

Review of Operations

Financial Review

For the year ended 31st December, 2006, the Wing Hang Bank Group achieved a new record in profit attributable to shareholders of HK\$ 1,660.7 million, 23.1 percent higher than the HK\$1,348.7 million achieved in 2005. Earnings per share rose 23.1 percent to HK\$5.65. The Board has recommended a final dividend of HK\$2.00 per share. Together with the interim dividend of HK\$0.82 paid on 18th September, 2006, the total distribution for the year amounted to HK\$2.82 per share representing an increase of 22.6 percent over 2005.

Profit before taxation increased 22.6 percent to HK\$1,981.3 million due to an increase in total operating income and a decrease in the impairment allowance. The Group's total operating income increased by 12.1 percent to HK\$2,937.4 million fuelled by a rise in both net interest income and non-interest income.

Net interest income increased by 11.0 percent to HK\$1,918.7 million as higher loan volumes partially offset by thinner net interest margins on interest bearing assets. These margins came under pressure falling from 1.94 percent to 1.90 percent due to a reduction in income from our treasury operations (caused by a flatter yield curve) and pressure from mortgage re-pricing. This was partially offset by strong loan growth, higher returns on shareholders' funds and a wider spread between prime and HIBOR.

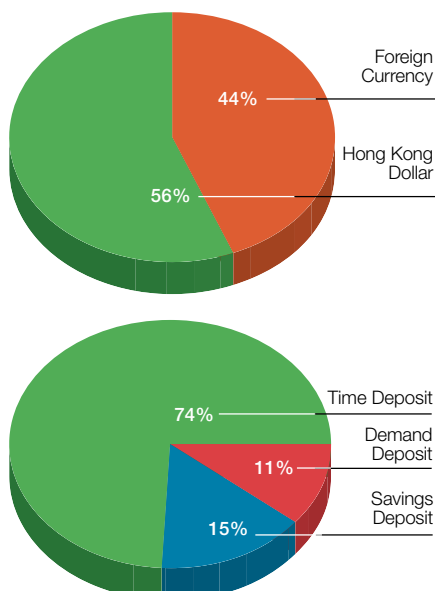
Non-interest income rose 14.3 percent to HK\$1,018.7 million supported by increases in share brokerage commissions, treasury dealing income and wealth management commissions.

Total operating expenses increased 10.1 percent to HK\$1,074.4 million due to higher staff costs and depreciation expenses. Nevertheless the Group's cost-to-income ratio improved from 37.2 percent to 36.6 percent due to sustained higher growth in income over costs.

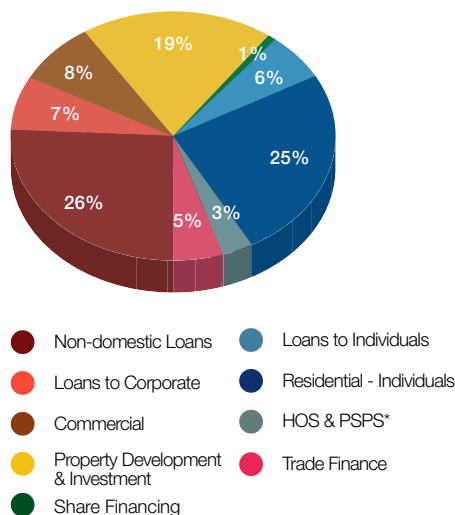
The impairment allowance decreased to HK\$0.8 million thanks to higher property prices and a general improvement in the economy. For 2006, the charge-off ratio for credit cards remained unchanged at 1.52 percent of credit card receivables. The level of impaired loans decreased to HK\$0.36 billion, or 0.62 percent of total loans.

Total advances to customers increased 7.8 percent to HK\$58.6 billion on the back of higher demand for residential and investment mortgages, consumer financing and share financing. Loan demand was also robust at the Group's China and Macau operations where growth was recorded at 18.7 percent and 26.4 percent respectively.

Deposit Mix



Loan Composition



* Home Ownership Scheme and Private Sector Participation Scheme

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Total deposits increased by 17.8 percent to HK\$107.5 billion and customer deposits increased 19.1 percent to HK\$102.1 billion, with a substantial increase in demand and savings deposits. Deposit growth was partly supported by increased stock market activity, an expanded branch network and the successful promotion of the Elite Banking concept targeting high net-worth customers.

Business Review

Retail Banking

The Retail Banking division achieved a 22.0 percent increase in profit before taxation over 2005, mainly fuelled by strong growth in both net interest income and non-interest income.

The stock market experienced a pronounced increase in turnover in the second half of 2006 and consequently income derived from stock trading grew by 82.7 percent. The 31.9 percent increase in demand and savings deposit growth was stimulated by this activity.

The popularity of our foreign exchange service was boosted by a marketing campaign in the first half of the year and as a result foreign currency deposits grew by 5.3 percent.

