



Chairman's Statement

"I am pleased to present a review of the results of the Group for the financial year ended 31 December 2003."



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

Group Performance

During the year under review, the prolonged weak economy of Hong Kong was further adversely affected by the outbreak of SARS with unemployment rate at a record high of 8.7% in mid-2003 before it improved to 7.3% by the end of the year. Consumer confidence during the year under review was weak and had slowed down the demand for consumer loans, taxi financing and taxi trading activities of JCG Holdings Limited (the "Company") and its subsidiaries (the "Group"). Despite such a difficult and challenging operating environment, the Group recorded a profit after tax and minority interests of HK\$232.1 million, representing a marginal decrease of 2.2% or HK\$5.2 million when compared to HK\$237.3 million in the previous year. Accordingly, the Group's earnings decreased slightly to 32.8 HK cents per share from 33.5 HK cents per share. The Directors declared the payment of a second interim dividend of 20.0 HK cents per share in December 2003. The directors do not recommend the payment of a final dividend for the year under review. Together with the first interim dividend of 4.0 HK cents per share paid in August 2003, the total dividends for the year 2003 was 24.0 HK cents per share.

The decrease in profit before tax was mainly due to the decrease in net interest income and the decrease in other non-interest operating income. For the year ended 31 December 2003, the Group's net interest income decreased by 10.4% or HK\$80.2 million to HK\$691.0 million. The Group's interest income decreased by 9.6% or HK\$77.0 million to HK\$723.3 million mainly due to a decrease in gross loans and advances. The Group's interest expense increased by 10.9% or HK\$3.2 million to HK\$32.4 million mainly due to the increase in average customer deposits over the year when compared to that of the previous year. The Group's other non-interest operating income, before taking into account the credit from the amortisation of negative goodwill of HK\$18.4 million arising from the privatisation of Winton Holdings (Bermuda) Limited ("Winton"), a subsidiary of the Company, decreased by 9.8% or HK\$16.4 million to HK\$151.6 million. This was mainly due to the decrease in loans processing and related fees as a result of lower volume of consumer loans and the decrease in contribution from the Group's taxi trading activities during the year.



Chairman's Statement

Group Performance (Continued)

The Group's provisions for bad and doubtful debts decreased by 13.0% or HK\$62.0 million to HK\$415.2 million for the year mainly due to the decrease in personal bankruptcies of its consumer loan customers. However, an increase in the number of individual voluntary arrangement cases from the consumer loan customers narrowed the decrease in the provisions for bad and doubtful debts.

The Group's operating expenses decreased by 6.9% or HK\$13.9 million to HK\$186.3 million for the year when compared to the previous year. The Group's cost to operating income ratio remained relatively low at 21.6% in 2003.

As at 31 December 2003, the Group's total gross loans and advances decreased by 9.6% or HK\$332.7 million to HK\$3,133.5 million from HK\$3,466.2 million at the end of December 2002, following an aggressive write-off of bad debts of HK\$456.4 million, mainly due to personal bankruptcies and individual voluntary arrangements from consumer loan customers who rescheduled their repayment obligations, as well as lower volume of consumer loans transacted during the year. Customer deposits of the Group decreased by 26.2% or HK\$465.0 million to HK\$1,309.3 million from HK\$1,774.3 million as at 31 December 2002 in line with the decrease of gross loans and advances.

As at 31 December 2003, the shareholders' funds of the Group stood at HK\$3,304.3 million.

Prospects

The operating environment for financial institutions in Hong Kong is expected to remain highly competitive and challenging, in particular, in the consumer financing market as competition amongst financial institutions to increase their market share in consumer loans intensify. The Group will continue to focus on marketing and promoting consumer loans to selected market segments to attract new and better quality customers in expanding its consumer base. In addition to continuing improvement in the quality of customer service, the Group will also continue to look for opportunities to expand its branch network and relocation of the branches to better sites for easy access by customers and increase the visibility of the branches.

In light of the gradual recovery and improvement in the Hong Kong economy, strengthening consumer confidence and the declining trend in personal bankruptcies, together with the availability of positive credit data of customers, the Group will undertake a more aggressive marketing strategy to promote and increase its consumer financing loan business. Notwithstanding this, the Group will continue to strengthen its credit risk management and adopt a prudent approach in its credit evaluation and credit controls.

The Group will also continue to focus on developing its taxi financing and taxi trading businesses with the support of a well established panel of financiers and network of taxi dealers.

Acknowledgement

On behalf of the Board of Directors, I wish to take this opportunity to express our appreciation to the management and staff of the Group for their commitment, dedication and perseverance. 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' Sri Dr. Teh Hong Piow

Chairman