

財務及業務回顧

FINANCIAL RESULTS AND OPERATION REVIEW

董事會欣然提呈本集團截至二〇〇五年六月三十日止六個月的中期報告及簡明賬目。本集團截至二〇〇五年六月三十日止六個月之綜合損益表、綜合現金流量表及綜合權益變動表，以及本集團於二〇〇五年六月三十日結算之綜合資產負債表，均是未經審核及以簡明賬目編製。上述各項連同有關註釋、補充財務資料及補充資料列於本中期報告第七頁至第五十六頁。

二〇〇五年上半年香港經濟持續向好，本地實質生產總值增長6%，就業情況漸次改善，市民消費信心恢復，物業市場交投重現暢旺。

惟銀行業的經營壓力仍大，借貸增長未能與經濟增長相配合，同業間競爭劇烈，熱錢的流入影響了利率走勢，至今年五月下旬金融管理局推出優化聯繫匯率措施，港元與美元間之利息差距始逐步收窄，資金成本上升。

展望下半年在利率持續調升下將會壓抑借貸需求，對物業市場及投資市場起降溫作用，油價長時期高企亦會拖慢經濟增長步伐，銀行業的經營環境仍然充滿挑戰。

本行二〇〇五年首六個月的業績與去年同期比較：

除稅後盈利上升13%，為港幣530,405,000元，主要來自投資物業之升值，非利息收入則呈現下跌，減值準備的回撥亦較去年同期之呆壞賬準備回撥為少。

淨利息收入維持於去年水平，上半年資金成本上升，放款利率未能同步調升，息差仍在收窄，惟貸存比率上升及銀行剩餘資金收益增加抵銷了相關影響，淨息差較去年同期減少8個基點。

保險業務營業收入雖減少16.7%，為港幣181,143,000元；惟因風險管理得宜，索償個案減少，令承保盈餘有所增加。

其他非利息收入下跌6.3%，為港幣203,090,000元，主要是證券經紀和證券買賣業務方面的收益下降，惟理財業務收益則錄得增長。

總營業收入減少5.2%，為港幣925,927,000元；營業支出上升6.1%，為港幣283,313,000元，主要是業務推廣費用與人力資源開支的增加。

The Directors are pleased to present the Group's Interim Report and condensed accounts for the six months ended 30 June 2005. The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2005, and the consolidated balance sheet as at 30 June 2005 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, supplementary financial information and supplementary information are set out on pages 7 to 56 of this report.

In the first half of 2005, the local economy continued to improve with gross domestic product increasing by 6%. Employment situation improved gradually and consumers regained confidence, while the property market became active again.

The operating environment in the banking sector remained taxing. Growth in loan demand did not match the pace of the economic rally, while competition in the banking industry remained intense. Earlier in the year, the influx of hot money interrupted the local interest rate trend. Subsequent to the measures in late May by the Hong Kong Monetary Authority (HKMA) to refine the Linked Exchange Rate mechanism, the interest rate gap between HK dollar and US dollar gradually narrowed, leading to higher funding costs for banks.

The anticipated further interest rate-hikes in the second half of the year will soften loan demand and abate property and investment market activities. This, coupled with soaring oil prices, will dampen the pace of economic growth. Such developments will present more challenges to the banking sector.

Comparing the Bank's operating results for the first half of 2005 with the corresponding period of 2004:

Profit after taxation amounted to HK\$530,405,000, representing an increase of 13%, mainly attributable to the revaluation surplus on investment properties. Meanwhile, non-interest income dropped, and impairment allowances written back decreased as compared with the releases of provisions for bad and doubtful debts in the corresponding period last year.

Net interest income remained at last mid-year level. Amid rising funding costs in the first half of the year, interest margin continued to contract as lending interest rates lagged behind deposit rate rises. The negative impact was however offset by higher loan-to-deposit ratio and increased earnings from free funds. Net interest margin contracted by 8 basis points compared with the corresponding period last year.

Underwriting profit from insurance business increased, mainly attributable to appropriate risk management measures resulting in fewer cases of claims, despite a 16.7% regression in insurance operating income to HK\$181,143,000.

Other non-interest income was down by 6.3% to HK\$203,090,000, mainly attributable to the reduction in securities brokerage and securities trading income. Wealth management income, on the other hand, was on a growth track.

Total operating income fell by 5.2% to HK\$925,927,000. Operating expenses increased by 6.1% to HK\$283,313,000, mainly due to rising expenses in business promotion and human resources.

