

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

Dah Sing Financial Holdings Limited
(Incorporated in Hong Kong with limited liability under the Companies Ordinance)
(Stock code: 440)



ANNOUNCEMENT OF 2020 INTERIM RESULTS

The Directors of Dah Sing Financial Holdings 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 2020. The unaudited profit attributable to shareholders after non-controlling interests for the six months ended 30 June 2020 was HK\$744.8 million.

UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

The unaudited 2020 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.

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June

HK\$'000	Note	2020	2019	Variance %
Interest income	3	3,447,007	3,713,427	
Interest expense	3	<u>(1,574,487)</u>	<u>(1,646,370)</u>	
Net interest income		1,872,520	2,067,057	(9.4)
Fee and commission income	4	675,271	723,941	
Fee and commission expense	4	<u>(103,639)</u>	<u>(152,863)</u>	
Net fee and commission income		571,632	571,078	0.1
Net trading income	5	131,786	38,673	
Net insurance premium and other income		240,760	218,703	
Other operating income	6	91,271	84,603	
Operating income		2,907,969	2,980,114	(2.4)
Net insurance claims and expenses		<u>(156,875)</u>	<u>(142,277)</u>	
Total operating income net of insurance claims		2,751,094	2,837,837	(3.1)
Operating expenses	7	<u>(1,469,948)</u>	<u>(1,434,343)</u>	2.5
Operating profit before impairment losses		1,281,146	1,403,494	(8.7)
Credit impairment losses	8	<u>(365,245)</u>	<u>(92,747)</u>	293.8
Operating profit before gains and losses on certain investments and fixed assets		915,901	1,310,747	(30.1)
Net loss on disposal of other fixed assets		(2,867)	(2,509)	
Net gain/ (loss) on disposal of financial assets at fair value through other comprehensive income		11,594	(24)	
Share of results of an associate		411,759	410,860	
Impairment loss on investment in an associate	9	<u>(200,000)</u>	<u>(70,000)</u>	
Share of results of jointly controlled entities		13,580	12,499	
Profit before taxation		1,149,967	1,661,573	(30.8)
Taxation	10	<u>(161,699)</u>	<u>(199,515)</u>	
Profit for the period		988,268	1,462,058	(32.4)
Profit attributable to non-controlling interests		<u>(243,500)</u>	<u>(348,237)</u>	
Profit attributable to Shareholders of the Company		744,768	1,113,821	(33.1)
Interim dividend		<u>86,285</u>	<u>124,634</u>	
Earnings per share				
Basic and diluted	11	<u>HK\$2.33</u>	<u>HK\$3.41</u>	

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June

HK\$'000	2020	2019
Profit for the period	988,268	1,462,058
Other comprehensive income for the period		
Items that may be reclassified to the consolidated income statement:		
Investments in securities		
Net change in fair value of debt instruments at fair value through other comprehensive income	(540,090)	346,370
Net change in allowance for expected credit losses of debt instruments at fair value through other comprehensive income	4,422	5,927
Net (gain)/ loss realised and transferred to income statement upon:		
- Disposal of debt instruments at fair value through other comprehensive income	(11,594)	24
Deferred income tax related to the above	88,816	(45,626)
	(458,446)	306,695
Exchange differences arising on translation of the financial statements of foreign entities	(128,579)	(18,228)
Items that will not be reclassified to the consolidated income statement:		
Net change in fair value of equity instruments at fair value through other comprehensive income	(21,506)	336,122
Deferred income tax related to the above	12,878	(5,443)
	(8,628)	330,679
Other comprehensive (loss)/ income for the period, net of tax	(595,653)	619,146
Total comprehensive income for the period, net of tax	392,615	2,081,204
Attributable to:		
Non-controlling interests	94,348	423,508
Shareholders of the Company	298,267	1,657,696
Total comprehensive income for the period, net of tax	392,615	2,081,204

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

HK\$'000	Note	As at 30 Jun 2020	As at 31 Dec 2019
ASSETS			
Cash and balances with banks		18,544,117	18,445,267
Placements with banks maturing between one and twelve months		6,500,233	6,332,707
Trading securities	12	7,356,540	8,387,953
Financial assets at fair value through profit or loss	12	196,032	680,731
Derivative financial instruments		611,292	577,930
Advances and other accounts	13	148,828,876	146,239,992
Financial assets at fair value through other comprehensive income	14	48,162,614	45,511,057
Financial assets at amortised cost	15	21,356,004	15,742,992
Investment in an associate	9	3,841,036	3,888,775
Investments in jointly controlled entities		109,943	96,363
Goodwill		874,603	874,603
Intangible assets		80,927	80,927
Premises and other fixed assets		2,122,831	2,169,210
Investment properties		1,166,842	1,166,842
Current income tax assets		-	1,033
Deferred income tax assets		189,511	115,597
Total assets		259,941,401	250,311,979
LIABILITIES			
Deposits from banks		4,697,208	2,465,069
Derivative financial instruments		2,947,777	1,093,028
Trading liabilities		4,691,047	5,516,558
Deposits from customers		187,080,907	182,115,297
Certificates of deposit issued		8,388,218	6,750,825
Subordinated notes		3,860,820	5,510,181
Other accounts and accruals	16	14,213,481	12,516,794
Current income tax liabilities		297,187	483,388
Deferred income tax liabilities		38,470	56,298
Total liabilities		226,215,115	216,507,438
EQUITY			
Non-controlling interests		6,962,340	6,999,311
Equity attributable to the Company's shareholders			
Share capital		4,248,559	4,248,559
Other reserves (including retained earnings)		22,515,387	22,556,671
Shareholders' funds	17	26,763,946	26,805,230
Total equity		33,726,286	33,804,541
Total equity and liabilities		259,941,401	250,311,979

Note:

1. General information

Dah Sing Financial Holdings Limited (the “Company”) and its subsidiaries (together the “Group”) provide banking, insurance, financial and other related services in Hong Kong, Macau, and the People’s Republic of China.

