

## Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2006.

### Change of name

Pursuant to a special resolution passed at the annual general meeting of the Company held on 8 March 2006 and as approved by the Registrar of Companies of the Bermuda, the name of the Company has been changed from JCG Holdings Limited to Public Financial Holdings Limited with effect from 20 March 2006.

### Principal activities

The Company is an investment holding company. The principal activities of its subsidiaries during the year were deposit taking, personal and commercial lending, mortgage financing, stockbroking, the letting of investment properties, the provision of finance to purchasers of taxis and public light buses, the trading of taxi cabs and taxi licences, and the leasing of taxis. After the completion of the acquisition of the entire issued and paid-up share capital of Public Bank (Hong Kong) Limited (formerly known as "Asia Commercial Bank Limited") during the year, the Group's principal activities also included the provision of a comprehensive range of banking, financial and related services.

Details of the principal activities of the Company's subsidiaries are set out in note 22 to the financial statements.

### Results and dividends

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 42 to 109.

The first interim dividend of HK\$0.05 (2005: HK\$0.06 and a special dividend of HK\$0.29) per ordinary share was paid on 24 August 2006. The second interim dividend of HK\$0.20 (2005: HK\$0.40) per ordinary share was declared on 22 December 2006 and will be payable on 14 February 2007 to shareholders of the Company whose names appear on the register of members on 8 February 2007. The directors do not recommend the payment of a final dividend for the year (2005: Nil).

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 8 to 9.

### Investment properties, property, plant and equipment and land lease prepayments

Details of movements in the investment properties, property, plant and equipment and land lease prepayments of the Company and of the Group are set out in notes 19, 20, and 21 to the financial statements, respectively.

### Rights issue

On 17 February 2006, the Company passed a board resolution to make a rights issue of not less than 364,632,206 rights shares and not more than 386,571,206 rights shares to shareholders at HK\$7.30 per share on the basis of one rights share for every two shares held on 17 March 2006 (the "Rights Issue"). Pursuant to the Rights Issue, 364,632,206 ordinary shares of HK\$0.10 each were issued at HK\$7.30 per share. None of the directors had subscribed for the rights shares under the Rights Issue except for Tan Sri Dato' Sri Dr. Teh Hong Piow who, by virtue of his direct and indirect interests in Public Bank, is also deemed to be interested in the shares in the Company to the extent that Public Bank has interests. Public Bank had accepted its entitlement of 233,384,055 rights shares and subscribed for all the 131,021,755 rights shares that had not been taken up pursuant to its obligations under the underwriting agreement dated 17 February 2006. The net proceeds from the Rights Issue, after deduction of related expenses, of approximately HK\$2,660,504,000, were used to pay the consideration of acquiring Public Bank (Hong Kong) Limited.

## Report of the Directors

### Share capital and share options

Details of movements of the Company's share capital and share options are set out in notes 35 and 36 to the financial statements, respectively.

### Pre-emptive rights

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

### 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.

### Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 38 to the financial statements and the consolidated summary statement of changes in equity.

### Distributable reserves

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2006, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$226,351,000 (inclusive of the Company's contributed surplus) as computed in accordance with generally accepted accounting principles of Hong Kong, SAR. In addition, the Company's share premium account in the amount of approximately HK\$3,988,219,000 may be distributed in the form of fully paid bonus shares.

### Major customers and suppliers

In the year under review, income attributable to the Group's five largest customers accounted for less than 30% of the total income for the year. Purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

### Directors

The directors of the Company during the year were as follows:

#### *Non-executive Directors:*

Tan Sri Dato' Sri Dr. Teh Hong Piow, *Chairman*  
Dato' Sri Tay Ah Lek  
Dato' Chang Kat Kiam  
Wong Kong Ming

#### *Executive Directors:*

Tan Yoke Kong  
Lee Huat Oon

#### *Independent Non-executive Directors:*

Tan Sri Dato' Thong Yaw Hong, *Co-Chairman*  
(Appointed on 1 July 2006)  
Dato' Yeoh Chin Kee  
Lee Chin Guan  
Geh Cheng Hooi, Paul (Resigned on 1 July 2006)

In accordance with the Bye-laws, Tan Sri Dato' Thong Yaw Hong, Dato' Yeoh Chin Kee and Mr. Wong Kong Ming shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

## Report of the Directors

### **Directors' remuneration and the five highest paid individuals**

Details of directors' remuneration and those of the five highest paid individuals in the Group are set out in notes 8 and 9 to the financial statements, respectively.

### **Directors' service contracts**

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

### **Directors' interests in contracts**

Except as detailed in note 43 to the financial statements and in the section headed "Connected transactions" below, no director had a beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party at the balance sheet date or at any time during the year.

