



# WING LUNG BANK LTD

(Incorporated in Hong Kong with limited liability)

Stock Code: 096

## INTERIM RESULTS 2004

### 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 2004 as follows:-

#### A. Condensed Consolidated Profit and Loss Account

|  | Six months ended 30 June |                  | Change<br>% |
|--|--------------------------|------------------|-------------|
|  | 2004<br>HK\$'000         | 2003<br>HK\$'000 |             |
| Interest income  | 869,839                  | 943,890          | -7.8        |
| Interest expense   | (327,513)                | (379,140)        | -13.6       |
| Net interest income  | 542,326                  | 564,750          | -4.0        |
| Insurance operating income (Note 1)                          | 217,537                  | 248,527          | -12.5       |
| Other operating income (Note 2)                              | 216,678                  | 175,364          | +23.6       |
| Operating income   | 976,541                  | 988,641          | -1.2        |
| Operating expenses (Note 3)                                  | (267,332)                | (266,924)        | +0.2        |
| Operating profit before provisions                           | 709,209                  | 721,717          | -1.7        |
| Write back of/(charge for) bad and doubtful debts            | 18,858                   | (52,211)         | -136.1      |
| Charge for insurance claims (Note 1)                         | (176,742)                | (196,783)        | -10.2       |
| Operating profit   | 551,325                  | 472,723          | +16.6       |
| Net loss on disposal of fixed assets                         | (707)                    | (1,570)          |             |
| Net gain on disposal of non-trading securities               | 1,023                    | 5,252            |             |
| Provision written back/(made) on held-to-maturity securities | 6,483                    | (18,781)         |             |
|  | 558,124                  | 457,624          | +22.0       |
| Share of net profits/(losses) of jointly controlled entities | 1,657                    | (1,951)          |             |
| Share of profits of associates                               | 264                      | 138              |             |
| Profit before taxation                                       | 560,045                  | 455,811          | +22.9       |
| Taxation (Note 4)  | (91,069)                 | (65,165)         |             |
| Profit attributable to shareholders                          | 468,976                  | 390,646          | +20.1       |
| Interim dividend   | 111,451                  | 88,232           | +26.3       |
| Interim dividend per share                                   | HK\$0.48                 | HK\$0.38         |             |
| Earnings per share (Note 5)                                  | HK\$2.02                 | HK\$1.68         |             |

Notes:

(1) The insurance business, which includes insurance underwriting, insurance agency and other related businesses, has become a significant element of the Group's business. As a result, the insurance operating income and charge for insurance claims have been separately presented on the condensed consolidated profit and loss account and comparative figures have been reclassified to conform with this presentation.

(2) Other operating income

|   | Six months ended 30 June |                |
|---|--------------------------|----------------|
|   | 2004                     | 2003           |
|   | HK\$'000                 | HK\$'000       |
| Fees and commission income                | 142,660                  | 103,607        |
| Less: fees and commission expense         | (47,146)                 | (43,399)       |
| Net fees and commission income            | 95,514                   | 60,208         |
| Net (loss)/gain from trading securities   | (456)                    | 6,920          |
| Net gain arising from derivative products | 8,476                    | 8,402          |
| Net gain from foreign exchange trading    | 49,183                   | 42,792         |
| Others                                    | 63,961                   | 57,042         |
|   | <u>216,678</u>           | <u>175,364</u> |

(3) Operating expenses

|                            | Six months ended 30 June |                |
|----------------------------|--------------------------|----------------|
|                            | 2004                     | 2003           |
|                            | HK\$'000                 | HK\$'000       |
| Staff costs                |                          |                |
| - Salaries and other costs | 156,478                  | 156,400        |
| - Retirement benefit costs | 4,232                    | 6,547          |
| Depreciation               | 25,752                   | 32,168         |
| Others                     | 80,870                   | 71,809         |
|                            | <u>267,332</u>           | <u>266,924</u> |

(4) Taxation

|   | Six months ended 30 June |               |
|---|--------------------------|---------------|
|   | 2004                     | 2003          |
|   | HK\$'000                 | HK\$'000      |
| Current taxation:   |                          |               |
| - Hong Kong profits tax   | 85,803                   | 70,531        |
| - Overseas taxation   | 4,216                    | 2,205         |
| Deferred taxation:  |                          |               |
| - Relating to the origination and reversal of temporary differences | 796                      | (4,857)       |
| - Resulting from an increase in the taxation rate                   | —                        | (2,872)       |
|   | <u>90,815</u>            | <u>65,007</u> |
| Share of taxation attributable to jointly controlled entities       | 254                      | 158           |
|   | <u>91,069</u>            | <u>65,165</u> |

Hong Kong profits tax has been calculated at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

(5) Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$468,976,000 (2003: HK\$390,646,000) and 232,190,115 (2003: 232,190,115) shares in issue during the period.

