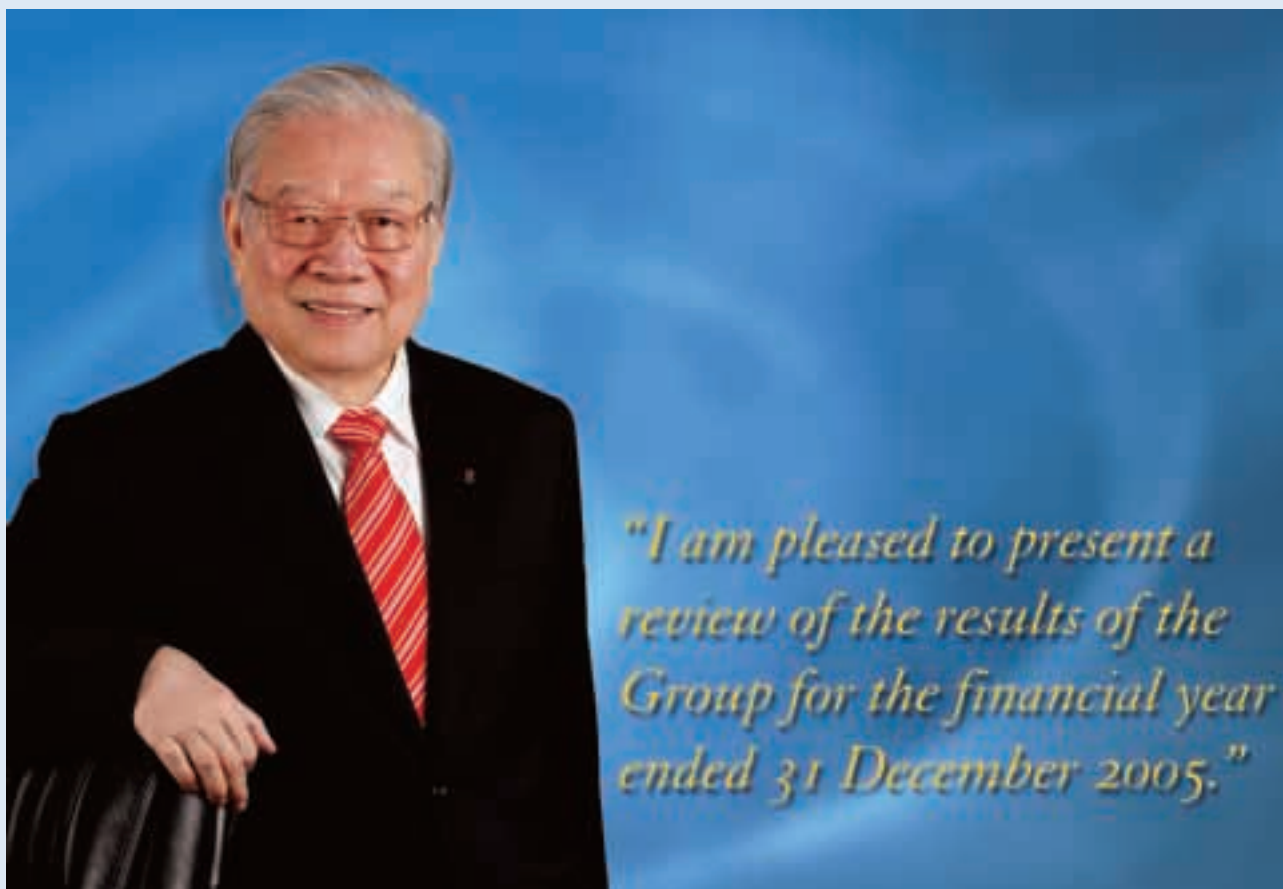


Chairman's Statement



Tan Sri Dato' Sri Dr. Teh Hong Piow, Chairman

Group Performance

During the year under review, Hong Kong's consumer sentiment continued to improve with favourable economic trends, gradual improvement in unemployment rate, recovery in property prices and growth in inbound tourists and related retail industries. However, the operating environment for financial institutions in the banking industry remained challenging as demand for consumer financing remained soft. The competition remained keen amongst the financial institutions with high liquidity within the banking industry and with the sharing of positive credit data for consumer loans. The gap between Hong Kong dollar and US dollar interest rates narrowed markedly after the Hong Kong Monetary Authority (the "HKMA") made several refinements to the operation of the Linked Exchange Rate System in May 2005. Hong Kong Inter-bank Interest Rates rose after the refinements, prompting financing institutions to offer higher interest rates to depositors, which in turn lead to increased funding costs.

