,911</u>	<u>73.0</u>
Loans for use in Hong Kong	41,079,992	77.5	35,923,531	79.6
Trade finance	5,393,581	54.0	5,037,046	45.0
Loans for use outside Hong Kong	14,821,058	78.7	9,642,715	70.1
	<u>61,294,631</u>	<u>75.7</u>	<u>50,603,292</u>	<u>74.3</u>

17. ADVANCES AND OTHER ACCOUNTS (Continued)

(a) Gross advances to customers by industry sector classified according to the usage of loans and analysed by percentage covered by collateral (Continued)

For each industry sector reported above with loan balance constituting 10% or more of the total balance of advances to customers, the attributable amount of impaired loans, overdue loans, and individually and collectively assessed loan impairment allowances are as follows:

As at 31 Dec 2007					
	Outstanding balance	Impaired loans	Gross advances overdue for over 3 months	Individually assessed impairment allowances	Collectively assessed impairment allowances
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property investment	9,523,416	1,540	1,550	741	15,957
Individuals					
– Loans for the purchase of other residential properties	<u>11,330,250</u>	<u>2,071</u>	<u>6,301</u>	<u>997</u>	<u>4,553</u>
As at 31 Dec 2006					
	Outstanding balance	Impaired loans	Gross advances overdue for over 3 months	Individually assessed impairment allowances	Collectively assessed impairment allowances
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property investment	6,107,283	6,590	8,105	2,214	12,672
Individuals					
– Loans for the purchase of other residential properties	<u>10,917,179</u>	<u>10,320</u>	<u>23,694</u>	<u>3,739</u>	<u>11,854</u>

17. **ADVANCES AND OTHER ACCOUNTS** (Continued)

(b) **Non-bank Mainland exposures**

	As at 31 Dec 2007			Individually assessed impairment allowances
	On-balance sheet exposure	Off-balance sheet exposure	Total	
Type of counterparties				
Mainland entities	1,921,468	–	1,921,468	–
Companies and individuals outside Mainland where the credits are granted for use in the Mainland	9,918,810	599,287	10,518,097	92,503
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	<u>90,234</u>	<u>1,100</u>	<u>91,334</u>	<u>–</u>
	As at 31 Dec 2006			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individually assessed impairment allowances
Type of counterparties				
Mainland entities	1,835,834	2,187	1,838,021	–
Companies and individuals outside Mainland where the credits are granted for use in the Mainland	8,415,195	767,331	9,182,526	78,942
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	<u>41,904</u>	<u>2,496</u>	<u>44,400</u>	<u>–</u>

*Note:* The balances of exposures reported above include gross advances and other balances of claims on the customers.

(c) **Analysis of gross advances to customers and overdue loans by geographical area**

Advances to customers by geographical area are classified according to the location of the counterparties after taking into account the transfer of risk. In general, risk transfer applies when an advances is guaranteed by a party located in an area which is different from that of the counterparty.

At 31 December 2007, over 90% of the Group's advances to customers, including related impaired advances and overdue advances, were classified under Hong Kong (a position unchanged from that as at 31 December 2006).

17. ADVANCES AND OTHER ACCOUNTS (Continued)

(d) Impaired, overdue and rescheduled assets

(i) Impaired loans

	As at 31 Dec 2007	As at 31 Dec 2006
Impaired loans and advances		
– Individually impaired (Note (a))	252,934	253,170
– Collectively impaired (Note (b))	<u>26,295</u>	<u>27,790</u>
	<u>279,229</u>	<u>280,960</u>
Impairment allowances made		
– Individually assessed (Note (c))	(142,589)	(135,729)
– Collectively assessed (Note (b))	<u>(25,740)</u>	<u>(27,444)</u>
	<u>(168,329)</u>	<u>(163,173)</u>
	<u><u>110,900</u></u>	<u><u>117,787</u></u>
Fair value of collaterals held*	<u><u>105,043</u></u>	<u><u>115,045</u></u>

\* Fair value of collaterals is determined as the lower of the market value of collateral and loan outstanding balance.

