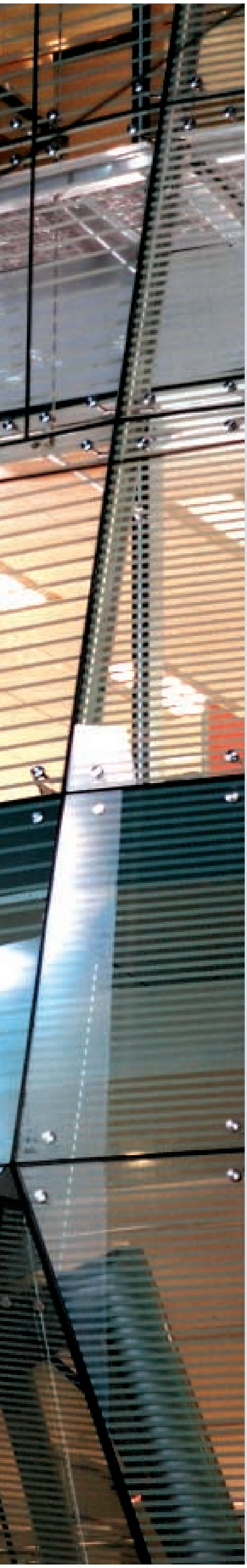


## BANKING OPERATION

For the year ended 2006, the Group's banking associate, Chong Hing Bank Limited (the "Bank") reported a profit attributable to shareholders amounted to HK$503.1 million, representing an increase of 26.4% over that for the year before.

During the year 2006, economies around the world enjoyed decent growth. In particular, China and Hong Kong continued to show strong economic performance, and we believe this trend will extend through 2007. With interest rates still at historically affordable levels, we believe the current economic environment is supportive of stable growth. As such, we believe the Bank and our Group will perform consistently over the coming year.

## PROPERTY INVESTMENT

The year 2006 has been a strong year for Hong Kong's property market, particularly with turnover and prices making good gains in both residential and commercial sectors. We believe this trend will continue into 2007.

During 2006, the Group has expanded its investment portfolio with the acquisition of Universal Plaza, a shopping plaza in Guangzhou, PRC at a consideration of RMB140,000,000. Over this period, the overall occupancy of the Group's investment portfolio has increased by 7.5% and the overall rental revenue has increased by 4.7%.

## HONG KONG

### *Chong Hing Square*

Chong Hing Square, a popular ginza-type retail development situated in the heart of Mongkok, Kowloon, offers 184,000 square feet of retail and recreational space. This 20-storey building has been 83% let, and its rental revenue increased by 9.7%.


Chong Hing Square

***Chong Yip Shopping Centre***

Chong Yip Shopping Centre is located in Western District with 41,000 square feet of retail and recreational space. This 2-storey shopping mall was 100% let in 2006 and rental revenue has increased by 15%.

***Western Harbour Centre***

Western Harbour Centre, a Grade-A office building at 181 Connaught Road West, Hong Kong, is conveniently located close to the Western Harbour Tunnel. This 28-storey 140,000 square feet development was 100% let in 2006 and rental revenue increased by 6.1% over the previous year.

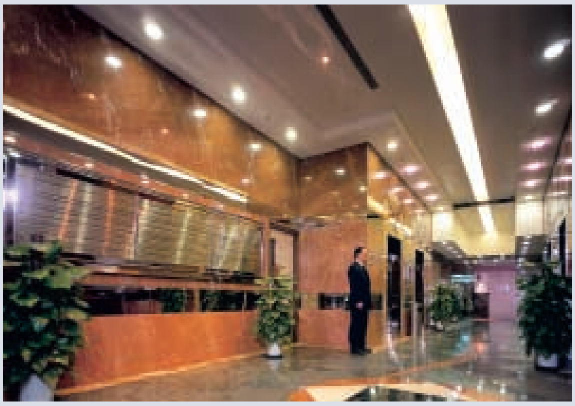
***Fairview Court***

Fairview Court is a 6-unit luxury low-rise apartment building in prestigious Repulse Bay, Hong Kong, of which the Group owns 5 units. During 2006, all 5 units are let out and rental revenue increased by 58%.

