大新銀行集團有限公司
Dah Sing Banking Group Limited

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

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

(Stock Code: 2356)

ANNOUNCEMENT OF 2005 FINAL RESULTS

The Directors of Dah Sing Banking Group Limited (the "Company") are pleased to present the consolidated audited results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2005. The audited financial results presented in this report are prepared on a basis consistent with the accounting policies adopted in the 2004 annual accounts except for the changes in accounting policies made thereafter in adopting certain new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards issued by Hong Kong Institute of Certified Public Accountants.

A. CONSOLIDATED INCOME STATEMENT

For the year ended 31 December

HK$'000	Note	**2005**	2004 Restated	Variance %
Interest income		**3,094,884**	2,228,406	
Interest expense		**(1,761,502)**	(581,940)	
Net interest income		**1,333,382**	1,646,466	-19.0
Fee and commission income		**468,209**	473,187	
Fee and commission expense		**(65,708)**	(56,524)	
Net fee and commission income		**402,501**	416,663	-3.4
Net trading income	5	**142,259**	69,028	
Other operating income	6	**38,197**	46,247	
Operating income		**1,916,339**	2,178,404	-12.0
Operating expenses	7	**(924,605)**	(803,368)	15.1
Operating profit before impairment losses on loans and advances/charge for bad and doubtful debts		**991,734**	1,375,036	-27.9
Impairment losses on loans and advances	8	**(130,577)**	–	
Charge for bad and doubtful debts				
– Continuing operations	8	**–**	(208,746)	
– Discontinued operation	8	**–**	(9)	
Operating profit before gains on certain investments and fixed assets		**861,157**	1,166,281	-26.2
Net gain/(loss) on disposal/reversal of revaluation deficits of premises and other fixed assets		**103,991**	(474)	
Net gain on fair value adjustment on investment properties		**74,570**	49,839	
Net gain on disposal of available-for-sale securities		**116,077**	–	
Net gain on disposal of non-trading securities		**–**	46,698	
Share of results of jointly controlled entities		**3,104**	4,095	
Net other contribution from discontinued operation		**–**	276	
Reorganisation costs		**–**	(8,963)	
Profit before income tax		**1,158,899**	1,257,752	-7.9
Income tax expense				
– Continuing operations	9	**(177,727)**	(136,283)	
– Discontinued operation		**–**	(47)	
Profit for the year		**981,172**	1,121,422	-12.5
Profit attributable to minority interests		**(2,338)**	(2,683)	-12.9
Profit attributable to shareholders of the Company		**978,834**	1,118,739	-12.5
Dividends				
Interim dividend paid		**211,561**	211,561	
Proposed final dividend		**353,938**	349,536	
		565,499	561,097	
Earnings per share	10			
Basic		**HK$1.06**	HK$1.29	
Diluted		**HK$1.06**	HK$1.29	
Dividends per share				
Interim dividend		**HK$0.23**	HK$0.23	
Proposed final dividend		**HK$0.38**	HK$0.38	

B. CONSOLIDATED BALANCE SHEET

As at 31 December

HK$'000	Note	**2005**	2004 Restated
ASSETS			
Cash and balances with banks and other financial institutions		**8,040,676**	8,994,363
Placements with banks and other financial institutions maturing between one and twelve months		**1,169,174**	463,230
Trading securities		**5,364,375**	6,178,531
Financial assets at fair value through profit or loss		**1,379,163**	–
Derivative financial instruments	11	**153,706**	–
Non-trading securities		**–**	19,133,432
Advances and other accounts	12	**46,568,778**	34,265,719
Available-for-sale securities		**22,772,190**	–
Held-to-maturity securities		**494,855**	1,296,927
Investments in jointly controlled entities		**30,184**	27,080
Goodwill		**811,690**	–
Intangible assets		**203,214**	–
Premises and other fixed assets		**1,378,643**	668,072
Investment properties		**320,939**	246,332
Current tax prepaid		**–**	27,590
Deferred income tax assets		**7,692**	10,662
Non-current assets held for resale		**821,561**	–
Total assets		**89,516,840**	71,311,938
LIABILITIES			
Deposits from banks and other financial institutions		**255,748**	215,702
Derivative financial instruments	11	**506,058**	–
Trading liabilities		**6,311,309**	6,683,573
Deposits from customers designated at fair value through profit or loss		**1,904,280**	–
Deposits from customers		**56,449,982**	43,477,448
Certificates of deposit issued		**7,713,297**	8,452,136
Issued debt securities		**2,287,095**	2,332,305
Subordinated notes		**3,290,342**	971,794
Other accounts and accruals		**1,449,744**	1,424,229
Current income tax liabilities		**40,322**	921
Deferred income tax liabilities		**104,334**	13,218
Non-current liabilities held for resale		**531,023**	–
Total liabilities		**80,843,534**	63,571,326
EQUITY			
Minority interests		**24,692**	19,990
Equity attributable to the Company's shareholders			
Share capital		**931,416**	919,831
Retained earnings		**4,109,249**	3,569,411
Other reserves	13	**3,254,011**	2,881,844
Proposed final dividend		**353,938**	349,536
Shareholders' funds		**8,648,614**	7,720,622
Total equity		**8,673,306**	7,740,612
Total equity and liabilities		**89,516,840**	71,311,938

C. CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December

HK$'000	**2005**	2004 Restated
Cash flows from operating activities		
Net cash (used in)/from operating activities	**(1,200,633)**	2,335,213
Cash flows from investing activities		
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	**474,436**	–
Disposal of a subsidiary (net of cash and cash equivalents disposed of)	**–**	(1,284)
Purchase of fixed assets	**(26,838)**	(26,990)
Proceeds from disposal of fixed assets	**233**	1,950
Investment in limited partnership for taxation purposes	**–**	(57,979)
Net cash from/(used in) investing activities	**447,831**	(84,303)
Cash flows from financing activities		
Certificates of deposit issued	**1,976,201**	1,915,658
Certificates of deposit redeemed	**(3,346,359)**	(1,333,294)
Debt securities issued	**–**	2,329,556
Debt securities redeemed	**–**	(31,118)
Subordinated notes issued	**2,334,960**	–
Issue of ordinary shares	**166,221**	1,391,724
Share issue expenses	**–**	(42,662)
Reorganisation costs paid	**–**	(8,963)
Dividend paid to minority shareholder of a subsidiary	**(3,675)**	(1,837)
Dividends paid by subsidiaries prior to the reorganisation	**–**	(205,663)
Dividends paid on ordinary shares	**(561,097)**	(211,561)
Net cash from financing activities	**566,251**	3,801,840
Net (decrease)/increase in cash and cash equivalents	**(186,551)**	6,052,750
Cash and cash equivalents at beginning of the year	**12,878,287**	6,825,537
Cash and cash equivalents at end of the year	**12,691,736**	12,878,287

D. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Attributable to the shareholders of the Company					
HK$'000	**Share capital**	**Share premium**	**Other reserves**	**Retained earnings**	**Minority interest**	**Total equity**
Balance at 1 January 2005 as per below	**919,831**	**2,054,513**	**827,331**	**3,918,947**	**19,990**	**7,740,612**
Opening adjustment for the adoption of HKAS 39	**–**	**–**	**(12,347)**	**126,503**	**–**	**114,156**
Balance at 1 January 2005	**919,831**	**2,054,513**	**814,984**	**4,045,450**	**19,990**	**7,854,768**
Fair value gains/(losses) on available-for-sale securities	**–**	**–**	**56,455**	**–**	**(2)**	**56,453**
Disposal of available-for-sale securities	**–**	**–**	**(116,077)**	**–**	**–**	**(116,077)**
Deferred tax asset recognised on fair value gains and disposal on available-for-sale securities	**–**	**–**	**10,806**	**–**	**–**	**10,806**
Fair value gain on revaluation of premises	**–**	**–**	**337,967**	**–**	**–**	**337,967**
Deferred tax liabilities recognised on premises revaluation	**–**	**–**	**(59,152)**	**–**	**–**	**(59,152)**
Exchange differences arising on translation of the financial statements of a foreign subsidiary	**–**	**–**	**(121)**	**–**	**(39)**	**(160)**
Net income/(expense) recognised directly in equity	**–**	**–**	**229,878**	**–**	**(41)**	**229,837**
Profit for the year	**–**	**–**	**–**	**978,834**	**2,338**	**981,172**
Total recognised income for 2005	**–**	**–**	**229,878**	**978,834**	**2,297**	**1,211,009**
Issue of ordinary shares	**11,585**	**154,636**	**–**	**–**	**–**	**166,221**
Dividend paid to minority shareholder of a subsidiary	**–**	**–**	**–**	**–**	**(3,675)**	**(3,675)**
Acquisition of subsidiaries	**–**	**–**	**–**	**–**	**5,886**	**5,886**
Capital contribution by minority shareholder to a subsidiary	**–**	**–**	**–**	**–**	**194**	**194**
2004 Final dividend	**–**	**–**	**–**	**(349,536)**	**–**	**(349,536)**
2005 Interim dividend	**–**	**–**	**–**	**(211,561)**	**–**	**(211,561)**
	11,585	**154,636**	**–**	**(561,097)**	**2,405**	**(392,471)**
Balance at 31 December 2005	**931,416**	**2,209,149**	**1,044,862**	**4,463,187**	**24,692**	**8,673,306**

	Year ended 31 December	
	2005	2004
	HK$'000	*HK$'000*
Proposed final dividends included in retained earnings	**353,938**	349,536

For the year ended 31 December 2004

	Attributable to the shareholders of the Company					
HK$'000	**Share capital**	**Share premium**	**Other reserves**	**Retained earnings**	**Minority interest**	**Total equity**
Balance at 1 January 2004, as previously reported	809,900	815,382	837,755	3,217,432	19,120	5,699,589
Deferred tax arising from the revaluation of investment properties	–	–	(7,074)	–	–	(7,074)
Balance at 1 January 2004, as restated	809,900	815,382	830,681	3,217,432	19,120	5,692,515
Fair value gains, net of tax:						
– non-trading securities	–	–	41,647	–	–	41,647
Deferred tax liabilities recognised on premises revaluation	–	–	(594)	–	–	(594)
Disposal of non-trading securities	–	–	(46,698)	–	–	(46,698)
Disposal of a subsidiary as part of reorganisation	–	–	(1,173)	–	–	(1,173)
Fair value gains on revaluation of premises	–	–	3,391	–	–	3,391
Exchange differences arising on translation of the financial statements of a foreign subsidiary	–	–	77	–	24	101
Net (expense)/income recognised directly in equity	–	–	(3,350)	–	24	(3,326)
Profit for the year	–	–	–	1,118,739	2,683	1,121,422
Total recognised (expense)/income for 2004	–	–	(3,350)	1,118,739	2,707	1,118,096
Issue of ordinary shares	109,931	1,281,793	–	–	–	1,391,724
Share issue expenses	–	(42,662)	–	–	–	(42,662)
Dividend paid to minority shareholder of a subsidiary	–	–	–	–	(1,837)	(1,837)
2003 Final dividend	–	–	–	(205,663)	–	(205,663)
2004 Interim dividend	–	–	–	(211,561)	–	(211,561)
	109,931	1,239,131	–	(417,224)	(1,837)	930,001
Balance at 31 December 2004, as restated	919,831	2,054,513	827,331	3,918,947	19,990	7,740,612

Note:

1. Results announcement

The financial information set out in this results announcement does not constitute the Group's statutory financial statements for the year ended 31 December 2005 but is derived from those statutory financial statements. The financial information in this announcement of the Group's results for the year ended 31 December 2005 has been agreed by the Group's auditors, PricewaterhouseCoopers, to the amounts set out in the Group's consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement. The consolidated financial statements of the Group for the year ended 31 December 2005 will be available from the website of The Stock Exchange of Hong Kong Limited in due course.

2. Basis of preparation and accounting policies

The consolidated financial statements of the Group are required to be prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs" which is a collective term including all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Statements of Standard Accounting Practice ("SSAPs") and Interpretations) issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The report complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

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

3. Changes in accounting policies

3.1 The adoption of new/revised HKFRS

In 2005, the Group adopted all applicable new/revised HKFRSs, which are relevant to its operations. The 2004 comparatives have been amended as required.

The following sets out the key HKFRSs adopted by the Group constituting changes to the Group's accounting policies in 2005.

3.1.1 HKAS 39 Financial Instruments: Recognition and Measurement

The adoption of HKAS 39 has resulted in a change in accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

3.1.2 HKFRS 2 Share-based Payment

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments pursuant to which the fair value of the liability on cash-settled share-based compensations is determined at each reporting date by way of an option pricing model until it is settled. The changes in the fair value are taken to the income statement. As a transitional provision, retrospective application to the extent the liability is still outstanding as at 1 January 2005 is made, with corresponding restatement to 2004 comparatives.

3.1.3 HKAS-Int 21 Income Taxes – Recovery of Revalued Non-Depreciated Assets

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liability arising from the revaluation of investment properties. Such deferred tax liability is measured on the basis of tax consequences that would follow from recovery of the carrying amount of those assets through use. In prior years, the carrying amount of those assets was expected to be recovered through sale.