Note:

- (a) Individually impaired loans are defined as those loans having objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event has an impact on the estimated cash flows of the loans that can be reliably estimated.
- (b) Collectively impaired loans and advances refer to those unsecured loans and advances assessed for impairment on a collective basis and which have become overdue for more than 90 days as at the reporting date. The collective impairment allowance for these impaired loans, which is a part of the overall collective impairment allowances, is shown above.
- (c) The above individual impairment allowances were made after taking into account the value of collaterals in respect of such advances as at 31 December.

17. **ADVANCES AND OTHER ACCOUNTS** (Continued)

(d) **Impaired, overdue and rescheduled assets** (Continued)

(ii) *Overdue loans*

	As at 31 Dec 2007	% of total advances to customers	As at 31 Dec 2006	% of total advances to customers
Gross advances to customers which have been overdue for:				
– six months or less				
but over three months	87,239	0.14	99,855	0.20
– one year or less				
but over six months	81,789	0.14	61,973	0.12
– over one year	105,627	0.17	119,804	0.24
	<u>274,655</u>	<u>0.45</u>	<u>281,632</u>	<u>0.56</u>
Market value of securities held against the secured overdue advances	<u>177,869</u>		<u>168,065</u>	
Secured overdue advances	122,297		133,324	
Unsecured overdue advances	<u>152,358</u>		<u>148,308</u>	
Individual impairment allowances	<u>113,852</u>		<u>116,813</u>	

(iii) *Rescheduled advances net of amounts included in advances overdue for more than 3 months:*

	As at 31 Dec 2007	% of total advances to customers	As at 31 Dec 2006	% of total advances to customers
Advances to customers	<u>66,121</u>	0.11	<u>69,106</u>	0.14
Impairment allowances	<u>591</u>		<u>6,886</u>	

There were no advances to banks and other financial institutions, which were impaired, overdue for over 3 months or rescheduled as at 31 December 2007 and 31 December 2006.

(e) **Reposessed collateral**

The reposessed collateral held at the year-end is as follows:

	As at 31 Dec 2007	As at 31 Dec 2006
Nature of assets		
– Residential properties	7,517	31,485
– Others	21,125	738
	<u>28,642</u>	<u>32,223</u>

## 18. AVAILABLE-FOR-SALE SECURITIES

<i>HK\$'000</i>	As at 31 Dec 2007	As at 31 Dec 2006
Debt securities:		
– Listed in Hong Kong	1,737,690	1,316,532
– Listed outside Hong Kong	12,829,696	14,457,750
– Unlisted	10,502,553	16,085,860
	<u>25,069,939</u>	<u>31,860,142</u>
Equity securities:		
– Listed in Hong Kong	22,534	14,716
– Listed outside Hong Kong	129,940	65,986
– Unlisted		
– Interests in investment funds	152,024	961,462
– Others	59,758	21,407
	<u>364,256</u>	<u>1,063,571</u>
Total available-for-sale securities	<u>25,434,195</u>	<u>32,923,713</u>
Market value of listed securities	<u>14,719,860</u>	<u>15,854,984</u>
Included within debt securities are:		
– Certificates of deposit held	970,338	100,167
– Other debt securities	24,099,601	31,759,975
	<u>25,069,939</u>	<u>31,860,142</u>
Available-for-sale securities are analysed by categories of issuers as follows:		
– Central governments and central banks	2,339,796	3,554,021
– Public sector entities	112,226	274,108
– Banks and other financial institutions	12,605,668	19,776,804
– Corporate entities	10,374,977	9,317,002
– Others	1,528	1,778
	<u>25,434,195</u>	<u>32,923,713</u>

