Management Discussion and Analysis

Business review

In year 2003, Hong Kong's economy was adversely affected by the outbreak of SARS with unemployment rate at a record high of 8.7%. Demand for loans, in particular, consumer financing, was subdued and competition for consumer loan business amongst financial institutions intensified further.

The outbreak of SARS had also affected the taxi financing and taxi trading industry as the income of taxi drivers fell during the outbreak. Consequently, the taxi trading activities of taxi licences in the market were relatively low, and it caused the Group's volume of taxi financing and trading of taxi licences to fall correspondingly.

Despite such a difficult business environment, the Group recorded a profit after tax of HK$232.1 million, representing a slight decrease of 2.2% or HK$5.2 million when compared to HK$237.3 million in the previous year.

Profit and loss analysis

The decrease in profit after tax was mainly attributed to the decrease in net interest income and the decrease in non-interest operating income before taking into account the credit from amortisation of negative goodwill arising from the privatisation of Winton.

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. Although customer deposits as at 31 December 2003 was lower than the previous year end, the Group's interest expense increased by 10.9% or HK$3.2 million to HK$32.4 million mainly because the average customer deposits over the year was higher than that of the previous year.

The Group's other non-interest operating income, excluding the amount of amortisation of negative goodwill of HK$18.4 million for the year, decreased by 9.8% or HK$16.4 million to HK$151.6 million 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 taxi trading activities during the year.

The Group's provisions for bad and doubtful debts decreased by 13.0% or HK$62.0 million to HK$415.2 million during the year mainly due to the decrease in personal bankruptcies from the consumer loan customers. However, an increase in the individual voluntary arrangement cases from the consumer loan customers narrowed the decrease in the provisions for bad and doubtful debts, as the Group also adopted a conservative and prudent provisioning policy for such accounts.

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 resulting in the Group's cost to operating income ratio to remain relatively low at 21.6% in 2003.

Balance sheet analysis

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 the write-off of bad debts of HK$456.4 million, which was mainly from the consumer loan customers, and lower volume of consumer loans transacted by the Group during the year. The Group's customer deposits decreased by 26.2% or HK$465.0 million to HK$1,309.3 million as at 31 December 2003 from HK$1,774.3 million as at 31 December 2002.

Shareholders' funds of the Group as at 31 December 2003 grew to HK$3,304.3 million.

Segmental information

The Group's business comprised mainly of two segments, personal and commercial lendings, and taxi trading. Over 90% of the Group's operating income and profit before tax were contributed from personal and commercial lendings. When compared to the previous year, the Group's operating income of personal and commercial lendings decreased by 9.7% to HK$834.3 million. The contribution to profit before tax from personal and commercial lendings decreased by 7.1% to HK$237.1 million mainly due to the lower operating income during the year.

Asset quality

The Group's non-performing loans ("NPL") to total gross loans and advances was 8.3% at the end of December 2003 against 6.8% at the end of December 2002. The increase in the NPL was mainly due to the re-classification of a re-scheduled loan, which comprised 2.0% of the total gross loans and advances. The repayment of the loan was affected by the outbreak of SARS.

The consolidated capital adequacy ratio of JCG Finance Company, Limited ("JCG Finance") increased by 4.21% to 43.17% at the end of 2003 when compared to 38.96% at the end of 2002, mainly due to the decrease in the risk-weighted average assets.

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.

The Group 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 96.8% in 2003.

During 2003, 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 under review, 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 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 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.

At the end of December 2003, the Group has a relatively stable staff force of about 478 people. For the year ended 31 December 2003, the Group's staff costs amounted to HK$84.8 million.

Contingent liabilities

At the end of December 2003, the outstanding guarantee given to the co-financing banks under the co-financing arrangement was nil. There was also no other material contingent liability under the Group at the end of the same year.