



WING LUNG BANK LTD
(Incorporated in Hong Kong with limited liability)
INTERIM RESULTS 2003

Interim Results

The Directors of Wing Lung Bank Ltd are pleased to announce the unaudited results of the Group for the six months ended 30 June 2003 as follows:-

A. Consolidated Profit and Loss Account

	Six months ended 30 June		Change %
	2003 HK\$'000	2002 HK\$'000 Restated	
Interest income	943,890	1,026,804	-8.1
Interest expense	(379,140)	(428,609)	-11.5
Net interest income	564,750	598,195	-5.6
Other operating income (Note 1)	227,108	183,911	+23.5
Operating income	791,858	782,106	+1.2
Operating expenses (Note 2)	(266,924)	(268,613)	-0.6
Operating profit before provisions	524,934	513,493	+2.2
Charge for bad and doubtful debts	(52,211)	(65,786)	-20.6
Operating profit	472,723	447,707	+5.6
Net loss on disposal of fixed assets	(1,570)	(406)	
Net gain on disposal of non-trading securities	5,252	7,350	
Net gain on disposal of held-to-maturity securities	—	491	
Provision made on held-to-maturity securities	(18,781)	—	
	457,624	455,142	+0.5
Share of net losses of jointly controlled entities	(1,951)	(4,467)	
Share of profits/(losses) of associates	138	(181)	
Profit before taxation	455,811	450,494	+1.2
Taxation (Note 3)	(65,165)	(65,669)	
Profit attributable to shareholders	390,646	384,825	+1.5
Interim dividend	88,232	76,623	+15.2
Interim dividend per share	HK\$0.38	HK\$0.33	
Earnings per share (Note 4)	HK\$1.68	HK\$1.66	

Notes:

(1) Other operating income	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Fees and commission income	103,607	120,269
Less: fees and commission expenses	(43,399)	(61,819)
Net fees and commission income	60,208	58,450
Net income from insurance business	51,744	34,967
Net gain/(loss) from trading securities	6,920	(2,994)
Net gain/(loss) arising from derivative products	8,402	(560)
Net gain from foreign exchange trading	42,792	38,898
Others	57,042	55,150
	<u>227,108</u>	<u>183,911</u>

(2) Operating expenses	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Staff costs		
– Salaries and other costs	156,400	150,941
– Retirement benefit costs	6,547	4,923
Depreciation	32,168	31,317
Others	71,809	81,432
	<u>266,924</u>	<u>268,613</u>

(3) Taxation	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Hong Kong profits tax	70,531	66,009
Overseas taxation	2,205	2,532
Deferred taxation	(7,729)	(3,021)
	<u>65,007</u>	<u>65,520</u>
Share of taxation attributable to jointly controlled entities	158	149
	<u>65,165</u>	<u>65,669</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits for the period. In 2003, the Government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profits for the period at the rates of taxation prevailing in the countries in which the Group operates.

Deferred taxation for 2002 has been restated to reflect the adoption of the Hong Kong Statement of Standard Accounting Practice 12 “Income taxes”, details of which are set out in section D “Statutory Accounts”.

(4) Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$390,646,000 (2002:HK\$384,825,000) and 232,190,115 (2002: 232,190,115) shares in issue during the period.

