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)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

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 2007 with comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December 2007 HK$'000	2006 HK$'000
Interest income	4	**1,919,885**	1,444,809
Interest expense	4	**(918,103)**	(534,372)
NET INTEREST INCOME		**1,001,782**	910,437
Gains less losses from disposal of available-for-sale financial assets		**108,545**	-
Other operating income	5	**283,133**	207,029
Non-interest income		**391,678**	207,029
OPERATING INCOME		**1,393,460**	1,117,466
Operating expenses	6	**(431,218)**	(310,722)
OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES		**962,242**	806,744
Impairment allowances for loans and advances and receivables and held-to-maturity investments	7	**(176,973)**	(210,825)
OPERATING PROFIT		**785,269**	595,919
SHARE OF PROFITS AND LOSSES OF A JOINTLY-CONTROLLED ENTITY		**(163)**	176
PROFIT BEFORE TAX		**785,106**	596,095
Tax	8	**(119,775)**	(99,458)
PROFIT FOR THE YEAR		**665,331**	496,637
Attributable to:			
Equity holders of the Company		**665,331**	496,637
DIVIDENDS	9		
Interim		**328,169**	273,474
EARNINGS PER SHARE (HK$)	10		
Basic		**0.608**	0.500
Diluted		**0.608**	0.500

* for identification purpose only

CONSOLIDATED BALANCE SHEET

	Notes	**31 December 2007 HK$'000**	31 December 2006 HK$'000
ASSETS			
Cash and short term placements		**5,882,235**	2,295,219
Placements with banks and financial institutions		**441,539**	566,773
Financial assets designated at fair value through profit or loss		**12,262**	10,213
Derivatives financial instruments		**2,644**	12,780
Loans and advances and receivables	11	**19,165,638**	13,694,636
Available-for-sale financial assets		**51,044**	75,632
Held-to-maturity investments		**2,858,708**	3,679,604
Inventories of taxi licences		**25,299**	24,105
Investment properties		**146,492**	196,666
Property and equipment		**98,007**	71,003
Land lease prepayments		**628,664**	562,030
Interest in a jointly-controlled entity		**1,513**	1,676
Deferred tax assets		**5,668**	17,849
Goodwill		**2,774,403**	2,774,403
Intangible assets		**358**	725
Other assets		**584,338**	261,083
TOTAL ASSETS		**32,678,812**	24,244,397
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other financial institutions at amortised cost		**2,263,902**	516,097
Derivatives financial instruments		**2,381**	9,735
Customer deposits at amortised cost		**20,501,549**	14,853,655
Certificates of deposit issued at amortised cost		**2,049,227**	769,674
Dividend payable		**273,474**	218,779
Unsecured bank loans at amortised cost		**1,100,000**	2,000,000
Current tax payable		**32,186**	32,810
Deferred tax liabilities		**69,243**	64,332
Other liabilities		**732,629**	459,267
TOTAL LIABILITIES		**27,024,591**	18,924,349
EQUITY			
Issued capital		**109,390**	109,390
Reserves	12	**5,544,831**	5,210,658
TOTAL EQUITY		**5,654,221**	5,320,048
TOTAL EQUITY AND LIABILITIES		**32,678,812**	24,244,397

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	Year ended 31 December	
	2007	2006
	HK$'000	HK$'000
TOTAL EQUITY		
Balance at beginning of year	**5,320,048**	2,393,434
Rights issue, net of expenses	**-**	2,660,504
Exchange difference	**21,400**	-
Surplus on revaluation of available-for-sale financial assets	**84,156**	42,947
Transfer to income statement for disposal of available-for-sale financial assets	**(108,545)**	-
Profit for the year	**665,331**	496,637
Dividends paid/declared on shares	**(328,169)**	(273,474)
	337,162	223,163
Balance at end of year	**5,654,221**	5,320,048

NOTES TO FINANCIAL STATEMENTS

1.1 ACCOUNTING POLICIES

The accounting policies and basis of preparation adopted in these financial statements are consistent with those adopted in the Company's 2006 Annual Report except for the adoption of the new Hong Kong Financials Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") as disclosed in note 1.2 below.

Basis of consolidation

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

- Public Bank (Hong Kong) Limited, Public Finance Limited, Winton (B.V.I.) Limited and their subsidiaries and a jointly controlled entity.

