

WING HANG BANK, LIMITED

ANNOUNCEMENT OF 2005 FINAL RESULTS

Summary of Results

The Directors of Wing Hang Bank, Limited announce that the audited results of the Group for the year ended 31st December, 2005 are as follows:

(Expressed in thousands of Hong Kong dollars unless otherwise stated in the text)

Consolidated profit and loss account

	Notes	2005	2004 (restated)	Change %
Interest income		4,041,779	2,877,006	
Interest expense		(2,312,655)	(1,082,689)	
Net interest income		1,729,124	1,794,317	
Net interest income on financial instruments held for trading and measured at fair value through profit or loss	(1)	135,876	-	
Total net interest income		1,865,000	1,794,317	3.9
Other operating income	(2)	755,770	640,017	18.1
Operating income		2,620,770	2,434,334	7.7
Operating expenses	(3)	(975,789)	(1,033,039)	-5.5
Operating profit before impairment allowances on impaired loans and advances		1,644,981	1,401,295	17.4
Impairment losses and allowances on impaired loans and advances		(54,056)	-	
Charge for bad and doubtful debts		-	(54,434)	
Operating profit		1,590,925	1,346,861	18.1
Gains on revaluation of investment properties, disposal of tangible fixed assets and associated company		22,680	55,552	
(Losses) / profits on disposal of held-to-maturity and available-for-sale financial assets		(9,048)	201	
Profits on disposal of non-trading securities		-	6,307	
Impairment allowances release for held-to-maturity financial assets		-	4,848	
Profit on ordinary activities		1,604,557	1,413,769	
Share of net profits in associated companies	(4)(a)	11,249	4,545	
Profit before taxation		1,615,806	1,418,314	13.9
Taxation	(4)(b)	(264,861)	(250,033)	
Profit after taxation		1,350,945	1,168,281	15.6
Profits attributable to:				
Shareholders of the Bank		1,348,718	1,166,689	15.6
Minority interests		2,227	1,592	
Profit after taxation		1,350,945	1,168,281	15.6
Dividends attributable to the year:				
Interim dividend paid during the year		205,800	155,773	
Underprovision of final and special dividends in respect of previous year		57	140	
Final dividend proposed after the balance sheet date		470,433	420,292	
		676,290	576,205	17.4
		HK\$	HK\$	
Earnings per share – basic	(5)	4.59	3.97	15.6
– diluted		4.57	3.96	
Dividends per share – interim		0.70	0.53	
– proposed final		1.60	1.43	
		2.30	1.96	17.3

Consolidated balance sheet

	<u>31st December, 2005</u>	<u>31st December, 2004</u> (restated)
ASSETS		
Cash and short-term funds	20,053,798	20,529,318
Placements with banks and other financial institutions maturing between one and twelve months	2,657,380	1,435,527
Trade bills less impairment allowances	652,375	551,124
Certificates of deposit held	-	30,000
Trading assets	911,264	30,808
Financial assets measured at fair value through profit or loss	5,924,424	-
Advances to customers and other accounts less impairment allowances	55,472,883	49,693,267
Held-to-maturity and available-for-sale financial assets	15,909,430	18,867,918
Non-trading securities	-	1,520,822
Investments in associated companies	146,955	135,706
Tangible fixed assets		
- Investment properties	231,447	209,560
- Other properties, plants and equipment	1,506,041	1,563,010
Goodwill	847,422	847,713
Current tax recoverable	1,211	5,381
Deferred tax assets	7,986	27,950
Total assets	<u><u>104,322,616</u></u>	<u><u>95,448,104</u></u>
EQUITY AND LIABILITIES		
Deposits and balances of banks and other financial institutions	1,703,026	1,209,582
Deposits from customers	85,673,452	78,569,161
Certificates of deposit issued	3,824,339	4,616,090
Trading liabilities	865,962	8,628
Current tax payable	102,798	63,381
Deferred tax liabilities	91,570	64,953
Other accounts and provisions	1,203,530	975,122
Loan capital	2,519,888	2,526,485
Total liabilities	<u><u>95,984,565</u></u>	<u><u>88,033,402</u></u>
Share capital	294,021	293,911
Reserves	8,021,919	7,100,907
Shareholders' funds	<u><u>8,315,940</u></u>	<u><u>7,394,818</u></u>
Minority interests	22,111	19,884
Total equity	<u><u>8,338,051</u></u>	<u><u>7,414,702</u></u>
Total equity and liabilities	<u><u>104,322,616</u></u>	<u><u>95,448,104</u></u>

Consolidated statement of changes in equity

	<i>Notes</i>	31st December, 2005	31 st December, 2004 (restated)
Shareholders' fund (as previously reported as at 31 st December)		7,403,887	6,686,881
Minority interests (as previously presented separately from equity and liabilities as at 31 st December)		19,884	18,292
Total equity as at 1 st January as previously reported		7,423,771	6,705,173
- prior year adjustments arising from change in accounting policies	(7)(a)(i)	(9,069)	-
As restated, before opening balance adjustments		7,414,702	6,705,173
- opening balance adjustments arising from change in accounting policies		187,336	-
Total equity as at 1 st January, after prior year and opening balance adjustments		7,602,038	6,705,173
Unrealised gains on revaluation of non-trading securities after deferred tax charge		-	4,393
Unrealised losses on revaluation of available-for-sale financial assets after deferred tax credit		(20,650)	-
Realisation on disposal of available-for-sale financial assets		7,424	-
Unrealised gains on revaluation of investment properties		-	11,809
Deferred tax credited to investment properties revaluation reserve		-	10,933
Disposal of investment properties		-	(10,020)
Unrealised gains on revaluation of bank premises		9,297	-
Deferred tax credited to bank premises revaluation reserve		2,900	122
Exchange adjustments		(759)	42
Net (expenses) / income recognised directly in equity as previously reported		(1,788)	17,279
- prior year adjustment in respect of change in accounting policies		-	(12,669)
Net (expenses) / income recognised directly in equity as restated		(1,788)	4,610
Profit attributable to the shareholders as previously reported		-	1,168,021
Profit attributable to minority interests as previously reported		-	1,592
Net profit for the year as previously reported		-	1,169,613
- prior year adjustment in respect of change in accounting policies	(7)(a)(i)	-	(1,332)
Net profit for the year (2004: as restated)		1,350,945	1,168,281
Total recognised income and expenses for the year		1,349,157	1,172,891
Dividends paid		(626,149)	(473,196)
Proceeds on shares issued under share option scheme		4,010	3,298
Change in accounting policy in share option scheme	(7)(a)(i)	-	4,932
Share premium under Employee Incentive Plan ("EIP") and share option scheme		8,995	1,604
Total equity as at 31 st December		8,338,051	7,414,702
Total recognised income and expenses for the year attributable to:			
Shareholders of the Bank		1,346,930	1,171,299
Minority interests		2,227	1,592
		1,349,157	1,172,891

Notes:

(1) **Net interest income on financial instruments held for trading and measured at fair value through profit or loss**

	<u>2005</u>	<u>2004</u>
Trading assets	138	-
Trading liabilities	(562)	-
Financial assets measured at fair value through profit or loss	234,309	-
Financial liabilities measured at fair value through profit or loss	(84,776)	-
Trading financial derivatives interest income	55,869	-
Trading financial derivatives interest expense	(69,102)	-
	<u>135,876</u>	<u>-</u>

The comparative figures for 2004 have not been adjusted as the amount was immaterial.

(2) **Other operating income**

Other operating income included net realised and unrealised profits on financial assets and liabilities held for trading and measured at fair value through profit or loss amounting to HK\$33,038,000 (2004: HK\$4,847,000) and HK\$59,531,000 (2004: Nil) respectively.

(3) **Operating expenses**

Operating expenses included depreciation, share option scheme expenses, EIP expenses and impairment losses on goodwill amounting to HK\$75,407,000 (2004: HK\$108,058,000), HK\$6,588,000 (2004 (restated): HK\$4,932,000), HK\$3,372,000 (2004: HK\$2,248,000) and HK\$1,170,000 (2004: Nil) respectively. In 2004, the amortisation of goodwill amounted to HK\$44,997,000.

