



WING LUNG BANK LTD

(Incorporated in Hong Kong with limited liability)

Stock Code: 096

ANNOUNCEMENT OF 2005 FINAL RESULTS

Final Results

The Directors of Wing Lung Bank Limited (the "Bank") are pleased to announce the audited results of the Group for the year ended 31 December 2005 as follows:-

A. Consolidated Profit and Loss Account

	For the year ended 31 December		Change %
	2005 HK\$'000	2004 HK\$'000 Restated	
Interest income	2,713,593	1,813,186	+49.7
Interest expense	(1,578,975)	(741,626)	+112.9
Net interest income	1,134,618	1,071,560	+5.9
Insurance operating income	379,986	411,427	-7.6
Other operating income (Note 1)	411,448	458,565	-10.3
Operating income	1,926,052	1,941,552	-0.8
Operating expenses (Note 2)	(576,093)	(533,899)	+7.9
Operating profit before impairment allowances	1,349,959	1,407,653	-4.1
Charge for impairment allowances on loans and advances	(19,830)	—	
Write back of bad and doubtful debts	—	113,890	
Charge for insurance claims	(286,325)	(322,096)	-11.1
Operating profit	1,043,804	1,199,447	-13.0
Net (loss)/gain on disposal of fixed assets	(926)	2,056	
Revaluation surplus on investment properties	188,652	—	
Revaluation deficit on premises	(79)	—	
Net gain on disposal of available-for-sale securities	66,343	—	
Net gain on disposal of non-trading securities	—	7,266	
Provision written back on held-to-maturity securities	—	7,077	
	1,297,794	1,215,846	+6.7
Share of net profits of jointly controlled entities	6,649	10,199	
Share of profits of associates	1,323	355	
Profit before taxation	1,305,766	1,226,400	+6.5
Taxation (Note 3)	(196,951)	(194,254)	
Profit attributable to shareholders	1,108,815	1,032,146	+7.4
Dividends	626,913	571,188	+9.8
Earnings per share (Note 4)	HK\$4.78	HK\$4.44	
Dividends per share	HK\$2.70	HK\$2.46	

Notes:

(1) Other operating income

	For the year ended 31 December	
	2005	2004
	HK\$'000	HK\$'000
Fees and commission income	251,816	283,212
Less: fees and commission expense	(49,874)	(90,845)
Net fees and commission income	201,942	192,367
Net (loss)/gain from trading securities	(8,439)	32,407
Net loss arising from financial instruments at fair value through profit or loss	(47,312)	—
Net gain arising from derivative products	63,917	15,652
Net gain from foreign exchange trading	94,165	95,679
Others	107,175	122,460
	<u>411,448</u>	<u>458,565</u>

(2) Operating expenses

	For the year ended 31 December	
	2005	2004
	HK\$'000	HK\$'000
		Restated
Staff costs		
- Salaries and other costs	331,044	312,217
- Retirement benefit costs	2,474	7,016
Depreciation	46,468	47,861
Operating lease charges on leasehold land	4,171	4,172
Others	191,936	162,633
	<u>576,093</u>	<u>533,899</u>

(3) Taxation

	For the year ended 31 December	
	2005	2004
	HK\$'000	HK\$'000
		Restated
Current taxation:		
- Hong Kong profits tax	157,784	172,434
- Overseas taxation	9,043	7,828
Deferred taxation:		
- Relating to the origination and reversal of temporary differences	30,124	13,992
	<u>196,951</u>	<u>194,254</u>

Hong Kong profits tax has been calculated at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

Included in the share of net profits of jointly controlled entities and associates in the consolidated profit and loss account are the Group's share of taxation of jointly controlled entities and associates for the year of HK\$1,612,000 (2004: HK\$1,296,000) and HK\$315,000 (2004: HK\$60,000) respectively.

(4) Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$1,108,815,000 (2004: HK\$1,032,146,000) and 232,190,115 (2004: 232,190,115) shares in issue during the year.

B. Consolidated Balance Sheet

	<u>31/12/2005</u>	<u>31/12/2004</u>
	HK\$'000	HK\$'000
		Restated
Assets		
Cash and short-term funds	19,721,668	15,842,398
Placements with banks and other financial institutions		
maturing between one and twelve months	2,103,014	5,708,563
Trade bills	162,165	116,073
Certificates of deposit held	898,357	2,266,121
Trading securities	512,932	476,617
Derivative financial instruments	56,699	—
Financial assets at fair value through profit or loss	3,897,675	—
Non-trading securities	—	4,113,105
Available-for-sale securities	3,767,780	—
Held-to-maturity securities	3,306,937	8,258,137
Advances and other accounts	38,155,415	32,324,828
Interests in jointly controlled entities	105,578	99,759
Interests in associates	3,540	2,703
Fixed assets	1,780,290	1,592,235
Interests in leasehold land	249,688	253,859
Total assets	<u>74,721,738</u>	<u>71,054,398</u>
Liabilities		
Deposits and balances of banks and		
other financial institutions	2,337,618	2,251,077
Trading liabilities	967,891	271,164
Derivative financial instruments	155,556	—
Financial liabilities at fair value through profit or loss	2,360,894	—
Deposits from customers	54,306,040	53,195,730
Certificates of deposit issued	1,917,053	3,179,540
Other accounts and accruals	2,540,219	2,588,243
Total liabilities	<u>64,585,271</u>	<u>61,485,754</u>
Capital resources		
Share capital	1,160,951	1,160,951
Reserves (including proposed final dividend		
of HK\$494,565,000; 2004: HK\$459,737,000)	8,975,516	8,407,693
Shareholders' funds	<u>10,136,467</u>	<u>9,568,644</u>
Total liabilities and capital resources	<u>74,721,738</u>	<u>71,054,398</u>

C. Supplementary Information of the Group

1. Advances and other accounts

	<u>31/12/2005</u>	<u>31/12/2004</u>
	HK\$'000	HK\$'000
Advances to customers	36,855,547	31,143,988
Impairment allowances		
- Collective	(115,444)	—
- Individual	(71,597)	—
Provision for bad and doubtful debts		
- General	—	(367,628)
- Specific	—	(92,861)
	<u>36,668,506</u>	<u>30,683,499</u>
Advances to banks and other financial institutions	<u>152,789</u>	<u>208,807</u>
Accrued interest	269,374	176,882
Impairment allowances		
- Individual	(7,855)	—
Provision for bad and doubtful debts		
- Specific	—	(771)
	<u>261,519</u>	<u>176,111</u>
Other accounts	1,069,769	1,237,020
Impairment allowances		
- Individual	(581)	—
Provision for bad and doubtful debts		
- General	—	(1,395)
- Specific	—	(883)
	<u>1,069,188</u>	<u>1,234,742</u>
Deferred tax assets	<u>3,413</u>	<u>21,669</u>
	<u>38,155,415</u>	<u>32,324,828</u>

