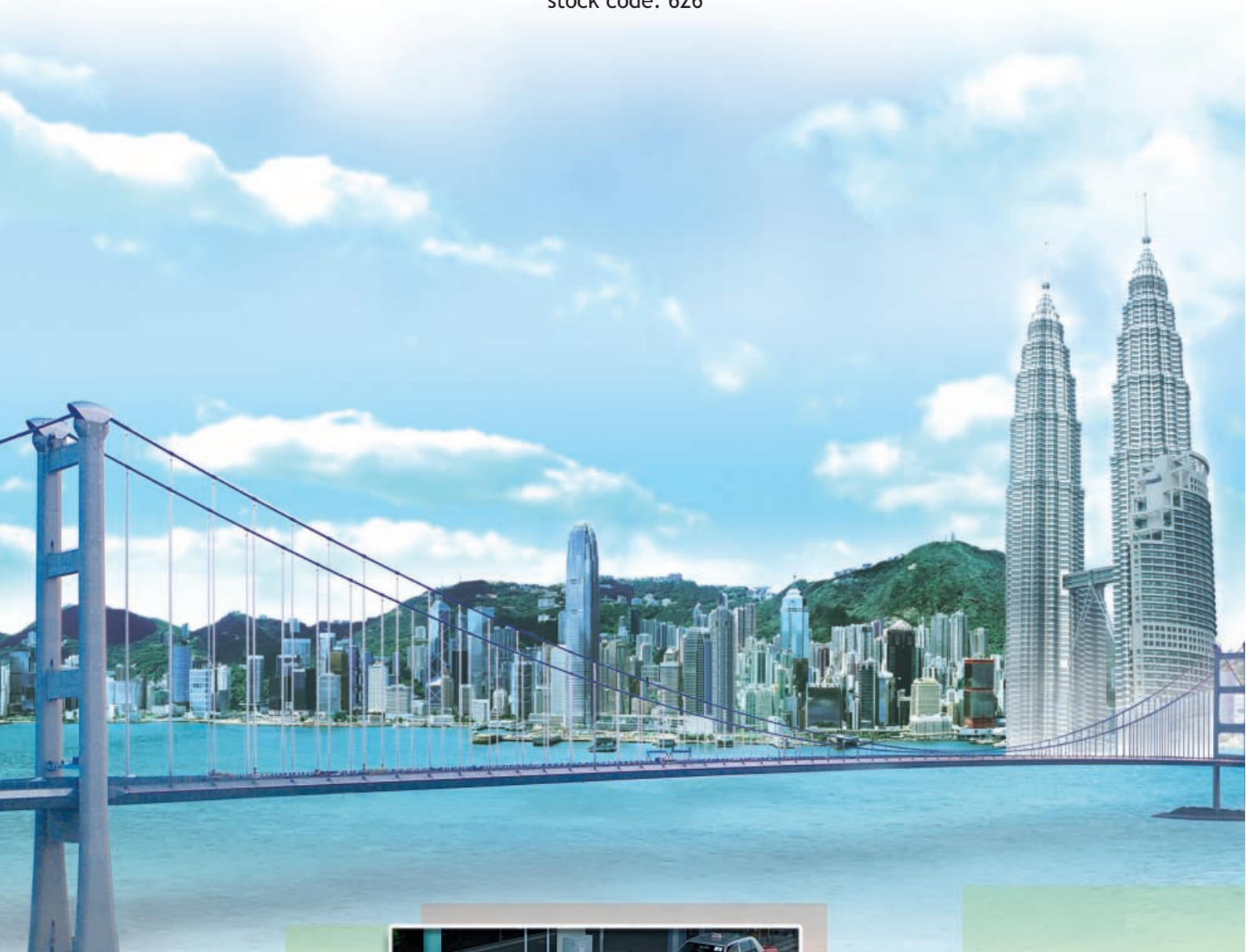




PUBLIC FINANCIAL HOLDINGS LIMITED

stock code: 626



Interim
Report **2006**

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CORPORATE INFORMATION

Board of Directors

Non-executive Chairman

Tan Sri Dato' Sri Dr. Teh Hong Piow
Chairman
Public Bank Berhad

Independent Non-executive Co-chairman

Tan Sri Dato' Thong Yaw Hong
(Appointed on 1 July 2006)

Executive Directors

Tan Yoke Kong
Lee Huat Oon

Non-executive Directors

Dato' Sri Tay Ah Lek
Dato' Chang Kat Kiam
Wong Kong Ming

Independent Non-executive Directors

Geh Cheng Hooi, Paul
(Resigned on 1 July 2006)
Dato' Yeoh Chin Kee
Lee Chin Guan

Joint Secretaries

Tan Yoke Kong
Chan Sau Kuen

Registered Office

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

1105-7 Wing On House
71 Des Voeux Road Central
Hong Kong
Telephone : (852) 2525 9351
Facsimile : (852) 2845 0681
Website : www.publicfinance.com.hk

Share Listing

Main Board of The Stock Exchange
of Hong Kong Limited
Stock Code : 626

Principal Registrar

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Registrar

Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong
Telephone : (852) 2980 1333
Facsimile : (852) 2810 8185

Auditors

Ernst & Young
Certified Public Accountants

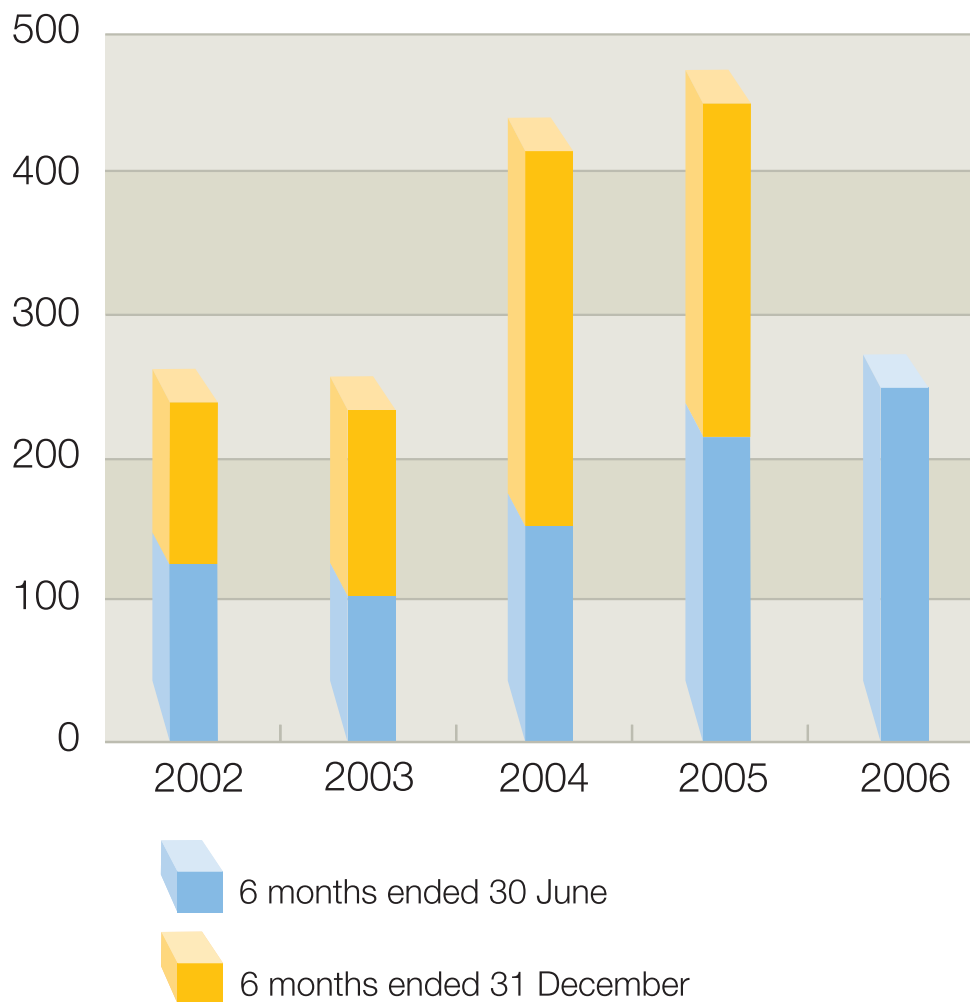
CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