成本對收入比率為30.6%，較去年同期上升3.2%，扣除減值準備金前的營業溢利下跌9.4%，為港幣642,614,000元。減值準備金回撥港幣3,056,000元。因保險申索而須提撥之準備亦因保險營業收入減少相應下降22.6%，為港幣136,851,000元。

營業溢利下跌7.7%，為港幣508,819,000元。

受惠於期內地產價格上升，本行的投資物業價值經重估後錄得港幣119,847,000元的升幅，根據香港會計準則第40號的要求，有關升幅已在本集團損益賬上反映。

客戶存款與去年同期比較增加8.8%，為港幣53,192,025,000元，與去年底比較則相若；已發行存款證與去年底比較增加6.7%。

客戶貸款與去年同期比較上升18%，為港幣34,941,763,000元，與去年底比較上升12.2%。減值準備金為港幣172,720,000元，其中59%屬綜合減值準備，為總貸款的0.29%。貸存比率為61.4%，較去年同期之56.1%為高，去年底為54.4%，反映上半年借貸增長比較強勁。

平均總資產回報率為1.49%，略高於去年同期之1.41%；平均股東資金回報率為11.01%，高於去年同期之10.82%。

二〇〇五年六月三十日之綜合資本充足比率為18.7%，平均流動資金比率為47.8%。

存款

由於利率已告回升，客戶將往來、儲蓄存款轉為定期存款者多了。金融管理局實施優化聯繫匯率措施令熱錢外流，亦使銀行競爭存款轉趨激烈，資金成本因而上升。本行會密切留意環境變化而調整利息政策以吸收存款，並會多設計一些新產品以迎合不同客戶的需求。今年二月推出「超卓理財」新產品可以綜合結算客戶所有往來，反應良好。

截至六月底本行發行的存款證總值為港幣3,391,973,000元，較去年底上升6.7%，絕大部份為浮息，小部份定息者則分配與個別投資者。

近幾個月本行人民幣存款因升值傳聞而增長迅速，七月二十一日國家宣佈重估人民幣匯價並改變匯率形成機制，人民幣兌美元升值2%。預

The cost-to-income ratio increased by 3.2% to 30.6%, compared with the first half of 2004. Operating profit before impairment allowances dropped by 9.4% to HK\$642,614,000. Impairment allowances of HK\$3,056,000 were written back. Provisions for insurance claims declined by 22.6% to HK\$136,851,000 in line with the drop in insurance revenues.

Operating profit dropped by 7.7% to HK\$508,819,000.

Reflecting surging property prices during the period under review, the Bank recorded an investment properties revaluation gain of HK\$119,847,000. In accordance with Hong Kong Accounting Standard No. 40, the said revaluation gain has been reflected in the Group's profit and loss account.

Total customer deposits of HK\$53,192,025,000 maintained at last year-end level and was 8.8% higher than the level in the same period last year. The amount of certificates of deposit issued was 6.7% higher than that at the end of 2004.

Advances to customers increased by 18% from the level a year ago to HK\$34,941,763,000, up 12.2% as compared with that at 2004 year-end. Impairment allowances amounted to HK\$172,720,000, of which 59% was collective impairment allowances, representing 0.29% of the total advances to customers. The loan-to-deposit ratio was 61.4%, higher than the 56.1% for the same period of 2004 and 54.4% at 2004 year-end, reflecting stronger loan growth in the first half of 2005.

The return on average total assets was 1.49%, slightly higher than 1.41% for the same period in 2004. The return on average shareholders' funds was 11.01%, above the 10.82% recorded in the same period last year.

At 30 June 2005, the consolidated capital adequacy ratio was 18.7%, and the average liquidity ratio was 47.8%.

Deposits

The gradual rise in local interest rates prompted a rising number of depositors to seek higher returns by shifting their funds from current or savings accounts to fixed deposit accounts. Competition for deposits intensified and this pushed up the funding costs following the outflow of hot money triggered by HKMA's refining measures to the Linked Exchange Rate system. The Bank will monitor market development and adjust the deposit rate strategy to grow its deposit base. Deposit product range will be expanded to meet customers' needs. "All-In-One" Service, aggregating a client's transaction activities in a single account, was launched in February and well-received by customers.

As at 30 June 2005, certificates of deposit totalling HK\$3,391,973,000 were issued, up 6.7% as compared with that at last 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.