The computation of consolidated capital adequacy ratio of the Group is based on the ratio of the aggregate of risk weighted exposures to the aggregate of capital bases of Public Financial Holdings Limited, Public Bank (Hong Kong) Limited and Public Finance Limited for regulatory purpose.

There are no major restrictions on impediments on the transfer of capital or funds among the members of the Company's consolidation group except that liquidity, capital and other performance indicators of Public Securities Limited and Public Financial Securities Limited should satisfy the minimum requirements of Financial Resources Rules issued by the Securities and Futures Commission.

1.2 IMPACT OF NEW AND REVISED HKFRSs AND HKASs

The Hong Kong Institute of Certified Public Accountants 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 31 December 2007 which are pertinent to its operations and relevant to 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
• 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.

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 consolidated balance sheet and income statement arising from the above-mentioned accounting standards except for information related to disclosure requirements of HKAS 1 Amendment and HKFRS 7 which had been disclosed in the financial statements.

1.3 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 financial statements:

- HKFRS 8 — Operating Segments
- HKAS 23 (Revised) — Borrowing Costs (Revised)
- HK(IFRIC) - Int 11 — HKFRS 2 Group and Treasury Share Transactions
- HK(IFRIC) - Int 12 — Service Concession Arrangements
- HK(IFRIC) - Int 13 — Customer Loyalty Programmers
- HK(IFRIC) - Int 14 — HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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.

HK(IFRIC) – Int 13 shall be applied for annual periods beginning on or after 1 July 2008.

HK(IFRIC) – Int 14 shall be applied for annual periods beginning on or after 1 January 2008.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs and HKASs upon initial application and expects that the adoption of the above pronouncements will not have significant impact on the Group's results of operations and financial position as at the date of the financial statements.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Held-to-maturity investments

The Group follows the guidance of HKAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances, it is required to reclassify the entire class of held-to-maturity investments to other appropriate classes of financial assets. The investments would then be measured at fair value and not at amortised cost.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment allowances on loans and advances and receivables

The Group reviews its loan portfolios to assess impairment on a regular basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was HK$2,774,403,000.

3. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined that business segments are its primary reporting format and geographical segments are its secondary reporting format.

(a) By business segments

The Group's operating businesses are organised and managed separately, according to the nature of products and services provided, with each segment representing a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments:

- the retail and commercial banking and lending segment mainly comprises the provision of deposit account services, securities trading and stockbroking, wealth management services, the extension of mortgages and consumer lending, hire purchase and leasing, provision of financing to purchasers of licensed public vehicles such as taxis and public light buses, provision of services and financing activities for customers in trading, manufacturing and various business sectors, foreign exchange activities, centralised cash management for deposit taking and lending, interest rate risk management, management of investments in securities and the overall funding management of the Group.

- other business segment comprises taxi trading and the leasing of taxis and letting of investment properties.

The Group's business for securities trading and stockbroking was reclassified to "retail and commercial banking and lending segment" from "other business segment" in 2006 for conformity with the presentation in 2007. The Group's inter-segment transactions during the year were mainly related to dealers' commission from referrals of taxi financing loans, and these transactions were entered into on similar terms and conditions as those contracted with third parties at the dates of the transactions.

3. SEGMENT INFORMATION (Continued)

(a) By business segments (Continued)

The following tables represent revenue and profit information for these segments for the years ended 31 December 2007 and 2006, and certain asset and liability information regarding business segments as at 31 December 2007 and 2006.

