

Chairman's Statement



“ I am pleased to present a review of the results of the Group for the financial year ended 31 December 2001. ”

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

Group Performance

During the year under review, Hong Kong experienced a continued slow down in its economy, rising unemployment rate and escalating number of personal bankruptcies. Despite the difficult operating environment, JCG Holdings Limited (the “Company”) and its subsidiaries (the “Group”) recorded a slight decline in profit after tax and minority interests of 4.0% or HK\$17.8 million to HK\$428.8 million for the year ended 31 December 2001. At operating level, the Group recorded a growth in operating profit before provision by 8.5% or HK\$65.0 million from HK\$760.4 million in year 2000 to HK\$825.4 million in year 2001. The Group's earnings per share declined by 2.5 cents per share to 60.7 cents per share in 2001 from 63.2 cents per share in 2000.

The Directors recommended a final dividend of 23.5 cents (2000: 24.0 cents) per share, and together with the interim dividend of 8.5 cents per share (2000: 8.0 cents), the total dividend for the year was 32.0 cents (2000: 32.0 cents) per share.

The slight decline in net profit of the Group was mainly attributed to the decrease in profit after tax from its wholly owned subsidiary, JCG Finance Company, Limited (“JCG Finance”), mainly due to higher bad debts arising from a sharp rise in personal bankruptcies, whilst its 75% owned subsidiary, Winton Holdings (Bermuda) Limited (“Winton”) and its subsidiaries (“Winton Group”) recorded a significant increase in profit after tax by HK\$68.1 million to HK\$73.0 million, mainly due to lower defaults in taxi financing loans, decline in interest cost from bank borrowings and lower operating expenses.

Following the change in bankruptcy law in 1998, which provides for a bankrupt to be automatically discharged of his/her debts after 4 years, Hong Kong has experienced an upward trend in personal bankruptcies. In 2001, the number of personal bankruptcies in Hong Kong reached a record high, and consequently, the bad debts on consumer loans of JCG Finance rose sharply. However, Winton Group recorded lower defaults in taxi financing loans during the year. The Group's provision for bad and doubtful debts increased sharply by 38.2% or HK\$86.5 million to HK\$312.8 million from HK\$226.3 million in 2000. The Group continues to adopt a prudent and conservative provisioning policy.

During the year, the Group recorded a moderate growth in net interest income by 7.8% or HK\$60.6 million to HK\$839.1 million from HK\$778.5 million in 2000. Following the general decline in market interest rates and decrease in bank borrowings of Winton Group, the Group's interest expense fell sharply by 46.2% or HK\$76.9 million to HK\$89.6 million in 2001 from HK\$166.5 million in 2000. On the other hand, the Group's interest income declined marginally by 1.7% or HK\$16.3 million to HK\$928.7 million in 2001, from HK\$945.0 million in 2000. JCG Finance's interest income grew by 3.4% or HK\$26.3 million on increase in gross loans and advances, while Winton Group's interest income contracted by 24.6% or HK\$40.3 million after a sharp decrease in gross loans and advances, which fell by 54.5% or HK\$520.6 million when compared with last year. The decrease in the loans and advances of Winton Group was mainly due to loan repayments and early settlement of taxi financing loans, while a relatively lower volume of new taxi financing loans was recorded. Also, during the year, Winton Group continued to refer taxi financing loans to its panel of financiers for commission income.

Group Performance (continued)

The Group's other operating income in the year decreased by 7.5% or HK\$16.2 million to HK\$199.8 million from HK\$216.0 million in 2000, mainly due to a decrease in net profit from trading activities by HK\$5.9 million from Winton Group, and a marginal decrease in loans processing and related fees from lower volume of refinancing of consumer loans from JCG Finance. At the same time, the Group recorded a revaluation surplus of HK\$2.8 million in 2001 against a revaluation deficit of HK\$1.8 million in 2000 upon revaluation of the Group's investment properties.

The Group's operating expenses in the year decreased by 8.8% or HK\$20.6 million to HK\$213.5 million from HK\$234.1 million in 2000 as the Group took measures to reduce its operating expenses. Staff cost fell by 5.1% or HK\$5.4 million to HK\$99.9 million in 2001, from HK\$105.3 million in 2000. At the same time, the Group's amortisation and write off of commission expenses also fell by HK\$12.8 million due to a lower number of new taxi financing loans booked in the past years.

