



# 大眾金融控股有限公司\*

## PUBLIC FINANCIAL HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock code: 626; Website: www.publicfinance.com.hk)

### ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

#### ANNUAL RESULTS

The Board of Directors (the “Board”) of Public Financial Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006 with comparative figures as follows:

#### CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Notes	2006 HK\$'000	2005 HK\$'000
Interest income		1,444,809	802,660
Interest expense		(534,372)	(36,613)
<b>NET INTEREST INCOME</b>		<b>910,437</b>	<b>766,047</b>
Other operating income	3	207,029	134,180
<b>OPERATING INCOME</b>		<b>1,117,466</b>	<b>900,227</b>
Operating expenses	4	(310,722)	(211,587)
<b>OPERATING PROFIT BEFORE IMPAIRMENT LOSS AND ALLOWANCES</b>		<b>806,744</b>	<b>688,640</b>
Impairment loss and allowances for loans and advances and receivables	8	(210,825)	(158,751)
<b>OPERATING PROFIT</b>		<b>595,919</b>	<b>529,889</b>
<b>SHARE OF PROFITS AND LOSSES OF A JOINTLY-CONTROLLED ENTITY</b>		<b>176</b>	<b>–</b>
<b>PROFIT BEFORE TAX</b>		<b>596,095</b>	<b>529,889</b>
Tax	5	(99,458)	(83,592)
<b>PROFIT FOR THE YEAR</b>		<b>496,637</b>	<b>446,297</b>
<b>Attributable to:</b>			
<b>Equity holders of the holding company</b>		<b>496,637</b>	<b>446,297</b>
<b>DIVIDENDS</b>	6		
Interim		273,474	335,461
Special		–	211,487
		<b>273,474</b>	<b>546,948</b>
<b>EARNINGS PER SHARE (HK\$)</b>	7		
Basic		<b>0.500</b>	<b>0.623</b>
Diluted		<b>0.500</b>	<b>0.622</b>

## CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>31 December 2006 HK\$'000</b>	31 December 2005 HK\$'000
<b>ASSETS</b>			
Cash and short term placements		<b>2,295,219</b>	453,009
Placements with banks and financial institutions maturing between one and twelve months		<b>566,773</b>	5,000
Securities measured at fair value through profit or loss		<b>10,213</b>	–
Loans and advances and receivables	8	<b>13,694,636</b>	3,512,255
Available-for-sale security investments		<b>75,632</b>	25,881
Held-to-maturity securities		<b>3,679,604</b>	–
Inventories of taxi licences		<b>24,105</b>	26,988
Investment properties		<b>196,666</b>	147,987
Property, plant and equipment		<b>71,003</b>	21,336
Land lease prepayments		<b>562,030</b>	233,568
Interest in a jointly-controlled entity		<b>1,676</b>	–
Deferred tax assets		<b>17,849</b>	2,854
Other assets	9	<b>273,863</b>	34,418
Goodwill	10	<b>2,774,403</b>	–
Intangible assets		<b>725</b>	126
<b>TOTAL ASSETS</b>		<b><u>24,244,397</u></b>	<b><u>4,463,422</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions		<b>516,097</b>	–
Customer deposits		<b>14,853,655</b>	1,641,978
Certificates of deposits issued		<b>769,674</b>	–
Declared dividend		<b>218,779</b>	291,706
Bank loans		<b>2,000,000</b>	–
Current tax payable		<b>32,810</b>	31,555
Deferred tax liabilities		<b>64,332</b>	13,410
Other liabilities	11	<b>469,002</b>	91,339
<b>TOTAL LIABILITIES</b>		<b><u>18,924,349</u></b>	<b><u>2,069,988</u></b>
<b>EQUITY</b>			
Issued capital		<b>109,390</b>	72,926
Reserves	12	<b>5,210,658</b>	2,320,508
<b>TOTAL EQUITY</b>		<b><u>5,320,048</u></b>	<b><u>2,393,434</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>24,244,397</u></b>	<b><u>4,463,422</u></b>

## CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	Year ended 31 December	
	2006 HK\$'000	2005 HK\$'000
<b>TOTAL EQUITY</b>		
Balance at beginning of year	2,393,434	2,282,447
Rights issue, net of expenses	2,660,504	–
Shares issued on exercise of share options, net of expenses	–	156,736
Employee share-based compensation reserve	–	45,765
Surplus on revaluation of available-for-sale security investments and total income and expense recognised directly in equity	42,947	9,137
Profit for the year	496,637	446,297
Dividends paid/declared on shares	(273,474)	(546,948)
	223,163	(100,651)
Balance at end of year	5,320,048	2,393,434

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in these financial statements are consistent with those adopted in the Company's 2005 Annual Report except for the adoption of the new Hong Kong Financials Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKASs") as disclosed in note 2 below.