Group	Retail and commercial banking and lending		Other businesses		Eliminated on consolidation		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Restated)		(Restated)				
Segment revenue								
Net interest income	**1,001,782**	910,437	**-**	-	**-**	-	**1,001,782**	910,437
Other operating income:								
Fees and commission income	**244,738**	176,054	**883**	295	**-**	-	**245,621**	176,349
Profit on sale of available-for-sale financial assets	**108,545**	-	**-**	-	**-**	-	**108,545**	-
Others	**16,707**	15,634	**20,805**	15,046	**-**	-	**37,512**	30,680
Elimination of inter-segment transactions	**-**	-	**1,030**	373	**(1,030)**	(373)	**-**	-
	1,371,772	1,102,125	**22,718**	15,714	**(1,030)**	(373)	**1,393,460**	1,117,466
Segment results	**762,054**	575,194	**23,215**	20,725	**-**	-	**785,269**	595,919
Share of profits and losses of a jointly-controlled entity							**(163)**	176
Profit before tax							**785,106**	596,095
Tax							**(119,775)**	(99,458)
Profit for the year							**665,331**	496,637
Segment assets	**29,726,592**	21,230,649	**171,791**	220,771	**-**	-	**29,898,383**	21,451,420
Unallocated assets:								
Goodwill							**2,774,403**	2,774,403
Intangible assets							**358**	725
Deferred tax assets							**5,668**	17,849
Total assets							**32,678,812**	24,244,397
Segment liabilities	**26,630,797**	18,586,422	**18,891**	22,006	**-**	-	**26,649,688**	18,608,428
Unallocated liabilities:								
Dividend payable							**273,474**	218,779
Deferred tax liabilities and tax payable							**101,429**	97,142
Total liabilities							**27,024,591**	18,924,349
Other segment information								
Capital expenditure	**36,969**	6,044	**-**	-	**-**	-	**36,969**	6,044
Depreciation and amortization of land lease prepayments	**18,448**	13,179	**-**	-	**-**	-	**18,448**	13,179
Reversal of an impairment allowance on land lease prepayments	**(2,616)**	(4,694)	**-**	-	**-**	-	**(2,616)**	(4,694)
Changes in fair value of investment properties	**-**	-	**(23,769)**	(30,719)	**-**	-	**(23,769)**	(30,719)
Impairment allowances for loans and advances and receivables and held-to-maturity investments	**176,973**	210,825	**-**	-	**-**	-	**176,973**	210,825
(Gain)/loss on disposal of property and equipment	**4,503**	(204)	**-**	-	**-**	-	**4,503**	(204)

3. SEGMENT INFORMATION (Continued)

(b) By geographical segment

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.

4. INTEREST INCOME AND INTEREST EXPENSE

The interest income for the year ended 31 December 2007 amounted to HK$1,919,885,000 (2006: HK$1,444,809,000) and interest expense for the year ended 31 December 2007 amounted to HK$918,103,000 (2006: HK$534,372,000) pursuant to the adoption of effective interest method for financial assets and financial liabilities which are not designated at fair value through profit or loss. The interest income of the impaired loans and advances for the year ended 31 December 2007 amounted to HK$6,906,000 (2006: HK$13,189,000).

5. OTHER OPERATING INCOME

	Year ended 31 December	
	2007	2006
	HK$'000	HK$'000
Fees and commission income:		
Retail and commercial banking	**168,030**	151,639
Securities	**78,841**	25,772
	246,871	177,411
Less : Fees and commission expenses	**(1,250)**	(1,062)
Net fees and commission income	**245,621**	176,349
Gross rental income	**12,502**	11,739
Less : Direct operating expenses	**(157)**	(212)
Net rental income	**12,345**	11,527
Gain less losses arising from dealing in foreign currencies	**11,960**	13,949
Gain on disposal of financial assets designated at fair value through profit or loss	**-**	438
Net gain on financial assets designated at fair value through profit or loss	**2,023**	933
Net gain on disposal of property and equipment	**4,503**	204
Dividends from listed investments	**2,041**	1,306
Dividends from unlisted investments	**980**	780
Net loss on derivative financial instruments	**(2,782)**	(3,303)
Others	**6,442**	4,846
	283,133	207,029

The direct operating expenses included repair and maintenance expenses arising from investment properties.

There were no net gains or losses arising from held-to-maturity investments, loans and advances and receivables and financial liabilities designated at amortised cost for years 2007 and 2006.

All fees and commission income and expense related to financial assets or financial liabilities which are not designated at fair value through profit or loss and trust and other fiduciary activities.

6. OPERATING EXPENSES

	Year ended 31 December 2007 HK$'000	2006 HK$'000
Staff costs:		
Salaries and other staff costs	**215,343**	160,383
Pension contributions	**11,472**	9,086
Less : Forfeited contributions	**(33)**	(129)
Net retirement benefit schemes contributions	**11,439**	8,957
	226,782	169,340
Other operating expenses:		
Operating lease rentals on leasehold buildings	**30,771**	24,981
Depreciation and amortisation of land lease prepayments	**18,448**	13,179
Auditors' remuneration	**3,301**	2,950
Administrative and general expenses	**44,517**	32,382
Impairment of intangible assets	**367**	-
Others	**133,417**	103,303
Operating expenses before reversal of an impairment allowance on land lease prepayments and changes in fair value of investment properties	**457,603**	346,135
Reversal of an impairment allowance on land lease prepayments	**(2,616)**	(4,694)
Changes in fair value of investment properties	**(23,769)**	(30,719)
	(26,385)	(35,413)
	431,218	310,722

As at 31 December 2007, the Group had no material forfeited contributions available to reduce its contributions to the retirement benefit schemes in future years (2006: Nil). The current year credits arose in respect of staff who left the scheme during the year.