(4)(a) Share of net profits in associated companies included taxation amounting to HK\$2,597,000 (2004: HK\$684,000).

(b) **Taxation**

Taxation in the consolidated profit and loss account represents:

	<u>2005</u>	<u>2004</u>
		(restated)
Provision for Hong Kong profits tax	232,285	184,956
Overseas taxation	25,830	50,093
Deferred taxation	6,746	14,984
	<u>264,861</u>	<u>250,033</u>

The provision for Hong Kong profits tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year ended 31st December, 2005. Overseas taxation is provided at the appropriate current rates of taxation ruling in the countries in which the relevant units of the Group operate.

(5) **Earnings per share**

The calculation of basic earnings per share is based on profit attributable to the shareholders of HK\$1,348,718,000 (2004 (restated): HK\$1,166,689,000) and on the weighted average number of 293,970,062 (2004: 293,897,112) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on profit attributable to the shareholders of HK\$1,348,718,000 (2004 (restated): HK\$1,166,689,000) and on the weighted average number of 294,844,825 (2004: 294,567,557) ordinary shares in issue during the year after adjustment for the effects of all dilutive potential ordinary shares.

- (6) This financial report has been reviewed by the Bank's Audit Committee. The same accounting policies adopted in the 2004 annual accounts have been applied in the preparation of the financial report except for the accounting policy changes that are adopted in the 2005 annual financial statements. Details of these changes in accounting policies are set out in note 7.

This financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, and fully comply with the module on "Financial Disclosure by Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority ("HKMA").

(7) Changes in accounting policies

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) that are effective for accounting periods beginning on or after 1st January, 2005.

The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in this financial report.

(a) Restatement of prior year and opening balances

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated profit and loss account and balance sheet and other significant related disclosure items as previously reported for the year ended 31st December, 2004. The effects of the changes in accounting policies on the balances at 1st January, 2004 and 2005 are disclosed in note 7(e).

(i) Effect on the consolidated financial statements

Consolidated profit and loss account for the year ended 31st December, 2004:

	Effect of new policy (increase / (decrease) in profit for the year)					
	HK (SIC)					
	Interpretation					
	2004					2004
	(as previously reported)	HKFRS 2 (note 7(c))	HKAS 1 (note 7(g))	HKAS 40 (note 7(d))	Sub-total	(restated)
Interest income	2,877,006	-	-	-	-	2,877,006
Interest expenses	<u>(1,082,689)</u>	-	-	-	-	<u>(1,082,689)</u>
Net interest income	1,794,317	-	-	-	-	1,794,317
Other operating income	<u>640,070</u>	-	-	<u>(53)</u>	<u>(53)</u>	<u>640,017</u>
Operating income	2,434,387	-	-	(53)	(53)	2,434,334
Operating expenses	<u>(1,028,107)</u>	<u>(4,932)</u>	-	-	<u>(4,932)</u>	<u>(1,033,039)</u>
Operating profit before provisions	1,406,280	(4,932)	-	(53)	(4,985)	1,401,295
Charge for bad and doubtful debts	<u>(54,434)</u>	-	-	-	-	<u>(54,434)</u>
Operating profit	1,351,846	(4,932)	-	(53)	(4,985)	1,346,861
Gains on revaluation of investment properties, disposal of tangible fixed assets and associated companies	43,743	-	-	11,809	11,809	55,552
Profits on disposal of held-to-maturity securities	201	-	-	-	-	201
Profits on disposal of non-trading securities	6,307	-	-	-	-	6,307
Provisions written back for held-to-maturity securities	<u>4,848</u>	-	-	-	-	<u>4,848</u>
Profit / (loss) on ordinary activities	1,406,945	(4,932)	-	11,756	6,824	1,413,769
Share of net profits / (losses) in associated companies	<u>5,229</u>	-	<u>(684)</u>	-	<u>(684)</u>	<u>4,545</u>
Profit / (loss) before taxation	1,412,174	(4,932)	(684)	11,756	6,140	1,418,314
Taxation	<u>(242,561)</u>	-	<u>684</u>	<u>(8,156)</u>	<u>(7,472)</u>	<u>(250,033)</u>
Profit / (loss) after taxation	<u>1,169,613</u>	<u>(4,932)</u>	-	<u>3,600</u>	<u>(1,332)</u>	<u>1,168,281</u>

	Effect of new policy (increase / (decrease) in profit for the year)					2004 (restated)
	2004 (as previously reported)	HKFRS 2 (note 7(c))	HKAS 1 (note 7(g))	HK (SIC) Interpretation 21 & HKAS 40 (note 7(d))	Sub-total	
Profits / (losses) attributable to:						
Shareholders of the						
Bank	1,168,021	(4,932)	-	3,600	(1,332)	1,166,689
Minority interests	<u>1,592</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,592</u>
Profit / (loss) after taxation	<u>1,169,613</u>	<u>(4,932)</u>	<u>-</u>	<u>3,600</u>	<u>(1,332)</u>	<u>1,168,281</u>
Earnings per share						
Basic	<u>3.97</u>	<u>(0.01)</u>	<u>-</u>	<u>0.01</u>	<u>-</u>	<u>3.97</u>
Diluted	<u>3.97</u>	<u>(0.02)</u>	<u>-</u>	<u>0.01</u>	<u>(0.01)</u>	<u>3.96</u>

Consolidated balance sheet at 31st December, 2004:

	Effect of new policy (increase / (decrease) in total assets)					2004 (restated)
	2004 (as previously reported)	HKFRS 2 (note 7(c))	HKAS 1 (note 7(g))	HK (SIC) Interpretation 21 & HKAS 40 (note 7(d))	Sub-total	
Assets						
Cash and short-term funds	20,529,318	-	-	-	-	20,529,318
Placements with banks and other financial institutions maturing between one and twelve months	1,435,527	-	-	-	-	1,435,527
Trade bills less provisions	551,124	-	-	-	-	551,124
Certificates of deposit held	30,000	-	-	-	-	30,000
Trading securities	12,067	-	18,741	-	18,741	30,808
Advances to customers and other accounts less provisions	49,712,008	-	(18,741)	-	(18,741)	49,693,267
Held-to-maturity securities	18,867,918	-	-	-	-	18,867,918
Non-trading securities	1,520,822	-	-	-	-	1,520,822
Investments in associated companies	135,706	-	-	-	-	135,706
Tangible fixed assets						
-Investment properties	209,560	-	-	-	-	209,560
-Other properties, plants and equipment	1,563,010	-	-	-	-	1,563,010
Goodwill	847,713	-	-	-	-	847,713
Current tax recoverable	5,381	-	-	-	-	5,381
Deferred tax assets	<u>27,950</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,950</u>
Total assets	<u>95,448,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>95,448,104</u>

	Effect of new policy (increase / (decrease) in total equity and liabilities)					2004 (restated)
	2004 (as previously reported)	HKFRS 2 (note 7(c))	HKAS 1 (note 7(g))	HK (SIC) Interpretation 21 & HKAS 40 (note 7(d))	Sub-total	
Equity and liabilities						
Deposits and balances of banks and other financial institutions	1,209,582	-	-	-	-	1,209,582
Deposits from customers	78,569,161	-	-	-	-	78,569,161
Certificates of deposit issued	4,616,090	-	-	-	-	4,616,090
Trading liabilities	-	-	8,628	-	8,628	8,628
Current tax payable	63,381	-	-	-	-	63,381
Deferred tax liabilities	55,884	-	-	9,069	9,069	64,953
Other accounts and provisions	983,750	-	(8,628)	-	(8,628)	975,122
Loan capital	<u>2,526,485</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,526,485</u>
Total liabilities	<u>88,024,333</u>	<u>-</u>	<u>-</u>	<u>9,069</u>	<u>9,069</u>	<u>88,033,402</u>
Share capital	293,911	-	-	-	-	293,911
Reserves						
-Share Premium	342,102	4,932	-	-	4,932	347,034
-Capital reserve	215,909	-	-	-	-	215,909
-General reserve	2,091,174	-	-	-	-	2,091,174
-Bank premises revaluation reserve	269,039	-	-	-	-	269,039
-Investment properties revaluation reserve	12,683	-	-	(12,683)	(12,683)	-
-Investment revaluation reserve	22,241	-	-	-	-	22,241
-Capital redemption reserve	769	-	-	-	-	769
-Unappropriated profits	<u>4,156,059</u>	<u>(4,932)</u>	<u>-</u>	<u>3,614</u>	<u>(1,318)</u>	<u>4,154,741</u>
Reserves	7,109,976	-	-	(9,069)	(9,069)	7,100,907
Shareholders' funds	7,403,887	-	-	(9,069)	(9,069)	7,394,818
Minority interests	<u>19,884</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,884</u>
Total equity	<u>7,423,771</u>	<u>-</u>	<u>-</u>	<u>(9,069)</u>	<u>(9,069)</u>	<u>7,414,702</u>
Total equity and liabilities	<u>95,448,104</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>95,448,104</u>

