大新銀行集團有限公司
DAH SING BANKING GROUP LIMITED

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

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

(Stock Code: 2356)

ANNOUNCEMENT OF 2010 INTERIM RESULTS

The Directors of Dah Sing Banking Group Limited (the "Company") are pleased to present the interim results and condensed consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2010. The unaudited profit attributable to shareholders after non-controlling interests for the six months ended 30 June 2010 was HK$507.2 million.

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

The unaudited 2010 interim condensed consolidated financial statements of the Group have been prepared in accordance with Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June

HK$'000	Note	**2010**	2009	Variance %
Interest income		**1,294,539**	1,641,338	
Interest expense		**(298,406)**	(579,224)	
Net interest income	3	**996,133**	1,062,114	-6.2
Fee and commission income		**263,327**	217,589	
Fee and commission expense		**(79,020)**	(56,066)	
Net fee and commission income	4	**184,307**	161,523	14.1
Net trading loss	5	**(10,706)**	(21,913)	
Other operating income	6	**15,708**	16,973	
Operating income		**1,185,442**	1,218,697	-2.7
Operating expenses	7	**(644,331)**	(963,882)	-33.2
Operating profit before impairment losses		**541,111**	254,815	112.4
Loan impairment losses and other credit provisions	8	**(34,800)**	(272,490)	-87.2
Operating profit/(loss) before gains or losses on certain investments and fixed assets		**506,311**	(17,675)	
Net gain on disposal of premises, investment properties and other fixed assets		**4,616**	3,296	
Net gain on disposal of available-for-sale securities		**3,373**	6,276	
Net (loss)/gain on disposal and repurchase of other financial instruments	9	**(53,449)**	243,983	
Share of results of jointly controlled entities		**2,793**	1,728	
Share of results of an associate		**105,622**	78,117	
Profit before income tax		**569,266**	315,725	80.3
Income tax expense	10	**(62,129)**	(8,898)	
Profit for the period		**507,137**	306,827	65.3
Loss attributable to non-controlling interests		**66**	20	
Profit attributable to shareholders of the Company		**507,203**	306,847	65.3
Interim dividend		**77,823**	–	
Earnings per share				
Basic	11	**HK$0.46**	HK$0.32	
Diluted	11	**HK$0.46**	HK$0.32	
Dividend per share				
Interim dividend		**HK$0.07**	–	

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June

HK$'000	**2010**	2009
Profit for the period	**507,137**	306,827
Other comprehensive income/(loss) for the period		
Investments in securities		
Fair value gains recognised in equity	**136,107**	260,330
Fair value (gain)/loss realised and transferred to income statement upon:		
– Disposal of available-for-sale securities	**(3,373)**	(6,276)
– Disposal of investments in securities included in the loans and receivables category which were previously reclassified from the available-for-sale category	**117,334**	–
Related income tax expense	**(41,484)**	(45,771)
	208,584	208,283
Premises		
Deferred income tax released on disposal of premises	**3,261**	–
Exchange differences arising on translation of the financial statements of foreign entities	**9,169**	(3,726)
Other comprehensive income for the period, net of tax	**221,014**	204,557
Total comprehensive income for the period, net of tax	**728,151**	511,384
Total comprehensive income attributable to:		
Non-controlling interests	**(8)**	426
Shareholders of the Company	**728,159**	510,958
Total comprehensive income for the period, net of tax	**728,151**	511,384

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK$'000	Note	**As at 30 Jun 2010**	As at 31 Dec 2009
ASSETS			
Cash and balances with banks		**7,904,398**	10,453,366
Placements with banks maturing between one and twelve months		**2,937,111**	4,282,749
Trading securities	12	**5,931,631**	5,595,316
Financial assets designated at fair value through profit or loss	12	**8,795**	11,232
Derivative financial instruments	13	**663,200**	588,778
Advances and other accounts	14	**74,332,716**	66,983,952
Available-for-sale securities	16	**13,290,765**	12,086,178
Held-to-maturity securities	17	**8,506,312**	8,598,408
Investment in an associate		**1,405,659**	1,299,257
Investments in jointly controlled entities		**61,441**	60,791
Goodwill		**811,690**	811,690
Intangible assets		**104,187**	110,432
Premises and other fixed assets		**1,816,328**	1,950,180
Investment properties		**744,869**	657,235
Current income tax assets		**23,859**	61,916
Deferred income tax assets		**19,444**	77,268
Total assets		**118,562,405**	113,628,748
LIABILITIES			
Deposits from banks		**1,603,036**	1,435,136
Derivative financial instruments	13	**1,566,907**	1,213,734
Trading liabilities		**4,514,918**	2,068,300
Deposits from customers		**89,891,393**	89,572,204
Certificates of deposit issued		**2,687,264**	2,060,010
Subordinated notes		**4,730,206**	4,602,235
Other accounts and accruals	18	**2,015,597**	1,861,540
Current income tax liabilities		**26,044**	17,485
Deferred income tax liabilities		**7,754**	6,969
Total liabilities		**107,043,119**	102,837,613
EQUITY			
Non-controlling interests		**17,487**	17,495
Equity attributable to shareholders of the Company			
Share capital		**1,111,759**	1,111,759
Reserves	19	**10,312,217**	9,661,881
Proposed dividend		**77,823**	–
Shareholders' funds		**11,501,799**	10,773,640
Total equity		**11,519,286**	10,791,135
Total equity and liabilities		**118,562,405**	113,628,748

Note:

1. General information

Dah Sing Banking Group Limited (the "Company") is a bank holding company. Its principal subsidiaries include Dah Sing Bank, Limited ("DSB") and MEVAS Bank Limited ("MEVAS"), both are licensed banks in Hong Kong. The Company together with its subsidiaries (collectively the "Group") provide banking, financial and other related services.

2. Basis of preparation and accounting policies

The accounting policies and methods of computation used in the preparation of the 2010 interim condensed consolidated financial statements are consistent with those used and described in the Group's annual audited financial statements for the year ended 31 December 2009.

