

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2001.

Principal activities

The Company acted as an investment holding company during the year. The principal activities of its subsidiaries are deposit taking, personal and commercial lending, the operation of a credit card business, mortgage financing, stockbroking, the letting of investment properties, the provision of finance to purchasers of taxis and public light buses, the trading of taxis cabs and taxi licences, and the leasing of taxis. There were no changes in the nature of the Group's activities during the year.

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

Segment information

(a) By class of business

| | 2001 | | 2001 |
|--|------------------------------|-------------------------------|--------------------------|
| | Operating income HK\$'000 | Profit before tax HK\$'000 | Total assets HK\$'000 |
| Personal and commercial lending | 1,010,172 | 482,706 | 4,681,439 |
| Taxi trading and related operations, and other businesses | 40,385 | 23,956 | 133,967 |
| Inter-segments | (11,684) | – | – |
| | 1,038,873 | 506,662 | 4,815,406 |

| | 2000 | | 2000 |
|--|------------------------------|-------------------------------|--------------------------|
| | Operating income HK\$'000 | Profit before tax HK\$'000 | Total assets HK\$'000 |
| Personal and commercial lending | 957,640 | 513,547 | 5,313,721 |
| Taxi trading and related operations, and other businesses | 36,816 | 17,932 | 188,487 |
| | 994,456 | 531,479 | 5,502,208 |

Types of business

The core businesses of the principal operating subsidiaries are personal and commercial lending, which comprise the granting of personal loans, overdrafts, property mortgage loans, hire purchase loans to individuals and small to medium sized manufacturing companies, credit card services and the provision of finance to purchasers of licensed public vehicles such as taxis and public light buses.

Taxi trading and related operations comprise taxi trading and the leasing of taxis. Other businesses mainly comprise securities dealing and the letting of investment properties.

(b) By geographical area

Over 90% of the Group's revenue, results, assets, liabilities, off-balance sheet commitments and exposures are derived from operations carried out in the Hong Kong SAR.

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical area of operations for the year ended 31 December 2001 is set out in note 5 to the financial statements.

Segment information (continued)

(c) Advances to customers – by industry sectors and basis of classification

| | Gross advances to customers | |
|--|-----------------------------|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Loans for use in Hong Kong | | |
| Industrial, commercial and financial: | | |
| – Property development | 14,772 | 17,213 |
| – Property investment | 67,469 | 87,825 |
| – Wholesale and retail trade | 3,137 | 7,725 |
| – Manufacturing | 2,710 | 14,497 |
| – Licensed public vehicles | 676,130 | 936,238 |
| – Others | 21,020 | 26,478 |
| Individuals: | | |
| – Loans for the purchase of residential properties | 68,521 | 110,567 |
| – Credit card advances | 9,512 | 11,617 |
| – Others | 2,719,411 | 2,785,186 |
| Loans for use outside Hong Kong | 93,088 | 114,500 |
| | 3,675,770 | 4,111,846 |

The advances to customers are classified by industry sectors based on the industry in which the loans granted were used. In those cases where loans cannot be classified with reasonable certainty, they are classified according to the known principal activity of the borrowers or by reference to the assets financed according to the loan documentation.

Qualitative information on the management of risks

Credit risk

Credit risk is the risk associated with a customer or counterparty being unable to meet a commitment when it falls due, and arises from the lending activities undertaken by the Group.

JCG Finance, a wholly-owned subsidiary, has established policies and systems for the monitoring and control of credit risk. The Credit Committee is responsible for the formulation of credit policies and the management of credit risk through reviews of regular reports on credit exposures, which include exposure limits and the level of bad debt provisions. The Internal Audit Department is responsible for appraising the effectiveness of credit controls adopted by the branches of JCG Finance. JCG Finance continues to maintain a tight control on loan assessments and approvals and will continue to pursue a conservative and prudent policy in granting loans.

Winton Financial Limited and Winton Financial (Factoring) Limited, both wholly-owned subsidiaries of the Winton Group, maintain a system of controls over loan assessments and approvals and will continue to adopt a conservative and prudent policy in granting loans. The directors and the senior management of Winton Group are responsible for the formulation of credit policies and the management of credit risk through reviews of regular reports on credit exposures and the level of bad debt provisions.