2. Gross advances to customers by industry sectors

	<u>31/12/2005</u>	<u>31/12/2004</u>
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
Property development	3,209,419	1,934,882
Property investment	8,889,515	5,849,464
Financial concerns	435,494	276,292
Stockbrokers	2,257	3,828
Wholesale and retail trade	413,768	425,941
Manufacturing	469,464	477,463
Transport and transport equipment	1,304,236	1,093,448
Others	3,441,451	3,667,655
Individuals		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	2,272,313	2,292,527
Loans for the purchase of other residential properties	10,639,364	9,744,431
Credit card advances	573,860	320,798
Others	1,409,457	1,163,558
Trade finance	570,760	438,845
	<u>33,631,358</u>	<u>27,689,132</u>
Loans for use outside Hong Kong	<u>3,224,189</u>	<u>3,454,856</u>
	<u>36,855,547</u>	<u>31,143,988</u>

3. Impaired loans/Non-performing loans

Upon adoption of HKAS 39, the concepts of suspended interest and non-performing loans are no longer relevant as interest continues to be recognised on the recoverable element of impaired loans.

(a) Impaired loans

The gross amount of impaired loans, which represents those individual advances where there is objective evidence of impairment resulting from loss events occurring after the initial recognition of the advances and where these loss events have an impact on the estimated future cash flows of the advances, is analysed as follows:-

	Advances to customers 31/12/2005
	HK\$'000
Impaired loans	247,248
Percentage of total advances to customers	0.67%
Individual impairment allowances in respect of such advances	71,597

At 31 December 2005, there were no impaired loans in respect of advances to banks and other financial institutions.

The above individual impairment allowances were made after taking into account the value of collateral in respect of such advances.

(b) Non-performing loans

The gross amount of non-performing loans, which represents advances on which interest is being placed in suspense or on which interest accrual has ceased, is analysed as follows:-

	Advances to customers 31/12/2004
	HK\$'000
Non-performing loans	258,067
Percentage of total advances to customers	0.83%
Specific provisions made in respect of such advances	91,263
Amount of interest in suspense	23,548

At 31 December 2004, there were no non-performing loans in respect of advances to banks and other financial institutions.

The above specific provisions were made after taking into account the value of collateral in respect of such advances.

4. Overdue assets

(a) Overdue advances

Overdue advances to customers are analysed as follows:-

	31/12/2005		31/12/2004	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Gross amount of advances which have been overdue for:-				
Six months or less, but over three months	79,959	0.21	61,219	0.20
One year or less, but over six months	35,830	0.10	32,119	0.10
Over one year	68,934	0.19	78,745	0.25
	<u>184,723</u>	<u>0.50</u>	<u>172,083</u>	<u>0.55</u>
Secured overdue advances	127,878		116,175	
Unsecured overdue advances	56,845		55,908	
	<u>184,723</u>		<u>172,083</u>	
Market value of collateral held against the secured overdue advances	<u>175,155</u>		<u>190,576</u>	
Individual impairment allowances made	<u>58,412</u>		<u>—</u>	
Specific provisions made	<u>—</u>		<u>57,531</u>	

At 31 December 2005 and 31 December 2004, there were no advances to banks and other financial institutions which were overdue for over three months.

(b) Other overdue assets

Other overdue assets are analysed as follows:-

	31/12/2005		31/12/2004	
	Trade bills HK\$'000	Accrued interest HK\$'000	Trade bills HK\$'000	Accrued interest HK\$'000
Gross amount of other assets which have been overdue for:-				
Six months or less, but over three months	6,855	1,301	—	659
One year or less, but over six months	520	2,458	—	506
Over one year	—	9,952	—	1,163
	<u>7,375</u>	<u>13,711</u>	<u>—</u>	<u>2,328</u>

5. Rescheduled advances

Rescheduled advances (net of those which have been overdue for over three months and reported in item 4(a) above) are as follows:-

	31/12/2005		31/12/2004	
	HK\$'000	% of total advances to customers	HK\$'000	% of total advances to customers
Rescheduled advances to customers	<u>125,244</u>	<u>0.34</u>	<u>268,599</u>	<u>0.86</u>

At 31 December 2005 and 31 December 2004, there were no rescheduled advances to banks and other financial institutions.

6. Repossessed assets

	31/12/2005	31/12/2004
	HK\$'000	HK\$'000
Market value of repossessed assets	<u>7,550</u>	<u>14,270</u>

7. Geographical analysis of gross advances to customers, overdue advances and impaired loans/non-performing loans

The following geographical analysis of gross advances to customers, overdue advances and impaired loans/non-performing loans is based on the location of the counterparty, after taking into account the transfer of risk in respect of such advances where appropriate.

	31/12/2005	31/12/2004
	HK\$'000	HK\$'000
Gross advances to customers		
Hong Kong	35,321,082	29,769,742
Other areas	1,534,465	1,374,246
	<u>36,855,547</u>	<u>31,143,988</u>
Overdue advances		
Hong Kong	<u>184,723</u>	<u>172,083</u>
Impaired loans		
Hong Kong	<u>247,248</u>	<u>—</u>
Non-performing loans		
Hong Kong	<u>—</u>	<u>258,067</u>

8. Deposits from customers

	31/12/2005	31/12/2004
	HK\$'000	HK\$'000
Demand deposits and current accounts	2,662,438	3,806,452
Saving deposits	11,300,560	16,974,515
Time, call and notice deposits	40,343,042	32,414,763
	<u>54,306,040</u>	<u>53,195,730</u>

9. Other accounts and accruals

Included in other accounts and accruals as at 31 December 2005 are deferred tax liabilities totalling HK\$291,687,000 (2004: HK\$796,000).

10. Reserves

	<u>31/12/2005</u>	<u>31/12/2004</u>
	HK\$'000	HK\$'000
		Restated
Capital reserve	57,500	57,500
Investment properties revaluation reserve	—	1,360,708
Bank premises revaluation reserve	1,341	—
Investment revaluation reserve	146,956	142,215
General reserve	1,003,730	1,003,730
Retained earnings (including proposed final dividend of HK\$494,565,000; 2004: HK\$459,737,000)	7,765,989	5,843,540
	<u>8,975,516</u>	<u>8,407,693</u>

- (a) In accordance with the guidance note from the Hong Kong Monetary Authority, an authorised institution is required to maintain a regulatory reserve in excess of impairment allowances. As a result, retained earnings of HK\$253,112,000 was earmarked as a regulatory reserve at 31 December 2005.
- (b) At a meeting held on 22 February 2006, the directors proposed a final dividend of HK\$2.13 per share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2006.

