

WING HANG BANK LIMITED
2004 INTERIM RESULTS – HIGHLIGHTS

- Profit attributable to shareholders was up 43.6% to HK\$530.2 million (Record 1st half profit)
(HK\$369.3 million for the first half of 2003)
- Earnings per share increased by 43.4% to HK\$1.80
(HK\$1.26 for the first half of 2003)
- Cash earnings per share increased by 49.9% to HK\$1.89
(HK\$1.26 for the first half of 2003)
- Interim dividend increased by 43.2% to HK\$0.53
(HK\$0.37 for the first half of 2003)
- Total operating income up 33.4% to HK\$1,244.6 million
(HK\$933.0 million for the first half of 2003)
- Net interest margin fell from 2.54% to 2.08%
- Net interest income up 23.8% to HK\$916.6 million
(HK\$740.6 million for the first half of 2003)
- Non-interest income up 70.6% to HK\$328.1 million
(HK\$192.3 million for the first half of 2003)
- Operating expenses up 73.6% to HK\$518.5 million
(HK\$298.7 million for the first half of 2003)
- Charge for bad and doubtful debts decreased 65.5% to HK\$73.1 million
(HK\$212.0 million for the first half of 2003)
- Advances to customers increased 3.8% to HK\$48.38 billion
(HK\$46.61 billion as at 31st December, 2003)
- Total deposit decreased 1.1% to HK\$76.61 billion
(HK\$77.48 billion as at 31st December, 2003)
- Cost to income ratio at 41.7%
(32.0% for the first half of 2003)
- Capital adequacy ratio at 15.8%
(15.7% as at 31st December, 2003)
- Return on average shareholders' fund at 15.7%
(11.8% for the first half of 2003)

Wing Hang Bank Reported a New Record First Half Profit of HK\$530.2 Million

The Hong Kong economy gathered strength in the first half of 2004 as GDP grew 6.8 percent in real terms in the first quarter over a year earlier, accelerating from a 4.9 percent growth in the fourth quarter last year. Exports of goods grew by a brisk pace on the back of strong demand from our major markets. Locally, reviving consumer confidence and vibrant inbound tourism buoyed consumer spending. Visitor arrivals grew substantially in the first five months, helped by 1.34 million mainland visitors under the individual visit scheme.

The general improvement in the Hong Kong economy has benefited the banking industry. Asset quality of banks improved as property prices stabilized and the unemployment rate fell steadily to 6.9 percent in June from its peak in the middle of 2003 when Hong Kong was still in the grip of SARS. As a result, the delinquency ratio of residential mortgage lending and the charge-off ratio of credit card receivables both declined. However, banks continue to suffer from weak loan demand due to deflationary pressures, which fortunately is coming to an end as the composite consumer price index fell only 0.1 percent in June.

Against this background of weak loan growth, we continued to pursue a strategy of diversifying our loan portfolio. For the first six months of 2004, we were able to achieve satisfactory asset growth in areas such as residential mortgages, equipment financing as well as in the Bank's China and Macau operations.

Following the passage of the Wing Hang Bank, Limited (Merger) Bill by the Legislative Council on 9 July 2004, Wing Hang Bank (WHB) and Chekiang First Bank (CFB) have been successfully integrated on 9 August 2004. The merger has resulted in a stronger and more substantial bank with an expanded branch network. The Group currently has 41 branches in Hong Kong, 11 branches in Macau and 1 branch in Shenzhen. As at the end of June 2004, the Group had a total of 2,164 employees. Substantial revenue and cost synergies have been capitalised in the first half of 2004 and we are confident that full integration benefit will be achieved by the end of 2005.

For the first six months of 2004, we achieved a new record in profits attributable to shareholders which amounted to HK\$530.2 million, an increase of 43.6 percent compared to HK\$369.3 million in the same period last year. The consolidated results incorporate the results of CFB and its subsidiaries. Earnings per share rose 43.4 percent to HK\$1.80. Cash earnings per share increased by 49.9 percent to HK\$1.89. The Board has recommended an interim dividend of HK\$0.53 per share, an increase of 43.2 percent from last year.

Net interest income increased 23.8 percent to HK\$916.6 million. Excluding CFB, net interest income increased 2.4 percent to HK\$758.2 million due to an increase in loan volume and treasury operations. Net interest margins fell from 2.54 percent to 2.08 percent due to mortgage re-pricing pressures and the acquisition of CFB.