Fuelled by depositors speculating on an upward revaluation of renminbi, the volume of the Bank's renminbi deposits sharply increased in recent months. The renminbi appreciated against the US dollar by 2% following the

料市民增持人民幣及人民幣在香港市面流通量增加趨勢仍會持續，香港是有條件進一步擴大人民幣業務的產品範圍。

放款

上半年物業市場持續暢旺，本行樓宇按揭業務在經營部門積極爭取下有6.8%的增長。當前樓價已普遍回升，加上利率逐步調高，相信樓宇交投會轉趨淡靜，經過一段消化期再回復暢旺。

企業融資的增長較預期為佳，與去年底比較上升23.3%；銀團貸款亦有20.2%增幅。

永隆財務有限公司上半年的租購及租賃業務貸款數字較去年底錄得增長，盈利則因資金成本上升而稍為下降。

財資

外匯買賣及外幣找換整體收益較去年同期下跌1.9%。

今年首季外匯市場美元回復穩定，對各種主要貨幣表現硬朗，自第二季開始匯價更強力反彈，加上利率已逐步回升，客戶從事外匯交投明顯減少。上半年外匯交易量及盈利均輕微下降。

上半年本行參與資本市場活動保持活躍，同時有密切留意市場變化和利率趨勢，敘做一些浮息票據及結構性債券，當會繼續因應環境制定適當政策從事此類活動，以增加收益。

理財

理財業務收益較去年同期增長20.9%。

自去年六月美國聯邦基金利率連續十次上調至3.5%水平，估計趨勢仍會持續，利率趨升令投資者對持有利率結構產品抱觀望態度，寧選擇比較安穩之存款收息。

理財中心會繼續積極發掘合適的投資產品，增闢客源，加強推廣活動，以增加銷售額。

announcement of renminbi revaluation and restructure of exchange rate mechanism by the Chinese government on 21 July. Under such circumstances, people may increase their holdings in renminbi, and wider circulation of this currency is expected. The range of renminbi financial products can be further extended in Hong Kong given the favourable conditions and potentials.

Advances to customers

In the buoyant property market, the Bank expended great efforts to grow its residential mortgage lending business by 6.8% in the past six months. However, upward property prices and continuous interest rate-hikes will likely slow down property transactions. It is anticipated that the property market will become active again after a period of consolidation.

Corporate loans outperformed the target and soared by 23.3% as compared with that at 2004 year-end. Similarly, syndicated loan financing achieved a 20.2% growth over last year-end level.

Total advances through the Bank's hire-purchase and leasing subsidiary, Wing Lung Finance Limited, grew in the first half of 2005 as compared with that at 2004 year-end. However, a mild decrease in operating profit was recorded, due to rising funding costs.

Treasury

Combined income from foreign exchange and money exchange business slipped 1.9% from the level a year ago.

The US dollar gained against other major currencies in the first quarter of the year and strengthened more significantly in the second quarter. Moreover, as interest rate gradually rises, clients' participation in foreign exchange activities curtailed, causing a mild contraction in trading volume and profit.

The Bank was active in capital market activities in the first half of 2005, participating in floating-rate instruments and structured bonds investments while closely monitoring market situation and interest rate trend. Appropriate market adaptive strategies will be devised and implemented for earnings enhancement.

Wealth Management

Wealth management income progressed by 20.9% over the same period a year ago.

The US Federal Funds rate is now 3.5% after ten consecutive increases since June 2004, and the trend is likely to persist. Consequently, investors have taken a more prudent view towards interest rate linked structured products and prefer to channel their funds to interest-earning deposits.

The Wealth Management Centre will vigorously identify appropriate investment products, widen the client base, and launch promotion campaigns to grow sales volume.

信用卡

信用卡業務截至六月底，發卡總數較去年底有理想增幅，放出賬款則呈現退減。

上半年為加速客戶基礎之擴大，乃刻意投放多些資源以爭取卡數，在開支方面控制得宜，及呆壞賬情況持續改善下，是項業務的表現尚屬在預期之內。

下半年除繼續致力提升發卡總數外，並已計劃在九月中推出新產品循環貸款現金卡及專上學生貸款優惠計劃，期望能藉此增加卡數及利息收益。

證券

二〇〇五年上半年本港證券市場總交投數字與去年同期相若，惟大部份成交來自發行商及基金公司，散戶成交相對較少。由於惠顧本行者多屬散戶，故證券業務與盈利均有所退減。

展望下半年大市會較為暢旺，惟加息周期應尚未完結，整體投資環境仍不大明朗。

保險

上半年屬下之永隆保險有限公司的承保業務呈現退減，主要是財產損壞保險和僱員傷亡賠償保險下降。保險業市場割價競爭的情況復熾，公營及私營基建項目減少亦是造成承保退減原因。猶幸索償個案減少，令承保盈餘有所增長。