11. Segment reporting
(a) Class of business

The Group operates predominantly in commercial banking which comprises retail and corporate banking, treasury, insurance and other activities. Retail and corporate banking includes retail banking, commercial lending and trade finance. Treasury activities include foreign exchange, money market and capital market activities. Insurance activities include insurance underwriting, insurance agency and other related businesses. Other activities mainly comprise investment properties holding and securities brokerage business.

Unallocated items mainly comprise expenses, assets and liabilities of the central management unit and other shared services, taxation and any items which cannot be reasonably allocated to specific business segments.

	Retail and corporate banking HK\$'000	Treasury HK\$'000	Insurance HK\$'000	Others HK\$'000	Unallocated HK\$'000	Group HK\$'000
2005						
Interest income from						
- external customers	1,569,074	1,081,327	34,612	28,580	—	2,713,593
- other segments	1,215,305	692,988	10,203	6,072	—	1,924,568
Interest expense to						
- external customers	(1,365,874)	(213,101)	—	—	—	(1,578,975)
- other segments	(703,487)	(1,211,412)	—	(9,669)	—	(1,924,568)
Net interest income	715,018	349,802	44,815	24,983	—	1,134,618
Insurance operating income from external customers	—	—	379,986	—	—	379,986
Other operating income from external customers	130,864	62,560	(9,948)	227,972	—	411,448
Operating income	845,882	412,362	414,853	252,955	—	1,926,052
Operating expenses	(348,006)	(21,880)	(25,784)	(73,117)	(107,306)	(576,093)
Operating profit/(loss) before impairment allowances	497,876	390,482	389,069	179,838	(107,306)	1,349,959
(Charge for)/write back of impairment allowances	(19,842)	—	12	—	—	(19,830)
Charge for insurance claims	—	—	(286,325)	—	—	(286,325)
Operating profit/(loss) (Loss)/gain on fixed assets and investments	478,034	390,482	102,756	179,838	(107,306)	1,043,804
Revaluation surplus on investment properties	(28)	4	4,612	61,555	(726)	65,417
Revaluation deficit on premises	—	—	—	188,652	—	188,652
Share of net profits of jointly controlled entities and associates	—	—	—	(79)	—	(79)
Share of net profits of jointly controlled entities and associates	—	—	4,260	3,712	—	7,972
Profit/(loss) before taxation	478,006	390,486	111,628	433,678	(108,032)	1,305,766
Depreciation charge	25,701	1,576	1,766	10,895	6,530	46,468
Segment assets	40,370,845	30,229,282	1,697,819	871,565	1,552,227	74,721,738
Segment liabilities	54,665,204	7,436,462	1,213,182	940,482	329,941	64,585,271
Capital expenditure	25,010	855	2,045	11,054	7,349	46,313

11. Segment reporting (continued)

(a) Class of business (continued)

	Retail and corporate banking HK\$'000	Treasury HK\$'000	Insurance HK\$'000	Others HK\$'000	Unallocated HK\$'000	Group HK\$'000 Restated
2004						
Interest income from						
- external customers	978,797	800,280	15,109	19,000	—	1,813,186
- other segments	710,907	192,671	3,887	1,049	—	908,514
Interest expense to						
- external customers	(677,533)	(64,093)	—	—	—	(741,626)
- other segments	(198,189)	(708,823)	—	(1,502)	—	(908,514)
Net interest income	813,982	220,035	18,996	18,547	—	1,071,560
Insurance operating income from external customers	—	—	411,427	—	—	411,427
Other operating income from external customers	114,714	78,204	1,771	263,876	—	458,565
Operating income	928,696	298,239	432,194	282,423	—	1,941,552
Operating expenses	(318,890)	(23,909)	(22,660)	(66,797)	(101,643)	(533,899)
Operating profit/(loss) before provisions	609,806	274,330	409,534	215,626	(101,643)	1,407,653
Write back of / (charge for) bad and doubtful debts	113,903	—	(13)	—	—	113,890
Charge for insurance claims	—	—	(322,096)	—	—	(322,096)
Operating profit/(loss)	723,709	274,330	87,425	215,626	(101,643)	1,199,447
Gain/(loss) on fixed assets and investments	10,592	242	501	6,610	(1,546)	16,399
Share of net profits of jointly controlled entities and associates	—	—	6,002	4,552	—	10,554
Profit/(loss) before taxation	734,301	274,572	93,928	226,788	(103,189)	1,226,400
Depreciation charge	30,231	1,467	1,336	8,914	5,913	47,861
Segment assets	34,860,685	32,430,400	1,441,904	2,024,545	296,864	71,054,398
Segment liabilities	52,958,597	5,793,403	1,071,645	1,580,025	82,084	61,485,754
Capital expenditure	17,404	446	405	6,329	4,171	28,755

(b) Geographical area

The Group operates predominantly in Hong Kong. Less than 10% of the Group's income, profit, assets, liabilities, contingent liabilities or commitments is attributable to the Group's overseas operations.

12. Contingent liabilities, commitments and derivatives

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments, and the aggregate credit risk weighted amounts:

	31/12/2005	31/12/2004
	HK\$'000	HK\$'000
Contractual amount		
Direct credit substitutes	668,973	690,857
Transaction-related contingencies	33,324	16,097
Trade-related contingencies	443,470	444,175
Other commitments with an original maturity of		
— under one year or which are unconditionally cancellable	8,754,398	6,610,161
— one year and over	3,972,191	3,589,888
	<u>13,872,356</u>	<u>11,351,178</u>
Credit risk weighted amount	<u>3,126,488</u>	<u>2,702,638</u>

The following is a summary of the notional or contractual amounts, credit risk weighted amounts and replacement costs of each significant type of derivatives, without taking into account the effects of bilateral netting arrangements:

