

Management Discussion and Analysis

Despite a challenging and competitive operating environment, the Group achieved a growth in net profit attributable to shareholders of 22.3% or HK\$81.3 million to HK\$446.6 million for the year ended 31 December 2000.

The above increase in net profit of the Group was mainly attributed to the continued growth in net profit after tax from its wholly-owned subsidiary, JCG Finance Company, Limited ("JCG Finance") and a rebound to net profit after tax and minority interests achieved by its 75% owned subsidiary, Winton Holdings (Bermuda) Limited ("Winton") and its subsidiaries ("Winton Group"), of HK\$4.9 million from a loss of HK\$65.6 million in 1999.

During the year, JCG Finance continued to focus on and grow its core business in the provision of consumer loans to working individuals in Hong Kong, whilst Winton Group focused on its taxi financing and taxi trading businesses.

KEY FINANCIAL HIGHLIGHTS

The Group's profit after tax and minority interests increased to HK\$446.6 million for the year ended 31 December 2000, representing a growth of 22.3% or HK\$81.3 million over the previous year. Accordingly, the Group's earnings per share increased by 11.5 cents per share to a record high of 63.2 cents per share in 2000 from 51.7 cents per share in 1999.

The increase in the Group's profit after tax was mainly attributed to an increase in net interest income by HK\$37.3 million, a decrease in provisions for bad and doubtful debts by HK\$41.4 million due to lower default in taxi financing loans of Winton Group, and an increase in non-interest operating income by HK\$20.9 million from increase in loans processing and related fees of JCG Finance and increase in commission and other income from taxi related operations of Winton Group.

As at 31 December 2000, JCG Finance's gross loans and advances grew by 11.2% or HK\$318.0 million to HK\$3,157.3 million; whilst Winton Group's gross loans and advances contracted by 25.3% or HK\$323.3 million to HK\$954.5 million. During the year, bad and doubtful debts amounted to HK\$158.9 million and HK\$91.0 million were written off by JCG Finance and Winton Group, respectively. At the end of 2000, the Group's total gross loans and advances remained at about the same level at HK\$4,111.8 million as compared to HK\$4,112.1 million at the end of 1999.

The directors recommended the payment of a final dividend of 24.0 cents per share. Together with the interim dividend of 8.0 cents per share already paid, the total dividends for the year ended 31 December 2000 amounted to 32.0 cents per share, which is 60% higher than the total dividends of 20.0 cents per share for 1999.

PERFORMANCE OF BUSINESS OPERATIONS

Operating Income

The Group's operating income for the year ended 31 December 2000 consisted of net interest income and other non-interest operating income, comprising 78.3% and 21.7%, respectively of total operating income.

The Group's net interest income recorded a moderate increase of 5.0% or HK\$37.3 million to HK\$778.5 million, as a result of a marginal increase in interest income of 2.3% and a reduction in interest expenses of 8.9% when compared to 1999. During the year, the Group's interest income increased to HK\$945.0 million from HK\$923.9 million in 1999 mainly from increase in gross loans and advances by 11.2% or HK\$318.0 million of JCG Finance. However, Winton Group's interest income declined by 7.3% or HK\$12.9 million to HK\$163.6 million in 2000 from HK\$176.5 million in 1999. The decline in Winton Group's interest income was mainly due to the decline in taxi financing loans by 25.3% or HK\$323.3 million. At the end of 2000, the Group's interest expenses fell by HK\$16.2 million to HK\$166.5 million from HK\$182.7 million in 1999, mainly due to lower cost of customer deposits of JCG Finance, and a decline in bank borrowings by 22.3% or HK\$219.3 million of Winton Group.

The Group's other non-interest operating income grew by 10.7% or HK\$20.9 million to HK\$216.0 million in 2000 from HK\$195.1 million in 1999, mainly from increase in loans processing and related fees of JCG Finance, and increase in commission and other income from referrals of taxi financing loans and taxi trading activities of Winton Group.

Operating Expenses

The Group's operating expenses decreased slightly from HK\$234.3 million in 1999 to HK\$234.1 million in 2000. During the year, the Group's staff costs declined marginally to HK\$105.3 million from HK\$107.7 million in 1999 as Winton Group continued to consolidate its workforce. During the same period, the Group's rental costs declined by HK\$4.5 million to HK\$20.7 million from HK\$25.2 million in 1999 as the Group successfully negotiated for rental reduction on renewal of tenancy agreements of its leased premises. The amortisation and write off of commission expenses relating to Winton Group's taxi financing business also fell by HK\$26.0 million to HK\$13.1 million in 2000 due to lower volume of new taxi financing loans.

Provisions for Bad and Doubtful Debts

During the year, the Group continued to adopt a prudent and conservative provisioning policy. The provisions of bad and doubtful debts of the Group fell by 15.5% or HK\$41.4 million to HK\$226.3 million in 2000 from HK\$267.7 million in 1999, mainly due to decrease in default of taxi financing loans of Winton Group.

BALANCE SHEET ANALYSIS

Loans and Advances

At the end of 2000, the Group's total gross loans and advances decreased slightly by HK\$0.3 million to HK\$4,111.8 million from HK\$4,112.1 million at the end of 1999. JCG Finance's gross loans and advances grew by 11.2% or HK\$318.0 million to HK\$3,157.3 million in 2000 from HK\$2,839.3 million in 1999. Winton Group's gross loans and advances decreased by 25.3% or HK\$323.3 million mainly due to bad debts written off of HK\$91.0 million, loans repayments and early settlement of taxi financing loans. JCG Finance continued to focus on granting consumer loans to selected market segments, and recorded a positive growth in its consumer loans; whilst its property mortgage loans contracted in 2000 due to lower volume of new loan business.