7. IMPAIRMENT ALLOWANCES

	Year ended 31 December	
	2007	2006
	HK$'000	HK$,000
Charge for/(write-back) of impairment allowances against:		
- Loans and advances	**186,488**	215,198
- Trade bills, accrued interest and receivables	**(19,315)**	(4,373)
- Held-to-maturity investments	**9,800**	-
	176,973	210,825
Net charge for/(write-back) of impairment allowances:		
- Individually assessed	**269,048**	193,963
- Collectively assessed	**(92,075)**	16,862
	176,973	210,825
Of which:		
- new impairment allowances (including any amount directly written off in the year)	**255,316**	278,363
- releases and recoveries	**(78,343)**	(67,538)
Net charge to the consolidated income statement	**176,973**	210,825

There were no impairment allowances for other assets (other than loans and advances and receivables, held-to-maturity investments and intangible assets) as at 31 December 2007 and 2006.

8. TAX

	Year ended 31 December	
	2007	2006
	HK$,000	HK$'000
Current tax charge:		
Hong Kong	**99,715**	93,260
Elsewhere	**5,568**	2,627
Over-provisions in prior years	**(2,600)**	(1,700)
Deferred tax charge	**17,092**	5,271
	119,775	99,458

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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 2007					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**752,389**		**32,717**		**785,106**	
Tax at the applicable tax rate	**131,668**	**17.5**	**5,568**	**17.0**	**137,236**	**17.5**
Estimated tax effect of net income that is not taxable	**(14,040)**	**(1.9)**	**-**	**-**	**(14,040)**	**(1.8)**
Estimated tax losses from previous periods utilised	**(903)**	**(0.1)**	**-**	**-**	**(903)**	**(0.1)**
Estimated tax losses not recognised	**82**	**-**	**-**	**-**	**82**	**-**
Adjustments in respect of current tax of previous periods	**(2,600)**	**(0.3)**	**-**	**-**	**(2,600)**	**(0.3)**
Tax charge at the Group's effective rate	**114,207**	**15.2**	**5,568**	**17.0**	**119,775**	**15.3**

	Year ended 31 December 2006					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	578,583		17,512		596,095	
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	98,531	17.0	927	5.3	99,458	16.7

9. DIVIDENDS

	Year ended 31 December			
	2007	2006	**2007**	2006
	HK$ per ordinary share		**HK$'000**	HK$'000
Interim:				
First	**0.05**	0.05	**54,695**	54,695
Second	**0.25**	0.20	**273,474**	218,779
	0.30	0.25	**328,169**	273,474

10. 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$665,331,000 (2006: HK$496,637,000) and the weighted average number of 1,093,896,618 (2006: 992,998,391) ordinary shares in issue during the year.

(b) Diluted earnings per share

There was no diluted earnings per share for the year ended 31 December 2007 as the exercise price of all share options outstanding was higher than the average market price of shares issued on deemed exercise of all share options outstanding during the year. The calculation of diluted earnings per share for the year ended 31 December 2006 was based on the profit for the year of HK$496,637,000 and on the weighted average number of 994,185,625 ordinary shares, being the weighted average number of 992,998,391 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 ordinary shares assumed to have been issued at nil consideration on the deemed exercise of all share options outstanding during the last year.