	31/12/2005	31/12/2004
	HK\$'000	HK\$'000
Notional or contractual amount		
Exchange rate contracts	1,745,219	2,022,249
Interest rate contracts	5,757,322	3,805,858
Equity contracts	787,452	965,097
Credit derivative contracts	232,653	—
	<u>8,522,646</u>	<u>6,793,204</u>
Credit risk weighted amount		
Exchange rate contracts	7,060	5,236
Interest rate contracts	18,659	34,056
Equity contracts	11,327	15,876
	<u>37,046</u>	<u>55,168</u>
Replacement cost		
Exchange rate contracts	5,295	1,027
Interest rate contracts	49,405	90,594
Equity contracts	1,999	3,643
	<u>56,699</u>	<u>95,264</u>

13. Currency concentrations

The US dollar net position constitutes 10% or more of the total net position in all foreign currencies and is reported in Hong Kong dollar equivalent as follows:

	<u>31/12/2005</u>	<u>31/12/2004</u>
	HK\$'000	HK\$'000
		Restated
Spot assets	17,359,236	18,430,386
Spot liabilities	(16,249,387)	(15,835,328)
Forward purchases	620,695	175,107
Forward sales	(60,941)	(257,335)
Net option position	8,887	7,235
Net long position	<u>1,678,490</u>	<u>2,520,065</u>
Net structural position	<u>67,469</u>	<u>67,635</u>

The net option position is calculated based on the model user approach set out in the prudential return "Foreign Currency Position" issued by the Hong Kong Monetary Authority.

14. Cross-border claims

The Group analyses cross-border claims by exposures to foreign counterparties on which the ultimate risk lies, and is derived according to the location of the counterparties after taking into account any transfer of risk. The transfer of risk from one country to another is recognised if the claims against a counterparty are guaranteed by another party in a different country or if the claims are on an overseas branch of a bank whose head office is located in a different country. Those areas which contribute 10% or more of the aggregate cross-border claims are as follows:-

	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2005				
Asia Pacific excluding Hong Kong	6,383,983	52,369	1,910,649	8,347,001
North and South America	2,163,512	1,609,305	1,649,587	5,422,404
Europe	14,316,823	—	395,481	14,712,304
2004				
Asia Pacific excluding Hong Kong	11,481,596	53,795	2,353,573	13,888,964
North and South America	1,247,365	2,145,846	2,975,388	6,368,599
Europe	12,706,818	—	399,918	13,106,736

15. Capital adequacy and liquidity ratios

	<u>31/12/2005</u>	<u>31/12/2004</u>
Capital adequacy ratio	17.6%	20.5%
Adjusted capital adequacy ratio	<u>17.6%</u>	<u>20.5%</u>
	For the year ended 31 December	
	<u>2005</u>	<u>2004</u>
Liquidity ratio	<u>48.0%</u>	<u>53.4%</u>

The capital adequacy ratio represents the consolidated ratio of the Bank and certain subsidiaries, as specified by the Hong Kong Monetary Authority as at 31 December computed in accordance with the Third Schedule of the Hong Kong Banking Ordinance.

The adjusted capital adequacy ratio represents the consolidated ratio of the Bank and certain subsidiaries, as specified by the Hong Kong Monetary Authority as at 31 December computed in accordance with the guideline of "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority taking into account both credit risk and market risk.

The liquidity ratio is calculated as the simple average of each calendar month's average consolidated liquidity ratio for the year calculated for the Bank and a subsidiary as specified by the Hong Kong Monetary Authority during the year in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance.

The capital base after deductions used in the calculation of the above capital adequacy ratio as at 31 December and reported to the Hong Kong Monetary Authority is analysed as follows:

	<u>31/12/2005</u>	<u>31/12/2004</u>
	HK\$'000	HK\$'000
Core capital:		
Paid up ordinary share capital	1,160,951	1,160,951
Reserves	5,743,584	5,782,946
	<u>6,904,535</u>	<u>6,943,897</u>
Supplementary capital:		
Reserves on revaluation of land and interests in land	824,416	824,416
Collective impairment allowances for impaired assets and regulatory reserve	363,089	—
General provisions for doubtful debts	—	368,175
Reserves on revaluation of holding of securities not held for trading purposes	16,869	45,916
Gross value of supplementary capital	<u>1,204,374</u>	<u>1,238,507</u>
Eligible value of supplementary capital	<u>1,204,374</u>	<u>1,238,507</u>
Total capital base before deductions	8,108,909	8,182,404
Deductions from total capital base	<u>(397,963)</u>	<u>(396,991)</u>
Total capital base after deductions	<u>7,710,946</u>	<u>7,785,413</u>

D. Statutory Accounts

The financial information in this final results announcement does not constitute the Group's statutory accounts for the year ended 31 December 2005 but is derived from those accounts.

The accounting policies and methods of computation used in the preparation of these final results are consistent with those adopted in the preparation of the Group's annual statutory accounts for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of all applicable new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005 as disclosed in Section E.

E. Changes in Accounting Policies

The changes to the Group's accounting policies and the effects of adopting these new HKFRSs are set out below:-

(a) HKAS 1: Presentation of Financial Statements

In prior years, the Group's share of taxation of jointly controlled entities and associates accounted for using the equity method was included as part of the Group's taxation in the consolidated profit and loss account.

On adoption of HKAS 1, the Group has changed the presentation and includes the share of taxation of jointly controlled entities and associates accounted for using the equity method in the respective shares of profit or loss reported in the consolidated profit and loss account before arriving at the Group's profit before taxation.

These changes in presentation have been applied retrospectively with comparatives restated.

(b) HKAS 17: Leases

In prior years, the leasehold properties held for own use were stated at cost less accumulated depreciation.

With the adoption of HKAS 17, where the land and building elements of the leasehold properties held for own use can be allocated reliably at the inception of the lease, the land element is accounted for as operating lease. As such, any leasehold land premiums for acquiring the land leases, or other lease payments, are charged to the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is charged to the profit and loss account. Any buildings which are situated on such land leases continue to be presented as part of premises and are stated at cost less accumulated depreciation. Where the land and building elements cannot be allocated reliably at the inception of the lease, the land and building elements will continue to be treated as finance lease and carried at cost less accumulated depreciation.

HKAS 17 has been adopted retrospectively and the comparative figures for 2004 have been restated to conform with the changed policy. This change has resulted in an increase in total equity at 1 January 2004 and 1 January 2005 by HK\$7,424,000 and HK\$7,885,000 respectively.

(c) HKAS 32: Financial instruments - Disclosure and presentation
HKAS 39: Financial instruments - Recognition and measurement

Interest income and expense

In prior years, interest income and expense were recognised in the profit and loss account as it accrued, except in the case of doubtful debts where interest was credited to a suspense account which was netted in the balance sheet against the relevant balances.

