EXECUTIVE CHAIRMAN'S STATEMENT

Mr Liu Lit Man GBS, JP, FIBA

Executive Chairman

Economic Review

In 2006, the global economy kept growing. The World Bank and the International Monetary Fund estimated the annual economic growth rate at 3.9 percent and 5.1 percent respectively. Under the new backdrop of the global economy, economic expansion was not solely driven by the United States. Europe, with slackening growth over the past few years, experienced a turning point in the economy and its economic growth set a record for the recent years. The economy of Japan demonstrated a promising surge with the decision to increase interest rate for the first time within the recent six years, marking the ultimate return of its economy to the right track. The rates of economic growth of various emerging markets and developing countries, particularly China and India, were all higher than the average growth rate of the global economy. Asian countries have played increasingly important roles in the growth of the global economy. Meanwhile, Europe and Asia have grown into a predominant driving force promoting global economic growth.

The Hong Kong economy was on a steady upward trend for the year. Strong internal demand was a major booster for economic growth, driving gross domestic product up by 6.8 percent in 2006. Optimistic consumption sentiment of and investment incentives for the local people strengthened the operating confidence of enterprises. All sectors continued to expand and increase recruitment, resulting in a substantial fall in unemployment rate to the latest six-year low figure of 4.4 percent. Reduced oil prices, advanced productivity together with growing expansion in production scale contributed to Hong Kong's mild inflation. The annual inflation rate of 2 percent enabled Hong Kong to maintain high growth and low inflation, creating a desirable environment. In addition, benefiting from the favourable influences of China such as its enormous support and wealth effect, the performance of the stock market was exceptional this year. Stimulated by an influx of capital tracking H-share stocks and a tide of initial public offerings, Hang Seng Index rose by more than 30 percent over the year while Hong Kong's stock market value, which has set record after record, amounted to over HK$13 trillion. Driven by the prosperous financial market, the actual growth rate of the financial industry outstripped all the other sectors. Moreover, the growth of exports of finance, business and other services also surpassed the overall growth level of the entire service exports. However, the development of the property market was polarized with steady prices for small and medium residential properties but substantial selling prices for certain pieces of land for the development of luxurious residential properties. Such a development reflected a strong market preference for luxurious residential properties.

As to the local banking industry, since the Federal Reserve Board temporarily suspended interest rate hiking in August 2006, this cycle of raising interest rate of HK dollar has also ended. With the continuous capital inflow, the banks' decision of not following the trend of US dollar interest in last November and taking the lead to reduce interest rate, together with the prosperous stock market, among other banking services, new subscription financing and margin financing have acquired great benefits. Competition for business in such areas as mortgage financing remained fierce, resulting in thin actual profit. Banking operations were confronted with difficulties and opportunities. Hence, greater efforts had to be exerted to make further improvements.

Results Announcement

The Bank's results for 2006 show a rather satisfactory improvement. For the financial year of 2006, on an audited, consolidated basis, profit attributable to shareholders amounted to HK$503.144 million, an increase of 26.42 percent over that for the year before. Total customers' deposits increased 31.73 percent to HK$54.675 billion. Total loans to customers (after accounting for impairment allowances) increased 11.10 percent to HK$27.005 billion. On 31 December 2006, the Bank's loan portfolios were made up as follows: property developments and investments (28.46 percent), personal real estate purchases (15.45 percent), financial and securities concerns (7.35 percent), trade finance (3.06 percent), wholesale and retail trade (2.86 percent), manufacturing, transportation and other businesses (23.53 percent), loans outside Hong Kong (13.91 percent), and others (5.38 percent). Adjusted capital adequacy ratio rose 2.63 percent to 15.59 percent at the end of 2006, while average liquidity ratio for 2006 increased 13.27 percent to 55.65 percent. Loan-to-deposit ratio decreased 11.69 percent to 44.93 percent. Total assets, having increased 26.13 percent to HK$63.03 billion. Shareholders' funds (before final dividend), compared with the shareholders' funds for the previous year, increased 3.75 percent to HK$6.052 billion. Your board has recommended paying the final dividend of HK$0.44 per share for the financial year of 2006 to shareholders whose names appear in the Register of Members at the close of business on Friday, 20 April 2007. Total dividends for the financial year of 2006 (including the interim dividend of HK$0.19 per share paid earlier) amounted to HK$0.63 per share.

