

# Review of Operations

## Financial Review

For the year ended 31st December, 2005, the Wing Hang Bank Group achieved a new record in profit attributable to shareholders of HK\$1,348.7 million, representing an increase of 15.6 percent compared to HK\$1,166.7 million in 2004. Earnings per share rose 15.6 percent to HK\$4.59. The Board has recommended a final dividend of HK\$1.60 per share. Together with the interim dividend of HK\$0.70 paid on 12th September, 2005, total dividends for the year amounted to HK\$2.30 per share, an increase of 17.3 percent over 2004.

Operating profit before impairment allowances increased 17.4 percent to HK\$1,645.0 million due to an increase in total operating income and a decrease in operating expenses. The Group's total operating income rose by 7.7 percent to HK\$2,620.8 million due to an increase in net interest income and non-interest income.

Total net interest income was 3.9 percent higher at HK\$1,865.0 million as a result of an increase in loan volumes which offset a narrowing of net interest margins. Net interest margins fell 11 basis points to 1.88 percent due to mortgage re-pricing and an increase in the cost of funding as a result of the higher interest rate environment.

Non-interest income rose 18.1 percent to HK\$755.8 million following increases in loan commissions, treasury dealing profits and wealth management commissions.

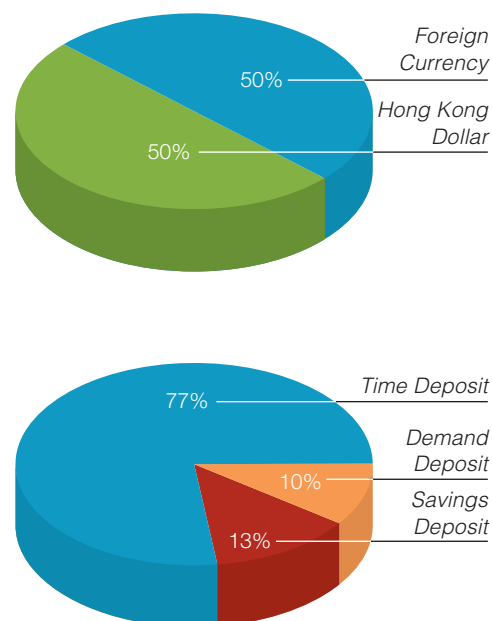
Meanwhile total operating expenses decreased 5.5 percent to HK\$975.8 million thanks to a decline in depreciation expenses and an absence of amortisation of goodwill. The Group's cost-to-income ratio improved from 42.4 percent to 37.2 percent due to cost synergies from the acquisition of Chekiang First Bank ("CFB").

Impairment losses and allowances on impaired loans and advances decreased 0.7 percent to HK\$54.1 million due to the recovery in property prices, declining personal bankruptcies and a general improvement in the economy. The charge-off ratio for credit cards dropped to 1.50 percent of card receivables from 2.46 percent last year. For the year under review, the level of impaired loans decreased to HK\$560 million, or 1.03 percent of total loans.

Total advances to customers increased 10.6 percent to HK\$54.4 billion due to satisfactory growth in demand for investment mortgages, consumer financing, equipment financing and trade financing as well as higher credit demand in the Group's China and Macau operations.

Total deposits increased 8.1 percent to HK\$91.2 billion and customer deposits increased 9.0 percent to HK\$85.7 billion, mainly as a result of a larger pool of fixed-term accounts. Deposit growth was partly helped by increased brand awareness following the CFB acquisition as well as an expanded branch network and the successful promotion of the Elite Banking service targeting high-net-worth customers.

## Deposit Mix



Opening of United Centre Branch at Admiralty

## Review of Operations

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*Opening of Mei Foo Branch by the Chairman, Dr Patrick Y B Fung*

### **Business Review**

#### **Retail Banking**

The Retail Banking operations recorded a 16.1 percent increase in profit before taxation in 2005, mainly brought about by a decrease in the impairment allowances and strong growth in loan commissions and the wealth management businesses.

Local property prices consolidated in the second half of 2005 after a pronounced increase in the first quarter of 2005. Our proportion of residential mortgages remained unchanged at 25.6 percent of the total loan portfolio. Looking ahead, there are signs of revived price competition in the residential mortgage sector and renewed margin pressure on new mortgage lending.

We made further progress on branch rationalisation last year. Four branches were merged in 2005 without causing any inconvenience to our customers. We also opened three new branches in prominent locations and plan to open another branch in March 2006. We will continue to look for strategic locations to expand our branch network and to look for larger spaces for existing branches in order to accommodate a growing business. At the end of January 2006, the total number of branches in Hong Kong stood at 37.

Vigorous promotional activity helped to broaden our customer base. Programmes such as Branch Open Days and lucky draws have been well received. In keeping with our efforts to boost customer loyalty, we have taken active steps to continually improve the quality of our service. A survey conducted by an external consultant last year showed a high level of customer satisfaction and loyalty, as well as a positive response to the Elite Banking service targeting high-net-worth customers. Our customer relationship officers have

gone the extra mile to help customers, giving special attention to meet their requirements. As a result, we are able to recommend best of breed products to suit both our customers' investment and banking needs.

