



# 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.publicfinancial.com.hk)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

The Board of Directors of Public Financial Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007 with comparative figures as follows:

#### Condensed Consolidated Income Statement

	Notes	For the six months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest income		877,797	584,812
Interest expense		(404,919)	(147,112)
<b>NET INTEREST INCOME</b>		<b>472,878</b>	<b>437,700</b>
Gains less losses from disposal of available-for-sale security investments		17,827	-
Other operating income		129,305	86,471
Non-interest income		147,132	86,471
<b>OPERATING INCOME</b>		<b>620,010</b>	<b>524,171</b>
Operating expenses	5	(214,585)	(139,683)
<b>OPERATING PROFIT BEFORE IMPAIRMENT LOSS AND ALLOWANCES</b>		<b>405,425</b>	<b>384,488</b>
Impairment loss and allowances for loans and advances and receivables		(89,698)	(92,950)
<b>OPERATING PROFIT</b>		<b>315,727</b>	<b>291,538</b>
<b>SHARE OF PROFITS AND LOSSES OF A JOINTLY-CONTROLLED ENTITY</b>		-	-
<b>PROFIT BEFORE TAX</b>		<b>315,727</b>	<b>291,538</b>
Tax	6	(54,773)	(43,989)
<b>PROFIT FOR THE PERIOD</b>		<b>260,954</b>	<b>247,549</b>

		<b>For the six months ended</b>	
		<b>30 June</b>	
		<b>2007</b>	<b>2006</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
Notes		<b>HK\$'000</b>	<b>HK\$'000</b>
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<b>Attributable to :</b>			
	Equity holders of the holding company	<b>260,954</b>	247,549
		<hr/>	
	<b>DIVIDENDS</b>		
	Interim dividend	<b>54,695</b>	54,695
		<hr/>	
	<b>EARNINGS PER SHARE (HK\$)</b>		
	Basic	<b>0.239</b>	0.278
		<hr/>	
	Diluted	<b>0.239</b>	0.277
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## Condensed Consolidated Balance Sheet

		<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
	Notes		
<b>ASSETS</b>			
Cash and short term placements		<b>5,147,847</b>	2,295,219
Placements with banks and financial institutions maturing between one and twelve months		<b>1,871,968</b>	566,773
Securities designated at fair value through profit or loss		<b>10,213</b>	10,213
Loans and advances and receivables	9	<b>16,123,097</b>	13,694,636
Available-for-sale security investments		<b>75,238</b>	75,632
Held-to-maturity securities		<b>3,086,900</b>	3,679,604
Inventories of taxi licences		<b>24,097</b>	24,105
Investment properties		<b>127,150</b>	196,666
Property, plant and equipment		<b>91,779</b>	71,003
Land lease prepayments		<b>626,497</b>	562,030
Interests in jointly-controlled entity		<b>1,676</b>	1,676
Deferred tax assets		<b>15,469</b>	17,849
Other assets	10	<b>242,002</b>	273,863
Goodwill		<b>2,774,403</b>	2,774,403
Intangible assets	11	<b>358</b>	725
<b>TOTAL ASSETS</b>		<b>30,218,694</b>	24,244,397

		<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
	Notes		
<b>EQUITY AND LIABILITIES</b>			
<b>LIABILITIES</b>			
Deposits and balances of banks and other financial institutions at amortised cost		<b>3,600,288</b>	516,097
Customer deposits at amortised cost		<b>17,173,012</b>	14,853,655
Certificates of deposit issued at amortised cost		<b>2,179,418</b>	769,674
Declared dividend		<b>54,695</b>	218,779
Bank loans		<b>1,200,000</b>	2,000,000
Current tax payable		<b>64,715</b>	32,810
Deferred tax liabilities		<b>64,332</b>	64,332
Other liabilities	12	<b>356,307</b>	469,002
<b>TOTAL LIABILITIES</b>		<b>24,692,767</b>	18,924,349
<b>EQUITY</b>			
Issued capital		<b>109,390</b>	109,390
Reserves	13	<b>5,416,537</b>	5,210,658
<b>TOTAL EQUITY</b>		<b>5,525,927</b>	5,320,048
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>30,218,694</b>	24,244,397

## Condensed Consolidated Summary Statement of Changes in Equity

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
<b>TOTAL EQUITY</b>		
Balance at beginning of period	5,320,048	2,393,434
Rights issue, net of expenses	-	2,661,135
Net movement of available-for-sale investment revaluation reserve and total income and expense recognised directly in equity	(380)	14,329
Profit for the period	260,954	247,549
Dividends declared on shares	(54,695)	(54,695)
	206,259	192,854
Balance at end of period	5,525,927	5,261,752

## Notes to the Condensed Consolidated Financial Statements

### 1. Statement of compliance and accounting policies

These interim financial statements have been prepared in accordance with the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), the Hong Kong Accounting Standard (“HKAS”) 34: Interim Financial Reporting and other relevant HKASs and Interpretations, the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by The Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the disclosure requirements of the “Guideline on the Application of the Banking (Disclosure) Rules” under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority (“HKMA”). The Company has complied with capital requirements related to capital base and capital adequacy ratio as stipulated by HKMA.