2. Unaudited financial statements and accounting policies

The information set out in this interim results announcement does not constitute statutory financial statements.

Certain financial information in this interim results announcement is extracted from the statutory financial statements for the year ended 31 December 2019 (the “2019 financial statements”) which have been delivered to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance, and the Hong Kong Monetary Authority (“HKMA”).

The auditor’s report on the 2019 financial statements was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

Basis of preparation and accounting policies

Except as described below, the accounting policies and methods of computation used in the preparation of the 2020 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 2019.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, and the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

The following amendments to accounting standards are applicable for annual reporting periods commencing on or after 1 January 2020:

- Definition of Material – amendments to Hong Kong Accounting Standard (“HKAS”) 1 and HKAS 8
- Definition of a Business – amendments to Hong Kong Financial Reporting Standard (“HKFRS”) 3
- Revised Conceptual Framework for Financial Reporting
- Interest Rate Benchmark Reform – amendments to HKFRS 9, HKAS 39 and HKFRS 7

Amendments made to HKFRS 9, “Financial Instruments”, HKAS 39, “Financial Instruments: Recognition and Measurement” and HKFRS 7, “Financial Instruments: Disclosures” provide certain reliefs in relation to interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving interbank offered rates (IBOR)-based contracts, the reliefs will affect companies in all industries.

2. Unaudited financial statements and accounting policies (Continued)

Basis of preparation and accounting policies (Continued)

(b) New and amended standards and interpretations not yet adopted

HKFRS 17, “Insurance contracts”

Insurance contracts are defined as contracts “under which one party (the issuer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder”. Entities should be aware that this could also include certain contracts entered into by entities that are not insurers, such as fixed-fee for service contracts.

HKFRS 17 is effective for annual reporting periods beginning on or after 1 January 2023. The Group is yet to assess the impact of the standard on the Group’s consolidated financial statements.

There are no other HKFRSs or interpretations that are effective from 1 January 2020 or not yet effective that would be expected to have a material impact on the Group.

The interim condensed consolidated financial statements are presented in thousands of Hong Kong dollars (HK\$’000), unless otherwise stated, and were approved by the Board of Directors for issue on 26 August 2020.

These interim condensed consolidated financial statements have not been audited.

3. Net interest income

For the six months ended 30 June

HK\$’000	2020	2019
Interest income		
Cash and balances with banks	165,423	272,632
Investments in securities	794,980	871,361
Advances and other accounts	2,486,604	2,569,434
	3,447,007	3,713,427
Interest expense		
Deposits from banks/ Deposits from customers	1,375,137	1,347,476
Certificates of deposit issued	68,984	75,280
Subordinated notes	84,762	149,997
Lease liabilities	5,710	7,072
Others	39,894	66,545
	1,574,487	1,646,370
Included within interest income		
- Trading securities and financial assets at fair value through profit or loss	47,621	70,048
- Financial assets at fair value through other comprehensive income	605,098	1,019,853
- Financial assets at amortised cost	2,794,288	2,623,526
	3,447,007	3,713,427
Included within interest expense		
- Financial liabilities not at fair value through profit or loss	1,536,772	1,590,546

4. Net fee and commission income

For the six months ended 30 June

HK\$'000	2020	2019
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	83,576	95,446
- Trade finance	36,214	44,040
- Credit card	125,480	173,850
Other fee and commission income		
- Securities brokerage	82,257	54,238
- Insurance distribution and others	151,333	157,802
- Retail investment and wealth management services	134,702	139,438
- Bank services and handling fees	32,335	32,517
- Other fees	29,374	26,610
	<u>675,271</u>	<u>723,941</u>
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	98,564	141,123
- Other fees paid	5,075	11,740
	<u>103,639</u>	<u>152,863</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.

5. Net trading income

For the six months ended 30 June

HK\$'000	2020	2019
Dividend income from financial assets at fair value through profit or loss	3,945	8,663
Net gain/ (loss) arising from dealing in foreign currencies	71,244	(6,055)
Net gain on trading securities	9,147	7,346
Net gain/ (loss) from derivatives entered into for trading purpose	81,556	(2,959)
Net gain arising from financial instruments subject to fair value hedge	12,669	6,029
Net (loss)/ gain on financial instruments at fair value through profit or loss	<u>(46,775)</u>	<u>25,649</u>
	<u>131,786</u>	<u>38,673</u>

6. Other operating income

For the six months ended 30 June

HK\$'000	2020	2019
Dividend income from investments in equity instruments at fair value through other comprehensive income		
- Derecognised during the period		
- Listed investments	4,084	3,116
- Held at the end of the period		
- Listed investments	49,054	43,841
- Unlisted investments	3,375	3,401
Gross rental income from investment properties	18,464	18,607
Other rental income	7,446	6,538
Others	8,848	9,100
	91,271	84,603