	Year ended 31 December	
	2007	2006
	HK$'000	HK$'000
Profit for the year, used in the basic and diluted earnings per share calculation	**665,331**	496,637
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,093,896,618**	992,998,391
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all share options outstanding during the year	**-**	1,187,234
Weighted average number of ordinary shares used in diluted earnings per share calculation	**1,093,896,618**	994,185,625
Diluted earnings per share (HK$)	**0.608**	0.500

11. LOANS AND ADVANCES AND RECEIVABLES

	31 December 2007	31 December 2006
	HK$'000	HK$'000
Loans and advances	**18,947,961**	13,676,597
Trade bills	**166,087**	98,381
	19,114,048	13,774,978
Accrued interest	**88,179**	113,916
	19,202,227	13,888,894
Other receivables	**63,272**	68,473
Gross loans and advances and receivables	**19,265,499**	13,957,367
Less: Impairment allowances for loans and advances to and receivables from customers		
- Individually assessed	**(33,990)**	(104,785)
- Collectively assessed	**(65,871)**	(157,946)
	(99,861)	(262,731)
Loans and advances and receivables	**19,165,638**	13,694,636

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.

The Group's loans and advances and receivables are mainly collateralised by properties, cash, securities and taxi licences.

12. RESERVES

Group	Share premium account HK$'000	Capital redemption reserve HK$'000	Contributed surplus HK$'000	Available-for-sale financial assets revaluation reserve HK$'000	Employee share-based compensation reserve HK$'000	Regulatory reserve HK$'000	Retained profits HK$'000	Translation Reserve HK$'000	Total HK$'000
At 1 January 2006	1,364,179	829	96,116	25,618	45,765	85,400	702,601	-	2,320,508
Change in fair value and total income and expense recognised directly in equity	-	-	-	42,947	-	-	-	-	42,947
Profit for the year	-	-	-	-	-	-	496,637	-	496,637
Premium, net of expense, arising on rights issue	2,624,040	-	-	-	-	-	-	-	2,624,040
Transfer from retained profits	-	-	-	-	-	10,481	(10,481)	-	-
Dividends for 2006	-	-	-	-	-	-	(273,474)	-	(273,474)
At 31 December 2006 and 1 January 2007	**3,988,219**	**829**	**96,116**	**68,565**	**45,765**	**95,881**	**915,283**	**-**	**5,210,658**
Change in fair value and total income and expense recognised directly in equity	**-**	**-**	**-**	**84,156**	**-**	**-**	**-**	**-**	**84,156**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**665,331**	**-**	**665,331**
Exchange difference	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**21,400**	**21,400**
Transfer from retained profits	**-**	**-**	**-**	**-**	**-**	**65,338**	**(65,338)**	**-**	**-**
Transfer to income statement for disposal of available-for-sale financial assets	**-**	**-**	**-**	**(108,545)**	**-**	**-**	**-**	**-**	**(108,545)**
Dividends for 2007	**-**	**-**	**-**	**-**	**-**	**-**	**(328,169)**	**-**	**(328,169)**
At 31 December 2007	**3,988,219**	**829**	**96,116**	**44,176**	**45,765**	**161,219**	**1,187,107**	**21,400**	**5,544,831**

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 2007, the Group had total future minimum lease rental receivables under non-cancellable operating leases falling due as follows:

	31 December 2007 HK$'000	31 December 2006 HK$'000
Within one year	**7,807**	10,026
In the second to fifth years, inclusive	**2,584**	8,496
	10,391	18,522

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

	31 December 2007 HK$'000	31 December 2006 HK$'000
Within one year	**28,681**	25,804
In the second to fifth years, inclusive	**17,599**	18,225
	46,280	44,029

14. OFF-BALANCE SHEET EXPOSURE

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 at the balance sheet date:

2007

	Contractual amount HK$'000	Credit risk weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'000
Direct credit substitutes	287,899	81,595	-	-
Transaction-related contingencies	3,844	958	-	-
Trade related contingencies	197,345	37,208	-	-
Forward asset purchases	85,898	17,180	-	-
	574,986	136,941	-	-
Derivatives held for trading:				
Foreign exchange rate contracts	2,021,126	866	2,591	2,342
Interest rate swaps and future contracts	400,000	-	53	39
	2,421,126	866	2,644	2,381
Other commitments with an original maturity of:				
Not more than one year	-	-	-	-
More than one year	508,023	254,011	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,777,592	-	-	-
	7,281,727	391,818	2,644	2,381
Capital commitment contracted for, but not provided in the financial statements	9,284	9,284	-	-

14. OFF-BALANCE SHEET EXPOSURE (Continued)

Contingent liabilities and commitments (Continued)

