

Advances to customers by industry sectors and basis of classification

	Group	
	Gross advances to customers	
	2004	2003
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial:		
– Property investment	58,442	60,499
– Wholesale and retail trade	93	293
– Manufacturing	1,713	1,617
– Licensed public vehicles	446,482	607,454
– Others	–	2,925
Individuals:		
– Loans for the purchase of residential properties	27,448	30,627
– Others	2,635,596	2,348,640
Loans for use outside Hong Kong	79,952	81,406
	3,249,726	3,133,461

The advances to customers are classified by industry sectors based on the industry in which the loans granted were used. In those cases where loans cannot be classified with reasonable certainty, they are classified according to the known principal activity of the borrowers or by reference to the assets financed according to the loan documentation.

Corporate governance

JCG Finance, a major subsidiary of the Company, is a deposit taking company incorporated in Hong Kong and is under the supervision of the HKMA. Its Board of Directors is fully committed to ensuring that the principles and best practices in corporate governance as set out in the guidelines on “Corporate Governance of Locally Incorporated Authorised Institutions” issued by the HKMA are applied in JCG Finance. Accordingly, JCG Finance has set up specialised committees with clear terms of reference and specific authorities delegated by its Board of Directors.

Executive Committee

The Executive Committee is responsible for the management of the business of JCG Finance in all aspects and implementation of strategic business plans and policies approved and formulated by the Board of Directors. The members of the Executive Committee comprise any director.

Management Committee

The Management Committee is responsible for the management of the daily operations of JCG Finance in all aspects of its business. The members of the Management Committee comprise General Manager, Deputy General Manager, Assistant General Managers, Head of Credit, Financial Controller, Senior Managers and Zone Managers.

Corporate governance (Continued)

Finance Committee

The Finance Committee assists the Board of Directors in the financial planning and budgeting process of the business of JCG Finance and the review of the statutory and half year audited accounts. The members of the Finance Committee comprise General Manager, Deputy General Manager, Assistant General Managers, Head of Credit and Financial Controller.

Credit Committee

The Credit Committee is responsible for making decision on loan applications for all types of loan facilities within its discretionary powers, assisting the Board of Directors in formulating policy guidelines for JCG Finance's lending business, and recommending applications for loan facilities exceeding the discretionary powers of the Credit Committee to the Board of Directors for approval. The members of the Credit Committee comprise General Manager, Deputy General Manager, Assistant General Managers and Head of Credit.

Assets and Liabilities Committee

The Assets and Liabilities Committee reviews and assesses the risk profile and capital structure of JCG Finance, sets the objectives for the asset and liability management function and implements the risk management policies adopted by the Board of Directors. The members of the Assets and Liabilities Committee comprise General Manager, Deputy General Manager, Assistant General Managers, Head of Credit and Financial Controller.

Information Technology Committee

The Information Technology Committee is responsible for establishing objectives, policies and strategies for the computerisation of the Group, recommending to the Board of Directors on major acquisitions of computer hardware and software, and monitoring the progress of the implementation of all information technology related projects. The members of the Information Technology Committee comprise General Manager, Deputy General Manager, IT Controller and Financial Controller.

Human Resources Committee

The Human Resources Committee assists the Board of Directors in formulating and implementing human resources policies including staff recruitment, promotion, career development, performance appraisal and remuneration of all staff. The members of the Human Resources Committee comprise General Manager, Deputy General Manager, Assistant General Managers, Head of Credit and Personnel Manager.

Audit Committee

The Audit Committee was established by the Company to provide an independent review of the effectiveness of the financial reporting process and internal control system of the Group and to make recommendations to the Board of Directors. The members of the Audit Committee shall be appointed by the Board of Directors from amongst the Non-executive Directors of the Company and shall consist of not less than three members. The majority of the Audit Committee members shall comprise Independent Non-executive Directors. The present members comprise Dato' Yeoh Chin Kee (Chairman of the Audit Committee), Mr. Geh Cheng Hooi, Paul, Mr. Lee Chin Guan and Datuk Tay Ah Lek. Four meetings were held during the year to consider corporate governance, regulatory compliance, internal control and financial reporting matters covering the financial year ended 31 December 2004.