## 19 HELD-TO-MATURITY SECURITIES

<i>HK\$'000</i>	As at 31 Dec 2007	As at 31 Dec 2006
Debt securities:		
– Listed outside Hong Kong	4,086,699	62,252
– Unlisted	267,482	238,449
	<u>4,354,181</u>	<u>300,701</u>
Market value of listed securities	<u>3,880,589</u>	<u>62,269</u>
Included within debt securities are:		
– Certificates of deposit held	4,833	138,449
– Other debt securities	4,349,348	162,252
	<u>4,354,181</u>	<u>300,701</u>
Held-to-maturity securities are analysed by issuer as follows:		
– Public sector entities	–	1,499
– Banks and other financial institutions	3,987,837	268,647
– Corporate entities	366,344	30,555
	<u>4,354,181</u>	<u>300,701</u>

The movement in held-to-maturity securities is summarised as follows:

	2007	2006
At 1 January	300,701	494,855
Additions	1,575	42,924
Reclassification of available-for-sale debt securities	4,141,610	–
Amortisation of discount	5,937	(458)
Securities matured during the year	(198,833)	(237,311)
Exchange differences	103,191	691
At 31 December	<u>4,354,181</u>	<u>300,701</u>

During the year, the Group reclassified available-for-sale debt securities with a total market value at the time of transfer of HK\$4,141,610,000 as held-to-maturity securities (2006: Nil), reflecting a change in the Group's intention on holding these securities to maturity.

## 20. RESERVES

<i>HK\$'000</i>	As at 31 Dec 2007	As at 31 Dec 2006 Restated
Reserves		
Share premium	2,209,149	2,209,149
Consolidation reserve	(220,986)	(220,986)
Premises revaluation reserve	768,786	509,356
Investment revaluation reserve	(611,582)	3,128
Exchange reserve	28,867	(119)
General reserve	700,254	700,254
Retained earnings	<u>5,423,522</u>	<u>5,184,043</u>
	<u>8,298,010</u>	<u>8,384,825</u>
Proposed final dividends included in retained earnings	<u>139,712</u>	<u>419,137</u>

The Group's Hong Kong banking subsidiaries, Dah Sing Bank, Limited ("DSB") and MEVAS Bank Limited ("MEVAS"), are required to maintain regulatory reserve to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. At 31 December 2007, each of DSB and MEVAS has earmarked a regulatory reserve of HK\$734,327,000 (2006: HK\$313,999,000) and HK\$16,798,000 (2006: Nil) in the consolidated general reserve and retained profits respectively. Movements in the regulatory reserve are made directly through equity reserve and in consultation with the Hong Kong Monetary Authority.

## 21. CONTINGENT LIABILITIES AND COMMITMENTS

HK\$'000

### (a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	As at 31 Dec 2007	As at 31 Dec 2006
Expenditure contracted but not provided for	<u>83,904</u>	<u>60,441</u>

### (b) Credit commitments

The contract and credit risk weighted amounts of the Group's off-balance sheet financial instruments that commit it to extend credit to customers are as follows:

	Contract amount	
	As at 31 Dec 2007	As at 31 Dec 2006
Direct credit substitutes	692,615	1,628,553
Transaction related contingencies	2,521	4,576
Trade-related contingencies	883,271	1,066,214
Commitments that are unconditionally cancellable without prior notice	30,758,565	24,612,456
Other commitments with an original maturity of:		
– under 1 year	3,902,908	7,725,382
– 1 year and over	1,301,489	790,570
Forward forward deposits placed	<u>640,102</u>	<u>1,923,185</u>
	<u>38,181,471</u>	<u>37,750,936</u>
	Credit risk weighted amount	
	As at 31 Dec 2007	As at 31 Dec 2006
Contingent liabilities and commitments	<u>1,729,744</u>	<u>2,287,097</u>

### (c) Assets pledged

Assets pledged as collateral with the Hong Kong Monetary Authority and with unrelated financial institutions under repurchase agreements are as follows:

	As at 31 Dec 2007	As at 31 Dec 2006
Trading securities	2,033,947	4,658,512
Available-for-sale securities	<u>704,530</u>	<u>2,305,420</u>
	<u>2,738,477</u>	<u>6,963,932</u>

## 21. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

### (d) Operating lease commitments

Where a Group company is the lessee, the future minimum lease payments under non-cancellable building operating leases are as follows:

