

Business review

In 2004, Hong Kong's economy continued to benefit from the implementation of the Closer Economic Partnership Arrangement with Mainland China, and the relaxation of travel restrictions of Chinese citizens to visit Hong Kong. The improvement in consumer sentiment can be attributed to the recovery in the property market, growth in tourists arrivals and the decline in unemployment rate from 7.4% in the fourth quarter of 2003 to 6.7% in November 2004. Nevertheless, competition for consumer loans and taxi financing loans intensified further amongst financial institutions due to subdued loan demand and financial institutions seeking other areas of lending to mitigate the effects of the continued interest margin squeeze in their existing business.

Despite the competitive environment, the Group recorded a profit after tax of HK\$412.9 million, representing a sharp growth of 77.9% or HK\$180.8 million when compared to HK\$232.1 million in the previous year. Total loans and advances of the Group increased by HK\$116.2 million to HK\$3,249.7 million as at 31 December 2004.

Profit and loss analysis

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.

For the year ended 31 December 2004, the Group's net interest income increased slightly by 1.2% or HK\$8.5 million to HK\$699.4 million. 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 mainly due to the decrease in average customer deposits in the year compared to that of the previous year, and the lower average interest rates paid on customer deposits during the year.

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.

Balance sheet analysis

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 higher volume of consumer loans transacted during the year. 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. Shareholders' funds of the Group as at 31 December 2004 was reduced by HK\$1,141.0 million 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.

Segmental 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 profit before tax were contributed by personal and commercial lending. When compared to the previous year, the Group's operating income from personal and commercial lending increased by 3.7% to HK\$865.0 million. The contribution to profit before tax from personal and commercial lending increased by 93.4% to HK\$458.5 million mainly due to the decrease in provisions for bad and doubtful debts during the year.

Asset quality

The Group's ratio of non-performing loans to total gross loans and advances improved further to 6.4% at the end of December 2004 as compared to 8.3% at the end of December 2003.

The consolidated capital adequacy ratio of JCG Finance Company, Limited ("JCG Finance"), a wholly-owned subsidiary of the Company, decreased by 4.48% to 38.69% at the end of 2004 when compared to 43.17% at the end of 2003.

Funding and capital management

The main objectives of the Group's funding and capital management activities are to ensure the availability of funds at reasonable cost 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 self-reliant in 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. In 2004, JCG Finance's average liquidity ratio stood at a high 79.45%.

During the year, the Group did not incur or enter into commitments for any material capital expenditure. Other than a placement with a bank amounting to HK\$5.0 million to secure certain of the Group's banking facilities, there are no other charges over the Group's assets at the end of 2004.

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 activities are to recognise and reward performing and competent staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression within the Group.

Staff have been encouraged to enroll in external training courses, seminars, professional and technical courses with appropriate sponsorship in order to update their technical knowledge and skills, to increase their awareness of the market and technological changes, and to improve their business acumen. Staff are also encouraged to participate in social activities organised by the Group to promote their team spirit building.

At the end of December 2004, the Group has a stable staff force of about 470 people. For the year ended 31 December 2004, the Group's staff costs amounted to HK\$106.2 million.

Contingent liabilities

At the end of 2004, the Group did not have any material contingent liabilities.