B. Consolidated Assets and Liabilities

	<u>30/6/2003</u>	<u>31/12/2002</u>
	HK\$'000	HK\$'000
		Restated
Assets		
Cash and short-term funds	15,254,875	12,722,681
Placements with banks and other financial institutions maturing between one and twelve months	5,217,926	4,998,065
Trade bills	128,344	89,528
Certificates of deposit held	2,434,316	2,684,918
Trading securities	1,093,208	887,932
Held-to-maturity securities	8,029,805	6,995,439
Advances and other accounts	30,874,074	30,307,995
Non-trading securities	2,495,265	1,445,803
Interests in jointly controlled entities	87,740	89,849
Interests in associates	2,490	871
Fixed assets	<u>1,481,007</u>	<u>1,507,953</u>
Total assets	<u><u>67,099,050</u></u>	<u><u>61,731,034</u></u>
Liabilities		
Deposits and balances of banks and other financial institutions	1,850,370	1,031,426
Deposits from customers	50,083,928	48,653,756
Certificates of deposit issued	2,635,552	2,055,000
Other accounts and provisions	<u>4,351,657</u>	<u>1,981,920</u>
Total liabilities	<u><u>58,921,507</u></u>	<u><u>53,722,102</u></u>
Capital resources		
Share capital	1,160,951	1,160,951
Reserves (including interim dividend declared of HK\$88,232,000; 2002: final and bonus dividends of HK\$262,375,000)	<u>7,016,592</u>	<u>6,847,981</u>
Shareholders' funds	<u><u>8,177,543</u></u>	<u><u>8,008,932</u></u>
Total liabilities and capital resources	<u><u>67,099,050</u></u>	<u><u>61,731,034</u></u>

C. Supplementary Information of the Group

1. Advances and other accounts

	<u>30/6/2003</u>	<u>31/12/2002</u>
	HK\$'000	HK\$'000
Advances to customers	29,996,084	30,040,641
Provision for bad and doubtful debts		
General	(453,993)	(453,940)
Specific	<u>(252,346)</u>	<u>(257,928)</u>
	<u>29,289,745</u>	<u>29,328,773</u>
Accrued interest	169,993	167,507
Provision for bad and doubtful debts		
Specific	<u>(1,399)</u>	<u>(2,607)</u>
	<u>168,594</u>	<u>164,900</u>
	<u>29,458,339</u>	<u>29,493,673</u>
Advances to banks and other financial institutions	—	3,119
Other accounts	1,382,265	779,201
Deferred tax assets	<u>33,470</u>	<u>32,002</u>
	<u>30,874,074</u>	<u>30,307,995</u>

2. Gross advances to customers by industry sectors

	<u>30/6/2003</u>	<u>31/12/2002</u>
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
Property development	1,210,097	1,372,499
Property investment	5,003,404	5,021,903
Financial concerns	295,101	288,633
Stockbrokers	5,375	4,010
Wholesale and retail trade	586,347	628,146
Manufacturing	884,208	836,423
Transport and transport equipment	827,194	1,009,316
Others	4,502,523	4,185,730
Individuals		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	2,914,836	3,081,208
Loans for the purchase of other residential properties	10,173,612	10,149,580
Credit card advances	314,210	373,722
Others	1,008,167	955,790
Trade finance	<u>372,240</u>	<u>385,536</u>
	<u>28,097,314</u>	<u>28,292,496</u>
Loans for use outside Hong Kong	<u>1,898,770</u>	<u>1,748,145</u>
	<u>29,996,084</u>	<u>30,040,641</u>

3. Non-performing loans

The gross amount of non-performing loans, which represents advances on which interest is being placed in suspense or on which interest accrual has ceased, is analysed as follows:-

	Advances to customers	
	30/6/2003	31/12/2002
	HK\$'000	HK\$'000
Non-performing loans	774,967	689,041
Percentage of total advances to customers	2.58%	2.29%
Specific provisions made in respect of such advances	235,095	231,865
Amount of interest in suspense	45,347	42,991

At 30 June 2003 and 31 December 2002, there were no non-performing loans in respect of advances to banks and other financial institutions.

The above specific provisions were made after taking into account the value of collateral in respect of such advances.

4. Overdue assets

(a) Overdue advances

Overdue advances to customers (net of suspended interest) are analysed as follows:-

	30/6/2003		31/12/2002	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Gross amount of advances which have been overdue for:-				
Six months or less, but over three months	145,839	0.49	237,792	0.79
One year or less, but over six months	242,860	0.81	143,427	0.48
Over one year	319,732	1.06	318,320	1.06
	<u>708,431</u>	<u>2.36</u>	<u>699,539</u>	<u>2.33</u>
Secured overdue advances	510,747		484,971	
Unsecured overdue advances	197,684		214,568	
	<u>708,431</u>		<u>699,539</u>	
Market value of collateral held against the secured overdue advances	<u>622,275</u>		<u>579,503</u>	
Specific provisions made	<u>191,287</u>		<u>202,207</u>	

At 30 June 2003 and 31 December 2002, there were no advances to banks and other financial institutions which were overdue for over three months.