**B. Condensed Consolidated Balance Sheet**

|  | <u>30/06/2004</u> | <u>31/12/2003</u> |
|--|-------------------|-------------------|
|  | HK\$'000          | HK\$'000          |
| <b>Assets</b>  |                   |                   |
| Cash and short-term funds  | 15,971,060        | 18,136,491        |
| Placements with banks and other financial institutions<br>maturing between one and twelve months                 | 2,088,315         | 3,596,565         |
| Trade bills  | 124,083           | 85,411            |
| Certificates of deposit held   | 2,442,235         | 2,311,636         |
| Trading securities   | 547,106           | 418,594           |
| Held-to-maturity securities  | 8,414,051         | 8,465,020         |
| Advances and other accounts  | 30,318,724        | 30,081,159        |
| Non-trading securities   | 3,479,219         | 3,064,777         |
| Interests in jointly controlled entities   | 90,963            | 91,942            |
| Interests in associates  | 2,612             | 2,672             |
| Fixed assets   | 1,510,611         | 1,526,850         |
| Total assets   | <u>64,988,979</u> | <u>67,781,117</u> |
| <b>Liabilities</b>   |                   |                   |
| Deposits and balances of banks and<br>other financial institutions   | 920,042           | 1,137,149         |
| Deposits from customers  | 48,896,616        | 51,395,646        |
| Certificates of deposit issued   | 2,882,270         | 2,667,985         |
| Other accounts and accruals  | 3,560,140         | 3,971,643         |
| Total liabilities  | <u>56,259,068</u> | <u>59,172,423</u> |
| <b>Capital resources</b>   |                   |                   |
| Share capital  | 1,160,951         | 1,160,951         |
| Reserves (including interim dividend declared of<br>HK\$111,451,000; 2003: final<br>dividend of HK\$320,423,000) | 7,568,960         | 7,447,743         |
| Shareholders' funds  | <u>8,729,911</u>  | <u>8,608,694</u>  |
| Total liabilities and capital resources  | <u>64,988,979</u> | <u>67,781,117</u> |

## C. Supplementary Information of the Group

### 1. Advances and other accounts

|  | <u>30/06/2004</u> | <u>31/12/2003</u> |
|--|-------------------|-------------------|
|  | HK\$'000          | HK\$'000          |
| Advances to customers                              | 29,622,181        | 29,261,926        |
| Provision for bad and doubtful debts               |                   |                   |
| - General  | (435,077)         | (443,533)         |
| - Specific   | (140,767)         | (204,205)         |
|  | <u>29,046,337</u> | <u>28,614,188</u> |
| Advances to banks and other financial institutions | 53,399            | 50,000            |
| Accrued interest                                   | 167,814           | 163,319           |
| Provision for bad and doubtful debts               |                   |                   |
| - Specific   | (1,183)           | (1,571)           |
|  | <u>166,631</u>    | <u>161,748</u>    |
| Other accounts                                     | 1,018,930         | 1,224,559         |
| Provision for bad and doubtful debts               |                   |                   |
| - General  | (1,359)           | (1,450)           |
| - Specific   | (1,087)           | (1,246)           |
|  | <u>1,016,484</u>  | <u>1,221,863</u>  |
| Deferred tax assets                                | 35,873            | 33,360            |
|  | <u>30,318,724</u> | <u>30,081,159</u> |

## 2. Gross advances to customers by industry sectors

|  | <u>30/06/2004</u> | <u>31/12/2003</u> |
|--|-------------------|-------------------|
|  | HK\$'000          | HK\$'000          |
| Loans for use in Hong Kong   |                   |                   |
| Industrial, commercial and financial   |                   |                   |
| Property development   | 1,693,482         | 1,480,827         |
| Property investment  | 5,309,365         | 4,908,471         |
| Financial concerns   | 258,465           | 365,482           |
| Stockbrokers   | 476               | 6,315             |
| Wholesale and retail trade   | 493,122           | 497,841           |
| Manufacturing  | 731,286           | 757,947           |
| Transport and transport equipment  | 1,268,631         | 785,468           |
| Others   | 3,253,617         | 3,547,832         |
| Individuals  |                   |                   |
| Loans for the purchase of flats<br>in the Home Ownership Scheme,<br>Private Sector Participation Scheme and<br>Tenants Purchase Scheme | 2,495,448         | 2,702,970         |
| Loans for the purchase of other<br>residential properties  | 9,462,893         | 9,844,224         |
| Credit card advances   | 279,247           | 325,165           |
| Others   | 1,047,278         | 993,976           |
| Trade finance  | 408,800           | 389,986           |
|  | <u>26,702,110</u> | <u>26,606,504</u> |
| Loans for use outside Hong Kong  | 2,920,071         | 2,655,422         |
|  | <u>29,622,181</u> | <u>29,261,926</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 |                   |
|---|-----------------------|-------------------|
|   | <u>30/06/2004</u>     | <u>31/12/2003</u> |
|   | HK\$'000              | HK\$'000          |
| Non-performing loans                                    | 505,422               | 728,822           |
| Percentage of total advances to customers               | 1.71%                 | 2.49%             |
| Specific provisions made in respect<br>of such advances | 129,262               | 189,179           |
| Amount of interest in suspense                          | 36,553                | 42,982            |