Jordan Branch commenced business on 11 January 2007 at the Bank's self-owned premises. Eight additional branches were opened in 2006, namely, Kwai Chung Estate Branch, Fu Tai Estate Branch, Cheung Fat Estate Branch, Tin Chak Estate Branch, On Ting Estate Branch, Butterfly Estate Branch, Hoi Lai Estate Branch and Yat Tung Estate Branch to provide banking services to the public.

Profit Analysis

On an audited, consolidated basis, net interest income rose 10.05 percent from that of 2005 to HK$828.539 million in 2006. Interest spread decreased 8.48 percent to 1.51 percent. After accounting for the other operating income, which amounted to HK$301.69 million, total operating income was HK$1,130.23 million and total operating expenditure was HK$591.54 million. Cost-to-income ratio rose 2.95 percent to 52.34 percent. Operating profit before impairment allowances, fair value adjustments and net (loss) gain on disposal increased 12.97 percent to HK$538.691 million. The Bank made impairment allowances in the amount of HK$59.801 million for 2006, a decrease of 11.81 percent against those made for 2005. After accounting for the impairment allowances as well as the charge for taxation, profit attributable to shareholders amounted to HK$503.144 million (an increase of 26.42 percent), translating into earnings of HK$1.16 per share. Net asset value per share (before final dividend), compared with the net asset value per share for the previous year, rose 3.75 percent to HK$13.91.

Change of Company Name

On 29 November 2006, the Bank's shareholders unanimously approved a resolution to change its name to "Chong Hing Bank Limited (創興銀行有限公司)" at an extraordinary general meeting. The change of company name has become effective from 23 December 2006 upon the issuance of the Certificate of Change of Name by the Registrar of Companies in Hong Kong on that same day. The reasons for the change of company name are, among others, to rejuvenate the corporate image of the Bank to make it more appealing to a younger generation, and to facilitate further development of the Bank's various business lines in the mainland China market under the auspices of the Mainland and Hong Kong Closer Economic Partnership Arrangement.

Promotion of various banking products to customers by Customer Services Department

New Headquarters

The redevelopment of the Bank's headquarters at 24 Des Voeux Road Central had already been completed and the new building was renamed as "Chong Hing Bank Centre". The Bank relocated its head office operations to the new headquarters on 27 December 2006. In celebration of the renaming of the Bank and the grand opening of its new headquarters, the Bank held a cocktail reception with a ribbon-cutting ceremony at the new headquarters on 23 January 2007. The Honourable Henry Y Y Tang, GBS, JP, Financial Secretary of the HKSAR, The Honourable Frederick S H Ma, JP, Secretary for Financial Services and the Treasury of the HKSAR and Mr Joseph C K Yam, GBS, JP, Chief Executive of the Hong Kong Monetary Authority attended as guests of honour. Many other dignitaries from the political and the commercial fields and so forth, as well as many banking counterparts and customers, participated in the joyous and epochal celebration.

Cocktail reception commemorating the Bank's renaming and the grand opening of its new headquarters on 23 January 2007, officiated by the Financial Secretary of the HKSAR, the Hon Henry Tang Ying-yen, GBS, JP (6th from left), Secretary for Financial Services and the Treasury of the HKSAR, the Hon Frederick Ma Si-hang, JP (7th from left), and the Chief Executive of Hong Kong Monetary Authority, Mr Joseph Yam Chi-kwong, GBS, JP (4th from left).