	As at 31 Dec 2007	As at 31 Dec 2006
Not later than 1 year	78,290	64,693
Later than 1 year and not later than 5 years	81,463	98,232
	<u>159,753</u>	<u>162,925</u>

Where a Group company is the lessor, the future minimum lease payments under non-cancellable building operating leases are as follows:

	As at 31 Dec 2007	As at 31 Dec 2006
Not later than 1 year	19,385	18,841
Later than 1 year and not later than 5 years	9,969	15,655
	<u>29,354</u>	<u>34,496</u>

## 22. Cross-border claims

*Equivalent in HK\$ millions*

	As at 31 Dec 2007			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	10,510	252	10,080	20,842
North and South America	966	–	2,684	3,650
Europe	13,648	–	3,574	17,222
	<u>25,124</u>	<u>252</u>	<u>16,338</u>	<u>41,714</u>
	As at 31 Dec 2006			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	7,840	–	6,088	13,928
North and South America	917	–	2,203	3,120
Europe	15,297	–	3,856	19,153
	<u>24,054</u>	<u>–</u>	<u>12,147</u>	<u>36,201</u>

The above 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. Only regions constituting 10% or more of the aggregate cross-border claims are disclosed.

## 23. CURRENCY CONCENTRATIONS

*Equivalent in HK\$ millions*

The following sets out the Group's net foreign exchange position in USD and other individual currency that constitutes more than 10% of the total net position in all foreign currencies as at 31 December 2007 and the corresponding comparative balances.

<b>At 31 Dec 2007</b>	<b>USD</b>	<b>CNY</b>	<b>MOP</b>
Spot assets	<b>30,404</b>	<b>1,031</b>	<b>3,038</b>
Spot liabilities	<b>(26,030)</b>	<b>(1,045)</b>	<b>(4,317)</b>
Forward purchases	<b>34,672</b>	<b>638</b>	<b>–</b>
Forward sales	<b>(38,417)</b>	<b>(548)</b>	<b>–</b>
	<hr/>	<hr/>	<hr/>
Net long/(short) position	<b>629</b>	<b>76</b>	<b>(1,279)</b>
	<hr/>	<hr/>	<hr/>
Net structural position	<b>–</b>	<b>107</b>	<b>–</b>
	<hr/>	<hr/>	<hr/>
<b>At 31 Dec 2006</b>	<b>USD</b>	<b>CNY</b>	<b>MOP</b>
Spot assets	29,246	739	3,053
Spot liabilities	(24,386)	(727)	(3,955)
Forward purchases	23,693	–	–
Forward sales	(26,928)	–	–
	<hr/>	<hr/>	<hr/>
Net long/(short) position	<b>1,625</b>	<b>12</b>	<b>(902)</b>
	<hr/>	<hr/>	<hr/>

## 24. CAPITAL ADEQUACY RATIO

	<b>As at 31 Dec 2007 Basel II basis</b>	<b>As at 31 Dec 2006 Basel I basis</b>
Capital adequacy ratio		
– Core	<b>9.1%</b>	12.2%
– Overall	<b>15.6%</b>	16.6%
	<hr/>	<hr/>
Adjusted capital adequacy ratio (under Basel I basis)		<b>16.6%</b>
		<hr/>

The capital adequacy ratio as at 31 December 2007 represents the combined ratio of Dah Sing Bank, Limited (“DSB”), MEVAS Bank Limited (“MEVAS”) and D.A.H. Hambros Bank (Channel Islands) Limited (“DAHCI”) computed on Basel II basis with reference to the Banking (Capital) Rules. This capital adequacy ratio takes into account market risk and operational risk.

The capital adequacy ratio as at 31 December 2006 represents the combined ratio of DSB, MEVAS and DAHCI computed on Basel I basis with reference to the methods set out in the Third Schedule of the Banking Ordinance.

The adjusted capital adequacy ratio represents the combined ratio of DSB, MEVAS and DAHCI as at 31 December 2006 computed on Basel I basis with reference to the methods set out in the Supervisory Policy Manual entitled “Maintenance of Adequate Capital Against Market Risks” issued by the HKMA. The adjusted ratio takes into account market risk as at 31 December 2006.