Non-interest income rose 70.6 percent to HK\$328.1 million. Excluding CFB, non-interest income rose 26.2 percent to HK\$242.8 million due to substantial growth in share brokerage, foreign exchange trading income and wealth management services resulting from the lower interest rate environment in the first half of 2004. Vigorous promotional efforts helped to broaden our customer base. Programmes such as an investment seminar held in February 2004 have been well-received by customers. Anticipating demand for high-yield products, the Bank has actively participated as placing agent for retail bond issuances.

The Group's total operating income increased by 33.4 percent to HK\$1,244.6 million. Excluding CFB, operating income increased by 7.3 percent to HK\$1,001.0 million.

The Group's cost-to-income ratio rose from 32.0 percent to 41.7 percent due to the acquisition of CFB and goodwill expenses. Excluding CFB, the cost-to-income ratio would be 33.9 percent. With the successful integration of WHB and CFB, the Group is confident that its cost-to-income ratio will improve further as cost economies will be achieved by branch rationalization and centralizing back-office and IT operations.

Charges for bad and doubtful loans decreased 65.5 percent to HK\$73.1 million due to recovering property prices, declining personal bankruptcies and general improvement in the economy. For the first six months of 2004, charge-offs for credit cards decreased to 3.5 percent of credit card receivables from 9.8 percent in the same period last year. For the period under review, the level of non-performing loans decreased to HK\$1.12 billion, or 2.32 percent of total loans.

Total advances to customers increased 3.8 percent to HK\$48.38 billion. Excluding CFB, total loan outstanding increased 5.8 percent due to satisfactory growth in domestic lending such as residential mortgage and equipment financing as well as lending outside Hong Kong in the Bank's China and Macau operations.

Total deposits decreased 1.1 percent to HK\$76.61 billion and customer deposits decreased 3.1 percent to HK\$69.92 billion, reflecting the migration of deposits to investment products.

The Retail Banking operation recorded a 52.7 percent increase in profit before taxation over 2003, mainly brought about by a decrease in charge for bad and doubtful debts and strong growth in the wealth management business.

Property market sentiment improved and prices picked up markedly in the first quarter but sale activities in both the primary and secondary markets eased in the second quarter. Residential mortgages, which accounts for 27.9 percent of the loan portfolio, increased by 8.2 percent. Excluding CFB, residential mortgages showed an increase of 6.2 percent, outperforming the industry average. The Bank has launched new mortgage products such as a 95% mortgage plan to attract home buyers.

In consumer lending, Wing Hang Credit continued to expand its personal loan activities through innovative programmes, including a "Zero Interest Rate" refinancing scheme to help customers consolidate personal debt and relieve themselves from the burden of high interest rates. The subsidiary has also taken advantage of our expanded bank branch network to increase points-of-sales for its personal loan products.

Wing Hang Finance Company Limited continued to extend credit facilities to small and medium enterprises (SMEs), both in Hong Kong and those with operations in China. The company saw substantial growth in its vehicle and equipment financing business by taking advantage of cross-selling opportunities to CFB's SME customers.

The slow loan growth in Hong Kong continued to be compensated by increased activities in Mainland China, where residential mortgage financing grew 25.3 percent during the first six months. Although the macroeconomic control measures implemented by the central government has resulted in a cooling of the property market in the mainland, we have mitigated risks by chiefly servicing Hong Kong residents buying owner-occupied homes.

To capitalize on the granting of easier access to the Mainland banking market under CEPA, we will gear ourselves up towards greater involvement in China. The Bank has formed strategic alliances with foreign banks to better serve the customers across Pearl River Delta, Yangtze River Delta and the Bo Hai Bay area. The Bank has received approval to upgrade its Shanghai representative office to a branch and plans to open a representative office in Beijing to complement its branch offices in Shenzhen and representative office in Guangzhou.

In Macau, Banco Weng Hang continues to out-perform, helped by double-digit growth in the local economy. Macau's GDP surged 25.6 percent in real terms in the first quarter over a year earlier due to vibrant inbound tourism. Profits increased by 10.9 percent to 71.6 million Macau patacas, with a steady growth in loans. Net interest income increased slightly by 5.3 percent while fee income increased by 36.1 percent.

The Group's capital adequacy ratio and average liquidity ratio stood at 15.8 percent and 47.2 percent respectively while loan to deposit ratio increased slightly to 63.1 percent due to an increase in loans.

Looking ahead, the operating environment is still challenging in the second half due to the expected rise in interest rates and high oil prices. However, with the improving local economy and steady high growth in the Mainland, loan demand should gradually increase.



We will continue to control costs through streamlining operations as well as to broaden our fee income and expand our consumer lending businesses through cross-selling to CFB's customers. With the successful integration of CFB and WHB, we now have a larger operating platform and customer base to grow our business.