The Board of Directors of Public Financial Holdings Limited (the "Company") (formerly known as JCG Holdings Limited) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006 with comparative figures as follows:

	Notes	For the six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interest income		584,812	388,112
Interest expense		(147,112)	(11,378)
NET INTEREST INCOME		437,700	376,734
Other operating income	4	86,471	68,303
OPERATING INCOME		524,171	445,037
Operating expenses	5	(139,683)	(105,694)
OPERATING PROFIT BEFORE IMPAIRMENT LOSS AND ALLOWANCES		384,488	339,343
Impairment loss and allowances for financial assets		(92,950)	(77,202)
OPERATING PROFIT		291,538	262,141
SHARE OF PROFITS AND LOSSES OF A JOINTLY-CONTROLLED ENTITY		-	-
PROFIT BEFORE TAX		291,538	262,141
Tax	6	(43,989)	(45,358)
PROFIT FOR THE PERIOD		247,549	216,783
DIVIDENDS	7		
Interim dividend		54,695	42,465
Special dividend		-	205,250
		54,695	247,715
EARNINGS PER SHARE (HK\$)	8		
Basic		0.278	0.306
Diluted		0.277	N/A

FIVE-YEAR PROFIT HIGHLIGHT

HK\$ Million



CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
ASSETS			
Cash and short term placements	9	3,320,770	453,009
Placements with banks and financial institutions			
maturing between one and twelve months	10	525,952	5,000
Securities measured at fair value through profit or loss	11	16,964	–
Derivative receivables	12	18,422	–
Loans and advances and receivables	13	12,560,382	3,512,255
Available-for-sale security investment		47,014	25,881
Held-to-maturity securities	14	3,634,217	–
Interests in jointly-controlled entity		1,500	–
Inventories of taxi licences		24,123	26,988
Investment properties		165,947	147,987
Property, plant and equipment		401,796	21,336
Land lease prepayments		232,182	233,568
Deferred tax assets		2,572	2,854
Other assets	15	182,128	34,418
Goodwill and intangible assets	16	2,621,094	126
TOTAL ASSETS		<u>23,755,063</u>	<u>4,463,422</u>
EQUITY AND LIABILITIES			
LIABILITIES			
Deposits and balances of banks and other			
financial institutions	17	511,250	–
Derivative payables	12	16,055	–
Customer deposits	18	14,165,542	1,641,978
Certificates of deposit issued	19	1,348,974	–
Declared dividend		54,695	291,706
Bank loans	20	2,015,000	–
Current tax payable		67,467	31,555
Deferred tax liabilities		57,087	13,410
Other liabilities	21	257,241	91,339
TOTAL LIABILITIES		<u>18,493,311</u>	<u>2,069,988</u>
EQUITY			
Share capital		109,390	72,926
Reserves	23	5,152,362	2,320,508
TOTAL EQUITY		<u>5,261,752</u>	<u>2,393,434</u>
TOTAL EQUITY AND LIABILITIES		<u>23,755,063</u>	<u>4,463,422</u>

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
TOTAL EQUITY		
Balance at beginning of period	2,393,434	2,295,823
Rights issue, net of expenses	2,661,135	-
Employee share-based compensation reserve	-	7,000
Surplus/(deficit) on revaluation of available-for-sale security investment	14,329	(563)
Net gain not recognised in the condensed consolidated profit and loss account	14,329	6,437
Profit for the period	247,549	216,783
Dividends declared on shares	(54,695)	(247,715)
	192,854	(30,932)
Balance at end of period	5,261,752	2,271,328

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended	
	30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH FLOWS FROM:		
OPERATING ACTIVITIES	511,271	(154,742)
INVESTING ACTIVITIES	(1,623,981)	(363)
FINANCING ACTIVITIES	4,369,429	(283,104)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	3,256,719	(438,209)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	458,009	795,924
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,714,728	357,715
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and short term placements	3,320,770	352,715
Short-term bank loan	(15,000)	-
Placements with banks and financial institutions maturing within three months	408,958	5,000
	3,714,728	357,715

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Acquisition of Public Bank (Hong Kong) Limited (“Public Bank (Hong Kong)”) (formerly known as Asia Commercial Bank Limited)

Following the completion of the purchase of the entire issued and paid-up share capital of Asia Commercial Bank Limited in May 2006, the name of Asia Commercial Bank Limited was changed to Public Bank (Hong Kong) Limited on 30 June 2006. Public Bank (Hong Kong) and its subsidiaries (“Public Bank (Hong Kong) Group”) are now wholly-owned subsidiaries of the Company. The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2006 have taken into account of the financial results of Public Bank (Hong Kong) Group as wholly-owned subsidiaries of the Company.

2.1 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 “Interim Financial Disclosure by Locally Incorporated Authorised Institutions” under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority (“HKMA”).

The accounting policies and basis of preparation adopted in these interim financial statements are consistent with those adopted in the Company’s 2005 Annual Report except for the adoption of new HKFRSs and HKASs as disclosed in note 3 below.

2.2 Basis of consolidation

The subsidiaries consolidated for accounting purpose are as follows:

- Public Finance Limited (“Public Finance”) (formerly known as JCG Finance Company, Limited) and its subsidiaries
- Public Bank (Hong Kong) Group
- Winton (B.V.I) Limited and its subsidiaries

The subsidiaries included in the computation of the consolidated capital adequacy ratio of Public Finance are as follows:

- Public Finance
- JCG Securities Limited
- Public Financial Limited

The subsidiaries included in the computation of the consolidated capital adequacy ratio of Public Bank (Hong Kong) are as follows:

- Public Bank (Hong Kong)
- Hocomban Investments Limited
- AFH Credit Limited
- Asia Commercial Bank (Nominees) Limited

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

3.1. 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 2006. The Group has adopted the following HKFRSs and HKASs issued up to 30 June 2006 which are pertinent to its operations and relevant to these interim financial statements.

- | | |
|--------------------------------|---|
| • HKAS 39 Amendment | The Fair Value Option |
| • HKAS 39 & HKFRS 4 Amendments | Financial Guarantee Contracts |
| • HK(IFRIC)-Int 4 | Determining whether an Arrangement contains a Lease |

There was no material impact on the basis of preparation of the unaudited condensed consolidated balance sheet and profit and loss account arising from the above-mentioned accounting standards.

3.2. Impact of issued but not yet effective HKFRSs and HKASs

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

- (a) HKAS 1 Amendment "Presentation of Financial Statements: Capital Disclosures" (effective for accounting period beginning on or after 1 January 2007)
- (b) HKFRS 7 "Financial Instruments: Disclosures" (effective for accounting period beginning on or after 1 January 2007)

HKAS 1 Amendment will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital, quantitative data about what the Group regards as capital; and compliance with any capital requirements and consequences of any non-compliance.

HKFRS 7 will replace HKAS 30 and modify the disclosure requirements of HKAS 32 relating to financial instruments.