Fees on loan origination were accounted for as and when they were receivable. Cash rebates granted in relation to residential mortgage loans were capitalised and amortised to the profit and loss account on a straight line basis. The amortisation of premiums and discounts arising on acquisition of dated debt securities was included as part of interest income.

On adoption of HKAS 39, interest income and expense are recognised in the profit and loss account by using the effective interest method. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Derivative financial instruments

In prior years, derivative financial instruments held for trading purposes were marked to market value and the gain or loss arising was recognised in the profit and loss account as “Net gain/loss from foreign exchange trading” or “Net gain/loss arising from derivative products”. Unrealised gains on transactions which were marked to market were included in “Advances and other accounts” on the balance sheet. Unrealised losses on transactions which were marked to market were included in “Other accounts and accruals”.

Derivatives designated as hedges were valued on an equivalent basis to the assets, liabilities or net positions that they were hedging. Any profit or loss was recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

On adoption of HKAS 39, derivatives are initially recognised at fair value on the date on which a derivative contract is entered into. Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Subsequent changes in fair value are recognised depending on the purpose of the derivatives.

Derivative financial instruments designated as hedges are subject to hedge accounting provided that certain qualifying criteria are met. There are two types of hedges:

(i) Fair value hedge

Fair value hedge is a hedge against the fair value of recognised assets or liabilities or firm commitments. Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash flow hedge

Cash flow hedge is a hedge against the cash flows attributable to recognised assets or liabilities or forecast transactions. The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in equity. The gain and loss relating to the ineffective portion is recognised immediately in the profit and loss account. Amounts accumulated in equity are recycled to the profit and loss account in the periods in which the hedged item will affect profit and loss.

Derivative financial instruments held for trading and those that do not qualify for hedge accounting will be accounted for at fair value with changes in fair value reported through the profit and loss account.

Financial assets

In prior years, all financial assets were carried at cost or amortised cost, net of impairment provisions, except for those securities held for trading and non-trading purposes which were held at fair value. Gains and losses from changes in fair value were recognised in the profit and loss account in respect of trading securities, and in equity in respect of non-trading securities.

On adoption of HKAS 39, financial assets are classified into the following categories:

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are carried at amortised cost using the effective interest method.

(ii) Trading securities

Securities which have been acquired principally for the purpose of selling in the short term are classified as trading securities and stated at fair value at the balance sheet date. Changes in fair value of trading securities are recognised as “Net gain/loss from trading securities” in the profit and loss account as they arise. Derivatives are also categorised as held for trading unless they are designated as hedges.

(iii) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are not those financial assets acquired principally for the purpose of selling in the short term but designated by management as such if the following criteria are met:-

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- The designation relates to those financial instruments embedded with derivatives which significantly modify the cash flows of the financial instruments, and which would otherwise require separate accounting.

These financial assets are recognised initially at fair value and transaction costs taken directly to the profit and loss account. Changes in fair value are recognised as “Net gain/loss arising from financial instruments at fair value through profit or loss” in the profit and loss account.

(iv) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group’s management has the positive intention and ability to hold to maturity and are carried at amortised cost using the effective interest method.

(v) Available-for-sale securities

Available-for-sale securities are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices and are stated at fair value. Gains and losses arising from changes in the fair value are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in the profit and loss account.

Purchases and sales of trading securities, financial assets at fair value through profit or loss, held-to-maturity and available-for-sale securities are recognised on trade-date. Loans are recognised when cash is advanced to the borrowers.

Impairment of financial assets

(i) Financial assets carried at amortised cost

In prior years, where the Group had doubt on the ultimate recoverability of any loans and advances in full, specific provision was made to reduce the carrying value of the asset, taking into account available collateral, to the expected net realisable value based on the Group's assessment of the potential losses on those identified loans and advances on a case-by-case basis. In addition, amounts had been set aside as a general provision for bad and doubtful debts. Both specific and general provisions were deducted from "Advances and other accounts" and "Trade bills" in the balance sheet. When there was no realistic prospect of recovery, the outstanding debt was written off.

Financial assets, other than loans and advances, were reviewed at each balance sheet date to determine whether there was any indication of impairment. If the recoverable amount of the asset was estimated to be less than its carrying amount, the carrying amount of the assets was reduced to its recoverable amount and the impairment loss was recognised in the profit and loss account.

On adoption of HKAS 39, impairment allowances are made on a financial asset when there is objective evidence of impairment as a result of the occurrence of certain loss events after the initial recognition of the financial asset, and these loss events will have impact on the estimated future cash flows of the financial asset. Impairment loss is assessed individually for individually significant financial assets, and individually or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group.

Financial assets which have been assessed individually and determined to have no objective evidence of impairment are grouped by similar credit characteristics and collectively assessed based on historical loss experience of each type of financial assets and management judgement of the current economic and credit environment.

(ii) Financial assets at fair value

In prior years, non-trading securities were reviewed at each balance sheet date to determine whether there was any indication of impairment. If non-trading securities were determined to be impaired, any loss previously recognised in equity was transferred to the profit and loss account.

On adoption of HKAS 39, available-for-sale securities are assessed for objective evidence of impairment at each balance sheet date. When the available-for-sale securities are determined to be impaired, the cumulative losses previously recognised in equity are transferred to the profit and loss account.

Financial liabilities

In prior years, all financial liabilities except short positions in trading securities were carried at cost or amortised cost. Short positions in trading securities were carried at fair value and any gains and losses arising from changes in fair value were recognised through the profit and loss account.

On adoption of HKAS 39, the Group's financial liabilities are recognised based on the following classification:

(i) Trading liabilities

Short positions in trading securities are carried at fair value. Gains and losses arising from changes in fair value are recognised through the profit and loss account.

(ii) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss, including certain structured certificates of deposit issued, are designated by management as such at inception according to the classification criteria of financial liabilities at fair value through profit or loss set out under the caption of "Financial assets at fair value through profit or loss".

Gains and losses arising from changes in fair value are recognised as "Net gain/loss arising from financial instruments at fair value through profit or loss" in the profit and loss account.

(iii) Deposits, certificates of deposit issued and other liabilities

Deposits and certificates of deposit issued, other than those designated as trading liabilities or at fair value, and other liabilities are carried at amortised cost.

Valuation of securities and derivatives

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices while financial liabilities are priced at current asking prices. For unlisted securities and where the market for a financial instrument is not active, the Group estimates fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

Effects of adopting HKASs 32 and 39

The new accounting policies have been applied prospectively with effect from 1 January 2005 and the comparatives for 2004 have not been restated in accordance with the transitional provisions prescribed in the Standard. Opening balance adjustments have been made to reflect the changed policies.

