



# WING LUNG BANK LTD

(Incorporated in Hong Kong with limited liability)

Stock Code: 096

## INTERIM RESULTS 2006

### Interim Results

The Directors of Wing Lung Bank Ltd (the “Bank”) are pleased to announce the unaudited results of the Group for the six months ended 30 June 2006 as follows:-

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

	Note	Six months ended 30 June		Change
		2006	2005	
		HK\$'000	HK\$'000	%
Interest income	1	1,919,790	1,154,345	+66.3
Interest expense	2	(1,244,439)	(612,651)	+103.1
Net interest income		675,351	541,694	+24.7
Insurance operating income		191,878	181,143	+5.9
Other operating income	3	258,318	203,090	+27.2
Operating income		1,125,547	925,927	+21.6
Operating expenses	4	(309,750)	(283,313)	+9.3
Operating profit before impairment allowances (Charge for)/write back of impairment allowances on loans and advances		815,797	642,614	+26.9
Charge for insurance claims		(58,940)	3,056	
		(145,452)	(136,851)	+6.3
Operating profit		611,405	508,819	+20.2
Net loss on disposal of fixed assets		(695)	(115)	
Revaluation surplus on investment properties		418,003	119,847	
Revaluation deficit on premises		—	(79)	
Net gain on disposal of available-for-sale securities		5,873	106	
		1,034,586	628,578	+64.6
Share of net profits of jointly controlled entities		9,580	2,745	
Share of net profits/(losses) of associates		1,621	(366)	
Profit before taxation		1,045,787	630,957	+65.7
Taxation	5	(165,760)	(100,552)	
Profit attributable to shareholders		880,027	530,405	+65.9
Interim dividend		185,752	132,348	+40.4
Earnings per share	6	HK\$3.79	HK\$2.28	
Interim dividend per share		HK\$0.80	HK\$0.57	

Notes:

(1) Interest income

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Interest income on financial assets that are not at fair value through profit or loss	1,790,130	1,037,349
Interest income on trading securities	32,891	12,833
Interest income on financial assets at fair value through profit or loss	62,159	63,095
Interest income on interest rate swaps	34,610	41,068
	<u>1,919,790</u>	<u>1,154,345</u>

(2) Interest expense

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Interest expense on financial liabilities that are not at fair value through profit or loss	1,159,394	558,986
Interest expense on trading liabilities	10,932	5,786
Interest expense on financial liabilities at fair value through profit or loss	52,516	17,503
Interest expense on interest rate swaps	21,597	30,376
	<u>1,244,439</u>	<u>612,651</u>

(3) Other operating income

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Fees and commission income	163,411	120,407
Less: fees and commission expense	(28,962)	(23,176)
Net fees and commission income	134,449	97,231
Net gain/(loss) from trading securities	19,209	(7,787)
Net gain/(loss) arising from financial instruments at fair value through profit or loss	100,946	(50,932)
Net (loss)/gain arising from derivative products	(88,081)	53,797
Net gain from foreign exchange trading	51,071	48,229
Others	40,724	62,552
	<u>258,318</u>	<u>203,090</u>

(4) Operating expenses

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Staff costs		
- Salaries and other costs	173,378	162,082
- Retirement benefit costs	3,268	700
Depreciation	23,870	24,171
Operating lease charges on leasehold land	2,086	2,086
Others	107,148	94,274
	<u>309,750</u>	<u>283,313</u>

(5) Taxation

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Current taxation:		
- Hong Kong profits tax	99,008	78,679
- Overseas taxation	4,019	4,136
Deferred taxation:		
- Relating to the origination and reversal of temporary differences	62,733	17,737
	<u>165,760</u>	<u>100,552</u>

Hong Kong profits tax has been calculated at the rate of 17.5% (2005: 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.

Included in the share of net profits of jointly controlled entities and associates in the condensed consolidated profit and loss account are the Group's share of taxation of jointly controlled entities and associates for the period of HK\$1,357,000 (2005: HK\$577,000) and HK\$256,000 (2005: Nil) respectively. The comparative figures have been reclassified to conform with current period's presentation.