The accounting policies and basis of preparation adopted in these interim financial statements are consistent with those adopted in the Company’s 2006 Annual Report except for the adoption of new HKFRSs and HKASs as disclosed in note 3 below.

### 2. Basis of consolidation

The subsidiaries consolidated for accounting purpose and which are members of the consolidated group are as follows:

- Public Bank (Hong Kong) Limited (“Public Bank (Hong Kong)”) and its subsidiaries
- Public Finance Limited (“Public Finance”) and its subsidiaries
- Winton (B.V.I) Limited and its subsidiaries

The companies included in the computation of the consolidated capital adequacy ratio of the Company for regulatory purpose are as follows:

- the Company
- Public Bank (Hong Kong)
- Public Finance

### 3. Impact of new HKFRSs and HKASs

The HKICPA has issued a number of new HKFRSs, and HKASs and Interpretations, which are generally effective for accounting periods beginning on or after 1 January 2007. The Group has adopted the following HKFRSs and HKASs issued up to 30 June 2007 which are pertinent to its operations and relevant to these interim financial statements.

- |                      |  |
|----------------------|--|
| ● HKAS 1 Amendment   | Capital Disclosures  |
| ● HKFRS 7            | Financial Instruments: Disclosures   |
| ● HK(IFRIC) – Int 7  | Applying the Restatement Approach under<br>HKAS 29 Financial Reporting in<br>Hyperinflationary Economies |
| ● HK(IFRIC) – Int 8  | Scope of HKFRS 2   |
| ● HK(IFRIC) – Int 9  | Reassessment of Embedded Derivatives   |
| ● HK(IFRIC) – Int 10 | Interim Financial Reporting and Impairment   |

The revised HKAS 1 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.

The HKFRS 7 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 major disclosure requirements of HKAS 32.

The HK(IFRIC)-Int 7 addresses requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and requires an entity to restate its financial statements in accordance with HKAS 29.

The HK(IFRIC)-Int 8 addresses the application of HKFRS 2 to particular transactions in which the entity cannot identify specifically some or all of the goods or services received.

The HK(IFRIC)-Int 9 addresses the application of HKAS 39 that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract, and prohibits subsequent reassessment throughout the life of the contract except for exceptional circumstances.

The HK(IFRIC)-Int 10 addresses the interaction between the requirements of HKAS 34 and the recognition of impairment losses on goodwill in HKAS 36 and certain financial assets in HKAS 39 and that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

There was no material impact on the basis of preparation of the unaudited condensed consolidated balance sheet and condensed income statement arising from the above-mentioned accounting standards except for information related to disclosure requirements of HKAS 1 Amendment which will be disclosed in the interim financial statements.

#### **4. Impact of issued but not yet effective HKFRSs and HKASs**

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

- HKFRS 8 Operating Segments
- HKAS 23 (Revised) Borrowing Costs
- HK(IFRIC) – Int 11 HKFRS 2 Group and Treasury Share Transactions
- HK(IFRIC) – Int 12 Service Concession Arrangements

HKFRS 8 (effective for accounting period beginning on or after 1 January 2009) supersedes HKAS 14, Segment Reporting, under which segments were identified and reported on the basis of a risk and return analysis. Items were reported on the basis of the accounting policies used for external reporting. Under HKFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker or an authorised qualified staff of the entity. Items are reported based on internal reporting.

HKAS 23 (Revised) shall be applied for annual periods beginning on or after 1 January 2009.

HK(IFRIC) – Int 11 and HK(IFRIC) – Int 12 shall be applied for annual periods beginning on or after 1 March 2007 and 1 January 2008 respectively.

The Group expects that the adoption of the above pronouncements will not have significant impact on the Group as at the date of the interim financial statements.

## 5. Operating expenses

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<hr/>		
Staff costs:		
Salaries and other staff costs	<b>101,232</b>	60,126
Pension contributions	<b>5,833</b>	3,936
Less: Forfeited contributions	<b>(94)</b>	(100)
Net pension contributions	<b>5,739</b>	3,836
	<b>106,971</b>	63,962
Other operating expenses:		
Operating lease rentals on leasehold buildings	<b>14,640</b>	11,494
Depreciation of property, plant and equipment	<b>5,991</b>	4,617
Amortisation of land lease prepayments	<b>2,944</b>	1,385
Auditors' remuneration	<b>1,501</b>	988
Amortisation and write-off of commission expenses	<b>336</b>	40
Impairment loss of intangible asset	<b>367</b>	-
Administrative and general expenses	<b>21,991</b>	11,969
Others	<b>59,844</b>	45,228
	<b>214,585</b>	139,683

As at 30 June 2007, the Group had no material forfeited contributions available to reduce its contributions to the pension scheme in future years (2006: Nil). The current period credits arose in respect of staff who left the scheme during the period.