(d) HKAS 40: Investment property
HKAS Interpretation 21: Income Taxes – Recovery of revalued non-depreciable assets

In prior years, investment properties were carried at valuation assessed by professionally qualified valuers on an open market value basis. Increases in valuations were credited to the investment properties revaluation reserve; decreases in valuations were first set off against the investment properties revaluation reserve on a portfolio basis and thereafter were charged to the profit and loss account. No deferred taxation was provided on the revaluation surplus.

On adoption of HKAS 40, investment properties are carried at fair value with the changes in fair value reported directly in the profit and loss account. Deferred taxation is provided on the revaluation surplus of investment properties in accordance with HKAS Interpretation 21 on HKAS 12.

When a property is transferred to investment property following a change in its use, any differences arising at the date of transfer between the carrying amount of the property immediately prior to transfer and its fair value are credited to the premises revaluation reserve. However, a revaluation increase is recognised as income to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense. Decreases are first set off against increases on previous valuations of the same asset and thereafter are debited to the profit and loss account. Upon disposal of the premises, the relevant portion of the revaluation reserve realised in respect of previous valuations is released and transferred from the premises revaluation reserve to retained earnings.

If an investment property becomes owner-occupied, it is reclassified as premises and its fair value at the date of reclassification becomes its cost for subsequent accounting purposes.

The adoption of HKAS 40 and HKAS Interpretation 21 has been applied retrospectively. As permitted by HKAS 40, no prior period adjustment was made. At 1 January 2005, the opening balance of the investment properties revaluation reserve of HK\$1,360,708,000, after deducting deferred taxation of HK\$238,124,000, was transferred to retained earnings.

(e) Estimated effect of changes in the accounting policies

(i) Estimated effect of changes in the accounting policies on consolidated balance sheet items

	HKAS 17 HK\$'000	HKAS 32 & HKAS 39 HK\$'000	HKAS 40 & HKAS INT 21 HK\$'000	Total HK\$'000
As at 31 December 2005				
Increase/(decrease) in assets				
Trade bills	—	381	—	381
Certificates of deposit held	—	196	—	196
Derivative financial instruments	—	56,699	—	56,699
Financial assets at fair value through profit or loss	—	3,897,675	—	3,897,675
Non-trading securities	—	(3,764,401)	—	(3,764,401)
Available-for-sale securities	—	3,767,780	—	3,767,780
Held-to-maturity securities	—	(3,861,080)	—	(3,861,080)
Advances and other accounts	—	250,524	—	250,524
Fixed assets	(241,314)	—	—	(241,314)
Interests in leasehold land	249,688	—	—	249,688
Increase in total assets	<u>8,374</u>	<u>347,774</u>	<u>—</u>	<u>356,148</u>
Increase/(decrease) in liabilities				
Derivative financial instruments	—	155,556	—	155,556
Financial liabilities at fair value through profit or loss	—	2,360,894	—	2,360,894
Deposits from customers	—	517	—	517
Certificates of deposit issued	—	(2,399,962)	—	(2,399,962)
Other accounts and accruals	—	(9,745)	271,409	261,664
Increase in total liabilities	<u>—</u>	<u>107,260</u>	<u>271,409</u>	<u>378,669</u>
Increase/(decrease) in capital resources				
Investment properties revaluation reserve	—	—	(1,550,906)	(1,550,906)
Bank premises revaluation reserve	—	—	1,341	1,341
Investment revaluation reserve	—	(1,479)	—	(1,479)
Retained earnings	8,374	241,993	1,278,156	1,528,523
Increase in total liabilities and capital resources	<u>8,374</u>	<u>347,774</u>	<u>—</u>	<u>356,148</u>

(i) Estimated effect of changes in the accounting policies on consolidated balance sheet items (continued)

	HKAS 17 HK\$'000	HKAS 32 & HKAS 39 HK\$'000	HKAS 40 & HKAS INT 21 HK\$'000	Total HK\$'000
As at 1 January 2005				
Increase/(decrease) in assets				
Trade bills	—	397	—	397
Certificates of deposit held	—	392	—	392
Derivative financial instruments	—	39,543	—	39,543
Financial assets at fair value				
through profit or loss	—	3,610,776	—	3,610,776
Non-trading securities	—	(4,113,105)	—	(4,113,105)
Available-for-sale securities	—	4,177,167	—	4,177,167
Held-to-maturity securities	—	(3,548,557)	—	(3,548,557)
Advances and other accounts	—	268,466	—	268,466
Fixed assets	(245,974)	—	—	(245,974)
Interests in leasehold land	253,859	—	—	253,859
Increase in total assets	<u>7,885</u>	<u>435,079</u>	<u>—</u>	<u>442,964</u>
Increase/(decrease) in liabilities				
Derivative financial instruments	—	165,704	—	165,704
Financial liabilities at fair value				
through profit or loss	—	1,116,284	—	1,116,284
Deposits from customers	—	1,117	—	1,117
Certificates of deposit issued	—	(1,123,284)	—	(1,123,284)
Other accounts and accruals	—	(3,747)	238,124	234,377
Increase in total liabilities	—	156,074	238,124	394,198
Increase/(decrease) in capital resources				
Investment properties revaluation reserve	—	—	(1,360,708)	(1,360,708)
Investment revaluation reserve	—	(4,130)	—	(4,130)
Retained earnings	7,885	283,135	1,122,584	1,413,604
Increase in total liabilities and capital resources	<u>7,885</u>	<u>435,079</u>	<u>—</u>	<u>442,964</u>

(ii) Estimated effect of changes in the accounting policies on consolidated profit and loss items

	HKAS 1 HK\$'000	HKAS 17 HK\$'000	HKAS 32 & HKAS 39 HK\$'000	HKAS 40 & HKAS INT 21 HK\$'000	Total HK\$'000
Increase/(decrease) in profit for the year ended 31 December 2005					
Net interest income	—	—	(16,900)	—	(16,900)
Net fees and commission income	—	—	11,989	—	11,989
Net loss on trading securities	—	—	(9,680)	—	(9,680)
Net loss arising from financial instruments at fair value through profit or loss	—	—	(47,312)	—	(47,312)
Net gain arising from derivative products	—	—	37,360	—	37,360
Net gain from foreign exchange trading	—	—	(2,018)	—	(2,018)
Depreciation	—	4,660	—	—	4,660
Operating lease charges on leasehold land	—	(4,171)	—	—	(4,171)
Charge for impairment allowances on loans and advances	—	—	(14,118)	—	(14,118)
Net gain on disposal of available-for-sale securities	—	—	100	—	100
Net loss on disposal of held-to-maturity securities	—	—	(1,108)	—	(1,108)
Revaluation surplus on investment properties	—	—	—	188,652	188,652
Revaluation deficit on premises	—	—	—	(79)	(79)
Share of net profits of jointly controlled entities	(1,612)	—	—	—	(1,612)
Share of profits of associates	(315)	—	—	—	(315)
Taxation	1,927	—	545	(33,001)	(30,529)
Increase/(decrease) in profit after taxation	—	489	(41,142)	155,572	114,919
	HK\$	HK\$	HK\$	HK\$	HK\$
Increase/(decrease) in earnings per share	—	0.002	(0.177)	0.670	0.495