(6) Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$880,027,000 (2005: HK\$530,405,000) and 232,190,115 (2005: 232,190,115) shares in issue during the period.

## B. Condensed Consolidated Balance Sheet

	30/06/2006	31/12/2005
	HK\$'000	HK\$'000
<b>Assets</b>		
Cash and short-term funds	20,656,627	19,721,668
Placements with banks and other financial institutions maturing between one and twelve months	4,125,347	2,103,014
Trade bills	156,021	162,165
Certificates of deposit held	865,491	898,357
Trading securities	459,115	512,932
Derivative financial instruments	19,570	56,699
Financial assets at fair value through profit or loss	3,282,877	3,897,675
Available-for-sale securities	3,307,387	3,767,780
Held-to-maturity securities	4,372,467	3,306,937
Advances and other accounts	40,302,625	38,155,415
Interests in jointly controlled entities	113,327	105,578
Interests in associates	4,164	3,540
Fixed assets	2,263,240	1,780,290
Interests in leasehold land	247,602	249,688
Total assets	<u>80,175,860</u>	<u>74,721,738</u>
<b>Liabilities</b>		
Deposits and balances of banks and other financial institutions	2,350,781	2,337,618
Trading liabilities	1,024,513	967,891
Derivative financial instruments	227,301	155,556
Financial liabilities at fair value through profit or loss	3,268,100	2,360,894
Deposits from customers	57,786,301	54,306,040
Certificates of deposit issued	1,882,420	1,917,053
Other accounts and accruals	2,996,955	2,540,219
Total liabilities	<u>69,536,371</u>	<u>64,585,271</u>
<b>Capital resources</b>		
Share capital	1,160,951	1,160,951
Reserves	9,478,538	8,975,516
Shareholders' funds	<u>10,639,489</u>	<u>10,136,467</u>
Total liabilities and capital resources	<u>80,175,860</u>	<u>74,721,738</u>

## C. Supplementary Information of the Group

### 1. Advances and other accounts

	<u>30/06/2006</u>	<u>31/12/2005</u>
	HK\$'000	HK\$'000
Advances to customers	38,666,333	36,855,547
Impairment allowances		
- Collective	(130,364)	(115,444)
- Individual	(84,106)	(71,597)
	<u>38,451,863</u>	<u>36,668,506</u>
Advances to banks and other financial institutions	<u>93,393</u>	<u>152,789</u>
Accrued interest	327,392	269,374
Impairment allowances		
- Individual	(9,480)	(7,855)
	<u>317,912</u>	<u>261,519</u>
Other accounts	1,435,410	1,069,769
Impairment allowances		
- Individual	(823)	(581)
	<u>1,434,587</u>	<u>1,069,188</u>
Deferred tax assets	<u>4,870</u>	<u>3,413</u>
	<u>40,302,625</u>	<u>38,155,415</u>

## 2. Gross advances to customers by industry sectors

	30/06/2006	31/12/2005
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
Property development	4,046,045	3,209,419
Property investment	9,901,618	8,889,515
Financial concerns	523,826	435,494
Stockbrokers	1,650	2,257
Wholesale and retail trade	370,013	413,768
Manufacturing	460,035	469,464
Transport and transport equipment	1,362,270	1,304,236
Others	4,068,057	3,441,451
Individuals		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	2,131,657	2,272,313
Loans for the purchase of other residential properties	10,276,403	10,639,364
Credit card advances	333,680	573,860
Others	1,396,238	1,409,457
Trade finance	666,519	570,760
	<u>35,538,011</u>	<u>33,631,358</u>
Loans for use outside Hong Kong	<u>3,128,322</u>	<u>3,224,189</u>
	<u><u>38,666,333</u></u>	<u><u>36,855,547</u></u>

## 3. Impaired loans

The gross amount of impaired loans, which represents those individual advances where there is objective evidence of impairment resulting from loss events occurring after the initial recognition of the advances and where these loss events have an impact on the estimated future cash flows of the advances, is analysed as follows:-

	Advances to customers	
	30/06/2006	31/12/2005
	HK\$'000	HK\$'000
Impaired loans	247,165	247,248
Percentage of total advances to customers	0.64%	0.67%
Individual impairment allowances made in respect of such advances	84,106	71,597

At 30 June 2006 and 31 December 2005, there were no impaired loans in respect of advances to banks and other financial institutions.