At 30 June 2004 and 31 December 2003, 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:-

|  | 30/06/2004     |                                  | 31/12/2003     |                                  |
|--|----------------|----------------------------------|----------------|----------------------------------|
|  | 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                            | 90,151         | 0.31                             | 156,478        | 0.54                             |
| One year or less, but over six months                                | 85,787         | 0.29                             | 103,689        | 0.35                             |
| Over one year  | 145,708        | 0.49                             | 255,166        | 0.87                             |
|  | <u>321,646</u> | <u>1.09</u>                      | <u>515,333</u> | <u>1.76</u>                      |
| Secured overdue advances   | 239,848        |                                  | 379,169        |                                  |
| Unsecured overdue advances   | 81,798         |                                  | 136,164        |                                  |
|  | <u>321,646</u> |                                  | <u>515,333</u> |                                  |
| Market value of collateral held against the secured overdue advances | 333,447        |                                  | 518,198        |                                  |
| Specific provisions made   | <u>82,013</u>  |                                  | <u>135,778</u> |                                  |

At 30 June 2004 and 31 December 2003, there were no advances to banks and other financial institutions which were overdue for over three months.

##### (b) Other overdue assets

Other overdue assets are analysed as follows:-

|  | 30/06/2004              |                              | 31/12/2003              |                              |
|--|-------------------------|------------------------------|-------------------------|------------------------------|
|  | Trade bills<br>HK\$'000 | Accrued interest<br>HK\$'000 | Trade bills<br>HK\$'000 | Accrued interest<br>HK\$'000 |
| Gross amount of other assets which have been overdue for:- |                         |                              |                         |                              |
| Six months or less, but over three months                  | 745                     | 855                          | —                       | 1,503                        |
| One year or less, but over six months                      | —                       | 927                          | —                       | 1,506                        |
| Over one year  | —                       | 3,307                        | —                       | 3,470                        |
|  | <u>745</u>              | <u>5,089</u>                 | <u>—</u>                | <u>6,479</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:-

|                                   | 30/06/2004 |  | 31/12/2003 |  |
|-----------------------------------|------------|--|------------|--|
|                                   | HK\$'000   | % of total<br>advances to<br>customers | HK\$'000   | % of total<br>advances to<br>customers |
| Rescheduled advances to customers | 341,565    | 1.15                                   | 365,192    | 1.25                                   |

At 30 June 2004 and 31 December 2003, 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:

|  | 30/06/2004<br>HK\$'000 | 31/12/2003<br>HK\$'000 |
|--|------------------------|------------------------|
| Advances which are overdue for more than three months  | 321,646                | 515,333                |
| 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 | 88,855                 | 153,746                |
| Add: rescheduled advances on which interest is being placed in suspense  | 186,581                | 172,490                |
| Less: advances which are overdue for more than three months and on which interest is still being accrued   | (91,660)               | (112,747)              |
| Non-performing loans   | 505,422                | 728,822                |

**7. Repossessed assets**

|                                    | 30/06/2004<br>HK\$'000 | 31/12/2003<br>HK\$'000 |
|------------------------------------|------------------------|------------------------|
| Market value of repossessed assets | 22,817                 | 49,613                 |



**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>30/06/2004</u> | <u>31/12/2003</u> |
|-----------------------------|-------------------|-------------------|
|                             | HK\$'000          | HK\$'000          |
| Gross advances to customers |                   |                   |
| Hong Kong                   | 27,643,735        | 27,504,440        |
| Other areas                 | 1,978,446         | 1,757,486         |
|                             | <u>29,622,181</u> | <u>29,261,926</u> |
| Overdue advances            |                   |                   |
| Hong Kong                   | <u>321,646</u>    | <u>515,333</u>    |
| Non-performing loans        |                   |                   |
| Hong Kong                   | <u>505,422</u>    | <u>728,822</u>    |

**9. Deposits from customers**

|                                      | <u>30/06/2004</u> | <u>31/12/2003</u> |
|--------------------------------------|-------------------|-------------------|
|                                      | HK\$'000          | HK\$'000          |
| Demand deposits and current accounts | 3,460,058         | 3,149,151         |
| Saving deposits                      | 15,712,378        | 15,544,448        |
| Time, call and notice deposits       | 29,724,180        | 32,702,047        |
|                                      | <u>48,896,616</u> | <u>51,395,646</u> |

**10. Other accounts and accruals**

Included in other accounts and accruals as at 30 June 2004 are deferred tax liabilities totalling HK\$588,000 (31 December 2003: HK\$600,000).