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***4. Other operating income**

	For the six months ended	
	30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Fees and commission income:		
Retail and commercial banking	68,773	61,228
Securities	7,081	–
	75,854	61,228
Less: Fees and commission expenses	(220)	–
Net fees and commission income	75,634	61,228
Gross rental income	4,920	3,432
Less: Direct operating expenses	(70)	(96)
Net rental income	4,850	3,336
Gains less losses arising from dealing in foreign currencies	2,086	–
Gain on disposal of securities measured at fair value through profit or loss	223	–
Loss on securities measured at fair value through profit or loss	(52)	–
Gain/(loss) on disposal of property, plant and equipment	174	(12)
Dividends from listed investments	549	378
Dividends from unlisted investments	780	–
Others	2,227	3,373
	86,471	68,303

In prior period, certain fee income of HK\$19,642,000, which would have been classified under other operating income under the previous accounting policies, has now been included in the calculation of interest income under the effective interest method upon the prospective adoption of HKAS 39.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***5. Operating expenses**

	For the six months ended	
	30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Staff costs:		
Salaries and other staff costs	60,126	44,010
Pension contributions	3,936	3,250
Less: Forfeited contributions	(100)	(475)
Net pension contributions	3,836	2,775
	63,962	46,785
Employee share option benefits	-	7,000
	63,962	53,785
Other operating expenses:		
Operating lease rentals on leasehold buildings	11,494	9,878
Depreciation and amortisation of land lease prepayments	6,002	3,116
Auditors' remuneration	988	661
Amortisation and write-off of commission expenses	40	102
Administrative and general expenses	11,969	8,695
Others	45,228	29,457
	139,683	105,694

As at 30 June 2006, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2005: 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	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax charge:		
Hong Kong	44,785	46,800
Elsewhere	622	-
Over provisions in prior years	(1,700)	-
Deferred tax charge/(income)	282	(1,442)
	43,989	45,358

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***6. Tax** *(continued)*

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 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 2006					
	(Unaudited)					
	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>	<u>15.7</u>	<u>(1,078)</u>	<u>(26.0)</u>	<u>43,989</u>	<u>15.1</u>

	For the six months ended 30 June 2005					
	(Unaudited)					
	Hong Kong		Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	<u>262,141</u>		<u>-</u>		<u>262,141</u>	
Tax at the applicable tax rate	45,875	17.5	-	-	45,875	17.5
Estimated tax effect of net income that is not taxable	(520)	(0.2)	-	-	(520)	(0.2)
Estimated tax losses from previous periods utilised	(447)	(0.2)	-	-	(447)	(0.2)
Estimated tax losses not recognised	450	0.2	-	-	450	0.2
Tax charge at the Group's effective rate	<u>45,358</u>	<u>17.3</u>	<u>-</u>	<u>-</u>	<u>45,358</u>	<u>17.3</u>

7. Dividends

	For the six months ended 30 June			
	2006	2005	2006	2005
	HK\$ per ordinary share		HK\$'000	HK\$'000
Interim dividend	0.05	0.06	54,695	42,465
Special dividend	-	0.29	-	205,250
	<u>0.05</u>	<u>0.35</u>	<u>54,695</u>	<u>247,715</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***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\$247,549,000 (2005: HK\$216,783,000) and the weighted average number of 890,427,818 (2005: 707,758,412) 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\$247,549,000 (2005: HK\$216,783,000) and on the weighted average number of 892,532,909 (2005: 707,758,412) ordinary shares, being the weighted average number of 890,427,818 (2005: 707,758,412) ordinary shares in issue during the period as used in the basic earnings per share calculation and the weighted average number of 2,105,091 (2005: Nil) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options outstanding during the period.

	For the six months ended	
	30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period, used in the basic and diluted earnings per share calculation	<u>247,549</u>	<u>216,783</u>
Weighted average number of ordinary shares in issue during the period used in the basic earnings per share calculation	890,427,818	707,758,412
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all share options outstanding during the period	<u>2,105,091</u>	–
Weighted average number of ordinary shares used in diluted earnings per share calculation	<u>892,532,909</u>	<u>707,758,412</u>
Diluted earnings per share (HK\$)	<u>0.277</u>	<u>N/A</u>

9. Cash and short term placements

	30 June	31 December
	2006	2005
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Cash and balances with banks and other financial institutions	268,755	80,756
Money at call and short notice	<u>3,052,015</u>	<u>372,253</u>
	<u>3,320,770</u>	<u>453,009</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

10. Placements with banks and financial institutions maturing between one and twelve months

The Group's maturity profile of the placements with banks and financial institutions maturing between one and twelve months as at 30 June 2006 and 31 December 2005 is analysed by the remaining periods to their contractual maturity dates as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Repayable:		
Within three months or less	408,958	5,000
Within one year or less but over three months	116,994	–
	<u>525,952</u>	<u>5,000</u>

The Group's placements with banks, amounting to HK\$5,000,000 (2005: HK\$5,000,000), were pledged to a bank for credit facilities of HK\$5,000,000 (2005: HK\$5,000,000) granted to the Group. The credit facilities were not utilised during the period (2005: Nil).

11. Securities measured at fair value through profit or loss

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Unlisted investment funds, at quoted market price	<u>16,964</u>	<u>–</u>

The above equity investments were classified as held for trading.

12. Derivative financial instruments

The Group uses the following derivative instruments:

Currency forwards represent commitments to purchase foreign and domestic currencies, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures contract value are settled daily with The Stock Exchange of Hong Kong Limited. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an exchange of interest rates (for example, fixed rate or floating rate). No exchange of principal takes place. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***12. Derivative financial instruments** *(continued)*

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchasers (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Group and an over-the-counter customer. The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

	Contract/ notional amount	Fair values	
		Assets	Liabilities
	30 June	30 June	30 June
	2006	2006	2006
	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000
Derivatives held for trading			
Foreign exchange rate contracts	7,618,450	17,108	14,421
Interest rate swap	150,000	1,314	1,634
	<u>7,768,450</u>	<u>18,422</u>	<u>16,055</u>
		Credit risk weighted amount	
		30 June	31 December
		2006	2005
		(Unaudited)	(Audited)
		HK\$'000	HK\$'000
Foreign exchange rate contracts		14,594	–
Interest rate swap		150	–
		<u>14,744</u>	<u>–</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***13. Loans and advances and receivables**

(a) Advances to customers and receivables

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Loans and advances to customers	12,578,634	3,583,800
Trade bills	66,071	–
	12,644,705	3,583,800
Interest receivable	99,796	45,232
	12,744,501	3,629,032
Other receivables	71,222	73,902
	12,815,723	3,702,934
Impairment allowances for advances to customers and receivables:		
Individual impairment allowances	(110,095)	(78,276)
Collective impairment allowances	(145,246)	(112,403)
	(255,341)	(190,679)
	12,560,382	3,512,255

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

The maturity profile of loans and advances to customers and receivables as at 30 June 2006 and 31 December 2005 is analysed by the remaining periods to their contractual maturity dates as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Repayable:		
On demand	527,457	19,999
Within three months or less	2,125,604	546,405
Within one year or less but over three months	2,120,472	1,196,343
Within five years or less but over one year	4,370,589	1,217,724
After five years	3,393,742	490,573
Undated	277,859	231,890
	12,815,723	3,702,934

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***13. Loans and advances and receivables** *(continued)*

(b) Gross amount of impaired loans and advances

	30 June 2006 (Unaudited)		31 December 2005 (Audited)	
	Gross amount HK\$'000	Percentage of total loans and advances	Gross amount HK\$'000	Percentage of total loans and advances
Gross impaired loans and advances				
Overdue for:				
Six months or less but over three months	80,441	0.6	62,450	1.7
One year or less but over six months	42,764	0.3	29,385	0.8
Over one year and loss accounts	180,346	1.5	116,786	3.3
Total impaired loans and advances	303,551	2.4	208,621	5.8
Impairment allowances for impaired loans and advances:				
Individual impairment allowances	(110,095)		(78,276)	
Collective impairment allowances	(114,623)		(105,834)	
	(224,718)		(184,110)	
	78,833	0.6	24,511	0.7

Interest accrual of 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***13. Loans and advances and receivables** *(continued)*

(c) Impairment allowances for loans and advances and receivables

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Balance at beginning of period/year	190,679	193,750
Recoveries	31,824	59,648
Charge for the period/year	124,774	218,399
Amounts released	(31,824)	(59,648)
Net charge to the condensed consolidated profit and loss account	92,950	158,751
Amounts written off	(132,402)	(221,470)
Acquisition of Public Bank (Hong Kong)	72,290	–
Balance at end of period/year	255,341	190,679

(d) Repossessed assets

The amount of repossessed assets was less than 1% (2005: less than 1%) of total gross loans and advances and receivables and was immaterial to the Group. Accordingly, the amount was not separately disclosed.