4. Overdue assets (continued)
(b) Other overdue assets

	30/6/2003		31/12/2002	
	Trade bills HK\$'000	Accrued interest HK\$'000	Trade bills HK\$'000	Accrued interest HK\$'000
Gross amount of other assets which have been overdue for:-				
Six months or less, but over three months	1,054	1,634	—	1,966
One year or less, but over six months	—	2,845	—	2,990
Over one year	—	4,077	—	5,671
	<u>1,054</u>	<u>8,556</u>	<u>—</u>	<u>10,627</u>

5. Rescheduled advances

Rescheduled advances (net of those which have been overdue for over three months and reported in item 4(a) above) are as follows:-

	30/6/2003		31/12/2002	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Rescheduled advances to customers	<u>223,379</u>	<u>0.74</u>	<u>142,775</u>	<u>0.48</u>

At 30 June 2003 and 31 December 2002, there were no rescheduled advances to banks and other financial institutions.

6. Reconciliation of overdue advances to non-performing loans

Overdue advances are reconciled to the non-performing loans, which represent advances on which interest is being placed in suspense or on which interest accrual has ceased, as follows:

	30/6/2003 HK\$'000	31/12/2002 HK\$'000
Advances which are overdue for more than three months	708,431	699,539
Add: advances which are overdue for three months or less and on which interest is being placed in suspense or on which interest accrual has ceased	131,623	89,682
Add: rescheduled advances on which interest is being placed in suspense	108,966	48,301
Less: advances which are overdue for more than three months and on which interest is still being accrued	(174,053)	(148,481)
Non-performing loans	<u>774,967</u>	<u>689,041</u>

7. Repossessed assets

	<u>30/6/2003</u>	<u>31/12/2002</u>
	HK\$'000	HK\$'000
Market value of repossessed assets	<u>46,626</u>	<u>56,294</u>

8. Geographical analysis of gross advances to customers, overdue advances and non-performing loans

The following geographical analysis of gross advances to customers, overdue advances and non-performing loans is based on the location of the counterparty, after taking into account the transfer of risk in respect of such advances where appropriate.

	<u>30/6/2003</u>	<u>31/12/2002</u>
	HK\$'000	HK\$'000
Gross advances to customers		
Hong Kong	28,472,736	28,691,132
Other areas	<u>1,523,348</u>	<u>1,349,509</u>
	<u>29,996,084</u>	<u>30,040,641</u>
Overdue advances		
Hong Kong	<u>708,431</u>	<u>699,539</u>
Non-performing loans		
Hong Kong	<u>774,967</u>	<u>689,041</u>

9. Deposits from customers

	<u>30/6/2003</u>	<u>31/12/2002</u>
	HK\$'000	HK\$'000
Demand deposits and current accounts	2,408,142	2,272,835
Saving deposits	10,674,976	9,017,571
Time, call and notice deposits	<u>37,000,810</u>	<u>37,363,350</u>
	<u>50,083,928</u>	<u>48,653,756</u>

10. Other accounts and provisions

Other accounts and provisions as at 30 June 2003 include provision for deferred taxation of HK\$554,000 (31 December 2002 : HK\$536,000).

11. Reserves

	<u>30/6/2003</u>	<u>31/12/2002</u>
	HK\$'000	HK\$'000
Capital reserve	57,500	57,500
Investment properties revaluation reserve	999,152	999,293
Investment revaluation reserve	100,292	59,811
General reserve	1,003,730	1,003,730
Retained earnings (including interim dividend declared of HK\$88,232,000; 2002: final and bonus dividends of HK\$262,375,000)	4,855,918	4,727,647
	<u>7,016,592</u>	<u>6,847,981</u>

At a meeting held on 20 August 2003, the directors declared an interim dividend of HK\$0.38 per share. This interim dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2003.

12. Segment reporting

(a) Class of business

The Group operates predominantly in commercial banking which comprises retail and corporate banking, treasury and other activities. Retail and corporate banking includes retail banking, commercial lending and trade finance. Treasury activities include foreign exchange, money market and capital market activities. Other activities mainly comprise investment properties holding, securities brokerage and insurance related business.