**11. Reserves**

|   | <u>30/06/2004</u> | <u>31/12/2003</u> |
|---|-------------------|-------------------|
|   | HK\$'000          | HK\$'000          |
| Capital reserve   | 57,500            | 57,500            |
| Investment properties revaluation reserve   | 1,022,940         | 1,022,940         |
| Investment revaluation reserve  | 100,393           | 127,729           |
| General reserve   | 1,003,730         | 1,003,730         |
| Retained earnings (including interim dividend declared of HK\$111,451,000; 2003: final dividend of HK\$320,423,000) | 5,384,397         | 5,235,844         |
|   | <u>7,568,960</u>  | <u>7,447,743</u>  |

At a meeting held on 18 August 2004, the directors declared an interim dividend of HK\$0.48 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 2004.

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

The Group operates predominantly in commercial banking which comprises retail and corporate banking, treasury, insurance 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. Insurance activities include insurance underwriting, insurance agency and other related businesses. Other activities mainly comprise investment properties holding and securities brokerage business.

Unallocated items mainly comprise expenses, assets and liabilities of the central management unit and other shared services, taxation and any items which cannot be reasonably allocated to specific business segments.

|   | Retail and<br>corporate<br>banking<br>HK\$'000 | Treasury<br>HK\$'000 | Insurance<br>HK\$'000 | Others<br>HK\$'000 | Unallocated<br>HK\$'000 | Group<br>HK\$'000 |
|---|--|----------------------|-----------------------|--------------------|-------------------------|-------------------|
| Six months ended<br>30 June 2004  |  |                      |                       |                    |                         |                   |
| Interest income from  |  |                      |                       |                    |                         |                   |
| - external customers  | 479,490  | 371,146              | 4,648                 | 14,555             | —                       | 869,839           |
| - other segments  | 66,508   | 77,578               | 780                   | 302                | —                       | 145,168           |
| Interest expense to   |  |                      |                       |                    |                         |                   |
| - external customers  | (51,489)                                       | (276,024)            | —                     | —                  | —                       | (327,513)         |
| - other segments  | (79,337)                                       | (65,460)             | —                     | (371)              | —                       | (145,168)         |
| Net interest income   | 415,172  | 107,240              | 5,428                 | 14,486             | —                       | 542,326           |
| Insurance operating<br>income from<br>external customers                              | —  | —                    | 217,537               | —                  | —                       | 217,537           |
| Other operating<br>income from<br>external customers                                  | 52,957   | 34,131               | 1,161                 | 128,429            | —                       | 216,678           |
| Operating income  | 468,129  | 141,371              | 224,126               | 142,915            | —                       | 976,541           |
| Operating expenses  | (160,277)                                      | (12,417)             | (11,940)              | (31,705)           | (50,993)                | (267,332)         |
| Operating profit<br>before provisions   | 307,852  | 128,954              | 212,186               | 111,210            | (50,993)                | 709,209           |
| Write back of/<br>(charge for) bad and<br>doubtful debts                              | 18,869   | —                    | (11)                  | —                  | —                       | 18,858            |
| Charge for insurance<br>claims  | —  | —                    | (176,742)             | —                  | —                       | (176,742)         |
| Operating profit  | 326,721  | 128,954              | 35,433                | 111,210            | (50,993)                | 551,325           |
| Gain/(loss)<br>on fixed assets and<br>investments                                     | 6,321  | 220                  | 118                   | 819                | (679)                   | 6,799             |
| Share of net (losses)/<br>profits of jointly<br>controlled entities<br>and associates | —  | —                    | (116)                 | 2,037              | —                       | 1,921             |
| Profit/(loss) before<br>taxation  | 333,042  | 129,174              | 35,435                | 114,066            | (51,672)                | 560,045           |
| Depreciation charge   | 17,359   | 772                  | 676                   | 4,095              | 2,850                   | 25,752            |
| At 30 June 2004   |  |                      |                       |                    |                         |                   |
| Segment assets  | 32,176,049                                     | 29,795,513           | 1,212,444             | 1,610,552          | 194,421                 | 64,988,979        |
| Segment liabilities   | 48,893,634                                     | 5,352,516            | 1,023,069             | 880,275            | 109,574                 | 56,259,068        |
| Capital expenditure   | 6,332  | 122                  | 305                   | 1,722              | 1,905                   | 10,386            |

