



**ORCHESTRATING GROWTH**  
THROUGH HARMONIOUS INTEGRATION



The merger has already brought meaningful advantages to our customers. They can now enjoy a wider range of products and services and greater convenience due to an expanded branch network. On the operation side, the Bank's efficiency has been enhanced due to a larger economy of scale.



# Review of Operations

**For the year ended 31st December, 2004, the Wing Hang Bank Group achieved a new record in profit attributable to shareholders of HK\$1,168.0 million.**

## Financial Review

For the year ended 31st December, 2004, the Wing Hang Bank Group achieved a new record in profit attributable to shareholders of HK\$1,168.0 million, an increase of 35.2 percent when compared to HK\$863.9 million in 2003. 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.

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 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 operations, 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 effect 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 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 mortgages 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 as well as HK dollar current and savings deposits. Deposit growth was partly helped by an 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.

## Business Review

### Retail Banking

The Retail Banking operation recorded a 41.8 percent increase in profit before taxation over 2003, this was mainly brought about by a decrease in charges for bad and doubtful debts and strong growth in the wealth management business.

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 account 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 Bank made further progress on branch rationalisation during the year. A total of five branches were closed and merged with nearby branches without causing inconvenience to our customers. We plan to open three to four new branches in prominent locations and continue our program of renovating existing branches. At the end of January 2005, the total number of branches in Hong Kong stood at 36.

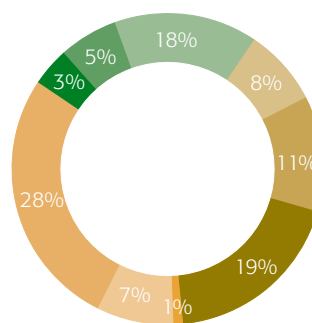
The intense competition in Hong Kong continued to be compensated by increased activities in Mainland China, where residential mortgage financings grew 73.2 percent in 2004. Property prices have risen rapidly in the Mainland despite administrative measures by the central government to reduce credit growth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

### Consumer Finance

Wing Hang Credit, a well known provider of consumer lending in Hong Kong, continues to provide a complete range of loan products through 14 branches. The subsidiary has taken advantage of our expanded branch network to increase points-of-sales for its personal loan products with the opening of two more branches in Shatin and San Po Kong. During the year, Wing Hang Credit's loan portfolio increased significantly due to successful promotions and innovative products such as the "Interest-free Personal Loan" program, which offers "interest-free" personal loans to high quality customers.

The Bank has prudently stepped up the credit card business in view of falling personal bankruptcies and default rates in Hong Kong. With successful promotions and innovative programs to attract customers with strong credit standings, receivables rose by 9.9 percent to HK\$358.6 million. For the year ended 31st December, 2004, charge-offs for credit cards stood at 2.46 percent, partly reflecting the precautionary measures taken by the Bank.

### Loan Composition



- Share Financing
- Loans to Individuals
- Residential-Individuals
- HOS & PSPS\*
- Trade Financing
- Non-domestic Loans
- Loans to Corporate
- Commercial
- Property Development & Investment

\* Home Ownership Scheme & Private Sector Participation Scheme

## Auto and Equipment leasing

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. During the year, the company recorded a 19.6 percent growth in these loan assets.

## Wealth Management, Insurance and Share Brokerage

Responding to rising demand for wealth management services and the growing sophistication of our customers, the Bank has introduced high-yield savings and investment alternatives for its depositors. During the year, we offered an array of unit trust funds, mini-bonds, retail callable CDs and equity-linked notes as well as other investment services. Total unit trust funds and bonds sold through the Group exceeded HK\$1,817.0 million.

In keeping with our efforts to boost customer loyalty, we have taken active steps to continually improve the quality of our services. There has been a positive response to the Elite Banking service which targets customers with higher deposits and we will continue to focus on our high net-worth customers. Three Wealth Management centers are now strategically located in Central and Shatin and additional centers will be opened in key locations in 2005.

Our ongoing service commitment is to offer a multi-channel one-stop solution to meet the various financial needs of our growing customer base. Service bundling and vigorous promotional efforts such as gift awards have been well received and has helped to broaden our customer base.

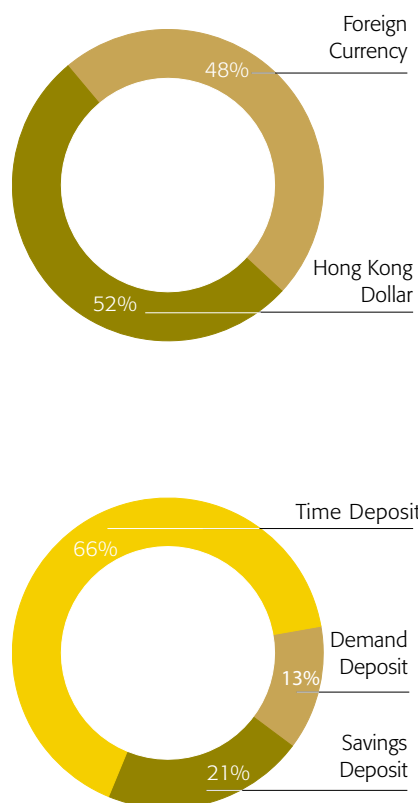
## Wing Hang Insurance

In 2004, we continued to achieve satisfactory performance by integrated offerings of general insurance, life insurance and MPF services through the operations of our Wing Hang Insurance Agency, Brokers, and Wing Hang Zurich Insurance Co Ltd. The integration of CFB's insurance business and operation was very successful and we gained the confidence of our customers with better capability in providing insurance services. Pressing forward with our expansion plans in China, we expect that the insurance agency licence for our Shenzhen Branch will be granted in the first quarter of 2005 and our insurance services can then be extended to serve our customers in the Mainland.

## Wing Hang Share Brokerage

Wing Hang Share Brokerage, the Bank's share broking arm, recorded a significant increase of 36.6 percent in share brokerage fees partly due to increased participation by the retail investors in a buoyant market.

### Deposit Mix



## Corporate Banking

The Corporate Banking operation recorded a 72.4 percent increase in profit before taxation due to a decrease in charges for bad and doubtful debts. The Bank continued to participate actively in the government SME Loan Guarantee Scheme and intends to target its Hong Kong customers with new operations in the Mainland. The Corporate Banking Division, in cooperation with our Shenzhen Branch, provides credit facilities to Hong Kong manufacturers who have shifted their operations to China. It has also offered project financing for Hong Kong developers who are diversifying their investments across the border.

There are increased lending opportunities in China where strong economic performance and the implementation of CEPA continue to attract Hong Kong investors. We received approval from the People's Bank of China to operate Renminbi business with Mainland corporations in 2004. The ability to lend in Renminbi enables us to broaden the scope of our banking activities in China and to better serve our existing and potential customers. We will open our Shanghai branch and Beijing representative office in March 2005 and we will upgrade our Guangzhou representative office to a branch to further expand our network in China.

## Treasury

The Bank's Treasury operation recorded a 8.52 percent increase in operating profit before provision through the enhancement of yields for our surplus funds. This has been partly achieved by investing the excess liquidity of CFB in high grade investment bond and debt securities. The Bank continues to enhance and expand Treasury capabilities to efficiently and prudently invest surplus funds.

## Macau

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.

**To capitalize on the high growth in China, we will continue our expansion program and will be opening our Shanghai Branch and Beijing representative office in March 2005.**