## 6. Tax

	For the six months ended 30 June	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Current tax charge:		
Hong Kong	52,395	44,785
Elsewhere	1,298	622
Over provisions in prior years	(1,300)	(1,700)
Deferred tax charge	2,380	282
	<b>54,773</b>	<b>43,989</b>

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:

	For the six months ended 30 June 2007 (Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<b>307,071</b>		<b>8,656</b>		<b>315,727</b>	
Tax at the applicable tax rate	53,737	17.5	1,298	15.0	55,035	17.4
Estimated tax effect of net expense that is not deductible for tax	1,865	0.6	-	-	1,865	0.6
Estimated tax losses from previous periods utilised	(898)	(0.3)	-	-	(898)	(0.3)
Estimated tax losses not recognised	71	-	-	-	71	-
Adjustments in respect of current tax of previous periods	(1,300)	(0.4)	-	-	(1,300)	(0.4)
Tax charge at the Group's effective rate	<b>53,475</b>	<b>17.4</b>	<b>1,298</b>	<b>15.0</b>	<b>54,773</b>	<b>17.3</b>

	For the six months ended 30 June					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>287,391</u>		<u>4,147</u>		<u>291,538</u>	
Tax at the applicable tax rate	50,293	17.5	622	15.0	50,915	17.5
Estimated tax effect of net income that is not taxable	(5,095)	(1.7)	-	-	(5,095)	(1.7)
Estimated tax losses from previous periods utilised	(157)	(0.1)	-	-	(157)	(0.1)
Estimated tax losses not recognised	26	-	-	-	26	-
Adjustments in respect of current tax of previous periods	-	-	(1,700)	(41.0)	(1,700)	(0.6)
Tax charge at the Group's effective rate	<u>45,067</u>	15.7	<u>(1,078)</u>	(26.0)	<u>43,989</u>	15.1

## 7. Dividends

	For the six months ended 30 June			
	2007	2006	2007	2006
	HK\$ per ordinary share		HK\$'000	
Interim dividend	<u>0.05</u>	0.05	<u>54,695</u>	54,695

## 8. Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit for the period of HK\$260,954,000 (2006: HK\$247,549,000) and the weighted average number of 1,093,896,618 (2006: 890,427,818) ordinary shares in issue during the period.

### (b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the period of HK\$260,954,000 (2006: HK\$247,549,000) and on the weighted average number of 1,093,896,618 (2006: 892,532,909) ordinary shares, being the weighted average number of 1,093,896,618 (2006: 890,427,818) ordinary shares in issue during the period as used in the basic earnings per share calculation and nil ordinary shares was assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period (2006: weighted average number of 2,105,091).

	<b>For the six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit for the period, used in the basic and diluted earnings per share calculation	<b>260,954</b>	247,549
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	<b>1,093,896,618</b>	890,427,818
Weighted average number of ordinary share assumed to be issued at no consideration on deemed exercise of all share options outstanding during the period	-	2,105,091
Weighted average number of ordinary shares used in diluted earnings per share calculation	<b>1,093,896,618</b>	892,532,909
Diluted earnings per share (HK\$)	<b>0.239</b>	0.277

## 9. Loans and advances and receivables

### (a) Advances to customers and receivables

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Loans and advances to customers	<b>16,019,808</b>	13,676,597
Trade bills	<b>151,089</b>	98,381
	<b>16,170,897</b>	13,774,978
Interest receivable	<b>108,518</b>	113,916
	<b>16,279,415</b>	13,888,894
Other receivables	<b>65,898</b>	68,473
	<b>16,345,313</b>	13,957,367
Impairment allowances for advances to customers and receivables:		
Individual impairment allowances	<b>(64,777)</b>	(104,785)
Collective impairment allowances	<b>(157,439)</b>	(157,946)
	<b>(222,216)</b>	(262,731)
	<b>16,123,097</b>	13,694,636

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

Over 90% of the loans and advances and receivables are unrated exposures. The carrying amount of loans and advances and other receivables, net of impairment allowances, approximate their fair values.