7. Operating expenses

For the six months ended 30 June

HK\$'000	2020	2019
Employee compensation and benefit expenses (including directors' remuneration)	1,033,359	986,935
Premises and other fixed assets expenses, excluding depreciation	83,938	86,750
Depreciation		
- Premises and other fixed assets	91,144	93,703
- Right-of-use properties	91,921	90,939
Advertising and promotion costs	51,718	50,703
Printing, stationery and postage	21,979	23,277
Others	95,889	102,036
	1,469,948	1,434,343

8. Credit impairment losses

For the six months ended 30 June

HK\$'000	2020	2019
New allowances net of allowance releases	408,006	124,593
Recoveries of amounts previously written off	(42,761)	(31,846)
	365,245	92,747
Attributable to:		
- Advances to customers	336,289	87,342
- Other financial assets	27,760	10,213
- Loan commitments and financial guarantees	1,196	(4,808)
	365,245	92,747

9. Impairment loss on investment in an associate

At 30 June 2020, the fair value of the Group's investment in Bank of Chongqing ("BOCQ") had been below the carrying amount for approximately 6.5 years. On this basis, the Group continues to perform impairment test on the carrying amount of the investment in BOCQ to assess the recoverable amount.

The impairment test is performed by comparing the recoverable amount of BOCQ, determined by a value in use ("VIU") calculation, with the carrying amount of the investment. The VIU calculation uses discounted cash flow projections based on management's estimates of BOCQ's earnings and dividends to be paid in future, and the estimated probable exit value in future after considering the growth of BOCQ and its net asset value for the medium and longer term. The discount rate applied to the VIU calculation was estimated with reference to BOCQ's cost of equity, which is publicly available in the market.

In performing the VIU calculation to arrive at the recoverable amount of the investment, the Group considers all relevant factors including market views and qualitative factors to ensure that the inputs to the VIU calculation are appropriate. Adjustments need to be made to reflect the latest situation affecting BOCQ and also market outlook for the medium and longer term that are relevant in projecting BOCQ's future performance. Significant management judgement is required in estimating the future cash flows of BOCQ.

Based on the assessment conducted for the position up to 31 December 2019, the recoverable amount, as determined by the VIU calculation and after considering all relevant factors and valuation assumptions, remained below the carrying amount, and a cumulative impairment charge at HK\$1,735 million had been recognised. The latest impairment test performed by the Group for the position as at 30 June 2020 concludes that the recoverable amount, based on the VIU calculation, is assessed as lower than the carrying amount, after deducting the cumulative impairment allowance made up to 31 December 2019 of HK\$1,735 million, by HK\$200 million. As a result, an additional impairment charge of HK\$200 million was recognised in the first half of 2020 to reduce the value of the investment to HK\$3,841 million.

The calculation of Dah Sing Bank, Limited ("DSB")'s capital adequacy does not include the retained earnings from this investment (the "Investment"), except for BOCQ cash dividend received by DSB. Provided that the Investment continues to be held at or above the original cost of the investment of HK\$1,213 million, impairment made on the Investment does not affect DSB's capital adequacy.

10. Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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 at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised.

For the six months ended 30 June

HK\$'000	2020	2019
Current income tax		
- Hong Kong profits tax	144,162	176,239
- Overseas taxation	9,211	19,084
Deferred income tax		
- Origination and reversal of temporary differences	8,326	4,192
Taxation	161,699	199,515

11. Basic and diluted earnings per share

The calculation of basic earnings per share and fully dilutive earnings for the six months ended 30 June 2020 is based on earnings of HK\$744,768,000 (2019: HK\$1,113,821,000) and the weighted average number of 319,575,100 (2019: 327,025,376) ordinary shares in issue during the period.

The calculation of weighted average number of ordinary shares has taken into account the effect of the share buy-back transaction described in Note 17(a) below.

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

HK\$'000	As at 30 Jun 2020	As at 31 Dec 2019
Trading securities		
Debt securities:		
- Listed in Hong Kong	98,037	20,681
- Unlisted	<u>7,258,503</u>	<u>8,367,272</u>
	<u>7,356,540</u>	<u>8,387,953</u>
Financial assets at fair value through profit or loss		
Debt securities:		
- Unlisted	33,103	395,061
	<u>33,103</u>	<u>395,061</u>
Equity securities:		
- Listed in Hong Kong	162,929	276,964
- Listed outside Hong Kong	-	8,706
	<u>162,929</u>	<u>285,670</u>
	<u>196,032</u>	<u>680,731</u>
Total	<u>7,552,572</u>	<u>9,068,684</u>
Included within debt securities are:		
- Treasury bills which are cash equivalents	3,042,551	1,606,484
- Other treasury bills	4,236,698	6,781,469
- Other debt securities	<u>110,394</u>	<u>395,061</u>
	<u>7,389,643</u>	<u>8,783,014</u>

As at 30 June 2020 and 31 December 2019, there were no certificates of deposit held included in the above balances.