2006	Contractual amount HK$'000	Credit risk weighted amount HK$'000	Positive fair value-assets HK$'000	Negative fair value-liabilities HK$'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	-	-
	290,071	102,213	-	-
Derivatives held for trading:				
Foreign exchange rate contracts	5,286,409	10,575	11,434	8,129
Interest rate swaps and future contracts	227,780	-	1,346	1,606
	5,514,189	10,575	12,780	9,735
Other commitments with an original maturity of:				
Not more than one year	-	-	-	-
More than one year	279,594	139,797	-	-
Other commitments which are unconditionally cancellable or which provide for automatic cancellation due to deterioration of creditworthiness of the counterparties	3,297,666	-	-	-
	9,381,520	252,585	12,780	9,735
Capital commitment contracted for, but not provided in the financial statements	6,308	6,308	-	-

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 Hong Kong Monetary Authority. 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.

As at 31 December 2007 and 2006, the Group had no other material outstanding contingent liabilities and commitments save as disclosed above.

COMPLIANCE WITH SUPERVISORY POLICY MANUALS

The Group has followed the applicable requirements of "Guideline on the Application of the Banking (Disclosure) Rules" and "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority.

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 2007 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 is of the view that the current practice of appointing non-executive directors without specific terms but otherwise subject to rotation and re-election by shareholders is fair and reasonable, and does 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 first interim dividend of HK$0.05 (2006: HK$0.05) per ordinary share was paid on 17 July 2007. The second interim dividend of HK$0.25 (2006: HK$0.20) per ordinary share was declared on 28 December 2007 and will be payable on 14 February 2008 to shareholders of the Company whose names appear on the register of members on 6 February 2008. The directors do not recommend the payment of a final dividend (2006: Nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 15 February 2008 and 19 February 2008, 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, Tricor 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 14 February 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Overview

During the year under review, the economic conditions in Hong Kong continued to show improvements amidst buoyant stock and property prices, declining unemployment rate, and tightening labour market which drove the growth in private consumption spending and healthy gross domestic product. However, the operating environment for financial institutions in Hong Kong remained challenging and competitive, coupled with the effects from the turmoil in the credit market arising from the US sub-prime mortgages leading to a slowing pace of global economic growth and creating uncertainty for the Hong Kong economy.

Financial Review

Group performance

For the year ended 31 December 2007, the Group recorded a profit after tax of HK$665.3 million, representing an increase of HK$168.7 million when compared to the profit after tax of HK$496.6 million for the previous year.

The Group's profit after tax for 2007 has consolidated a full 12 months of earnings from Public Bank (Hong Kong) Limited ("PBHK") of HK$121.43 million against consolidation of 8 months earnings of HK$105.87 million in the previous year. In the year under review, the Group also recorded gains from disposal of listed security investment in Hong Kong of HK$108.5 million.

The Group's basic earnings per share for 2007 increased by 21.6% to HK$0.608 per share from HK$0.500 per share for 2006. The directors had declared a first and a second interim dividend of HK$0.05 per share in June 2007 and HK$0.25 per share in December 2007 respectively. The directors do not recommend the payment of a final dividend, making a total dividend of HK$0.30 per share for the year (2006: HK$0.25 per share).

The Group's net interest income for 2007 increased by 10.0% or HK$91.3 million to HK$1,001.8 million when compared to the previous year. Interest income increased by 32.9% or HK$475.1 million to HK$1,919.9 million whilst interest expense increased by 71.8% or HK$383.7 million to HK$918.1 million when compared to the previous year.

The Group's non-interest income for 2007 increased by 89.2% or HK$184.6 million to HK$391.7 million whilst the Group's operating expenses increased by 38.8% or HK$120.5 million to HK$431.2 million when compared to the previous year.

The Group's impairment allowances for financial assets decreased by 16.1% or HK$33.9 million to HK$177.0 million on higher bad debts recovery as a result of active debt collection and restructuring efforts.

The Group's total loans and advances (including trade bills) increased by 38.8% or HK$5.34 billion to HK$19.11 billion as at 31 December 2007 from HK$13.77 billion as at 31 December 2006. The Group's deposits from customers also increased by 38.0% or HK$5.65 billion to HK$20.50 billion as at 31 December 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 deposit stood at HK$24.81 billion as at 31 December 2007. Total assets of the Group increased to HK$32.68 billion as at 31 December 2007 from HK$24.24 billion as at 31 December 2006.

