



WING LUNG BANK LTD

(incorporated in Hong Kong with limited liability)

Stock Code: 0096

Financial Review for the Three Months ended 31 March 2008

Reference is made to the announcement of Wing Lung Bank Ltd (the “**Bank**”) dated 30 April 2008 relating to certain unaudited financial information of the Bank for the three months ended 31 March 2008 (the “**Announcement**”). As mentioned in the Announcement, pursuant to Rule 10.9 of the Hong Kong Code on Takeovers and Mergers (the “**Takeovers Code**”), such unaudited financial information disclosed in the Announcement is required to be reported on and that the Bank was in the process of having such unaudited financial information reported on by its external auditors and financial advisors.

We are pleased to announce that such unaudited financial information has since been reported on by the Bank’s external auditors and financial advisors and is set out below.

This announcement is a one-off announcement that is prepared in accordance with the accounting policies adopted in the preparation of the Group’s annual financial statements for the year ended 31 December 2007.

The Bank wishes to remind investors that the information and data contained herein are based on its unaudited consolidated financial statements. Shareholders and potential investors are cautioned not to unduly rely on such information. Shareholders and potential investors are advised to exercise caution in dealing in the shares or other securities of the Bank.

Reference is made to the Announcement.

As mentioned in the Announcement, pursuant to Rule 10.9 of the Takeovers Code, such unaudited financial information disclosed in the Announcement is required to be reported on and that the Bank was in the process of having such unaudited financial information reported on by its external auditors and financial advisors.

We are pleased to announce that the unaudited financial information contained in the Announcement has since been reported on by the Bank’s external auditors and financial advisors.

The Bank's balance sheet and core business remains robust despite challenging market conditions. The net interest income for the first quarter of 2008 amounted to HK\$360.1 million, representing a decrease of 1.4% compared with the corresponding period in 2007. Net fees and commission income for the first quarter of 2008 has increased by 2.9% to HK\$90.9 million compared to that of the corresponding period in 2007.

The Bank's pre-tax net loss for the first quarter of 2008 was HK\$94.1 million. This was primarily due to impairment losses totaling HK\$284.4 million relating to the Bank's structured investment vehicles ("SIV") portfolio and unrealized loss on revaluation of HK\$ 192.3 million relating to the Bank's investments in collateralized debt obligations ("CDO") portfolio. The Bank's pre-tax profit excluding net trading gain and loss and impairment charge for credit losses was HK\$382.8 million. The Bank has been able to maintain momentum in its lending business in the first three months of 2008 and its impaired loan ratio has continued to remain low. The Bank's performance for the month of April 2008 has been satisfactory, our capital base continues to be strong and our capital adequacy remains well above regulatory requirements with ample liquidity.

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A. Unaudited Consolidated Income Statement Information

	3-month period ended 31 March	
	2008	2007
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Interest income	939,131	1,051,786
Interest expense	(579,049)	(686,446)
Net interest income	<u>360,082</u>	<u>365,340</u>
Fees and commission income	107,151	102,690
Fees and commission expense	(16,267)	(14,372)
Net fees and commission income	<u>90,884</u>	<u>88,318</u>
Insurance operating income	108,947	106,162
Net trading (loss) / gain ⁽¹⁾	(194,150)	39,590
Net gain on disposal of available-for-sale securities	2,864	–
Other operating income	34,588	31,172
Operating income	<u>403,215</u>	<u>630,582</u>
Operating expenses	(211,139)	(171,565)
Impairment charge for credit losses ⁽²⁾	(282,691)	(9,398)
Charge for insurance claims	(85,583)	(93,017)
Net loss on disposal of other properties and equipment	(298)	(610)
Operating (loss)/profit before gain on certain investments	<u>(176,496)</u>	<u>355,992</u>
Fair value adjustments on investment properties	110,292	69,890
Share of net (losses)/profits of jointly controlled entities	(28,663)	5,488
Share of net profits of associates	803	148
(Loss) / profit before taxation	<u>(94,064)</u>	<u>431,518</u>
Income tax	11,532	(55,286)
(Loss)/profit after taxation	<u><u>(82,532)</u></u>	<u><u>376,232</u></u>

Notes:

1. Including a mark-to-market loss for CDOs of HK\$192,310,000 (First 3 months of 2007: HK\$1,070,000).
2. Including an impairment loss for SIV investments of HK\$284,373,000 (First 3 months of 2007: HK\$Nil).