## PRC

***Le Palais, Residential Project in Guangzhou***

A prestiguous residential project in Guangzhou, Le Palais provides 844 luxury units over 4 blocks with total GFA over 1,500,000 square feet. A total of 196 units were sold in 2006 generating a sale revenue of HK$240.7 million. An accumulated total of 806 units were sold up to 31 December 2006. The Group has started to sell the 300 car park spaces beginning September 2006 and will continue to do so over 2007, and this will generate further sales revenue. The Group also intends to adjust the prices of the remaining 38 residential units and sell them over the course of 2007.



***Universal Plaza, Guangzhou***

The Group acquired this well located 5-storey shopping mall in central Guangzhou in 2006. With 188,000 square feet of shopping and recreational space, the Group intends to make some renovations to this property to improve its appeal and layout so as to achieve better rental revenue in the long term. This property is currently 56% let.

## PROPERTY DEVELOPMENT

### HONG KONG

***Chong Hing Bank Centre***

Chong Hing Bank Centre, a 28-storey modern office building with total gross floor area over 100,000 square feet has been completed in 2006 and currently serves as the headquarters of both the Group and the Bank. The Group owns 45.78% interests in this project.

**Western Harbour Centre**

***Tai Po, New Territories***

The Group has recently acquired a 240,000 square feet plot of land in Tai Po district, New Territories. Initial consultational studies and planning has begun, and the Group intends to seek eventual conversion of this land for future residential use.

### PRC

***LCH Centre, Shanghai***

LCH Centre is located at 288, Nanjing Road West, in Huang Pu District, Shanghai. This 36-storey Grade-A building is scheduled to be completed in July 2007, and will offer 340,000 square feet of office space, 137,000 square feet of commercial and retail space, and 197 car park spaces at a prestiguous location opposite People's Square. The Group intends to retain this property for long-term rental purpose. Total investment in this project is about HK$1,300 million. The Group owns 95% of this property and the remaining 5% is owned by a subsidiary of the Municipal Government of Huang Pu District, Shanghai. Pre-leasing of this property has begun and the property has received strong interest from both national and international companies.

***Foshan Residential Project***

The Group has recently acquired a plot of land in Foshan, Guangzhou PRC. This 2,600,000 square feet land has been acquired through government land auction at a consideration of RMB476,000,000 and its use is intended for mixed-type development including both residential and retail elements. The Group intends to develop this project in several phases over a period of 4-5 years and will seek to make this into a landmark project in the Foshan vicinity of Guangzhou. Currently, the Group has engaged market research consultants to investigate the most appropriate development model. Subsequently, both domestic and international design firms will be consulted to produce the best design and facilities suitable for this model. We expect the first phase of sales for this project to begin in 2008.

The Belchers' Shopping Centre

## CAPITAL STRUCTURE

The Group's shareholders' funds as at 31 December 2006 amounted to HK$5,697 million, representing an increase of HK$144 million when compared with 31 December 2005. The increase in shareholders' funds was due to the increase in net profit for the year of HK$223 million, an increase of various investment and revaluation reserves of HK$4 million less the dividend of HK$83 million paid during the period.

## FINANCE AND TREASURY OPERATIONS

### BANK BORROWINGS MOVEMENT

As at 31 December 2006, the Group's consolidated borrowings has been increased by HK$435 million, from HK$2,270 million to HK$2,705 million. The Group's net borrowings after deducting cash and deposits has increased from HK$1,592 million to HK$1,717 million.


### CHANGE OF CASH FLOW

The Group's cash flow position has significantly improved in 2006. The improvement was mainly due to the net cash inflow from the sale of Le Palais, Guangzhou residential project and the repayment of shareholders loans from The Belcher's.

The total cash proceeds from the sale and rental income of Le Palais for the year was HK$245.8 million and HK$3.2 million respectively.

Le Palais

A total of HK$26 million being the repayment of shareholders loans was returned from the investment in The Belcher's.

## MAJOR CAPITAL EXPENDITURE

The management believes that the Group's total bank debts could be further reduced by the cash proceeds receiving from the sale of tower one of Le Palais.