(b) **Estimated effect of changes in accounting policies on the current year**

The following tables provide estimates of the extent to which each of the line items in the consolidated profit and loss account and balance sheet and other significant related disclosure items for the year ended 31st December, 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

(i) Effect on the consolidated financial statements

Estimated effect on the consolidated profit and loss account for the year ended 31st December, 2005:

	Effect of new policy (increase / (decrease) in profit for the year)					Total
	HKFRS 2 (note 7(c))	HKFRS 3 (note 7(f))	HKAS 1 (note 7(g))	HKAS 32 & 39 (note 7(e))	HK (SIC) Interpretation 21 & HKAS 40 (note 7(d))	
Interest income	-	-	-	(229,950)	-	(229,950)
Interest expenses	-	-	-	110,181	-	110,181
Net interest income	-	-	-	(119,769)	-	(119,769)
Net interest income on financial instruments held for trading and measured at fair value through profit or loss	-	-	-	135,876	-	135,876
Total net interest income	-	-	-	16,107	-	16,107
Other operating income	-	-	-	96,732	-	96,732
Operating income	-	-	-	112,839	-	112,839
Operating expenses	(6,588)	45,196	-	-	-	38,608
Operating profit before impairment allowances on impaired loans and advances	(6,588)	45,196	-	112,839	-	151,447
Impairment losses and allowances release for impaired loans and advances	-	-	-	24,162	-	24,162
Operating profit	(6,588)	45,196	-	137,001	-	175,609
Gains on revaluation of investment properties, disposal of tangible fixed assets and associated companies	-	-	-	-	12,797	12,797
Profits on disposal of held-to-maturity and available-for-sale financial assets	-	-	-	-	-	-
Impairment allowances release for held-to- maturity financial assets	-	-	-	-	-	-
Profit / (loss) on ordinary activities	(6,588)	45,196	-	137,001	12,797	188,406
Share of net profits in associated companies	-	-	(2,597)	-	-	(2,597)
Profit / (loss) before taxation	(6,588)	45,196	(2,597)	137,001	12,797	185,809
Taxation	-	-	2,597	(24,538)	(2,239)	(24,180)
Profit / (loss) after taxation	(6,588)	45,196	-	112,463	10,558	161,629

	Effect of new policy (increase / (decrease) in profit for the year)					Total
	HKFRS 2 (note 7(c))	HKFRS 3 (note 7(f))	HKAS 1 (note 7(g))	HKAS 32 & 39 (note 7(e))	HK (SIC) Interpretation 21 & HKAS 40 (note 7(d))	
Profits / (losses) attributable to:						
Shareholders of the Bank	(6,588)	45,196	-	112,463	10,558	161,629
Minority interests	-	-	-	-	-	-
Profit / (loss) after taxation	<u>(6,588)</u>	<u>45,196</u>	<u>-</u>	<u>112,463</u>	<u>10,558</u>	<u>161,629</u>
Earnings per share Basic and diluted	<u>(0.02)</u>	<u>0.15</u>	<u>-</u>	<u>0.38</u>	<u>0.04</u>	<u>0.55</u>

Estimated effect on the consolidated balance sheet at 31st December, 2005:

	Effect of new policy (increase / (decrease) in total assets)					Total
	HKFRS 2 (note 7(c))	HKFRS 3 (note 7(f))	HKAS 1 (note 7(g))	HKAS 32 & 39 (note 7(e))	HK (SIC) Interpretation 21 & HKAS 40 (note 7(d))	
Assets						
Cash and short-term funds	-	-	-	-	-	-
Placements with banks and other financial institutions maturing between one and twelve months	-	-	-	-	-	-
Trade bills less impairment allowances	-	-	-	-	-	-
Certificates of deposit held	-	-	-	-	-	-
Trading assets	-	-	-	816,431	-	816,431
Financial assets measured at fair value through profit or loss	-	-	-	5,924,424	-	5,924,424
Advances to customers and other accounts less impairment allowances	-	-	-	345,360	-	345,360
Held-to-maturity and available-for-sale financial assets	-	-	-	(4,833,845)	-	(4,833,845)
Non-trading securities	-	-	-	(1,175,115)	-	(1,175,115)
Investments in associated companies	-	-	-	-	-	-
Tangible fixed assets						
-Investment properties	-	-	-	-	-	-
-Other properties, plants and equipment	-	-	-	-	-	-
Goodwill	-	45,196	-	-	-	45,196
Current tax recoverable	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-
Total assets	<u>-</u>	<u>45,196</u>	<u>-</u>	<u>1,077,255</u>	<u>-</u>	<u>1,122,451</u>

Effect of new policy (increase / (decrease) in total equity and liabilities)

	HKFRS 2 (note 7(c))	HKFRS 3 (note 7(f))	HKAS 1 (note 7(g))	HKAS 32 & 39 (note 7(e))	HK (SIC) Interpretation 21 & HKAS 40 (note 7(d))	Total
Equity and liabilities						
Deposits and balances of banks and other financial institutions	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-
Certificates of deposit issued (designated at inception as fair value through profit or loss)	-	-	-	(145,102)	-	(145,102)
Trading liabilities	-	-	-	857,334	-	857,334
Current tax payable	-	-	-	2,408	-	2,408
Deferred tax liabilities	-	-	-	54,952	11,308	66,260
Other accounts and provisions	-	-	-	13,501	-	13,501
Loan capital	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>783,093</u>	<u>11,308</u>	<u>794,401</u>
Share capital	-	-	-	-	-	-
Reserves						
-Share premium	11,520	-	-	-	-	11,520
-Capital reserve	-	-	-	-	-	-
-General reserve	-	-	-	-	-	-
-Bank premises revaluation reserve	-	-	-	-	-	-
-Investment properties revaluation reserve	-	-	-	-	(25,480)	(25,480)
-Investment revaluation reserve	-	-	-	(506)	-	(506)
-Capital redemption reserve	-	-	-	-	-	-
-Unappropriated profits	(11,520)	45,196	-	294,668	14,172	342,516
Reserves	-	45,196	-	294,162	(11,308)	328,050
Shareholders' funds	-	45,196	-	294,162	(11,308)	328,050
Minority interests	-	-	-	-	-	-
Total equity	<u>-</u>	<u>45,196</u>	<u>-</u>	<u>294,162</u>	<u>(11,308)</u>	<u>328,050</u>
Total equity and liabilities	<u><u>-</u></u>	<u><u>45,196</u></u>	<u><u>-</u></u>	<u><u>1,077,255</u></u>	<u><u>-</u></u>	<u><u>1,122,451</u></u>

Estimated effect on net income recognised directly in consolidated equity for the year end 31st December, 2005:

	Effect of new policy (increase / (decrease) in equity)		Total
	HKAS 39 (note 7(e))	HKAS 40 (note 7(d))	
Attributable to equity shareholders of the Bank	(5,637)	(12,797)	(18,434)
Minority interests	-	-	-
Total equity	<u>(5,637)</u>	<u>(12,797)</u>	<u>(18,434)</u>

Estimated effect on amounts recognised as capital transactions with owners of the Group for the year ended 31st December, 2005:

	Effect of new policy (increase / (decrease) in equity)		Total
	HKFRS 2 (note 7(c))		
Attributable to equity shareholders of the Bank	6,588		6,588
Minority interests	-		-
Total equity	<u>6,588</u>		<u>6,588</u>

(c) *Employee share option scheme (HKFRS 2, "Share-based payment")*

In prior years, no amounts were recognised when certain executives were granted share options over shares in the Bank. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1st January, 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as staff expense in the profit and loss account between the grant date and vesting date. A corresponding increase is recognised in share premium in equity.