3.2 Estimated effect of changes in the accounting policies on the 2005 consolidated financial statements

3.2.1 Consolidated Balance Sheet as at 31 December 2005

HK$'000	**HKAS 32 and 39**	**HKFRS 2**	**HKAS Int-21**	**Total**
Increase/(decrease) in assets as at 31 December 2005				
Cash and balances with banks and other financial institutions	**(22,733)**	–	–	**(22,733)**
Placements with banks and other financial institutions maturing between one and twelve months	**(33,579)**	–	–	**(33,579)**
Trading securities	**(1,204)**	–	–	**(1,204)**
Financial assets designated at fair value through profit or loss	**1,379,163**	–	–	**1,379,163**
Derivative financial instruments	**153,706**	–	–	**153,706**
Non-trading securities	**(22,676,057)**	–	–	**(22,676,057)**
Advances and other accounts	**211,818**	–	–	**211,818**
Available-for-sale securities	**22,772,190**	–	–	**22,772,190**
Held-to-maturity securities	**(1,695,584)**	–	–	**(1,695,584)**
Deferred income tax assets	**(18,262)**	–	–	**(18,262)**
	69,458	–	–	**69,458**
Increase/(decrease) in liabilities as at 31 December 2005				
Derivative financial instruments	**506,058**	–	–	**506,058**
Trading liabilities	**2,238**	–	–	**2,238**
Deposits from customers designated at fair value through profit or loss	**1,904,280**	–	–	**1,904,280**
Deposits from customers at amortised cost	**(2,254,346)**	–	–	**(2,254,346)**
Certificates of deposit issued designated at fair value through profit or loss	**4,525,120**	–	–	**4,525,120**
Certificates of deposit issued at amortised cost	**(4,813,041)**	–	–	**(4,813,041)**
Issued debt securities designated at fair value through profit or loss	**1,123,830**	–	–	**1,123,830**
Issued debt securities at amortised cost	**(1,163,265)**	–	–	**(1,163,265)**
Subordinated notes designated at fair value through profit or loss	**2,127,077**	–	–	**2,127,077**
Subordinated notes at amortised cost	**(2,132,652)**	–	–	**(2,132,652)**
Other accounts and accruals	**(129)**	**4,216**	–	**4,087**
Current income tax liabilities	**24,079**	**(737)**	–	**23,342**
Deferred income tax liabilities	**8,221**	–	**11,896**	**20,117**
	(142,530)	**3,479**	**11,896**	**(127,155)**
Increase/(decrease) in equity as at 31 December 2005				
Investment revaluation reserve	**38,757**	–	–	**38,757**
Premises revaluation reserve	–	–	**(9,359)**	**(9,359)**
Retained earnings	**126,503**	**(926)**	–	**125,577**
Income statement	**46,728**	**(2,553)**	**(2,537)**	**41,638**
	211,988	**(3,479)**	**(11,896)**	**196,613**
	69,458	–	–	**69,458**

3.2.2 *Consolidated Income Statement for the year ended 31 December 2005*

HK$'000	**HKAS 32 and 39**	**HKFRS 2**	**HKAS Int-21**	**Total**
Increase/(decrease) in				
Interest income	**(180,120)**	–	–	**(180,120)**
Interest expense	**92,601**	–	–	**92,601**
Net trading income	**123,897**	–	–	**123,897**
	36,378	–	–	**36,378**
Operating expenses	–	**(3,094)**	–	**(3,094)**
Operating profit/(loss) before impairment losses on loans and advances	**36,378**	**(3,094)**	–	**33,284**
Impairment losses on loans and advances	**20,231**	–	–	**20,231**
Profit/(loss) before income tax	**56,609**	**(3,094)**	–	**53,515**
Income tax expense				
– current income tax	**(24,079)**	**541**	–	**(23,538)**
– deferred income tax	**14,198**	–	**(2,537)**	**11,661**
Profit for the year	**46,728**	**(2,553)**	**(2,537)**	**41,638**

3.2.3 *Consolidated Balance Sheet as at 31 December 2004*

HK$'000	HKFRS 2	HKAS Int-21	Total
Increase/(decrease) in liabilities as at 31 December 2004			
Other accounts and accruals	1,122	–	1,122
Current income tax liabilities	(196)	–	(196)
Deferred income tax liabilities	–	9,359	9,359
	926	9,359	10,285
Increase/(decrease) in equity as at 31 December 2004			
Premises revaluation reserve	–	(9,359)	(9,359)
Retained earnings	(926)	–	(926)
	(926)	(9,359)	(10,285)

3.3 *New accounting policies*

3.3.1 *Financial assets*

From 1 January 2004 to 31 December 2004

All financial assets were stated at cost or amortised cost, net of impairment allowances, except for investments in securities classified as non-trading securities and trading securities.

(a) Non-trading securities

Non-trading securities were stated at fair value on the balance sheet. Fair value represented the quoted market price for securities that were actively traded in a liquid market. For securities which were not actively traded or were unlisted, fair value was estimated by way of various pricing techniques including discounted cash flow and dividend yield analyses.

Changes in the fair value of non-trading securities were recognised in the investment revaluation reserve until the security was sold, or was determined to be impaired, at which time the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, was dealt with in the income statement.

(b) Trading securities

Trading securities were stated at fair value on the balance sheet. Fair value represented the quoted market price for securities that were actively traded in a liquid market. For securities which were not actively traded or were unlisted, fair value was estimated by way of various pricing techniques including discounted cash flow and dividend yield analyses.

Changes in the fair value of trading securities were recognised in the income statement as they arose. Profits and losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statement as they arose.

From 1 January 2005 onwards

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are measured at fair value with all holding gains and losses recognised in the income statement.

A financial asset is typically classified as fair value through profit or loss at inception if it meets the following criteria:

(i) It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mis-match") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;

(ii) A group of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets is provided internally to the key management personnel such as the Board of Directors and Chief Executive Officer; or

(iii) Financial assets with embedded derivatives where the characteristics and risks of the embedded derivatives are not closely related to the host contracts.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Assets in this category are carried at amortised cost less any impairment loss.

(c) Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

(d) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Assets in this category are carried at amortised cost less any impairment loss.

Purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the income statement. Interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payment is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

3.3.2 *Impairment of financial assets*

From 1 January 2004 to 31 December 2004

Provisions were made against specific loans and advances as and when the directors had doubts on the ultimate recoverability of principal or interest in full. Specific provision was made to reduce the carrying value of the asset, net of any collateral, to the expected net realisable value based on the directors' assessment of the potential losses on those identified loans and advances on a case-by-case basis. For loans and advances where assets had been repossessed, provision was made for any shortfall between the expected net realisable value of the repossessed assets and the outstanding advances.

Where it was not possible to reliably estimate the loss, the Group applied pre-determined provisioning levels to the unsecured portion of loans and advances based on the Group's loan classification procedures. The Group internally classified loans and advances into five broad categories largely based on an assessment of the borrower's capacity to repay and on the degree of doubt about the collectibility of interest and/or principal. One important indicator of collectibility was the period that payments of interest and/or principal had been overdue. A specific provision ranging from 25% to 100% was made against loans and advances where there was doubt about the collectibility of interest and/or principal.

In addition, amounts had been set aside as a general provision for doubtful debts. Both specific and general provisions were deducted from "Advances and other accounts" in the balance sheet.

When there was no realistic prospect of recovery, the outstanding debt was written off.

Financial assets, other than loans and advances and trading securities, were reviewed on each balance sheet date to determine whether there was any indication of impairment. If the recoverable amount of the asset was estimated to be less than the carrying amount, the carrying amount of the asset was reduced to its recoverable amount and the impairment loss was recognised in the income statement. For non-trading securities, any loss previously recognised in investment revaluation reserve was transferred to income statement.

From 1 January 2005 onwards

(a) Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is 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 (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that comes to the attention of the Group.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, overdue status and other relevant factors). Those characteristics relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated are considered.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related allowances for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the allowances for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(b) Assets carried at fair value

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

3.3.3 *Financial liabilities*

From 1 January 2004 to 31 December 2004

Financial liabilities, except trading securities short positions, were carried at cost or amortised cost. Trading securities short positions were carried at fair value and any gains and losses from changes in fair value were recognised through the income statement.

From 1 January 2005 onwards

Financial liabilities are classified into two categories: financial liabilities at fair value through profit or loss and other financial liabilities. All financial liabilities are classified at inception and recognised initially at fair value.

(a) Financial liabilities at fair value through profit or loss

This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial liability is classified as held for trading if it is incurred principally for the purpose of repurchasing in the short term. It is carried at fair value and any gains and losses from changes in fair value are recognised in the income statement.