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

- Central governments and central banks	7,279,249	8,387,953
- Banks and other financial institutions	25,312	42,290
- Corporate entities	<u>248,011</u>	<u>638,441</u>
	<u>7,552,572</u>	<u>9,068,684</u>

13. Advances and other accounts

HK\$'000	As at 30 Jun 2020	As at 31 Dec 2019
Gross advances to customers	138,234,951	136,946,773
Less: impairment allowances		
- Stage 1	(503,033)	(474,635)
- Stage 2	(168,271)	(152,754)
- Stage 3	(500,952)	(381,197)
	<u>(1,172,256)</u>	<u>(1,008,586)</u>
	<u>137,062,695</u>	<u>135,938,187</u>
Trade bills	3,115,022	3,393,863
Less: impairment allowances		
- Stage 1	(3,251)	(1,982)
- Stage 2	(27)	(7)
	<u>(3,278)</u>	<u>(1,989)</u>
	<u>3,111,744</u>	<u>3,391,874</u>
Right-of-use assets	<u>250,342</u>	<u>417,042</u>
Other assets	8,442,762	6,525,431
Less: impairment allowances		
- Stage 1	(12,340)	(10,026)
- Stage 2	(728)	(598)
- Stage 3	(25,599)	(21,918)
	<u>(38,667)</u>	<u>(32,542)</u>
	<u>8,404,095</u>	<u>6,492,889</u>
Advances and other accounts	<u>148,828,876</u>	<u>146,239,992</u>

13. Advances and other accounts (Continued)

(a) Gross advances to customers by industry sector classified according to the usage of loans

HK\$'000	As at 30 Jun 2020		As at 31 Dec 2019	
	Outstanding balance	% of gross advances	Outstanding balance	% of gross advances
Loans for use in Hong Kong				
Industrial, commercial and financial				
- Property development	5,084,415	3.7	4,700,618	3.4
- Property investment	16,518,677	11.9	15,972,169	11.7
- Financial concerns	6,880,646	5.0	6,057,400	4.4
- Stockbrokers	1,010,334	0.7	1,585,717	1.2
- Wholesale and retail trade	6,341,304	4.6	6,455,795	4.7
- Manufacturing	1,916,351	1.4	1,978,378	1.4
- Transport and transport equipment	2,598,546	1.9	3,496,770	2.6
- Recreational activities	99,736	0.1	103,724	0.1
- Information technology	59,724	-	52,976	-
- Others	5,733,108	4.1	4,464,895	3.3
	46,242,841	33.4	44,868,442	32.8
Individuals				
- Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	563,471	0.4	584,349	0.4
- Loans for the purchase of other residential properties	30,712,053	22.2	29,864,112	21.8
- Credit card advances	3,644,439	2.7	3,761,021	2.8
- Others	12,906,132	9.3	13,196,910	9.6
	47,826,095	34.6	47,406,392	34.6
Loans for use in Hong Kong	94,068,936	68.0	92,274,834	67.4
Trade finance (Note (1))	8,701,810	6.3	8,815,573	6.4
Loans for use outside Hong Kong (Note (2))	35,464,205	25.7	35,856,366	26.2
	138,234,951	100.0	136,946,773	100.0

Note:

(1) Trade finance shown above represents loans covering finance of imports to Hong Kong, exports and re-exports from Hong Kong and merchandising trade classified with reference to the relevant guidelines issued by the HKMA.

Trade finance loans not involving Hong Kong (including trade finance extended by the overseas subsidiary banks of DSB) totalling HK\$247,855,000 (31 December 2019: HK\$294,310,000) are classified under "Loans for use outside Hong Kong".

(2) "Loans for use outside Hong Kong" include loans extended to customers located in Hong Kong with the finance used outside Hong Kong.

13. Advances and other accounts (Continued)

(b) Impaired, overdue and rescheduled assets

(i) Impaired loans

HK\$'000	As at 30 Jun 2020	As at 31 Dec 2019
Gross loans and advances	138,234,951	136,946,773
Less: total impairment allowances	(1,172,256)	(1,008,586)
Net	<u>137,062,695</u>	<u>135,938,187</u>
Credit-impaired loans and advances	1,410,390	1,049,226
Less: Stage 3 impairment allowances	(500,952)	(381,197)
Net	<u>909,438</u>	<u>668,029</u>
Fair value of collateral held*	<u>829,723</u>	<u>590,496</u>
Credit-impaired loans and advances as a % of total loans and advances to customers	<u>1.02%</u>	<u>0.77%</u>

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

(ii) Gross amount of overdue loans

	As at 30 Jun 2020		As at 31 Dec 2019	
	Gross amount of overdue loans	% of total	Gross amount of overdue loans	% of total
Gross advances to customers which have been overdue for:				
- six months or less but over three months	115,125	0.08	180,317	0.13
- one year or less but over six months	279,578	0.20	250,661	0.18
- over one year	519,620	0.38	318,703	0.23
	<u>914,323</u>	<u>0.66</u>	<u>749,681</u>	<u>0.54</u>
Represented by:				
- Secured overdue advances	676,567		578,446	
- Unsecured overdue advances	237,756		171,235	
Market value of securities held against the secured overdue advances	<u>1,003,393</u>		<u>885,515</u>	
Stage 3 impairment allowances	<u>327,084</u>		<u>226,415</u>	

Collateral held mainly represented pledged deposits, mortgages over properties and charges over other fixed assets such as equipment.

13. Advances and other accounts (Continued)

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

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

HK\$'000	As at 30 Jun 2020	% of total	As at 31 Dec 2019	% of total
Advances to customers	<u>386,030</u>	<u>0.28</u>	<u>270,909</u>	<u>0.20</u>
Stage 3 impairment allowances	<u>136,762</u>		<u>112,734</u>	

(iv) Trade bills

	As at 30 Jun 2020	As at 31 Dec 2019
Trade bills which have been overdue for:		
- one year or less but over six months	-	11,907
- over one year	<u>7,894</u>	<u>-</u>
	<u>7,894</u>	<u>11,907</u>
Stage 3 impairment allowances	<u>-</u>	<u>-</u>

The overdue trade bills are fully secured.