In preparing its annual audited financial statements for the year ended 31 December 2009, the Group has already early adopted Hong Kong Financial Reporting Standard ("HKFRS") No. 3 "Business Combinations" (Revised) and the consequential amendments to Hong Kong Accounting Standard ("HKAS") 27, HKAS 28 and HKAS 31 which are originally effective for accounting periods beginning on or after 1 July 2009, and HKFRS 8 Operating Segments (Amendment), which is originally effective for accounting periods beginning on or after 1 January 2010 on the disclosure of segment assets.

The revised HKFRS 3 continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interests in the acquiree either at fair value or at the non-controlling interests' proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

The Group has also adopted the amendments to HKAS 17 "Leases" made by the HKICPA as part of HKICPA's annual HKFRS improvement project. These amendments provide certain clarifications on the accounting classification of land leases and are effective for accounting periods beginning on or after 1 January 2010. The adoption of these amendments by the Group has no impact to the Group's accounting policies.

The interim condensed consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated.

3. Net interest income

For the six months ended 30 June

	2010	2009
Interest income		
Cash and balances with banks	**44,151**	80,682
Investments in securities	**265,098**	414,021
Advances to customers and banks	**985,286**	1,145,493
Others	**4**	1,142
	1,294,539	1,641,338
Interest expense		
Deposits from banks/Deposits from customers	**244,028**	428,390
Certificates of deposit issued	**5,429**	28,227
Issued debt securities	**–**	23,978
Subordinated notes	**42,341**	70,247
Others	**6,608**	28,382
	298,406	579,224
Included within interest income		
Interest income on financial assets not at fair value through profit or loss	**1,276,000**	1,624,421
Interest income on impaired assets	**3,995**	7,225
Included within interest expense		
Interest expense on financial liabilities not at fair value through profit or loss	**281,390**	522,415

4. Net fee and commission income

For the six months ended 30 June

	2010	2009
Fee and commission income		
Fee and commission income from financial assets and liabilities not at fair value through profit or loss		
– Credit related fees and commissions	**45,523**	32,160
– Trade finance	**18,827**	19,489
– Credit cards	**117,463**	95,034
Other fee and commission income		
– Securities brokerage and investment services	**14,467**	17,484
– Insurance distribution and others	**16,223**	16,891
– Retail investment funds and fiduciary services	**8,188**	6,735
– Other fees	**42,636**	29,796
	263,327	217,589
Fee and commission expense		
Fee and commission expense from financial assets and liabilities not at fair value through profit or loss		
Handling fees and commission	**73,981**	51,319
Other fees paid	**5,039**	4,747
	79,020	56,066
	184,307	161,523

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.

5. Net trading loss

For the six months ended 30 June

	2010	2009
Net gain arising from dealing in foreign currencies	**126,134**	64,882
Net (loss)/gain from trading securities	**(8,876)**	6,818
Net (loss)/gain from derivatives entered into for trading purpose	**(70,804)**	29,024
Net loss arising from financial instruments subject to fair value hedge	**(22,645)**	(36,851)
Net loss arising from financial instruments designated at fair value through profit or loss	**(34,515)**	(85,786)
	(10,706)	(21,913)

6. Other operating income

For the six months ended 30 June

	2010	2009
Dividend income from investments in available-for-sale securities		
– Listed investments	**485**	543
– Unlisted investments	**3,397**	3,478
Gross rental income from investment properties	**4,907**	4,822
Other rental income	**2,648**	2,796
Others	**4,271**	5,334
	15,708	16,973

7. Operating expenses

For the six months ended 30 June

	2010	2009
Employee compensation and benefit expenses (including directors' remuneration)	**374,121**	370,002
Premises and other fixed assets expenses, excluding depreciation	**81,872**	81,155
Depreciation	**53,585**	48,619
Advertising costs	**33,334**	29,890
Amortisation expenses of intangible assets	**6,245**	8,004
Others	**95,174**	426,212
	644,331	963,882

8. Loan impairment losses and other credit provisions

For the six months ended 30 June

	2010	2009
Loan impairment losses		
Net (reversal)/charge of impairment losses on loans and advances		
– Individually assessed	**(12,260)**	177,907
– Collectively assessed	**47,060**	94,583
	34,800	272,490
Of which:		
– new and additional (including amounts directly written off in the period)	**70,911**	303,487
– recoveries	**(36,111)**	(30,997)
	34,800	272,490

9. Net (loss)/gain on disposal and repurchase of other financial instruments

For the six months ended 30 June

	2010	2009
Net loss on disposal of investments in securities included in the loans and receivables category	**(136,233)**	–
Net gain on repurchase of subordinated notes	**82,784**	243,983
	(53,449)	243,983

10. Income tax expense

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period 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 16.5% (2009: 16.5%).

For the six months ended 30 June

	2010	2009
Current income tax		
– Hong Kong profits tax	**33,400**	11,122
– Overseas taxation	**8,037**	4,807
– Underprovision in prior years	**306**	–
Deferred income tax		
– relating to the origination and reversal of timing differences	**20,386**	(7,151)
– utilisation of tax losses	**–**	120
	62,129	8,898

11. Basic and diluted earnings per share

The calculation of basic earnings per share and diluted earnings per share are based on earnings of HK$507,203,000 (2009: HK$306,847,000) and the weighted average number of 1,111,758,869 (2009: 950,062,736) ordinary shares in issue during the period. The share options outstanding during the periods ended 30 June 2010 and 30 June 2009 have no dilutive effect on the weighted average number of ordinary shares.

12. Trading securities and financial assets designated at fair value through profit or loss

	As at 30 Jun 2010	As at 31 Dec 2009
Trading securities:		
Debt securities:		
– Listed in Hong Kong	**1,042,276**	1,051,938
– Unlisted	**4,884,195**	4,543,378
	5,926,471	5,595,316
Equity securities:		
– Listed in Hong Kong	**5,160**	–
Total trading securities	**5,931,631**	5,595,316
Financial assets designated at fair value through profit or loss:		
Debt securities:		
– Listed outside Hong Kong	**8,795**	11,232
Total financial assets designated at fair value through profit or loss	**8,795**	11,232
Total trading securities and financial assets designated at fair value through profit or loss	**5,940,426**	5,606,548
Included within debt securities are:		
– Government bonds included in trading securities	**5,901,196**	5,570,751
– Other debt securities	**34,070**	35,797
	5,935,266	5,606,548

As at 30 June 2010 and 31 December 2009, there were no certificates of deposit held included in the above balances of investments in debt securities.