## 24. CAPITAL ADEQUACY RATIO (Continued)

Only the locally incorporated banking subsidiaries within the Group are subject to the minimum capital adequacy ratio and liquidity ratio requirements under the Hong Kong Banking Ordinance. Banco Comercial de Macau, S.A. is subject to separate Macau banking regulations. The above ratios of the Group are calculated for reference only.

The capital base after deductions used in the calculation of the above capital adequacy ratios as at 31 December is analysed as follows:

<i>HK\$'000</i>	As at 31 Dec 2007 Basel II basis	As at 31 Dec 2006 Basel I basis
Core capital		
Paid up ordinary share capital	2,707,749	2,707,749
Share premium	55,519	55,519
Reserves	4,996,578	5,018,695
Less: goodwill	(318,667)	(318,667)
Less: other intangible assets	(6,838)	–
Less: net deferred tax assets	(641)	–
	<u>7,433,700</u>	7,463,296
Less: 50% of total amount of deductible items	<u>(1,331,367)</u>	–
Core capital	<u>6,102,333</u>	7,463,296
Supplementary capital		
Reserves on revaluation of holding of land and building	238,402	238,402
Collective impairment allowances for impaired assets	193,977	195,836
Regulatory reserve	688,334	284,869
Revaluation reserve for available-for-sale investments	(552,435)	2,098
Perpetual subordinated debt	1,643,879	–
Term subordinated debt	3,461,825	3,480,127
	<u>5,673,982</u>	4,201,332
Less: 50% of total amount of deductible items	<u>(1,331,368)</u>	–
Supplementary capital	<u>4,342,614</u>	4,201,332
Deductions		<u>(1,489,923)</u>
Total capital base	<u>10,444,947</u>	<u>10,174,705</u>

## 25. LIQUIDITY RATIO

	2007	2006
Liquidity ratio	<u>52.4%</u>	<u>58.0%</u>

The liquidity ratio is calculated as the simple average of each calendar month's average liquidity ratio of the Group's banking subsidiaries for the twelve months of the financial year. The liquidity ratio is computed with reference to the methods set out in the Fourth Schedule of the Banking Ordinance.

Only the locally incorporated banking subsidiaries within the Group are subject to the minimum liquidity ratio requirement under the Banking Ordinance. The above ratios of the Group are calculated for reference only.

## FINANCIAL RATIOS

	<b>Year ended 31 Dec 2007</b>	Year ended 31 Dec 2006 Restated
Net interest income/operating income	<b>69.8%</b>	75.2%
Cost to income ratio	<b>43.0%</b>	45.3%
Loan to deposit (including certificates of deposit) ratio	<b>69.7%</b>	66.5%
Return on average total assets	<b>0.7%</b>	1.2%
Return on average shareholders' funds	<b>8.6%</b>	13.3%
Dividend payout ratio	<b>46.6%</b>	54.5%
Net interest margin	<b>2.16%</b>	2.38%

## FINAL DIVIDEND

At the forthcoming annual general meeting of the Company to be held on Wednesday, 28 May 2008 ("2008 AGM"), the Directors will propose a final dividend of HK\$0.15 per share for 2007 with an option to receive newly issued and fully paid shares in lieu of cash dividend to Shareholders whose names are on the Register of Shareholders as at the close of business on Thursday, 24 April 2008.

No fractional shares will be issued to Shareholders electing for scrip dividend and shares representing fractional entitlements will be disposed of for the benefit of the Company. Newly issued shares pursuant to the scrip dividend scheme will rank pari passu in all respects with the existing shares except that they will not rank for the 2007 final dividend in either scrip or cash form.

Particulars of the scrip dividend scheme will be detailed in a circular to Shareholders together with an election form to be released on or about Wednesday, 30 April 2008. The scrip dividend scheme is subject to the approval of Shareholders of the relevant resolution at the 2008 AGM, and the approval of the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and the permission to deal in the new shares to be issued under the scrip dividend scheme.