A financial liability is typically classified as fair value through profit or loss at inception if it meets the following criteria:

(i) It eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as "an accounting mis-match") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases;

(ii) A group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the liabilities is provided internally to the key management personnel such as the Board of Directors and Chief Executive Officer; or

(iii) Financial liabilities with embedded derivatives where the characteristics and risks of the embedded derivatives are not closely related to the host contracts.

Financial liabilities designated as at fair value through profit or loss, including debt securities in issue and deposits received from customers that are embedded with certain derivatives, are designated as such at inception or date of transition to the new HKFRS. Financial liabilities designated at fair value through profit or loss are carried at fair value and any gains and losses from changes in fair value are recognised in the income statement.

The Group has early adopted the Amendment to HKAS 39 Financial Instruments: Recognition and Measurement "The Fair Value Option" and has redesignated the following financial liabilities as at fair value through profit or loss from 1 July 2005. These financial liabilities were previously reported as fair-value hedged liabilities in the consolidated financial statements relating to the six months ended 30 June 2005 issued by the Group on 17 August 2005.

HK$'000	**Amortised cost as at 1 July 2005**	**Fair value as at 1 July 2005**
Deposits from customers	196,997	196,252
Certificates of deposit issued	4,496,450	4,420,960
Issued debt securities	1,165,785	1,153,195
Subordinated notes	971,488	994,026
	6,830,720	6,764,433

(b) Other financial liabilities

Other financial liabilities are carried at amortised cost. Any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the other financial liabilities using the effective interest method.

If the Group purchases its own debt, it is removed from the balance sheet, and the difference between the carrying amount of a liability and the consideration paid is included in net trading income.

3.3.4 *Derivative financial instruments and hedge accounting*

From 1 January 2004 to 31 December 2004

Off-balance sheet financial instruments arise from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, equity, interest rate, and other markets.

Accounting for these instruments is dependent upon the purpose for which the transactions are undertaken.

Transactions undertaken for trading purposes were measured at fair value. Fair values were obtained periodically from various sources, including quoted market prices, discounted cash flow models and option pricing models as appropriate. The gain or loss arising was recognised in the income statement as "Net gain/(loss) from foreign exchange trading" or "Net gain/(loss) from other dealing activities".

On the date a derivative contract is entered into, the Group may designate certain derivative transactions as hedges. Derivatives are classified as a hedge when a formal linkage between the hedging instruments and the hedged items is clearly identified and documented at the inception of the hedging transactions. The risk mitigation effectiveness of the hedging instruments is reviewed by the Group Risk Division and is monitored on an on-going basis.

If the derivative transaction no longer met the criteria for a hedge set out above, the derivative was deemed to be held for trading purposes and was accounted for as set out above.

From 1 January 2005 onwards

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received).

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used and is amortised to income statement over the period to maturity.

(b) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

3.3.5 *Goodwill and intangible assets*

Goodwill represents the excess of the cost of an acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of the acquiree as at the completion of an acquisition. It is tested annually for impairment losses and carried at cost less any accumulated impairment losses. It is allocated to cash-generating units for the purpose of impairment testing.

Intangible assets arising from an acquisition are recognised separately from goodwill when they are separable or arise from contractual or other legal rights, and their values can be measured reliably. They include core deposits, contracts and customer relationships intangibles assets, and trade names. Intangible assets are stated at cost less amortization based on estimated useful lives, and/or accumulated impairment losses.

3.3.6 *Impairment of goodwill and intangible assets*

Goodwill and intangible assets that have an indefinite useful life are not subject to amortization, but are tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have a finite life are subject to amortisation and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the intangible asset's carrying amount exceeds its recoverable amount.

3.3.7 *Share-based compensation*

The Group operates a cash-settled, share-based compensation plan which requires the Group to pay the intrinsic value of share option to a grantee at the date of exercise. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Group will re-measure the fair value of the option and any change is recognised in the income statement.

3.3.8 *Interest income and interest expense*

From 1 January 2004 to 31 December 2004

Interest income and interest expense were recognised in the income statement as it accrued using the relative contract or coupon interest rates, except in the case of doubtful debts where interest was suspended and netted off in the balance sheet against the relevant balances.

From 1 January 2005 onwards

Interest income and interest expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method, and for certain instruments measured at fair value through profit or loss not held for trading purpose.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards.

4. Segment Reporting

Segment information is presented in respect of the Group's business segments:

For the year ended 31 December 2005

HK$'000	**Personal Banking**	**Commercial Banking**	**Treasury**	**Unallocated**	**Elimination**	**Total**
Interest income from						
– external customers	**1,181,017**	**921,408**	**982,400**	**10,059**	–	**3,094,884**
– inter-segments	**674,245**	–	**106**	**186,374**	**(860,725)**	–
Interest expense to						
– external customers	**(1,021,822)**	**(212,032)**	**(513,177)**	**(14,471)**	–	**(1,761,502)**
– inter-segments	**(37,237)**	**(249,411)**	**(574,077)**	–	**860,725**	–
Net interest income/(expense)	**796,203**	**459,965**	**(104,748)**	**181,962**	–	**1,333,382**
Fee and commission income	**359,163**	**87,606**	**10,066**	**11,374**	–	**468,209**
Fee and commission expense	**(59,165)**	**(91)**	**(6,415)**	**(37)**	–	**(65,708)**
Net fee and commission income	**299,998**	**87,515**	**3,651**	**11,337**	–	**402,501**
Net trading income/(loss)	**2,021**	**6,257**	**136,596**	**(2,615)**	–	**142,259**
Other operating income	**9,022**	**614**	**8,881**	**19,680**	–	**38,197**
Total operating income	**1,107,244**	**554,351**	**44,380**	**210,364**	–	**1,916,339**
Operating expenses	**(675,058)**	**(161,031)**	**(54,006)**	**(34,510)**	–	**(924,605)**
Operating profit/(loss) before impairment losses on loans and advances	**432,186**	**393,320**	**(9,626)**	**175,854**	–	**991,734**
Impairment losses on loans and advances	**(55,484)**	**(75,075)**	**93**	**(111)**	–	**(130,577)**
Operating profit/(loss) before gains on certain investments and fixed assets	**376,702**	**318,245**	**(9,533)**	**175,743**	–	**861,157**
Net (loss)/gain on disposal/reversal of revaluation deficits of premises and other fixed assets	**(231)**	**(8)**	–	**104,230**	–	**103,991**
Net gain on fair value adjustment on investment properties	–	–	–	**74,570**	–	**74,570**
Net (loss)/gain on disposal of available-for-sale securities	**(20)**	–	**102,295**	**13,802**	–	**116,077**
Share of results of jointly controlled entities	–	–	–	**3,104**	–	**3,104**
Profit before income tax	**376,451**	**318,237**	**92,762**	**371,449**	–	**1,158,899**
As at 31 December 2005						
Total assets	**23,049,782**	**24,685,945**	**39,104,212**	**2,676,901**	–	**89,516,840**
Total liabilities	**46,148,503**	**10,795,679**	**22,772,599**	**1,126,753**	–	**80,843,534**
Depreciation for the year	**41,820**	**11,124**	**2,687**	**4,521**	–	**60,152**
Capital expenditure incurred during the year	**20,048**	**424**	**1,339**	**5,027**	–	**26,838**

For the year ended 31 December 2004 (Restated)

