Business Review

Business and corporate development

In 2005, Hong Kong's economy recorded stronger GDP growth of 8.1% at the end of September 2005, and the unemployment rate fell to 5.3% at the end of November 2005. With the economy improving further, consumer sentiment and confidence picked up momentum generally.

During the year, competition for the consumer loans and taxi financing loans remained keen amongst financial institutions, while trading volume of taxi licences in the market remained low. Despite such a competitive and challenging business environment, the Group's total gross loans and advances grew by 10.3% or HK$334.1 million to HK$3,583.8 million as at 31 December 2005 from HK$3,249.7 million as at the end of December 2004 after bad debts written off of HK$221.5 million. The growth in gross loans and advances arose mainly from the Group's consumer loans and taxi financing loans. During the year, the market interest rates in general rose further resulting in higher funding costs from customer deposits of the Group.

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 from personal and commercial lending. When compared to the previous year, the Group's operating income from personal and commercial lending increased marginally by 2.3% or HK$19.9 million mainly due to the increase in net interest income arising from growth in gross loans and advances. The profit before tax from personal and commercial lending increased by 7.3% or HK$33.3 million mainly due to the decrease in impairment allowances for impaired assets in the same year.

Financial Review

Financial analysis

The adoption of certain new accounting standards in 2005 has a direct impact on the results of the Group. During the year, the Group's profit after tax increased moderately by 8.1% or HK$33.4 million to HK$446.3 million when compared to HK$412.9 million for the year 2004, after taking into account a revaluation surplus on properties of HK$33.7 million, cessation of annual amortisation of HK$18.4 million for negative goodwill, and provision for share option benefits expense of HK$45.8 million in the profit and loss account. The Group's basic earnings per share for the year ended 31 December 2005 increased to HK$0.62 per share. The directors have declared and paid the first interim dividend of HK$0.06 per share together with the special dividend of HK$0.29 per share, and have declared the second interim dividend of HK$0.40 per share on 30 December 2005. The second interim dividend will be payable on 21 February 2006. The total dividends in 2005 amounted to HK$0.75 per share.

During the year, the Group's net interest income increased by 9.5% or HK$66.6 million to HK$766.0 million as compared to the previous year. Interest income increased by 12.6% or HK$89.9 million to HK$802.7 million mainly due to the growth in loans and advances, and after taking into account the reallocation of certain fee income from non-interest income of HK$39.7 million upon prospective adoption of new accounting standards. Interest expense increased by 173.9% or HK$23.2 million to HK$36.6 million mainly due to higher interest rates offered on customer deposits.

Financial Review (Continued)

Financial analysis (Continued)

In 2005, the Group's operating expenses decreased by 9.3% or HK$21.6 million to HK$211.6 million when compared to the previous year after taking into account the share option benefits expense of HK$45.8 million and surplus on revaluation of investment properties of HK$33.7 million. The Group continued to exercise effective control over its operating costs in 2005 and maintained a low cost to operating income ratio of 23.5% as compared to 25.1% in 2004.

During the same year, the Group's impairment loss and allowances for impaired financial assets decreased by 8.4% or HK$14.6 million to HK$158.8 million mainly due to the reduction in bad debts from consumer loans.

The Group's non-interest income decreased by 33.0% or HK$66.1 million to HK$134.2 million in 2005 after the Group ceased the annual amortisation of HK$18.4 million for negative goodwill, reallocated certain fee income of HK$39.7 million from non-interest income to interest income following the prospective adoption of new accounting standards, and recorded a decline in other fee income mainly due to lower volume of refinancing loans and decrease in dividend income from a listed investment.

Contingent liabilities and commitments

There were no material contingent liabilities of the Group at the end of the year and the Group did not incur any material capital expenditure commitment during the year under review. Other than a placement with a bank amounting to HK$5.0 million to secure certain of the Group's banking facilities, there were no other charges over the Group's assets at the end of 2005. The Group had neither engaged in any derivative activities nor committed to any financial instruments to hedge its balance sheet exposures. The Group's principal operations are transacted and recorded in Hong Kong dollar.

Operational Review

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 loan 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 personal and commercial lending, taxi trading and other businesses. The principal source of internally generated capital is from retained profits. The average liquidity ratio of JCG Finance, a wholly-owned subsidiary of the Company, stood high at 72.45% during the year. The Group paid the first interim dividend together with the special dividend in total of HK$255.2 million on 30 September 2005, and declared the second interim dividend of HK$291.7 million on 30 December 2005. The second interim dividend will be payable on 21 February 2006. The total dividend of the Group amounted to HK$546.9 million in 2005.

Asset quality and capital adequacy

The impaired loan ratio of the Group was maintained at 5.8% as at 31 December 2005, which was the same as at last year end. The consolidated capital adequacy ratio of JCG Finance decreased slightly to 38.52% at the end of December 2005 when compared to 38.69% at the end of December 2004.

Operational Review (Continued)

Human resources management

The objectives of the Group's human resources management are to reward and recognise performing 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 enrolled in external training courses, seminars, professional and technical courses with appropriate sponsorship from the Group 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 team spirit and build a cohesive workforce.

To further retain, motivate and enhance staff morale, the Company granted 66,526,000 share options to the employees of the Group in May 2005 pursuant to the share option scheme approved by the shareholders on 28 February 2002. As at the end of December 2005, the Group had a staff force of about 460 people. For the year ended 31 December 2005, the Group's staff costs, including the share option benefits expense of HK$45.8 million, amounted to HK$138.4 million.

Prospects

For the year 2006, Hong Kong's economy is expected to expand further amidst higher interest rates and inflation. The competition for consumer loan business in Hong Kong is expected to intensify further amongst financial institutions after having full access and benefits from sharing positive credit data for consumer loans.

To face such competition and challenges, the Group will focus on selected market segments to expand its customer base and market share in consumer loans through aggressive marketing and promotional activities. The Group will continue to emphasize training a skilled workforce so as to improve their marketing skills and strengthen the quality of customer service. The Group will continue to relocate its branches to more prominent positions for ease of accessibility by customers, and to open new branches where feasible. With a strong corporate governance in place, a dedicated workforce providing excellent customer service, and aggressive marketing, the Group is poised to further grow its consumer financing business in 2006 barring any unforeseen circumstances. Nevertheless, the Group will further strengthen its credit risk management and apply stringent credit criteria for loan assessments to ensure good asset quality.

The Group will also continue to promote its taxi financing and taxi trading businesses with its established panel of financiers and taxi dealers.