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

|   | Retail and<br>corporate<br>banking<br>HK\$'000 | Treasury<br>HK\$'000 | Insurance<br>HK\$'000 | Others<br>HK\$'000 | Unallocated<br>HK\$'000 | Group<br>HK\$'000 |
|---|--|----------------------|-----------------------|--------------------|-------------------------|-------------------|
| Six months ended<br>30 June 2003  |  |                      |                       |                    |                         |                   |
| Interest income from  |  |                      |                       |                    |                         |                   |
| - external customers  | 539,275  | 383,523              | 3,373                 | 17,719             | —                       | 943,890           |
| - other segments  | 111,941  | 114,609              | 1,955                 | 946                | —                       | 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              | 5,328                 | 17,356             | —                       | 564,750           |
| Insurance operating<br>income from<br>external customers                              | —  | —                    | 248,527               | —                  | —                       | 248,527           |
| Other operating<br>income from<br>external customers                                  | 46,707   | 38,430               | 2,274                 | 87,953             | —                       | 175,364           |
| Operating income  | 463,837  | 163,366              | 256,129               | 105,309            | —                       | 988,641           |
| Operating expenses  | (163,639)                                      | (12,431)             | (14,942)              | (28,826)           | (47,086)                | (266,924)         |
| Operating profit<br>before provisions   | 300,198  | 150,935              | 241,187               | 76,483             | (47,086)                | 721,717           |
| Charge for bad and<br>doubtful debts  | (52,211)                                       | —                    | —                     | —                  | —                       | (52,211)          |
| Charge for insurance<br>claims  | —  | —                    | (196,783)             | —                  | —                       | (196,783)         |
| Operating profit<br>(Loss)/gain   | 247,987  | 150,935              | 44,404                | 76,483             | (47,086)                | 472,723           |
| on fixed assets and<br>investments  | (19,034)                                       | 768                  | —                     | 4,729              | (1,562)                 | (15,099)          |
| Share of net profits/<br>(losses) of jointly<br>controlled entities<br>and associates | —  | —                    | 470                   | (2,283)            | —                       | (1,813)           |
| Profit/(loss) before<br>taxation  | 228,953  | 151,703              | 44,874                | 78,929             | (48,648)                | 455,811           |
| Depreciation charge   | 22,736   | 1,372                | 705                   | 3,836              | 3,519                   | 32,168            |
| At 31 December 2003   |  |                      |                       |                    |                         |                   |
| Segment assets  | 31,701,713                                     | 32,963,263           | 1,125,261             | 1,732,615          | 258,265                 | 67,781,117        |
| Segment liabilities   | 51,016,419                                     | 5,175,096            | 888,463               | 2,035,511          | 56,934                  | 59,172,423        |
| Capital expenditure   | 29,991   | 533                  | 994                   | 18,003             | 5,559                   | 55,080            |

**(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>30/06/2004</u> | <u>31/12/2003</u> |
|---|-------------------|-------------------|
|   | HK\$'000          | HK\$'000          |
| Contract amount   |                   |                   |
| Direct credit substitutes                                 | 246,295           | 216,949           |
| Transaction-related contingencies                         | 19,533            | 19,887            |
| Trade-related contingencies                               | 469,074           | 348,123           |
| Other commitments with an original maturity of            |                   |                   |
| – under one year or which are unconditionally cancellable | 5,717,851         | 6,208,972         |
| – one year and over                                       | 3,219,251         | 3,224,186         |
|   | <u>9,672,004</u>  | <u>10,018,117</u> |
| Credit risk weighted amount                               | <u>1,879,425</u>  | <u>1,860,642</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>30/06/2004</u> | <u>31/12/2003</u> |
|-----------------------------|-------------------|-------------------|
|                             | HK\$'000          | HK\$'000          |
| Contract amount             |                   |                   |
| Exchange rate contracts     | 2,056,897         | 2,310,714         |
| Interest rate contracts     | 3,205,069         | 3,098,456         |
| Equity contracts            | 751,748           | 932,734           |
|                             | <u>6,013,714</u>  | <u>6,341,904</u>  |
| Credit risk weighted amount |                   |                   |
| Exchange rate contracts     | 8,173             | 8,326             |
| Interest rate contracts     | 37,335            | 15,255            |
| Equity contracts            | 11,743            | 14,539            |
|                             | <u>57,251</u>     | <u>38,120</u>     |
| Replacement cost            |                   |                   |
| Exchange rate contracts     | 8,400             | 5,485             |
| Interest rate contracts     | 88,683            | 27,902            |
| Equity contracts            | 1,759             | 1,395             |
|                             | <u>98,842</u>     | <u>34,782</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:

|                         | 30/06/2004     | 31/12/2003     |
|-------------------------|----------------|----------------|
|                         | HK\$'000       | HK\$'000       |
| Spot assets             | 12,933,805     | 14,187,753     |
| Spot liabilities        | (12,276,444)   | (13,242,545)   |
| Forward purchases       | 1,329,418      | 669,202        |
| Forward sales           | (1,701,763)    | (1,117,634)    |
| Net long position       | <u>285,016</u> | <u>496,776</u> |
| Net structural position | <u>56,158</u>  | <u>55,894</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<br>other<br>financial<br>institutions<br>HK\$'000 | Public<br>sector<br>entities<br>HK\$'000 | Others<br>HK\$'000 | Total<br>HK\$'000 |
|--|---|--|--------------------|-------------------|
| 30 June 2004                           |   |  |                    |                   |
| Asia Pacific<br>excluding<br>Hong Kong | 8,416,119   | —  | 2,048,412          | 10,464,531        |
| North and<br>South America             | 1,950,636   | 1,439,184                                | 2,194,461          | 5,584,281         |
| Europe                                 | 11,833,906  | —  | 482,772            | 12,316,678        |
| 31 December 2003                       |   |  |                    |                   |
| Asia Pacific<br>excluding<br>Hong Kong | 12,465,775  | —  | 1,251,942          | 13,717,717        |
| North and<br>South America             | 1,886,481   | 1,280,088                                | 1,229,764          | 4,396,333         |
| Europe                                 | 12,571,603  | —  | 7,457              | 12,579,060        |

## 16. Capital adequacy and liquidity ratios

|                                 | <u>30/06/2004</u>        | <u>31/12/2003</u> |
|---------------------------------|--------------------------|-------------------|
| Capital adequacy ratio          | <u>21.8%</u>             | <u>21.5%</u>      |
| Adjusted capital adequacy ratio | <u>21.7%</u>             | <u>21.4%</u>      |
|                                 | Six months ended 30 June |                   |
|                                 | <u>2004</u>              | <u>2003</u>       |
| Liquidity ratio                 | <u>53.9%</u>             | <u>49.1%</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 2004 and 31 December 2003 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 2004 and 31 December 2003 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.

The capital base after deductions used in the calculation of the above capital adequacy ratio as at 30 June 2004 and 31 December 2003 and reported to the Hong Kong Monetary Authority is analysed as follows:

|  | <u>30/06/2004</u> | <u>31/12/2003</u> |
|--|-------------------|-------------------|
|  | HK\$'000          | HK\$'000          |
| Core capital:  |                   |                   |
| Paid up ordinary share capital   | 1,160,951         | 1,160,951         |
| Reserves   | <u>5,748,488</u>  | <u>5,448,492</u>  |
|  | <u>6,909,439</u>  | <u>6,609,443</u>  |
| Supplementary capital:   |                   |                   |
| Reserves on revaluation of land and interests in land                          | 716,058           | 716,058           |
| General provisions for doubtful debts  | 435,763           | 431,705           |
| Reserves on revaluation of holding of securities not held for trading purposes | <u>32,068</u>     | <u>48,596</u>     |
| Gross value of supplementary capital   | <u>1,183,889</u>  | <u>1,196,359</u>  |
| Eligible value of supplementary capital  | <u>1,183,889</u>  | <u>1,196,359</u>  |
| Total capital base before deductions   | 8,093,328         | 7,805,802         |
| Deductions from total capital base   | <u>(397,030)</u>  | <u>(397,275)</u>  |
| Total capital base after deductions  | <u>7,696,298</u>  | <u>7,408,527</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 2003 is derived from the statutory accounts for that financial year. Statutory accounts for the year ended 31 December 2003 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 25 February 2004.

The interim results, which have been reviewed by the Bank's Audit Committee, are prepared on a basis consistent with the accounting policies and methods adopted in the 2003 annual accounts.

## **Interim Dividend**

The Directors are pleased to declare an interim dividend of HK\$0.48 per share to be paid on or after 27 September 2004 to shareholders registered on 27 September 2004.

## **Closure of Register of Members**

The Register of Members will be closed from 21 September 2004 to 27 September 2004, 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, 20 September 2004.

## **Financial Results and Operation Review**

Following the economic rebound in the third quarter of 2003, Hong Kong is gradually pulling out of the doldrums. The local economy continues its steady growth track with rising property prices and soaring stock market activities. Retail business recovered, supported by China's implementation and expansion of "individual traveler scheme". Notwithstanding the slowdown since the second quarter, the economy is expected to continue its growth path.

Hong Kong will inevitably be affected by the implementation of macro-level economic adjustment and control measures in China. Soaring oil prices and the US's predicament to extricate from the Middle East also present great instability and uncertainties in the global economy, and these coupled with the anticipated interest rate rises, will render banking operations even more competitive and challenging.

Comparing the Bank's operating results for the first half of 2004 with the corresponding period of 2003:

Profit after taxation amounted to HK\$469 million, representing an increase of 20.1%, mainly attributable to the growth of non-interest income businesses, substantial reduction in charge for bad and doubtful debts as well as provision releases.