Market risk

Market risk is the risk associated with changes in interest rates, foreign exchange rates, equity prices and commodity prices and government policies; and the effect that such changes have on positions taken on market risk related financial instruments, including both on and off balance sheet instruments, which may result in profits or losses.

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Qualitative information on the management of risks (continued)

Market risk (continued)

The Group adopts a conservative view on exposure to market risk related financial instruments. The Group monitors its exposure to market risk on a regular basis and will take appropriate action to minimise its exposure to market risk.

During the year, JCG Finance did not trade in any market risk related financial instruments. The market risk exposure of JCG Finance arising from both on and off balance sheet activities was considered immaterial. Accordingly, quantitative market risk information is not disclosed.

During the same period, the Winton Group also did not trade in any market risk related financial instruments.

Liquidity management

The main objectives of the Group's liquidity management are to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund loan growth and to generate reasonable returns from available funds.

The Group monitors its liquidity position as part of its ongoing assets and liabilities management. The balance between liquidity and profitability is carefully considered.

Capital management

The Group encourages its subsidiaries to be independent and self-reliant on funding their business growth.

JCG Finance relies principally on its internally generated capital and customer deposits. JCG Finance adopts a prudent policy in capital management and manages its deposits in line with its loan growth.

The Winton Group relies on internally generated capital, placements with financial institutions as well as bank borrowings for their working capital. The funding position is monitored and reviewed regularly to ensure it is within internally established limits and at reasonable costs.

Capital adequacy and liquidity ratios

| | 2001 Unadjusted ratio | 2000 Unadjusted ratio |
|--|-----------------------------|-----------------------------|
| Capital adequacy ratio as at 31 December | 37.74% | 63.61% |
| Average liquidity ratio for the year | 170.12% | 138.39% |

Capital adequacy and liquidity ratios (continued)

The components of JCG Finance's total capital base after deductions include the following items:

| | 2001 HK\$'000 | 2000 HK\$'000 |
|--|------------------|------------------|
| Core capital: | | |
| Paid up ordinary share capital | 258,800 | 258,800 |
| Share premium account | 412,238 | 412,238 |
| Reserves (eligible for inclusion in core capital) | 558,849 | 1,370,975 |
| | 1,229,887 | 2,042,013 |
| Eligible supplementary capital: | | |
| Reserve on revaluation of securities not held for trading purposes | 6,494 | 9,903 |
| General provisions for doubtful debts | 44,056 | 42,778 |
| | 50,550 | 52,681 |
| Total capital base before deductions | 1,280,437 | 2,094,694 |
| Deductions from total capital base | (10) | (10) |
| Total capital base after deductions | 1,280,427 | 2,094,684 |

The above unadjusted capital adequacy ratio, being that of JCG Finance, is computed on a consolidated basis (including JCG Securities Limited and Funds Fit Limited) in accordance with the Third Schedule of the Banking Ordinance. During the year, JCG Finance paid a special dividend of HK\$905,800,000 to the Company.

The adjusted capital adequacy ratio is not disclosed herein as the market risk arising from JCG Finance's trading book is regarded as immaterial. JCG Finance meets all of the de minimis exemption criteria for reporting market risk as set out in the guideline "Maintenance of Adequate Capital Against Market Risks" issued by the Hong Kong Monetary Authority ("HKMA") and has relied on such criteria in considering the materiality of market risk arising from its trading book.

The above average liquidity ratio for the year, being that of JCG Finance, is computed in accordance with the Fourth Schedule of the Banking Ordinance.

Results and dividends

The Group's profit for the year ended 31 December 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 66.

An interim dividend of 8.5 cents (2000: 8.0 cents) per ordinary share was paid on 30 August 2001. The directors recommend the payment of a final dividend of 23.5 cents (2000: 24.0 cents) per ordinary share in respect of the year, to shareholders on the register of members on 28 February 2002. This recommendation has been incorporated in the financial statements.

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 11.

Fixed assets and investment properties

Details of the movements in the fixed assets and investment properties of the Group are set out in notes 25 and 21 to the financial statements, respectively.

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Subsidiaries

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

Associates

Particulars of the Group's associates are set out in note 23 to the financial statements.

Bank borrowings

Details of the Group's bank borrowings at 31 December 2001 are set out in note 28 to the financial statements.