	HKAS 1 HK\$'000	HKAS 17 HK\$'000	Total HK\$'000
Increase/(decrease) in profit for the year ended 31 December 2004			
Depreciation	—	4,633	4,633
Operating lease charges on leasehold land	—	(4,172)	(4,172)
Share of net profits of jointly controlled entities	(1,296)	—	(1,296)
Share of profits of associates	(60)	—	(60)
Taxation	1,356	—	1,356
Increase in profit after taxation	—	461	461
	HK\$	HK\$	HK\$
Increase in earnings per share	—	0.002	0.002

Final Dividend

The Directors propose to recommend at the forthcoming Annual General Meeting to be held on Saturday, 22 April 2006 the payment of a final dividend of HK\$2.13 per share which, together with the interim dividend of HK\$0.57 per share already paid in September 2005, make a total dividend for the year 2005 of HK\$2.70 per share. The final dividend, if approved, will be paid on or after 22 April 2006 to the shareholders whose names are on the Register of Members on 22 April 2006.

Closure of Register of Members

The Register of Members will be closed from 12 April 2006 to 22 April 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers must be lodged with the Bank's Registrars, Computershare Hong Kong Investor Services Limited, for registration not later than 4 pm on Tuesday, 11 April 2006.

Financial Results and Operation Review

Following the economic pick-up in 2004, the local economy is on a steady growth track. Rising property prices, active stock market and improving employment situation stimulated domestic consumption. Meanwhile, inflation has started to take shape.

The consolidated net profit for the year ended 31 December 2005, after making provision for taxation, amounted to HK\$1,108,815,000. Earnings per share was HK\$4.78, up 7.4% from 2004 year-end level. This increase was mainly brought about by net interest income growth and revaluation surplus on investment properties. However, non-interest income dropped as compared with last year. The Bank made impairment allowances on loans and advances in 2005, whereas there was a large write back in bad and doubtful debts in 2004.

The Bank registered a loan-to-deposit ratio of 62.6%, higher than that of 54.4% in 2004. Interest rate spread widened slightly in spite of fierce competition. Net interest income rose by 5.9%.

Net profit from insurance operations went up by 4.8%, while other operating income dropped by 10.3%, mainly attributable to the decrease in income from securities broking and trading.

Operating expenses went up by 7.9% mainly due to the increase in the number of employees and the rise in marketing and business promotion expenses. The cost-to-income ratio was 29.9%, representing an increase of 2.4%.

The Bank's asset quality remained at a satisfactory level with impaired loans amounting to HK\$247,248,000, being 0.67% of gross advances. Charge for impairment allowances on loans and advances was HK\$19,830,000.

The Bank's consolidated total assets lifted by 5.2% from 2004 year-end level. Return on average assets and return on average equity were 1.52% and 11.25% respectively. The Group's capital adequacy ratio at 31 December 2005 was 17.6%, and the average liquidity ratio for the year was 48%.

Comparing the Bank's operating position and results for 2005 with 2004:

Deposits

In 2005, total deposits increased slightly by 2.1%.

As at 31 December 2005, certificates of deposit totalling HK\$4,277,947,000 were issued, up 34.5% as compared with that of 2004 year-end. Among them, a great majority are floating rate certificates of deposit with a small amount of USD fixed rate certificates of deposit issued to individual investors.

The gradual rise in local interest rates prompted depositors to seek higher returns by channelling their funds from current or savings accounts to fixed deposit accounts, pushing up the Bank's interest expenses and in turn costs of funds.

The operation of personal renminbi service registered steady growth since commencement in February 2004. The People's Bank of China has twice announced the upward revaluation of renminbi in the past few months, inducing depositors to take up medium-term investment in renminbi. According to the release by The People's Bank of China in November 2005, the range of renminbi businesses for banks in Hong Kong would be extended to facilitate more cross-border spending. It is hoped that the central government will allow Hong Kong banks to offer renminbi denominated loans, bonds and trade settlement in Hong Kong in future. The Bank has started providing retail renminbi non-deliverable forward contracts since November 2005 and plans to launch renminbi chequing accounts in the first quarter of 2006, thus allowing customers to settle consumer spending in Guangdong Province by cheques, subject to a daily limit.

During 2006, continuous efforts will be expended to grow the deposit base to support further loan growth.

Advances to customers

In 2005, loans and advances to customers surged at a better-than-expected rate of 18.3%.

The Bank's residential mortgage business saw steady progression thanks to the recovery in property prices in 2005. However, the property market has shown signs of slowing down after several increases in interest rates recently, weakening the demand for residential mortgage loans. It is hoped that the improved employment situation will help boost consumer spending, thus offsetting the negative impact of interest rate rises.

Supported by the economic rebound, corporate lending activities recorded considerable growth. The strong performance was driven by higher revolving loan utilisation and the enlarged customer base. Syndicated loan business also outperformed projection, and greater demand for syndicated loans is expected given the improving economic conditions. It is anticipated that intensified competition will continue to put pressure on the interest rate spread.

The Bank will make every effort to expand personal and consumer loan business for higher returns.

In view of rising interest rates and higher funding costs, the Bank's hire-purchase and leasing subsidiary, Wing Lung Finance Ltd, will gradually shift to floating rate deals and focus on machinery hire-purchase for risk diversification.

Treasury

Income from foreign exchange and money exchange businesses, on aggregate, was slightly down by 1.6% compared with 2004.

With 14 consecutive increases in the US Federal Funds rates, US dollar stayed firm against other major currencies. The Bank recorded only a mild increase in foreign exchange trading volume and income as foreign exchange market became less volatile. However, money exchange business resumed growth in 2005.

The US dollar has recently shown signs of losing steam. It is expected that extensive market fluctuations will provide a favourable ground for foreign exchange activities and income growth. The Treasury Department will introduce more convenient trading channels for customers, aiming at achieving better returns.