The management is well aware that a higher gearing level will not only undermine the Company's long-term stability but also restrict its flexibility for any new business venture. The management had determined to closely monitoring the gearing. At the year ended, the debt-to-equity ratio has slightly increased to 30% from 29% in 2005.

## BANKING FACILITIES

The total outstanding bank borrowings as at 31 December 2006 was 85% unsecured with almost 100% being on committed basis.

In managing the debt portfolio, the Group has endeavoured to maintain diversified sources to obtain the required funding. Currently, the major source of financing is still coming from the banking sector, in which the Group has bilateral banking facilities with over 13 banks. Most of these banks have had a long established relationship with the Group.

The Group has also raised funding from arranging syndicated loans in the past. The management will consider to widen the funding source from capital market if both of the market conditions and terms are favourable to the Company.

## COST OF FUNDING

In 2006, the borrowing margins were tightening further given the excessive liquidity in the money market, the Group renewed banking facilities with certain key relationship bank. The refinancing exercise made significant contribution to lower the Group's borrowing cost for the year.

Having done that the Group's weighted average cost of borrowing was reduced slightly.

## LIQUIDITY RISK AND CASH BALANCES

It is the Group's financial policy to maintain low leverage and high liquidity. To maintain sufficient liquidity will not only help the Group to fulfill all short term payment obligation but also to improve the Group's working capital.

The liquidity mainly comes from the recurring rental income of various investment properties, the cash sale proceeds from various completed development projects and the committed banking facilities. The Group's undrawn committed facilities stood at HK$1,118.95 million as at 31 December 2006.

The liquidity risk of the Group has been further reduced by early refinancing and improvement of cash flow. The improvement of cash flow was mainly due to the net cash inflow from the sale of Le Palais, Guangzhou residential project and the repayment of shareholders' loans from The Belcher's.

## LOAN MATURITY ANALYSIS

The liquidity risk could be reduced by extending the loan tenors. The Group's debt maturity portfolio is spread out over a medium term, with more than 47% and 26% of debts becoming due within 2 years and over 2 but within 5 years respectively. Such a maturity structure allows the Group taking more flexibility on refinancing measures.

## RISK MANAGEMENT

As almost all of the Group's borrowings are denominated in Hong Kong dollars for the construction projects both in Hong Kong and Mainland China with interest rates setting on floating rate basis, thus managing on interest rate and currency risk are becoming more important.

In managing interest rate and foreign exchange exposure, the Group may use certain derivative instruments such as interest rate swaps, cross currency sways, forward rate agreements and foreign exchange contracts. However, there was no such derivative instruments unexpired as at the end of 2006. It is the Group's policy to allow using derivatives as hedging purposes only.

With respect to the counterparty risk of the derivatives, the Group transacts only with financial institutions with strong investment-grade ratings.

## INTEREST RATE EXPOSURE

The volatility and uncertainty of the movement of interest rate may result in a negative potential impact to the Group's financial position. Given that the Group's management will actively involve and review the movement of interest rate so as to minimize the financial impact.

## FOREIGN EXCHANGE EXPOSURE

It is the Group's policy to minimize mismatch in currency and not to speculate in currency movement. As at 31 December 2006, HK$402.92 million construction loan was converted into Renminbi for construction payment in Shanghai project, which represents 15% of the Group's total borrowings

Other foreign exchange exposure related to some major investment in Guangzhou and Shanghai projects which all together amounted to the equivalent of about HK$2,678 million or 29.7% of the Group's assets.

The Management will be closely monitoring the currency movement of Remninbi as mainland property development projects denominated in Remninbi placed a significant portion to the Group's total assets. The cash sale proceeds received from Le Palais, Guangzhou could eliminate part of the foreign currency exposure against the payment of construction cost in Shanghai.

## EMPLOYEE AND EMOLUMENT POLICY

As at 31 December 2006, the total numbers of employee of the Group was about 200. The Group's remuneration policy, having been advised and determined by the Remuneration Committee, will ensure that the pay levels of its employees are reasonable and competitive in the market and their total rewards including basic salary and bonus system are linked with their performance. The members and the work done of Remuneration Committee are shown on page 23.