14. Held-to-maturity securities

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Debt securities and exchange fund bills, at amortised cost:		
– listed in Hong Kong	19,979	–
– listed outside Hong Kong	46,577	–
– unlisted*	3,567,661	–
	3,634,217	–
Market value of listed held-to-maturity securities	64,665	–

* Included certificate of deposits held of HK\$607,579,000 (2005: Nil).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***14. Held-to-maturity securities** *(continued)*

The held-to-maturity securities analysed by issuer as at 30 June 2006 and 31 December 2005 were as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Central government and central banks	99,611	–
Public sector entities	23,298	–
Banks and other financial institutions	3,107,742	–
Corporate entities	403,566	–
	<u>3,634,217</u>	<u>–</u>

The maturity profile of held-to-maturity securities as at 30 June 2006 and 31 December 2005 is as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Repayable:		
Within three months or less	541,850	–
Within one year or less but over three months	820,960	–
Within five years or less but over one year	2,128,915	–
Over five years	142,492	–
	<u>3,634,217</u>	<u>–</u>

15. Other assets

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Interest receivable from authorised institutions	32,461	258
Other debtors, deposits and prepayments	149,667	34,160
	<u>182,128</u>	<u>34,418</u>

The Group's interest receivable from authorised institutions was current in nature at 30 June 2006 and 31 December 2005. The current and non-current portion of the Group's other debtors, deposits and prepayments were HK\$67,122,000 and HK\$82,545,000 (2005: HK\$27,992,000 and HK\$6,168,000) respectively.

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***16. Goodwill and intangible assets**

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Goodwill	2,620,369	–
Intangible assets	725	126
	<u>2,621,094</u>	<u>126</u>

On 14 February 2006, the Company and Asia Financial Holdings Limited (“AFH”) entered into the share purchase agreement pursuant to which AFH agreed to sell and the Company agreed to purchase, the entire issued and paid-up share capital of Public Bank (Hong Kong) for a consideration of HK\$4.5 billion, subject to potential adjustments as agreed by the Company and AFH. In May 2006, the Company completed the acquisition of Public Bank (Hong Kong) Group from AFH. Goodwill of approximately HK\$2.6 billion arose from the acquisition based on the fair value of Public Bank (Hong Kong) Group’s net assets of HK\$1.9 billion as at the reference date and before the determination of the final net asset value. The Company financed the acquisition by bank loans of HK\$2.0 billion and the net proceeds of HK\$2.6 billion arising from the rights issue of 364,632,206 rights shares of HK\$0.10 each at HK\$7.30 per rights share on the basis of one rights share for every two existing shares held by the shareholders (the “Rights Issue”).

17. Deposits and balances of banks and other financial institutions

The Group’s maturity profile of deposits and balances of banks and other financial institutions as at 30 June 2006 and 31 December 2005 is analysed by the remaining periods to their contractual maturity dates as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Repayable:		
On demand	–	–
Within three months or less	350,653	–
Within one year or less but over three months	160,597	–
	<u>511,250</u>	<u>–</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***18. Customer deposits**

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Demand deposits and current accounts	629,863	–
Savings deposits	1,731,663	–
Time, call and notice deposits	11,804,016	1,641,978
	<u>14,165,542</u>	<u>1,641,978</u>

The Group's maturity profile of customer deposits as at 30 June 2006 and 31 December 2005 is analysed by the remaining periods to their contractual maturity dates as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Repayable:		
On demand	2,466,317	3,648
Within three months or less	10,602,975	1,051,642
Within one year or less but over three months	590,110	108,692
Within five years or less but over one year	21,319	1,268
	<u>13,680,721</u>	<u>1,165,250</u>
Connected deposits	484,821	476,728
	<u>14,165,542</u>	<u>1,641,978</u>

The connected deposits were repayable and subject to renewal by a fellow subsidiary within one year.

19. Certificates of deposits issued

All the certificate of deposits issued are measured at amortised cost. The Group's maturity profile of certificates of deposits issued as at 30 June 2006 and 31 December 2005 is analysed by the remaining periods to their contractual maturity dates as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Repayable:		
Within three months or less	549,805	–
Within one year or less but over three months	249,921	–
Within five years or less but over one year	549,248	–
	<u>1,348,974</u>	<u>–</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***20. Bank loans**

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Unsecured bank loans	<u>2,015,000</u>	<u>–</u>
Repayable:		
Within one year	15,000	–
In the second to fifth years, inclusive	<u>2,000,000</u>	<u>–</u>
	<u>2,015,000</u>	<u>–</u>

The carrying amounts of the bank loans are approximate to their fair values and are priced based on floating interest rates (2005: Nil). The bridging loan facility of HK\$2.0 billion is expected to be refinanced by a 3 year medium term loan.

21. Other liabilities

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Creditors, accruals and interest payable	253,073	86,995
Amount due to the ultimate holding company	338	338
Provision for long service payments	<u>3,830</u>	<u>4,006</u>
	<u>257,241</u>	<u>91,339</u>

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***22. Employee share-based compensation reserve**

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
At beginning of period/year	45,765	–
Employee share option benefits	<u>–</u>	<u>45,765</u>
At end of period/year	<u>45,765</u>	<u>45,765</u>

- (a) Share options were granted to the directors and employees of the Company and its subsidiaries to subscribe for shares in the Company in accordance with the terms and conditions of the Employees' Share Option Scheme (the "ESOS") approved by the shareholders of the Company at the annual general meeting on 28 February 2002 and further amended by the shareholders of the Company at the annual general meeting on 10 March 2005. Each share option gives the holder the right to subscribe for one ordinary share.

The Group is not legally bound or obliged to repurchase or settle the options in cash.

Pursuant to the terms of the Company's ESOS, adjustment is required to be made to the exercise price and/or the number of shares falling to be issued upon exercise of the outstanding share options as a result of the Rights Issue. After the completion of the Rights Issue, the exercise price of the outstanding shares options was adjusted from HK\$7.29 per share to HK\$6.35 per share and there was no adjustment to the number of shares falling to be issued.

- (b) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	For the six months ended 30 June 2006 (Unaudited)		For the year ended 31 December 2005 (Audited)	
	Average exercise price per share HK\$	Number of options	Average exercise price per share HK\$	Number of options
At beginning of period/year	7.29	43,878,000	–	–
Granted and accepted	–	–	7.29	65,976,000
Forfeited	–	–	7.29	(592,000)
Exercised	–	–	7.29	(21,506,000)
At end of period/year	<u>6.35</u>	<u>43,878,000</u>	<u>7.29</u>	<u>43,878,000</u>

Remaining contractual life of the 43,878,000 outstanding options was 8.94 years as at 30 June 2006.

At 30 June 2006, all the 43,878,000 outstanding options (2005: 43,878,000) were exercisable at the adjusted exercise price of HK\$6.35 (2005: HK\$7.29).

No share options were exercised during the six months ended 30 June 2006 (2005: 21,506,000).