	Retail and corporate banking HK\$'000	Treasury HK\$'000	Others HK\$'000	Unallocated HK\$'000	Group HK\$'000
Six months ended 30 June 2003					
Interest income from					
- external customers	539,275	383,523	21,092	—	943,890
- other segments	111,941	114,609	2,901	—	229,451
Interest expense to					
- external customers	(116,579)	(262,512)	(49)	—	(379,140)
- other segments	(117,507)	(110,684)	(1,260)	—	(229,451)
Net interest income	417,130	124,936	22,684	—	564,750
Other operating income from external customers	46,707	38,430	141,971	—	227,108
Operating income	463,837	163,366	164,655	—	791,858
Operating expenses	(163,639)	(12,431)	(43,768)	(47,086)	(266,924)
Operating profit before provisions	300,198	150,935	120,887	(47,086)	524,934
Charge for bad and doubtful debts	(52,211)	—	—	—	(52,211)
Operating profit (Loss)/gain on fixed assets and investments	247,987	150,935	120,887	(47,086)	472,723
Share of net losses of jointly controlled entities and associates	(19,034)	768	4,729	(1,562)	(15,099)
Profit/(loss) before taxation	228,953	151,703	123,803	(48,648)	455,811
Depreciation charge	22,736	1,372	4,541	3,519	32,168
At 30 June 2003					
Segment assets	31,812,270	32,834,140	2,256,304	196,336	67,099,050
Segment liabilities	49,666,129	7,067,636	2,090,576	97,166	58,921,507
Capital expenditure	1,573	94	1,035	4,091	6,793

12. Segment reporting (continued)
(a) Class of business (continued)

	Retail and corporate banking HK\$'000	Treasury HK\$'000	Others HK\$'000	Unallocated HK\$'000	Group HK\$'000
Six months ended 30 June 2002					
Interest income from					
- external customers	624,453	381,282	21,069	—	1,026,804
- other segments	188,520	223,313	5,370	—	417,203
Interest expense to					
- external customers	(195,126)	(233,434)	(49)	—	(428,609)
- other segments	(182,407)	(233,266)	(1,530)	—	(417,203)
Net interest income	435,440	137,895	24,860	—	598,195
Other operating income from external customers	44,382	27,092	112,437	—	183,911
Operating income	479,822	164,987	137,297	—	782,106
Operating expenses	(189,133)	(11,603)	(37,674)	(30,203)	(268,613)
Operating profit before provisions	290,689	153,384	99,623	(30,203)	513,493
Charge for bad and doubtful debts	(65,786)	—	—	—	(65,786)
Operating profit	224,903	153,384	99,623	(30,203)	447,707
Gain/(loss) on fixed assets and investments	245	7,596	(14)	(392)	7,435
Share of net losses of jointly controlled entities and an associate	—	—	(4,648)	—	(4,648)
Profit/(loss) before taxation	225,148	160,980	94,961	(30,595)	450,494
Depreciation charge	23,766	924	5,388	1,239	31,317
At 31 December 2002					
Segment assets	32,280,759	26,780,379	2,474,964	194,932	61,731,034
Segment liabilities	48,401,419	3,552,825	1,714,601	53,257	53,722,102
Capital expenditure	38,869	1,930	15,217	7,627	63,643

(b) Geographical area

The Group operates predominantly in Hong Kong. Less than 10% of the Group's income, profit, assets, liabilities, contingent liabilities or commitments is attributable to the Group's overseas operations.