The above individual impairment allowances 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 are analysed as follows:-

	30/06/2006		31/12/2005	
	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	100,005	0.26	79,959	0.21
One year or less, but over six months	52,744	0.14	35,830	0.10
Over one year	58,138	0.15	68,934	0.19
	<u>210,887</u>	<u>0.55</u>	<u>184,723</u>	<u>0.50</u>
Secured overdue advances	147,572		127,878	
Unsecured overdue advances	63,315		56,845	
	<u>210,887</u>		<u>184,723</u>	
Market value of collateral held against the secured overdue advances	<u>271,076</u>		<u>175,155</u>	
Individual impairment allowances made	<u>56,426</u>		<u>58,412</u>	

At 30 June 2006 and 31 December 2005, 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:-

	30/06/2006		31/12/2005	
	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	8,069	2,091	6,855	1,301
One year or less, but over six months	8,028	2,543	520	2,458
Over one year	235	12,194	—	9,952
	<u>16,332</u>	<u>16,828</u>	<u>7,375</u>	<u>13,711</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:-

	30/06/2006		31/12/2005	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Rescheduled advances to customers	<u>107,568</u>	<u>0.28</u>	<u>125,244</u>	<u>0.34</u>

At 30 June 2006 and 31 December 2005, there were no rescheduled advances to banks and other financial institutions.

## 6. Repossessed assets

	30/06/2006	31/12/2005
	HK\$'000	HK\$'000
Market value of repossessed assets	<u>17,894</u>	<u>7,550</u>

## 7. Geographical analysis of gross advances to customers, overdue advances and impaired loans

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

	30/06/2006	31/12/2005
	HK\$'000	HK\$'000
Gross advances to customers		
Hong Kong	37,207,629	35,321,082
Other areas	1,458,704	1,534,465
	<u>38,666,333</u>	<u>36,855,547</u>
Overdue advances		
Hong Kong	<u>210,887</u>	<u>184,723</u>
Impaired loans		
Hong Kong	<u>247,165</u>	<u>247,248</u>

## 8. Deposits from customers

	30/06/2006	31/12/2005
	HK\$'000	HK\$'000
Demand deposits and current accounts	2,555,277	2,662,438
Saving deposits	12,377,941	11,300,560
Time, call and notice deposits	42,853,083	40,343,042
	<u>57,786,301</u>	<u>54,306,040</u>



**9. Other accounts and accruals**

Included in other accounts and accruals as at 30 June 2006 are deferred tax liabilities totalling HK\$365,051,000 (31 December 2005: HK\$291,687,000).

**10. Reserves**

	<u>30/06/2006</u>	<u>31/12/2005</u>
	HK\$'000	HK\$'000
Capital reserve	57,500	57,500
Bank premises revaluation reserve	34,720	1,341
Investment revaluation reserve	231,137	146,956
General reserve	1,003,730	1,003,730
Retained earnings	8,151,451	7,765,989
	<u>9,478,538</u>	<u>8,975,516</u>

(a) As at 30 June 2006, HK\$256,299,000 (31 December 2005: HK\$253,112,000) was earmarked as the regulatory reserve from the retained earnings. The regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes. Movements in the reserve are made directly through retained earnings and in consultation with the Hong Kong Monetary Authority.

(b) The directors declared an interim dividend of HK\$185,752,000 (2005: final dividend of HK\$494,565,000) after the period end. 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 2006.