HK$'000	Personal Banking	Commercial Banking	Treasury	Unallocated	Elimination	Total
Interest income from						
– external customers	895,398	590,505	735,706	6,797	–	2,228,406
– inter-segments	337,492	25,169	–	22,969	(385,630)	–
Interest expense to						
– external customers	(389,819)	(70,115)	(112,419)	(9,587)	–	(581,940)
– inter-segments	–	–	(385,630)	–	385,630	–
Net interest income	843,071	545,559	237,657	20,179	–	1,646,466
Fee and commission income	343,670	101,816	10,197	17,504	–	473,187
Fee and commission expense	(48,604)	–	(7,839)	(81)	–	(56,524)
Net fee and commission income	295,066	101,816	2,358	17,423	–	416,663
Net trading income/(loss)	4,196	6,038	62,332	(3,538)	–	69,028
Other operating income	16,099	–	12,279	17,869	–	46,247
Total operating income	1,158,432	653,413	314,626	51,933	–	2,178,404
Operating expenses	(575,316)	(134,236)	(77,725)	(16,091)	–	(803,368)
Operating profit before charge for bad and doubtful debts	583,116	519,177	236,901	35,842	–	1,375,036
(Charge for)/Write back of bad and doubtful debts	(157,859)	(52,157)	156	1,105	–	(208,755)
Operating profit before gains on certain investments and fixed assets	425,257	467,020	237,057	36,947	–	1,166,281
Net gain/(loss) from disposal/reversal of revaluation deficits of premises and other fixed assets	179	–	–	(653)	–	(474)
Net gain on fair value adjustment on investment properties	–	–	–	49,839	–	49,839
Net (loss)/gain on disposal of non-trading securities	(5)	–	44,656	2,047	–	46,698
Share of results of jointly controlled entities	–	–	–	4,095	–	4,095
Net other contribution from discontinued operation	–	–	–	276	–	276
Reorganisation costs	–	–	–	(8,963)	–	(8,963)
Profit before income tax	425,431	467,020	281,713	83,588	–	1,257,752
As at 31 December 2004						
Total assets	18,768,712	15,284,547	36,064,101	1,194,578	–	71,311,938
Total liabilities	35,445,960	8,199,513	18,820,849	1,105,004	–	63,571,326
Depreciation for the year	43,490	9,730	5,831	4,102	–	63,153
Capital expenditure incurred during the year	20,366	4,841	801	6,993	–	33,001

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

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

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

Unallocated items include results of operations and corporate investments (including properties) not directly identified under other business divisions.

Following the acquisition of Banco Comercial de Macau, S.A. and its subsidiaries on 19 December 2005, HK$9.8 billion of assets and HK$8.3 billion of liabilities as at 31 December 2005 related to operations based in Macau. For the year ended 31 December 2005, over 90% of the Group's revenues and close to 90% of the Group's assets are originated from business operations based in Hong Kong.

The amounts set out in the following notes are expressed in thousands of Hong Kong dollars unless otherwise stated.

5. Net trading income

	2005	2004
Net gain arising from dealing in foreign currencies	**170,917**	73,490
Net loss arising from financial instruments designated at fair value through profit or loss, trading securities and derivatives	**(28,658)**	(4,462)
	142,259	69,028

6. Other operating income

	2005	2004
Dividend income from investments in available-for-sale securities		
– listed investments	**4,237**	4,238
– unlisted investments	**11,263**	15,858
Gross rental income from investment properties	**11,791**	10,802
Other rental income	**6,146**	5,689
Others	**4,760**	9,660
	38,197	46,247

7. Operating expenses

	2005	2004 Restated
Employee benefit expenses (including directors' remuneration)	**524,167**	472,546
Depreciation	**60,152**	63,153
Premises and other fixed assets expenses, excluding depreciation	**96,394**	87,150
Others	**243,892**	180,519
	924,605	803,368

8. Impairment losses on loans and advances/charge for bad and doubtful debts

	2005	2004
Net charge of impairment losses on loans and advances		
– Individually assessed	**52,857**	–
– Collectively assessed	**77,720**	–
Net charge for bad and doubtful debts		
– Specific provision	–	165,975
– General provision	–	42,780
	130,577	208,755

9. Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2005	2004 Restated
Current income tax		
– Hong Kong profits tax		
– Continuing operations	**158,965**	148,170
– Discontinued operation	–	47
– Overseas taxation	**1,695**	407
Deferred income tax	**17,067**	(12,294)
	177,727	136,330

10. Basic and diluted earnings per share

The calculation of basic earnings per share is based on earnings of HK$978,834,000 (2004: HK$1,118,739,000) and the weighted average number of 922,401,845 (2004: 864,955,785) shares in issue during the year, shown as follows:

	2005 Number of shares	2004 Number of shares
Ordinary shares in issue as at 1 January (Note)	**919,830,827**	809,900,000
Effect of shares issued pursuant to public listing	–	55,055,785
Effect of shares issued in lieu of dividends	**2,571,018**	–
Weighted average number of ordinary shares as at 31 December	**922,401,845**	864,955,785

Note:

The Company was incorporated on 11 March 2004 with two fully paid subscriber's shares. On 12 June 2004, the Company issued a further 809,899,998 shares to Dah Sing Financial Holdings Limited ("DSFH") as consideration for the acquisition of the latter's interest in various banking-related subsidiaries. On 30 June 2004, the Company issued an additional 100,100,000 shares upon completion of its initial public offering and listing on the Stock Exchange. On 19 July 2004, the Company issued a further 9,830,827 shares pursuant to the exercise of the over-allotment option by the international placing underwriters. For the purpose of the calculation of basic earnings per share for 2004, on the basis of the merger accounting method adopted, the Company is considered as if it had the reported profit accrued to it, and had 809,900,000 shares in issue throughout the period in 2004 up to the date immediately before listing, after which its total number of shares was increased to 919,830,827.

The calculation of diluted earnings per share is based on earnings of HK$978,834,000 (2004: HK$1,118,739,000) and the weighted average number of 922,401,845 (2004: 865,220,126) shares in issue during the year after adjusting for the effect of all dilutive potential ordinary shares as shown below:

	2005 Number of shares	2004 Number of shares
Weighted average number of ordinary shares as at 31 December	**922,401,845**	864,955,785
Adjustments for share option	–	264,341
Weighted average number of ordinary shares for diluted earnings per share as at 31 December	**922,401,845**	865,220,126

11. Derivative financial instruments

The notional principal amounts of outstanding derivatives contracts and their fair values as of 31 December 2005 were as follows:

	Contract/ notional amount	Fair values Assets	Fair values Liabilities
1) Derivatives held for trading			
a) *Foreign exchange derivatives*			
Forward and future contracts	**24,391,023**	**22,428**	**77,123**
Currency swaps	**2,188,446**	**59,068**	**311**
Currency options purchased and written	**352,730**	**1,331**	**1,331**
b) *Interest rate derivatives*			
Interest rate swaps	**13,222,923**	**1,828**	**133,881**
Interest rate options	**555,102**	–	**2,940**
c) *Equity derivatives*			
Equity options purchased and written	**183,044**	**2,964**	**2,964**
Equity futures	**12,287**	**123**	–
d) *Credit derivatives*			
Credit default swaps	**1,124,490**	**3,112**	**4,648**
Total derivatives held for trading	**42,030,045**	**90,854**	**223,198**
2) Derivatives held for hedging			
a) *Derivatives designated as fair value hedges*			
Interest rate swaps	**9,252,272**	**62,852**	**282,860**
Total derivatives held for hedging	**9,252,272**	**62,852**	**282,860**
Total recognised derivative financial instruments	**51,282,317**	**153,706**	**506,058**