Included in loans and advances and receivables are receivables in respect of assets leased under finance leases as set out below:

	30 June 2007 (Unaudited)		31 December 2006 (Audited)	
	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000
Amounts receivable under finance leases:				
Within one year	451,059	316,476	408,197	293,704
In the second to fifth years, inclusive	906,811	512,858	826,497	482,119
Over five years	2,945,840	1,664,776	2,466,746	1,468,776
	<b>4,303,710</b>	<b>2,494,110</b>	3,701,440	2,244,599
Less: Unearned finance income	<b>(1,809,600)</b>		(1,456,841)	
Present value of minimum lease payments receivable	<b>2,494,110</b>		<b>2,244,599</b>	

The Group has entered into finance lease arrangements with customers in respect of motor vehicles and equipment. The terms of the finance leases entered into range from 1 to 25 years.

The maturity profile of loans and advances to customers and receivables as at 30 June 2007 and 31 December 2006 is analysed by the remaining periods to their contractual maturity dates as follows:

	30 June 2007 (Unaudited) HK\$'000	31 December 2006 (Audited) HK\$'000
Repayable:		
On demand	233,417	481,847
Within three months or less	2,400,293	2,141,654
Within one year or less but over three months	2,109,738	2,009,319
Within five years or less but over one year	5,564,716	4,228,162
After five years	5,802,598	4,772,898
Undated	234,551	323,487
	<b>16,345,313</b>	<b>13,957,367</b>

(b) Gross amount of overdue and impaired loans and advances and other receivables

	30 June 2007 (Unaudited)		31 December 2006 (Audited)	
	Gross amount HK\$'000	Percentage of total loans and advances	Gross amount HK\$'000	Percentage of total loans and advances
Gross overdue loans and advances				
Overdue for:				
Six months or less but over three months	75,488	0.5	80,142	0.6
One year or less but over six months	42,342	0.3	49,930	0.4
Over one year	<u>64,629</u>	<u>0.4</u>	148,895	1.1
Total overdue loans and advances	<u>182,459</u>	<u>1.2</u>	278,967	2.1
Rescheduled loans and loss accounts	<u>23,493</u>	<u>0.1</u>	18,913	0.1
Total impaired loans and advances	<u>205,952</u>	<u>1.3</u>	297,880	<u>2.2</u>
Other receivables	<u>21,902</u>		<u>26,995</u>	
Total impaired loans and advances and other receivables	<u>227,854</u>		324,875	
Impairment allowances for overdue and impaired loans and advances and other receivables				
Individual impairment allowances	(31,325)		(104,785)	
Collective impairment allowances	(130,688)		(128,608)	
	<u>(162,013)</u>		<u>(233,393)</u>	
	<u>65,841</u>		<u>91,482</u>	

	<b>30 June 2007 (Unaudited)</b>	<b>31 December 2006 (Audited)</b>
	<b>Percentage of total Gross amount HK\$'000</b>	<b>Percentage of total Gross amount HK\$'000</b>
	<b>loans and advances</b>	<b>loans and advances</b>
Rescheduled loans	45,279	2,719
Individual impairment allowances	<u>(33,452)</u>	<u>-</u>
	<b><u>11,827</u></b>	<b><u>2,719</u></b>

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>30 June 2007 (Unaudited) HK\$'000</b>	<b>31 December 2006 (Audited) HK\$'000</b>
Balance at beginning of period/year	262,731	190,679
Recoveries	36,089	67,538
Charge for the period/year	125,787	278,363
Amounts released	(36,089)	(67,538)
Net charge to the consolidated income statement	89,698	210,825
Amounts written off	(166,302)	(282,661)
Acquisition of subsidiaries	-	76,350
Balance at end of period/year	<b><u>222,216</u></b>	<b><u>262,731</u></b>

(d) Repossessed assets

The total value of the repossessed assets of the Group amounted to HK\$25,456,000 (2006: HK\$21,679,000).

(e) The value of collateral held in respect of its overdue loans and advances and the split between the portion of the overdue loans and advances covered by credit protection (covered portion) and the remaining portion (uncovered portion) are as follows:

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Current market value of collateral held against the covered portion of overdue loans and advances	<b>58,951</b>	180,717
Covered portion of overdue loans and advances	<b>23,185</b>	115,694
Uncovered portion of overdue loans and advances	<b>159,230</b>	163,274

## 10. Other assets

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Interest receivable from authorised institutions	<b>38,231</b>	51,439
Other debtors, deposits and prepayments	<b>185,884</b>	209,644
Positive fair values of derivatives	<b>17,887</b>	12,780
	<b>242,002</b>	273,863

The Group's interest receivable from authorised institutions was current in nature at 30 June 2007 and 31 December 2006. The current and non-current portion of the Group's other debtors, deposits and prepayments were HK\$176,870,000 and HK\$9,014,000 (2006: HK\$201,032,000 and HK\$8,612,000) respectively.

The carrying amounts of the other debtors, deposits and prepayments approximate their fair values.