Share capital and share options

Details of movements in the Company's share capital and share options are set out in note 32 to the financial statements.

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.

Issue of convertible preference shares by a subsidiary

On 3 March 2000, Winton, a 75% owned subsidiary of the Company, issued 924,000,000 5.5% convertible cumulative redeemable preference shares ("CPS") of HK\$0.10 each at a subscription price of HK\$0.33 each and received a total cash consideration of HK\$304,920,000. The CPS are convertible into ordinary shares at the option of the holder at any time from 4 March 2002 up to 3 March 2005 and will be mandatorily converted into ordinary shares on 3 March 2005 provided that the condition of mandatory redemption, under which the conversion price is below the par value on the said maturity date, is not applicable at that time.

Purchase, sale or redemption of listed securities of the Company

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements.

Distributable reserves

The Company's contributed surplus is distributable to shareholders in accordance with the Companies Act 1981 of Bermuda. At 31 December 2001, the Company's reserves available for cash distribution and/or distribution in specie amounted to approximately HK\$1,440,213,000 (inclusive of the Company's contributed surplus) as computed in accordance with the generally accepted accounting principles of Hong Kong. In addition, the Company's share premium account in the amount of approximately HK\$1,206,400,000 may be distributed in the form of fully paid bonus shares.

Major customers and suppliers

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

Compliance with Financial Disclosure by Locally Incorporated Authorised Institutions

The Group has adopted the guidelines on "Financial Disclosure by Locally Incorporated Authorised Institutions" issued by the HKMA.

Directors

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

Non-executive directors:

Tan Sri Dato' Dr. Teh Hong Piow, Chairman
Datuk Tay Ah Lek
Wong Kong Ming

Executive directors:

Tan Yoke Kong
Lee Huat Oon

Independent non-executive directors:

Cheah Cheng Hye
Geh Cheng Hooi, Paul

In accordance with the bye-laws of the Company, Datuk Tay Ah Lek and Mr. Geh Cheng Hooi, Paul retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Brief biographical details in respect of directors and senior management staff

| Name | Age | Position held | Number of years of service with the Group | Business experience |
|---------------------------------|-----|--|---|--|
| Tan Sri Dato' Dr. Teh Hong Piow | 71 | Chairman | 12 | Tan Sri Dato' Dr. Teh is the founder, President and controlling shareholder of Public Bank Berhad ("Public Bank"), which is the controlling shareholder of the Group. He has been working in the banking industry for more than 52 years. He is also the Chairman of Winton. |
| Tan Yoke Kong | 49 | Director/ Chief Executive | 11 | Mr. Tan has more than 20 years of experience in the banking sector. He is also a Director of Winton. |
| Datuk Tay Ah Lek | 59 | Non-executive Director | 7 | Datuk Tay is an Executive Director of Public Bank and a Director of Winton, and has more than 37 years of experience in the banking and financial sector. |
| Lee Huat Oon | 39 | Director/ Alternate Chief Executive | 7 | Mr. Lee has more than 14 years of experience in the banking sector. He is also a Director of Winton. |
| Wong Kong Ming | 48 | Non-executive Director | 6 | Mr. Wong is the General Manager of Public Bank, Hong Kong Branch and has more than 26 years of experience in the banking sector. He is also a Director of Winton. |

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Brief biographical details in respect of directors and senior management staff

(continued)

| Name | Age | Position held | Number of years of service with the Group | Business experience |
|----------------------|-----|------------------------------------|---|--|
| Cheah Cheng Hye | 47 | Independent Non-executive Director | 8 | Mr. Cheah has more than 12 years of experience in the financial sector, prior to which he worked as a financial journalist for 12 years. He is also an Independent Non-executive Director of Winton. |
| Geh Cheng Hooi, Paul | 67 | Independent Non-executive Director | 7 | Mr. Geh is a consultant with KPMG, Malaysia, prior to which, he was with the same accounting firm for 29 years and was a Senior Partner thereof. He is also an Independent Non-executive Director of Winton. |

Directors' remuneration and the five highest paid individuals

Details of Directors' remuneration and that of the five highest paid individuals in the Group are set out in notes 10 and 11 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 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 39 to the financial statements and in the section headed "Connected transactions" below, no director had a beneficial interest, whether direct or indirect, in any contract of significance to the business of the Group to which the Company, or any of its holding company, subsidiaries and fellow subsidiaries was a party at the balance sheet date or at any time during the year.