#### 2.1 IMPACT OF NEW AND REVISED HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

- HKAS 21 Amendment Net Investment in a Foreign Operation
- HKAS 39 & HKFRS 4 Financial Guarantee Contracts  
Amendments
- HKAS 39 Amendment The Fair Value Option
- HKAS 39 Amendment Cash Flow Hedge Accounting of Forecast Intragroup  
Transactions
- HK(IFRIC) – Int 4 Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

#### (a) HKAS 21 "The Effects of Changes in Foreign Exchange Rates"

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

**(b) HKAS 39 “Financial Instruments: Recognition and Measurement”**

*(i) Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered as insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 “Revenue”. The adoption of this amendment has had no material impact on these financial statements.

*(ii) Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

*(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

**(c) HK(IFRIC) – Int 4 “Determining whether an Arrangement contains a Lease”**

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

**2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HKFRSs**

The Group has not applied the following new and revised HKFRSs, which have been issued but are not yet effective, in these financial statements:

- |                     |                                      |
|---------------------|--------------------------------------|
| • HKAS 1 Amendment  | Capital Disclosures                  |
| • HKFRS 7           | Financial Instruments: Disclosures   |
| • HK(IFRIC) – Int 8 | Scope of HKFRS 2                     |
| • HK(IFRIC) – Int 9 | Reassessment of Embedded Derivatives |

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures of qualitative information about the Group’s objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group’s financial instruments and the nature and extent of risks arising from those financial instruments and also incorporates many of the disclosure requirements of HKAS 32.

HK(IFRIC) – Int 8 and HK(IFRIC) – Int 9 shall be applied for annual periods beginning on or after 1 May 2006 and 1 June 2006, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. In the opinion of the directors, the adoption of HKAS 1 Amendment and HKFRS 7 will result in new or amended disclosures, these new and revised HKFRSs should not have significant impact on the Group’s results of operations and financial position.

### 3. OTHER OPERATING INCOME

	Year ended 31 December	
	2006 HK\$'000	2005 HK\$'000
Fees and commission income:		
Retail and commercial banking	162,405	118,092
Securities	15,006	3,638
	<u>177,411</u>	<u>121,730</u>
Less: Fees and commission expenses	(1,062)	–
Net fees and commission income	176,349	121,730
Gross rental income	11,739	7,198
Less: Direct operating expenses	(212)	(265)
Net rental income	11,527	6,933
Gains less losses arising from dealing in foreign currencies	10,646	–
Gain on disposal of securities measured at fair value through profit or loss	438	–
Gain on securities measured at fair value through profit or loss	933	–
Gain/(loss) on disposal of property, plant and equipment	204	(30)
Dividends from listed investments	1,306	773
Dividends from unlisted investments	780	–
Others	4,846	4,774
	<u>207,029</u>	<u>134,180</u>

### 4. OPERATING EXPENSES

	Year ended 31 December	
	2006 HK\$'000	2005 HK\$'000
Staff costs:		
Salaries and other staff costs	160,383	86,731
Pension contributions	9,086	6,393
Less: Forfeited contributions	(129)	(524)
Net pension contributions	8,957	5,869
	<u>169,340</u>	<u>92,600</u>
Employee share option benefits	–	45,765
	169,340	138,365
Other operating expenses:		
Operating lease rentals on leasehold buildings	24,981	20,221
Depreciation and amortisation of land lease prepayments	13,179	5,100
Auditors' remuneration	2,950	1,473
Amortisation and write-off of commission expenses	288	133
Administrative and general expenses	32,382	15,528
Others	103,015	64,441
	<u>346,135</u>	<u>245,261</u>
Operating expenses before reversal of an impairment loss on land lease prepayments and changes in fair value of investment properties	346,135	245,261
Reversal of an impairment loss on land lease prepayments	(4,694)	(3,514)
Changes in fair value of investment properties	(30,719)	(30,160)
	<u>(35,413)</u>	<u>(33,674)</u>
	<u>310,722</u>	<u>211,587</u>

As at 31 December 2006, the Group had no material forfeited contributions available to reduce its contributions to the pension schemes in future years (2005: Nil). The current year credits arose in respect of staff who left the scheme during the year.

## 5. TAX

	Year ended 31 December	
	2006 HK\$'000	2005 HK\$'000
Current tax charge:		
Hong Kong	93,260	80,851
Elsewhere	2,627	–
Over-provisions in prior years	(1,700)	–
Deferred tax charge	5,271	2,741
	<u>99,458</u>	<u>83,592</u>