If an employee chooses to exercise options, the exercise price is transferred to share capital and share premium. If the options lapse unexercised the related share premium is transferred directly to unappropriated profits.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

- (i) all options granted to employees on or before 7th November, 2002; and
- (ii) all options granted to employees after 7th November, 2002 but which had vested before 1st January, 2005.

The amount of prior year adjustments and the effect on the results for the year ended 31st December, 2005, and the reserves as of that date, are set out in notes 7(a) and 7(b). No adjustments to the opening balances as at 1st January, 2004 are required as no options existed at that time which were unvested at 1st January, 2005.

(d) Investment properties (HKAS 40, “Investment property”, and HK(SIC) Interpretation 21, “Income taxes – Recovery of revalued non-depreciable assets”)

Change in accounting policies relating to investment properties were as follows.

(i) Timing of recognition of movements in fair value in the profit and loss account

In prior years movements in the fair value of the Group’s investment properties were recognised directly in the investment properties revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the profit and loss account had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the profit and loss account. As from 1st January, 2005, the Group recognises any gain or loss arising from change in fair value in the profit and loss account.

The amount of prior year adjustments and the effect on the results for the year ended 31st December, 2005, and the reserves as of that date, are set out in notes 7(a) and 7(b).

(ii) Measurement of deferred tax on movements in fair value

In prior years the Group was required to apply the tax rate that would be applicable to the sale of investment properties to determine whether any amounts of deferred tax should be recognised on the revaluation of investment properties. As there would have been no tax payable on the disposal of the Group’s investment properties, no deferred tax was provided in prior years.

As from 1st January, 2005, in accordance with HK(SIC) Interpretation 21, the Group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property’s use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model.

The amount of prior year adjustments and the effect on the results for the year ended 31st December, 2005, and the reserves as of that date, are set out in notes 7(a) and 7(b).

(e) Financial instruments (HKAS 32, “Financial instruments: Disclosure and presentation” and HKAS 39, “Financial instruments: Recognition and measurement”)

In prior years, the accounting policies for certain financial instruments were as follows:

- Dated debt securities that the Group had the ability and intention to hold to maturity were classified as held-to-maturity securities. Held-to-maturity securities were stated in the balance sheet at amortised cost less any provisions for diminution in value. The carrying amounts of held-to-maturity securities were reviewed as at each balance sheet date in order to assess the credit risk and whether the carrying amounts were expected to be recovered. Provisions were made when carrying amounts were not expected to be recovered and were recognised as an expense in the profit and loss account.
- Trading securities were stated in the balance sheet at fair value. Changes in fair value were recognised in the profit and loss account as they arose.
- Non-trading securities were stated in the balance sheet at fair value. Changes in the fair value were recognised in the investment revaluation reserve until the security was sold, collected, or otherwise disposed of, or until there was objective evidence that the security was impaired, at which time the relevant cumulative gain or loss was transferred from the investment revaluation reserve to the profit and loss account.

- Derivatives carried in dealing portfolios were marked-to-market, and gains and losses were included in dealing profits or losses.
- Derivatives used in balance sheet management to hedge open positions for specific assets or liabilities, were accounted for on an accrual basis, consistent with the underlying assets and liabilities held in these portfolios.
- Certificates of deposit issued were stated at cost.
- Provisions for bad and doubtful debts included general provision which reflected the inherent risk of losses based on the past experience and judgments about current conditions; and specific provisions reflected the expected loss for non-performing loans following guidelines established by the Directors.
- Loan fee income and expense were recognised on an accrual basis using the relative contract or coupon interest rates. The interest accrued on non-performing loans was not taken as income but credited to a suspense account, which was netted in the balance sheet against the appropriate balance sheet headings.

From 1st January, 2005, the Group has adopted HKAS 32 and HKAS 39 and has classified financial instruments under the following categories:

(i) Classification

Financial assets measured at fair value through profit or loss

This category comprises financial assets held for trading and those that are designated as fair value through profit or loss at inception. A financial asset is classified as held for trading if it is either acquired principally for the purpose of selling it in the short term and for which there is evidence of a recent pattern of short-term profit-taking or is a derivative that is not a designated and effective hedging instrument.

This category includes equity investments, derivative instruments with a positive fair value, debt securities and investments in investment funds but excludes those financial assets that do not have a quoted market price and whose fair value cannot be reliably measured.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (1) those that the Group intends to sell immediately or in the near term and classified as held for trading, (2) those that the Group, upon initial recognition, designates as fair value through profit or loss, or (3) those where the Group has classified as available-for-sale.

This category includes assets which are shown on the balance sheet within cash and short-term funds, placements with banks and other financial institutions, trade bills and advances to customers and other accounts.

Available-for-sale financial assets

This category comprises non-derivative financial assets that are designated as available-for-sale financial assets or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

This category includes equity investments and debt securities.

Held-to-maturity investments

This category comprises non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intention and ability to hold to maturity, other than (1) those that the Group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale, or (2) those that meet the definition of loans and receivables.

Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are financial liabilities held for trading or those designated at fair value through profit or loss at inception. A financial liability is classified in this category if it is incurred principally for the purpose of being repurchased or is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-making, or is a derivative that is not a designated and effective hedging instrument.

This category includes structured certificates of deposit issued, derivative instruments with negative fair values not accounted for as hedging instruments, obligations to deliver financial assets borrowed by a short seller, and financial liabilities that are incurred with an intention to repurchase them in the near term.

Other financial liabilities measured at amortised cost

This category comprises all financial liabilities other than those classified as financial liabilities measured at fair value through profit or loss.

This category includes liabilities presented on the balance sheet within deposits and balances of banks and other financial institutions, deposits from customers, certificates of deposit issued and issued debt.

(ii) Initial recognition and measurement

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument.

A regular way purchase of financial assets is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price, plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities measured at fair value through profit or loss are expensed immediately.

(iii) Subsequent measurement

The subsequent measurement of financial instruments depends upon their classification.

Financial assets measured at fair value through profit or loss

Financial assets under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in the profit and loss account in the year in which they arise. Upon disposal, the difference between the net sale proceeds and the carrying value is included in the profit and loss account.

Loans and receivables

Loans and receivables and securities classified as loans and receivables are carried at amortised cost using the effective interest method, less impairment allowances, if any.

Available-for-sale financial assets

Available-for-sale financial assets are carried at fair value less impairment allowances, if any. Unrealised gains and losses arising from changes in the fair value are recognised in the investment revaluation reserve.

When the securities are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal and are accounted for in the profit and loss account.

Held-to-maturity investments

Held-to-maturity investments are carried at amortised cost using the effective interest method less impairment allowances, if any.

Financial liabilities measured at fair value through profit or loss

Financial liabilities under this category are carried at fair value. Unrealised gains and losses arising from changes in the fair value are included in profit and loss account in the year in which they arise. Upon repurchase, the difference between the net payments and the carrying value is included in the profit and loss account.

Other financial liabilities

Financial liabilities, other than those measured at fair value through profit or loss, are measured at amortised cost using the effective interest rate method.

(iv) Fair value measurement principles

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.

If a quoted market price is not available on a recognised stock exchange or from a broker / dealer for non-exchange-traded financial instruments, the fair value of the instrument is estimated using valuation techniques that provides a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties. Specifically, the fair value of a forward contract is determined as the present value of estimated future cash flows, discounted at appropriate market rates on the valuation date.