Directors' interests in shares

- (1) At the balance sheet date, the directors' interests in the issued share capital of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the register required to be kept under Section 29 of the SDI Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

| Interests in | Name of director | Number of ordinary shares | |
|----------------|---------------------------------|---------------------------|--------------------|
| | | Corporate interests | Personal interests |
| 1. The Company | Tan Sri Dato' Dr. Teh Hong Piow | 419,524,110 | — |
| | Cheah Cheng Hye | — | 10,000 |
| | Tan Yoke Kong | — | 90,000 |

Directors' interests in shares (continued)

| Interests in | Name of director | Number of ordinary shares | |
|---|---------------------------------|---------------------------|--------------------|
| | | Corporate interests | Personal interests |
| 2. Public Bank, ultimate holding company | Tan Sri Dato' Dr. Teh Hong Piow | 981,234,817 | 1,000,000 |
| | Datuk Tay Ah Lek | 172,900 | 176,800 |
| | Wong Kong Ming | — | 116,817 |
| 3. Public Finance Berhad, a fellow subsidiary | Tan Sri Dato' Dr. Teh Hong Piow | 187,319,051 | 16,500 |
| | Datuk Tay Ah Lek | 2,349 | 1,650 |
| 4. Winton, a subsidiary | Tan Sri Dato' Dr. Teh Hong Piow | 314,999,925 | — |

| Interests in | Name of director | Number of convertible preference shares | |
|--------------|---------------------------------|---|--------------------|
| | | Corporate interests | Personal interests |
| Winton | Tan Sri Dato' Dr. Teh Hong Piow | 870,225,121 | — |

Tan Sri Dato' Dr. Teh Hong Piow, by virtue of his interest in Public Bank, is deemed to be interested in the ordinary shares of the Company and ordinary shares and convertible preference shares of the associated corporations as disclosed above, to the extent Public Bank has an interest.

By virtue of his interest in Public Bank, Tan Sri Dato' Dr. Teh Hong Piow is also deemed to be interested in the non wholly-owned subsidiaries of Public Bank and of Winton, to the extent of Public Bank's or Winton's interests in them, respectively. These non wholly-owned subsidiaries have not been itemised on the basis that they are not material in the context of the Group and the list is of excessive length.

- (2) At the balance sheet date, the interests of the directors in any rights to subscribe for ordinary shares in the Company and its associated corporations (as defined in the SDI Ordinance) as recorded in the register required to be kept under Section 29 of the SDI Ordinance, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

| Interests in | Notes | Name of director | Number of share options | | |
|----------------|-------|------------------------------------|------------------------------|-------------------------|------------------------|
| | | | At the beginning of the year | Granted during the year | At the end of the year |
| 1. The Company | (i) | Tan Yoke Kong | 150,000 | — | 150,000 |
| | (i) | Lee Huat Oon | 136,000 | — | 136,000 |
| 2. Public Bank | (ii) | Tan Sri Dato' Dr. Teh Hong Piow | 250,000 | 75,000 | 325,000 |
| | (ii) | Datuk Tay Ah Lek | 175,000 | 52,500 | 227,500 |

Notes:

- (i) The options to subscribe for ordinary shares of HK\$0.10 each in the Company were granted on 20 June 1997 under the Company's Share Option Scheme duly approved on 20 March 1997. 50% of the options are exercisable commencing from two years after 5 July 1997 and the remaining 50% of the options are exercisable commencing from three years after 5 July 1997. The exercise period for all of the options will end on 4 July 2002. The exercise price of an option to subscribe for a share is HK\$4.77.

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Directors' interests in shares (continued)

- (ii) The options to subscribe for ordinary shares of RM0.50 each in Public Bank were granted on 10 April 1998 under its Employees' Share Option Scheme. Adjustments arising from Public Bank's bonus issue were made on 23 April 2001. The options are exercisable from 10 April 1998 to 24 February 2003, subject to the terms of the Employees' Share Option Scheme, at the adjusted exercise price of an option to subscribe for a share of RM1.27.