The adoption of new accounting standards had reduced the earnings resulted from the cessation of amortisation of negative goodwill of HK\$18.4 million and provision of share option benefits of HK\$45.8 million in the profit and loss account for the year. Despite the aforesaid accounting exceptions, the Group recorded a profit after tax of HK\$446.3 million for the year ended 31 December 2005, representing a moderate increase of 8.1% or HK\$33.4 million when compared to HK\$412.9 million in the previous year. Accordingly, the Group's basic earnings per share increased to HK\$0.62 from HK\$0.58 in the previous year. The Directors declared the second interim dividend of HK\$0.40 per share on 30 December 2005 and did not recommend the payment of a final dividend for the year. Together with the first interim dividend of HK\$0.06 per share and the special dividend of HK\$0.29 per share paid in September 2005, the total dividends for the year 2005 amounted to HK\$0.75 per share.

Group Performance (Continued)

The increase in profit after tax in 2005 when compared to the previous year was mainly attributed to the increase in net interest income, the decrease in operating expenses and the decrease in impairment loss and allowances for impaired financial assets in the same year.

The Group's net interest income increased by 9.5% or HK\$66.6 million to HK\$766.0 million as compared to the previous year. Interest income increased by 12.6% or HK\$89.9 million to HK\$802.7 million mainly from the reallocation of certain fee income from non-interest income of HK\$39.7 million upon prospective adoption of new accounting standards and the growth in loans and advances. Interest expense increased by 173.9% or HK\$23.2 million to HK\$36.6 million mainly due to the growth in average customer deposits during the year after the distribution of the special dividend to shareholders in 2004, and the increase in interest rates offered on customer deposits. During 2005, the Group's operating expenses decreased by 9.3% or HK\$21.6 million to HK\$211.6 million when compared to the previous year. The Group continued to exercise effective control over its operating costs and maintained a low cost to operating income ratio of 23.5% for the year 2005. During the same year, the Group's impairment loss and allowances for impaired financial assets decreased by 8.4% or HK\$14.6 million to HK\$158.8 million mainly due to the reduction in bad debts from consumer loans.

As at 31 December 2005, the Group's total gross loans and advances increased by 10.3% or HK\$334.1 million to HK\$3,583.8 million from HK\$3,249.7 million at the end of December 2004 after bad debts written off amounting to HK\$221.5 million. The growth in gross loans and advances arose mainly from consumer financing and taxi loans. The Group's customer deposits decreased by 4.6% or HK\$78.4 million to HK\$1,642.0 million as at 31 December 2005 from HK\$1,720.4 million as at 31 December 2004 after withdrawal of a deposit of HK\$223.4 million from a connected customer. The equity of the Group stood high at HK\$2,393.4 million as at 31 December 2005.

The Group will continue to relocate branches to more prominent locations with ease of access by customers and to look for strategic locations to open new branches. At the same time, the Group will enhance customer satisfaction and loyalty by providing better service quality through its wide branch network of 40 branches.

Re-branding of Wholly-owned Subsidiary

A wholly-owned subsidiary, JCG Finance Company, Limited ("JCG Finance"), has changed its name to Public Finance Limited ("Public Finance") in January 2006 to reflect the corporate identity of the parent company, Public Bank Berhad ("Public Bank"). Public Bank Group is the third largest banking group in Malaysia in terms of total assets. Public Bank was the only Malaysian Company listed in the Forbes "World's 400 Best Big Companies" in 2004 and has been recognised by numerous international awards as the Best Bank in Malaysia for many years. This change of name is a strategic move to further enhance the image and reputation of Public Bank Group's business operations in Hong Kong.

Acknowledgement

On behalf of the Board of Directors, I wish to take this opportunity to express our appreciation to the management and staff of the Group for their commitment, dedication and perseverance. On behalf of the management and staff of the Group, I also wish to express my sincere thanks to our customers for their invaluable patronage, our shareholders for their continued confidence in and support of the Group, and the HKMA and other relevant authorities for their invaluable advice, guidance and support.

Tan Sri Dato' Sri Dr. Teh Hong Piow

Chairman

(updated to 8 February 2006)