**11. 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 corporate banking HK\$'000	Treasury HK\$'000	Insurance HK\$'000	Others HK\$'000	Unallocated HK\$'000	Group HK\$'000
<b>Six months ended</b>						
<b>30 June 2006</b>						
Interest income from						
- external customers	1,134,028	751,694	26,462	7,606	—	1,919,790
- other segments	837,106	504,322	10,134	5,896	—	1,357,458
Interest expense to						
- external customers	(1,042,966)	(201,473)	—	—	—	(1,244,439)
- other segments	(512,588)	(834,437)	—	(10,433)	—	(1,357,458)
Net interest income	415,580	220,106	36,596	3,069	—	675,351
Insurance operating income from external customers	—	—	191,878	—	—	191,878
Other operating income from external customers	78,468	37,752	(4,288)	146,386	—	258,318
Operating income	494,048	257,858	224,186	149,455	—	1,125,547
Operating expenses	(180,950)	(10,893)	(15,653)	(44,210)	(58,044)	(309,750)
Operating profit/(loss) before impairment allowances	313,098	246,965	208,533	105,245	(58,044)	815,797
Charge for impairment allowances	(58,940)	—	—	—	—	(58,940)
Charge for insurance claims	—	—	(145,452)	—	—	(145,452)
Operating profit/(loss)	254,158	246,965	63,081	105,245	(58,044)	611,405
Gain/(loss) on fixed assets and investments	1,313	—	4,560	(16)	(679)	5,178
Revaluation surplus on investment properties	—	—	—	418,003	—	418,003
Share of net profits of jointly controlled entities and associates	—	—	8,201	3,000	—	11,201
Profit/(loss) before taxation	255,471	246,965	75,842	526,232	(58,723)	1,045,787
Depreciation charge	13,601	749	786	4,544	4,190	23,870
Capital expenditure	17,885	1,110	308	26,929	2,833	49,065
<b>At 30 June 2006</b>						
Segment assets	42,887,315	32,579,546	1,692,619	963,554	2,052,826	80,175,860
Segment liabilities	58,185,081	8,534,970	1,339,211	1,030,926	446,183	69,536,371

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

	Retail and corporate banking HK\$'000	Treasury HK\$'000	Insurance HK\$'000	Others HK\$'000	Unallocated HK\$'000	Group HK\$'000
<b>Six months ended</b>						
<b>30 June 2005</b>						
Interest income from						
- external customers	614,692	502,508	20,709	16,436	—	1,154,345
- other segments	520,417	253,052	3,010	1,510	—	777,989
Interest expense to						
- external customers	(520,459)	(92,192)	—	—	—	(612,651)
- other segments	(256,169)	(519,205)	—	(2,615)	—	(777,989)
Net interest income	358,481	144,163	23,719	15,331	—	541,694
Insurance operating income from external customers	—	—	181,143	—	—	181,143
Other operating income from external customers	87,788	6,021	(10,962)	120,243	—	203,090
Operating income	446,269	150,184	193,900	135,574	—	925,927
Operating expenses	(172,620)	(10,828)	(12,460)	(33,907)	(53,498)	(283,313)
Operating profit/(loss) before impairment allowances	273,649	139,356	181,440	101,667	(53,498)	642,614
Write back of impairment allowances	3,039	—	17	—	—	3,056
Charge for insurance claims	—	—	(136,851)	—	—	(136,851)
Operating profit/(loss)	276,688	139,356	44,606	101,667	(53,498)	508,819
(Loss)/gain on fixed assets and investments	(4)	4	100	—	(109)	(9)
Revaluation surplus on investment properties	—	—	—	119,847	—	119,847
Revaluation deficit on premises	—	—	—	(79)	—	(79)
Share of net profits of jointly controlled entities and associates	—	—	1,148	1,231	—	2,379
Profit/(loss) before taxation	276,684	139,360	45,854	222,666	(53,607)	630,957
Depreciation charge	15,901	612	574	4,251	2,833	24,171
Capital expenditure	7,536	54	351	1,192	695	9,828
<b>At 31 December 2005</b>						
Segment assets	40,370,845	30,229,282	1,697,819	871,565	1,552,227	74,721,738
Segment liabilities	54,665,204	7,436,462	1,213,182	940,482	329,941	64,585,271