## 11. Intangible assets

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Cost:		
At beginning of period/year	725	126
Acquisition of subsidiaries	-	599
Impairment	<b>(367)</b>	-
At end of period/year	<b>358</b>	725

## 12. Other liabilities

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Creditors, accruals and interest payable	<b>336,848</b>	454,834
Amount due to the ultimate holding company	<b>41</b>	541
Provision for long service payments	<b>3,085</b>	3,892
Negative fair values of derivatives	<b>16,333</b>	9,735
	<b>356,307</b>	469,002

As the trade payables were immaterial to the Group, the maturity profile thereof has not been disclosed. The other liabilities, other than the provision for long service payments, were current in nature.

The carrying amounts of the creditors, accruals and interest payable approximate their fair values.

### 13. Reserves

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Share premium account:		
At beginning of period/year	<b>3,988,219</b>	1,364,179
Premium, net of expense, arising on rights issue	-	2,624,040
At end of period/year	<b>3,988,219</b>	3,988,219
Capital redemption reserve	<b>829</b>	829
Contributed surplus	<b>96,116</b>	96,116
Available-for-sale investment reevaluation reserve:		
At beginning of period/year	<b>68,565</b>	25,618
Transfer to income statement for the disposal of available- for-sale security investments	<b>(17,827)</b>	-
Change in fair value	<b>17,447</b>	42,947
At end of period/year	<b>68,185</b>	68,565
Employee share-based compensation reserve	<b>45,765</b>	45,765
Regulatory reserve:		
At beginning of period/year	<b>95,881</b>	85,400
Transfer from retained profits	<b>27,511</b>	10,481
At end of period/year	<b>123,392</b>	95,881
Retained profits:		
At beginning of period/year	<b>915,283</b>	702,601
Profit for the period/year	<b>260,954</b>	496,637
Dividend declared and paid	<b>(54,695)</b>	(273,474)
Transfer to regulatory reserve	<b>(27,511)</b>	(10,481)
At end of period/year	<b>1,094,031</b>	915,283
	<b>5,416,537</b>	5,210,658

## 14. Operating lease arrangements

As at 30 June 2007, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	<b>30 June 2007 (Unaudited) HK\$'000</b>	31 December 2006 (Audited) HK\$'000
Within one year	<b>26,998</b>	25,804
In the second to fifth years, inclusive	<b>18,770</b>	18,225
	<b>45,768</b>	44,029

## 15. Off balance sheet exposure

### (a) Contingent liabilities and commitments

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

	30 June 2007			31 December 2006	
	Contractual amount (Unaudited) HK\$'000	Replacement cost (Unaudited) HK\$'000	Risk weighted amount (Unaudited) HK\$'000	Contractual amount (Audited) HK\$'000	Replacement cost (Audited) HK\$'000
Direct credit substitutes	144,690	-	82,815	90,111	-
Transaction-related contingencies	4,923	-	1,435	6,842	-
Trade-related contingencies	124,892	-	23,327	169,626	-
Forward forward deposits placed	39,714	-	7,943	3,988	-
Forward asset purchases	23,452	-	4,690	19,504	-
Foreign exchange rate contracts	5,257,367	14,422	-	5,286,409	2,295
Interest rate swap and future contracts	550,000	-	-	227,780	-
Other commitments with an original maturity of:					
Under one year or which are unconditionally cancellable	3,862,963	-	-	3,297,666	-
One year and over	365,399	-	182,699	279,594	-
Capital commitments contracted for, but not provided in the financial statements	12,807	-	12,807	6,308	-
	<b>10,386,207</b>	<b>14,422</b>	<b>315,716</b>	<b>9,387,828</b>	<b>2,295</b>

The Group had 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 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 30 June 2007 and 31 December 2006, the Company had no other material outstanding contingent liabilities and commitments save as disclosed above.

(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>30 June 2007 (Unaudited)</b>		
	<b>Contract/ notional amount HK\$'000</b>	<b>Fair values of assets HK\$'000</b>	<b>Fair values of liabilities HK\$'000</b>
Derivatives held for trading:			
Foreign exchange rate contracts	5,257,367	16,467	14,686
Interest rate swaps	550,000	1,420	1,647
	<b>5,807,367</b>	<b>17,887</b>	<b>16,333</b>
	<b>31 December 2006 (Audited)</b>		
	<b>Contract/ notional amount HK\$'000</b>	<b>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
	<b>5,514,189</b>	<b>12,780</b>	<b>9,735</b>

**30 June  
2007  
(Unaudited)  
Credit risk  
weighted  
amount  
HK\$'000**

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Derivatives held for trading:

Foreign exchange rate contracts	-
Interest rate swaps	-
	-
	-

Risk weighted amounts of off balance sheet exposure for 31 December 2006 are not disclosed for comparison purpose as they are not computed in accordance with the Banking (Capital) Rules issued by HKMA.