### **Loan agreement with covenants relating to specific performance of the controlling shareholder**

On 21 July 2006, the Company entered into a facility agreement (the "Facility Agreement") with Barclays Capital and others as mandated lead arrangers and Barclays Bank PLC as agent and financial institutions as stipulated in the Company's announcement dated 21 July 2006 as the original lenders for a 3-year term loan facility in an aggregate amount of HK\$2,000,000,000 (the "Facility").

The Facility Agreement provides, among other things, that it is an event of default if Public Bank Berhad, the controlling shareholder (currently holding approximately 73.5% interest) of the Company, does not or ceases to beneficially own, directly or indirectly, at least 51% 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.

If an event of default occurs, Barclays Bank PLC as 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 31 December 2006, the Facility was fully utilised and the circumstances giving rise to the obligation under Rule 13.18 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") continue to exist.

## Report of the Directors

### Directors' interests and short positions in shares and underlying shares

At the balance sheet date, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (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
	Tan Sri Dato' Thong Yaw Hong	498,000	–	–	498,000	0.0455
	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	23.3333
	Tan Sri Dato' Thong Yaw Hong	5,518,750	300,000	312,500	6,131,250	0.1771
	Dato' Sri Tay Ah Lek	7,810,109	–	139,482	7,949,591	0.2296
	Dato' Yeoh Chin Kee	200,000	400,000	–	600,000	0.0173
	Lee Chin Guan	1,200,000	–	–	1,200,000	0.0347
	Dato' Chang Kat Kiam	56,435	–	–	56,435	0.0016
	Tan Yoke Kong	15,000	–	–	15,000	0.0004
	Lee Huat Oon	5,000	–	–	5,000	0.0001
3. Winsure Company, Limited, a subsidiary	Wong Kong Ming	176,386	–	–	176,386	0.0051
	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 total direct and indirect interests of 807,992,846 shares in Public Bank, is deemed to be interested in the shares in the Company and its associated corporations as disclosed above, to the extent that Public Bank has interests.

## Report of the Directors

Directors' interests and short positions in shares and underlying shares  
(Continued)

## (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	Exercise period
		At the beginning of the year	Granted during the year	Exercised during the year	At the end of the year		
1. The Company	Dato' Sri Tay Ah Lek	1,680,000	–	–	1,680,000	HK\$6.35	10.6.2005 to 9.6.2015
	Dato' Yeoh Chin Kee	700,000	–	–	700,000	HK\$6.35	10.6.2005 to 9.6.2015
	Lee Chin Guan	350,000	–	–	350,000	HK\$6.35	10.6.2005 to 9.6.2015
	Dato' Chang Kat Kiam	1,680,000	–	–	1,680,000	HK\$6.35	10.6.2005 to 9.6.2015
	Tan Yoke Kong	1,928,000	–	–	1,928,000	HK\$6.35	10.6.2005 to 9.6.2015
	Lee Huat Oon	3,170,000	–	–	3,170,000	HK\$6.35	10.6.2005 to 9.6.2015
	Wong Kong Ming	4,000,000	–	–	4,000,000	HK\$6.35	10.6.2005 to 9.6.2015
2. Public Bank	Tan Sri Dato' Thong Yaw Hong	2,000,000*	–	–	2,000,000	RM6.37	24.2.2005 to 24.2.2008
		500,000*	–	500,000	–	RM5.67	5.12.2005 to 24.2.2008
		2,500,000*	–	500,000	2,000,000		
	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
		8,500,000	–	4,000,000	4,500,000		
	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
		4,275,000	–	250,000	4,025,000		
	Lee Chin Guan	1,125,000	–	–	1,125,000	RM6.37	24.2.2005 to 24.2.2008
		1,250,000	–	600,000	650,000	RM5.67	5.12.2005 to 24.2.2008
		2,375,000	–	600,000	1,775,000		

## Report of the Directors

## 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	Exercise period
		At the beginning of the year	Granted during the year	Exercised during the year	At the end of the year		
2. Public Bank (continued)	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
		<b>253,000</b>	-	-	<b>253,000</b>		
	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
		<b>70,000</b>	-	-	<b>70,000</b>		
	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
		<b>50,000</b>	-	-	<b>50,000</b>		
	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
<b>43,000</b>		-	-	<b>43,000</b>			

\* At the date of appointment

#### Notes:

- The options to subscribe for ordinary shares of HK\$0.10 each in the Company under the Share Option Scheme of the Company (the "Scheme") 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 Scheme 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 (the "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 exercise 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.

## Report of the Directors

### 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)

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 the balance sheet date.

### Directors' rights to acquire shares or debentures

Apart from the share option schemes and the Rights Issue disclosed above and set out in note 36 to the financial statements, at no time during the year was the Company, its holding company or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or minor children to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or in any other body corporate.