13. Contingent liabilities, commitments and derivatives

The following is a summary of the contract amounts of each significant class of contingent liabilities and commitments, and the aggregate credit risk weighted amounts:

	<u>30/6/2003</u>	<u>31/12/2002</u>
	HK\$'000	HK\$'000
Contract amount		
Direct credit substitutes	488,183	1,140,561
Transaction-related contingencies	18,394	18,697
Trade-related contingencies	354,322	421,063
Other commitments with an original maturity of		
— under one year or which are unconditionally cancellable	5,981,040	5,808,049
— one year and over	2,850,607	2,814,722
	<u>9,692,546</u>	<u>10,203,092</u>
Credit risk weighted amount	<u>1,774,190</u>	<u>2,434,314</u>

The following is a summary of the notional contract amounts, credit risk weighted amounts and replacement costs of each significant type of derivatives, without taking into account the effect of bilateral netting arrangements:

	<u>30/6/2003</u>	<u>31/12/2002</u>
	HK\$'000	HK\$'000
Contract amount		
Exchange rate contracts	3,179,480	2,839,116
Interest rate contracts	2,758,595	2,367,978
Equity contracts	703,291	1,117,297
	<u>6,641,366</u>	<u>6,324,391</u>
Credit risk weighted amount		
Exchange rate contracts	10,521	8,300
Interest rate contracts	3,119	6,714
Equity contracts	11,650	17,081
	<u>25,290</u>	<u>32,095</u>
Replacement cost		
Exchange rate contracts	6,135	3,955
Interest rate contracts	4,222	8,806
Equity contracts	2,366	1,036
	<u>12,723</u>	<u>13,797</u>

14. Currency concentrations

The US dollar net position constitutes 10% or more of the total net position in all foreign currencies and is reported in Hong Kong dollar equivalent as follows:

	30/6/2003	31/12/2002
	HK\$'000	HK\$'000
Spot assets	14,856,810	14,131,189
Spot liabilities	(13,618,847)	(12,781,416)
Forward purchases	1,089,625	1,519,644
Forward sales	(1,668,526)	(1,751,962)
Net long position	<u>659,062</u>	<u>1,117,455</u>
Net structural position	<u>56,147</u>	<u>56,151</u>

15. Cross-border claims

The Group analyses cross-border claims by 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. The 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. Those areas which contribute 10% or more of the aggregate cross-border claims are as follows:-

	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
30 June 2003				
Asia Pacific excluding Hong Kong	12,189,044	—	1,273,004	13,462,048
North and South America	2,114,763	1,149,895	722,719	3,987,377
Europe	11,525,963	—	3,482	11,529,445
31 December 2002				
Asia Pacific excluding Hong Kong	8,804,683	27,765	1,559,062	10,391,510
North and South America	1,843,691	862,485	635,779	3,341,955
Europe	11,088,591	—	4,400	11,092,991

16. Capital adequacy and liquidity ratios

	<u>30/6/2003</u>	<u>31/12/2002</u>
Capital adequacy ratio	<u>22.1%</u>	<u>21.1%</u>
Adjusted capital adequacy ratio	<u>22.1%</u>	<u>21.0%</u>
	Six months ended 30 June	
	<u>2003</u>	<u>2002</u>
Liquidity ratio	<u>49.1%</u>	<u>49.0%</u>

The capital adequacy ratio represents the consolidated ratio of the Bank and certain subsidiaries, as specified by the Hong Kong Monetary Authority as at 30 June 2003 and 31 December 2002 computed in accordance with the Third Schedule of the Hong Kong Banking Ordinance.

The adjusted capital adequacy ratio represents the consolidated ratio of the Bank and certain subsidiaries, as specified by the Hong Kong Monetary Authority as at 30 June 2003 and 31 December 2002 computed in accordance with the guideline of “Maintenance of Adequate Capital Against Market Risks” issued by the Hong Kong Monetary Authority taking into account both credit risk and market risk.

The liquidity ratio is calculated as the simple average of each calendar month’s average consolidated liquidity ratio for the period calculated for the Bank and a subsidiary as specified by the Hong Kong Monetary Authority during the period in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance.