- 16.** The interest income for the six months ended 30 June 2007 amounted to HK\$877,797,000 (2006: HK\$584,812,000) and interest expenses for the six months ended 30 June 2007 amounted to HK\$404,919,000 (2006: HK\$147,112,000) for financial assets and liabilities which are not designated at fair value through profit or loss. The interest income of the impaired loans and advances for the six months ended 30 June 2007 amounted to HK\$2,758,000 (2006: HK\$8,114,000).

**17. Comparative figures**

Certain comparative figures have been reclassified to conform with the current period's presentation.

## SUPPLEMENTARY INFORMATION (UNAUDITED)

### Segmental information

(a) By business segments

	For the six months ended		30 June
	30 June 2007		2007
	Operating	Profit	Total
	income	before tax	assets
	HK\$'000	HK\$'000	HK\$'000
Retail and commercial banking and lending	579,625	284,565	26,973,739
Other businesses	40,785	31,162	454,725
Inter-segment transactions	(400)	-	-
	<b>620,010</b>	<b>315,727</b>	<b>27,428,464</b>
Goodwill and intangible assets	-	-	2,774,761
Deferred tax assets	-	-	15,469
	<b>620,010</b>	<b>315,727</b>	<b>30,218,694</b>
	For the six months ended		30 June
	30 June 2006		2006
	Operating	Profit	Total
	income	before tax	assets
	HK\$'000	HK\$'000	HK\$'000
Retail and commercial banking and lending	506,912	278,922	20,750,062
Other businesses	17,308	12,616	381,335
Inter-segment transactions	(49)	-	-
	524,171	291,538	21,131,397
Goodwill and intangible assets	-	-	2,621,094
Deferred tax assets	-	-	2,572
	<b>524,171</b>	<b>291,538</b>	<b>23,755,063</b>

(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 herein.

(c) Gross and impaired loans and advances to customers by industry sectors and basis of classification

	30 June 2007				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Collateral HK\$'000	Impaired loans and advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial:					
Property development	554,124	942	-	129,871	-
Property investment	2,485,882	4,133	761	1,820,213	3,110
Financial concerns	92,595	157	-	50,584	-
Stockbrokers	129,089	219	-	-	-
Telecommunication	15,754	27	-	-	-
Wholesale and retail trade	29,857	51	-	11,003	-
Manufacturing	606,473	1,078	1,833	94,604	9,215
Transport and transport equipment	2,376,468	3,638	1,893	1,978,559	1,540
Others	1,647,409	2,579	2,912	323,768	5,044
Individuals:					
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	243,122	413	-	243,122	887
Loans for the purchase of other residential properties	3,087,632	5,216	1,472	3,086,160	4,798
Credit card advances	13,681	23	64	-	-
Others	3,400,906	136,398	2,312	193,383	158,321
Trade finance	668,933	-	2,751	61,707	51
Loans for use outside Hong Kong	667,883	1,870	33,452	195,405	22,986
	<b>16,019,808</b>	<b>156,744</b>	<b>47,450</b>	<b>8,188,379</b>	<b>205,952</b>

	31 December 2006				
	Gross loans and advances HK\$'000	Collective impairment allowances HK\$'000	Individual impairment allowances HK\$'000	Collateral HK\$'000	Impaired loans and advances HK\$'000
Loans for use in Hong Kong					
Industrial, commercial and financial:					
Property development	291,630	671	-	130,727	-
Property investment	1,770,464	3,945	409	1,549,833	4,599
Financial concerns	74,066	170	-	21,048	-
Stockbrokers	66,018	152	-	1,241	-
Telecommunication	51,578	117	-	-	-
Wholesale and retail trade	16,355	38	-	-	-
Manufacturing	484,588	1,295	3,496	88,484	4,867
Transport and transport equipment	2,139,575	4,167	1,936	1,808,867	1,399
Others	1,190,590	2,739	2,825	88,110	4,234
Individuals:					
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	257,769	593	-	257,769	640
Loans for the purchase of other residential properties	2,676,947	6,119	655	2,529,050	4,469
Credit card advances	12,467	29	-	-	-
Others	3,255,512	134,648	1,894	250,535	161,442
Trade finance	727,657	-	10,093	5,029	32,716
Loans for use outside Hong Kong	661,381	2,476	59,452	208,736	83,514
	13,676,597	157,159	80,760	6,939,429	297,880

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.

(d) Geographical analysis of gross loans and advances, overdue and impaired loans and advances and other receivables

	30 June 2007			31 December 2006		
	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000	Hong Kong HK\$'000	Mainland China HK\$'000	Total HK\$'000
Overdue loans and advances and other receivables	<b>170,335</b>	<b>34,026</b>	<b>204,361</b>	209,851	96,111	305,962
Individual impairment allowances	<b>31,325</b>	-	<b>31,325</b>	45,333	59,452	104,785
Collective impairment allowances	<b>123,530</b>	-	<b>123,530</b>	123,108	6	123,114
Impaired loans and advances and other receivables	<b>186,478</b>	<b>41,376</b>	<b>227,854</b>	223,050	101,825	324,875
Individual impairment allowances	<b>31,325</b>	-	<b>31,325</b>	45,333	59,452	104,785
Collective impairment allowances	<b>130,688</b>	-	<b>130,688</b>	128,608	-	128,608

Over 90% of the Group's gross loans and advances and their related impairment allowances are derived from operations carried out in Hong Kong. Accordingly, no geographical segment information is presented herein.

