

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the first six months ended 30 June 2001, the Group achieved a profit after tax and minority interests of HK\$245.8 million, representing a growth of 24.6% or HK\$48.5 million over the profit after tax of HK\$197.3 million for the previous corresponding period. The Group's earnings per share also recorded a similar increase to 34.8 cents per share.

The strong growth in earnings of the Group was attributed to a moderate growth in profit after tax from its wholly-owned subsidiary, JCG Finance, and the sharp rebound in profit of its 75% owned subsidiary, Winton Group, from a loss of HK\$22.9 million in the previous corresponding period to a profit after tax and minority interests of HK\$33.7 million for the six months ended 30 June 2001.

The Group's net interest income recorded an increase of 14.6% or HK\$53.8 million to HK\$423.0 million for the period ended 30 June 2001 when compared to the corresponding period of 2000. During the period under review, the Group's interest income increased by 7.1% to HK\$486.9 million from HK\$454.5 million in the previous corresponding period, mainly due to a 7.0% year-on-year growth in gross loans and advances of JCG Finance. The Group's interest expenses fell by 25.2% or HK\$21.5 million to HK\$63.9 million, mainly due to lower cost of customer deposits of JCG Finance and lower borrowing costs and reduction in bank borrowings of Winton Group.

The Group's other operating income grew by 5.1% or HK\$5.0 million to HK\$104.1 million in the period under review, attributed mainly to an increase in commission income and other income from referrals of taxi financing loans and from taxi trading activities of Winton Group.

The Group's operating expenses increased marginally by 3.3% or HK\$3.7 million to HK\$118.3 million, as the Group continued to contain its operating cost. During the period under review, the Group's staff costs declined by 5.0% to HK\$50.9 million from HK\$53.6 million in the previous corresponding period. The amortisation and write off of commission expenses in relation to Winton Group's taxi financing business fell by HK\$9.2 million to HK\$0.01 million, as no new taxi financing loans with commission payment were recorded by Winton Group. Provisions for other doubtful debtors of Winton Group increased by HK\$14.6 million mainly due to provision for amount due from an associated company and other debtors.

The Group's provision of bad and doubtful debts decreased marginally by 1.4% or HK\$1.6 million to HK\$116.7 million in first half of 2001 from HK\$118.3 million in the previous corresponding period. This was mainly due to a decrease in defaults of taxi financing loans of Winton Group, whereas JCG Finance reported an increase in provisioning due to a rise in personal bankruptcies from its consumer loans. As at 30 June 2001, the Group wrote off HK\$142.8 million in bad and doubtful debts, mainly from consumer loans and taxi financing loans.

The Group's gross loans and advances decreased by 7.5% or HK\$310.0 million to HK\$3,801.8 million as at 30 June 2001 from HK\$4,111.8 million as at 31 December 2000, mainly due to a decrease of 31.1% or HK\$296.5 million in Winton Group's gross loans and advances from HK\$954.5 million as at 31 December 2000 to HK\$658.0 million as at 30 June 2001, arising from higher level of early settlements in taxi financing loans. JCG Finance's

gross loans and advances decreased marginally by 0.4% or HK\$13.6 million to HK\$3,143.8 million as at 30 June 2001 from HK\$3,157.4 million as at 31 December 2000 following write offs of HK\$128.1 million in bad and doubtful debts.

Segmental information

The Group's major business segments comprised personal and commercial lending, taxi trading and related operations, and other operations. In the first half of 2001 and in the previous corresponding period, over 90% of the Group's revenue and results were contributed from its personal and commercial lending business in Hong Kong. During the first half of 2001, the revenue and profit before tax derived from personal and commercial lending business segment increased by 5.7% and 25.4% respectively over the previous corresponding period, mainly due to growth in net interest income and marginal increase in operating costs.

Funding and capital structure

The main objectives of the Group's treasury management are essentially the same as that reported in the Company's 2000 Annual Report.

During the first half of 2001, JCG Finance's average liquidity ratio remained high at 182.0%. As JCG Finance's gross loans and advances fell by 0.4% or HK\$13.6 million, demand for funding also fell. Accordingly, JCG Finance's customer deposits (inclusive of intra-group's deposits of HK\$49.3 million from the Company) decreased by 2.0% or HK\$28.5 million to HK\$1,384.9 million as at 30 June 2001, from HK\$1,413.4 million as at 31 December 2000. As at 30 June 2001, JCG Finance's capital adequacy ratio remained strong at 64.7%.

During the period under review, JCG Finance purchased a new branch premise with internally generated funds for relocating one of its branches to improve visibility and accessibility to its customers. Other than that, the Group did not incur any material capital expenditure commitment in the same period. Other than the release of fixed charges over certain of Winton Group's loans and advances, there were no significant changes in charges over the Group's assets when compared to that disclosed in the Company's audited 2000 financial statements.

During the first half of 2001, Winton Group's gross loans and advances contracted by HK\$296.5 million mainly due to a high level of early settlement of taxi financing loans. Accordingly, Winton Group's demand for funding also fell. During the first half of 2001, Winton Group repaid HK\$414.9 million to its banks and reduced its bank borrowings to HK\$350.0 million. Based on its total bank borrowings to shareholders' funds, Winton Group's gearing ratio improved to 0.35 as at 30 June 2001 from 0.78 as at 31 December 2000.

For the period under review, the Group's principal business were transacted and recorded in Hong Kong Dollar. During the same period, the Group neither engaged in any derivative activities nor committed to any financial instruments to hedge its balance sheet exposures.

Contingent Liabilities

Winton Group provides guarantees to its co-financing banks under the co-financing arrangements for taxi financing loans. At the end of June 2001, the guarantees remaining outstanding to the co-financing banks decreased by HK\$5.7 million to HK\$4.3 million from HK\$10.0 million as at the end of 2000.

Other than the above and those disclosed herein under the notes to the condensed consolidated financial statements, and those already reported in the Company's 2000 Annual Report, there were no material changes in the Group's contingent liabilities.

Human resources

The Group continues to recognise and reward its human resources similar to that disclosed in the Company's 2000 Annual Report. As at end of June 2001, the Group has a relatively stable staff force of over 500 people.

Prospects

Consumer loans market is expected to remain highly competitive and challenging in the second half of 2001. At the same time, the recovery of Hong Kong's economy is expected to remain slow and unemployment rate remains high, while personal bankruptcies are anticipated to continue to rise. In view of the anticipated difficult operating environment ahead, JCG Finance will adopt a stringent lending policy on its consumer loan business. Nevertheless, JCG Finance will continue to adopt an aggressive advertising strategy and promote its consumer loans to selected customer segments whilst increasing its customer base. JCG Finance will benefit from the lower cost of funding from lower interest rates contracted on its customer deposits in the second half of 2001.

Demand and competition for taxi financing loan among financial institutions is expected to be keen, and the decline in interest rates has boosted taxi trading and taxi financing/refinancing activities. Winton Group will continue to focus on referring taxi financing loans to its panels of financiers to generate commission income in return. In the light of improving market sentiment in the taxi industry and lower funding cost, the Group will gradually increase its taxi financing business whilst adopting a prudent and conservative approach in its financing activities.