At the end of 2000, the Group's non-performing loans were approximately 7.9% of the total gross loans and advances, as compared to 8.3% at the end of 1999. The above non-performing loans in 2000 included property mortgage loans and taxi financing loans of HK\$167.4 million and HK\$29.0 million, respectively, which were secured by properties, taxi cabs and taxi licences. Specific provisions of HK\$61.1 million and HK\$12.0 million have been made against these property mortgage loans and taxi financing loans, respectively.

Funding and Capital Financing

JCG Finance relied principally on its internally generated capital and customer deposits to fund its business. The principal source of internally generated capital is from retained earnings. During the year, the increase in JCG Finance's loans and advances of HK\$318.0 million was funded mainly from increase in retained earnings by HK\$217.0 million to HK\$1,366.4 million, and from increase in customer deposits (inclusive of deposits of HK\$94.6 million from the Company) by HK\$109.0 million to HK\$1,413.4 million. At the end of 2000, JCG Finance's capital adequacy ratio remained strong at 63.6% while its average liquidity ratio for 2000 remained high at 138.4%.

During the year, Winton Group raised HK\$304.9 million through the issue of convertible preference shares, and thereby increased its shareholders' funds to HK\$985.2 million. Winton Group funded its loans and advances through existing shareholders funds and bank borrowings. However, Winton Group's loans and advances contracted by HK\$323.3 million in 2000, and consequently its demand for funding also fell. During the year, Winton Group repaid HK\$219.3 million of its bank borrowings, and reduced its bank borrowings to HK\$764.9 million at the end of 2000. Based on bank borrowings and shareholders funds, Winton Group's gearing ratio improved to 0.78 at the end of 2000 from 1.43 at the end of 1999.

In determining dividend payments, consideration is given to rewarding shareholders with dividend income and retaining funds for future business development and expansion. For the year ended 31 December 2000, the directors recommended the payment of a final dividend of 24.0 cents per share. Together with the interim dividend of 8.0 cents per share already paid, the total dividends for the year amounted to 32.0 cents per share, giving a dividend payout ratio of 50.7%.

During the year, the Group did not incur any material capital expenditure commitment. Other than those disclosed in the financial statements in 1999, the Group did not create additional charges on its assets to secure banking facilities.

The Group's principal operations are transacted and recorded in Hong Kong dollars. During the year, the Group did not engage in any derivative activities and did not commit to any financial instruments to hedge its balance sheet exposures.

BUSINESS DEVELOPMENT AND EXPANSION

JCG Finance will continue to focus on and expand its core business of consumer loans whilst exercising prudent and stringent lending policies, and Winton Group will focus on its taxi financing and taxi trading businesses. During the year, JCG Finance extended its business hours at selected branches for better convenience of customers, and purchased two branch premises for relocation of its existing branches for better visibility and accessibility. JCG Finance also implemented the payment by phone service to allow customers a new means of loan repayments, and launched a new customer service which allows customers to apply for personal loans through the internet. With the above initiatives already implemented, JCG Finance's customers will enjoy greater convenience and accessibility, and improved customer services.

During the year, Winton Group increased the number of financial institutions on its panel of co-financing banks, thus, increasing its channels for referring and co-financing taxi financing loans.

HUMAN RESOURCES

The Group recognised human resources as the most important asset and rewarded staff through competitive remuneration packages, performance incentive bonus system and other fringe benefits. In addition, a well-defined and performance oriented appraisal scheme was implemented to recognise and reward performing and competent staff, and earmark them for future career development.

Staff were also encouraged and sponsored to enroll in external training courses, seminars and professional and technical courses to update their technical job knowledge and skills, to increase their awareness of market and technological changes, and to improve their business acumen.

Social activities and staff integration programs were also organised to enhance morale and to foster team spirit amongst staff. Periodical discussions and dialogues between branch personnel and management were held to improve customer service, increase efficiencies of business operations and to ensure new business promotions for consumer loans were implemented. With a competent, cohesive and well-trained work force, the Group is well positioned to meet new opportunities and challenges ahead.

As at end of 2000, the Group has a relatively stable staff force of over 500 people.

CONTINGENT LIABILITIES

Winton Group provides guarantees to its co-financing banks under the co-financing arrangements for taxi financing loans. At the end of the year, the guarantees remaining outstanding to the co-financing banks decreased to HK\$10.0 million from HK\$30.2 million as at the end of 1999.

As at 31 December 2000, the outstanding corporate guarantees of Winton Group extended to certain banks as security for its banking facilities decreased to HK\$599.0 million from HK\$1,138.2 million at the end of 1999.

During the year, various ex-employees of the restaurants formerly operated by four subsidiaries of Winton Group had served summonses to these subsidiaries seeking to file their respective statements of claim. The ex-employees (save for one ex-employee in one of the subsidiaries) are seeking declarations against the subsidiaries rather than claiming for specific amounts. In view of the financial position of the subsidiaries, three of the above subsidiaries have resolved to put their respective companies into creditors' voluntary liquidation. As regards to the claims against the remaining subsidiary, based on legal advice, it will continue to be defended.

During the year, a subsidiary of Winton Group was named as the second defendant in a legal action brought by an individual who sustained injuries in a traffic accident involving a taxi owned and leased by the said subsidiary to a taxi hirer at the time of the accident. The claim is being attended by the insurance company.