Credit Rating

For the very first time, the Bank had received credit ratings from Moody's and Fitch. The Bank received a Baa2 long-term foreign currency and local currency deposit rating and a C- financial strength rating from Moody's, and a BBB+ long-term foreign currency issuer default rating and a C individual rating from Fitch. The ratings reflect the sound quality of the Bank's assets, credit level and management. It is also a recognition of the development and potential of the Bank.

Issue of Subordinated Notes

On 8 December 2006, the Bank completed a US$125,000,000 subordinated notes offering, witnessing the very first issue in the international debt market by the Bank. Strong support was received from investors after roadshows in both Singapore and Hong Kong. The order book was substantially oversubscribed. The capital base of the Bank was further strengthened for future business growth after this successful issue of subordinated notes.

Corporate Responsibility

Provision of updated securities information to customers by Securities Business Department

The Bank strives to fulfil its corporate responsibility by expanding its branch network to provide comprehensive banking services to the community, in particular the residents in public housing estates. During the year, the Bank has opened a total of eight branches in Kwai Chung, Tsing Yi, Tuen Mun, Tin Shui Wai, Tung Chung and Sham Shui Po, six of which are located in shopping malls managed by The Link Management Limited. The new branches offer both retail and commercial banking services. Satisfactory results have been recorded since the opening of such branches.

The Bank hosted a cocktail reception to celebrate its renaming and the grand opening of its new headquarters and received congratulations from numerous well-wishing guests. Instead of sending flower bouquets, guests made donations for charitable educational purposes as recommended by the Bank. The Bank has also contributed an amount equivalent to the overall donations on a dollar-for-dollar basis, bringing the total amount to over HK$1,760,000 for donation to charitable educational projects in the impoverished areas in mainland China.

Economic Prospects

It is anticipated that Hong Kong's economic growth will continue to be driven by internal demand this year. The healthy upward trend of domestic consumption will improve the labour market, thereby triggering increase in salaries and decrease of unemployment rate. Due to the positive wealth effect caused by the general improvement in the stock and the property markets, the consumer market will maintain its momentum. As one of the core industries of Hong Kong, the financial sector will continue to benefit from the rapid economic growth and liberalisation of the financial market in mainland China. In addition, the position of Hong Kong as a key financial centre in the Asia-Pacific region will be further enhanced upon implementation of the "Action Agenda" proposed by the HKSAR Government for further improving its financial infrastructure during the Economic Summit on "China's 11th Five-Year Plan" and the Development of Hong Kong. With the continued influx of funds, Hong Kong stock market saw a strong surge last year and accumulated a substantial adjustment pressure. It is generally believed that the stock market will experience major fluctuations this year and the upward movement will be moderate. Dealing in and leasing of commercial properties will increase as a result of business expansion. Residential property market will be dominated by end-users. Property prices will remain stable as supply and demand will be kept in equilibrium.

The recession in the American economy will certainly affect Hong Kong's exports. However, some of the unfavourable effects will be offset by the new emerging economies, the Chinese economy in particular, maintaining rapid growth. It is predicted that Hong Kong's export will maintain respectable performance. In addition, with a prosperous financial market, service exports will only experience limited recession. If there are no major threats, such as geopolitical conflicts or outbreaks of avian flu, causing unexpected and adverse effects on other regional economies, the overall prospect for Hong Kong is optimistic.

The Hong Kong banking industry which is being nurtured in a healthy local economy, the rapid growth of the Chinese economy, and the further liberalisation of the Chinese financial industry all present unlimited opportunities. On the other hand, the banking industry faces various challenges, such as fierce interbank competition, increasing operating costs and the implementation of the Basel II Accord. The Bank will continue to take a proactive approach, take advantage of new opportunities, expand business lines, develop new products, improve service quality and maximize the returns for its shareholders.

Finally, on behalf of your board, I would like to wholeheartedly thank our customers, business partners and shareholders for their long-standing trust in and support for the Bank, not to mention my fellow directors for the exercise of their wise judgment and all of our staff members for their unfailing dedication.

By Order of the Board
Liu Lit Man
Executive Chairman

7 March 2007