16. Capital adequacy and liquidity ratios (continued)

The capital base after deductions used in the calculation of the above capital adequacy ratio as at 30 June 2003 and 31 December 2002 and reported to the Hong Kong Monetary Authority is analysed as follows:

	<u>30/6/2003</u>	<u>31/12/2002</u>
	HK\$'000	HK\$'000
Core capital:		
Paid up ordinary share capital	1,160,951	1,160,951
Reserves	<u>5,366,407</u>	<u>5,055,663</u>
	<u>6,527,358</u>	<u>6,216,614</u>
Supplementary capital:		
Reserves on revaluation of land and interests in land	699,406	700,557
General provisions for doubtful debts	421,157	422,647
Reserves on revaluation of holding of securities not held for trading purposes	<u>45,917</u>	<u>19,544</u>
Gross value of supplementary capital	<u>1,166,480</u>	<u>1,142,748</u>
Eligible value of supplementary capital	<u>1,166,480</u>	<u>1,142,748</u>
Total capital base before deductions	7,693,838	7,359,362
Deductions from total capital base	<u>(245,630)</u>	<u>(245,630)</u>
Total capital base after deductions	<u>7,448,208</u>	<u>7,113,732</u>

D. Statutory Accounts

The financial information relating to any financial periods included in these interim results does not constitute the Bank's statutory accounts.

The financial information relating to the financial year ended 31 December 2002 is derived from the statutory accounts for that financial year as adjusted to reflect the change in accounting policy in relation to deferred taxation as set out below. Statutory accounts for the year ended 31 December 2002 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 26 February 2003.

The accounting policies used in preparing these interim results are consistent with those adopted in the 2002 annual accounts except that the Group has changed its accounting policy in relation to deferred taxation following its adoption of the Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" issued by the Hong Kong Society of Accountants which is applicable to the Group for accounting periods commencing on or after 1 January 2003.

Following the adoption of SSAP 12, which became effective on 1 January 2003, deferred taxation is recognised in full, using the liability method, for all temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt.

The above change in accounting policy has been applied retrospectively so that the comparative figures presented have been restated to reflect the above changes accordingly.

The opening total equity at 1 January 2003 and 1 January 2002 have been increased by HK\$48,115,000 and HK\$43,987,000 respectively, which represent the unrecognised net deferred tax assets. This change in accounting policy has resulted in an increase in deferred tax assets and a decrease in deferred tax liabilities at 30 June 2003 by HK\$33,470,000 (31 December 2002: HK\$32,002,000) and HK\$14,074,000 (31 December 2002: HK\$16,113,000) respectively. The profit and amount charged directly to equity for the six months ended 30 June 2003 have been increased by HK\$5,708,000 (30 June 2002: HK\$3,021,000) and HK\$6,279,000 (30 June 2002: HK\$318,000) respectively.

Interim Dividend

The Directors are pleased to declare an interim dividend of HK\$0.38 per share to be paid on or after 29 September 2003 to shareholders registered on 29 September 2003.

Closure of Register of Members

The Register of Members will be closed from 23 September 2003 to 29 September 2003, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the above dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Bank's Registrars, Computershare Hong Kong Investor Services Limited (19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong) for registration not later than 4 p.m. on Monday, 22 September 2003.

Financial Results and Operation Review

The economic conditions in Hong Kong remained stagnant in the first half of 2003, as it sustained the impacts of the Iraq war and the SARS outbreak. Quite a number of business sectors were affected to some degree. These developments, combined with persistent deflation, high unemployment, sluggish consumption and weak loan demand, have dealt a heavy blow to the economy of Hong Kong. The operating conditions in the banking sector remained tough, limiting earnings growth of the industry as a whole.

Comparing the Bank's operating results for the first half of 2003 with the corresponding period of 2002:

Profit after taxation amounted to HK\$390,646,000, representing an increase of 1.5%.

The Bank recorded a marked increase in fee income and a decline in charge on bad and doubtful debts; however, this improvement was partially offset by a decline in net interest income and the increase in provision for debt securities.

Local interest rates still remained at an exceptionally low level, causing interest expense to drop by 11.5% to HK\$379,140,000, despite higher interest rates on foreign currency deposits.

Our endeavour to expand non-interest income business in the first half of 2003 saw favourable results. Non-interest income increased by 23.5% to HK\$227,108,000, mainly attributable to the impressive growth in earnings and handling fees generated from our insurance operation and wealth management business. However, income from credit card operation continued to fall due to adverse operating environment.