- (c) Had all the outstanding employee share options been fully exercised on 30 June 2006, the Group would have received proceeds of HK\$278,625,300. The market value of the shares issued based on the closing price of HK\$6.25 per share on that date would have been HK\$274,237,500. The directors and employees concerned under the ESOS would have made no gain from the exercise of share options.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***23. Reserves**

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Share premium account:		
At beginning of period/year	1,364,179	1,209,593
Premium, net of expense, arising on share options exercised	–	154,586
Premium, net of expense, arising on rights issue	2,624,671	–
At end of period/year	3,988,850	1,364,179
Capital redemption reserve	829	829
Contributed surplus	96,116	96,116
Available-for-sale investment revaluation reserve:		
At beginning of period/year	25,618	16,481
Change in fair value	14,329	9,137
At end of period/year	39,947	25,618
Employee share-based compensation reserve:		
At beginning of period/year	45,765	–
Employee share option benefits	–	45,765
At end of period/year	45,765	45,765
Regulatory reserve:		
At beginning of period/year	85,400	75,686
Transfer (to)/from retained profits	(756)	9,714
At end of period/year	84,644	85,400
Retained profits:		
At beginning of period/year	702,601	812,966
Profit for the period/year	247,549	446,297
Dividend declared and paid	(54,695)	(546,948)
Transfer from/(to) regulatory reserve	756	(9,714)
At end of period/year	896,211	702,601
	5,152,362	2,320,508

24. Operating lease arrangements

As at 30 June 2006, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Within one year	24,399	16,172
In the second to fifth years, inclusive	17,855	11,461
	42,254	27,633

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

25. 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 2006			31 December 2005		
	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	Risk weighted amount (Audited) HK\$'000
Direct credit substitutes	55,710	-	43,175	-	-	-
Transaction-related contingencies	4,161	-	1,388	-	-	-
Trade related contingencies	162,920	-	29,304	-	-	-
Forward deposits placed	264,391	-	52,878	-	-	-
Forward asset purchases	14,637	-	2,927	-	-	-
Foreign exchange rate contracts	7,618,450	2,219	14,594	-	-	-
Interest rate swap	150,000	-	150	-	-	-
Other commitments with an original maturity of:						
Under one year or which are unconditionally cancellable	3,040,477	-	-	773	-	-
One year and over	178,435	-	89,217	-	-	-
Capital commitment contracted for, but not provided in the financial statements	3,127	-	3,127	1,603	-	1,603
	11,492,308	2,219	236,760	2,376	-	1,603

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 2006 and 31 December 2005, the Company had no other material outstanding contingent liabilities and commitments as disclosed above.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS*(continued)***26. Related party transactions**

During the period, the Group had the following major transactions with related parties, which were carried out on essentially the same terms and/or at prevailing market rates with other customers or suppliers:

	For the six months ended	
	30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Related party transactions included in the profit and loss accounts:		
Commission income from the ultimate holding company		
for referrals of taxi financing loans	64	122
Interest income from the ultimate holding company	15,121	40
Rental income from the ultimate holding company	1,212	1,212
Management fees from the ultimate holding company	439	427
Service charge paid to the ultimate holding company	12	3
Interest paid and payable to a fellow subsidiary	9,603	3,335
Dividend paid to the ultimate holding company	40,201	163,369
Key management personnel compensation:		
– Short-term employee benefits	1,678	1,553
– Post employment benefits	115	106
	1,793	1,659
Interest income received from key management personnel	21	10
Interest expense paid to key management personnel	7	–
Commission fee income from key management personnel	5	1
Post employment benefits for employees other than key management personnel	3,721	2,669
	30 June	31 December
	2006	2005
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000

Related party transactions included in the assets and liabilities:

Cash and short term placements with the ultimate holding company	16,839	21,207
Deposits from a fellow subsidiary	484,821	476,728
Interest payable to a fellow subsidiary	3,231	1,721
Dividend payable to the ultimate holding company	40,201	186,707
Rental deposits from the ultimate holding company	338	338
Loans to key management personnel	1,086	1,135
Customer deposits from key management personnel	307	300

27. Comparative figures

Certain fee income of HK\$19,642,000 had been reclassified as interest income in 2005 to conform with the current period's presentation following the adoption of HKFRSs and HKASs.

SUPPLEMENTARY INFORMATION (UNAUDITED)**Segmental Information**

(a) By business segments

	For the six months ended		
	30 June 2006	30 June 2006	30 June 2006
	Operating	Profit	Total
	income	before tax	assets
	HK\$'000	HK\$'000	HK\$'000
Retail and commercial banking	506,912	278,922	20,750,062
Treasury and 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
	524,171	291,538	23,755,063
	For the six months ended		
	30 June 2005	30 June 2005	30 June 2005
	Operating	Profit	Total
	income	before tax	assets
	HK\$'000	HK\$'000	HK\$'000
Retail and commercial lending	438,037	266,185	3,993,169
Treasury and other businesses	7,692	2,956	125,955
Inter-segment transactions	(692)	-	-
	445,037	269,141	4,119,124
Employee share option benefits	-	(7,000)	-
Intangible assets	-	-	126
Deferred tax assets	-	-	19,928
	445,037	262,141	4,139,178

(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.

SUPPLEMENTARY INFORMATION (UNAUDITED) *(continued)***Segmental Information** *(continued)*

(c) Advances to customers by industry sectors and basis of classification

	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial:		
Property development	277,051	–
Property investment	1,490,176	56,674
Financial concerns	86,416	–
Stockbrokers	49,151	–
Telecommunication	2,418	–
Wholesale and retail trade	18,257	–
Manufacturing	523,192	1,602
Transport and transport equipment	1,156,661	516,024
Other	1,373,437	–
Individuals:		
Loans for the purchase of flats in the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	271,242	–
Loans for the purchase of other residential properties	2,654,191	19,927
Credit card advances	12,537	–
Others	3,249,447	2,911,121
Trade finance	776,242	–
Loans for use outside Hong Kong	638,216	78,452
	<u>12,578,634</u>	<u>3,583,800</u>

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

SUPPLEMENTARY INFORMATION (UNAUDITED) *(continued)***Cross-border Claims**

The following table illustrates the geographical disclosure of the Group's cross-border claims by type of counterparties on which the ultimate risk lies, and is shown according to the location of the counterparties after taking into account the transfer of risk. An individual country or geographical area is reported if it constitutes 10% or more of the aggregate cross-border claims.

	Banks and other financial institutions HK\$'million	Public sector entities HK\$'million	Other HK\$'million	Total HK\$'million
As at 30 June 2006 (2005: Nil)				
1. Asia Pacific excluding Hong Kong	2,042	2	305	2,349
of which:				
Australia	783	–	41	824
2. Western Europe	2,023	–	415	2,438
of which:				
United Kingdom	1,018	–	53	1,071

Currency Risk

Foreign currency exposures with a net position (regardless of sign) which constitutes 10% or more of the total net position in all foreign currencies of the Group are as follow:

	US Dollars In HK\$'million	Others In HK\$'million	Total In HK\$'million
As at 30 June 2006 (2005: Nil)			
Spot assets	3,506	1,617	5,123
Spot liabilities	(3,727)	(1,547)	(5,274)
Forward purchases	3,898	419	4,317
Forward sales	(3,595)	(301)	(3,896)
Net long position	82	188	270
			Renminbi In HK\$'million
Net structural long position			197

Capital Adequacy and Liquidity Ratios of Public Finance and Public Bank (Hong Kong)

	30 June 2006	31 December 2005
Capital adequacy ratio:		
Unadjusted ratio of Public Finance	38.21%	38.52%
Unadjusted ratio of Public Bank (Hong Kong)	18.24%	–
Adjusted ratio of Public Bank (Hong Kong)	17.82%	–

SUPPLEMENTARY INFORMATION (UNAUDITED) *(continued)***Capital Adequacy and Liquidity Ratios of Public Finance and Public Bank (Hong Kong)** *(continued)*

	For the six months ended	
	30 June	
	2006	2005
Average liquidity ratio:		
Public Finance	<u>67.73%</u>	<u>77.89%</u>
Public Bank (Hong Kong)	<u>51.79%</u>	<u>–</u>

The above unadjusted and adjusted capital adequacy ratio and average liquidity ratio for the period are computed in accordance with the Third Schedule and the Fourth Schedule of the Banking Ordinance respectively.