The notional principal amounts of outstanding derivative contracts as of 31 December 2004 were as follow:

Currency forwards	29,393,806
Currency swaps	551,347
Currency options	243,381
Foreign exchange derivatives	30,188,534
Interest rate swaps	13,278,562
Interest rate options	695,804
Interest rate derivatives	13,974,366
Equity options	300,928
Credit default swaps	583,076
	45,046,904

12. Advances and other accounts

	2005	2004 Restated
Gross advances to customers	**44,918,618**	32,528,414
Gross advances to banks and other financial institutions	**389,264**	15,549
Trade bills	**653,581**	568,859
Other assets	**1,005,333**	1,624,620
Gross advances and other accounts	**46,966,796**	34,737,442
Less: impairment allowances/provisions for bad and doubtful debts		
– Individually assessed	**(167,436)**	–
– Collectively assessed	**(230,582)**	–
– Specific provision	–	(147,071)
– General provision	–	(324,652)
	(398,018)	(471,723)
Advances and other accounts	**46,568,778**	34,265,719

(a) *Gross advances to customers by industry sector*

	2005	2004	Variance %
Loans for use in Hong Kong			
Industrial, commercial and financial			
– Property development	**191,512**	179,157	6.9
– Property investment	**4,715,772**	3,100,094	52.1
– Financial concerns	**528,033**	537,898	–1.8
– Stockbrokers	**14,994**	14,978	0.1
– Wholesale and retail trade	**1,256,740**	1,033,707	21.6
– Manufacturing	**3,896,158**	2,756,340	41.4
– Transport and transport equipment	**3,832,407**	1,904,984	101.2
– Others	**1,402,141**	1,009,823	38.9
	15,837,757	10,536,981	50.3
Individuals			
– Loans for the purchase of flats in Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**1,929,198**	2,143,031	–10.0
– Loans for purchase of other residential properties	**10,773,683**	9,950,171	8.3
– Credit card advances	**2,759,308**	2,356,865	17.1
– Others	**4,641,012**	3,476,438	33.5
	20,103,201	17,926,505	12.1
Loans for use in Hong Kong	**35,940,958**	28,463,486	26.3
Trade finance	**3,914,072**	3,340,369	17.2
Loans for use outside Hong Kong	**5,063,588**	724,559	598.9
	44,918,618	32,528,414	38.1

(b) *Impaired, overdue and rescheduled assets*

(i) Impaired loans/Non-performing loans

	2005	2004
Gross impaired loans (Note a)	**312,530**	
As a percentage of total advances to customers	**0.70%**	
Individual impairment allowances	**167,436**	
Amount of collateral held	**182,604**	
Non-performing loans (Note b)		311,928
As a percentage of total advances to customers		0.96%
Specific provisions		137,258
Amount of collateral held		248,829
Amount of interest in suspense		16,356

Note:

a. 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 future cash flows of the loans that can be reliably estimated.

b. Non-performing loans are loans and advances to customers on which interest is being placed in suspense or on which interest accrual has ceased under the requirement of Hong Kong Monetary Authority.

c. The above individual impairment allowances/specific provisions were made after taking into account the value of collateral in respect of such advances as at 31 December.

(ii) Overdue loans

	2005	% of total advances to customers	2004	% of total advances to customers
Gross advances to customers which have been overdue for:				
– six months or less but over three months	**118,065**	**0.26**	72,042	0.22
– one year or less but over six months	**59,799**	**0.13**	75,051	0.23
– over one year	**128,051**	**0.29**	86,347	0.27
	305,915	**0.68**	233,440	0.72
The amount on which interest is still being accrued			16,378	
Market value of securities held against the secured overdue advances	**256,219**		165,013	
Secured overdue advances	**180,623**		127,727	
Unsecured overdue advances	**125,292**		105,713	
Individual impairment allowances/specific provisions made	**114,365**		104,429	

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

	2005	% of total advances to customers	2004	% of total advances to customers
Rescheduled advances	**181,654**	**0.40**	114,762	0.35
Individual impairment allowances/specific provisions made	**25,123**		12,526	

There were no advances to banks and other financial institutions which were impaired, overdue for over 3 months or rescheduled as at 31 December 2005 and 31 December 2004.

(iv) Trade bills

	2005	2004
Overdue for:		
– six months or less but over three months	–	215
– one year or less but over six months	–	–
– over one year	**363**	–
	363	215

(c) *Repossessed assets*

As at 31 December, the repossessed assets of the Group were as follows:

	2005	2004
Repossessed properties	**45,401**	22,163

13. Other reserves

	2005	2004 Restated
Reserves		
Share premium	**2,209,149**	2,054,513
Consolidation reserve	**(220,986)**	(220,986)
Premises revaluation reserve	**551,350**	272,535
Investment revaluation reserve	**14,521**	75,684
Exchange reserve	**(277)**	(156)
General reserve	**700,254**	700,254
	3,254,011	2,881,844

The Group complies with the requirement of the Hong Kong Monetary Authority ("HKMA") to maintain loan impairment allowances (determined in accordance with regulatory guidelines) in excess of those determined in accordance with Hong Kong Accounting Standards. Dah Sing Bank ("DSB") has earmarked a "Regulatory Reserve" from general reserve for an amount of HK$231,086,000 which, together with the DSB's collective impairment allowances after the adoption of HKAS 39, is included as supplementary capital in the capital base of DSB as at 31 December 2005. The regulatory reserve of DSB is not distributable without the consent of the HKMA.

E. CROSS-BORDER CLAIMS

Equivalent in HK$ millions

	2005 Banks and other financial institutions	2005 Public sector entities	2005 Others	2005 Total
Asia Pacific excluding Hong Kong	**4,904**	**250**	**4,075**	**9,229**
North and South America	**1,024**	–	**2,458**	**3,482**
Europe	**10,498**	–	**4,720**	**15,218**
	16,426	**250**	**11,253**	**27,929**

	2004			
	Banks and other financial institutions	Public sector entities	Others	Total
Asia Pacific excluding Hong Kong	3,837	–	577	4,414
North and South America	1,286	2,064	3,626	6,976
Europe	10,972	90	3,461	14,523
	16,095	2,154	7,664	25,913

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.

F. CONTINGENT LIABILITIES AND COMMITMENTS

(a) Capital commitments

Capital expenditure outstanding as at balance sheet date not provided in the financial statements were as follows:

	2005	2004
Expenditure contracted but not provided for	**34,931**	16,616

(b) Credit commitments

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

	2005	2004
Direct credit substitutes	**2,420,934**	757,320
Transaction related contingencies	**26,872**	30,961
Trade related contingencies	**951,964**	790,228
Other commitments with an original maturity of:		
– under 1 year or which are unconditionally cancellable	**26,872,921**	22,081,608
– 1 year and over	**592,304**	738,712
Forward deposits placed	**1,006,592**	–
	31,871,587	24,398,829

(c) Operating lease commitments

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

	2005	2004
Not later than 1 year	**42,214**	35,607
Later than 1 year and not later than 5 years	**70,295**	78,553
	112,509	114,160

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

	2005	2004
Not later than 1 year	**12,503**	8,529
Later than 1 year and not later than 5 years	**10,988**	2,180
	23,491	10,709