Trading securities and financial assets designated at fair value through profit or loss are analysed by categories of issuer as follows:

	As at 30 Jun 2010	As at 31 Dec 2009
– Central governments and central banks	**5,901,196**	5,570,751
– Public sector entities	**4,166**	3,706
– Banks and other financial institutions	**21,109**	20,859
– Corporate entities	**13,955**	11,232
	5,940,426	5,606,548

13. Derivative financial instruments

The notional principal amounts of outstanding derivatives contracts and their fair values as at 30 June 2010 were as follows:

	Contract/notional amount	Fair values Assets	Fair values Liabilities
1) Derivatives held for trading			
a) *Foreign exchange derivatives*			
Forward and futures contracts	**80,424,543**	**249,260**	**(265,056)**
Currency swaps	**389,436**	**33,355**	**(7,807)**
Currency options purchased and written	**1,378,430**	**449**	**(428)**
b) *Interest rate derivatives*			
Interest rate swaps	**6,190,236**	**30,519**	**(175,910)**
Interest rate options written	**10,000**	**–**	**(38)**
Interest rate futures contracts	**389,220**	**65**	**–**
c) *Equity derivatives*			
Equity options purchased and written	**66,449**	**1,553**	**(1,553)**
Total derivative assets/(liabilities) held for trading	**88,848,314**	**315,201**	**(450,792)**
2) Derivatives held for hedging			
a) *Derivatives designated as fair value hedges*			
Interest rate swaps	**11,565,914**	**206,314**	**(1,116,115)**
Total derivative assets/(liabilities) held for hedging	**11,565,914**	**206,314**	**(1,116,115)**
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	**431,927**	**48,605**	**–**
Interest rate swaps	**1,237,660**	**93,080**	**–**
Total derivative assets not qualified as hedges	**1,669,587**	**141,685**	**–**
Total recognised derivative financial assets/(liabilities)	**102,083,815**	**663,200**	**(1,566,907)**

13. Derivative financial instruments (Continued)

The notional principal amounts of outstanding derivatives contracts and their fair values as at 31 December 2009 were as follows:

	Contract/notional amount	Fair values Assets	Fair values Liabilities
1) Derivatives held for trading			
a) *Foreign exchange derivatives*			
Forward and futures contracts	72,533,088	231,805	(105,511)
Currency swaps	464,225	3,525	(47,588)
Currency options purchased and written	1,378,430	1,660	(1,639)
b) *Interest rate derivatives*			
Interest rate swaps	8,764,261	62,674	(149,351)
Interest rate options written	–	–	–
Interest rate futures contracts	–	–	–
c) *Equity derivatives*			
Equity options purchased and written	66,449	531	(531)
Total derivative assets/(liabilities) held for trading	83,206,453	300,195	(304,620)
2) Derivatives held for hedging			
a) *Derivatives designated as fair value hedges*			
Interest rate swaps	11,688,807	130,395	(909,114)
Total derivative assets/(liabilities) held for hedging	11,688,807	130,395	(909,114)
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	448,815	66,392	–
Interest rate swaps	1,233,235	91,796	–
Total derivative assets not qualified as hedges	1,682,050	158,188	–
Total recognised derivative financial assets/(liabilities)	96,577,310	588,778	(1,213,734)

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

The credit risk weighted amounts of the above off-balance sheet exposures 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 30 Jun 2010	As at 31 Dec 2009
Exchange rate contracts	**466,584**	460,239
Interest rate contracts	**175,639**	200,384
Other contracts	**2,830**	1,979
	645,053	662,602

14. Advances and other accounts

	As at 30 Jun 2010	As at 31 Dec 2009
Gross advances to customers	**65,210,949**	57,165,159
Gross advances to banks	**150,000**	150,000
	65,360,949	57,315,159
Other assets		
– Amounts receivable arising from sale of securities pending for settlement	**299,591**	–
– Other accounts receivable and prepayments	**1,651,577**	1,544,674
	1,951,168	1,544,674
Less: impairment allowances		
– Individually assessed	**(202,759)**	(317,017)
– Collectively assessed	**(360,943)**	(358,212)
	(563,702)	(675,229)
Investments in securities included in the loans and receivables category (Note 15)	**7,584,301**	8,799,348
Advances and other accounts	**74,332,716**	66,983,952

14. 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 30 Jun 2010		As at 31 Dec 2009	
	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	**979,222**	**78.0**	611,218	65.0
– Property investment	**12,480,071**	**92.7**	11,209,001	89.2
– Financial concerns	**509,864**	**56.0**	333,243	47.7
– Stockbrokers	**67,691**	**35.0**	52,265	100.0
– Wholesale and retail trade	**956,077**	**95.4**	1,001,216	96.3
– Manufacturing	**773,793**	**94.8**	657,570	86.9
– Transport and transport equipment	**3,611,384**	**96.5**	3,207,328	97.4
– Recreational activities	**229,204**	**49.6**	157,565	–
– Information technology	**2,479**	**89.0**	902	42.2
– Others	**2,317,678**	**94.1**	1,847,970	92.7
	21,927,463	**91.5**	19,078,278	89.0
Individuals				
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**1,295,918**	**100.0**	1,398,373	100.0
– Loans for the purchase of other residential properties	**11,027,034**	**99.9**	10,462,174	99.9
– Credit card advances	**3,223,932**	**–**	3,173,620	–
– Others	**7,660,111**	**67.6**	6,510,864	62.9
	23,206,995	**75.4**	21,545,031	74.0
Loans for use in Hong Kong	**45,134,458**	**83.2**	40,623,309	81.0
Trade finance	**3,928,675**	**68.7**	3,136,776	68.4
Loans for use outside Hong Kong	**16,147,816**	**71.7**	13,405,074	83.3
	65,210,949	**79.5**	57,165,159	80.9

14. 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 30 Jun 2010				
	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	**12,480,071**	**–**	**–**	**–**	**63,380**
Individuals					
– Loans for the purchase of other residential properties	**11,027,034**	**4,131**	**6,039**	**465**	**9,064**

