



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

“I am pleased to present a review of the results of the Group for the financial year ended 31 December 2004.”

Group Performance

During the year under review, Hong Kong's economy continued to recover and consumer sentiment improved with the easing of the unemployment rate, an improved property market, and growth in tourism and related retail industries in Hong Kong. However, the operating environment for the banking industry remained challenging as demand for consumer loan was weak, while competition intensified further amongst the financial institutions.

For the year ended 31 December 2004, JCG Holdings Limited (the “Company”) and its subsidiaries (the “Group”) recorded a profit after tax of HK\$412.9 million, representing a sharp increase of 77.9% or HK\$180.8 million when compared to HK\$232.1 million in the previous year. Accordingly, the Group's earnings per share increased to HK\$0.58 from HK\$0.33 in the previous year. The Directors declared a second interim dividend of HK\$0.40 per share on 30 December 2004 and did not recommend the payment of a final dividend for the year. Together with the first interim dividend of HK\$0.05 per share and the special dividend of HK\$1.75 per share declared in June 2004, the total dividends for the year 2004 amounted to HK\$2.20 per share.

The increase in profit after tax was mainly attributed to the decrease in provisions for bad and doubtful debts and the increase in non-interest income. For the year ended 31 December 2004, the Group's provisions for bad and doubtful debts decreased sharply by 58.2% or HK\$241.9 million to HK\$173.3 million from HK\$415.2 million in 2003, mainly due to the decrease in personal bankruptcies and individual voluntary arrangements from consumer loan customers, as well as the decrease in general provision for bad and doubtful debts. The Group's non-interest income increased by 17.8% or HK\$30.3 million to HK\$200.3 million for the year, mainly due to the increase in loan processing and related fees as a result of the higher volume of consumer loan transactions.

Group Performance (Continued)

For the year ended 31 December 2004, the Group's interest income decreased slightly by 1.5% or HK\$10.5 million to HK\$712.8 million and the Group's interest expense decreased by 58.7% or HK\$19.0 million to HK\$13.4 million, which resulted in an increase of 1.2% or HK\$8.5 million in net interest income to HK\$699.4 million. The decrease in the Group's interest expense was mainly due to the decrease in average customer deposits in the year compared to that of the previous year, and the decrease in average interest rates paid on customer deposits. The Group's operating expenses before impairment loss on properties increased by 21.7% or HK\$40.2 million to HK\$225.8 million for the year when compared to the previous year. Consequently, the Group's cost to operating income ratio increased to 25.1% in 2004 from 21.6% in 2003.

As at 31 December 2004, the Group's total gross loans and advances increased by 3.7% or HK\$116.2 million to HK\$3,249.7 million from HK\$3,133.5 million at the end of December 2003 after bad debts written off amounting to HK\$266.8 million. The growth in gross loans and advances arose mainly from consumer loans as more customers consolidated their debts with the Group. The Group's customer deposits, including a deposit of HK\$700.2 million from a related corporate customer, increased by 31.4% or HK\$411.1 million to HK\$1,720.4 million as at 31 December 2004 from HK\$1,309.3 million as at 31 December 2003.

As at 31 December 2004, the shareholders' funds of the Group was reduced to HK\$2,163.3 million following the distribution of a special dividend of HK\$1,238.6 million and the first and second interim dividends of HK\$318.5 million during the year.

Prospects

The operating environment in 2005 is expected to remain challenging as interest rates are expected to trend higher and competition for consumer loans is expected to intensify further with the expiry of the moratorium period in June 2005 which restricts access to positive credit data for purposes of review assessment of consumer loans by financial institutions. The Group will continue to focus on marketing and promoting consumer loans to selected market segments to attract new and better quality customers, and to look for opportunities to expand its branch network and the relocation of the branches to better sites for higher visibility and easier access by customers.

With the improving consumer sentiment, declining trend in personal bankruptcies, coupled with the availability of positive credit data on consumer loan customers, the Group will undertake a more aggressive marketing strategy to promote and increase its consumer loan business. Notwithstanding this, the Group will continue to strengthen its credit risk management and adopt a prudent approach in its credit evaluation and maintain tight 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 our customers for their invaluable patronage, our shareholders for their continued confidence in and support of the Group, and the Hong Kong Monetary Authority and other relevant authorities for their invaluable advice, guidance and support.

Tan Sri Dato' Sri Dr. Teh Hong Piow

Chairman