Operating income increased by 1.2% to HK\$791,858,000. Operating expenses decreased marginally by 0.6% to HK\$266,924,000, primarily due to the decrease in credit card promotion expenses.

The cost-to-income ratio decreased by 0.6% to 33.7%, compared with the first half of 2002. Operating profit before provisions grew by 2.2% to HK\$524,934,000. The charge for bad and doubtful debts decreased by 20.6% to HK\$52,211,000.

Operating profit increased by 5.6% to HK\$472,723,000.

Advances to customers registered a mild decline by 1.6% from the level a year ago to HK\$29,996,084,000, which is 0.1% lower compared with that at 31 December 2002. Provisions for bad and doubtful debts amounted to HK\$707,738,000, of which 64% is general provision, representing 1.51% of the total advances to customers.

Total customer deposits of HK\$50,083,928,000 was 2.9% higher compared with the same period last year, or an increase of 2.9% as compared with that at 31 December 2002. Certificates of deposit issued amounted to HK\$2,635,552,000. The loan-to-deposit ratio was 55.6%, compared with 59% for the same period of 2002 and 57.8% at 31 December 2002, reflecting high liquidity owing to weak loan demand. The Bank will continue to maintain a prudent lending policy and re-allocate its resources to higher yielding operations and commission income businesses, such as hire-purchase and leasing, wealth management, insurance and securities trading business, etc.

The return on average total assets was 1.21%, slightly higher than 1.2% for the same period in 2002. The return on average shareholders' funds was 9.65%, below the 9.99% recorded in the same period in 2002.

At 30 June 2003, the consolidated capital adequacy ratio was 22.1%, and the average liquidity ratio was 49.1%.

Deposits

Total deposits registered a 2.9% increase from 2002 year-end, primarily due to the appreciation of various foreign currency deposits when translated into Hong Kong dollar. As the HK dollar deposit rate remains unattractively low, some depositors re-allocate their funds to other higher-yielding investment products.

As at 30 June 2003, floating rate certificates of deposit and a small amount of US\$ fixed rate retail certificates of deposit totaling HK\$2,635,552,000 were issued, up 28.3% as compared with that at 2002 year-end.

Advances to customers

Loans and advances to customers declined, mainly attributable to the contraction of the property lending loan book. Property development and investment financing and Home Ownership Scheme Loan accounted for the decline by different magnitudes; whereas residential mortgage lending remained stable. Continued price competition in the residential mortgage market forced the residential mortgage interest rate for new homes to drop to exceptionally low levels, making mortgage yields extremely low. Despite government measures to stabilise the property market, the market remained subdued. Investor sentiment was further dampened by the outbreak of SARS, causing residential property prices to fall by nearly 10% in the first half of the year.

Syndicated loans financing and corporate lending business grew steadily. Despite a higher loan balance, profit did not grow commensurately, reflecting shrinking interest rates and stiff competition.

Our hire-purchase and leasing subsidiary, Wing Lung Finance Limited, recorded a contraction in loan balance with the reduction in taxi and minibus financing activities. However, operating profit grew steadily, mainly attributable to the growth in other loan types.

Bills

The changing payment mode in international trade impacted trade finance operation, causing a decline in business turnover and bills income. It is hoped that gloomy economic sentiment related to the Iraq war and the SARS outbreak will soon dissipate, and Hong Kong's confidence will be rejuvenated with the implementation of the Closer Economic Partnership Arrangement (CEPA), thereby creating more business opportunities in the local market.

The Bank has participated in the "Accounts Receivable Loan Guarantee Scheme" under the "Small and Medium Enterprises Development Support Plan" initiated by the Government in order to give support to the small and medium enterprises in their future business development.

Treasury

Combined income from foreign exchange and money exchange business rose by 7.3% from the level a year ago.

In the first half of 2003, US dollar fluctuated widely relative to other major currencies, boosting trading sentiment which helped generate impressive profit for our foreign exchange dealings. However, our money exchange business underperformed the target against difficult market conditions due to SARS outbreak and the resulting plunge in tourism.

As the prospect of a US recovery is still uncertain, the forex market exhibited volatility. As our tourism industry is rebounding now that SARS is behind us, we believe the worst is over and that in the latter half of 2003, foreign exchange and money exchange activities will show improvements.