	As at 31 Dec 2009				
	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	11,209,001	15,802	–	1,063	60,825
Individuals					
– Loans for the purchase of other residential properties	10,462,174	6,765	8,406	1,358	8,836

(b) Non-bank Mainland exposures

	As at 30 Jun 2010			
Type of counterparties	**On-balance sheet exposure**	**Off-balance sheet exposure**	**Total**	**Individually assessed impairment allowances**
Mainland entities	**4,366,322**	**899**	**4,367,221**	**5,281**
Companies and individuals outside Mainland where the credits are granted for use in the Mainland	**7,506,086**	**475,835**	**7,981,921**	**113,622**
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	**211,004**	**–**	**211,004**	**–**

14. Advances and other accounts (Continued)

(b) Non-bank Mainland exposures (Continued)

Type of counterparties	On-balance sheet exposure	Off-balance sheet exposure	Total	Individually assessed impairment allowances
	As at 31 Dec 2009			
Mainland entities	3,046,123	–	3,046,123	–
Companies and individuals outside Mainland where the credits are granted for use in the Mainland	5,543,273	578,294	6,121,567	164,245
Other counterparties the exposures to whom are considered by the Group to be non-bank Mainland exposures	214,212	–	214,212	–

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 advance is guaranteed by a party located in an area which is different from that of the counterparty.

The following table analyses gross advances to customers by geographical area.

	As at 30 Jun 2010	As at 31 Dec 2009
Gross advances to customers		
– Hong Kong	**55,470,403**	48,779,171
– China	**3,032,391**	1,479,379
– Macau	**6,066,100**	6,151,486
– Others	**642,055**	755,123
	65,210,949	57,165,159

In relation to the Group's impaired advances and overdue advances, over 90% of the outstanding balance as at 30 June 2010 and 31 December 2009 were classified under Hong Kong after taking into account the effect of transfer of risk.

14. Advances and other accounts (Continued)

(d) Impaired, overdue and rescheduled assets

Apart from the investments in certain securities included in the loans and receivables category described in Note 15, other assets of HK$639,000 (31 December 2009: HK$639,000) against which full individual impairment had been made, and advances to customers (as set out below), there were no advances to banks or other assets which were individually impaired, overdue for over 3 months or rescheduled as at 30 June 2010 and 31 December 2009. In respect of advances to customers, the relevant amounts are analysed below.

(i) Impaired loans

	As at 30 Jun 2010	As at 31 Dec 2009
Impaired loans and advances to customers		
– Individually impaired (Note (1))	**334,725**	529,399
– Collectively impaired (Note (2))	**13,195**	17,767
	347,920	547,166
Impairment allowances made		
– Individually assessed (Note (3))	**(202,120)**	(316,378)
– Collectively assessed (Note (2))	**(12,470)**	(16,941)
	(214,590)	(333,319)
	133,330	213,847
Fair value of collaterals held*	**135,715**	215,514
Impaired loans and advances as a % of total loans and advances to customers	**0.53%**	0.96%

* Fair value of collateral is determined at the lower of the market value of collateral or outstanding loan balance.

Note:

(1) 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.

(2) 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.

(3) The above individual impairment allowances were made after taking into account the value of collaterals in respect of such advances as at 30 June/31 December.

14. Advances and other accounts (Continued)

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

(ii) Overdue loans

	As at 30 Jun 2010	**% of total advances to customers**	As at 31 Dec 2009	% of total advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	**69,986**	**0.10**	102,346	0.18
– one year or less but over six months	**50,283**	**0.08**	185,079	0.32
– over one year	**253,266**	**0.39**	267,141	0.47
	373,535	**0.57**	554,566	0.97
Market value of securities held against the secured overdue advances	**245,525**		350,867	
Secured overdue advances	**182,518**		256,960	
Unsecured overdue advances	**191,017**		297,606	
Individual impairment allowances	**179,352**		282,455	

(iii) Rescheduled advances net of amounts included in overdue advances shown above

	As at 30 Jun 2010	**% of total advances to customers**	As at 31 Dec 2009	% of total advances to customers
Rescheduled advances	**221,141**	**0.34**	236,637	0.41
Impairment allowances	**20,550**		24,242	

(e) Repossessed collateral

Repossessed collateral held is as follows:

	As at 30 Jun 2010	As at 31 Dec 2009
Nature of assets		
– Repossessed properties	**80,594**	49,109
– Others	**1,023**	8,240
	81,617	57,349

15. Investments in securities included in the loans and receivables category

	As at 30 Jun 2010	As at 31 Dec 2009
Investments in securities reclassified from the available-for-sale category		
– At fair value under fair value hedge (for hedging interest rate risk)	**5,354,013**	6,509,995
– At amortised cost	**1,914,914**	1,989,010
	7,268,927	8,499,005
Individual impairment allowances	**(1,610)**	(1,893)
	7,267,317	8,497,112
Investments in securities classified as loans and receivables upon initial recognition	**316,984**	302,236
	7,584,301	8,799,348

The individual impairment allowances were made in respect of an investment in a security with a carrying value of HK$92,647,000 at 30 June 2010 (31 December 2009: HK$102,758,000) which was assessed as individually impaired since 31 December 2009.

Investments in securities classified as loans and receivables upon initial recognition were overdue at the time of recognition. As at 30 June 2010 and 31 December 2009, these investments were overdue for more than one year.

Investments in securities included in the loans and receivables category are analysed as follows:

	As at 30 Jun 2010	As at 31 Dec 2009
Debt securities:		
– Listed in Hong Kong	**685,582**	655,689
– Listed outside Hong Kong	**6,335,031**	7,514,833
– Unlisted	**565,298**	630,719
	7,585,911	8,801,241
Less: individual impairment allowances	**(1,610)**	(1,893)
	7,584,301	8,799,348
Market value of listed securities	**6,010,603**	6,415,120

As at 30 June 2010 and 31 December 2009, there were no certificates of deposit held included in the above balances of investments in debt securities.