G. CURRENCY CONCENTRATIONS

Equivalent in HK$ millions

	2005			
	USD	**CNY**	**MOP**	**Total**
Spot assets	**26,575**	**773**	**3,140**	**30,488**
Spot liabilities	**(21,097)**	**(756)**	**(3,353)**	**(25,206)**
Forward purchases	**9,818**	–	**1**	**9,819**
Forward sales	**(14,496)**	–	–	**(14,496)**
Net long/(short) position	**800**	**17**	**(212)**	**605**

	2004		
	USD	CNY	Total
Spot assets	21,602	557	22,159
Spot liabilities	(19,270)	(535)	(19,805)
Forward purchases	13,234	4	13,238
Forward sales	(12,126)	–	(12,126)
Net long position	3,440	26	3,466

H. CAPITAL ADEQUACY RATIO

	As at 31 December 2005	As at 31 December 2004
Capital adequacy ratio	16.6%	17.3%
Adjusted capital adequacy ratio	16.8%	17.3%

1. The capital adequacy ratio represents the combined ratio of the banking subsidiaries within the Group comprising Dah Sing Bank and its banking subsidiaries, MEVAS Bank Limited, D.A.H. Hambros Bank (Channel Islands) Limited as at 31 December. The capital adequacy ratio is computed with reference to the methods set out in the Third Schedule of the Banking Ordinance.

2. The adjusted capital adequacy ratio represents the combined ratio of the banking subsidiaries within the Group as at 31 December. The adjusted capital adequacy ratio is computed with reference to the methods set out in the Supervisory Policy Manual entitled "Maintenance of Adequate Capital Against Market Risks" issued by the HKMA. The adjusted ratio takes into account market risk as at 31 December.

3. Only the locally incorporated banking subsidiaries within the Group are subject to the minimum capital adequacy ratio requirement under the Banking Ordinance. BCM is subject to separate Macau banking regulations. The above ratios of the Group are calculated for reference only.

4. The combined capital base of the Group computed on the basis of the Banking Ordinance is set out below:

HK$'000	2005	2004
Core capital	**6,135,751**	5,672,607
Supplementary capital	**3,790,664**	1,546,675
Total capital base	**9,926,415**	7,219,282
Deductions	**(421,585)**	(83,297)
Total capital base after deductions	**9,504,830**	7,135,985

I. LIQUIDITY RATIO

	Year ended 31 December 2005	Year ended 31 December 2004
Liquidity ratio	**55.2%**	57.9%

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

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

J. EVENTS AFTER THE BALANCE SHEET DATE

The Company's holding company, Dah Sing Financial Holdings Limited ("DSFH") placed 33,526,800 shares of the Company, representing approximately 3.6% of the existing issued share capital of the Company of 931,416,279 shares through the Hongkong and Shanghai Banking Corporation Limited, as the placing agent and underwriter, on 13 February 2006 at a price of HK$15.2 per share. The placement increased the public float of the Company from 21.46% to 25.06%.

FINANCIAL RATIOS

	Year ended 31 December 2005	Year ended 31 December 2004 Restated
Net interest income/operating income	**69.6%**	75.6%
Cost to income ratio	**48.2%**	36.9%
Loan to deposit (including certificates of deposit) ratio	**68.0%**	61.8%
Return on average total assets	**1.2%**	1.7%
Return on average shareholders' funds	**12.0%**	16.7%
Dividend payout ratio	**57.8%**	50.2%
Net interest margin	**1.98%**	2.92%

FINAL DIVIDEND

At the forthcoming annual general meeting of the Company to be held on Friday, 19 May 2006, the Directors will propose a final dividend of HK$0.38 per share for 2005 to Shareholders whose names are on the Register of Shareholders as at the close of business on Friday, 19 May 2006. Dividend warrants will be sent to Shareholders by ordinary mail on or about Monday, 22 May 2006.

CLOSING OF REGISTER OF SHAREHOLDERS

The Register of Shareholders will be closed from Monday, 15 May 2006 to Friday, 19 May 2006, both days inclusive. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Friday, 12 May 2006.

CORPORATE OVERVIEW

In 2005, we continued to execute our growth strategy, both organically and through M&A activities. Organic growth was strong, with an increase of 16% in total loans for the Company, excluding the effect of the M&A activity during the year.

The year was notable for the start of the execution of the M&A strategy articulated at the time of the separate listing of the Company. During 2005, we made two acquisitions, for total consideration of approximately HK$2.6 billion, which compared with the approximately HK$1.3 billion aggregate net proceeds of the IPO of the Company raised at the Company level in 2004.

The first acquisition announced was that of Pacific Finance (Hong Kong) Limited ("Pacific Finance") for HK$936 million, which was completed in September. Pacific Finance is primarily engaged in consumer and SME finance activities in Hong Kong in relation to vehicle finance, equipment finance, property finance and unsecured loans, and for the year ended 31 December 2005, the shareholders' funds of Pacific Finance were HK$494 million (after paying an interim dividend of HK$110 million to DSB in December 2005) and its net profit after taxation was HK$82.3 million. It is intended to integrate fully the business of Pacific Finance with that of DSB, and this process is underway.

The second acquisition announced was that of Banco Comercial de Macau ("BCM") and its general and life insurance business, for a total consideration of MOP1,729 million (approximately HK$1,679 million), which was completed in December. Established in 1974, BCM is the third largest bank in Macau by number of branches and the eighth largest by total assets, and offers a diversified range of product and services. Through its associated life and general insurance companies, the BCM group also includes the largest general insurance company in Macau and the fifth largest life assurance company, on the basis of gross written premiums, and is also the second largest pension fund administrator, by assets under management, in Macau. As at 31 December 2005, the net asset value of BCM was MOP585 million, and its profit after tax was MOP89.7 million. For BCM's insurance subsidiaries, their total net asset value as at 31 December 2005 was MOP90.4 million, and a total profit after tax of MOP12.5 million for the year ended 31 December 2005 was recorded. The acquisition of BCM represents the Group's entry into the Macau market, which is an increasingly affluent market with a growing economy, and allows the Group to gain significant market share in each of the banking, general insurance and life assurance businesses. We expect to complete the transfer of the Macau insurance businesses to DSFH during 2006.

After the year end, in February 2006, DSFH announced that it had placed a further 3.6% of the shares in the Company in order to restore the public float of the Company to above the 25% level.

BUSINESS REVIEW

The Hong Kong economy has continued to recover, with real GDP of 7.3% in 2005, a reduction in the unemployment rate to 5.3% and mild inflation of 1.1% for the year, which was positive for our businesses, particularly as regards loan growth and credit cost in our banking business.

Interest rate conditions remained challenging, particularly in the first half of the year, as interbank rates increased at a faster rate than the prime rate, leading to pressure on margins. Whilst a wider Prime/HIBOR spread towards the end of 2005 reversed this pressure to some extent, it was too late in the year to benefit margins in a material manner. The flat yield curve also reduced returns from our Treasury business.

Loan growth on an organic basis, of 16%, principally driven by our Commercial Banking business, was encouraging, and whilst mortgage lending during the year was subdued, due both to pricing and demand considerations, the consumer lending business achieved an improved performance, particularly in the second half of the year. Including the acquisitions of Pacific Finance and BCM completed in the second half, total loans grew by approximately 38% for the year.

Credit quality for the full year improved, with total loan impairment charges reduced by 37.4% compared with 2004 to HK$131 million. Consumer lending credit conditions improved further, with credit card charge-offs falling significantly in the year and negative equity in the mortgage book dropping to immaterial levels overall.

