

The operating environment in year 2001 for the Group was difficult and challenging, as Hong Kong experienced a slowdown in the economy, higher unemployment rate and escalating number of personal bankruptcies. Amidst such an operating environment, the Group recorded a profit after tax and minority interests of HK\$428.8 million for the year ended 31 December 2001, representing a slight decline in profit of 4.0% or HK\$17.8 million as compared to the corresponding period of year 2000. Accordingly, the Group's earnings per share declined by 2.5 cents per share to 60.7 cents per share in 2001 against 63.2 cents per share in the previous year.

The decline in net profit of the Group was mainly attributed to the decrease in net profit after tax from its wholly owned subsidiary, JCG Finance; whilst its 75% owned subsidiary, Winton and its subsidiaries recorded a marked increase in net profit by HK\$68.1 million to HK\$73.0 million for the year ended 2001 as compared to HK\$4.9 million for the previous year. The decrease in JCG Finance's profit during the year was mainly due to a much higher provision for bad and doubtful debts arising from a sharp rise in personal bankruptcies from its consumer loan customers. At the operating level, however, the Group recorded an increase in operating profit before provision of HK\$65.0 million, or an increase of 8.5% from HK\$760.4 million in year 2000 to HK\$825.4 million in year 2001.

The directors recommended the payment of a final dividend of 23.5 cents per share for the year. Together with the interim dividend of 8.5 cents per share already paid, the total dividends for the year ended 31 December 2001 was 32.0 cents (2000: 32.0 cents) per share.

Performance of business operations

Operating Income

During the year, the Group's net interest income recorded a moderate increase of 7.8% or HK\$60.6 million to HK\$839.1 million, mainly due to a significant decrease in interest expense by 46.2% or HK\$76.9 million when compared to 2000. The decrease in the Group's interest expense was mainly due to lower interest paid on customer deposits of JCG Finance, and decline in the cost of bank borrowings and reduction in bank borrowings of Winton Group. On the other hand, JCG Finance's interest income rose by 3.4% or HK\$26.3 million mainly from an increase in gross loans and advances by 2.7% or HK\$84.4 million despite an aggressive write off of bad debts in 2001. The decline in interest income by 24.6% or HK\$40.3 million of Winton Group due to a decrease in loans and advances by 54.5% or HK\$520.6 million has resulted in the total interest income of the Group to decline by 1.7% or HK\$16.3 million.

The Group's other non-interest operating income fell by 7.5% or HK\$16.2 million to HK\$199.8 million in 2001 from HK\$216.0 million in 2000 mainly attributed to a decline 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 refinancing of consumer loans from JCG Finance.

Operating Expenses

The Group's operating expenses decreased by 8.8% or HK\$20.6 million to HK\$213.5 million in 2001 from HK\$234.1 million in 2000. During the year, the Group's staff costs declined by 5.1% or HK\$5.4 million to HK\$99.9 million from HK\$105.3 million in 2000 as the Group took measures to reduce staff costs. The amortisation and write off of commission expenses, which mainly relates to Winton Group's taxi financing business, reduced sharply by HK\$12.8 million to HK\$0.3 million, following fewer number of taxi financing loans booked in the past years. Upon revaluation of the Group's investment properties at the end of 2001, the Group recorded a revaluation surplus of HK\$2.8 million against a revaluation deficit of HK\$1.8 million at the end of 2000.

Provisions for Bad and Doubtful Debts

The bankruptcy law of Hong Kong was amended and put into effect in 1998, which provides for automatic discharge of the bankrupt's debts after four years. In the last few years, Hong Kong has recorded an increasing number of personal bankruptcies, and has experienced a sharp rise in personal bankruptcies in 2001, in particular during the second half of 2001. The number of personal bankruptcies in Hong Kong during the year reached a record high giving rise to a much higher than expected increase in bad debts for the Group's consumer loans. However, the Group recorded a lower rate of defaults in the taxi financing loans of its subsidiary, Winton Group, resulting in a lower provision of bad and doubtful debts for its taxi financing loans. Consequently, the Group's provisions of bad and doubtful debts increased by 38.2% or HK\$86.5 million to HK\$312.8 million in 2001 from HK\$226.3 million in 2000. The Group will continue to adopt its prudent and conservative provisioning policies.

Management Discussion and Analysis

Balance sheet analysis

Loans and Advances

At the end of 2001, the Group's total gross loans and advances decreased by 10.6% or HK\$436.0 million to HK\$3,675.8 million from HK\$4,111.8 million at the end of 2000. The decrease was mainly attributed to the decrease in Winton Group's gross loans and advances by 54.5% or HK\$520.6 million in 2001 following a higher level of early settlement of taxi financing loans. Despite an aggressive write-off of bad debts of HK\$308.2 million during the year, JCG Finance's gross loans and advances increased marginally by 2.7% or HK\$84.4 million to HK\$3,241.8 million as at the end of 2001 from HK\$3,157.4 million as at the end of 2000.