	As at 30 Jun 2010	As at 31 Dec 2009
Investments in securities included in the loans and receivables category are analysed by categories of issuers as follows:		
– Banks and other financial institutions	**4,118,583**	4,729,417
– Corporate entities	**3,467,328**	4,071,824
	7,585,911	8,801,241

16. Available-for-sale securities

	As at 30 Jun 2010	As at 31 Dec 2009
Debt securities:		
– Listed in Hong Kong	**334,889**	381,931
– Listed outside Hong Kong	**4,680,388**	4,298,062
– Unlisted	**8,110,565**	7,231,327
	13,125,842	11,911,320
Equity securities:		
– Listed in Hong Kong	**1,094**	646
– Listed outside Hong Kong	**72,607**	70,804
– Unlisted	**91,222**	103,408
	164,923	174,858
Total available-for-sale securities	**13,290,765**	12,086,178

As at 30 June 2010 and 31 December 2009, there were no certificates of deposit held included in the above balances of investments in debt securities.

	As at 30 Jun 2010	As at 31 Dec 2009
Available-for-sale securities are analysed by categories of issuers as follows:		
– Central governments and central banks	**4,622,739**	2,841,211
– Public sector entities	**61,002**	426,487
– Banks and other financial institutions	**4,486,410**	4,585,024
– Corporate entities	**4,119,086**	4,231,928
– Others	**1,528**	1,528
	13,290,765	12,086,178

In the six months ended 30 June 2010, the Group did not reclassify any investments in securities out of the available-for-sale category (six months ended 30 June 2009: investments in securities with a total market value at the time of reclassification of HK$1,640,590,000 and HK$3,259,762,000 were reclassified from the available-for-sale category into the loans and receivables category and the held-to-maturity category respectively).

17. Held-to-maturity securities

	As at 30 Jun 2010	As at 31 Dec 2009
Debt securities:		
– Listed in Hong Kong	**194,200**	193,414
– Listed outside Hong Kong	**6,453,038**	6,114,930
– Unlisted	**1,859,074**	2,290,064
	8,506,312	8,598,408
Market value of listed securities	**6,105,394**	5,846,622

As at 30 June 2010 and 31 December 2009, there were no certificates of deposit held included in the above balances of investments in debt securities.

	As at 30 Jun 2010	As at 31 Dec 2009
Held-to-maturity securities are analysed by issuer as follows:		
– Central governments and central banks	**1,246,201**	1,100,627
– Public sector entries	**194,200**	193,414
– Banks and other financial institutions	**4,926,883**	5,178,356
– Corporate entities	**2,139,028**	2,126,011
	8,506,312	8,598,408

18. Other accounts and accruals

	As at 30 Jun 2010	As at 31 Dec 2009
Amounts payable arising from purchase of securities pending for settlement	**25,236**	–
Other accounts payable and accruals	**1,990,361**	1,861,540
	2,015,597	1,861,540

19. Reserves

	As at 30 Jun 2010	As at 31 Dec 2009
Reserves		
Share premium	**3,351,776**	3,351,776
Consolidation reserve	**(220,986)**	(220,986)
Premises revaluation reserve	**928,642**	953,217
Investment revaluation reserve	**(951,270)**	(1,159,862)
Exchange reserve	**74,243**	65,140
General reserve	**700,254**	700,254
Retained earnings	**6,507,381**	5,972,342
	10,390,040	9,661,881
Proposed dividend included in retained earnings	**77,823**	–

The Group's Hong Kong banking subsidiaries, DSB and MEVAS, are required to maintain regulatory reserve to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. At 30 June 2010, each of DSB and MEVAS had earmarked a regulatory reserve of HK$393,481,000 (31 December 2009: HK$305,774,000) and HK$20,321,000 (31 December 2009: HK$18,343,000) 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 ("HKMA").

20. Contingent liabilities and commitments

(a) Capital commitments

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

	As at 30 Jun 2010	As at 31 Dec 2009
Expenditure authorised but not contracted for	**1,721**	97
Expenditure contracted but not provided for	**107,726**	92,823
	109,447	92,920

(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 amounts	
	As at 30 Jun 2010	As at 31 Dec 2009
Direct credit substitutes	**529,961**	628,899
Transaction-related contingencies	**16,499**	14,104
Trade-related contingencies	**518,378**	536,962
Commitments that are unconditionally cancellable without prior notice	**31,679,722**	32,030,819
Other commitments with an original maturity of:		
– Under 1 year	**5,894,619**	3,859,558
– 1 year and over	**1,528,511**	933,340
Forward forward deposits placed	**24,526**	61,508
	40,192,216	38,065,190

	Credit risk weighted amounts	
	As at 30 Jun 2010	As at 31 Dec 2009
Contingent liabilities and commitments	**1,935,527**	1,459,809

(c) Assets pledged

Assets pledged as collateral with the HKMA and with unrelated financial institutions under repurchase agreements are as follows:

	As at 30 Jun 2010	As at 31 Dec 2009
Trading securities	**1,994,645**	4,689,792
Available-for-sale securities	**764,003**	781,976
Held-to-maturity securities	**110,787**	148,065
Investments in securities included in the loans and receivables category	**17,504**	93,603
	2,886,939	5,713,436

20. 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 30 Jun 2010	As at 31 Dec 2009
Not later than 1 year	**89,430**	88,794
Later than 1 year and not later than 5 years	**109,511**	113,410
Later than 5 years	**67,327**	33,392
	266,268	235,596

21. Cross-border claims

Equivalent in HK$ millions

	As at 30 Jun 2010			
	Banks and other financial institutions	**Public sector entities**	**Others**	**Total**
Asia Pacific excluding Hong Kong	**11,187**	**97**	**8,170**	**19,454**
North and South America	**372**	**–**	**2,652**	**3,024**
Europe	**7,984**	**48**	**2,864**	**10,896**
	19,543	**145**	**13,686**	**33,374**

	As at 31 Dec 2009			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	9,965	98	8,120	18,183
North and South America	552	–	3,116	3,668
Europe	13,870	–	2,910	16,780
	24,387	98	14,146	38,631

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

22. Operating segment reporting

Segment reporting by the Group was prepared in accordance with HKFRS 8 "Operating Segments". Information reported to the chief operating decision maker, which includes the Chief Executive and other Executive Committee members, for the purposes of resource allocation and assessment of performance, is determined on the basis of personal banking, commercial banking, treasury and overseas banking business. Operating performances are analysed by business activities for local banking business, and on business entity basis for overseas banking business.