(c) Repossessed collateral

Repossessed collateral held is as follows:

Nature of assets	As at 30 Jun 2020	As at 31 Dec 2019
Repossessed properties	244,708	287,397
Others	<u>26,459</u>	<u>7,782</u>
	<u>271,167</u>	<u>295,179</u>

Repossessed collaterals are sold as soon as practicable with the proceeds used to reduce the outstanding indebtedness of the borrowers concerned.

Certain other properties in the Mainland China with a total estimated realisable value of HK\$58,045,000 (31 December 2019: HK\$59,274,000), which had been foreclosed and repossessed by the Group pursuant to orders issued by courts in the Mainland China, represent assets held by the Group for resale and have been reported under "Other assets". The relevant loans had been derecognised.

14. Financial assets at fair value through other comprehensive income

HK\$'000	As at 30 Jun 2020	As at 31 Dec 2019
Debt securities:		
- Listed in Hong Kong	15,696,888	16,486,474
- Listed outside Hong Kong	17,762,124	16,699,367
- Unlisted	<u>10,637,164</u>	<u>8,970,096</u>
	<u>44,096,176</u>	<u>42,155,937</u>
Equity securities:		
- Listed in Hong Kong	926,413	1,043,627
- Listed outside Hong Kong	3,057,581	2,228,778
- Unlisted	<u>82,444</u>	<u>82,715</u>
	<u>4,066,438</u>	<u>3,355,120</u>
Total	<u>48,162,614</u>	<u>45,511,057</u>
Included within debt securities are:		
- Certificates of deposit held	343,035	114,099
- Treasury bills which are cash equivalents	4,699,034	4,496,472
- Other treasury bills	5,600,087	5,599,844
- Government bonds	123,315	118,594
- Other debt securities	<u>33,330,705</u>	<u>31,826,928</u>
	<u>44,096,176</u>	<u>42,155,937</u>
Financial assets at fair value through other comprehensive income are analysed by categories of issuers as follows:		
Debt securities:		
- Central governments and central banks	10,422,436	10,214,910
- Public sector entities	182,580	190,269
- Banks and other financial institutions	7,996,092	6,252,370
- Corporate entities	25,494,993	25,498,313
- Others	<u>75</u>	<u>75</u>
	<u>44,096,176</u>	<u>42,155,937</u>
Equity securities:		
- Bank and other financial institutions	534,300	578,484
- Corporate entities	<u>3,532,138</u>	<u>2,776,636</u>
	<u>4,066,438</u>	<u>3,355,120</u>
	<u>48,162,614</u>	<u>45,511,057</u>

15. Financial assets at amortised cost

HK\$'000	As at 30 Jun 2020	As at 31 Dec 2019
Debt securities:		
- Listed in Hong Kong	7,591,927	4,531,678
- Listed outside Hong Kong	9,156,033	6,534,167
- Unlisted	4,628,372	4,688,755
	<u>21,376,332</u>	<u>15,754,600</u>
Less: impairment allowance		
- Stage 1	(20,328)	(11,608)
Total	<u>21,356,004</u>	<u>15,742,992</u>
Included within debt securities are:		
- Certificates of deposit held	1,263,481	1,451,302
- Treasury bills	1,957,793	2,225,843
- Government bonds	248,450	301,957
- Other debt securities	17,906,608	11,775,498
	<u>21,376,332</u>	<u>15,754,600</u>
Financial assets at amortised cost are analysed by categories of issuers as follows:		
- Central governments and central banks	2,206,243	2,527,800
- Public sector entities	108,519	75,294
- Banks and other financial institutions	7,136,018	5,987,980
- Corporate entities	11,914,463	7,152,437
- Others	11,089	11,089
	<u>21,376,332</u>	<u>15,754,600</u>

16. Other accounts and accruals

HK\$'000	As at 30 Jun 2020	As at 31 Dec 2019
Lease liabilities	267,931	434,681
Amount payable arising from purchase of securities pending for settlement	4,324,882	3,383,281
Other liabilities and accruals	9,620,668	8,698,832
	<u>14,213,481</u>	<u>12,516,794</u>

17. Shareholders' funds

HK\$'000	As at 30 Jun 2020	As at 31 Dec 2019
Share capital	4,248,559	4,248,559
Premises revaluation reserve	606,238	606,238
Investment revaluation reserve	216,158	612,443
Exchange reserve	(371,030)	(275,321)
Capital reserve	6,383	6,318
General reserve	484,289	484,289
Reserve for share-based compensation	2,896	2,540
Retained earnings	<u>21,570,453</u>	<u>21,120,164</u>
	<u>26,763,946</u>	<u>26,805,230</u>
Proposed dividend/ dividend paid included in retained earnings	<u>86,285</u>	<u>345,141</u>

(a) In accordance with the resolution passed at the extraordinary general meeting of the Company held on 15 March 2019, the Company concluded the contract with MUFG Bank, Ltd. on 28 March 2019 to repurchase 15,500,000 shares of the Company from the latter. The share buy-back was completed on the same date at a consideration of HK\$591,635,000 which was paid out from the retained earnings of the Company.

(b) DSB as a locally incorporated bank in Hong Kong is required to maintain minimum impairment provisions in excess of those required under HKFRS in the form of regulatory reserve. The regulatory reserve, which also covers Banco Comercial de Macau, S.A and Dah Sing Bank (China) Limited, is maintained to satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes. The regulatory reserve restricts the amount of reserves which can be distributed to shareholders. Movements in the regulatory reserve are made directly through equity reserve and in consultation with the HKMA.