**(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.

## 12. Contingent liabilities, commitments and derivatives

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

	30/06/2006	31/12/2005
	HK\$'000	HK\$'000
Contractual amount		
Direct credit substitutes	609,812	668,973
Transaction-related contingencies	31,028	33,324
Trade-related contingencies	457,048	443,470
Other commitments with an original maturity of		
– under one year or which are unconditionally cancellable	8,876,168	8,754,398
– one year and over	4,911,369	3,972,191
	<u>14,885,425</u>	<u>13,872,356</u>
Credit risk weighted amount	<u>3,512,869</u>	<u>3,126,488</u>

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

	30/06/2006	31/12/2005
	HK\$'000	HK\$'000
Notional or contractual amount		
Exchange rate contracts	1,549,003	1,745,219
Interest rate contracts	6,258,301	5,757,322
Equity contracts	570,567	787,452
Credit derivative contracts	543,711	232,653
	<u>8,921,582</u>	<u>8,522,646</u>
Credit risk weighted amount		
Exchange rate contracts	5,231	7,060
Interest rate contracts	5,535	18,659
Equity contracts	8,086	11,327
	<u>18,852</u>	<u>37,046</u>
Replacement cost		
Exchange rate contracts	2,470	5,295
Interest rate contracts	14,295	49,405
Equity contracts	2,805	1,999
	<u>19,570</u>	<u>56,699</u>

### 13. 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:

	<u>30/06/2006</u>	<u>31/12/2005</u>
	HK\$'000	HK\$'000
Spot assets	20,023,033	17,359,236
Spot liabilities	(17,718,196)	(16,249,387)
Forward purchases	77,343	620,695
Forward sales	(450,089)	(60,941)
Net option position	<u>5,004</u>	<u>8,887</u>
Net long position	<u>1,937,095</u>	<u>1,678,490</u>
Net structural position	<u>67,576</u>	<u>67,469</u>

The net option position is calculated based on the model user approach set out in the prudential return "Foreign Currency Position" issued by the Hong Kong Monetary Authority.

### 14. 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 2006				
Asia Pacific excluding Hong Kong	10,989,667	53,827	1,550,426	12,593,920
North and South America	1,266,906	1,110,071	1,683,341	4,060,318
Europe	13,451,853	—	477,341	13,929,194
31 December 2005				
Asia Pacific excluding Hong Kong	6,383,983	52,369	1,910,649	8,347,001
North and South America	2,163,512	1,609,305	1,649,587	5,422,404
Europe	14,316,823	—	395,481	14,712,304

## 15. Capital adequacy and liquidity ratios

	<u>30/06/2006</u>	<u>31/12/2005</u>
Capital adequacy ratio	<u>16.9%</u>	<u>17.6%</u>
Adjusted capital adequacy ratio	<u>16.9%</u>	<u>17.6%</u>
	Six months ended 30 June	
	<u>2006</u>	<u>2005</u>
Liquidity ratio	<u>45.0%</u>	<u>47.8%</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 2006 and 31 December 2005 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 2006 and 31 December 2005 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 2006 and 31 December 2005 and reported to the Hong Kong Monetary Authority is analysed as follows:

	<u>30/06/2006</u>	<u>31/12/2005</u>
	HK\$'000	HK\$'000
Core capital:		
Paid up ordinary share capital	1,160,951	1,160,951
Reserves	5,915,522	5,743,584
	<u>7,076,473</u>	<u>6,904,535</u>
Supplementary capital:		
Reserves on revaluation of land and interests in land	824,416	824,416
Collective impairment allowances and regulatory reserve	387,138	363,089
Reserves on revaluation of holding of securities not held for trading purposes	26,616	16,869
Gross value of supplementary capital	<u>1,238,170</u>	<u>1,204,374</u>
Eligible value of supplementary capital	<u>1,238,170</u>	<u>1,204,374</u>
Total capital base before deductions	8,314,643	8,108,909
Deductions from total capital base	<u>(397,981)</u>	<u>(397,963)</u>
Total capital base after deductions	<u>7,916,662</u>	<u>7,710,946</u>

## **D. Statutory Accounts**

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

The financial information relating to the financial year ended 31 December 2005 is derived from the statutory accounts for that financial year. Statutory accounts for the year ended 31 December 2005 are available from the Bank's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 22 February 2006.