Considering the customer groups, products and services of local businesses, the economic environment, and regulations, we group the operating segments of the Group into the following reportable segments:

- 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 centralized cash management for deposit taking and lending, interest rate risk management, management of investment in securities and the overall funding of the Group.

- Overseas banking businesses includes personal banking, commercial banking business activities provided by overseas subsidiaries in Macau and China, and the Group's interest in a commercial bank in China.

- Others include results of operations not directly identified under other reportable segments, corporate investments and debt funding (including subordinated notes).

For the purpose of segment reporting, revenue derived from customers, products and services directly identifiable with individual segments are reported directly under respective segments, while revenue and funding cost arising from inter-segment funding operation and funding resources are allocated to segments by way of transfer pricing mechanism with reference to market interest rates. Transactions within segments are priced based on similar terms offered to or transacted with external parties. Inter-segment income or expenses are eliminated on consolidation.

All direct costs incurred by different segments are grouped under respective segments. Indirect costs and support functions' costs are allocated to various segments and products based on effort and time spent as well as segments' operating income depending on the nature of costs incurred. Costs related to corporate activities that cannot be reasonably allocated to segments, products and support functions are grouped under Others as unallocated corporate expenses.

22. Operating segment reporting (Continued)

For the six months ended 30 June 2010

	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Total
Net interest income/(expenses)	**451,600**	**373,917**	**93,620**	**133,682**	**(56,686)**	**996,133**
– external customers	**278,230**	**382,298**	**245,283**	**144,695**	**(54,373)**	**996,133**
– inter-segments	**173,370**	**(8,381)**	**(151,663)**	**(11,013)**	**(2,313)**	**–**
Non-interest income/(expenses)	**98,158**	**56,054**	**16,975**	**38,443**	**(20,321)**	**189,309**
Total operating income/(expenses)	**549,758**	**429,971**	**110,595**	**172,125**	**(77,007)**	**1,185,442**
Operating expenses	**(368,136)**	**(116,961)**	**(34,975)**	**(117,455)**	**(6,804)**	**(644,331)**
Operating profit/(loss) before impairment losses	**181,622**	**313,010**	**75,620**	**54,670**	**(83,811)**	**541,111**
Loan impairment (losses)/reversal and other credit provisions	**(31,643)**	**3,277**	**–**	**(6,434)**	**–**	**(34,800)**
Operating profit/(loss) before gains or losses on certain investments and fixed assets	**149,979**	**316,287**	**75,620**	**48,236**	**(83,811)**	**506,311**
Net (loss)/gain on disposal of premises, investment properties and other fixed assets	**(358)**	**–**	**–**	**29**	**4,945**	**4,616**
Net (loss)/gain on disposal and repurchase of financial instruments	**(104)**	**–**	**(126,455)**	**(6,301)**	**82,784**	**(50,076)**
Share of results of an associate	**–**	**–**	**–**	**105,622**	**–**	**105,622**
Share of results of jointly controlled entities	**–**	**–**	**–**	**–**	**2,793**	**2,793**
Profit/(loss) before income tax	**149,517**	**316,287**	**(50,835)**	**147,586**	**6,711**	**569,266**
Income tax (expense)/credit	**(22,488)**	**(52,187)**	**8,388**	**(7,439)**	**11,597**	**(62,129)**
Profit/(loss) after income tax	**127,029**	**264,100**	**(42,447)**	**140,147**	**18,308**	**507,137**
For the six months ended 30 June 2010						
Depreciation and amortisation	**20,242**	**8,523**	**1,587**	**20,992**	**8,486**	**59,830**
As at 30 June 2010						
Segment assets	**25,663,287**	**31,502,725**	**43,267,844**	**16,504,391**	**1,624,158**	**118,562,405**
Segment liabilities	**57,717,056**	**13,872,998**	**16,732,298**	**13,011,298**	**5,709,469**	**107,043,119**

22. Operating segment reporting (Continued)

For the six months ended 30 June 2009

	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Others	Total
Net interest income/(expenses)	392,797	459,807	253,495	117,445	(161,430)	1,062,114
– external customers	219,140	451,901	444,465	119,347	(172,739)	1,062,114
– inter-segments	173,657	7,906	(190,970)	(1,902)	11,309	–
Non-interest income/(expenses)	106,556	40,506	42,959	21,996	(55,434)	156,583
Total operating income/(loss)	499,353	500,313	296,454	139,441	(216,864)	1,218,697
Operating expenses	(689,642)	(114,416)	(45,587)	(108,366)	(5,871)	(963,882)
Operating (loss)/profit before impairment losses	(190,289)	385,897	250,867	31,075	(222,735)	254,815
Loan impairment losses and other credit provisions	(64,147)	(202,675)	–	(5,668)	–	(272,490)
Operating (loss)/profit before gains or losses on certain investments and fixed assets	(254,436)	183,222	250,867	25,407	(222,735)	(17,675)
Net gain on disposal of premises, investment properties and other fixed assets	–	–	–	26	3,270	3,296
Net (loss)/gain on disposal and repurchase of financial instruments	(203)	–	2	–	250,460	250,259
Share of results of an associate	–	–	–	78,117	–	78,117
Share of results of jointly controlled entities	–	–	–	–	1,728	1,728
(Loss)/profit before income tax	(254,639)	183,222	250,869	103,550	32,723	315,725
Income tax credit/(expense)	42,153	(30,447)	(41,473)	(2,431)	23,300	(8,898)
(Loss)/profit after income tax	(212,486)	152,775	209,396	101,119	56,023	306,827
For the six months ended 30 June 2009						
Depreciation and amortisation	18,324	8,247	2,588	20,473	6,991	56,623
As at 31 December 2009						
Segment assets	23,774,539	27,743,861	46,356,147	14,782,608	971,593	113,628,748
Segment liabilities	53,914,872	14,216,278	18,416,822	11,452,134	4,837,507	102,837,613

22. Operating segment reporting (Continued)

Revenues from external customers were contributed from banking subsidiaries in Hong Kong, Macau and People's Republic of China, with major products and services including deposit taking, extension of credit, asset-based finance, securities investment services offered to customers.

The following tables provide information by geographical area, which was determined with reference to the domicile of the legal entities within the group with business dealing and relationship with, and services to external customers.