During the year, no options to subscribe for shares in the Company and Public Bank were exercised by any of the directors, or by the spouse or children under 18 years of age of any of the directors.

Save as disclosed above, none of the directors had any personal, family, corporate or other beneficial interests in the equity or debt securities of the Company or any of its associated corporations.

Share option scheme

As at the balance sheet date, the particulars in relation to each share option scheme of the Company or any of its subsidiaries that are required to be disclosed under Rules 17.07 to 17.09 of Chapter 17 of the Listing Rules, were as follows:

(a) Share Option Scheme of the Company ("JCG Scheme")

| | Tan Yoke Kong, Director | Lee Huat Oon, Director | Employees working under "continuous contracts" other than the directors |
|--|----------------------------|---------------------------|--|
| Outstanding options | | | |
| at the beginning of the year | 150,000 | 136,000 | 22,854,000 |
| Date of grant | 20/6/1997 | 20/6/1997 | 20/6/1997 |
| Vesting period | 4/7/2002 | 4/7/2002 | 4/7/2002 |
| Exercisable period | 5/7/1999 to 4/7/2002 | 5/7/1999 to 4/7/2002 | 5/7/1999 to 4/7/2002 |
| Exercise price | HK\$4.77 each | HK\$4.77 each | HK\$4.77 each |
| No. of options granted during the year | — | — | — |
| No. of options exercised during the year | — | — | 52,000 |
| Weighted average closing price of ordinary shares immediately before dates of exercise | — | — | HK\$5.30 |
| No. of options cancelled during the year | — | — | 2,064,000 |
| Exercise price of cancelled options | — | — | HK\$4.77 each |
| No. of options lapsed during the year | — | — | 2,064,000 |
| Outstanding options at the end of the year | 150,000 | 136,000 | 20,738,000 |

(b) Share Option Scheme of Winton ("Winton Scheme")

No options to subscribe for ordinary shares in Winton have been granted to any eligible participants, including directors or their respective associates or Winton Group's employees, under the Winton Scheme since its adoption on 24 July 1992.

Share option scheme (continued)

(c) A summary of each share option scheme under the Group is set out as follows:

| | JCG Scheme | Winton Scheme |
|---|--|--|
| Purpose | To attract, retain and motivate high-calibre employees. | To attract, retain and motivate high-calibre employees. |
| Participants | Full-time employees (including full-time executive directors) of the Company or any subsidiary. | Full-time employees (including executive directors) of Winton or any subsidiary. |
| Total number of ordinary shares available for issue and the percentage of the issued share capital that it represents as at 16 January 2002 | 69,184,241 ordinary shares and 9.8% of the issued share capital. | 42,000,000 ordinary shares and 3.1% of the issued share capital. |
| Maximum entitlement of each participant | (i) the aggregate exercise price of ordinary shares shall not exceed 10 times of his/her current gross basic annual salary; and (ii) the maximum number of ordinary shares shall not exceed 25% of the total number of ordinary shares in respect of the options that may be granted in accordance with the scheme. | (i) the maximum number of ordinary shares shall not exceed 25% of the total number of ordinary shares in respect of the options that may be granted in accordance with the scheme. |
| The period within which the ordinary shares must be taken up under an option | No option will be exercisable earlier than 2 years or later than 5 years after the commencement date on which the option was granted and accepted. | No option will be exercisable earlier than 1 year or later than 10 years after its date of grant. |
| Minimum period for which an option must be held before it can be exercised | 50% must be held for a minimum period of 2 years and 50% must be held for a minimum period of 3 years after the commencement date on which the option was granted and accepted. | 1 year from date of grant. |
| Amount payable on acceptance | HK\$1.00 | HK\$1.00 |
| Period within which payments/calls/loans must be made/repaid | Not applicable | Not applicable |

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Share option scheme (continued)

(c) A summary of each share option scheme under the Group is set out as follows: (continued)

| | JCG Scheme | Winton Scheme |
|---|--|---|
| Basis of determining the exercise price | Determined by the directors at their discretion based on the higher of: (i) 80% of the average closing prices of the ordinary shares on the Stock Exchange on the five trading days immediately preceding the offer date, and (ii) the nominal value of an ordinary share. | Determined by the directors at their discretion based on the higher of: (i) 80% of the average closing price of the ordinary shares on the Stock Exchange on the five trading days immediately preceding the offer date, and (ii) the nominal value of an ordinary share. |
| The remaining life of the scheme | The scheme remains in force until 19 March 2002. | The scheme remains in force until 23 July 2002. |

Since there were no share options granted under both JCG Scheme and Winton Scheme during the year, therefore, no value of share options granted has been disclosed accordingly.