Investments in other unlisted investment funds are recorded at the net asset value per share as reported by the managers of such funds.

(v) Impairment and allowances for credit losses

Financial assets that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, an impairment loss is recognised in the profit and loss account as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

If in a subsequent year the amount of an impairment loss recognised on a financial asset carried at amortised cost or a debt instrument classified as available-for-sale decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the profit and loss account.

The total allowances and provision for credit losses consists of two components: individual impairment allowances, and collective impairment allowances. The individual impairment allowances component applies to loans and receivables evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows which are expected to be received. In estimating these cash flows, management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the Group. Each impaired asset is assessed on its merits. Collective impairment allowances cover credit losses inherent in portfolios of loans and receivables with similar economic characteristics where there is objective evidence to suggest that they contain impaired loans and receivables but the individual impaired items cannot yet be identified. In assessing the need for collective impairment allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowances, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the allowances and provisions the Group makes depends on how well the Group can estimate future cash flows for individually assessed counterparty allowances and the model assumptions and parameters used in determining collective allowances. While this necessarily involves judgment, the Group believes that the impairment allowances are reasonable and supportable.

All impaired financial assets are reviewed and analysed periodically. Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the allowances for impairment losses and will be charged or credited to the profit and loss account.

(vi) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

Interest income is recognised using the effective interest method.

Origination or commitment fees received by the Group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate.

Interest will continue to be recognised on impaired financial assets using the interest rate for discounting future cash flows for the purpose of measuring the related impairment loss. Subsequent unwinding of discount allowance is recognised as interest income.

(vii) Derivative financial instruments

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit and loss account except for derivatives that qualify as hedging as stated below.

(viii) Hedging:

- Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction and the hedge is effective, the gain or loss on the derivative financial instrument in relation to the hedged risk is recognised directly in equity.

- Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of an existing asset or liability that will give rise to a gain or loss being recognised in the profit and loss account or reserves.

The hedging instrument is measured at fair value, with fair value changes recognised in the profit and loss account. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of hedging instrument attributable to the risk being hedged. This adjustment is recognised in the profit and loss account to offset the effect of the gain or loss on the hedging instrument.

(ix) Description of transitional provisions and effect of adjustments:

The change in accounting policies of the above items were adopted by way of opening balance adjustments to certain reserves and redesignation of financial instruments as at 1st January, 2005. As a result of these opening balance adjustments, the retained profits and investment revaluation reserve of the Group as at 1st January, 2005 have been increased by HK\$182,205,000 and HK\$5,131,000 respectively. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

(f) *Amortisation of positive and negative goodwill (HKFRS 3, “Business combinations” and HKAS 36, “Impairment of assets”)*

In prior years, positive goodwill was amortised to the profit and loss account on a straight-line basis over not more than 20 years. In respect of controlled subsidiaries, positive goodwill was stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses. In respect of acquisition of associated companies, the cost of positive goodwill less any accumulated amortisation and any impairment losses was included in the carrying amount of the investments in associated companies.

With effect from 1st January, 2005, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also with effect from 1st January, 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the profit and loss account as it arises.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3.

(g) *Changes in presentation*

(i) Presentation of profit and loss account and balance sheet (HKAS 30, “Disclosures in financial statements of banks and similar financial institutions”)

In prior years, there were no specific accounting standards governing the presentation of the accounts of banks. Management, having regard to the overall clarity and the disclosure requirements of the Hong Kong Monetary Authority, exercised its judgement in deciding on the relative prominence given to each item presented on the face of the profit and loss account and balance sheet.

With effect from 1st January, 2005, in order to comply with HKAS 30 and take into account the measurement basis that has been applied, the Group has changed its presentation of certain items on the face of the profit and loss account.

With effect from 1st January, 2005, in order to comply with HKAS 30 and to assist in an understanding of the performance in financial instruments, the Group has reclassified and grouped the interest income and interest expenses arising from financial instruments for trading and measured at fair value through profit or loss from “Interest income”, “Interest expense” and “Other operating income” respectively to “Net interest income on financial instruments for trading and measured at fair value through profit or loss”.

- (ii) Presentation of shares of associates' and jointly controlled entities' taxation (HKAS 1, "Presentation of financial statements")

In prior years, the Group's share of taxation of associates and jointly controlled entities accounted for using the equity method was included as part of the Group's income tax in the consolidated profit and loss account. With effect from 1st January, 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of associates and jointly controlled entities 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 or loss before tax. These changes in presentation have been applied retrospectively with comparatives restated as shown in notes 7(a) and 7(b).

- (iii) Minority interests (HKAS 1, "Presentation of financial statements" and HKAS 27, "Consolidated and separate financial statements")

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the profit and loss account as a deduction before arriving at the profit attributable to shareholders (the equity shareholders of the company).

With effect from 1st January, 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the company.

(h) Definition of related parties (HKAS 24, "Related party disclosures")

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. These changes in presentation have been applied retrospectively with comparatives restated.

Supplementary Information

(1) Segment reporting

(a) Business segments

Retail banking activities include acceptance of deposits, residential mortgages, hire purchase and consumer loans.

Corporate banking activities include advance of commercial and industrial loans, trade financing and institutional banking.

Treasury activities include foreign exchange services, management of investment securities and trading activities.

Other business activities include insurance business, stockbroking activities and services for retirement schemes.

Unallocated items mainly comprise the shareholders' funds, investments in premises and property investment and other activities which cannot be reasonably allocated to specific business segments.

	<u>2005</u>						
	Retail banking	Corporate banking	Treasury	Other	Unallocated	Inter-segment elimination	Total
Net interest income	1,230,339	378,742	(90,958)	2,855	208,146	-	1,729,124
Net interest income on financial instruments held for trading and measured at fair value through profit or loss	-	-	220,652	-	(84,776)	-	135,876
Other operating income	398,322	85,892	131,503	82,326	57,727	-	755,770
Inter-segment income	-	-	-	-	56,344	(56,344)	-
Operating income	1,628,661	464,634	261,197	85,181	237,441	(56,344)	2,620,770
Operating expenses	(648,406)	(123,753)	(35,108)	(41,919)	(126,603)	-	(975,789)
Inter-segment expenses	(51,468)	(2,377)	(652)	(1,847)	-	56,344	-
Operating profit before impairment allowances on impaired loans and advances	928,787	338,504	225,437	41,415	110,838	-	1,644,981
Impairment losses and allowances on impaired loans and advances	(15,604)	(38,452)	-	-	-	-	(54,056)
Operating profit	913,183	300,052	225,437	41,415	110,838	-	1,590,925
Gains / (losses) on revaluation of investment properties, disposal of tangible fixed assets and associated company	(3,146)	(28)	-	(1)	25,855	-	22,680
(Losses) / profits on disposal of held-to-maturity and available-for-sale financial assets	-	-	(8,174)	59	(933)	-	(9,048)
Impairment allowances release for held-to-maturity financial assets	-	-	-	-	-	-	-
Profit on ordinary activities	910,037	300,024	217,263	41,473	135,760	-	1,604,557
Share of net profits in associated companies	-	-	-	11,005	244	-	11,249
Profit before taxation	<u>910,037</u>	<u>300,024</u>	<u>217,263</u>	<u>52,478</u>	<u>136,004</u>	<u>-</u>	<u>1,615,806</u>

	<u>2005</u>						
	Retail banking	Corporate banking	Treasury	Other	Unallocated	Inter- segment elimination	Total
Depreciation	27,926	3,807	2,029	1,005	40,640	-	75,407
Impairment losses on goodwill	-	-	-	291	879	-	1,170
Segment assets	40,112,196	21,714,801	21,943,990	122,253	20,282,421	-	104,175,661
Investments in associated companies	-	-	-	138,978	7,977	-	146,955
Total assets	<u>40,112,196</u>	<u>21,714,801</u>	<u>21,943,990</u>	<u>261,231</u>	<u>20,290,398</u>	-	<u>104,322,616</u>
Total liabilities	<u>84,031,512</u>	<u>1,897,049</u>	<u>662,086</u>	<u>20,550</u>	<u>9,373,368</u>	-	<u>95,984,565</u>
Capital expenditure	<u>24,729</u>	<u>10,557</u>	<u>1,114</u>	<u>238</u>	<u>19,261</u>	-	<u>55,899</u>