The Bank has been active in capital market activities, and the result is encouraging. We will keep a keen eye on market development and interest rate trend to formulate appropriate strategies with the objective to achieving better profit growth.

Wealth management

Wealth management income registered a substantial growth over the level a year ago. Given the low yield on deposits, depositors have turned to higher-yielding wealth management products as a channel for investment flows.

In June, the Bank was appointed as the Retail Exchange Fund Notes Distributor by the Hong Kong Monetary Authority for the distribution of 2-year and 3-year Exchange Fund Notes in the retail market under the pilot scheme.

Credit card

As at 30 June 2003, our card base was in line with the comparable period in 2002; while credit card receivables were lower than that at 2002 year-end. The annualised charge-off ratio for the first six months of the year is 13.3%, an improvement from 2002 year-end. The credit card industry was hard hit under a sagging economy, prolonged deflation and weak domestic consumption, and there is no improvement in employment and personal bankruptcy situation. Given the uncertain economic outlook, the Bank will closely monitor our credit approval policy and contain the card base growth at an acceptable level. The credit data bank, facilitating the sharing of customer positive information among banks, has become operative by stages, and it will help improve bad debt position of the banks.

Insurance

In the first half of 2003, Wing Lung Insurance Company Limited and our Insurance Department recorded a marked performance in underwriting business and agency business. Our partnership with Equity Underwriters Limited and Professional Liability Underwriting Services Limited yields good result with substantial growth in gross premium. Sale of Hong Kong Life Insurance Limited products has contributed significant commission income growth over the level a year ago.

Securities broking

The Iraq war and the SARS outbreak impacted moderately the local stock market with transaction volume down by 4.5% in the first half of 2003 as compared with the corresponding period in 2002. Our securities operation recorded a better-than-market performance in terms of transaction volume.

The new securities system is expected to become operative towards the end of 2003, hence improving operation efficiency and functional capabilities when fully launched.

Branch

As part of our efforts to ensure effective resources allocation, the Grand Century Place Branch was merged with Lai Chi Kok Road Branch on 11 August 2003, thus reducing the total number of local branches from 34 to 33 branches.

Our Los Angeles Branch and Cayman Islands Branch both achieved steady growth.

After the signing of CEPA between the mainland and Hong Kong, the Bank is now qualified for the setting up of a branch in the mainland. A task force has been formed preparing for a branch office across the border.

Investment in information technology

The new IBM teller platform front-end terminals have started operating in January and February in branches and some departments. The testing of the back-end host is underway and system implementation is expected to be completed in the latter half of the year.

Human resources

At the end of June 2003, total workforce amounted to 1,237, including 1,223 locally, 5 in the mainland and 9 overseas.

With a view to upgrading the skills and knowledge base of our staff so that they are better able to serve business and customers' needs, our Human Resource Department has been actively organising seminars and training sessions related to bank operation, product knowledge, information technology and specialised topics, and sponsoring our staff to attend various training programs as well as continuing professional training in order that they can obtain professional qualifications in respective professions. Exchange visits have been arranged with our overseas correspondents in the sharing of experience in different aspects of business operations.

Purchase, Sale or Redemption of Shares

The Bank has not redeemed any of its shares during the six months ended 30 June 2003. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's shares during the period.

Compliance with Disclosure Requirements

In preparing the interim results for the six months ended 30 June 2003, the Bank has fully complied with the requirements set out in the guideline entitled "Interim Financial Disclosure by Locally Incorporated Authorised Institutions" issued by the Monetary Authority in November 2002.

Corporate Governance

The Bank was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended 30 June 2003.

By Order of the Board
Maria Wan-sin FUNG
Secretary

Hong Kong, 20 August 2003

Web site: <http://www.winglungbank.com>

Remark: A detailed results announcement containing all the information required by paragraphs 46(1) to 46 (6) of Appendix 16 of the Listing Rules will be subsequently published on the Stock Exchange's website in due course.

Please also refer to the published version of this announcement in The Standard dated 21 August 2003.