Directors' rights to acquire shares

Apart from the share option schemes noted above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries and fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Further details of the Company's share option scheme are set out in note 32 to the financial statements.

Directors' interests in competing business

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

Tan Sri Dato' 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 and JCG Finance during the year were referred by the Winton Group and other taxi dealers. The terms and conditions of the taxi financing loans are market driven and agreed at arms length between the hirers and the financiers.

Substantial shareholders

As at the balance sheet date, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that Public Bank held a beneficial interest in 419,524,110 ordinary shares of HK\$0.10 each in the Company, representing approximately a 59.3% shareholding.

Tan Sri Dato' Dr. Teh Hong Piow was also deemed to be a substantial shareholder of the Company by virtue of his interest in Public Bank, the ultimate holding company.

Save as disclosed above, the directors of the Company are not aware of any person who is, directly or indirectly, interested in 10% or more of the issued share capital of the Company or any rights to subscribe for shares in respect of such capital.

Connected transactions

- (1) On 23 July 1997, a tenancy agreement was made between JCG Finance as the landlord and Public Bank as the tenant whereby JCG Finance agreed to lease an apartment located in Taikoo Shing, Hong Kong to Public Bank as its staff quarters for a term of two years commencing on 1 August 1997 (the "Tenancy Agreement"). The Tenancy Agreement was renewed by entering into a new agreement on 26 July 1999 for a term of three years commencing from 1 August 1999 to 31 July 2002 at a monthly rental of HK\$22,000.

A lease arrangement was first made on 1 September 1993 and renewed subsequently by tenancy agreements between JCG Finance as the landlord and Public Bank as the tenant whereby JCG Finance agreed to lease a portion of the office premises located at 11th Floor, Wing On House, Hong Kong to Public Bank as its office. The existing tenancy agreement was entered into on 28 August 2000 for a term of 23 months commencing from 1 September 2000 to 31 July 2002 at a monthly rental of HK\$47,700.

- (2) The Group's subsidiaries, Winton Financial Limited ("WFL") and Winton Financial (Factoring) Limited ("WFFL") entered into agreements with Public Bank, and WFFL entered into an agreement with JCG Finance, for the joint provision of hire purchase financing to purchasers of taxis and/or public light buses (the "Co-Financing Arrangements"). The terms of the Co-Financing Arrangements with Public Bank and JCG Finance are essentially the same as those which the Group has with other co-financing banks.

During the year, no new hire purchase loans were granted under the Co-Financing Arrangements with Public Bank (2000: Nil) and JCG Finance (2000: Nil). There were no new guarantees ("Guarantee") provided by Winton to Public Bank (2000: Nil) or JCG Finance (2000: Nil) in respect of borrowers who may default within one year of the co-financed hire purchase loans. However, Winton extended the Guarantee for the amount of HK\$770,000 (2000: HK\$770,000) to Public Bank for two accounts rescheduled by Public Bank on terms similar to those Winton has with other co-financing banks. Under the Co-Financing Arrangements, there was no interest income received by Public Bank (2000: Nil) or JCG Finance (2000: Nil) from the Winton Group. No commission income was received by the Winton Group from Public Bank (2000: HK\$76,000) or JCG Finance (2000: Nil) under the Co-Financing Arrangements.

Winton and the Company were separately granted conditional waivers by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), under letters dated 7 and 19 April 2000, respectively, from strict compliance with the requirements of Chapter 14 of the Listing Rules in respect of the Guarantee provided by Winton to Public Bank concerning the obligations of WFL and WFFL under the Co-Financing Arrangements mentioned above. Mr. Geh Cheng Hooi, Paul and Mr. Cheah Cheng Hye, the independent non-executive directors of Winton and the Company, and the external auditors have reviewed the Guarantee. The respective parties have concluded that the Guarantee met the conditions imposed by the Stock Exchange under the conditional waivers granted to Winton and the Company.