### Directors' interests in competing businesses

Tan Sri Dato' Sri Dr. Teh Hong Piow and Dato' Sri Tay Ah Lek are also directors of Public Bank, which is also engaged in the provision of financing for licensed public vehicles, mortgage loans and the taking of deposits from customers in Hong Kong through its fully licensed branch in Hong Kong.

Tan Sri Dato' Sri Dr. Teh Hong Piow is deemed to be a substantial shareholder of Public Bank by virtue of his interest in Public Bank.

The provision of financing for licensed public vehicles undertaken by Public Bank, Public Finance Limited ("Public Finance") and Public Bank (Hong Kong) Limited ("Public Bank (Hong Kong)") during the year was referred by a wholly-owned subsidiary, Winton Motors, Limited ("Winton Motors") and other taxi dealers. The terms and conditions of the taxi financing loans are market driven and agreed at arm's length between the hirers and the financiers. The terms and conditions of other businesses of Public Finance, Public Bank (Hong Kong) and Public Bank, Hong Kong Branch are also market driven.

## Report of the Directors

### Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

At the balance sheet date, 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
<b>Substantial shareholder</b>			
1. Public Bank	Beneficial owner	804,017,920	73.5004
<b>Other person</b>			
2. JP Morgan Chase & Co	Custodian corporation/ approved lending agent	65,704,945	6.0065

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 at the balance sheet date.

### Connected transactions

(1) A tenancy arrangement was first made on 23 July 1997 and was renewed subsequently by tenancy agreements between Public Finance, a wholly-owned subsidiary, as the landlord and Public Bank, the ultimate holding company, as the tenant whereby Public Finance agreed to lease an apartment located in Taikoo Shing, Hong Kong to Public Bank as its staff quarters. The existing tenancy agreement was entered into on 29 August 2006 for a term of two years commencing from 1 August 2006 to 31 July 2008 at a monthly rental of HK\$20,600.

A lease arrangement was first made on 1 September 1993 and was renewed subsequently by tenancy agreements between Public Finance as the landlord and Public Bank as the tenant whereby Public Finance agreed to lease a portion of the office premises located at 11th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong to Public Bank as its office. The existing tenancy agreement was entered into on 31 July 2006 for a term of two years commencing from 1 August 2006 to 31 July 2008 at a monthly rental of HK\$43,800.

A tenancy agreement was first made on 11 November 2003 and was renewed subsequently by tenancy agreement between the Company as the landlord and Public Bank as the tenant whereby the Company agreed to lease the premises located at Shop A, Ground Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong to Public Bank as its branch office. The existing tenancy agreement was entered into on 15 November 2006 for a term of three years commencing from 1 November 2006 to 31 October 2009 at a monthly rental of HK\$250,000.



## Report of the Directors

### Connected transactions (Continued)

- (2) Pursuant to the master dealer agreement entered into between Winton Motors, a wholly-owned subsidiary, and Public Bank on 29 December 1994, WML may from time to time refer hirers to Public Bank for obtaining taxi financing loans, and in return, Winton Motors will receive dealer's commission from Public Bank (the "Transaction"). Dealer's commission received/receivable by Winton Motors for the year from Public Bank was HK\$133,000 (2005: HK\$196,000).

The Transaction is only subject to the reporting requirements set out in Rules 14A.45 and 14A.46 of the Listing Rules. Tan Sri Dato' Thong Yaw Hong, Dato' Yeoh Chin Kee and Mr. Lee Chin Guan, the Independent Non-executive Directors of the Company, have reviewed the Transaction. They have confirmed that the Transaction was entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; and (iii) in accordance with the relevant master dealer agreement on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole. The auditors have also confirmed that (i) the Transaction received the approval of the Company's board of directors; (ii) the terms were in accordance with the pricing policy of Winton Motors; (iii) the Transaction was entered into in accordance with the relevant master dealer agreement; and (iv) the dealer's commission received/receivable by Winton Motors did not exceed the percentage ratios as allowed under Rule 14A.34 of the Listing Rules.

Some of the related party transactions disclosed in note 43 to the financial statements also fell under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

### Donations

During the year, the Group made charitable donations totalling HK\$1,000 (2005: HK\$15,000).

### Compliance with Supervisory Policy Manual

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

### Corporate governance

The Group is committed to maintaining a high level of corporate governance practices. A detailed Corporate Governance Report is set out on pages 15 to 24 in the annual report.

## Report of the Directors

### Sufficiency of public float

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirmed that the Company has maintained the amount of public float as required under the Listing Rules as at the latest practicable date prior to the issue of the annual report.

### Auditors

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Tan Yoke Kong**

*Director*

Hong Kong

10 January 2007