As at 30 June 2020, DSB has earmarked a regulatory reserve of HK\$531,353,000 (31 December 2019: HK\$1,127,403,000) first against its consolidated general reserve; and for any excess amount, the balance is earmarked against its consolidated retained earnings.

18. Operating segment reporting

Segment reporting by the Group is prepared in accordance with HKFRS 8 “Operating Segments”. Information reported to the chief operating decision maker, including the Chief Executive and other Executive Committee members, for the purposes of resource allocation and performance assessment, is determined on the basis of banking business and insurance business. For banking business, operating performances are analysed by business activities for local banking business, and on business entity basis for overseas banking business. For insurance business, resources allocation and performance evaluation are based on insurance business entity basis.

Considering the customer groups, products and services of local businesses, the economic environment and regulations, the Group splits 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, vehicle financing and credit card services, and 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.
- 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.
- Overseas banking businesses include 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.
- Insurance business includes the Group’s insurance and pension fund management business. Through the Group’s wholly-owned subsidiaries in Hong Kong and 96% owned subsidiaries in Macau, the Group offers a variety of insurance products and services.
- 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.

Dah Sing Financial Holdings Limited

18. Operating segment reporting (Continued)

For the six months ended 30 June 2020

HK\$'000	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Insurance Business	Others	Inter- segment	Total
Net interest income/ (expenses)	806,614	564,334	307,145	243,251	7,303	(56,127)	-	1,872,520
Non-interest income/ (expenses)	<u>494,781</u>	<u>89,338</u>	<u>104,806</u>	<u>54,467</u>	<u>117,172</u>	<u>24,547</u>	<u>(6,537)</u>	<u>878,574</u>
Total operating income/ (loss) net of insurance claims	1,301,395	653,672	411,951	297,718	124,475	(31,580)	(6,537)	2,751,094
Operating expenses	<u>(811,981)</u>	<u>(254,547)</u>	<u>(88,540)</u>	<u>(246,094)</u>	<u>(67,900)</u>	<u>(7,423)</u>	<u>6,537</u>	<u>(1,469,948)</u>
Operating profit/ (loss) before credit impairment losses	489,414	399,125	323,411	51,624	56,575	(39,003)	-	1,281,146
Credit impairment losses	<u>(224,128)</u>	<u>(48,234)</u>	<u>(18,329)</u>	<u>(73,264)</u>	<u>(451)</u>	<u>(839)</u>	-	<u>(365,245)</u>
Operating profit/ (loss) after credit impairment losses	265,286	350,891	305,082	(21,640)	56,124	(39,842)	-	915,901
Net loss on disposal of other fixed assets	(2,829)	-	-	(31)	-	(7)	-	(2,867)
Net gain on disposal of financial assets at fair value through other comprehensive income	-	-	11,594	-	-	-	-	11,594
Impairment loss on investment in an associate	-	-	-	(200,000)	-	-	-	(200,000)
Share of results of an associate	-	-	-	411,759	-	-	-	411,759
Share of results of jointly controlled entities	-	-	-	-	-	13,580	-	13,580
Profit/ (loss) before taxation	262,457	350,891	316,676	190,088	56,124	(26,269)	-	1,149,967
Taxation (expenses)/ credit	<u>(43,057)</u>	<u>(58,067)</u>	<u>(52,230)</u>	<u>(4,448)</u>	<u>(6,243)</u>	<u>2,346</u>	-	<u>(161,699)</u>
Profit/ (loss) for the period	<u>219,400</u>	<u>292,824</u>	<u>264,446</u>	<u>185,640</u>	<u>49,881</u>	<u>(23,923)</u>	-	<u>988,268</u>
For the six months ended 30 June 2020								
Depreciation and amortisation	37,549	7,774	3,533	27,855	3,957	102,397	-	183,065
As at 30 June 2020								
Segment assets	53,477,062	67,581,580	93,771,649	39,357,075	4,497,434	8,381,345	(7,124,744)	259,941,401
Segment liabilities	112,139,092	44,990,447	25,518,628	31,594,036	1,859,268	17,238,388	(7,124,744)	226,215,115

Dah Sing Financial Holdings Limited

18. Operating segment reporting (Continued)

For the six months ended 30 June 2019

HK\$'000	Personal Banking	Commercial Banking	Treasury	Overseas Banking	Insurance Business	Others	Inter- segment	Total
Net interest income/ (expenses)	869,560	620,672	359,078	248,834	13,200	(44,287)	-	2,067,057
Non-interest income/ (expenses)	477,896	92,784	(40,949)	69,248	103,180	75,402	(6,781)	770,780
Total operating income/ (loss) net of insurance claims	1,347,456	713,456	318,129	318,082	116,380	31,115	(6,781)	2,837,837
Operating expenses	(794,974)	(253,510)	(83,810)	(251,145)	(61,290)	3,605	6,781	(1,434,343)
Operating profit before credit impairment (losses)/ written back	552,482	459,946	234,319	66,937	55,090	34,720	-	1,403,494
Credit impairment (losses)/ written back	(116,498)	36,009	(5,085)	(3,484)	(1,222)	(2,467)	-	(92,747)
Operating profit after credit impairment (losses)/ written back	435,984	495,955	229,234	63,453	53,868	32,253	-	1,310,747
Net (loss)/ gain on disposal of other fixed assets	(2,545)	-	-	24	12	-	-	(2,509)
Net loss on disposal of financial assets at fair value through other comprehensive income	-	-	(24)	-	-	-	-	(24)
Impairment loss on investment in an associate	-	-	-	(70,000)	-	-	-	(70,000)
Share of results of an associate	-	-	-	410,860	-	-	-	410,860
Share of results of jointly controlled entities	-	-	-	-	-	12,499	-	12,499
Profit before taxation	433,439	495,955	229,210	404,337	53,880	44,752	-	1,661,573
Taxation expenses	(71,554)	(81,758)	(37,806)	(3,617)	(3,772)	(1,008)	-	(199,515)
Profit for the period	361,885	414,197	191,404	400,720	50,108	43,744	-	1,462,058
For the six months ended 30 June 2019								
Depreciation and amortisation	40,258	8,519	3,270	31,927	1,816	98,852	-	184,642
As at 31 December 2019								
Segment assets	53,809,806	66,154,676	84,671,487	38,406,836	4,367,675	8,315,560	(5,414,061)	250,311,979
Segment liabilities	108,290,918	44,136,433	19,835,415	30,335,062	1,764,788	17,558,883	(5,414,061)	216,507,438