Qualitative information on the management of risks

The respective Boards of Directors of the subsidiaries are responsible for oversight of risks and approval of risk management policies. The Internal Audit Department of the Group performs regular audits to ensure compliance with the policies and reports directly to the Audit Committee.

Credit risk

Credit risk is the risk associated with a customer or counterparty being unable to meet a commitment when it falls due, and arises from the lending activities undertaken by the Group.

The Group has established policies and systems for the monitoring and control of credit risk. The Credit Committee of JCG Finance is responsible for monitoring of asset quality and the formulation of credit policies and management of credit risk through reviews of regular reports on credit exposures, which include exposure limits and the level of bad debt provisions. The approval of loan transactions is delegated to the Credit Committee members and/or authorised Zone and Branch Managers subject to the set limits. The Internal Audit Department of the Group is responsible for appraising the effectiveness of credit controls. The Group continues to maintain a tight control on loan assessments and approvals and will continue to pursue a conservative and prudent policy in granting loans.

Market risk

Market risk is the risk associated with changes in interest rates, foreign exchange rates, equity prices, commodity prices and government policies; and the effect that such changes have on positions taken on market risk related financial instruments, including both on and off balance sheet instruments, which may result in profits or losses.

The Group adopts a conservative view on exposure to market risk related financial instruments. The Group monitors its exposure to market risk on a regular basis and will take appropriate action to minimise its exposure to market risk. The Assets and Liabilities Committee of JCG Finance meets at least quarterly to review the balance sheet structure, interest rate risk management, liquidity management, and capital structure, allocation and planning. It evaluates the impact of alternative asset and liability management strategies, identifies the types of risks inherent in JCG Finance and assesses the vulnerability of its net interest income to these risks. The latest development in interest rates and foreign exchange rate movements, fiscal and monetary policies will be brought to the attention of the Board of Directors.

During the year, the Group did not trade in any market risk including currency risk related financial instruments. The market risk including currency risk exposure of the Group arising from both on and off balance sheet activities was considered immaterial. Accordingly, quantitative market risk including currency risk information is not disclosed.

Qualitative information on the management of risks (Continued)

Liquidity management

The main objectives of the Group's liquidity management are to ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund loan growth and to generate reasonable returns from available funds.

The Assets and Liabilities Committee of JCG Finance monitors its liquidity position as part of its ongoing assets and liabilities management, and sets up trigger limits to monitor liquidity risk. The balance between liquidity and profitability is carefully considered. The Accounts Department of the Group is responsible for the management of daily treasury operations, and to ensure availability of funds to grow loans and to meet contractual financial commitments.

Capital management

The Group encourages its subsidiaries to be independent and self-reliant on funding their business growth.

The Group relies principally on its internally generated capital and customer deposits. It adopts a prudent policy in capital management and manages its deposits in line with its loan growth. The funding position is monitored and reviewed regularly to ensure it is within internally established limits and at reasonable costs.

Capital adequacy and liquidity ratios of JCG Finance

	2004 Unadjusted ratio	2003 Unadjusted ratio
Capital adequacy ratio as at 31 December	38.69%	43.17%
Average liquidity ratio for the year	79.45%	96.80%

The above unadjusted capital adequacy ratio and average liquidity ratio for the year are computed in accordance with the Third Schedule and the Fourth Schedule of the Banking Ordinance respectively.

The above unadjusted capital adequacy ratio is computed on a consolidated basis (including JCG Securities Limited and Funds Fit Limited). The adjusted capital adequacy ratio is not disclosed herein as the market risk arising from JCG Finance's trading book is regarded as immaterial. JCG Finance meets all of the de minimis exemption criteria for reporting market risk as set out in "Maintenance of Adequate Capital Against Market Risks" under the Supervisory Policy Manuals issued by the HKMA and has relied on such criteria in considering the materiality of market risk arising from its trading book.