	2004 (restated)						
	Retail banking	Corporate banking	Treasury	Other	Unallocated	Inter- segment elimination	Total
Net interest income	1,213,269	378,961	186,681	3,597	11,809	-	1,794,317
Other operating income	313,230	112,981	86,918	84,417	42,471	-	640,017
Inter-segment income	-	-	-	-	49,087	(49,087)	-
Operating income	1,526,499	491,942	273,599	88,014	103,367	(49,087)	2,434,334
Operating expenses	(661,458)	(165,718)	(60,934)	(43,134)	(101,795)	-	(1,033,039)
Inter-segment expenses	(44,861)	(1,918)	(554)	(1,754)	-	49,087	-
Operating profit before provisions	820,180	324,306	212,111	43,126	1,572	-	1,401,295
Charge for bad and doubtful debts	(35,235)	(19,199)	-	-	-	-	(54,434)
Operating profit	784,945	305,107	212,111	43,126	1,572	-	1,346,861
Gains / (losses) on reevaluation of investment properties, disposal of tangible fixed assets and associated company	(978)	(1,895)	(1,235)	(354)	60,014	-	55,552
Profits on disposal of held-to-maturity securities	-	-	201	-	-	-	201
Profits on disposal of non-trading securities	-	-	6,224	83	-	-	6,307
Provisions written back for held-to-maturity securities	-	-	4,848	-	-	-	4,848
Profit on ordinary activities	783,967	303,212	222,149	42,855	61,586	-	1,413,769
Share of net profits in associated companies	-	-	-	4,431	114	-	4,545
Profit before taxation	<u>783,967</u>	<u>303,212</u>	<u>222,149</u>	<u>47,286</u>	<u>61,700</u>	-	<u>1,418,314</u>
Depreciation	51,463	14,678	7,666	2,125	32,126	-	108,058
Amortisation of goodwill	21,988	11,268	9,139	1,726	876	-	44,997
Segment assets	37,528,072	19,407,218	20,332,953	119,608	17,924,547	-	95,312,398
Investments in associated companies	-	-	-	127,970	7,736	-	135,706
Total assets	<u>37,528,072</u>	<u>19,407,218</u>	<u>20,332,953</u>	<u>247,578</u>	<u>17,932,283</u>	-	<u>95,448,104</u>
Total liabilities	<u>76,886,457</u>	<u>1,318,299</u>	<u>806,869</u>	<u>22,658</u>	<u>8,999,119</u>	-	<u>88,033,402</u>
Capital expenditure	<u>44,285</u>	<u>26,812</u>	<u>3,964</u>	<u>442</u>	<u>75,787</u>	-	<u>151,290</u>

(b) **Geographical segments**

The information concerning geographical segments has been classified by the location of the principal operations of the subsidiaries, or in the case of the Bank itself, of the location of the branch responsible for reporting the results or booking the assets.

	<u>2005</u>			Less: inter-	
	Hong Kong	Macau	Other	segment	Total
				elimination	
As at 31 st December, 2005					
Total operating income	2,439,037	328,961	138,562	(285,790)	2,620,770
Profit before taxation	1,476,178	233,180	61,249	(154,801)	1,615,806
Total assets	102,123,436	12,823,757	15,733,485	(26,358,062)	104,322,616
Total liabilities	94,384,492	11,981,792	15,320,048	(25,701,767)	95,984,565
Contingent liabilities and commitments	14,190,916	1,236,398	665,151	(1,113,613)	14,978,852
Capital expenditure	40,759	7,554	7,586	-	55,899
			<u>2004</u>		
			(restated)		
				Less: inter-	
				segment	
				eliminations	Total
As at 31 st December, 2004					
Total operating income	2,383,998	268,339	88,430	(306,433)	2,434,334
Profit before taxation	1,347,901	167,817	45,336	(142,740)	1,418,314
Total assets	95,563,311	10,092,742	14,370,127	(24,578,076)	95,448,104
Total liabilities	88,517,021	9,443,949	14,032,574	(23,960,142)	88,033,402
Contingent liabilities and commitments	14,377,018	758,992	45,597	(805,182)	14,376,425
Capital expenditure	103,936	23,160	24,194	-	151,290

(2) **Advances and other accounts less impairment allowances**

	<u>31st December, 2005</u>	<u>31st December, 2004</u>
Advances to customers	54,401,834	49,189,126
Individual impairment allowances for impaired loans and advances	(119,720)	-
Collective impairment allowances for impaired loans and advances	(207,842)	-
Specific provisions for bad and doubtful debts	-	(127,731)
General provisions for bad and doubtful debts	-	(494,779)
	54,074,272	48,566,616
Advances to banks and other financial institutions	79,191	110,865
Accrued interest and other accounts	1,310,822	1,012,793
Derivative financial instruments – hedging	8,598	2,993
	55,472,883	49,693,267

(3) Impaired loans

The gross impaired advances to customers and individual impairment allowances made after taking into account the discounted value of future recoverable amounts in respect of such advances are as follows:

	<u>31st December, 2005</u>	<u>31st December, 2004</u>
Gross impaired advances to customers	560,065	824,995
Gross impaired advances as a percentage of total advances to customers	1.03%	1.68%
Amount of collateral held	412,530	671,350
Individual impairment allowances	119,720	-
Specific provisions	-	127,731

There were no individual impairment allowances made on advances to banks and other financial institutions on 31st December, 2005 and 31st December, 2004.

(4) Advances to customers - by industry sectors

The information concerning advances to customers by industry sectors has been classified according to the usage of the loan and is stated gross of any impairment allowances.

	<u>31st December, 2005</u>	<u>31st December, 2004</u>	<u>Change</u> %
Loans for use in Hong Kong			
Industrial, commercial and financial			
- Property development	652,264	652,393	-
- Property investment	9,628,817	8,502,635	13.3
- Financial concerns	508,747	631,997	-19.5
- Stockbrokers	307,150	244,082	25.8
- Wholesale and retail trade	835,833	974,803	-14.3
- Manufacturing	1,460,996	1,745,129	-16.3
- Transport and transport equipment	2,827,696	2,721,053	3.9
- Share financing	256,776	205,011	25.2
- Others	2,899,347	3,032,779	-4.4
Individuals			
- Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	1,500,857	1,618,601	-7.3
- Loans for the purchase of other residential properties	13,917,497	13,872,283	0.3
- Credit card advances	385,932	358,582	7.6
- Others	3,523,120	3,272,558	7.7
Trade finance	3,057,178	2,575,916	18.7
Loans for use outside Hong Kong			
- Macau	4,817,591	4,026,596	19.6
- People's Republic of China	7,801,900	4,729,891	64.9
- Others	20,133	24,817	-18.9
	<u>54,401,834</u>	<u>49,189,126</u>	10.6

(5) Advances to customers and overdue advances - by geographical area

The geographical information has been classified by the location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	<u>31st December, 2005</u>	
	Total advances to customers	Overdue advances for over three months
Hong Kong	46,779,933	263,429
Macau	5,012,975	50,982
People's Republic of China	990,269	3,510
Others	<u>1,618,657</u>	<u>3,530</u>
	<u>54,401,834</u>	<u>321,451</u>

	<u>31st December, 2004</u>	
	Total advances to customers	Overdue advances for over three months
Hong Kong	43,343,176	562,931
Macau	4,227,186	87,516
People's Republic of China	715,318	7,807
Others	<u>903,446</u>	<u>-</u>
	<u>49,189,126</u>	<u>658,254</u>

(6) Overdue and rescheduled advances

	<u>31st December, 2005</u>		<u>31st December, 2004</u>	
	Amount	% of total advances	Amount	% of total advances
Gross advances to customers which have been overdue for				
6 months or less but over 3 months	84,313	0.15	148,535	0.30
1 year or less but over 6 months	65,648	0.12	65,410	0.13
Over 1 year	<u>171,490</u>	<u>0.32</u>	<u>444,309</u>	<u>0.90</u>
	<u>321,451</u>	<u>0.59</u>	<u>658,254</u>	<u>1.33</u>
Amount of collateral held	329,492		647,116	
Secured balance	265,815		563,124	
Unsecured balance	55,636		95,130	
Individual impairment allowances	51,608		-	
Specific provisions	-		89,644	
Rescheduled advances	<u>145,084</u>	<u>0.27</u>	<u>186,192</u>	<u>0.38</u>

There were no overdue advances for over 3 months and rescheduled advances to banks and other financial institutions on 31st December, 2005 and 31st December, 2004.