## **INTERIM DIVIDEND**

The Board of Directors has on 22 June 2007 declared an interim dividend of HK\$0.05 (2006: HK\$0.05) per share payable on 17 July 2007 to shareholders whose names appear on the register of members of the Company on 11 July 2007.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

#### **Overview**

During the period under review, the economic conditions in Hong Kong continued to show improvement with a stable unemployment rate and healthy gross domestic product growth, as well as a moderate increase in property prices and a significant increase in stock market activities. The banking sector is expected to benefit from the liberalization policies of the Government of the People's Republic of China ("PRC") such as the launch of the Qualifying Domestic Institutional Investors Scheme ("QDII") permitting PRC investors to invest in the Hong Kong equity market and the relaxation at the qualifying criteria for Hong Kong incorporated banks under the Closer Economic Partnership Arrangement ("CEPA") to further develop their banking business in the PRC. However, the operating environment for financial institutions remains challenging and highly competitive particularly in the consumer and mortgage financing businesses, resulting in narrowing of interest margins. In addition, rising human resource cost and rentals will also adversely affect corporate earnings, including that of financial institutions.

### **Financial Review**

#### **Group performance**

For the six months ended 30 June 2007, the Group recorded a profit after tax of HK\$261.0 million, representing an increase of 5.4% or HK\$13.5 million when compared to the profit after tax of HK\$247.5 million in the corresponding period of the previous financial year. The Group's profit after tax for the six months ended 30 June 2007 has consolidated the six months operating results of its new subsidiary, Public Bank (Hong Kong) as compared to the consolidation of two months results from May 2006 to June 2006 for the corresponding period of the previous year.

The Group's basic earnings per share for the six months ended 30 June 2007 decreased to HK\$0.239 per share from HK\$0.278 per share due to the dilutive effect of the rights issue carried out in April 2006. The directors had declared a first interim dividend of HK\$0.05 per share in June 2007.

The Group's net interest income for the six months ended 30 June 2007 increased by 8.0% or HK\$35.2 million to HK\$472.9 million when compared to the corresponding period of the previous year. Interest income increased by 50.1% or HK\$293.0 million to HK\$877.8 million whilst interest expense increased by 175.2% or HK\$257.8 million to HK\$404.9 million when compared to the corresponding period of the previous financial year.

The Group's non-interest income for the six months ended 30 June 2007 increased by 70.2% or HK\$60.7 million to HK\$147.1 million whilst the Group's operating expenses increased by 53.6% or HK\$74.9 million to HK\$214.6 million when compared to the corresponding period of the previous financial year.

The Group's impairment allowances for financial assets decreased by 3.5% or HK\$3.3 million to HK\$89.7 million on higher bad debt recoveries as a result of active debt collection and restructuring efforts.

The Group's total loans and advances (including trade bills) increased by 17.4% or HK\$2.40 billion to HK\$16.17 billion as at 30 June 2007 from HK\$13.77 billion as at 31 December 2006. The Group's deposits from customers also increased by 15.6% or HK\$2.32 billion to HK\$17.17 billion as at 30 June 2007 from HK\$14.85 billion as at 31 December 2006. The aggregate of deposits from customers, deposits from banks and financial institutions and issuance of certificates of deposits stood at HK\$22.95 billion as at 30 June 2007. Total assets of the Group increased to HK\$30.22 billion as at 30 June 2007 from HK\$24.24 billion as at 31 December 2006.

### **Business development of Public Bank (Hong Kong)**

During the period under review, total loans and advances (including trade bills) of Public Bank (Hong Kong) grew by 23.9% or HK\$2.43 billion to HK\$12.59 billion as at 30 June 2007 from HK\$10.16 billion as at 31 December 2006. Deposits from customers also grew by 12.9% or HK\$1.73 billion to HK\$15.16 billion as at 30 June 2007 from HK\$13.43 billion as at 31 December 2006.

