



Public Financial

Tan Sri Dato' Sri Dr. Teh Hong Piow, Chairman

**I am pleased to present a review of the results of the Group for the financial year ended 31 December 2006.**

### **Corporate Development Corporate Rebranding**

In January 2006, the Group's principal operating subsidiary, JCG Finance Company, Limited was renamed Public Finance Limited ("Public Finance") to reflect the corporate identity of the Group as a member of the Public Bank Group of Malaysia. Subsequently in March 2006, the Company was also renamed Public Financial Holdings Limited.

### **Acquisition of Asia Commercial Bank**

In February 2006, the Company entered into an agreement to acquire a 100% equity interest in Asia Commercial Bank Limited ("ACB"), a full service commercial bank incorporated in Hong Kong with a branch network of 12 branches in Hong Kong, one branch in Shenzhen in the People's Republic of China ("PRC"), and a representative office each in the cities of Shanghai and Shenyang in the PRC, and in Taipei, Taiwan. The acquisition was successfully completed on 30 May 2006. ACB was later renamed Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)").

The acquisition of Public Bank (Hong Kong) is expected to bring to the Group synergies of lower operating and funding costs, greater economies of scale and more extensive customer reach with a broader customer base, and provide the Group with a platform to offer a full range of banking and financing services in Hong Kong and in the PRC through its Shenzhen branch. The branch network of Public Bank (Hong Kong) in Hong Kong was expanded to 15 branches with the opening of 3 new branches in December 2006, and in Shenzhen to 2 branches with the opening of a new sub-branch in the Futian District of Shenzhen expected to commence business in February 2007, bringing the total number of branches of Public Bank (Hong Kong) to 17.

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

For the year ended 31 December 2006, Public Bank (Hong Kong) recorded a significant improvement in its profit after tax of 68.0% to HK\$145.50 million from HK\$86.59 million for the previous year ended 31 December 2005.

## Chairman's Statement

### Business Performance of Public Bank (Hong Kong) (Continued)

In the second half of 2006, after its acquisition by the Company, total loans and advances (including trade bills) of Public Bank (Hong Kong) grew by 12.9% or HK\$1.16 billion to HK\$10.16 billion as at 31 December 2006 from HK\$9.0 billion as at 30 June 2006. Customer deposits also grew by 9.9% or HK\$1.21 billion to HK\$13.43 billion from HK\$12.22 billion as at 30 June 2006.

### Group Performance Financial Review

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

The Group's basic earnings per share for the year ended 31 December 2006 was HK\$0.50 per share after accounting for the enlarged issued and paid-up share capital arising from the rights issue of the Company which was completed in April 2006. The directors have declared a first interim dividend of HK\$0.05 per share in June 2006 and a second interim dividend of HK\$0.20 per share in December 2006. The Directors do not recommend the payment of a final dividend, making a total dividend of HK\$0.25 per share for the year.

After consolidation of the account of Public Bank (Hong Kong), the Group's net interest income for the year ended 31 December 2006 increased by 18.8% or HK\$144.4 million to HK\$910.4 million when compared to the previous year. Interest income increased by 80.0% or HK\$642.1 million to HK\$1,444.8 million, and interest expense increased by HK\$497.8 million to HK\$534.4 million. The interest expense of the Group included interest paid of approximately HK\$65.3 million on the 3-year bank term loan of HK\$2.0 billion to partly finance the acquisition of Public Bank (Hong Kong). Non-interest income increased by 54.3% or HK\$72.8 million to HK\$207.0 million, whilst the Group's operating expenses increased by 46.9% or HK\$99.1 million to HK\$310.7 million. The Group's tight control over its operating costs together with operating synergies derived from the initial integration of some operations between Public Bank (Hong Kong) and Public Finance contributed to a low cost to operating income ratio of 27.8% for the year ended 31 December 2006.

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

As at 31 December 2006, the Group's total loans and advance (including trade bills) stood at HK\$13,775.0 million while total deposits from customers, financial institutions and issuance of certificates of deposits were HK\$16,139.4 million, after the consolidation of the assets and liabilities of Public Bank (Hong Kong). Following the acquisition of Public Bank (Hong Kong), the Group's overdue and impaired loan ratio has improved significantly from 5.8% at the end of December 2005 to 2.4% at the end of June 2006, and further improved to 2.2% as at 31 December 2006.

### Business Development

The Group will continue to expand the branch network of Public Bank (Hong Kong) and Public Finance as well as to relocate branches to more prominent locations for higher visibility and easy access by customers. The Group will continue to target selected market segments with aggressive marketing promotions and cross-selling business strategies to grow its retail and commercial banking and consumer financing businesses through the expanded branch network; enhance customer satisfaction and loyalty by the provision of better customer service; and training of staff to enhance their technical knowledge and skills through internal and external training courses. The Group will also look for further synergies to reduce operating costs and improve operational efficiency, and seek greater economies of scale through the integration of the support functions of Public Bank (Hong Kong) and Public Finance where appropriate.

### Acknowledgement

On behalf of the Board of Directors, I wish to take this opportunity to express our appreciation to the management and staff of the Group for their commitment, dedication and perseverance. On behalf of the management and staff of the Group, I also wish to express our sincere gratitude to our customers for their invaluable patronage, to our shareholders for their continued confidence in and support of the Group, and to the Hong Kong Monetary Authority, Securities and Futures Commission, Hong Kong Stock Exchange, and other relevant authorities for their invaluable advice, guidance and support.

**Tan Sri Dato' Sri Dr. Teh Hong Piow**  
Chairman