	Hong Kong and Others	**Macau**	**Inter-segment elimination**	**Total**
For the six months ended 30 June 2010				
Operating income	**1,068,086**	**117,527**	**(171)**	**1,185,442**
Profit before income tax	**535,875**	**33,391**	**–**	**569,266**
As at 30 June 2010				
Total assets	**109,247,893**	**11,523,720**	**(2,209,208)**	**118,562,405**
Total liabilities	**99,530,094**	**9,722,233**	**(2,209,208)**	**107,043,119**
Intangible assets and goodwill	**318,667**	**597,210**	**–**	**915,877**
Contingent liabilities and commitments	**41,698,616**	**1,756,254**	**–**	**43,454,870**

	Hong Kong and Others	Macau	Inter-segment elimination	Total
For the six months ended 30 June 2009				
Operating income	1,105,902	112,966	(171)	1,218,697
Profit before income tax	282,702	33,023	–	315,725
As at 31 December 2009				
Total assets	104,659,088	11,548,778	(2,579,118)	113,628,748
Total liabilities	95,627,966	9,788,765	(2,579,118)	102,837,613
Intangible assets and goodwill	318,667	603,455	–	922,122
Contingent liabilities and commitments	42,727,433	1,379,709	–	44,107,142

23. Capital adequacy ratio

	As at 30 Jun 2010	As at 31 Dec 2009
Capital adequacy ratio		
– Core	**10.7%**	10.2%
– Overall	**17.2%**	16.8%

The capital adequacy ratio represents the combined ratio of the consolidated position of DSB (covering BCM and DSB China), MEVAS and 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.

Only the Hong Kong incorporated banking subsidiaries within the Group are subject to the minimum capital adequacy ratio requirement under the Hong Kong Banking Ordinance. BCM is subject to Macau banking regulations and DSB China is subject to China 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 is analysed as follows:

	As at 30 Jun 2010	As at 31 Dec 2009
Core capital		
Paid up ordinary share capital	**4,007,749**	4,007,749
Share premium	**55,519**	55,519
Reserves	**5,597,261**	5,054,929
Less: goodwill	**(811,690)**	(811,690)
Less: other intangible assets	**(104,188)**	(140,432)
Less: net deferred tax assets	**(5,589)**	(4,830)
	8,739,062	8,161,245
Less: 50% of total amount of deductible items	**(453,460)**	(453,449)
Core capital	**8,285,602**	7,707,796
Supplementary capital		
Reserves on revaluation of holdings of land and buildings	**227,952**	237,355
Eligible amount of collective impairment allowances for impaired assets and regulatory reserve	**774,745**	682,329
Revaluation reserve for available-for-sale investments	**496**	741
Perpetual subordinated debt	**428,142**	1,008,137
Term subordinated debt	**4,085,292**	3,488,193
Total Supplementary capital	**5,516,627**	5,416,755
Eligible amount of Supplementary capital	**5,516,627**	5,416,755
Less: 50% of total amount of deductible items	**(453,460)**	(453,449)
Supplementary capital	**5,063,167**	4,963,306
Total capital base	**13,348,769**	12,671,102

24. Liquidity ratio

	Six months ended 30 Jun 2010	Six months ended 30 Jun 2009	Year ended 31 Dec 2009
Liquidity ratio	**48.6%**	56.4%	57.3%

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 six/twelve months of the financial year. The liquidity ratio is computed with reference to the methods set out in the Fourth Schedule of the Hong Kong Banking Ordinance.

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

FINANCIAL RATIOS

	Six months ended 30 Jun 2010	Six months ended 30 Jun 2009
Net interest income/operating income	**84.0%**	87.2%
Cost to income ratio	**54.4%**	79.1%
Loan to deposit (including certificates of deposit) ratio	**70.4%**	64.3%
Return on average total assets	**0.9%**	0.5%
Return on average shareholders' funds	**9.1%**	7.4%
Net interest margin	**1.87%**	1.98%

INTERIM DIVIDEND

The Directors have declared an interim dividend of HK$0.07 per share for 2010 payable on or after Friday, 24 September 2010 to shareholders whose names are on the Register of Shareholders at the close of business on Friday, 17 September 2010.

CLOSING OF REGISTER OF SHAREHOLDERS

The Register of Shareholders will be closed from Monday, 13 September 2010 to Friday, 17 September 2010, both days inclusive. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, Shops 1712 - 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Friday, 10 September 2010.

CORPORATE AND BUSINESS OVERVIEW

HIGHLIGHTS

Against a backdrop of steady economic performance in Hong Kong and the Mainland, and generally more stable financial markets than in the first half of 2009, our performance in the first half of 2010 improved substantially. Operating income was relatively steady, but with substantially lower operating expenses and credit cost, as well as fewer exceptional items, our profit attributable to shareholders improved very substantially, by 65% to HK$507 million, and earnings per share increasing by 44% to HK$0.46 per share.

With more stable market conditions, and much lower loan impairment costs, we resumed our growth strategy and are pleased to report that our loan book grew rapidly in the first half of the year, up by 14% relative to the end of 2009. Loan growth was most rapid in our commercial banking business with overall loans growing by 16% for the six months to 30 June 2010, particularly in the areas of large corporate syndicated loans, trade finance and property investment lending, despite a mild contraction of our hire purchase loan portfolio. Our retail banking business also reported healthy loan growth of 9%, driven mainly by mortgage lending, although credit cards and other personal loans reported mild growth for the period.

Net interest margin reduced mildly in the first half of the year, mainly due to the competition in the market relating to loan pricing, as well as higher deposit costs, in addition to the cost of maintaining high levels of liquidity during the period.

Our 20% associate, Bank of Chongqing performed well during the period, contributing HK$106 million, representing 35% growth comparing with the same period in 2009.

With the improved performance, we are pleased to announce the resumption of dividend payments, with an interim dividend of HK$0.07 per share declared by the Board of Directors.

Due to the strong recovery in profitability, and corresponding increase in retained earnings, even after the proposed dividend, as well as the increase in our total assets driven by loan increases, the combined capital adequacy of the Company improved compared with the 2009 year end, with core capital adequacy increasing from 10.2% to 10.7% and total capital adequacy increasing from 16.8% to 17.2%.