In the first half of 2007, Public Bank (Hong Kong) opened 6 new branches in Hong Kong and a new sub-branch in Shenzhen in the PRC, bringing Public Bank (Hong Kong)'s branch network to 21 in Hong Kong and 2 in Shenzhen in the PRC. The increase in overheads from the opening of new branches, and increase in advertising and promotional expense to develop the "Public Bank" brand and its loan business had affected the profit after tax of Public Bank (Hong Kong) which declined slightly by 9.9% or HK\$7.27 million to HK\$66.02 million for the six months ended 30 June 2007 from HK\$73.29 million for the six months ended 30 June 2006. The branch network expansion programme has also given rise to a higher cost to operating income ratio for the Group of 34.6% for the six months ended 30 June 2007 as compared to 26.6% for the six months ended 30 June 2006.

## **Segmental information**

The Group's business comprised two main segments: (i) retail and commercial banking and (ii) other businesses. Over 90% of the Group's operating income and profit before tax was contributed by retail and commercial banking for the six months ended 30 June 2007. When compared to the corresponding period of the previous year, the Group's operating income from retail and commercial banking increased by HK\$72.7 million or 14.3% to HK\$579.6 million. Profit before tax from retail and commercial banking for the six months ended 30 June 2007 increased marginally by HK\$5.6 million or 2.0% to HK\$284.6 million when compared to the corresponding period of the previous year.

## **Contingent liabilities and commitments**

The Group has 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 period under review. The Group did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the period under review. The Group also had not created any charge over the assets of the Group as at 30 June 2007, which was the same position as disclosed by the Group as at 31 December 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, deposits from customer, deposits from financial institutions and the issuance of certificates of deposits to fund its retail consumer financing business and commercial banking business. The Group's bank borrowings in the form of a three-year term loan denominated in Hong Kong dollars at floating interest rates to finance the investment in Public Bank (Hong Kong) was reduced by HK\$0.8 billion to HK\$1.2 billion during the period under review. The loan repayment has reduced the Group's gearing ratio from 37.6% as at 31 December 2006 to 21.7% as at 30 June 2007. In the normal course of its commercial banking business, the Group has entered into foreign exchange and interest rate swap and forward contracts to reduce foreign exchange risk and interest rate risk exposures.

The loan to deposit ratio of the Group decreased to 69.8% as at 30 June 2007 compared to 84.7% as at 31 December 2006 as a result of the growth in deposits from customers and the issuance of certificates of deposits during the period under review.

## **Asset quality**

The Group's impaired loan ratio improved from 2.2% as at 31 December 2006 to 1.3% as at 30 June 2007. The asset quality of Public Bank (Hong Kong) had also improved with its overdue and impaired loan ratio reduced from 0.8% as at 31 December 2006 to 0.4% as at 30 June 2007 as a result of prudent credit risk management and the recovery of impaired loans.

## **Human resources management**

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 are enrolled for external training courses, seminars, professional and technical courses with appropriate sponsorship from the Group in order to update their technical knowledge and skills, to increase their awareness of the market and technological changes, and to improve their management and business skills. Staff are also encouraged to participate in social activities organised by the Group to promote team spirit and build a cohesive workforce.

Options to subscribe for 66,526,000 shares in the Company were granted to employees of the Group in May 2005 pursuant to the Company's share option scheme approved by shareholders on 28 February 2002. As at 30 June 2007, options to subscribe for 41,562,000 shares in the Company remained unexercised.

As at 30 June 2007, the Group's staff force stood at 877 employees. For the six months ended 30 June 2007, the Group's total staff and related cost amounted to HK\$107.0 million.

## **Prospects**

The economic outlook of Hong Kong is expected to remain positive in the second half of 2007. The employment market is anticipated to improve further with employees enjoying higher income and better career opportunities in line with the growth momentum of the Hong Kong economy. The positive economic outlook in Hong Kong and the PRC is anticipated to drive consumers' appetite for consumption and investments which is expected to lead to stronger demand for consumer financing.

The Group will focus on expanding its retail and commercial banking business through its branch expansion programme, innovative product development and aggressive marketing strategies along with the building of its “Public Bank” brandname. The Group will continue to seek further synergies in lowering operating costs and greater economies of scale through the integration of the support functions of Public Bank (Hong Kong) and Public Finance where appropriate, restructuring of the Group organisational structure and cross-selling through the combined branch network of Public Bank (Hong Kong) and Public Finance as well as the Group’s enlarged customer base. The Group will continue to target selected market segments of Public Bank (Hong Kong) and Public Finance to grow its retail and commercial banking and consumer financing businesses.

Competition in the banking industry is expected to remain keen with financial institutions seeking to gain market share which will add further pressure on the interest margin for banking and financing products.

Barring unforeseen circumstance, the Group expects to register further growth in its loan and deposits taking businesses and achieve satisfactory performance in the second half of 2007.

## **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 six months ended 30 June 2007.

## **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 period covered by the 2007 interim 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.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") of the Listing Rules. All directors confirmed that they have complied with the required standards as set out in the Model Code throughout the period under review.

## **REVIEW BY AUDIT COMMITTEE**

The 2007 interim report has 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, 13 July 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*