During the year, competition for lending especially in consumer loans amongst financial institutions in Hong Kong intensified. Despite that, JCG Finance recorded a moderate increase in gross loans and advances of 2.7% or HK\$84.4 million to HK\$3,241.8 million after an aggressive write off of bad debts of HK\$308.2 million. However, the decrease in Winton Group's gross loans and advances by 54.5% or HK\$520.6 million to HK\$433.9 million as at 31 December 2001 from HK\$954.5 million as at 31 December 2000 following a higher level of early settlement of taxi financing loans, has resulted in the Group's gross loans and advances to decline by 10.6% or HK\$436.0 million to HK\$3,675.8 million at the end of 2001 from HK\$4,111.8 million at the end of 2000.

The Group managed its funding needs according to the demand for its loans and advances. During the year, JCG Finance utilised its retained earnings to fund the growth in gross loans and advances, while Winton Group repaid HK\$564.9 million of its bank borrowings from proceeds received from early settlement of taxi financing loans.

The shareholders' funds (net of proposed final dividend) of the Group strengthened further by 6.8% or HK\$197.9 million to HK\$3,100.2 million as at 31 December 2001 from HK\$2,902.3 million as at 31 December 2000, mainly from increase in retained earnings.

Business Development

In view of the rising personal bankruptcies and high unemployment rate in Hong Kong, JCG Finance continued to adopt a cautious approach to expand its core business of consumer loans. During the year, JCG Finance increased its marketing activities and promotions to attract new customers from selected market segments. To counter the rising personal bankruptcies, JCG Finance has adopted more stringent credit assessment criteria and loan limits for applicants of consumer loans, and has joined an external credit information bureau to apply stricter credit checking procedures on consumer loan applicants.

Winton Group will continue to refer taxi financing loans to its panel of financiers in the coming year, and generate commission income in return. Winton Group will also continue to invite other financial institutions to join its panel of financiers, and increase the opportunity to refer taxi financing loans to them.

Human Resources Development

The Group continued to place great emphasis on staff remuneration and staff development. The Group adopted an incentive bonus scheme to recognise and reward staff according to their performance. To promote staff development, the Group has organised management seminars and encouraged staff to pursue subsidised continuing education and professional courses to enhance their technical knowledge, decision-making and management skills. The Group has also organised social activities and outings to enhance staff morale and team spirit amongst them. Periodical dialogues were held between branch personnel and management to solicit customer and market feedbacks, to implement new marketing and promotional activities, and to improve the customer service. With a team of trained and highly motivated work force, the Group is well positioned to meet new opportunities and challenges ahead.

Chairman's Statement

Prospects

The slowdown in the Hong Kong economy, the high unemployment rate and the escalating number of personal bankruptcies are not expected to improve in the near term. The operating environment for financial institutions in Hong Kong is anticipated to remain difficult and challenging. Competition for consumer loans amongst financial institutions is expected to intensify further, as lending in the other sectors remained subdued. JCG Finance is well positioned in its niche market, and will continue to focus and grow its core business in consumer loans. With an extensive branch network, strategically located branches, efficient customer service, and aggressive marketing and promotions, JCG Finance will meet these challenges and competition ahead.

In the coming year, Winton Group will continue to focus on its taxi trading and taxi financing businesses, and refer taxi financing loans to its panel of financiers. The general market interest rates in Hong Kong is expected to remain low and taxi hirers will benefit from lower instalments payment on their taxi financing loans. Coupled with lower fuel costs and attractive rental income, taxi owners and/or hirers would have sufficient cash flows to repay the instalments on their taxi financing loans.

Acknowledgement

On behalf of the Board of Director, I wish to take this opportunity to express our appreciation to the management and staff of the Group for their commitment, dedication and contributions. On behalf of the management and staff of the Group, I also wish to express my sincere thanks to the customers for their invaluable patronage and the shareholders for their continued confidence and support to the Group.

Tan Sri Dato' Dr. Teh Hong Piow

Chairman