18. Operating segment reporting (Continued)

Geographical information

Geographical segment information is based on the domicile of the legal entities within the Group with business dealing and relationship with, and services to external customers. For the six months ended 30 June 2020 and 2019, no single country or geographical segment other than Hong Kong contributed 10% or more of the Group's assets, liabilities, operating income, or profit before taxation.

INTERIM DIVIDEND

The Directors have declared an interim dividend of HK\$0.27 per share for 2020 payable on Monday, 21 September 2020 to shareholders whose names are on the Register of Shareholders at the close of business on Tuesday, 15 September 2020.

CLOSURE OF REGISTER OF SHAREHOLDERS

For determining shareholders' entitlement to receive the interim dividend:

Closure dates of Register of Shareholders (both days inclusive)	11 September 2020 (Friday) to 15 September 2020 (Tuesday)
Latest time to lodge transfers	4:30 p.m. on 10 September 2020 (Thursday)
Record date	15 September 2020 (Tuesday)

In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong before the above latest time to lodge transfers.

CORPORATE AND BUSINESS OVERVIEW

HIGHLIGHTS

Economic conditions in the first half of 2020 were the worst in many years. In the first and second quarters of 2020, Hong Kong real GDP contracted sharply by 9.1% and 9.0% respectively from the previous year. These quarterly contractions are the steepest on record. Exports of both goods and services plummeted. Domestic demand also weakened markedly, reflecting the serious disruptions caused by the outbreak of COVID-19 and subdued business sentiment. The Hong Kong Government's forecast for real GDP growth for 2020 as a whole has been revised downwards to -6% to -8%, as announced by the Government on 14 August, after taking into account the cushioning effects of the extensive relief measures rolled out by the Government. Mainland economic growth also slowed substantially to 3.2% in the second quarter, though this was much better than the slump in the first quarter with a 6.8% contraction, the first quarterly GDP decline in China for decades. Hong Kong's forecast rates of underlying and headline consumer price inflation for 2020 as a whole have been revised downwards to 1.8% and 0.8% respectively. The labour market continued to deteriorate in the second quarter of 2020, but stabilized somewhat in May and June. The launch by the Hong Kong Government of the Employment Support Scheme also helped counter the headwinds affecting the labour market. The seasonally adjusted unemployment rate increased by 0.3 percentage point from March – May 2020 to 6.2% in April – June, the highest in more than 15 years.

After substantial falls in the first quarter of the year, financial markets globally stabilized in the second quarter, with US markets in particular staging a strong recovery. Interest rates have reduced substantially, with the Federal Reserve having cut the Fed Fund rate by 1.50% in March. Hong Kong rates, whilst generally moving lower, have been volatile, with HIBOR trading above LIBOR during the first half of the year, although with the gap in interest rates narrowing towards the mid-year.

Under these extremely difficult economic conditions, our profit attributable to shareholders fell by 33.1% to HK\$745 million, driven by a significantly lower performance from our Banking Group, and more stable results from our insurance and investment activities during the period.

For the first half of the year, a dividend of HK\$0.27 per share was declared.

The Banking Group reported a fall in profit attributable to shareholders of 30.2%, mainly caused by higher impairment charges on both loans and on our investment in Bank of Chongqing. Underlying business performance weakened, both due to weaker credit performance, and due to a squeeze in net interest margin, with funding costs reduced more slowly than asset yields.

BUSINESS AND FINANCIAL REVIEW

The performance of our banking business in the first half of the year was weaker than last year. Net interest income was materially lower. Net fee and commission income was flat, and trading income was significantly higher, mainly due to funding swap gains with higher Hong Kong dollar rates than US dollar rates in the first half of the year. The reduction in net interest income of around 9% was due mainly to funding costs reducing more slowly than asset yields as market interest rates dropped rapidly in the first half of the year, leading to a contraction in net interest margin of 24bps to 1.66% compared with 1.90% in the first half of 2019. Asset growth was modest, with small increases in the loan book and the securities investment portfolio. However, the benefit from volume growth was not sufficient to offset the decline in net interest margin.

Flat net fee and commission income for the period was encouraging amidst very difficult market conditions. Wealth management, including our broking business, and foreign exchange income, performed well. Growth in operating expenses was modest at 1.5%. Technology remains a major area of investment, and our work in improving our mobile and digital channels was of benefit during the first half due to lower customer mobility amidst the COVID-19 situation. Staff numbers remained relatively stable.