保險部代理業務及收益均有所增加，主要是多做了小巴及樓宇按揭保險。

代理人壽保險亦呈現退減，整體壽險市場經過幾年的蓬勃增長後，已有放緩跡象。

分行網絡

本行現時在本地設有分行共33間，在內地深圳市、美國羅省及開曼群島各設有分行一間，均運作如常，業務與盈利表現平穩。

為逐步擴大對國內業務的開發，已著手在深圳南山區增設一間支行，已物色得舖址並獲深圳銀監局准許展開籌備工作，預計可以在年內開業。

Credit card

As at 30 June 2005, the total number of credit cards issued increased appreciably as compared with 2004 year-end, whereas total credit card receivables retreated.

In the first half of 2005, more resources were allocated to expand the card base and bolster credit card lending. Under proper cost control and improving bad debt conditions, credit card business grew steadily, commensurate with the Bank's expectation.

In addition to growing the card base, new products including revolving cash card and loans for tertiary students will be launched in mid-September to further expand its card business for better returns.

Securities broking

Trading volume of the local stock market in the first half of 2005 remained at the same level as last mid-year, largely attributed to transactions from issuers and fund houses as opposed to the retail sector. With most of its customers being retail investors, the Bank's securities business and related income regressed somewhat.

The threat of continuous interest rate-hikes will loom over the overall investment atmosphere in the second half of the year despite the anticipation of a more active stock market.

Insurance

Underwriting business of Wing Lung Insurance Company Limited declined in the first half of 2005 due to contraction of property damage and employee's compensation classes, stiff bidding competition and fewer infrastructure projects in both the public and private sectors. However, underwriting profits maintained growth thanks to a reduction in claims.

The Insurance Department recorded a gain in agency business and commission income, mainly contributed by the increase in public light bus and residential mortgage insurance.

Life insurance sales retreated, signifying consolidation after several years of rapid growth.

Branch network

The Bank has 33 local branches, a Shenzhen Branch in China, a Los Angeles Branch in the US and a Cayman Islands Branch. All achieved steady growth in both business and returns.

Preparatory works are underway for setting up a sub-branch in Nanshan District, Shenzhen after obtaining China Banking Regulatory Commission's approval. A suitable location has been identified, and the sub-branch is scheduled to operate within the year for further business expansion on the Mainland.

羅省分行在亞罕布拉市興建中之新行址已於五月十二日舉行了奠基儀式，整幢樓宇工程預計可於年底完成，隨後會進行裝修及各項設施之裝配，預計羅省分行可於明年三月前遷進新址營業。

資訊科技

上半年資訊科技部繼續支援及協助各部門提升資訊科技應用能力，以配合業務發展之需，並改善營運效率及加強風險管理。本年三月本行與IBM簽訂協議，與其深圳軟件開發中心合作，加強系統開發能力。

人力資源

在二〇〇五年六月底，本行僱員總人數為1,316人。

人力資源部經常開設或安排一些與業務及新產品有關之課程、資訊科技應用課程、專題講座等，亦有聯同大學、職訓局合作開辦一些管理、實務課程，以培訓和充實職員的知識和技能、管理及銷售技巧；並鼓勵及資助職員考取一些特定資格考試，協助他們作持續進修及登記資格；亦有不時與海內外同業互派人員作業務和技術交流，以配合業務之發展。

承董事會命
秘書 馮蘊蓓 謹啟

香港 二〇〇五年八月十七日

May 12 saw the foundation stone laying ceremony of the new building for Los Angeles Branch in the City of Alhambra. Construction work is expected to be completed before the year-end. Relocation of Los Angeles Branch is scheduled prior to March next year after completion of all interior decoration and fittings.

Investment in information technology

In the first half of 2005, the Information Technology Department continued to assist other departments in enhancing information technology application capabilities for business development, operational efficiency and risk management. The Bank entered into an agreement with IBM in March to cooperate with IBM's software development centre in Shenzhen to bolster system development capability.

Human resources

At the end of June 2005, total workforce amounted to 1,316.

In order to upgrade the skills, knowledge, management and sales techniques 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 operations, product knowledge, information technology and specialised topics, and co-organising certain management programmes with universities and the Vocational Training Council. The Department also sponsors staff members to attend various training programmes so that they can obtain the required professional qualifications. Exchange visits with overseas correspondents take place regularly to share and mutually update business and operational experience which should be useful for future development.

By Order of the Board
Maria Wan-sin FUNG
Secretary

Hong Kong, 17 August 2005