B. Unaudited Consolidated Balance Sheet Information

	As at 31 Mar 2008	As at 31 Dec 2007
	Unaudited	Audited
	HK\$'000	HK\$'000
<u>Assets</u>		
Cash and short-terms funds	27,328,267	26,384,235
Placements with and loans and advances to banks	2,646,286	3,602,908
Trading securities	7,596,631	2,218,841
Derivative financial instruments	51,396	35,813
Financial assets designated at fair value through profit or loss	2,857,726	2,934,803
Available-for-sale securities	2,460,476	3,240,308
Held-to-maturity securities	4,934,850	6,883,979
Advances and other accounts	45,112,622	44,531,182
Interests in jointly controlled entities	195,877	224,018
Interests in associates	7,064	6,184
Investment properties	2,327,550	2,254,600
Interests in leasehold land	240,301	241,345
Other properties and equipment	457,057	424,420
Tax recoverable	85,693	58,704
Deferred tax assets	6,799	6,799
Total assets	<u>96,308,595</u>	<u>93,048,139</u>
<u>Liabilities</u>		
Deposits and balances from banks	1,163,650	1,157,049
Trading liabilities	6,020,988	351,210
Derivative financial instruments	625,548	601,692
Financial liabilities designated at fair value through profit or loss	1,380,174	2,159,028
Deposits from customers	68,805,568	70,481,358
Certificates of deposit issued	1,982,997	1,773,194
Current taxation	38,403	40,547
Deferred tax liabilities	442,458	470,958
Other accounts and accruals	3,827,242	3,533,000
Proposed dividend	348,285	–
Total liabilities	<u>84,635,313</u>	<u>80,568,036</u>
<u>Equity</u>		
Share capital	1,160,951	1,160,951
Reserves	10,512,331	11,319,152
Total equity	<u>11,673,282</u>	<u>12,480,103</u>
Total equity and liabilities	<u>96,308,595</u>	<u>93,048,139</u>

Financial highlights

Comparing the Bank's unaudited consolidated financial results for the first three months of 2008 with that of the corresponding period of 2007:

- Net interest income amounted to HK\$360.1 million, representing a slight decrease of 1.4% due to the decline in free fund contribution under lower interest rates environment.
- Net fees and commission income increased by 2.9% to HK\$90.9 million, mainly as a result of the growth in the Bank's securities broking business.
- Operating income from the Bank's insurance operations amounted to HK\$108.9 million, an increase of 2.6% over the same period in 2007.
- The Bank wrote down investments in SIVs by approximately HK\$284.4 million and CDOs by approximately HK\$192.3 million. The net carrying value of its remaining SIV and CDO portfolios stood at approximately HK\$566.6 million as at 31 March 2008.
- Operating expenses have increased during the first quarter of 2008 to HK\$211.1 million. As part of the continuous effort to expand the Bank's wealth management and securities broking businesses, the Bank has enlarged its workforce to 1,676 employees as of 31 March 2008 as compared to 1,483 as of 31 March 2007. The Bank has also incurred additional advertising and promotion expenses in the first quarter due to activities relating to the Bank's 75th anniversary.
- Excluding net trading gain and loss and impairment charge for credit losses, the Bank recorded a pre-tax profit of HK\$382.8 million compared with HK\$401.3 million for the same period in 2007.

Additional disclosures on structured investments

Given the significance of the impact of structured investments to the Bank's financial results, the Bank has set out below additional information regarding its SIV and CDO portfolios.