Net interest income contracted by 4% due to weak loan demand and narrowing interest margin. Hong Kong dollar interest rate still remained at a record-low level in the first half of the year, reducing the return on free funds. Net interest margin contracted by 13 basis points as compared with the same period last year.

Insurance business recorded a 12.5% regression in operating income to HK\$217.5 million.

Other operating income was up by 23.6% to HK\$216.7 million, mainly attributable to the continued growth in securities, wealth management and foreign exchange trading businesses.

Operating income fell by 1.2% to HK\$976.5 million. Operating expenses increased marginally by 0.2% to HK\$267.3 million, showing that the Bank's expenses were under control.

The cost-to-income ratio increased by 0.4% to 27.4%, compared with the first half of 2003. Operating profit before provisions dropped by 1.7% to HK\$709.2 million. Provisions for bad and doubtful debts of HK\$18.9 million were written back. Provisions for insurance claims declined by 10.2% to HK\$176.7 million in line with the drop in insurance operating income.

Operating profit rose by 16.6% to HK\$551.3 million.

Advances to customers registered a mild decline of 1.2% from the level a year ago to HK\$29,622 million, which is 1.2% higher compared with that at 2003 year-end. Provisions for bad and doubtful debts amounted to HK\$575.8 million, of which 75.6% is general provision, representing 1.47% of the total advances to customers.

Total customer deposits of HK\$48,897 million was 2.4% lower compared with the same period last year, or a decrease of 4.9% as compared with that at 2003 year-end. The amount of certificates of deposit issued was 8% higher than that at the end of 2003. The loan-to-deposit ratio was 56.1%, compared with 55.6% for the same period of 2003 and 52.9% at 2003 year-end, reflecting high liquidity owing to weak loan demand. The Bank will continue to re-allocate its resources to higher-yielding operations and commission income businesses.

The return on average total assets was 1.41%, slightly higher than 1.21% for the same period in 2003. The return on average shareholders' funds was 10.82%, above the 9.65% recorded in the same period in 2003.

At 30 June 2004, the consolidated capital adequacy ratio was 21.8%, and the average liquidity ratio was 53.9%.

### **Deposits**

Total deposits registered a 4.9% decrease from the level at 2003 year-end. As Hong Kong dollar interest rate remains at an unattractive record-low level, some depositors channel their funds to higher-yielding wealth management products. In anticipation of interest rate hike in the second half of the year, the Bank will keep a close eye on the interest rate movement.

As at 30 June 2004, certificates of deposit totalling HK\$2,882 million were issued, up 8% as compared with that at 2003 year-end. Among them, a great majority are floating rate certificates of deposit and a small amount are fixed rate certificates of deposit issued to individual investors.



The operation of personal renminbi deposit services has been running smoothly since commencement on 25 February this year. This operation does not bring in meaningful profit to the Bank at this stage as there exist quite a number of constraints on renminbi service provision.

### **Advances to customers**

Total advances eased by 1.2 % from the level a year ago; and mildly up 1.2% as compared with that at 2003 year-end.

Residential mortgage lending remains a pillar of the Bank's loan portfolio. In the past six months, property market resumed growth, bringing in new residential mortgage lending businesses. However, the property lending loan book contracted in the first half of the year after netting off excessive early repayments. To maintain its market share, the Bank has tailored a variety of loan products to accommodate customers' demand.

Syndicated loans financing and corporate lending balance improved by 8.1% and 31.5% respectively as compared with that at 2003 year-end, whereas bills turnover increased by 19.7% from the level a year ago.

Total advances through the Bank's hire-purchase and leasing subsidiary, Wing Lung Finance Limited, mildly increased in the first half of 2004 as compared with 2003 year-end, with business steadily growing.

Preparatory works for "Commercial Credit Reference Agency (CCRA)" database, jointly established by the Hong Kong Association of Banks, the DTC Association and the Hong Kong Monetary Authority, are near completion. The project will give a full picture of the total indebtedness and credit history of small and medium-sized enterprises (SMEs) for credit assessment when it is implemented at the year-end. This will benefit the Bank in promoting loan business to SMEs.

### **Treasury**

Combined income from foreign exchange and money exchange business rose by 14.9% from the level a year ago.

In the first half of 2004, US dollar fluctuated extensively relative to other major currencies, boosting trading volume and in turn generating marked profit for the Bank.

The Bank has been active in capital market activities, and the result is encouraging. The Bank will keep abreast of the market development and interest rate trend to formulate appropriate strategies targeting for lucrative profit growth.

### **Wealth management**

Wealth management income rose by 62.3% over the level a year ago as depositors turned to higher-yielding wealth management products in a low deposit rate environment.