#### **Consumer Finance**

Wing Hang Credit, a well-known niche player in consumer lending, continues to provide a broad range of loan services through its 15 branches and business centres. This unit has taken advantage of an expanded network to increase its loan portfolio over 20.0 percent during 2005. In 2006, we plan to further increase the number of point-of-sales by opening two to three new branches and to promote personal loan products across the Wing Hang Bank and Wing Hang Credit network.

#### **Auto and Equipment Leasing**

Wing Hang Finance Company Limited, a market leader in the auto and equipment leasing industry, extends credit facilities to small and medium enterprises (SMEs), both in Hong Kong and to those with operations in China. In 2005 the company achieved good growth in loan assets despite keen price competition in the local vehicle financing business. In view of the enormous growth potential in equipment and vehicle financing in Mainland China, the company has expanded its marketing workforce to target customers with operations in the Pearl River Delta Area.

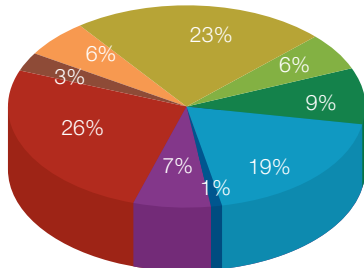
#### **Wealth Management, Insurance and Share Brokerage**

The performance of the Wealth Management business continues to grow despite higher interest rates. This was partly due to the continuing expansion of our points-of-sales outlets offering a growing array of investment products. Three wealth management centres are now strategically located in Central and Shatin. Responding to the rising demand for wealth management services and the growing sophistication of our customers, the Bank has introduced high-yield savings and investment products. We now offer a wide range of mutual funds, retail callable CDs and equity-linked notes as well as other investment products.

#### **Wing Hang Insurance**

Last year was a challenging time for the general insurance business due to a highly competitive environment. Nevertheless, Wing Hang Insurance Agency and Brokers achieved above average results while Wing Hang Zurich Insurance's favorable results reflect the success of the bancassurance concept. We maintain a close relationship with our business partners in China and this cooperation has enabled us to rapidly grow our business portfolio there by 40 percent. We expect to be equally successful in 2006. Our investment in Hong Kong Life Insurance and Bank Consortium Trust has started to make positive contributions to the Group, and the ongoing promotion of life insurance and MPF products will be one of our main priorities in 2006.

## Loan Composition



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

\* Home Ownership Scheme & Private Sector Participation Scheme



Cocktail Reception to celebrate the opening of Shanghai Branch

## Wing Hang Share Brokerage

Wing Hang Share Brokerage, the Bank's stock broking arm, recorded a slight decrease in brokerage fee commissions partly due to increased price competition. To improve operational efficiency, we will continue to encourage our retail investors to execute deals through our Internet trading platform.

## Corporate Banking

The Corporate Banking division recorded a 4.4 percent increase in operating profit before impairment allowances. This division in partnership with our mainland branches provides credit facilities to both SMEs and large corporations in the trade and manufacturing sectors. Trade financing increased by 18.7 percent in 2005 following efforts to actively encourage customers to utilise credit facilities and monitor the development of various industry sectors.

## Treasury

The Bank's Treasury operations accounted for 13.7 percent of the Group's operating profit before impairment allowances through yield enhancement of surplus funds. This was partly achieved by investing excess liquidity in high-grade investment bonds and debt securities.

## China

In China, we provide credit facilities to Hong Kong manufacturers who have shifted their operations to the Mainland. We also offer project financing for Hong Kong developers operating across the border. Our residential mortgage financing portfolio grew by 71.9 percent in 2005. However, the foreign currency mortgage business faced stiff competition as mortgage lending rates in HKD and USD increased relative to the RMB lending rate.

We will continue our expansion strategy in China to capitalise on the country's high economic growth. In 2005, we opened our Shanghai branch and Beijing representative office. More recently we opened our first sub-branch in the Fumin district of Shenzhen. To further expand our network in China, we will upgrade our Guangzhou representative office to branch status in the third quarter of 2006. We will also devote more resources to develop our network and retail banking products to prepare for the complete opening of China's banking sector by the end of this year.

## Macau

In Macau, Banco Weng Hang continues to perform exceptionally well despite more moderate economic growth. Macau's GDP grew 6.2 percent in real terms during the first three quarters of 2005 compared with the same period in the previous year. This compares with an unprecedented 28.0 percent economic growth rate in 2004. Profits increased by 48.8 percent to 217 million Macau patacas in 2005. This strong performance was mainly due to improved organic growth and was also partly helped by a reduction in the corporate tax rate from 15.75 percent to 12.0 percent. Net interest income increased by 21.9 percent while non-interest income increased by 24.5 percent. Advances to customers and customers deposits have grown by 21.9 percent and 27.6 percent respectively since the end of 2004.