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Company and its subsidiaries and a jointly-controlled entity are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	Year ended 31 December 2006					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>578,583</u>		<u>17,512</u>		<u>596,095</u>	
Tax at the applicable tax rate	101,252	17.5	2,627	15.0	103,879	17.5
Share of profits and losses of a jointly-controlled entity	(37)	–	–	–	(37)	–
Estimated tax effect of net income that is not taxable	(1,294)	(0.2)	–	–	(1,294)	(0.3)
Estimated tax losses from previous periods utilised	(1,463)	(0.3)	–	–	(1,463)	(0.2)
Estimated tax losses not recognised	73	–	–	–	73	–
Adjustments in respect of current tax of previous periods	–	–	(1,700)	(9.7)	(1,700)	(0.3)
Tax charge at the Group's effective rate	<u>98,531</u>	<u>17.0</u>	<u>927</u>	<u>5.3</u>	<u>99,458</u>	<u>16.7</u>

  

	Year ended 31 December 2005					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>529,889</u>		<u>–</u>		<u>529,889</u>	
Tax at the applicable tax rate	92,731	17.5	–	–	92,731	17.5
Estimated tax effect of net income that is not taxable	(8,883)	(1.7)	–	–	(8,883)	(1.7)
Estimated tax losses from previous periods utilised	(571)	(0.1)	–	–	(571)	(0.1)
Estimated tax losses not recognised	315	0.1	–	–	315	0.1
Tax charge at the Group's effective rate	<u>83,592</u>	<u>15.8</u>	<u>–</u>	<u>–</u>	<u>83,592</u>	<u>15.8</u>

## 6. DIVIDENDS

	Year ended 31 December		2005 HK\$'000
	2006 HK\$ per ordinary share	2005 2006 HK\$'000	
Interim:			
First	0.05	0.06	43,755
Second	0.20	0.40	291,706
Special	–	0.29	211,487
	<u>0.25</u>	<u>0.75</u>	<u>546,948</u>

## 7. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the year of HK\$496,637,000 (2005: HK\$446,297,000) and the weighted average number of 992,998,391 (2005: 715,880,181) ordinary shares in issue during the year.

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the year of HK\$496,637,000 (2005: HK\$446,297,000) and on the weighted average number of 994,185,625 (2005: 717,699,181) ordinary shares, being the weighted average number of 992,998,391 (2005: 715,880,181) ordinary shares in issue during the year as used in the basic earnings per share calculation and the weighted average number of 1,187,234 (2005: 1,819,000) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the year.

	Year ended 31 December	
	2006 HK\$'000	2005 HK\$'000
Profit for the year, used in the basic and diluted earnings per share calculation	<u>496,637</u>	<u>446,297</u>
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	992,998,391	715,880,181
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all share options outstanding during the year	<u>1,187,234</u>	<u>1,819,000</u>
Weighted average number of ordinary shares used in diluted earnings per share calculation	<u>994,185,625</u>	<u>717,699,181</u>
Diluted earnings per share (HK\$)	<u>0.500</u>	<u>0.622</u>

## 8. LOANS AND ADVANCES AND RECEIVABLES

### (a) Advances to customers and receivables

	<b>31 December 2006 HK\$'000</b>	31 December 2005 HK\$'000
Loans and advances to customers	13,676,597	3,583,800
Trade bills	<u>98,381</u>	<u>–</u>
	<b>13,774,978</b>	<b>3,583,800</b>
Interest receivable	<u>113,916</u>	<u>45,232</u>
	<b>13,888,894</b>	<b>3,629,032</b>
Other receivables	<u>68,473</u>	<u>73,902</u>
	<b>13,957,367</b>	<b>3,702,934</b>
Impairment allowances for advances to customers and receivables:		
Individual impairment allowances	<span style="border: 1px solid black;">(104,785)</span>	<span style="border: 1px solid black;">(78,276)</span>
Collective impairment allowances	<span style="border: 1px solid black;">(157,946)</span>	<span style="border: 1px solid black;">(112,403)</span>
	<u>(262,731)</u>	<u>(190,679)</u>
	<b><u>13,694,636</u></b>	<b><u>3,512,255</u></b>

Certain loans and advances and receivables were secured by properties, taxi licences, taxi cabs, shares, cash and other collateral.

The maturity profile of loans and advances to customers and receivables at the balance sheet date is analysed by the remaining periods to their contractual maturity dates as follows:

	<b>31 December 2006 HK\$'000</b>	31 December 2005 HK\$'000
Repayable:		
On demand	481,847	19,999
Within three months or less	2,141,654	546,405
Within one year or less but over three months	2,009,319	1,196,343
Within five years or less but over one year	4,228,162	1,217,724
After five years	4,772,898	490,573
Undated	<u>323,487</u>	<u>231,890</u>
	<b><u>13,957,367</u></b>	<b><u>3,702,934</u></b>