The accounting policies and methods of computation used in the preparation of these interim results, which have been reviewed by the Bank's Audit Committee, are consistent with those adopted in the preparation of the Group's annual statutory accounts for the year ended 31 December 2005.

The Hong Kong Institute of Certified Public Accountants has issued a number of new standards (including Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs")), amendments to standards and interpretations, which are effective for accounting periods beginning on or after 1 January 2006. The Group has adopted the following standards which are relevant to its operations:

Amendment to HKAS 39	The Fair Value Option
Amendments to HKAS 39 & HKFRS 4	Financial Guarantee Contracts

The adoption of the above standards did not result in substantial changes to the Group's accounting policies.

There are a number of new standards, amendments to standards and interpretations which have been issued but are not yet effective for accounting period beginning on 1 January 2006 and have not been early adopted by the Group. The Group has already commenced an assessment of the impact of these new standards but is not yet in a position to state whether these new standards would have a significant impact on its results of operations and financial position.

### **Interim Dividend**

The Directors are pleased to declare an interim dividend of HK\$0.80 per share to be paid on or after 27 September 2006 to shareholders registered on 27 September 2006.

### **Closure of Register of Members**

The Register of Members will be closed from 20 September 2006 to 27 September 2006, 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 (46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong) for registration not later than 4 p.m. on Tuesday, 19 September 2006.

## **Financial Results and Operation Review**

Economic rally continued in the first half of 2006, bolstering domestic consumption, foreign trade, employment rate and per capita income. The stock market was active, while the property market was consolidating following the recent phase of price upward movement.

In spite of the anticipation that the local economy will remain strong, instability in the Middle East, soaring oil prices, unclear US dollar interest rate trend and worldwide trade imbalance all pose negative impact on the economy. Meanwhile, competition in the banking sector intensifies as reflected in price competition and extension of service hours. Such changes of operating environment will present greater challenges to the banking sector.

Comparing the Bank's operating results for the first half of 2006 with the corresponding period of 2005:

Profit after taxation amounted to HK\$880,027,000, representing an increase of 65.9%, mainly attributable to surging net interest income and non-interest income, among which securities brokerage business achieved outstanding performance. Revaluation on investment properties also recorded a surplus.

Net interest income was HK\$675,351,000, up 24.7% as compared with that in the same period last year, reflecting improved interest spreads between loans and deposits and increased earnings from free funds, as interest rates continued to rise. Net interest margin improved by 25 basis points compared with the corresponding period last year.

Insurance business resumed growth with operating income rising by 5.9% to HK\$191,878,000. Other non-interest income went up by 27.2% to HK\$258,318,000, mainly contributed by remarkable income growth in securities brokerage business.

Total operating income surged by 21.6% to HK\$1,125,547,000. Operating expenses increased by 9.3% to HK\$309,750,000, mainly due to rising human resources and information technology related expenses.

The cost-to-income ratio dropped by 3.1% to 27.5%, compared with the first half of 2005. Operating profit before impairment allowances on loans and advances increased by 26.9% to HK\$815,797,000. Impairment allowances on loans and advances of HK\$58,940,000 were made. Charge for insurance claims went up by 6.3% to HK\$145,452,000 in line with higher insurance operating income.

Operating profit surged by 20.2% to HK\$611,405,000.

Revaluation on investment properties recorded a surplus of HK\$418,003,000 as compared with that of 2005 year-end, reflecting the rise in property prices during the period under review as well as the valuation of Bank Centre in Mongkok after the making over of its first three floors into a shopping arcade.