- (3) Pursuant to facility agreements entered into between Public Bank (L) Ltd, a wholly-owned subsidiary of Public Bank, and WFL, Public Bank (L) Ltd granted unsecured revolving credit facilities to WFL for a total of HK\$800,000,000 (2000: HK\$800,000,000). The facilities were utilised to the extent of HK\$749,414,000 (2000: HK\$799,414,000) during the year, and up to HK\$200,000,000 (2000: HK\$749,414,000) as at 31 December 2001. Interest paid by the Group for the year to Public Bank (L) Ltd in respect of the facilities amounted to approximately HK\$29,088,000 (2000: HK\$73,306,000).
- (4) Pursuant to the facility agreement entered into between JCG Finance and Winton, JCG Finance granted an unsecured revolving credit facility to Winton for a total of HK\$30,000,000 up to the maturity date on 13 April 2001 (2000: HK\$30,000,000). Winton did not request for the facility to be renewed upon its expiry. The facility was not utilised by Winton during the period up to the maturity date (2000: up to HK\$5,000,000 and as at 31 December 2000: Nil). No interest or related facility fee was paid by Winton to JCG Finance for the year in respect of the facility (2000: HK\$85,000).
- (5) Pursuant to the master dealers agreements entered into between Winton Motors, Limited ("WML") and each of JCG Finance and Public Bank on 1 March 2001 and 29 December 1994 respectively, WML may from time to time refer hirers to JCG Finance or Public Bank for obtaining taxi financing loans, and in return, WML will receive dealer's commission from JCG Finance or Public Bank (the "Transactions"). Dealer's commission received/receivable by WML for the year from JCG Finance and Public Bank was HK\$11,684,000 (2000: HK\$353,000) and HK\$1,646,000 (2000: HK\$28,000), respectively.

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Connected transactions (continued)

The Company and Winton were separately granted conditional waivers by the Stock Exchange under letters dated 23 and 16 May 2001, respectively, from strict compliance with the requirements of Chapter 14 of the Listing Rules in respect of the Transactions mentioned above. Mr. Geh Cheng Hooi, Paul and Mr. Cheah Cheng Hye, the independent non-executive directors of Winton and the Company, and the external auditors have reviewed the Transactions. The respective parties have concluded that the Transactions met the respective conditions imposed by the Stock Exchange under the conditional waivers granted to Winton and the Company.

- (6) During the year, Winton placed fixed deposits with Public Bank (L) Ltd, a wholly-owned subsidiary of Public Bank, at prevailing market rates. As at 31 December 2001, the fixed deposits placed amounted to HK\$300,000,000 (2000: HK\$300,000,000). Interest income received/receivable by Winton for the year from Public Bank (L) Ltd in respect of the placements amounted to approximately HK\$12,214,000 (2000: HK\$15,756,000).
- (7) During the year, Winton (B.V.I.) Limited, a wholly-owned subsidiary of Winton, placed a fixed deposit with Public Bank at prevailing market rates. As at 31 December 2001, the fixed deposit placed amounted to HK\$22,036,000 (2000: Nil). Interest income received/receivable by Winton (B.V.I.) Limited for the year from Public Bank in respect of the placement amounted to approximately HK\$41,000 (2000: Nil).
- (8) During the year, Winton placed fixed deposits with JCG Finance at prevailing market rates. As at 31 December 2001, the fixed deposits placed amounted to HK\$200,000,000 (2000: Nil). Interest income received/receivable by Winton for the year from JCG Finance in respect of the placements amounted to approximately HK\$65,000 (2000: Nil).

Pension scheme

Details of the pension scheme of the Group and the employer's pension costs charged to the profit and loss account for the year are set out in notes 3 and 7 to the financial statements, respectively.

Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report. The non-executive directors and independent non-executive directors of the Company are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's bye-laws.

Audit committee

The Company established an audit committee (the "Audit Committee") in accordance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The present members of the Audit Committee are Datuk Tay Ah Lek (Chairman of the Audit Committee), Mr. Geh Cheng Hooi, Paul and Mr. Cheah Cheng Hye. Four meetings were held during the year to consider corporate governance, regulatory compliance, internal control and financial reporting matters covering the financial year ended 31 December 2001.

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

16 January 2002