(b) **Gross amount of overdue and impaired loans and advances**

	<b>31 December 2006</b>		31 December 2005	
	<b>Gross amount HK\$'000</b>	<b>Percentage of total loans and advances</b>	Gross amount HK\$'000	Percentage of total loans and advances
Gross overdue and impaired loans and advances				
Overdue for:				
Six months or less but over three months	80,142	0.6	62,450	1.7
One year or less but over six months	49,930	0.4	29,385	0.8
Over one year and loss accounts	166,901	1.2	116,786	3.3
	<u>296,973</u>	<u>2.2</u>	<u>208,621</u>	<u>5.8</u>
Rescheduled loans	907	–	–	–
	<u>297,880</u>	<u>2.2</u>	<u>208,621</u>	<u>5.8</u>
Total overdue and impaired loans and advances				
	<u>297,880</u>	<u>2.2</u>	<u>208,621</u>	<u>5.8</u>
Impairment allowances for overdue and impaired loans and advances:				
Individual impairment allowances	(104,785)		(78,276)	
Collective impairment allowances	(128,608)		(105,834)	
	<u>(233,393)</u>		<u>(184,110)</u>	
	<u>64,487</u>	<u>0.5</u>	<u>24,511</u>	<u>0.7</u>

Interest accrual of overdue and impaired loans and advances amounted to less than 1% of total gross loans and advances and is considered immaterial to the Group. Accordingly, the aforesaid interest accrual is not disclosed in the financial statements.

(c) **Impairment allowances for loans and advances and receivables**

	<b>31 December 2006 HK\$'000</b>	31 December 2005 HK\$'000
Balance at beginning of year	190,679	193,750
Recoveries	67,538	59,648
Charge for the year	278,363	218,399
Amounts released	(67,538)	(59,648)
Net charge to the consolidated income statement	210,825	158,751
Amounts written off	(282,661)	(221,470)
Acquisition of subsidiaries	76,350	–
Balance at end of year	<u>262,731</u>	<u>190,679</u>

(d) **Reposessed assets**

Collateral assets for loans and advances are reposessed by the Group when the borrowers are unable to service their repayments, and would be realised for the settlement of the outstanding debts. Advances with reposessed collateral assets will continue to be accounted for as customer advances and impairment allowance is measured as the difference between the carrying value of the outstanding advance and the net present value of estimated future cash flows including the sales proceeds from the realisation of the reposessed asset.

The total value of the reposessed assets of the Group amounted to HK\$21,679,000 (2005: HK\$1,251,000).

**9. OTHER ASSETS**

		<b>31 December 2006 HK\$'000</b>	31 December 2005 HK\$'000
	<i>Note</i>		
Interest receivable from authorised institutions		<b>51,439</b>	258
Other debtors, deposits and prepayments		<b>209,644</b>	34,160
Positive fair values of derivative	<i>14(b)</i>	<b>12,780</b>	–
		<b><u>273,863</u></b>	<b><u>34,418</u></b>

**10. GOODWILL**

		<b>31 December 2006 HK\$'000</b>	31 December 2005 HK\$'000
Cost:			
At beginning of year		–	–
Additions		<b>2,774,403</b>	–
		<b><u>2,774,403</u></b>	<b><u>–</u></b>

On 14 February 2006, the Company and Asia Financial Holdings Limited (“AFH”) entered into a share purchase agreement (“SPA”) pursuant to which AFH agreed to sell and the Company agreed to purchase, the entire issued and paid-up share capital of Public Bank (Hong Kong) Limited (“PBHK”) for a consideration of HK\$4,499,550,000 (the “Consideration”). The Consideration was subsequently adjusted to HK\$4,584,999,000. The total cost of acquisition of PBHK amounted to HK\$4,593,348,000, including legal and professional fees of HK\$8,349,000, which were directly attributable to the acquisition of PBHK. The fair value of net assets and the carrying amount of goodwill amounted to HK\$1,818,945,000 and HK\$2,774,403,000, respectively.

On 17 February 2006, the Company passed a board resolution to make a rights issue of not less than 364,632,206 shares and not more than 386,571,206 of HK\$0.10 each to shareholders at an exercise price of HK\$7.30 per share on the basis of one rights share for every two shares held on 17 March 2006 (the “Rights Issue”). Pursuant to the Rights Issue, 364,632,206 shares of HK\$0.1 each were issued at HK\$7.3 per share. The net proceeds from the Rights Issue, after deduction of related expenses, amounted to approximately HK\$2,660,504,000.

**Impairment test of goodwill**

Goodwill acquired through business combinations was allocated to the cash-generating unit (the “CGU”) representing an operating entity within the business segment identified by the Group. The acquired subsidiaries involved in retail and commercial banking and treasury and other business. The recoverable amounts of the CGU are determined based on a value in use for calculation. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period and assumed growth rates are used to extrapolate the cash flows in the following 45 years. All cash flows are discounted at a discount rate of 7%. Management’s financial model assumes an overall growth rate of 10% per annum during the first 5 years, and 5% from the sixth to fiftieth year per annum. The discount rates used is based on the rate which reflect specific risks relating to the CGU.

No impairment loss has been recognised in respect of goodwill for the year ended 31 December 2006 as its value in use exceeds the carrying amount.