(7) Other overdue assets

	<u>31st December, 2005</u>		<u>31st December, 2004</u>	
	Debt securities	Trade bills	Debt securities	Trade bills
Other assets which have been overdue for				
6 months or less but over 3 months	-	3,529	-	-
1 year or less but over 6 months	-	-	-	108
Over 1 year	<u>-</u>	<u>547</u>	<u>-</u>	<u>1,714</u>
	<u>-</u>	<u>4,076</u>	<u>-</u>	<u>1,822</u>

(8) Repossessed assets

	<u>31st December, 2005</u>	<u>31st December, 2004</u>
Reposessed assets included in advances to customers	<u>86,314</u>	<u>193,822</u>

(9) Deposits from customers

	<u>31st December, 2005</u>	<u>31st December, 2004</u>
Demand deposits and current accounts	8,309,633	9,871,231
Savings deposits	11,578,904	16,800,082
Time, call and notice deposits	<u>65,784,915</u>	<u>51,897,848</u>
	<u>85,673,452</u>	<u>78,569,161</u>

(10) Certificates of deposit issued

	<u>31st December, 2005</u>	<u>31st December, 2004</u>
Certificates of deposit issued at amortised cost	1,902,640	4,616,090
Structured certificates of deposit issued designated at inception as fair value through profit or loss	<u>1,921,699</u>	<u>-</u>
	<u>3,824,339</u>	<u>4,616,090</u>

(11) Cross-border claims

The information concerning cross-border claims has been classified by the location of the counterparties after taking into account any risk transfer. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

	<u>31st December, 2005</u>			
	Banks and other financial institutions	Public sector entities	Others	Total
Macau	1,069,529	-	5,051,067	6,120,596
People's Republic of China	1,655,235	136,698	504,354	2,296,287
Other Asia Pacific	5,770,376	-	1,067,643	6,838,019
United States	957,664	300,635	2,098,564	3,356,863
Other North and South American countries	1,222,935	-	400,289	1,623,224
Middle East and Africa	3,721	-	3,216	6,937
Germany	8,064,807	-	13,280	8,078,087
United Kingdom	4,865,660	-	204,425	5,070,085
Other European countries	<u>13,101,460</u>	<u>-</u>	<u>957,342</u>	<u>14,058,802</u>
	<u>36,711,387</u>	<u>437,333</u>	<u>10,300,180</u>	<u>47,448,900</u>

	<u>31st December, 2004</u>			
	Banks and other financial institutions	Public sector entities	Others	Total
Macau	355,234	-	4,241,239	4,596,473
People's Republic of China	1,424,858	15,795	564,279	2,004,932
Other Asia Pacific	7,161,851	-	1,052,747	8,214,598
United States	1,124,311	303,703	2,200,764	3,628,778
Other North and South American countries	1,070,887	-	493,806	1,564,693
Middle East and Africa	761	-	1,821	2,582
Germany	7,751,606	-	3,977	7,755,583
United Kingdom	4,997,717	-	170,806	5,168,523
Other European countries	<u>10,100,714</u>	<u>-</u>	<u>638,539</u>	<u>10,739,253</u>
	<u>33,987,939</u>	<u>319,498</u>	<u>9,367,978</u>	<u>43,675,415</u>

(12) Currency risks

The net positions or net structural positions in foreign currencies are disclosed when each currency constitutes 10% or more of the respective total net position or total net structural position in all foreign currencies.

	<u>31st December, 2005</u>		<u>31st December, 2004</u>	
In millions of HK\$ equivalent	US\$	Total	US\$	Total
Spot assets	31,689	51,672	27,044	43,484
Spot liabilities	(32,431)	(52,130)	(28,388)	(44,775)
Forward purchases	5,396	7,871	4,307	5,100
Forward sales	(3,257)	(5,783)	(2,417)	(3,233)
Net long positions	<u>1,397</u>	<u>1,630</u>	<u>546</u>	<u>576</u>

	<u>31st December, 2005</u>				<u>31st December, 2004</u>		
In millions of HK\$ equivalent	Macau Patacas	Chinese Renminbi	US\$	Total	Macau Patacas	US\$	Total
Net structural positions	<u>204</u>	<u>192</u>	<u>317</u>	<u>713</u>	<u>110</u>	<u>218</u>	<u>328</u>

(13) Reserves

	<u>31st December, 2005</u>	<u>31st December, 2004</u> (restated)
Share premium	359,929	347,034
Capital reserve	215,909	215,909
General reserve	2,090,415	2,091,174
Bank premises revaluation reserve	281,236	269,039
Investment revaluation reserve	14,146	22,241
Capital redemption reserve	769	769
Unappropriated profits	<u>5,059,515</u>	<u>4,154,741</u>
Total reserves	<u>8,021,919</u>	<u>7,100,907</u>

The Group's unappropriated profits as at 31st December, 2005 included HK\$336,176,000 (2004: Nil) as the regulatory reserve arising from the differences between the impairment allowances made under HKAS 39 and for regulatory purposes.

(14) Off-balance sheet exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	<u>31st December, 2005</u>	<u>31st December, 2004</u>
Direct credit substitutes	848,908	809,560
Transaction-related contingencies	105,582	33,450
Trade-related contingencies	1,482,947	1,416,358
Other commitments	10,540,815	9,875,085
Forward forward deposits placed	<u>2,000,600</u>	<u>2,241,972</u>
	<u>14,978,852</u>	<u>14,376,425</u>

(b) Derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

The following table is a summary of the notional amounts of each significant type of derivatives.

	<u>31st December, 2005</u>	<u>31st December, 2004</u>
Exchange rate contracts		
Forwards – trading	6,866,513	3,286,625
Forwards – hedging	-	919,593
Option purchased – trading	242,524	277,016
Option written – trading	<u>242,524</u>	<u>277,016</u>
Total exchange rate contracts	<u>7,351,561</u>	<u>4,760,250</u>
Interest rate contracts		
Swaps – trading – receiving fixed rate	79,759,074	37,191,480
Swaps – trading – paying fixed rate	83,558,435	37,070,388
Swaps – hedging – receiving fixed rate	-	14,854,793
Swaps – hedging – paying fixed rate	<u>535,485</u>	<u>25,096,124</u>
Total interest rate contracts	<u>163,852,994</u>	<u>114,212,785</u>
Equity contracts		
Option written – trading	<u>76,210</u>	<u>140,902</u>
Total equity contracts	<u>76,210</u>	<u>140,902</u>
	<u>171,280,765</u>	<u>119,113,937</u>

The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures are as follows. These amounts do not take into account of the effects of bilateral netting arrangements.