The above unadjusted capital adequacy ratio of Public Finance is computed on a consolidated basis (including JCG Securities Limited and Public Financial Limited). The adjusted capital adequacy ratio is not disclosed herein as the market risk arising from Public Finance's trading book is regarded as immaterial. Public Finance meets all of the de minimis exemption criteria for reporting market risk as set out in "Maintenance of Adequate Capital Against Market Risks" under the Supervisory Policy Manuals issued by the HKMA and has relied on such criteria in considering the materiality of market risk arising from its trading book.

The unadjusted capital adequacy ratio of Public Bank (Hong Kong) is also computed on a consolidated basis (including Hocomban Investments Limited, AFH Credit Limited and Asia Commercial Bank (Nominees) Limited). The adjusted capital adequacy ratio which takes into account market risk was also computed in accordance with the guidelines on "Maintenance of Adequate Capital Against Market Risks" under the Supervisory Policy Manuals issued by the HKMA and the subsidiaries included in the consolidated basis is the same as those included in the unadjusted capital adequacy ratio.

Management of Risks

The respective Boards of Directors of the subsidiaries are responsible for the oversight of risks and approval of risk management policies. The Internal Audit Department of the Group performs regular audits to ensure compliance with the policies, and reports directly to the Audit Committee.

(a) Credit risk

Credit risk is the risk associated with a customer or counterparty being unable to meet a commitment when it falls due, and arises from the lending, trade finance, treasury and other activities undertaken by the Group.

The Group has established policies and systems for the monitoring and control of credit risk. These policies define the credit extension and measurement criteria, the credit review, approval and monitoring processes, and the loan classification and the level of impairment allowances for impaired loans. It has a hierarchy of credit authorities which approve credits in compliance with the respective subsidiaries' credit policies; exposures are monitored against credit limits and other control limits (such as large exposures and concentration limits); segregation of duties in key credit functions is in place to ensure separate credit control and monitoring; management and recovery of problem credits are handled by an independent work-out team.

The Group manages its credit risk within a conservative framework. The credit policies are regularly reviewed, taking into account factors such as prevailing business and economic conditions, regulatory requirements and capital resources.

Credit and compliance audits are periodically held to evaluate the effectiveness of the credit review, approval and monitoring processes and to test the compliance of established credit policies and procedures.

SUPPLEMENTARY INFORMATION (UNAUDITED) *(continued)*

Management of Risks *(continued)*

(b) Market risk

Market risk is the risk to the Group's earnings and capital due to changes in the market level of interest rates, securities, foreign exchange and equities as well as the volatilities of those prices.

The Group monitors market risk principally by limits established for transactions and open positions. These limits are reviewed and approved by the directors of the respective subsidiaries, and are monitored on a daily basis.

The Group does not actively trade in financial instruments and in the opinion of the directors, the market risk related to trading activities to which the Group is exposed is not material. Accordingly, no quantitative market risk disclosures have been prepared.

(c) Foreign currency risk

Foreign currency risk is the risk that the holding of foreign currencies will affect the Group's position as a result of a change in foreign currency exchange rates. The Group's foreign exchange risk positions arise from foreign exchange dealing, commercial banking operations and structural foreign currency exposures. All foreign exchange positions are managed by the treasury department within limits approved by the directors of the respective subsidiaries.

(d) Liquidity risk

The main objectives of the Group's liquidity risk management are to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund loan growth and to generate reasonable returns from available funds.

The Assets and Liabilities Committees of the respective subsidiaries monitor the liquidity position as part of the ongoing assets and liabilities management, and set up trigger limits to monitor liquidity risk. The Assets and Liabilities Committees also closely monitor the liquidity of the respective subsidiaries on a periodic basis to ensure that the liquidity structure of the respective subsidiaries' assets, liabilities and commitments can meet the funding needs, and that the statutory liquidity ratio is always complied with. Standby facilities are maintained to provide liquidity to meet unexpected, material cash outflows in the ordinary course of business.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Corporate development

The Company has changed its corporate name to Public Financial Holdings Limited from JCG Holdings Limited in March 2006 so as to reflect the corporate identity as a member of Public Bank Berhad Group in Malaysia. For the same objective, the principal subsidiary, JCG Finance Company, Limited has also changed its name to Public Finance Limited ("Public Finance") in January 2006.

In May 2006, Public Financial Holdings Limited completed the acquisition of Asia Commercial Bank Limited at a purchase consideration of HK\$4.5 billion, which is subject to potential adjustment under the terms of the Shares Purchase Agreement and subsequently changed its name to Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)") on 30 June 2006. The purchase consideration of Public Bank (Hong Kong) was financed partly by a rights issue of HK\$2.6 billion and partly by a bridge loan facility of HK\$2.0 billion. The bridge loan facility will be refinanced by a medium term syndication loan of HK\$2.0 billion. The acquisition of Public Bank (Hong Kong) is expected to bring synergies of lower operating and funding costs, greater economies of scale and greater customer reach through a wider branch network in the long term. The Group's branch network after the acquisition has expanded to 52 branches in Hong Kong, one branch in Shenzhen and one representative office each in Shanghai, Shenyang and Taipei.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Financial Review

Profit and loss analysis

For the six months ended 30 June 2006, the Group recorded a profit after tax of HK\$247.5 million, representing an increase of 14.2% or HK\$30.7 million when compared to HK\$216.8 million in the corresponding period of last year. The Group's basic earnings per share for the six months ended 30 June 2006 stood at HK\$0.278. The directors have declared the payment of an interim dividend of HK\$0.05 per share on 29 June 2006, payable on 24 August 2006.

The increase in profit after tax in the first half of 2006 when compared to the corresponding period in the previous year was mainly attributed to the consolidation of the results of Public Bank (Hong Kong).

The Group's net interest income increased by 16.2% or HK\$61.0 million to HK\$437.7 million when compared to the corresponding period of last year. Interest income increased by 50.7% or HK\$196.7 million to HK\$584.8 million after consolidation of loans and advances and debt securities, and cash and short term placement of Public Bank (Hong Kong). Interest expense increased by 1,193.0% or HK\$135.7 million to HK\$147.1 million after consolidation of customer deposits, deposits from financial institutions, certificates of deposits of Public Bank (Hong Kong) and the increase in bank borrowing following the acquisition of Public Bank (Hong Kong).

The Group's non-interest income increased by 26.6% or HK\$18.2 million to HK\$86.5 million mainly due to the consolidation of net commission and fee income of Public Bank (Hong Kong).

During the period under review, the Group's operating expenses increased by 32.2% or HK\$34.0 million to HK\$139.7 million with the consolidation of the operating expense of Public Bank (Hong Kong). The Group's effective control over its operating costs has resulted in a low cost to operating income ratio of 26.6% for the six months ended 30 June 2006.

The Group's impairment allowance for impaired assets rose by 20.4% or HK\$15.7 million to HK\$93.0 million mainly due to the increase in bad debts from bankruptcy petition and individual voluntary arrangement cases from the consumer financing business.

As at 30 June 2006, the Group's loans and advance stood at HK\$12,578.6 million while the customer deposit was HK\$14,165.5 million. With the Company's rights issue completed in April 2006, the Group's total equity grew to HK\$5,261.8 million.

Segmental information

The Group's business comprised mainly of two segments: retail and commercial banking; and treasury and other businesses. Over 90% of the Group's operating income and profit before tax were contributed from retail and commercial banking. When compared to the corresponding period in the previous year, the Group's operating income from retail and commercial banking increased by 15.7% or HK\$68.9 million to HK\$506.9 million mainly from the increased contribution from the consolidation of gross loans and advances and other interest-bearing assets of Public Bank (Hong Kong). Accordingly, the profit before tax from retail and commercial banking increased by 4.8% or HK\$12.7 million to HK\$278.9 million when compared to the same period of last year.