At the end of 2001, the Group's non-performing loans to total gross loans and advances improved marginally to 7.6%, as compared to 7.9% at the end of 2000. The non-performing loans in year 2001 included property mortgage loans and taxi financing loans of HK\$121.5 million and HK\$24.2 million, respectively, which were secured by properties, taxi cabs and taxi licences, and represented 4.0% of the Group's total gross loans and advances. Specific provisions of HK\$30.1 million and HK\$8.3 million have been made against these property mortgage loans and taxi financing loans, respectively.

Funding and Capital Financing

The main objectives of the Group's funding and capital management are to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund business growth and to generate reasonable returns from available funds. The Group also encourages its subsidiaries to be independent and self-reliant on funding their business growth.

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 by HK\$84.4 million to HK\$3,241.8 million was funded mainly from internally generated funds. At the end of 2001, JCG Finance's average liquidity ratio and capital adequacy ratio stood high at 170.1% and 37.7%, respectively, and a special dividend of HK\$905.8 million was paid out by JCG Finance to the Company in August 2001.

Winton Group funded its loans and advances through shareholders' funds and bank borrowings. During the year, Winton Group repaid HK\$564.9 million of its bank borrowings mainly from the proceeds received from early settlement of taxi financing loans. Accordingly, bank borrowings were reduced to HK\$200.0 million at the end of 2001. Based on bank borrowings and shareholders' funds (excluding the proposed final dividend), Winton Group's gearing ratio reached a low of 0.20 at the end of 2001 from 0.78 at the end of 2000.

For the year ended 31 December 2001, the directors recommended the payment of a final dividend of 23.5 cents per share. Together with the interim dividend of 8.5 cents per share already paid, the total dividends for the year amounted to 32.0 cents (2000: 32.0 cents) per share.

During the year, the Group did not incur any material capital expenditure commitment. Other than the release of fixed charges over certain of Winton Group's loans and advances and inventories, there were no significant changes in charges over the Group's assets when compared to that disclosed in the Company's 2000 Annual Report.

The Group's principal operations are transacted and recorded in Hong Kong Dollar. 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.

Segment information

The Group's business comprised mainly of two segments, the personal and commercial lending, and the taxi trading and related operations, and other operations. In 2001 and 2000, over 90% of the Group's operating income and profits before tax were contributed from personal and commercial lending. When compared to the corresponding period of last year, the Group's operating income and profit before tax of personal and commercial lending increased by 5.5% to HK\$1,010.2 million and decreased by 6.0% to HK\$482.7 million, respectively. The decrease in profit before tax in personal and commercial lending was due to the higher than expected provisions for bad debts following the sharp rise in personal bankruptcies in the year.

Business development

JCG Finance continued to exercise prudent and stringent lending policies, and adopted a conservative approach to expand its core business of consumer loans. During the year, JCG Finance launched more marketing and promotion activities to selected market segments to attract more new customers to expand its consumer loans. At the same time, JCG Finance applied tighter credit assessment and loan limits for applicants of consumer loans. During the year, JCG Finance also extended its business hours at selected branches to provide better convenience to its customers, purchased one branch premises, and relocated some of the branches to improve the visibility and accessibility of these branches.

Human resources

The Group has provided a competitive remuneration package for its staff and has implemented a performance appraisal scheme which recognises and rewards performing and competent staff, and earmark them for future career development. Accordingly, an incentive bonus scheme has been introduced to reward staff according to their performance.

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

Social activities and staff integration programs have been organised to enhance staff morale and foster closer team spirit amongst them. Periodical discussions and dialogues between branch personnel and management were held to improve customer service, to increase operational efficiencies and to promote new business promotions for consumer loans. With a competent, cohesive and well-trained work force, the Group is well poised to strive for excellence and to meet new opportunities and challenges ahead.

As at end of 2001, the Group has a relatively stable staff force of over 500 people.

Contingent liabilities

Winton Group has provided guarantees to its co-financing banks for joint financing of taxi financing loans under the co-financing arrangements. At the end of the year, the outstanding guarantees given to the co-financing banks decreased to HK\$1.7 million from HK\$10.0 million as at the end of year 2000.

On 10 July 2001, at the hearing of the summons filed by the ex-employees of a restaurant formerly operated by a subsidiary of Winton Group, the High Court has dismissed the ex-employees' applications for a representative action. The ex-employees will have to file their statements of claim separately if they wish to proceed with their claims. So far, Winton Group is not aware of any claims having been filed. Based on legal advice, any such claims will be defended by Winton Group.