We continued to recruit additional staff to support the higher than market loan growth that we have been able to achieve, as well as to support additional regulatory and compliance demands, and this, together with an increase in remuneration for existing staff, and higher IT costs arising from the actions to enhance our back office systems, as well as increased spending on advertising and marketing, increased our operating expenses.

Whilst economic conditions were conducive to volume growth in all of our major lending businesses, the interest rate conditions in the market, particularly the significantly narrower Prime/HIBOR spread due to higher funding costs, had a negative impact on the lending spreads we were able to achieve, although this trend improved somewhat towards the year end. The interest rate conditions were also negative for our treasury business, although tightening credit spreads in the first part of the year were a major contributor to the healthy disposal gains achieved during the year.

Our Shenzhen branch has continued to report profits, and we are now working towards the application for a RMB license. We continue to explore opportunities to develop further our network and business in the Mainland China market.

FINANCIAL REVIEW

Profit attributable to shareholders of the Company for the year was HK$979 million, a decline of 12.5% relative to the profit attributable to shareholders in 2004 of HK$1,119 million.

Despite the strong growth in loan assets in the year, the rapid rise in HIBOR in response to the continued increases in US interest rates, and a tighter Prime/HIBOR spread compared with the exceptionally wide spread in 2004 led to a faster increase in our interest expense than interest income, and therefore a 19% reduction in our net interest income in 2005. Under the new accounting standards, currency swaps entered into for funding purposes are now treated as trading derivatives, resulting in derecognition of net interest income of HK$85 million reclassified as trading income in 2005 (whereas net interest income arising from such swaps in 2004 was not allowed to be reclassified based on the new accounting standards). Our net interest margin narrowed to 1.98% from 2.92% in 2004.

Net fee and commission income decreased by 3.4%. This was mainly caused by lower wealth management income, as the continued increases in interest rates led to a lower level of customer investment and trading activities.

Net trading income increased significantly in the year, driven by higher treasury trading profit contributed in part by the inclusion of HK$85 million fair value gains on funding currency swaps arising from the change in accounting treatment.

Other operating income was lower than 2004, mainly with lower dividend income received.

Total operating income dropped by 12%.

Operating expenses rose 15.1% as the Group increased its spending to support business growth and strengthen operational capabilities. Cost increases were mainly due to higher staff costs, increased advertising spend and additional computer expenses arising from investment in new systems. The cost to income ratio increased to 48.2% in 2005 from 36.9% in 2004.

Operating profit before impairment charges was 27.9% lower than 2004.

Due to improved market conditions, lower unemployment and appreciation of property prices, as well as sharing of credit data in consumer finances and SME lending, asset quality in the year improved significantly. Lower new provisions, higher recoveries and new approaches to assess loan impairment according to the new accounting standards reduced the impairment charges on loans and advances by HK$78.2 million, or 37.4% relative to 2004.

Operating profit before gains on certain investments and fixed assets was 26.2% lower when compared with 2004.

The Group revalued all of its own-use properties and investment properties at the end of 2005. In addition to transferring certain revaluation surplus of own-use properties directly to equity reserves, a revaluation gain of HK$179 million was recognized in the 2005 income statement. A large portion of this revaluation gain was a reversal and therefore write-back of revaluation losses of bank premises and investment properties charged in prior years when local property prices were lower.

A total net gain on disposal of available-for-sale securities of HK$116 million was realised, which was significantly higher than the securities disposal gain booked in 2004.

The post-acquisition results of Pacific Finance with effect from 1 October 2005, and of the BCM group with effect from 20 December 2005, were consolidated in the Group's results in 2005. Their aggregate net profit recognized in our Group results, post acquisition, amounted to approximately HK$10 million.

As at 31 December 2005, the Group's total gross loans and advances to customers, including the loan balances of Pacific Finance and BCM, amounted to HK$44.9 billion, up 38% relative to the end of 2004. If the loan portfolios of Pacific Finance and BCM as at 31 December 2005 were excluded, the loan growth of our banking business, on an organic basis, was 16% over 2004, with growth achieved in most loan types, and particularly strong growth achieved in property and mortgage finance, trade finance, transport financing, and credit cards. The acquisitions of Pacific Finance and BCM assisted the Group to further diversify its loan book and customer base.

Customer deposits plus certificates of deposit, including structured deposits now shown as "Deposits from customers designated at fair value through profit or loss", and the deposit base of BCM, totaled HK$58.1 billion as at 31 December 2005, an increase of 34.2% over 2004 year end. If the BCM deposit balance was excluded, the underlying year-on-year growth in our deposit balance was 18%. Issued certificates of deposit amounted to HK$7.7 billion, a reduction of 8.7% relative to 2004 year end. The loan to deposit ratio increased to 68%, up from 61.8% in 2004.

To help strengthen the Group's capital base for both acquisition and refinancing purposes, DSB completed two issues of term subordinated debt of US$150 million each during the year.

PROSPECTS

We expect that the Hong Kong economy will continue to achieve solid growth in 2006, albeit at a slower pace than that achieved in 2005. The continued strong growth in the Mainland China economy and Hong Kong's further integration with the Pan Pearl River Delta region will provide Hong Kong with favourable local market conditions to mitigate the potential negative impact of a slowdown in global economic growth and the effect of higher interest rates.

We continue to target growth in all of our key businesses, both in Hong Kong and in Macau. Reasonably benign economic and employment conditions will also support continuing good credit quality, although we believe that the current very low levels of credit cost will not be maintainable over the long term. Higher interest rates, intense competition in the domestic banking market, and a flat yield curve continue to present challenges for our net interest margin, although we do not currently expect to see the same level of pressure as in 2005. Increasing competition, a higher rate of wage inflation, rental cost increases, and the need to continue to invest to upgrade our operational and IT capabilities are expected to put further pressure on our cost base.

Strategically, we have taken steps to expand our business both organically and through M&A activities in 2005. After completing the acquisitions of Pacific Finance and BCM in the second half of 2005, we are currently working to complete their integration with our Group in an efficient manner to achieve synergy.

We remain committed to our strategy of growth. It is our view that the lower margins available in the banking market we believe will persist for some time to come, and that increased scale remains one of the most effective ways in which to combat this margin pressure. Whilst Hong Kong remains our core market, we see clear opportunities in Macau, where we now have a significant position in both the banking and insurance markets, and in the Mainland in the years to come.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the year ended 31 December 2005 except that the Company's Remuneration Committee, as a Committee of the Board, was approved and set up by the Board on 16 August 2005.

COMPLIANCE WITH MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of this financial report and the consolidated financial statements of the Group for the year ended 31 December 2005.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE'S WEBSITE

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

DEALINGS IN THE COMPANY'S SHARES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares during the period from 1 January 2005 to 31 December 2005.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of Directors of the Company comprises Messrs. David Shou-Yeh Wong as the Chairman, Hon-Hing Wong (Derek Wong) as the Managing Director, David Richard Hinde, John William Simpson, Robert Tsai-To Sze and Andrew Kwan-Yuen Leung as independent non-executive directors, Takashi Muraoka as non-executive director, and Lung-Man Chiu (John Chiu), Gary Pak-Ling Wang, Harold Tsu-Hing Wong and Dennis Tat-Wang Yau as executive directors.

By Order of the Board
H L Soo
Company Secretary

Hong Kong, Monday, 27 March 2006