## 11. OTHER LIABILITIES

	<i>Note</i>	<b>31 December 2006 HK\$'000</b>	31 December 2005 HK\$'000
Creditors, accruals and interest payable		454,834	86,995
Amount due to the ultimate holding company		541	338
Provision for long service payments		3,892	4,006
Negative fair values of derivatives	14(b)	9,735	–
		<u>469,002</u>	<u>91,339</u>

As the trade payables are immaterial to the Group, the maturity profile thereof has not been disclosed.

## 12. RESERVES

		<b>31 December 2006 HK\$'000</b>	31 December 2005 HK\$'000
Share premium account:			
At beginning of year		1,364,179	1,209,593
Premium, net of expense, arising on share options exercised		–	154,586
Rights issue, net of expenses		2,624,040	–
At end of year		3,988,219	1,364,179
Capital redemption reserve		829	829
Contributed surplus		96,116	96,116
Available-for-sale investment revaluation reserve:			
At beginning of year		25,618	16,481
Movement in the market value		42,947	9,137
At end of year		68,565	25,618
Employee share-based compensation reserve		45,765	45,765
Regulatory reserve:			
At beginning of year		85,400	75,686
Transfer from retained profits		10,481	9,714
At end of year		95,881	85,400
Retained profits:			
At beginning of year		702,601	812,966
Profit for the year		496,637	446,297
Dividend paid/declared on shares		(273,474)	(546,948)
Transfer to regulatory reserve		(10,481)	(9,714)
At end of year		915,283	702,601
		<u>5,210,658</u>	<u>2,320,508</u>

## 13. OPERATING LEASE ARRANGEMENTS

- (a) The Group leases its investment properties under operating lease arrangements, and the terms of the leases range from one to five years.

As at 31 December 2006, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	<b>31 December 2006 HK\$'000</b>	31 December 2005 HK\$'000
Within one year	10,026	7,312
In the second to fifth years, inclusive	8,496	3,418
	<u>18,522</u>	<u>10,730</u>

- (b) The Group entered into non-cancellable operating lease arrangements with landlords, and the terms of the leases range from one to five years.

As at 31 December 2006, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	<b>31 December 2006 HK\$'000</b>	31 December 2005 HK\$'000
Within one year	<b>25,804</b>	16,172
In the second to fifth years, inclusive	<b>18,225</b>	11,461
	<b><u>44,029</u></b>	<b><u>27,633</u></b>

#### 14. OFF BALANCE SHEET EXPOSURE

##### (a) Commitments and contingent liabilities

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

	31 December 2006			31 December 2005		
	Contractual amount HK\$'000	Replacement cost HK\$'000	Risk weighted amount HK\$'000	Contractual amount HK\$'000	Replacement cost HK\$'000	Risk weighted amount HK\$'000
Direct credit substitutes	90,111	-	66,060	-	-	-
Transaction-related contingencies	6,842	-	2,955	-	-	-
Trade related contingencies	169,626	-	28,499	-	-	-
Forward forward deposits placed	3,988	-	798	-	-	-
Forward asset purchases	19,504	-	3,901	-	-	-
Foreign exchange rate contracts	5,286,409	2,295	10,575	-	-	-
Interest rate swap and future contract	227,780	-	-	-	-	-
Other commitments with an original maturity of:						
Under one year or which are unconditionally cancellable	3,297,666	-	-	773	-	-
One year and over	279,594	-	139,797	-	-	-
Capital commitment contracted for, but not provided in the financial statements	6,308	-	6,308	1,603	-	1,603
	<b><u>9,387,828</u></b>	<b><u>2,295</u></b>	<b><u>258,893</u></b>	<b><u>2,376</u></b>	<b><u>-</u></b>	<b><u>1,603</u></b>

The Group has not entered into any bilateral netting arrangements and accordingly the above amounts are shown on a gross basis. The credit risk weighted amounts are calculated in accordance with the Third Schedule of the Banking Ordinance and guidelines issued by the Hong Kong Monetary Authority ("HKMA"). The amounts calculated are dependent upon the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments and from 0% to 50% for exchange rate contracts. Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market.

As at 31 December 2006 and 2005, the Company had no other material outstanding contingent liabilities and commitments.

**(b) Derivatives**

The following tables set out the summary of the notional amounts, fair values and credit risk weighted amounts of each significant type of derivatives.

	<b>Contract/ notional amount HK\$'000</b>	<b>31 December 2006 Fair values of assets HK\$'000</b>	<b>Fair values of liabilities HK\$'000</b>
Derivatives held for trading:			
Foreign exchange rate contracts	5,286,409	11,434	8,129
Interest rate swaps and future contracts	227,780	1,346	1,606
	<u>5,514,189</u>	<u>12,780</u>	<u>9,735</u>

The Group and the Company did not have any derivatives held solely for trading at 31 December 2005.