Business development of PBHK

During the year under review, total loans and advances (including trade bills) of PBHK grew by 51.7% or HK$5.26 billion to HK$15.42 billion as at 31 December 2007 from HK$10.16 billion as at 31 December 2006. Deposits from customers also grew by 36.9% or HK$4.96 billion to HK$18.39 billion as at 31 December 2007 from HK$13.43 billion as at 31 December 2006.

In 2007, PBHK opened 8 new branches in Hong Kong and a new sub-branch in Shenzhen in the People's Republic of China ("PRC"), bringing PBHK's branch network to 23 branches in Hong Kong and 2 branches 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 caused an increase of the cost to operating income ratio of the Group to 30.9% for 2007 as compared to 27.8% for 2006.

Segmental information

The Group's business comprised two main segments: (i) retail and commercial banking and lending and (ii) other businesses. Over 90% of the Group's operating income and profit before tax was contributed by retail and commercial banking in Hong Kong for 2007. When compared to the previous year, the Group's operating income from retail and commercial banking increased by HK$269.6 million or 24.5% to HK$1,371.8 million. Profit before tax from retail and commercial banking for 2007 increased by HK$186.9 million or 32.5% to HK$762.1 million when compared to the previous year.

Contingent liabilities and commitments

The Group has no material contingent liabilities (other than those in the normal course of its banking and finance business 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 did not incur any material capital expenditure or enter into any material commitments in respect of capital expenditure during the year under review. The Group also had no charge over the assets of the Group as at 31 December 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 deposit to fund its retail consumer financing business and retail 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 PBHK was reduced by HK$0.9 billion to HK$1.1 billion during the year under review. The loan repayment has reduced the Group's gearing ratio from 37.6% as at 31 December 2006 to 19.5% as at 31 December 2007. In the normal course of its commercial banking business, the Group has entered into foreign exchange and interest rate swaps and forward exchange contracts to reduce foreign exchange risk and interest rate risk exposures.

The loan to deposit ratio of the Group decreased to 76.4% as at 31 December 2007 as 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 deposit during the year under review.

Asset quality

The Group's overdue and impaired loan ratio improved from 2.2% as at 31 December 2006 to 0.8% as at 31 December 2007 due to higher bad debt recoveries and write off of bad debts. The asset quality of PBHK has improved further with its overdue and impaired loan ratio decreasing from 0.8% as at 31 December 2006 to 0.5% as at 31 December 2007 as a result of prudent credit risk management.

Human resource management

The objective of the Group's human resource 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 31 December 2007, options to subscribe for 40,564,000 shares in the Company remained unexercised.

As at 31 December 2007, the Group's staff force stood at 942 employees. For 2007, the Group's total staff and related costs amounted to HK$226.8 million.

Prospects

The employment market of Hong Kong is anticipated to improve further with higher rates of wage increases. This will provide employees with higher disposable income and a potential for stronger appetite for private consumption and investments in tandem with the growth momentum of the Hong Kong economy. The booming economy of the PRC is expected to continue and help to provide growth impetus in the economy of Hong Kong. The positive economic outlook for Hong Kong and the PRC is anticipated to drive private consumption spending and thus demand for consumer financing.

The Group will continue to focus on expanding its retail and commercial banking business and consumer financing business through its branch expansion programme, innovative product development and aggressive marketing strategies. The Group will continue to seek further synergies in greater economies of scale and lower operating costs through the integration of the support functions of PBHK and Public Finance where appropriate, enhancing efficiency of the Group organisational structure and cross-selling through the combined branch network of PBHK and Public Finance and the Group's enlarged customer base. The Group will continue to target selected market segments of PBHK and Public Finance to grow its retail and commercial banking and consumer financing businesses.

Competition in the banking and financing industry is expected to remain keen with financial institutions seeking greater market share. The competitive environment will be likely to add pressure on the pricing for banking and financing products. The effect of the US sub-prime mortgage crisis may cause uncertainties for financial institutions and drive up the cost of bank borrowing. The measures and policies taken by the authorities in the PRC to cool its overheated economy is expected to continue in the year ahead and this may bring down the pace of the economy growth in Hong Kong.

Barring unforeseen circumstance, the Group expects to continue to register satisfactory growth in its loan and deposit taking businesses and its financial performance.

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 2007 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, 9 January 2008

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.