Structured Investment Vehicles

The nominal value of the Bank's SIV portfolio was HK\$721.0 million as at 31 March 2008, all of which are sponsored by banks. The Bank has not made any additional investments in SIVs since 31 December 2007. One of the SIVs held was restructured into 4 separate SIVs in February 2008 and their fair values have slightly increased in March 2008. As for other SIV investments, the Bank has been conservative in provisioning amidst deterioration in the asset-backed securities market. Out of the total portfolio of SIV investments, 4 have been fully provided for, including Whistlejacket

Capital Limited, Beta Finance Corporation, Dorada Corporation and Five Finance Corporation. During the financial year ended 31 December 2007, the Bank took accumulated impairment losses of HK\$463.0 million against its SIV investments and has taken an additional HK\$284.4 million of impairment losses in the three months ended 31 March 2008. An amount of HK\$58.0 million was written off in the first quarter of 2008. At 31 March 2008, total accumulated impairment allowance stood at 95.6% of the Bank's gross SIV investments exposure, the net exposure amounted to HK\$33.7 million.

Collateralized Debt Obligations

The nominal value of the Bank's CDO portfolio was HK\$856.3 million as at 31 March 2008.

Portfolio summary

Maturity	Current rating	Number of securities	Nominal amount (HK\$m)	Mark-to-market losses during Q1 2008 (HK\$m)	Accumulated MTM losses up to 31/3/2008 (HK\$m)	Amount net of accumulated MTM losses (HK\$m)	Coverage
3/2010	A-	1	233.5	31.2	50.9	182.6	21.8%
6/2011	BBB+	2	311.4	79.7	118.6	192.8	38.1%
9/2012	A / A2	2	311.4	81.4	153.9	157.5	49.4%
Total		5	856.3	192.3	323.4	532.9	37.8%

The Bank's CDO portfolio comprises 5 securities, all of which are mezzanine tranches with investment grade ratings as of 31 March 2008. None of the Bank's CDO investments have underlying assets that include mortgage-backed securities (including U.S. sub-prime residential mortgages) and the average maturity of the portfolio stood at approximately 3 years and 4 months. As of 31 March 2008, there were no defaults witnessed in any of the underlying reference entities of the Bank's CDO investments.

The credit market conditions were highly challenging in the second half of 2007 and have further deteriorated in the first three months of 2008. This saw a tightening of the CDO market, particularly in the U.S. and the distressed conditions were reflected in the valuation of the Bank's CDO investments. The Bank continues to adopt a conservative approach towards accounting for its CDO investments that takes into account a range of factors affecting valuation including current market conditions, credit quality, maturity and other information. As a result, the Bank took a HK\$131.1 million mark-to-market loss against its CDO portfolio for the financial year ended 31 December 2007 and has followed this with an additional HK\$192.3 million loss recognised during the three months ended 31 March 2008. The net exposure of its CDO portfolio stood at HK\$532.9 million, representing a coverage of 37.8%. As at 31 March 2008, the net exposure of the Bank's CDO portfolio is not considered to be significant, representing approximately 0.6% of the Bank's consolidated total assets.

The Unaudited Financial Information

Pursuant to Rule 10.9 of the Takeovers Code, the Unaudited Consolidated Income Statement Information and the Unaudited Consolidated Balance Sheet Information have been reported on by UBS AG and Credit Suisse (Hong Kong) Limited, the joint financial advisers to the Company, and PricewaterhouseCoopers, the external auditors of the Company. The reports from UBS AG, Credit Suisse (Hong Kong) Limited and PricewaterhouseCoopers have been lodged with the Executive Director of the Corporate Finance Division of the Securities and Futures Commission.

As at the date hereof, 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 Norman Nai-pang Leung, Mr Lincoln Hung-leung Soo, Mr Shung-kwong Tsang and The Hon Bernard Charnwut Chan. 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.

By order of the Board
Maria Wan-sin Fung
Secretary
Wing Lung Bank Ltd

Hong Kong, 16 May 2008

The Directors of the Bank jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and that there are no other facts not contained in this announcement, the omission of which would make any statements in this announcement misleading.