Total customer deposits amounted to HK\$57,786,301,000, up 8.6% and 6.4% when compared with that of the same period and year-end in 2005 respectively.



Advances to customers went up by 10.7% from the level a year ago to HK\$38,666,333,000, up 4.9% as compared with that at 2005 year-end. Impairment allowances amounted to HK\$214,470,000, of which 60.8% was collective impairment allowances, representing 0.34% of the total advances to customers. The loan-to-deposit ratio was 61.1%, remaining at the same level as last mid-year. At 2005 year-end the loan-to-deposit ratio was 62.6%.

The return on average total assets was 2.27%, higher than 1.49% for the same period in 2005. The return on average shareholders' funds was 16.94%, above the 11.01% recorded in the same period last year.

At 30 June 2006, the consolidated capital adequacy ratio was 16.9%, and the average liquidity ratio for the first half of 2006 was 45%.

### **Deposits**

Total deposit grew by 6.4% as compared with that at last year-end. The gradual rises in both US and Hong Kong dollar interest rates tempted more depositors to seek higher returns by channelling their funds from other investment products to fixed deposit accounts.

The Deposit Protection Scheme to be launched in Hong Kong in September 2006 will help strengthen the average retail depositors' confidence by providing them with a safety net feature.

As at 30 June 2006, certificates of deposit issued totaled HK\$5,150,520,000, up 20.4% as compared with that at last year-end. An overwhelming majority are floating rate certificates of deposit. For those fixed rate structured certificates of deposit, the interest rate risk involved is hedged by relevant derivatives.

The Bank's renminbi deposits recorded an increase of 5.1% as compared with that at 2005 year-end thanks to the continuous appreciation of renminbi. The Central Government is considering relaxing the range of renminbi businesses for banks in Hong Kong, including trade settlement in renminbi and issuance of renminbi denominated bonds. This will likely widen the circulation of renminbi in Hong Kong.

### **Advances to customers**

Total loans and advances to customers grew by 4.9% as compared with that at 2005 year-end.

Property transactions slowed down after a series of rate increases, and this coupled with excessive early repayments, resulted in a contraction of residential mortgage lending in the first half of 2006. The Bank will launch more loan products to specially cater for customers' needs in the second half of the year.

Corporate loans performed satisfactorily and recorded an increase of 23.3% as compared with 2005 year-end, while syndicated loan financing achieved a 12.9% 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 2006. However, rising funding costs and higher provisions for impairment allowances exerted pressure on its operating profit.

## **Treasury**

Combined income from foreign exchange and money exchange business gained by 5.9% from the level a year ago.

The US Federal Funds rates, after a series of upward adjustments, are expected to level out and move closer to those of other currencies. As a result, market volatility narrowed, affecting the Bank's foreign exchange trading volume and income. Given the recent interest rate rises in Japanese Yen, Euro, British Pound and Australian Dollar, more active foreign exchange activities are expected in the second half of 2006, which should boost trading volume and income. As to money exchange business, there was considerable growth.

As interest rates are climbing globally, the Bank will continue to maintain its active role in the capital market. The Bank will keep a close eye on market development and interest rate trend to formulate appropriate strategies for profit growth.

## **Wealth management**

Wealth management income remained at last mid-year level.

The US Federal Funds rates gradually moved up to a relatively high level. Consequently, investors have taken a more prudent view towards interest rate structured products, and some chose to place their funds in interest-earning deposits, thus affecting the demand for wealth management products.

Wealth management business entered a period of consolidation after several years of rapid growth. The Wealth Management Centre will actively identify a wider choice of appealing investment products. It will strengthen product sales force and product analysis, and launch promotion campaigns to enlarge the customer base and bolster sales volume.

## **Credit card**

At 30 June 2006, the total number of credit cards issued rose by 3% as compared with that at 2005 year-end, while total credit card receivables retrenched.

The Credit Card Centre will deploy more resources and launch various promotional activities to enlarge the card base, with a particular focus on platinum and corporate cards. It is expected that a larger card base will help generate higher interest income as well as non-interest income through cross-selling with other banking products.