	<b>31 December 2006 Credit risk weighted amount HK\$'000</b>	<b>31 December 2005 Credit risk weighted amount HK\$'000</b>
Derivatives held for trading:		
Foreign exchange rate contracts	10,575	–
Interest rate swaps and future contracts	–	–
	<u>10,575</u>	<u>–</u>

**SUPPLEMENTARY INFORMATION (UNAUDITED)**

**Segment information**

**(a) By business segments**

	<b>Year ended 31 December 2006 Operating income HK\$'000</b>	<b>Profit before tax HK\$'000</b>	<b>31 December 2006 Total assets HK\$'000</b>
Retail and commercial banking	1,083,656	574,190	20,934,798
Other businesses	34,183	21,729	516,622
Elimination of inter-segment transactions	(373)	–	–
	<u>1,117,466</u>	<u>595,919</u>	<u>21,451,420</u>
Share of profits and losses of a jointly-controlled entity	–	176	–
Goodwill	–	–	2,774,403
Intangible assets	–	–	725
Other unallocated assets	–	–	17,849
	<u>1,117,466</u>	<u>596,095</u>	<u>24,244,397</u>

	Year ended 31 December 2005	Profit before tax <i>HK\$'000</i>	31 December 2005 Total assets <i>HK\$'000</i>
Retail and commercial lending	884,810	491,834	4,201,485
Other businesses	16,154	38,055	258,957
Elimination of inter-segment transactions	(737)	–	–
	<u>900,227</u>	<u>529,889</u>	<u>4,460,442</u>
Intangible assets	–	–	126
Other unallocated assets	–	–	2,854
	<u><u>900,227</u></u>	<u><u>529,889</u></u>	<u><u>4,463,422</u></u>

**(b) By geographical segments**

Over 90% of the Group's operating income, results, assets, liabilities, off-balance sheet commitments and exposures are derived from operations carried out in Hong Kong. Accordingly, no geographical segment information is presented in the financial statements.

**(c) Advances to customers by industry sectors**

	<b>Gross advances to customers</b>	
	<b>31 December 2006 <i>HK\$'000</i></b>	<b>31 December 2005 <i>HK\$'000</i></b>
Loans for use in Hong Kong		
Industrial, commercial and financial:		
Property development	<b>291,630</b>	–
Property investment	<b>1,770,464</b>	56,674
Financial concerns	<b>74,066</b>	–
Stockbrokers	<b>66,018</b>	–
Telecommunication	<b>51,578</b>	–
Wholesale and retail trade	<b>16,355</b>	–
Manufacturing	<b>484,588</b>	1,602
Transport and transport equipment	<b>2,139,575</b>	516,024
Others	<b>1,190,590</b>	–
Individuals:		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	<b>257,769</b>	–
Loans for the purchase of other residential properties	<b>2,676,947</b>	19,927
Credit card advances	<b>12,467</b>	–
Others	<b>3,255,512</b>	2,911,121
Trade finance	<b>727,657</b>	–
Loans for use outside Hong Kong	<b>661,381</b>	78,452
	<u><b>13,676,597</b></u>	<u><b>3,583,800</b></u>

The advances to customers are classified by industry sectors based on the industry in which the loans granted were used. In those cases where loans cannot be classified with reasonable certainty, they are classified according to the known principal activity of the borrowers or by reference to the assets financed according to the loan documentation.

## **COMPLIANCE WITH SUPERVISORY POLICY MANUALS**

The Group has followed the guidelines on “Financial Disclosure by Locally Incorporated Authorised Institutions” and “Corporate Governance of Locally Incorporated Authorised Institutions” under the Supervisory Policy Manuals issued by the HKMA.

## **CORPORATE GOVERNANCE**

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting year covered by the 2006 annual report, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except for the deviation in respect of the service term under code provision A.4.1 of the Listing Rules.

Under code provision A.4.1 of the Listing Rules, non-executive directors should be appointed for specific terms and subject to re-election. The Board has discussed and concluded that the current practice of appointing non-executive directors without specific terms but otherwise subject to rotation and re-election by shareholders was fair and reasonable, and did not intend to change the current practice at the moment.

The Board will keep on reviewing the relevant Bye-laws and propose any amendment, if necessary, to ensure compliance with the Code on Corporate Governance Practices as set out in the Listing Rules.

## **DIVIDENDS**

The second interim dividend of HK\$0.20 (2005: HK\$0.40) per ordinary share was declared on 22 December 2006 and will be payable on 14 February 2007 to shareholders of the Company whose names appear on the register of members on 8 February 2007. The directors do not recommend the payment of a final dividend (2005: Nil). Together with the first interim dividend of HK\$0.05 (2005: HK\$0.06) per ordinary share, the total dividends per share for the year is HK\$0.25 (2005: HK\$0.46 excluding special dividend).