Dividend warrants for cash dividend or share certificates for the scrip dividend will be sent to Shareholders by ordinary mail on or about Tuesday, 3 June 2008.

## **CLOSURE OF REGISTER OF SHAREHOLDERS**

The Register of Shareholders of the Company will be closed for the following periods:

- (1) For the purpose of determining Shareholders who are entitled to receive the 2007 final dividend, the Register of Shareholders will be closed from Monday, 21 April 2008 to Thursday, 24 April 2008, both days inclusive. In order to qualify for the 2007 final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 18 April 2008.
- (2) For the purpose of determining Shareholders who are entitled to attend and vote at the 2008 AGM, the Register of Shareholders will be closed from Thursday, 22 May 2008 to Wednesday, 28 May 2008, both days inclusive. In order to qualify for attending and voting at the 2008 AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 21 May 2008.

## **CORPORATE AND BUSINESS OVERVIEW**

### **HIGHLIGHTS**

Economic conditions in Hong Kong in 2007 remained positive with continuing growth in GDP, as well as a fall in the unemployment rate during the year. In contrast, economic conditions in the US continued to deteriorate, particularly with more signs of stress in the US housing market, difficulties in the broader economy, and increased volatility in financial markets generally.

The core business performance of the Group in 2007 was strong. However, due to impairment charges on our externally managed investment portfolio, profit attributable to shareholders for the year was down by 33% to HK\$800 million. Earnings per share decreased by 33% to HK\$0.86. The Board of Directors proposed a final dividend of HK\$0.15 per share, with the option to elect for scrip in lieu of cash dividend.

Overall performance, pre-impairment, was strong, with operating profit before impairment charges rising by 19% to HK\$1,690 million. Our key businesses all performed well during the year. Operating expenses were tightly controlled, with overall cost to income ratio dropping to 43.0% for the year.

Loan growth was particularly strong, with an increase of 21% for the year, driven mainly by our commercial lending business. Deposit growth was also significant, with an increase of 16% over 2006.

Non-interest income increased by 38% to HK\$895 million, boosted by stronger performance from our wealth management businesses.

During the year, we completed the acquisition of 17% interest in Bank of Chongqing.

## BUSINESS AND FINANCIAL REVIEW

Net interest income in the year increased 5% to HK\$2,068 million. A higher loan and other interest earning asset balance contributed to boost interest income, although tighter loan spread, narrower Prime/HIBOR spread and a generally higher level of funding cost exerted pressure to curb the growth of our net interest income. Our net interest margin tightened to 2.16%, compared with 2.38% in 2006.

We achieved a much stronger increase in non-interest income. Our net fee and commission income benefited from the growth in our wealth management business and more buoyant stock and investment markets in the year contributed to boost retail unit trust investment and securities brokerage turnover, which led to a much stronger wealth management income.

Net trading income increased significantly, boosted largely by much higher gains on securities and foreign exchange trading, and fair value gains on financial instruments.

Operating expenses rose 7.7%, as the Group increased its spending to support business growth and strengthen operational capabilities. The growth was due mainly to increased staff costs, both through higher salaries and increased headcount, as well as increased rental, and general expenses such as advertising and marketing. Despite these increases, cost income ratio for the year was 43.0%, lower than 45.3% in 2006.

Operating profit before impairment charges was HK\$1,690 million, up 19% relative to 2006.

Credit quality remained solid, although impairment charges increased by 12% to HK\$181 million, mainly resulting from the increase of collective impairment allowances provided on larger loan balances especially in unsecured retail lending, and hire purchase financing. Credit quality in all of our commercial and retail banking loan portfolios remained robust, as reflected in the continuing low overall impaired loan ratio at 0.46% (vs. 0.56% for 2006), and a total overdue and rescheduled loan ratio of 0.56% as of 31 December 2007, against 0.70% at the end of 2006.

Operating profit after loan impairment charges was HK\$1,510 million, 19% higher than 2006.