In anticipation of the interest rate rise in the second half of the year, investors may take on more cautious investment strategies. The Bank will launch a wider array of wealth management products best suited to market requirements for its customers.

Recognising further business expansion potential of wealth management, more resources will be deployed to continuously broaden its spectrum of wealth management service.

### **Credit card**

As at 30 June 2004, the total number of credit cards issued increased as compared with 2003 year-end, however, total credit card receivables dropped by 14.1%. Average annualised charge-off ratio for the first six months of the year was 4.36%, a great improvement from 10.06% at 2003 year-end. As economic recovery continued to take shape with improving deflation situation, rising consumer spending and easing unemployment and bankruptcy rates, the Bank will take on a more proactive strategy in the second half of the year to expand its card base and bolster its credit card lending for higher interest income. The Bank plans to launch platinum credit cards at the year-end and step up its credit card instalment program promotion to further facilitate its card business for better returns.

In April, the Bank joined China UnionPay Company Limited as a member to operate merchant acquisition business, and the Bank has been able to take advantage of the inflow of tourists from China during the “May Holiday” to provide the related card service to its merchant customers.

### **Insurance**

Underwriting business of Wing Lung Insurance Company Limited and agency business of the Bank’s Insurance Department are now undergoing consolidation after two years of rapid growth. The decrease in underwriting business and profit was attributable to the substantial contraction of motor insurance and employee’s compensation classes. The insurance price war has cut premium rates to an irrational level, and the reducing number of sizable infrastructure projects offered by both public and private sectors also affected its business growth.

Commission income generated from the sale of Hong Kong Life Insurance Limited products soared by 23.8% as compared with the level a year ago. Considering the Bank’s large customer base, there exists ample growth potential for life sales.

### **Securities broking**

In the first half of 2004, the trading volume of the local stock market surged by 142% over the level a year ago. The Bank’s securities transaction volume grew largely commensurate with the market, and commission income also improved. The sustainability and pace of growth in the second half of the year would very much depend on the market development.

The new securities system, which is expected to operate in the third quarter of the year, will help improve the functionality and capacity of the automatic trading system, thus enhancing operational efficiency.

### **Branch**

The Bank operates a network of 33 local branches, meanwhile its Los Angeles Branch and Cayman Islands Branch achieved steady growth. Its Shenzhen Branch is running smoothly after its establishment on 29 March and business commencement on 1 April this year. The Bank was the first Hong Kong-based bank approved by the China Banking Regulatory Commission to set up a branch in China under CEPA.

The newly-amended “Implementing Rules of the People’s Republic of China on Foreign Invested Financial Institutions” announced by the China Banking Regulatory Commission in early August will relax and simplify the approval procedure in respect of foreign financial institutions applying for opening up new branches on the Mainland. To accelerate its expansion in China, the Bank will keep track of this development.

### **Investment in information technology**

The new IBM teller platform project has been completed, and the system is now running smoothly.

This open platform will facilitate the introduction and development of new businesses.

### **Human resources**

At the end of June 2004, total workforce amounted to 1,264.

In order to upgrade the skills and knowledge base of its staff so that they are better able to serve business and customers’ needs, the Bank’s Human Resource Department has been actively organising seminars and training sessions related to bank operation, product knowledge, information technology and specialised topics, and sponsoring its staff to attend various training programs so that they can obtain required professional qualifications. Exchange visits have been arranged regularly with overseas correspondents to facilitate experience sharing in business operations and skills.

### **Purchase, Sale or Redemption of Shares**

The Bank has not redeemed any of its shares during the six months ended 30 June 2004. 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 2004, 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.

### **Code of Best Practice**

None of the directors of the Bank is aware of any information that would reasonably indicate that the Bank is not, or was not for any part of the six months ended 30 June 2004 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.

## **Publication of Interim Report on the Stock Exchange's Website**

The 2004 Interim Report of the Bank containing all the information required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the Stock Exchange's website in due course.

By Order of the Board  
**Maria Wan-sin FUNG**  
Secretary

Hong Kong, 18 August 2004

As at the date of this announcement, the executive directors of the Bank are Dr Michael Po-ko Wu, Dr Patrick Po-kong Wu, Dr Philip Po-him Wu and Mr Che-shum Chung, the non-executive directors are Mr Albert Po-cheung Wu, Mr Ivan Po-young Wu and Mr Anthony Shang-fung Wu and the independent non-executive directors are Mr Kee-choe Ng, Dr Siu-chan Ng, Mr Norman Nai-pang Leung, Mr Lincoln Hung-leung Soo and Mr Shung-kwong Tsang. Mr Kenneth Ngai-keung Ma is currently the alternate director to Mr Ivan Po-young Wu.

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

Please also refer to the published version of this announcement in South China Morning Post dated 19 August 2004.