In the first half of 2006, residential mortgages performed very well. Although market competition was keen in the second half of the year, careful strategic planning allowed us to sustain a good overall performance. For the year as a whole, residential mortgages grew by an above-market rate of 5.6 percent.

There was further branch expansion during the year. One new branch was opened and two branches were relocated to larger sites. Several branches were renovated to create a more comfortable environment for our customers. The Group will continue to look for strategic locations to expand our branch network and to search for larger premises for existing branches so we can better cross sell our various products. At the end of January 2007, there was a total of 38 branches in Hong Kong.

A real-time HK-Macau remittance service was launched in the first quarter of 2006. This enables our customers to switch their funds between Hong Kong and Macau instantly.

Consumer Finance

Wing Hang Credit, which maintains a leading position in the consumer lending market, achieved record volumes in its

loan portfolio in 2006 growing by 11.1 percent. There was continued emphasis on product diversification and service excellence throughout the year.

Wing Hang Credit has developed a strong reputation for its range of loan services provided through its 17 branches and business centers. The company will further expand its business in 2007 by reinforcing its brand image and exploring more delivery channels.

Auto and Equipment Leasing

Wing Hang Finance is a market leader in the auto and equipment finance industry. It extends credit facilities to consumers and small and medium enterprises (SMEs) both in Hong Kong and China. During the year, Wing Hang Finance maintained its loan assets despite keen price competition in the local auto finance business.

Taking advantage of the enormous growth potential in equipment and auto financing in China, the company has expanded its business activities in that market. Growth in 2006 reached 9.0 percent.

In January 2007, the Bank acquired Inchroy Credit Corporation Ltd., a major financial institution, engaged in hire purchase and lease financing business thus increasing our future market share in the business.

Wealth Management

The introduction of a wider range of investment products and greater emphasis on promotion to our high net worth customers helped the Wealth Management commission increased by 18.9 percent over the year. New openings of



Opening of Tuen Mun Branch



Guangzhou Branch Grand Opening Cocktail Reception.

wealth management centers in Causeway Bay and Tsuen Wan also enabled us to increase business development opportunities.

Wing Hang Insurance

It was a very challenging year for the general insurance business because of the keenly competitive environment. Although we also faced increased competition in 2006, our insurance subsidiaries and associated companies achieved favorable results in investment income.

The ongoing promotion of life insurance and MPF services will continue to be our main focal point in 2007. The Insurance Agency License acquired by our Shenzhen Branch has been activated to provide insurance services to our customers in China.

Wing Hang Share Brokerage

Wing Hang Share Brokerage, the Bank's share broking arm, performed very well with a 82.7 percent growth in commissions due to active trading on the stock market. To improve efficiency, we will continue to encourage retail investors to execute transactions through automatic channels such as our Internet trading platform.

Corporate Banking

The Corporate Banking Division recorded a 41.4 percent increase in profit before taxation. The volume of trade financing remained steady in 2006 due to a repayment by a large corporate borrower. Throughout the year we actively encouraged customers to utilise credit facilities while closely monitoring the business performances of various industry sectors. The Corporate Tax Loan program launched in the last quarter of 2006 received an encouraging response and attracted a number of good quality SME customers.

The division will continue to focus on developing more trade related businesses such as Factoring and Invoice Discounting for our export customers. We also plan to cross sell more financial products to our existing corporate customers.

Treasury

The Bank's Treasury division accounted for 6.42 percent of Group operating profit before impairment allowances through yield enhancement of our surplus funds. This has been partly achieved by investing excess liquidity in high-grade investment bonds and debt securities. The decrease in operating profit was mainly due to a flatter yield curve in 2006. We believe performance should improve with the re-pricing of our debt portfolio in 2007.

China

Advances to customers for use in China increased by 18.7 percent as our customers continued to expand their businesses. During the year, we added Guangzhou branch to our network which includes branches in Shanghai and Shenzhen as well as a Beijing representative office and a sub-branch in Shenzhen.

With the incorporation of our subsidiary bank in Shenzhen, the China business is expected to experience robust growth in the coming year. We plan to upgrade our Beijing Representative Office to a Branch and more sub-branches will be opened in other cities, such as Guangzhou, as part of our network expansion strategy. We plan to devote more resources to develop the distribution network and increase product variety in the retail banking business.

Macau

In Macau, Banco Weng Hang continues to perform exceptionally well as the territory experiences robust economic growth. Macau's GDP grew by 11.4 percent in real terms in the first three quarters of 2006 compared with 6.5 percent growth for the whole of 2005. Operating profit before impairment allowances increased by 27.0 percent to Macau patacas 284.8 million underpinned by continuous expansion in the recreation industry and a buoyant property market. Net interest income increased by 27.6 percent while non-interest income increased by 22.2 percent. Loans and deposits grew by 26.4 percent and 35.1 percent respectively since the end of the previous year.