The Bank has been active in capital market activities. Keeping abreast of the market development and interest rate movement, the Bank will increase its investment in floating rate instruments and structured bonds and adopt appropriate strategies targeting profit growth.

Wealth management

Income from wealth management initiatives increased mildly in 2005. US dollar strengthened more significantly following several increases in interest rates. Consequently, investors have taken a more prudent view towards interest-rate structured products, affecting the sale of wealth management products to a certain degree. In face of severe competition, the Bank has lowered service charges and offered various privileges to help boost product sales.

Demand for wealth management products may slow down as interest rates move up. Product sales force and staff training will be strengthened to help grow the customer base. To further expand wealth management operation, the Bank will actively identify more appropriate investment products to cater for market needs.

Credit card

Amid full-swing economic revival and strong local consumption, the Bank recorded a surge of 26.9% in the total number of credit cards issued in 2005. To expedite business expansion, more resources will be deployed to enlarge the card base. Affinity card programmes and merchant acquisition business were both on the rise. Proactive strategies will be employed to bolster credit cards issuance. It is expected that with larger card base the Credit Card Centre will be able to generate greater interest income as well as non-interest income through cross-selling with other banking products.

Securities broking

In 2005, profit from securities broking contracted as compared with the previous year.

Automated margin trading was made available at all branches in the second half of 2005 to enlarge market share and income source.

The Securities Department introduced special offers for IPO subscription such as handling fee waiver for online subscription and margin financing packages with an aim to draw in potential customers. Specially designed products will be launched to meet the needs of particular market segments. "Multi Trade" securities account, introduced in October 2005, was designed for investors who trade frequently. Other products will be rolled out in the year as a measure to maintain the market share.

The Department will further facilitate trading automation to enhance service efficiency.

Insurance

Wing Lung Insurance Company Limited recorded a slight reduction in gross premium in 2005, mainly attributable to a decline in employee's compensation class and property insurance, while motor and third party liability insurance businesses grew appreciably. Through sound risk management and fewer cases of claims, underwriting profit grew 2.5% compared with the previous year.

The Insurance Department registered a rise of 6.1% in commission income from all insurance classes, and the major growth contributors were accident insurance and fire insurance products. Premium from life insurance products contracted owing to an upsurge of deposit interest rates that affected the sale of life insurance products.

Branch

Our network of 33 local branches, Shenzhen Branch in China (a sub-branch in Nanshan, Shenzhen was opened on 9 November 2005), Los Angeles Branch in the US and Cayman Islands Branch all achieved steady growth in both business and returns.

The Bank will apply to upgrade its representative offices in Shanghai and Guangzhou to full branches when the time is ripe.

The construction work of the new building for Los Angeles Branch in the City of Alhambra has been completed. The new branch will serve customers in more spacious and comfortable premises upon its grand opening in early March 2006.

Investment in information technology

Continuous efforts were placed on enhancing information technology on system development, risk management, infrastructure and operation procedures for sustainable business growth, sound risk management and improvement in efficiency. Part of the Bank's system development tasks has been shifted to a centre in Shenzhen, and the results have been satisfactory.

Human resources

At the end of December 2005, the total workforce of the Bank amounted to 1,355 (2004: 1,275), including 1,319 locally, 26 in China and 10 overseas.

Remuneration packages take into account levels and composition of pay and the market in which the Bank operates. Salaries are reviewed annually in the context of individual and business performance, market practice, internal ratings and competitive market conditions. Under appropriate circumstances, performance-related discretionary bonus is provided as an incentive for staff.

To continuously upgrade staff skills and knowledge, the Human Resource Department has been regularly organising courses or seminars related to bank operations, product knowledge, information technology, sales techniques and other specialised topics. The department also encourages and sponsors staff in continued training programmes, certified examinations and obtaining professional qualifications. The department arranges business visits and exchange programmes with other financial institutions at regular intervals so that the staff are better equipped to cope with increasing business needs.

Purchase, Sale or Redemption of Shares

The Bank has not redeemed any of its shares during the year. Neither the Bank nor any of its subsidiaries has purchased or sold any of the Bank's shares during the year.

Compliance with Disclosure Requirements

In preparing the accounts for the year ended 31 December 2005, the Bank has fully complied with the requirements set out in the guideline entitled "Financial Disclosure by Locally Incorporated Authorised Institutions" issued by the Monetary Authority.

Corporate Governance

The Bank is committed to maintaining high standards of corporate governance and has been taking action to follow the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") which came into effect on 1 January 2005.

On 23 April 2005, the terms of reference of the Bank's Audit Committee and Remuneration Committee were modified to incorporate certain provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

To enhance the standard of corporate governance, the positions of chairman and chief executive were separated. Dr Philip Po-him Wu, Executive Director, has been appointed as Chief Executive to replace Dr Michael Po-ko Wu, Executive Director, who remains as Chairman effective 8 June 2005.

Throughout the year, the Bank has complied with all other applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

Code for Securities Transactions by Directors

The Bank has adopted a code for securities transactions by Directors (the "Code of Conduct") on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Following specific enquiry made with all Directors, the Bank has confirmed that each of the Directors complied with the required standard set out in the Model Code and the Code of Conduct regarding securities transactions by the Directors.

Review of Financial Report

This financial report has been reviewed by the Bank's Audit Committee.

Publication of Detailed Results Announcement on the Stock Exchange's Website

A detailed results announcement of the Bank containing all the information required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be published on the Stock Exchange's website in due course.

By Order of the Board
Maria Wan-sin FUNG
Secretary

Hong Kong, 22 February 2006

As at the date of this announcement, the executive directors of the Bank are Dr Michael Po-ko Wu (Chairman), Dr Patrick Po-kong Wu (Vice-Chairman), Dr Philip Po-him Wu (Chief Executive) and Mr Che-shum Chung, the non-executive directors are Mr Albert Po-cheung Wu, Mr Ivan Po-young Wu and Mr Anthony Shang-fung Wu and the independent non-executive directors are Dr Siu-chan Ng, Dr Norman Nai-pang Leung, Mr Lincoln Hung-leung Soo and Mr Shung-kwong Tsang. Mr Kenneth Ngai-keung Ma is the alternate director to Mr Ivan Po-young Wu and Miss Alice Shang-sze Wu is the alternate director to Mr Albert Po-cheung Wu.

Web site: <http://www.winglungbank.com>

Please also refer to the published version of this announcement in South China Morning Post dated 23 February 2006.