

## PRESS RELEASE

### **WING HANG BANK LIMITED** **2004 FINAL RESULTS – HIGHLIGHTS**

- Profit attributable to shareholders was up 35.2% to HK\$1,168.0 million (New Record) (HK\$863.9 million for 2003)
- Earnings per share increased by 35.2% to HK\$3.97 (HK\$2.94 for 2003)
- Cash earnings per share increased by 38.3% to HK\$4.13 (HK\$2.99 for 2003)
- Total dividends increased by 35.2% to HK\$1.96 (HK\$1.45 for 2003)
- Total operating income up 19.8% to HK\$2,434.4 million (HK\$2,031.5 million for 2003)
- Net interest margin fell from 2.31% to 1.99%
- Net interest income up 13.7% to HK\$1,794.3 million (HK\$1,578.0 million for 2003)
- Non-interest income up 41.1% to HK\$640.1 million (HK\$453.5 million for 2003)
- Operating expenses up 44.4% to HK\$1,028.1 million (HK\$712.2 million for 2003)
- Charge for bad and doubtful debts decreased 83.3% to HK\$54.4 million (HK\$325.3 million for 2003)
- Advances to customers increased 5.5% to HK\$49.19 billion (HK\$46.61 billion as at 31<sup>st</sup> December, 2003)
- Total deposit increased 8.9% to HK\$84.39 billion (HK\$77.48 billion as at 31<sup>st</sup> December, 2003)
- Cost to income ratio at 42.2% (35.1% for 2003)
- Capital adequacy ratio at 15.7% (15.7% as at 31<sup>st</sup> December, 2003)
- Return on average shareholders' fund at 16.6% (13.3% for 2003)



## **Wing Hang Bank Reported a New Record Profit of HK\$1,168.0 Million**

2004 saw a steady recovery of the Hong Kong economy. GDP grew by an average of 8.8 percent in real terms in the first three quarters over a year earlier, significantly higher than the 2.6 percent growth in the same period of 2003. Retail sales and tourism were boosted by the influx of mainland visitors under the “individual visit” scheme. Labor market conditions improved in tandem with the economic upturn and the unemployment rate fell to 6.5% in December, its lowest level since 2001. Renewed business confidence and the low cost of funds fueled the continuing recovery of the property market as abundant liquidity drove short-term Hong Kong dollar interest rates to near zero levels despite higher US interest rates.

The general improvement in the Hong Kong economy benefited the banking industry. Strong loan demand in the 4<sup>th</sup> quarter boosted loan growth for the sector to 5.9% for the year. Asset quality improved as property prices rebounded and the unemployment rate fell steadily from its peak in the middle of 2003. Consequently, bad debt charges reduced significantly in 2004. Net interest margin, however, was under pressure due to increased competition and excess liquidity.

Wing Hang Bank continued to grow in 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. We continued to extract synergies from the acquisition of Chekiang First Bank (CFB).

Wing Hang Bank achieved a new record in profit attributable to shareholders of HK\$1,168.0 million for the year, an increase of 35.2 percent when compared to HK\$863.9 million in 2003. The consolidated results incorporate the full year results of CFB and its subsidiaries. Earnings per share increased by 35.2 percent to HK\$3.97. Cash earnings per share increased by 38.3 percent to HK\$4.13. The Board has recommended a final dividend of HK\$1.43 per share. Together with the interim dividend of HK\$0.53 paid on 20<sup>th</sup> September 2004, total dividends for the year amounted to HK\$1.96 per share, an increase of 35.2 percent over 2003.

Net interest income increased 13.7 percent to HK\$1,794.3 million due to the full year effect of the acquisition of CFB, as well as an increase in loan volume and treasury operations. Net interest margins fell from 2.31 percent to 1.99 percent due to mortgage re-pricing and partly due to the narrower margins of CFB's assets.

Non-interest income rose 41.1 percent to HK\$640.1 million due to substantial growth in share brokerage, foreign exchange trading income and wealth management services as well as the full year effect of the acquisition of CFB.