## **Securities broking**

In the first half of 2006, trading volume of the local stock market moved up by 93.1% from the level a year ago. The Bank's securities commission income recorded an upsurge of 85.7%. The fixed fee IPO loan package introduced last year-end was well-received and proved effective in enlarging the customer base.

Pursuant to the securities computer system capacity upgrade starting in the second half of the year, the Bank is vigorously enhancing various type of service channels by enlarging the capacity of online trading system, setting up new securities service centres and increasing the number of telephone lines for securities trading and stock price quotation.

**Insurance**

Aggregate net insurance operating income grew by 4.8% over the corresponding period last year.

Underwriting business of Wing Lung Insurance Company Limited advanced in the first half of 2006, mainly attributable to the growth in employees' compensation as well as accident and health classes. This increase in portfolio naturally brought about a larger amount of claims.

The Insurance Department recorded a contraction in agency business and commission income due to stiff bidding competition. Sale of life insurance products also retreated owing to rising deposit interest rates that affected the appeal of savings related life products.

The Bank will adopt a more flexible pricing strategy in the face of keen competition, while adhering to its prudent operating philosophy for sustainable development.

**Branch**

The Bank operates 33 local branches, one branch and a sub-branch in Shenzhen, and a branch in Los Angeles in the US and in Cayman Islands. They all performed solidly in both business and returns.

The Mainland Business Department has applied to the China Banking Regulatory Commission for operating renminbi business in Shenzhen Branch and for upgrading its Shanghai Representative Office to a full branch.

Los Angeles Branch has been running on track since its relocation to Alhambra. The branch, now situated right in the Chinese community, is stepping up its marketing efforts for business growth.

**Investment information technology**

In the first half of 2006, emphasis was placed on the development of new systems in compliance with the requirements of the New Capital Accord (Basel II) and to strengthen management of various risks.

The Information Technology Department will upgrade a number of application systems for business development during the year.

Given the smooth operation of the software development centre in Shenzhen, the Information Technology Department will continue to cooperate with IBM for system capability enhancement.

## **Human resources**

At the end of June 2006, total workforce amounted to 1,404.

In order to upgrade the skills, knowledge and overall competitiveness of its staff, the Bank's Human Resource Department has been actively organising seminars and training sessions related to bank operations, product knowledge, information technology, sales techniques and specialised topics. The Bank also encourages and 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. Furthermore, the Department endeavours to ensure staff members' understanding and observance of relevant laws, codes, guidelines and regulations.

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

The Bank has not redeemed any of its shares during the six months ended 30 June 2006. 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 2006, 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.

## **Corporate Governance**

The Bank is committed to maintaining high standards of corporate governance. Throughout the six months to 30 June 2006, the Bank has complied with all applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

## **Code for Securities Transactions by Directors**

The Bank has adopted a code for securities transactions by directors (the "Code of Conduct") on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Following specific enquiry made with all directors, the Bank has confirmed that during the six months ended 30 June 2006, each of the directors complied with the required standard set out in the Model Code and the Code of Conduct regarding securities transactions by the directors.

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

The 2006 Interim Report of the Bank containing all the information required by the Listing Rules will be published on the Stock Exchange's website in due course.

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

Hong Kong, 16 August 2006

As at the date of this announcement, the executive directors of the Bank are Dr Michael Po-ko Wu (Chairman), Dr Patrick Po-kong Wu (Vice-Chairman), Dr Philip Po-him Wu (Chief Executive) 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 Dr Siu-chan Ng, Dr Norman Nai-pang Leung, Mr Lincoln Hung-leung Soo and Mr Shung-kwong Tsang. Mr Kenneth Ngai-keung Ma is the alternate director to Mr Ivan Po-young Wu and Miss Alice Shang-sze Wu is the alternate director to Mr Albert Po-cheung Wu.

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

Please also refer to the published version of this announcement in South China Morning Post dated 17 August 2006.