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from 8 March 2007 to 13 March 2007, both days inclusive, during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the forthcoming annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 7 March 2007.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Corporate Development in the year 2006

#### (a) *Rebranding of Corporate Identity*

To align the corporate identity of the Group as a subsidiary of Public Bank Berhad of Malaysia and as a member of the Public Bank Group, the Group's principal operating subsidiary, JCG Finance Company, Limited changed its name to Public Finance Limited ("Public Finance") in January 2006 and the signage of its 40 branches was replaced with the new signage name reflecting the new name at the same time. Subsequently, at the Company's annual general meeting on 8 March 2006, the shareholders of the Company approved the change of the Company's name from JCG Holdings Limited to Public Financial Holdings Limited. The rebranding has had a positive impact to the image and financial standing of the Group as a member of Malaysia's Public Bank Group.

#### (b) *Acquisition of Asia Commercial Bank*

The Company successfully completed the acquisition of a 100% equity interest in Asia Commercial Bank Limited ("ACB"), a commercial bank incorporated in Hong Kong with a branch network of 12 branches in Hong Kong, one branch in Shenzhen, the People's Republic of China ("PRC"), and a representative office each in the city of Shanghai and Shenyang in the PRC and Taipei, Taiwan, on 30 May 2006.

The purchase consideration of ACB was partly financed by a rights issue of HK\$2.6 billion, and a 3-year term loan of HK\$2.0 billion. Upon completion of the acquisition of ACB, ACB changed its name to Public Bank (Hong Kong) Limited ("PBHK") on 30 June 2006. The acquisition of PBHK is expected to bring to the Group synergies of lower operating and funding costs, greater economies of scale and greater customer reach with a broader customer base and provided the Group with a platform to offer full banking services in Hong Kong as well as in the PRC through its Shenzhen branch.

#### (c) *Business Development of PBHK after the Acquisition by the Company*

Total loans and advances (including trade bills) of PBHK grew during the second half year of 2006 by 12.9% or HK\$1.16 billion to HK\$10.16 billion from HK\$9.0 billion as at the end of June 2006. Customer deposits also grew 9.9% or HK\$1.21 billion to HK\$13.43 billion from HK\$12.22 billion as at end of June 2006.

In December 2006, PBHK opened 3 new branches in Hong Kong. A new sub-branch in Shenzhen is expected to open for business in February 2007, thereby bringing PBHK's branch network to a total of 17 branches.

For the year ended 31 December 2006, PBHK recorded a significant improvement in profit after tax of 68% to HK\$145.50 million from HK\$86.59 million for the year ended 31 December 2005.

## Financial Review

### *Group*

For the year ended 31 December 2006, the Group recorded a profit after tax of HK\$496.6 million, representing an increase of 11.3% or HK\$50.3 million when compared to HK\$446.3 million in the previous financial year. The increase in profit after tax was mainly attributed to the consolidation of the financial performance of PBHK for the period from May 2006 to December 2006.

The Group's basic earnings per share for the year ended 31 December 2006 was HK\$0.50 per share with the enlarged issued share capital after the rights issue of 1 rights share for every 2 shares held in April 2006. The directors have declared a first interim dividend of HK\$0.05 per share in June 2006 and a second interim dividend of HK\$0.20 per share in December 2006. The Directors do not recommend the payment of a final dividend, making a total dividend paid for the year of HK\$0.25 per share.

The Group's net interest income for the year ended 31 December 2006 increased by 18.8% or HK\$144.4 million to HK\$910.4 million when compared to the previous year. Interest income increased by 80.0% or HK\$642.1 million to HK\$1,444.8 million after consolidation of the interest income of PBHK. Correspondingly, interest expense increased by HK\$497.8 million to HK\$534.4 million, again mainly due to the consolidation of PBHK, and interest expense of approximately HK\$65.30 million on the 3-year term loan to partly finance the acquisition of PBHK.

The Group's non-interest income increased by 54.3% or HK\$72.8 million to HK\$207.0 million after consolidation of PBHK.

During the year under review, the Group's operating expenses increased by 46.9% or HK\$99.1 million to HK\$310.7 million with the consolidation of PBHK. The Group's tight control over its operating costs together with operating synergies derived from the initial integration of some operations between PBHK and Public Finance contributed to a low cost to operating income ratio of 27.8% for the year ended 31 December 2006.

However, the Group's impairment allowance for impaired assets rose by 32.8% or HK\$52.1 million to HK\$210.8 million mainly due to the increase in bad debts of personal loans of Public Finance arising from an increase in bankruptcy petitions and individual voluntary arrangement of its customers in 2006.

As at 31 December 2006, the Group's total loans and advance (including trade bills) was HK\$13,775.0 million while total deposits from customers, financial institutions and issuance of certificates of deposits was HK\$16,139.4 million.