BUSINESS AND FINANCIAL REVIEW (Continued)

The performance of our banking subsidiary in Macau reported weaker performance in the first half of the year. The lower contribution was driven by a reduction in net interest margin and modest loan growth, as well as notably higher credit costs compared with the first half of last year. The performance of our China subsidiary was slightly better than the same period last year. Our associate company, Bank of Chongqing (“BOCQ”), delivered a similar result to that of the prior period.

Amidst very difficult economic conditions in the first half of the year, credit quality deteriorated, with the net credit impairment charge increasing from HK\$93 million to HK\$365 million. Whilst this is a substantial increase, it should be noted that credit cost in the first half of last year continued to be at relatively low levels. Due to the local economic recession in the latter half of 2019, our credit impairment charge in the second half last year had increased to HK\$264 million. In the period, we experienced higher credit cost in our retail banking business and had set aside additional provisions for credit losses for our lending to retail borrowers, and also for lending to small and medium sized companies in our commercial banking business, after reviewing the latest forward-looking forecast of economic outlook and other factors that may affect our credit losses. At this stage, overall credit cost remains manageable, and credit quality, whilst worsening, is still under control.

In addition, following a periodic review of the Value in Use of our investment in BOCQ, we again made an impairment charge against the value of this investment, in the amount of HK\$200 million.

The general insurance businesses in Hong Kong and Macau continued to report growth in premium income, with net premium income increasing by 10.1% in the first half of 2020. Overall, the net profit of the insurance business was same as the first half of 2019. The results from our other group investments and liquid assets were significantly lower than the first half of last year, although a small overall profit was recorded for the period.

Including both the results of our banking business and general insurance business, as well as the investment income referred to above, DSFH generated an annualized return on assets of 0.8% and ROE of 5.6% for the period.

As at 30 June 2020, Dah Sing Bank’s consolidated Common Equity Tier 1 ratio and total consolidated capital adequacy ratio were 13.1% and 16.9% respectively.

PROSPECTS

After enduring the very tough economic conditions in Hong Kong in the first half of the year, as we entered the second half of the year, it looked as though there could be some improvement, but at the date of writing we are still experiencing the “third wave” of COVID-19 in Hong Kong, so it is now more uncertain as to how things will develop during the rest of the year.

In any event, we are not expecting a strong recovery in the remaining part of the year. Neither low interest rates, nor deteriorating credit quality are good for our business, but as we demonstrated in the first half of the year, our business, capital and liquidity remain resilient despite the challenges that we have faced so far this year.

Outside the banking business, we are keen to continue to grow premium income for our general insurance businesses, and the outlook for growth for these businesses is somewhat better than for growth in our core banking business at present. Clearly, investment performance is very important to the overall profitability of both our general insurance businesses and our group investments, and this will be driven mainly by the direction of financial markets in the second half of the year.

All of this makes us more cautious on the outlook for the second half of the year. We continue to expect difficult economic and business conditions in the second half of the year, and will do our best to ensure that our businesses are managed conservatively and remain resilient.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2020, the Company has applied the principles and complied with all the code provisions set out in the Corporate Governance Code (“CG Code”) under Appendix 14 of the Listing Rules, with the exception of code provisions A.4.1 and E.1.2.

Pursuant to code provision A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. The Non-Executive Directors of the Company are not appointed for a specific term, but are subject to retirement by rotation and re-election at annual general meetings in accordance with the provisions of the Company’s Articles of Association.

Pursuant to code provision E.1.2 of the CG Code, the chairman of the board should attend the annual general meeting. In light of COVID-19 pandemic and travel restrictions around the world, Mr. David Shou-Yeh Wong, the Chairman of the Board, was unable to attend the 2020 Annual General Meeting (the “2020 AGM”) of the Company held in Hong Kong on 29 May 2020 as he was abroad at that time. Mr. Hon-Hing Wong (Derek Wong), Managing Director and Chief Executive of the Company, took the chair of the 2020 AGM.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct for directors’ securities dealing (“Directors’ Dealing Code”) on terms no less exacting than the prevailing required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) under Appendix 10 of the Listing Rules. Following specific enquiry, the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code and the Directors’ Dealing Code throughout the six months ended 30 June 2020.

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 2020.

REMUNERATION AND STAFF DEVELOPMENT

There have been no material changes to the information disclosed in the Company’s 2019 Annual Report in respect of the remuneration of employees, remuneration policies and training schemes.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of listed securities of the Company during the six months ended 30 June 2020.

INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of Hong Kong Exchanges and Clearing Limited (“HKEX”) at www.hkexnews.hk and Dah Sing Bank at www.dahsing.com.

The 2020 Interim Report of the Group containing all the information required by the Listing Rules will be published on the websites of HKEX and Dah Sing Bank in due course. Printed copies of the 2020 Interim Report will be sent to shareholders who have elected to receive printed versions of the Company’s corporate communications before the end of September 2020.

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) and Gary Pak-Ling Wang (Deputy Chief Executive and Group Chief Financial and Operating Officer) as Executive Directors; Messrs. Eiichi Yoshikawa (Fumio Takamatsu as alternate) and Yoshikazu Shimauchi as Non-Executive Directors; Messrs. Robert Tsai-To Sze, Andrew Kwan-Yuen Leung, Paul Michael Kennedy, David Wai-Hung Tam and Paul Franz Winkelmann as Independent Non-Executive Directors.

By Order of the Board

Doris W. N. Wong

Company Secretary

Hong Kong, Wednesday, 26 August 2020