

### Business review

Amidst a difficult operating environment and a challenging year in 2002, the Group recorded a profit after tax and minority interests of HK\$237.3 million, representing a decrease of 44.7% or HK\$191.5 million when compared to HK\$428.8 million in the previous year. The Group's earnings per share decreased to 33.5 cents per share from 60.7 cents per share. The directors recommended the payment of a final dividend of 13.5 cents per share, and together with the interim dividend of 4.5 cents per share already paid, the total dividends for the year of 2002 was 18 cents per share.

The decrease in net profit of the Group was mainly attributed to a higher than expected increase in bad debts charge of JCG Finance as a result of a sharp increase in the number of personal bankruptcies from its consumer loans. During the year, the Group's provisions for bad and doubtful debts increased sharply by 52.6% or HK\$164.4 million to HK\$477.2 million from HK\$312.8 million in the previous year. The Group's other operating subsidiary, Winton Group, also recorded a decline in profit after tax by 51.2% or HK\$37.4 million to HK\$35.6 million when compared to the previous year, attributed mainly to a decrease in revenue income from taxi financing activities.

For the year ended 31 December 2002, the Group's net interest income decreased by 8.1% or HK\$67.9 million to HK\$771.2 million. The Group's interest income decreased by 13.8% or HK\$128.4 million mainly due to a decrease in gross loans and advances. The Group's interest expense fell by 67.4% or HK\$60.4 million to HK\$29.2 million mainly due to the general decline in interest rates for customer deposits of JCG Finance and full settlement of the bank borrowings by Winton Group in the first half of 2002.

The Group's other non-interest operating income decreased by 15.9% or HK\$31.8 million to HK\$168.0 million mainly attributed to the decrease in loans processing and related fees from a lower volume of consumer loans transacted by JCG Finance during the year.

The Group's operating expenses decreased by 6.2% or HK\$13.3 million to HK\$200.2 million for the year when compared to the previous year mainly due to the decrease in provision for other debtors of Winton Group by HK\$15.2 million. The Group's cost to operating income remained relatively low at 21.3% in 2002.

As at 31 December 2002, the Group's total gross loans and advances decreased by 5.7% or HK\$209.6 million to HK\$3,466.2 million from HK\$3,675.8 million at the end of December 2001. JCG Finance's gross loans and advances decreased by 4.4% or HK\$141.1 million to HK\$3,100.7 million from HK\$3,241.8 million at the end of December 2001, which resulted from an aggressive write-off of bad debts of HK\$476.7 million mainly due to personal bankruptcies and lower volume of consumer loans transacted during the year. Winton Group's gross loans and advances also declined by 15.8% or HK\$68.5 million to HK\$365.5 million at the end of December 2002 mainly due to write-off of taxi financing loans, early settlements and lower volume of taxi financing loans.

### Segment information

The Group's business comprised mainly of two segments, personal and commercial lending, and taxi trading. Over 90% of the Group's operating income and profits before tax were contributed from personal and commercial lending. When compared to 2001, the Group's operating income of personal and commercial lending decreased by 8.6% to HK\$923.5 million. However, profit before tax decreased by 47.1% to HK\$255.2 million in personal and commercial lending caused mainly by a significant increase in provisions for bad debts from its consumer loans as a result of escalating personal bankruptcies in Hong Kong.

### Asset quality

The Group's non-performing loans (excluding rescheduled loans) to total gross loans and advances improved to 6.8% at the end of December 2002 when compared to 7.6% at the end of December 2001. The non-performing loans at the end of 2002 included property mortgage loans and taxi financing loans of HK\$39.8 million and HK\$6.1 million, respectively, which were secured by properties, taxi cabs and taxi licences. The said non-performing secured loans represented 1.3% of the Group's total gross loans and advances. Specific provisions of HK\$25.9 million and HK\$2.6 million have been made against these property mortgage loans and taxi financing loans, respectively.

The consolidated capital adequacy ratio of JCG Finance increased by 1.22% to 38.96% at the end of 2002 when compared to 37.74% at end of the previous year.

## Funding and capital management

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. JCG Finance's average liquidity ratio stood high at 127.2% in 2002.

Winton Group funded its loans and advances through its internally generated capital and bank borrowings. During the year, Winton Group repaid its bank borrowings through its internally generated funds, mainly from loan repayments and early settlements of taxi financing loans. Winton Group's gearing ratio fell to nil from 0.2 at the end of 2001 based on bank borrowings to shareholders' funds (excluding the proposed dividend).

During 2002, the Group did not incur any material capital expenditure commitment. There were also no significant changes in charges over the Group's assets.

The Group's principal operations are transacted and recorded in Hong Kong Dollar. During the year, the Group has neither engaged in any derivative activities nor committed to any financial instruments to hedge its balance sheet exposures.

## Human resources management

The objectives of the Group's human resources management are to recognise and reward performing and competent staff by providing a competitive remuneration package and implementing a sound performance appraisal scheme, and to earmark them for their future career development.

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 moral 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 identify and launch new business promotions for consumer loans. 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 December 2002, the Group has a relatively stable staff force of around 480 people. For the year ended 31 December 2002, the Group's staff costs amounted to HK\$89.9 million.

## 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 December 2002, the outstanding guarantees given to the co-financing banks decreased further to HK\$0.8 million from HK\$1.7 million as at the end of 2001.

## Post balance sheet events

On 3 December 2002, Winton had announced a proposed privatisation by way of a scheme of arrangement and withdrawal of listing from The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The privatisation of Winton has not been completed at the end of 2002. The results of the privatisation of Winton will be known following the Court Meeting and Special General Meeting scheduled on 27 February 2003. If the privatisation of Winton becomes effective, Winton will become a wholly-owned subsidiary of the Company and its listing would be withdrawn from the Stock Exchange accordingly.

### Prospects

The operating environment in Hong Kong is expected to continue to be very competitive and challenging in 2003. Unemployment rate and number of personal bankruptcies are expected to remain high in the near term, and demand for consumer financing is anticipated to remain weak. Amidst such difficult conditions, the Group will continue to focus on marketing and promoting consumer loans to selected market segments to attract new and better quality customers to expand its customer base. The Group will continue to relocate some of the branches to improve their visibility and accessibility and enhance customer service quality to meet the changing demands of customers. At the same time, the Group will continue to strengthen its credit risk management and stringent credit assessment and prudent loan limits for its consumer loans business in light of the high level of personal bankruptcies in Hong Kong.

The Group will continue to focus on developing its taxi financing and taxi trading businesses. With a well established panel of financiers and network of taxi dealers, the Group is positioned to grow its taxi financing and taxi trading businesses in 2003.