Gains of HK\$135 million arising from the disposal of properties and reversal of revaluation deficit of premises, and a gain of HK\$141 million relating to revaluation of our investment properties, were recorded in the year. During the year, we were able to take advantage of favourable market conditions in the first half to realise certain available-for-sale securities at a net gain of HK\$85 million, which was slightly lower than 2006.

In response to market conditions, we recognised HK\$1,038 million impairment charge against our externally managed leveraged/structured investment portfolio, writing down the amount of these investments by 67% from US\$200 million to US\$67 million at the end of the year.

We completed the acquisition of a 17% interest in the Bank of Chongqing (“BOCQ”) in late April 2007. With our participation in BOCQ at its board level and involvement, we consider it appropriate to treat BOCQ as an associate company and consolidate our share of BOCQ results on an equity accounting basis. The share of results of an associate in 2007 reflected our share of BOCQ profit at an amount of HK\$72 million.

Profit attributable to shareholders of the Group decreased 33% in the year.

As at 31 December 2007, the Group's total gross loans and advances amounted to HK\$61.3 billion, up 21% relative to the end of 2006. Stronger growth was recorded in the Commercial Banking sector, led by commercial loans, property lending, equipment finance and syndicated loans. The overall Personal Banking loan portfolio achieved a modest growth amidst keen competition, and it was encouraging to note that our unsecured credit card and personal loans achieved a reasonable growth in the year.

Customers' deposits totaled HK\$79.1 billion, an increase of 18% over 2006. Issued certificates of deposit amounted to HK\$8.8 billion of which retail certificates of deposit accounted for HK\$3.3 billion. Other issued debt securities totaled HK\$2.8 billion. The loan to deposit ratio increased from 66.5% as at 31 December 2006 to 69.7% as at 31 December 2007.

Dah Sing Bank issued in the first quarter of 2007 US\$200 million perpetual subordinated debt callable in 2017 qualifying as Upper Tier 2 capital to strengthen our capital base.

## **PROSPECTS**

Economic data from the US is already indicating a significant slowdown in the world's largest economy. Whilst conditions in Hong Kong and Mainland China remain robust, with strong economic growth, it is inevitable that a slowdown or recession in the US will have an impact on the global economy, including Asia. Also, conditions in financial markets remain volatile.

We therefore intend to proceed cautiously in 2008, with due regard to how economic and business conditions develop over the course of the year. In the medium term we remain confident about economic prospects for the markets in which we operate, and look forward to continued growth.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2007.

## **COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted its own code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors (Appendix 10 of the Main Board Rules). After having made specific enquiry of all Directors, the Company confirmed that the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions have been fully complied with.

## **COMPLIANCE WITH THE BANKING (DISCLOSURE) RULES**

In preparing the financial statements for the year ended 31 December 2007, the Group has fully complied with the requirements set out in the Banking (Disclosure) Rules issued by the Hong Kong Monetary Authority.

## **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of this financial report and the consolidated financial statements of the Group for the year ended 31 December 2007.

## **PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE'S WEBSITE**

The Annual Report of the Company containing all the information required by Appendix 16 of the Listing Rules will be published on the website of the Hong Kong Stock Exchange in due course.

## **DEALINGS IN THE COMPANY'S SHARES**

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares during the year ended 31 December 2007.

## **BOARD OF DIRECTORS**

As at the date of this announcement, the Board of Directors of the Company comprises Messrs. David Shou-Yeh Wong (Chairman), Hon-Hing Wong (Derek Wong) (Managing Director and Chief Executive), Lung-Man Chiu (John Chiu), Gary Pak-Ling Wang, Harold Tsu-Hing Wong and Frederic Suet-Chiu Lau as Executive Directors; Messrs. David Richard Hinde, John William Simpson, Robert Tsai-To Sze and Andrew Kwan-Yuen Leung as Independent Non-Executive Directors, and Mr. Keisuke Tahara as Non-Executive Director.

By Order of the Board  
**H L Soo**  
*Company Secretary*

Hong Kong, Tuesday, 25 March 2008

Website: <http://www.dahsing.com>