### *Segmental information*

The Group's business comprised mainly of two segments: retail and commercial banking and other businesses. Over 90% of the Group's operating income and profit before tax was contributed by retail and commercial banking. When compared to the previous year, the Group's operating income from retail and commercial banking increased by 22.5% or HK\$198.8 million to HK\$1,083.7 million after the consolidation of PBHK. Consequently, profit before tax from retail and commercial banking increased by 16.7% or HK\$82.4 million to HK\$574.2 million when compared to the previous year.

### *Contingent liabilities and commitments*

The Group had no material contingent liabilities (other than those related to treasury, trade finance and loan commitments disclosed in the notes to the financial statements) at the end of the year under review. The Group also did not incur any material capital expenditure or entered into any material commitments in respect of capital expenditure during the year under review. The charge over a subsidiary's deposit placement with a bank as disclosed in the 2005 annual report was uplifted in the second half of 2006.

## **Operational Review**

### *Funding and capital management*

The main objective of the Group's funding activities and capital management is to ensure the availability of funds at reasonable cost to meet all contractual financial commitments, to fund loan growth and to generate reasonable returns from available funds. The Group also encourages its subsidiaries to be self-reliant in funding their business growth.

The Group relied principally on its internally generated capital, customer deposits, deposits from financial institutions, issuance of certificate of deposits and bank loans to fund its retail consumer financing business and commercial banking business. The Group's bank borrowing of HK\$2.0 billion in the form of a 3-year term loan denominated in Hong Kong dollars at floating interest rates are to partly finance the acquisition cost of PBHK. This bank borrowing has increased the Group's gearing ratio from nil at the end of the previous year to 37.6% at the end of December 2006. The Group has entered into foreign exchange and interest rate swap and forward contracts to reduce foreign exchange risk and interest rate risk exposures in its normal banking business.

### *Asset quality*

Following the acquisition of PBHK, the Group's overdue and impaired loan ratio has improved significantly from 5.8% at the end of December 2005 to 2.4% at the end of June 2006, and further improved to 2.2% as at 31 December 2006. The asset quality of PBHK had also improved with its overdue and impaired loan ratio reduced from 1.2% at the end of June 2006 to 0.8% as at the end of December 2006 as a result of more prudent credit risk management.

### *Human resources management and development*

The objective of the Group's human resources management activities is to reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression within the Group. Staff were enrolled for external training courses, seminars, professional and technical courses with appropriate sponsorship from the Group in order to upgrade their technical knowledge and skills, to increase their awareness of the market and technological changes, and to improve their business acumen. The Group also encourage staff to participate in social activities organised to promote team spirit and building a cohesive workforce as well as to serve the community at large as part of corporate responsibility.

To further retain, motivate and enhance staff morale, options to subscribe for 66,526,000 shares in the Company were granted to employees of the Group in May 2005 pursuant to the Group's share option scheme approved by shareholders on 28 February 2002. As at the end of December 2006, options to subscribe for 43,068,000 shares in the Company remained unexercised.

As at the end of December 2006, the Group's staff force increased to over 800 employees with the inclusion of the staff from PBHK. For the year ended 31 December 2006, the Group's staff cost amounted to HK\$169.3 million.

## **Prospects**

The economic outlook of Hong Kong is expected to remain positive in 2007. However, there remains uncertainties in the trend of interest rate movements which may have an impact on the economic growth. With the improved employment market and expected positive wage growth, the Hong Kong economy is expected to sustain its growth momentum and consumer spending is expected to increase leading to higher demand for consumer financing.

With the acquisition of PBHK, the Group will focus on expanding its retail and commercial banking business through PBHK and its consumer financing business through Public Finance. The Group will continue to seek further synergies in lowering operating costs and greater economies of scale through integration of the support functions of PBHK and Public Finance where appropriate and cross-selling through the combined branch network of Public Finance and PBHK to a wider customer base. PBHK will continue its branch expansion programme and the Group will continue to target selected market segments with aggressive marketing promotions and business strategies to grow its retail and commercial banking and consumer financing businesses.

#### **PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year.

#### **REVIEW BY AUDIT COMMITTEE**

The 2006 annual results have been reviewed by the Company's Audit Committee which comprises three Independent Non-executive Directors and one Non-executive Director.

By Order of the Board  
**Tan Sri Dato' Sri Dr. Teh Hong Piow**  
*Chairman*

Hong Kong, 10 January 2007

*As at the date of this announcement, the Board of Directors of the Company comprises Tan Sri Dato' Sri Dr. Teh Hong Piow, Dato' Sri Tay Ah Lek, Dato' Chang Kat Kiam and Mr. Wong Kong Ming as Non-executive Directors, Mr. Tan Yoke Kong and Mr. Lee Huat Oon as Executive Directors, and Tan Sri Dato' Thong Yaw Hong, Dato' Yeoh Chin Kee and Mr. Lee Chin Guan as Independent Non-executive Directors.*

\* *for identification purpose only*

“Please also refer to the published version of this announcement in China Daily”