Contingent liabilities and commitments

The Group had no material contingent liabilities (other than those related to treasury, trade finance and loan commitments disclosed in the notes to the financial statements) at the end of the period under review. The Group also did not incur any material capital expenditure commitment during the period under review. There were no significant changes in charges over the Group's assets when compared to that disclosed in the Company's 2005 Annual Report.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Operational Review

Funding and capital management

The main objectives of the Group's funding and capital management are similar to that reported in the Company's 2005 Annual Report.

The Group relied principally on its internally generated capital, customer deposits, deposits from financial institutions, certificate of deposits and bank loans to fund its retail consumer financing business and commercial banking business. The Group's bank borrowings of HK\$2,015.0 million is denominated in Hong Kong dollars, and is priced at floating interest rates with HK\$15.0 million expected to mature within three months and HK\$2,000.0 million of bridging loan facility to be refinanced by a 3 year medium term loan. With the increase in bank borrowings, the Group's gearing ratio was 38.3% at the end of June 2006 when compared to nil at the end of December 2005. The Group has entered into foreign exchange contracts and interest rate swaps to reduce foreign exchange risk and interest rate risk exposures in its normal banking business.

Asset quality

Following the consolidation of Public Bank (Hong Kong), the Group's impaired loan ratio has improved significantly to 2.4% as at 30 June 2006 when compared to 5.8% as at 31 December 2005. During the first half of 2006, the asset quality of the consumer financing business of Public Finance had deteriorated slightly arising from marginal increase in bankruptcy petitions and individual voluntary arrangement cases.

Human resources management

The objectives of the Group's human resources management are essentially the same as that disclosed in the Company's 2005 Annual Report. As at the end of June 2006, the Group's staff force increased to over 800 people with the addition from Public Bank (Hong Kong). For the six months ended 30 June 2006, the Group's staff costs amounted to HK\$64.0 million.

Prospects

For the second half of year 2006, the economic growth of Hong Kong is expected to remain stable although there is a possibility of a slowdown in the local and global economy due to the potential rise in interest rate and high fuel prices.

With the acquisition of Public Bank (Hong Kong) completed in May 2006, the Group will now focus on expanding its retail and commercial banking business through Public Bank (Hong Kong) and its consumer financing business through Public Finance. The Group will undertake various measures to achieve better synergies in terms of lower funding cost and operating costs, greater economies of scale and wider customer reach for business expansion through the combined branch network and support functions of Public Finance and Public Bank (Hong Kong). The Group will continue to target on selected customer with aggressive promotions to grow its consumer financing business and reposition Public Bank (Hong Kong) to focus and grow its retail and commercial banking businesses through more aggressive promotions and marketing activities to a wider spectrum and penetration to the retail and commercial customers in Hong Kong. Barring any unforeseen circumstances, the Group is expected to grow further its loans and advances in 2006.

OTHER INFORMATION

Interim Dividend

The Board of Directors has on 29 June 2006 declared an interim dividend of HK\$0.05 (2005: interim dividend of HK\$0.06 and special dividend of HK\$0.29) per share payable on 24 August 2006 to shareholders whose names appear on the register of members of the Company on 16 August 2006.

Closure of Register of Members

The register of members will be closed from 14 August 2006 to 16 August 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 11 August 2006.

Directors' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2006, the directors' interests and short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

- (a) Long positions in ordinary shares of the Company and associated corporations

Interests in	Name of director	Number of ordinary shares			Total	Percentage of interest in issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
1. The Company	Tan Sri Dato' Sri Dr. Teh Hong Piow	-	-	804,017,920	804,017,920	73.5004
	Dato' Yeoh Chin Kee	80,000	-	-	80,000	0.0073
	Tan Yoke Kong	80,000	-	-	80,000	0.0073
	Lee Huat Oon	20,000	-	-	20,000	0.0018
2. Public Bank Berhad ("Public Bank"), the ultimate holding company	Tan Sri Dato' Sri Dr. Teh Hong Piow	21,524,250	-	786,468,596	807,992,846	23.5336
	Dato' Sri Tay Ah Lek	3,810,109	-	139,482	3,949,591	0.1150
	Dato' Yeoh Chin Kee	1,360,000	400,000	-	1,760,000	0.0513
	Lee Chin Guan	600,000	-	-	600,000	0.0175
	Dato' Chang Kat Kiam	116,435	-	-	116,435	0.0034
	Tan Yoke Kong	15,000	-	-	15,000	0.0004
	Lee Huat Oon	5,000	-	-	5,000	0.0001
	Wong Kong Ming	176,386	-	-	176,386	0.0051

OTHER INFORMATION *(continued)***Directors' Interests and Short Positions in Shares and Underlying Shares** *(continued)*(a) Long positions in ordinary shares of the Company and associated corporations *(continued)*

Interests in	Name of director	Number of ordinary shares			Total	Percentage of interest in issued share capital
		Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
3. Public Mutual Bhd., a fellow subsidiary	Tan Sri Dato' Sri Dr. Teh Hong Piow	-	-	5,400,000	5,400,000	90.0000
4. Winsure Company, Limited, a subsidiary	Tan Sri Dato' Sri Dr. Teh Hong Piow	-	-	15,500	15,500	96.8750

Tan Sri Dato' Sri Dr. Teh Hong Piow, by virtue of his direct and deemed interests of 807,992,846 shares in Public Bank, is also deemed to be interested in the shares of the Company and its associated corporations as disclosed above, to the extent Public Bank has interests.

(b) Long positions in underlying shares of the Company and an associated corporation

Interests in	Name of director	Number of ordinary shares attached to the share options				Exercise price	Exercisable period
		At the beginning of the period	Granted during the period	Exercised during the period	At the end of the period		
1. The Company	Dato' Sri Tay Ah Lek	<u>1,680,000</u>	<u>-</u>	<u>-</u>	<u>1,680,000</u>	HK\$6.35	10.6.2005 to 9.6.2015
	Dato' Yeoh Chin Kee	<u>700,000</u>	<u>-</u>	<u>-</u>	<u>700,000</u>	HK\$6.35	10.6.2005 to 9.6.2015
	Geh Cheng Hooi, Paul	<u>700,000</u>	<u>-</u>	<u>-</u>	<u>700,000</u>	HK\$6.35	10.6.2005 to 9.6.2015
	Lee Chin Guan	<u>350,000</u>	<u>-</u>	<u>-</u>	<u>350,000</u>	HK\$6.35	10.6.2005 to 9.6.2015
	Dato' Chang Kat Kiam	<u>1,680,000</u>	<u>-</u>	<u>-</u>	<u>1,680,000</u>	HK\$6.35	10.6.2005 to 9.6.2015
	Tan Yoke Kong	<u>1,928,000</u>	<u>-</u>	<u>-</u>	<u>1,928,000</u>	HK\$6.35	10.6.2005 to 9.6.2015
	Lee Huat Oon	<u>3,170,000</u>	<u>-</u>	<u>-</u>	<u>3,170,000</u>	HK\$6.35	10.6.2005 to 9.6.2015
	Wong Kong Ming	<u>4,000,000</u>	<u>-</u>	<u>-</u>	<u>4,000,000</u>	HK\$6.35	10.6.2005 to 9.6.2015

OTHER INFORMATION *(continued)***Directors' Interests and Short Positions in Shares and Underlying Shares** *(continued)*(b) Long positions in underlying shares of the Company and an associated corporation *(continued)*