	<u>31st December, 2005</u>		<u>31st December, 2004</u>	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
Contingent liabilities and commitments	N/A	1,954,688	N/A	1,757,281
Exchange rate contracts	59,494	41,391	22,192	20,229
Interest rate contracts	783,180	259,614	554,187	211,702
Equity contracts	<u>1,094</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>843,768</u>	<u>2,255,693</u>	<u>576,379</u>	<u>1,989,212</u>

(15) Capital adequacy and liquidity ratios

(a) Capital adequacy ratio

	<u>31st December, 2005</u>	<u>31st December, 2004</u> (restated)
Core Capital		
Paid up ordinary share capital	294,021	293,911
Share Premium	359,929	347,034
Reserves	5,838,021	5,417,947
Others	623,129	511,811
Less: Goodwill	<u>(847,422)</u>	<u>(847,422)</u>
	<u>6,267,678</u>	<u>5,723,281</u>
Eligible supplementary capital		
Reserves on revaluation of properties	190,993	187,824
Unrealised gains on revaluation of available-for-sale financial assets	5,699	-
Unrealised gains on revaluation of non-trading securities	-	14,246
Collective impairment allowances for impaired loans and advances	208,498	-
General provisions for doubtful debts	-	496,214
Regulatory reserve	336,176	-
Eligible value of term subordinated debt instruments	<u>2,519,888</u>	<u>2,526,485</u>
	<u>3,261,254</u>	<u>3,224,769</u>
Total capital base before deductions	<u>9,528,932</u>	<u>8,948,050</u>
Deductions from total capital base	<u>(405,324)</u>	<u>(405,324)</u>
Total capital base after deductions	<u>9,123,608</u>	<u>8,542,726</u>
Unadjusted and adjusted capital adequacy ratio	<u>14.9%</u>	<u>15.7%</u>

The unadjusted capital adequacy ratio is computed on a consolidated basis covering the Bank and certain of its financial subsidiaries as specified by the Hong Kong Monetary Authority (“HKMA”) for its regulatory supervision purposes, and is in accordance with the Third Schedule to the Hong Kong Banking Ordinance.

The adjusted capital adequacy ratio incorporating market risk is computed on the same consolidated basis, and is in accordance with module on “Maintenance of Adequate Capital against Market Risks” under Supervisory Policy Manual issued by the HKMA.

(b) Average liquidity ratio for the year

	<u>2005</u>	<u>2004</u>
Average liquidity ratio for the year	<u>50.8%</u>	<u>49.1%</u>

The average liquidity ratio for the year includes the liquidity positions of all overseas branches, Hong Kong offices and financial subsidiaries in its calculation, which is the basis of computation agreed with the HKMA, and has been computed in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.

REVIEW AND PROSPECTS

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\$0.7 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.

We were able to achieve good asset growth in China and Macau. Our consumer financing, investment mortgages, trade financing and equipment financing also did very well.

This excellent performance took place on the back of an improving economic climate. Hong Kong's real GDP grew at a robust rate of 7.3 percent after 8.6 percent growth in 2004. Exports of goods and services grew due to buoyant trade flows with China, and the economy was further boosted by continued strong inbound tourism. Consumer spending rebounded as a result of rising employment. The unemployment rate declined to 5.2 percent, its lowest level in four years. Household income also gradually improved while inflation remained benign with consumer prices rising by just 1.1 percent.

Short-term US interest rates continued to rise at a gradual pace, taking the federal funds rate to 4.5 percent by January 2006. Local interbank interest rates closely followed that trend after the HKMA refined the operation of the Linked Exchange Rate system last May. However, the Hong Kong dollar exchange rate hovered on the strong side of the peg on continued speculation about a revaluation of the Renminbi.

Asset quality continues to improve amid stable conditions in the domestic economy and property market. Rises in real estate prices in the first half of the year helped the number of residential mortgage loans in negative equity to fall by 90 percent to 11,000 units compared with the recent peak in 2003.

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.

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.

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 or three new branches and to promote personal loan products across the Wing Hang Bank and Wing Hang Credit network.

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.

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.

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.

The return on average assets and average shareholders' funds reached 1.35 percent and 17.1 percent respectively. The Group's capital adequacy ratio and average liquidity ratio stood at 14.9 percent and 50.8 percent respectively while the loan to deposit ratio increased slightly to 59.7 percent due to an increase in loan volume.

Another important achievement was the successful integration of CFB as a result of a carefully executed merger exercise. This has resulted in a stronger and more substantial bank with an expanded branch network. In addition, significant revenue and cost synergies were achieved in 2005. The Group currently has 37 branches in Hong Kong, 11 branches in Macau and one branch each in Shenzhen and Shanghai. As at the end of December 2005, the Group employed a total of 2,301 staff.

Looking ahead, global economic expansion should continue in 2006 despite uncertainties about interest rates and energy prices. Trade protectionism in Europe and the US as well as continued pressure for a revaluation of the Renminbi may cast a shadow on the outlook for economic growth in China and Hong Kong. However, there are signs that the US interest rate cycle is near its peak, and domestic credit growth is likely to increase in line with strong economic activity.

After the successful integration of CFB, we now have a larger operating platform and customer base to grow our business. We will continue to expand our business in high growth areas such as Macau and China. While pursuing such a growth strategy, we are keenly aware that the key to success is a prudent lending policy.

We will continue to control costs by carefully streamlining our operations as well as broadening our fee income and expanding our consumer lending businesses through cross selling to an enlarged customer base. We will focus on enhancing our franchise by introducing innovative products and delivering superior service.

PROPOSED DIVIDEND

The Directors propose to recommend at the forthcoming Annual General Meeting to be held on Thursday, 27th April, 2006 the payment of a final dividend of HK\$1.60 per share. This final dividend, if approved, will be paid on Monday, 15th May, 2006 to shareholders whose names are on the Register of Members on 27th April, 2006.

CLOSING OF REGISTER OF MEMBERS

The Register of Members of the Bank will be closed from Monday, 24th April, 2006 to Thursday, 27th April, 2006 both days inclusive, during which period no transfer of shares can be registered. In order to qualify for the above dividend, all transfers accompanied by the relevant share certificates must be lodged with the Bank's Registrars, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Friday, 21st April, 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Bank has complied throughout the year ended 31st December, 2005 and adopted all the code provisions set out in Appendix 14 - Code on Corporate Governance Practices of the Listing Rules, except for the following deviations:

Code Provision A.2.1

This Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Dr Patrick Y B Fung is the Chairman and Chief Executive of the Bank. The Board considered that the non segregation would not result in considerable concentration of power in one person not only because of the presence of Independent Non-executive Directors but also that The Bank of New York is actively represented by an executive director who is also the deputy chief executive actively participating in the management and operations of the Bank. There is a balance of power and authority such that no one individual has unfettered power of decision. Non-segregation has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently.

Code Provision A.4.1

This code stipulates that non-executive directors should be appointed for a specific term and subject to re-election.

The term of office for non-executive directors are the same as for all directors (i.e. no specific term and subject to retirement from office by rotation and be eligible for re-election in accordance with the provisions of the Bank's Memorandum and Articles of Association). At every Annual General Meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office.

The terms of reference of Audit Committee and Remuneration Committee have been revised and approved by the Board on 11th August, 2005 in order to comply with the relevant code provision.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Bank has adopted for compliance by the Directors the code of conduct for dealings in securities of the Bank as set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”), of the Listing Rules.

Having made specific enquiry of all directors of the Bank, they have complied with the required standards set out in the Model Code for the year ended 31st December, 2005.

PUBLICATION OF ANNUAL REPORT ON THE EXCHANGE’S WEBSITE

The financial information set out in this report does not constitute the Group’s statutory accounts for the year ended 31st December, 2005 but there is no material change as compared to those accounts. The statutory accounts for the year ended 31st December, 2005 containing all the information required by the Listing Rules will be published on the Exchange’s website in due course.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There were no purchases, sales or redemptions by the Bank, or any of its subsidiaries, of the Bank’s listed securities during the year ended 31st December, 2005.

BOARD OF DIRECTORS

As at the date of this announcement, the Executive Directors of the Bank are Dr Patrick Y B Fung (Chairman and Chief Executive), Mr Frank J Wang (Deputy Chief Executive), Mr Michael Y S Fung and Mr Louis C W Ho; Non-executive Directors are Mr Alan R Griffith, Mr Kenneth A Lopian and Mr Andrew M Gordon; and Independent Non-executive Directors are Dr Cheng Hon Kwan, Mr Ambrose H C Lau, Mr Simon K Y Lee, Mr Tung Chee Chen and Mr Aloysius H Y Tse.

By Order of the Board

Patrick Y B Fung

Chairman and Chief Executive

Hong Kong, 16th March, 2006