The Group's total operating income increased by 19.8 percent to HK\$2,434.4 million. The Group's cost-to-income ratio rose from 35.1 percent to 42.2 percent due to the full year effects of the acquisition of CFB and goodwill expenses. With the successful integration of CFB, the Group is confident that its cost-to-income ratio will improve further as cost economies will be achieved by more branch rationalisation and centralising of back-office and IT operations.

Charges for bad and doubtful loans decreased 83.3 percent to HK\$54.4 million due to the recovery in property prices, declining personal bankruptcies and the general improvement in the economy. For 2004, charge-offs for credit cards decreased to 2.46 percent of credit card receivables from 7.96 percent in the same period last year. In the fourth quarter of 2004, the annualised charge-off ratio dropped to 1.16%. The level of non-performing loans decreased to HK\$0.82 billion, or 1.68 percent of total loans.

Total advances to customers increased 5.5 percent to HK\$49.19 billion due to satisfactory growth in domestic lending such as residential mortgage and equipment financing as well as lending outside Hong Kong in the Group's China and Macau operations.

Total deposits increased 8.9 percent to HK\$84.39 billion and customer deposits increased 8.9 percent to HK\$78.57 billion, reflecting the increase in both foreign currency deposits and HK dollar current and savings deposits. Deposit growth was partly helped by increased brand awareness after the integration, an expanded branch network that gave

depositors more convenience and the successful promotion of the Elite Banking concept targeting high net-worth customers.

The recovery in the property markets has continued in 2004 with pronounced increases in the prices of both residential and commercial properties. However, property lending remained stagnant until the fourth quarter despite the pick up in sale activities in both the primary and secondary markets. Residential mortgages, which accounts for 28.2 percent of the loan portfolio, increased by 11.1 percent. The Bank has refrained from price competition to gain market share but is attracting home buyers through new mortgage products such as a 95% mortgage plan.

The intensive competition in Hong Kong continued to be compensated by increased activities in Mainland China, where residential mortgage financing grew 73.2 percent in 2004. Property prices have risen rapidly in the Mainland despite administrative measures by the central government to reduce credit growth and an increase in benchmark lending and deposit rates in October. Although there are risks of overheating in the property markets in some metropolitan areas, we have mitigated risks by chiefly servicing Hong Kong residents buying owner-occupied homes.

In Macau, Banco Weng Hang continues to out-perform, helped by double-digit growth in the local economy. Macau's GDP surged 21.7 percent in real terms in the third quarter over a year earlier due to vibrant inbound tourism. Profits increased by 8.6 percent to 146.0 million Macau patacas, with a steady growth in loans and deposits of 9.3 percent and 8.5 percent respectively. Net interest income increased slightly by 0.6 percent while fee income increased by 22.1 percent.

Return on average assets and average shareholders' funds stood at 1.29 percent and 16.6 percent respectively, while the Group's capital adequacy ratio and average liquidity ratio were at 15.7 percent and 49.1 percent respectively.

Following the passage of the Wing Hang Bank, Limited (Merger) Bill by the Legislative Council on 9 July 2004, Wing Hang Bank (WHB) and CFB have been successfully integrated on 9 August 2004. Integration has been seamless and on schedule due to careful planning and execution. Substantial revenue and cost synergies have been realised in 2004 and we are confident that full integration benefit will be achieved by the end of 2005, earlier than planned.

Looking ahead, the operating environment will remain challenging in 2005 due to the continuing rise in US interest rates. In light of the uncertainties regarding fund inflows into Hong Kong and intense competition, interest margin will continue to be under pressure in 2005. However, loan demand should gradually grow with the improving local economy and buoyant asset markets. Mainland China is expected to maintain healthy growth as tightening policies help steer the economy away from overheating. Neighboring Macau will continue its double-digit economic growth in 2005 due to the inflow of foreign investments drawn by the casino gaming sector.

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 an enlarged customer base. With the successful integration of CFB, we now have a larger operating platform to grow our business. We will also focus on enhancing our franchise through innovative products and superior service quality.

To capitalise on the high growth in China, we will continue our expansion program in the Mainland. In this regard, we will be opening our Shanghai branch and Beijing representative office in March of 2005. After that we plan to upgrade the Guangzhou representative office to a branch to further expand our network in China. While pursuing a growth strategy, we are fully aware that the key to success is prudent lending policy.