Interests in	Name of director	Number of ordinary shares attached to the share options				Exercise price	Exercisable period
		At the beginning of the period	Granted during the period	Exercised during the period	At the end of the period		
2. Public Bank	Dato' Sri Tay Ah Lek	4,500,000	-	-	4,500,000	RM6.37	24.2.2005 to 24.2.2008
		4,000,000	-	-	4,000,000	RM5.67	5.12.2005 to 24.2.2008
		<u>8,500,000</u>	<u>-</u>	<u>-</u>	<u>8,500,000</u>		
	Dato' Yeoh Chin Kee	2,025,000	-	-	2,025,000	RM6.37	24.2.2005 to 24.2.2008
		2,250,000	-	250,000	2,000,000	RM5.67	5.12.2005 to 24.2.2008
		<u>4,275,000</u>	<u>-</u>	<u>250,000</u>	<u>4,025,000</u>		
	Lee Chin Guan	1,125,000	-	-	1,125,000	RM6.37	24.2.2005 to 24.2.2008
		1,250,000	-	-	1,250,000	RM5.67	5.12.2005 to 24.2.2008
		<u>2,375,000</u>	<u>-</u>	<u>-</u>	<u>2,375,000</u>		
	Dato' Chang Kat Kiam	123,000	-	-	123,000	RM6.37	24.2.2005 to 24.2.2008
		130,000	-	-	130,000	RM5.67	5.12.2005 to 24.2.2008
		<u>253,000</u>	<u>-</u>	<u>-</u>	<u>253,000</u>		
Tan Yoke Kong	30,000	-	-	30,000	RM6.37	15.2.2005 to 24.2.2008	
	40,000	-	-	40,000	RM5.67	5.12.2005 to 24.2.2008	
	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>70,000</u>			

OTHER INFORMATION *(continued)***Directors' Interests and Short Positions in Shares and Underlying Shares** *(continued)*(b) Long positions in underlying shares of the Company and an associated corporation *(continued)*

Interests in	Name of director	Number of ordinary shares attached to the share options				Exercise price	Exercisable period
		At the beginning of the period	Granted during the period	Exercised during the period	At the end of the period		
2. Public Bank (Continued)	Lee Huat Oon	20,000	-	-	20,000	RM6.37	15.2.2005 to 24.2.2008
		30,000	-	-	30,000	RM5.67	5.12.2005 to 24.2.2008
		<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>		
	Wong Kong Ming	8,000	-	-	8,000	RM4.92	17.6.2004 to 24.2.2008
		10,000	-	-	10,000	RM6.37	16.2.2005 to 24.2.2008
		25,000	-	-	25,000	RM5.67	5.12.2005 to 24.2.2008
		<u>43,000</u>	<u>-</u>	<u>-</u>	<u>43,000</u>		

Notes:

- The options to subscribe for ordinary shares of HK\$0.10 each in the Company under the Company ESOS are only exercisable during certain periods as notified by the Board or the Share Option Committee to each grantee which it may in its absolute discretion determine from time to time before the expiry of the share options on 9 June 2015.
- The exercise price of the share options under the Company ESOS has been adjusted to HK\$6.35 per share following the completion of the Rights Issue.
- The options to subscribe for ordinary shares of RM1.00 each in Public Bank were first granted on 10 April 1998 under the Public Bank Berhad Employees' Share Option Scheme ("PBB ESOS"). Following approvals from the relevant authorities and the shareholders of Public Bank at the extraordinary general meetings held on 20 May 2002, 20 April 2004 and 30 March 2005, the PBB ESOS has been extended for a total of five years to 25 February 2008. Hence, the exercisable period of the options has also been extended up to and including 24 February 2008. The options are exercisable subject to the terms of the PBB ESOS.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, or underlying shares of the Company or any of its associated corporations that was required to be recorded under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code as at 30 June 2006.

OTHER INFORMATION *(continued)***Share Option Scheme**

Since the adoption of the share option scheme on 28 February 2002, share options to subscribe for a total of 65,976,000 shares of HK\$0.10 each in the Company have been granted to and accepted by eligible participants, including directors and employees of the Company and its subsidiaries in 2005.

Date of grant	Exercise price	Number of the share options			At the end of the period	Exercisable period
		At the beginning of the period	Granted during the period	Exercised/Cancelled during the period		
Directors <i>(note 1)</i>						
18.5.2005	HK\$6.35 <i>(note 3)</i>	14,208,000	-	-	14,208,000	10.6.2005 to 9.6.2015 <i>(note 4)</i>
Employees <i>(note 2)</i>						
18.5.2005	HK\$6.35 <i>(note 3)</i>	29,670,000	-	-	29,670,000	10.6.2005 to 9.6.2015 <i>(note 4)</i>
		43,878,000	-	-	43,878,000	

Notes:

1. Details of share options granted to each director of the Company are shown under sub-paragraph (b) of the heading "Directors' Interests and Short Positions in Shares and Underlying Shares".
2. Employees working under employment contracts that were regarded as "continuous contracts" for the purpose of the Employment Ordinance of Hong Kong.
3. The exercise price of the share options has been adjusted to HK\$6.35 per share following the completion of the Rights Issue.
4. The share options are only exercisable during certain periods as notified by the Board or the Share Option Committee to each grantee which it may in its absolute discretion determine from 10 June 2005 to 9 June 2015.

OTHER INFORMATION *(continued)***Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares**

As at 30 June 2006, the register of interests and short positions in the shares and underlying shares of the Company kept under Section 336 of the SFO showed that, other than the interests of Tan Sri Dato' Sri Dr. Teh Hong Piow as disclosed above, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of ordinary shares	Percentage of interest in issued share capital
Substantial shareholder			
1. Public Bank	Beneficial owner	804,017,920	73.5004
Other person			
2. JP Morgan Chase & Co	Custodian corporation/ approved lending agent	57,840,945	5.2876

All the interests stated above represent long positions. Save as disclosed above and under the heading "Directors' Interests and Short Positions in Shares and Underlying Shares", no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO as at 30 June 2006.

Loan Agreement with Covenants Relating to Specific Performance of the Controlling Shareholder

On 14 February 2006, the Company entered into a facility agreement (the "Facility Agreement") with Barclays Capital as arranger and Barclays Bank PLC as facility agent, security agent and original lender in respect of a bridging loan facility for HK\$4,500,000,000 (the "Facility"). The Facility shall be repaid on the date falling six months after the date of the Facility Agreement. As at 30 June 2006, HK\$2,000,000,000 has been drawn down pursuant to the Facility Agreement.

The Facility Agreement provides, among other things, that it is an event of default if Public Bank, the controlling shareholder of the Company:

- (a) does not or ceases to beneficially own, directly or indirectly, at least 64.01% of the issued share capital of, and ownership interests in, the Company free from any charge or other security interest, or does not or ceases to exercise management control over the Company; or
- (b) does not comply with any provisions of the letter issued by Public Bank to Barclays Bank PLC as facility agent dated 14 February 2006, in which Public Bank has undertaken that, in relation to the Rights Issue (as defined in the announcement issued by the Company dated 17 February 2006 (the "Rights Issue Announcement")), among other things, (i) all shares of the Company beneficially owned by Public Bank will remain registered in the name of Public Bank and/or its nominees from the date of the Underwriting Agreement (as defined in the Rights Issue Announcement) to the Record Date (as defined in the Rights Issue Announcement); (ii) Public Bank will accept all the Rights Shares (as defined in the Rights Issue Announcement) provisionally allotted to it and/or its nominees pursuant to the Rights Issue; and (iii) Public Bank will fully underwrite the Rights Issue in accordance with the Underwriting Agreement, save and except for those Rights Shares to be taken up by Public Bank pursuant to (ii) above.

If an event of default occurs, Barclays Bank PLC as facility agent may, among other things, demand immediate repayment of all or any of the loans made to the Company together with accrued interest.

As at 30 June 2006, the Facility Agreement remains in existence.

OTHER INFORMATION *(continued)*

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 2006.

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 2006 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.

Subsequent to the publication of the Corporate Governance Report in the 2005 annual report and at the 2006 annual general meeting, a special resolution was passed to amend the Bye-laws of the Company to the effect that: (a) any director appointed to fill a casual vacancy or as an addition to the Board shall be subject to election by shareholders at the first general meeting after his appointment; and (b) every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

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 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 2006 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, 14 July 2006