BUSINESS AND FINANCIAL REVIEW

Net interest income during the period reduced mildly by 6% from HK$1,062 million to HK$996 million, and net interest margin reduced by 11 basis points from 1.98% during the first half of 2009 to 1.87% in the period. The principal reason for the decline in net interest income was pressure on margins, due both to asset yields with strong competition in major loan markets and changes in business mix, as well as higher interest rate mark-ups on deposits and reduced deposit spreads due to the high levels of liquid assets maintained during the period and lower yields for short-term liquid assets. Whilst loan volumes grew strongly, most of the growth was achieved in the second quarter of the year, and therefore did not bring about higher benefit to the interest income line for the whole period.

Non-interest income grew by 21% to HK$189 million, driven mainly by fee and commission income increases as a result of higher volumes of lending business. Net trading income also improved, with a very strong performance in foreign exchange income offset to some extent by negative fair value items.

Total operating expenses were down significantly by 33% to HK$644 million in the first half of the year. In part this was due to the absence in provision expenses relating to possible settlement and compensation to customers having bought retail investment products from the Group's Hong Kong banking subsidiaries. However, even excluding the variance brought about by the provision expense reduction, core operating expenses remained very much under control, and were similar to the first half of 2009 on a normalized basis.

With continued tight cost control, our core operating expenses were slightly lower than the first half of 2008, and staff related expenses were lower after implementing cost rationalization programs since late 2008. Some non-staff cost increases were caused by higher premises and depreciation expenses, and also operating expenses in relation to the operation of our wholly owned subsidiary bank in China, which commenced its business in August 2008.

Credit quality, in both our commercial and retail lending businesses was much improved. Collective impairment charges reduced from HK$95 million to HK$47 million for the period, and individual impairment saw a mild write-back of previous charges of HK$12 million, against a net charge of HK$178 million in the first half of 2009. Underlying credit performance improved, with impaired loan ratio falling from 0.96% at the end of 2009 to 0.53% as at 30 June 2010. In addition, increases in prices of properties held as collateral against certain impaired loans contributed to the write-back of individual impairment charges.

The stable operating income, together with much lower operating expenses, due to smaller exceptional expenses, as well as tight control of core operating expenses, and the much lower impairment charges, contributed to a significant improvement in operating profit after loan impairment charges, from HK$18 million net charge to HK$506 million for the period.

Bank of Chongqing performed strongly during the period, resulting in an increase in the contribution from our 20% equity interest, under the share of results of an associate line from HK$78 million to HK$106 million for the period. We also benefited from a gain of HK$83 million on the repurchase of a portion of our perpetual subordinated debt callable in 2017, and the closing out of certain interest rate swap hedges associated with this, against a loss on disposal of certain securities of HK$133 million as part of our strategy to reduce the risk in our securities investment portfolio.

BUSINESS AND FINANCIAL REVIEW (Continued)

We continued to be prudent in the first half of the year in both our liquidity management, as well as our capital management. We issued a new US$225 million Lower Tier 2 10-year subordinated bond in the first quarter, and subsequently called and retired a previous issue of Lower Tier 2 subordinated debt in the amount of US$150 million, as well as repurchasing US$75 million of our perpetual subordinated debt callable in 2017 as referred to above. With the strong recovery in earnings, and retention of a substantial portion of such earnings, notwithstanding the resumption of dividend payments, our capital position further improved with an increase in overall capital adequacy from 16.8% to 17.2%, as well as an increase in our core Tier 1 capital from 10.2% to 10.7%.

PROSPECTS

After a relatively good first quarter, there are more recent signs of further pressure on economies in many parts of the world. This may lead to a slower global recovery, or even a renewed downturn in the global economies. So far, in relative terms, Asia, and in particular China has remained reasonably robust, albeit on a somewhat slower growth path than had previously been the case. We also note certain measures taken by the central government to cool various areas of the economy, notably in the property sector.

Taking all of these into account, we enter the second half of the year in a reasonably conservative position. Whilst we do not see any immediate major problems ahead for the economy in Hong Kong and the Mainland, we believe that it is appropriate to be prepared for a potential further slow-down, and potential challenges that could be caused by renewed market volatility. Therefore, we continue to hold high levels of liquidity and capital, and we are also likely to see the pace of growth slow in the second half. We are also mindful of forthcoming changes to banking regulation globally, in particular relating to capital and liquidity requirements, and will review the impact of these changes in detail once they have been announced.

However, our conservatism is measured, and we still see bright prospects ahead in the medium term. With our core business base in Hong Kong, and our expansion in Macau and the Mainland, we believe that the dynamism of the Greater China region will provide us with many opportunities in the years to come.

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 six months ended 30 June 2010.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding directors' securities dealings 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 dealings have been fully complied with.

COMPLIANCE WITH THE BANKING (DISCLOSURE) RULES

In preparing the interim financial disclosure, the Group's Hong Kong banking subsidiaries have fully complied with the requirements set out in the Banking (Disclosure) Rules issued by the HKMA.

UNAUDITED FINANCIAL STATEMENTS

The financial information in this interim results announcement is unaudited and does not constitute statutory financial statements.

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 the unaudited interim financial statements for the six months ended 30 June 2010.

REMUNERATION AND STAFF DEVELOPMENT

There have been no material changes to the information disclosed in the Company's 2009 Annual Report in respect of the remuneration of employees, remuneration policies and training schemes.

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 six months ended 30 June 2010.

INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

Copies of this announcement may be obtained from Corporate Secretarial Department at 36th Floor, Dah Sing Financial Centre, 108 Gloucester Road, Hong Kong, or downloaded from the Company's website at <http://www.dahsing.com> free of charge.

The 2010 Interim Report of the Group containing all the information required by the Listing Rules will be published on the websites of the Hong Kong Stock Exchange and the Company in due course. Printed copies of the 2010 Interim Report will be sent to shareholders before the end of September 2010.

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; Mr. Kazutake Kobayashi as Non-Executive Director; Messrs. John William Simpson, David Richard Hinde, Robert Tsai-To Sze, Andrew Kwan-Yuen Leung and Seng-Lee Chan as Independent Non-Executive Directors.

By Order of the Board
H L Soo
Company Secretary

Hong Kong, Monday, 9 August 2010