



# JCG HOLDINGS LIMITED

## 日本信用保証集團\*

(Incorporated in Bermuda with limited liability)  
(Stock code: 626; Website: www.jcg.com.hk)

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

#### INTERIM RESULTS

The Board of Directors of JCG Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2005 with comparative figures as follows:

#### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		For the six months ended	
		30 June	
	Notes	2005	2004
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Interest income		368,470	349,131
Interest expense		(11,378)	(5,935)
<b>NET INTEREST INCOME</b>		<b>357,092</b>	<b>343,196</b>
Other operating income		87,945	89,507
Amortisation of negative goodwill		–	9,216
<b>OPERATING INCOME</b>		<b>445,037</b>	<b>441,919</b>
Operating expenses	3	(105,694)	(100,103)
<b>OPERATING PROFIT BEFORE IMPAIRMENT ALLOWANCES</b>		<b>339,343</b>	<b>341,816</b>
Impairment allowances for impaired assets		(77,202)	(155,014)
<b>PROFIT BEFORE TAX</b>		<b>262,141</b>	<b>186,802</b>
Tax	4	(45,358)	(36,170)
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>216,783</b>	<b>150,632</b>
<b>DIVIDENDS</b>	5	<b>247,715</b>	<b>1,273,965</b>
<b>EARNINGS PER SHARE (HK\$)</b>	6		
Basic		0.306	0.213
Diluted		N/A	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000 (Restated)
<b>ASSETS</b>			
Cash and short term placements		<b>352,715</b>	790,924
Placements with banks and financial institutions maturing between one and three months		<b>5,000</b>	5,000
Loans and advances	7	<b>3,282,863</b>	3,110,886
Other assets	8	<b>118,017</b>	130,109
Available-for-sale listed equity investment		<b>16,181</b>	16,744
Investment properties		<b>68,740</b>	68,740
Fixed assets		<b>88,887</b>	90,168
Land lease prepayment		<b>206,775</b>	207,881
<b>TOTAL ASSETS</b>		<b><u>4,139,178</u></b>	<b><u>4,420,452</u></b>
<b>EQUITY AND LIABILITIES</b>			
Customer deposits		<b>1,474,738</b>	1,720,381
Declared dividend		<b>247,715</b>	283,104
Other liabilities	9	<b>145,397</b>	121,144
<b>TOTAL LIABILITIES</b>		<b><u>1,867,850</u></b>	<b><u>2,124,629</u></b>
<b>EQUITY</b>			
Share capital		<b>70,776</b>	70,776
Reserves	11	<b>2,200,552</b>	2,225,047
<b>TOTAL EQUITY</b>		<b><u>2,271,328</u></b>	<b><u>2,295,823</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>4,139,178</u></b>	<b><u>4,420,452</u></b>

## CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

		For the six months ended	
		30 June	
		2005	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>
<i>Note</i>		<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>TOTAL EQUITY</b>			
Balance at beginning of period			
	As previously reported	<b>2,163,280</b>	3,304,281
	Adoption of new accounting policies	<b>132,543</b>	–
		<hr/>	<hr/>
	As restated	<b>2,295,823</b>	3,304,281
Employee share-based compensation reserve			
		<b>7,000</b>	–
Deficit on revaluation of available-for-sale listed equity investment not recognised in the condensed consolidated profit and loss account			
		<b>(563)</b>	(685)
Net profit from ordinary activities attributable to shareholders			
		<b>216,783</b>	150,632
Dividends declared on shares			
		<b>(247,715)</b>	(1,273,965)
		<hr/>	<hr/>
		<b>(30,932)</b>	(1,123,333)
Balance at end of period			
		<hr/> <b>2,271,328</b> <hr/>	<hr/> <b>2,180,263</b> <hr/>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. Statement of compliance and accounting policies

These interim financial statements have been prepared in accordance with the applicable requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), the Hong Kong Accounting Standard (“HKAS”) 34: Interim Financial Reporting and other relevant HKASs and Interpretations, the Hong Kong Financial Reporting Standards (“HKFRSs”) issued by The Hong Kong Institute of Certified Public Accountants (“HKICPA”), and the disclosure requirements of the “Interim Financial Disclosure by Locally Incorporated Authorised Institutions” under the Supervisory Policy Manuals issued by the Hong Kong Monetary Authority (“HKMA”).

The accounting policies and basis of preparation adopted in these interim financial statements are consistent with those adopted in the Company’s 2004 Annual Report except for the new adoption of HKFRSs and HKASs as disclosed in note 2 below.

### 2. Impact of new HKFRSs and HKASs

The HKICPA has issued a number of new HKFRSs, and HKASs and Interpretations, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the following HKFRSs and HKASs issued up to 30 June 2005 which are pertinent to its operations and relevant to these interim financial statements.

- HKAS 17 Leases
- HKAS 32 Financial Instruments: Disclosure and Presentation
- HKAS 36 Impairment of Assets
- HKAS 38 Intangible Assets
- HKAS 39 Financial Instruments: Recognition and Measurement
- HKAS 40 Investment Property
- HKFRS 2 Share-based Payments
- HKFRS 3 Business Combinations

These HKFRSs and HKASs prescribe new accounting measurement and disclosure practices. The major and significant effects of the adoption of these HKFRSs and HKASs on the Group’s accounting policies and on amounts disclosed in the interim financial statements are summarised as follows:

- (a) The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and impairment loss. Following the adoption of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The land lease prepayment is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at cost less accumulated depreciation and impairment loss. Previously included in fixed assets is the land element of the leasehold properties, which is now disclosed as “land lease prepayment”.
- (b) The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to the profit and loss account. Following the adoption of HKFRS 2, the fair value of share options at date of acceptance is amortised over the relevant vesting periods to the profit and loss account.
- (c) The adoption of HKFRS 3, HKAS 36 and HKAS 38 has resulted in a change in the accounting policy for goodwill. Prior to this, negative goodwill was amortised in profit and loss account on a straight-line basis over a period of not exceeding 5 years; and positive goodwill was eliminated against contributed surplus pursuant to transitional provisions. Following the adoption of HKFRS 3, HKAS 36 and HKAS 38, unamortised negative goodwill of HK\$55,297,000 arising from prior years’ acquisition of a subsidiary was derecognised by way of a corresponding adjustment to the opening retained earnings at 1 January 2005. Positive goodwill arising from prior years’ acquisition of a subsidiary continues to be eliminated against contributed surplus. The Group ceased amortisation of remaining negative goodwill and intangible asset from 1 January 2005, and there should be no further reversal of negative goodwill on disposal of a subsidiary.

- (d) The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Prior to this, specific provisions and general provisions are made for loans and advances by applying various percentages to the unsecured portion of loans classified as pass, special mention, substandard, doubtful and loss. Following the adoption of HKAS 32 and HKAS 39, the financial instruments have been classified into available-for-sale financial assets and loans and receivables. Available-for-sale financial assets are measured at fair value, and there is no financial impact on the balance sheet and profit and loss account. Loans and receivables are measured by amortised cost where the carrying amount of the asset is computed by discounting the future cash flows to the present value using the original effective interest rate. The previous approach of maintaining specific and general provisioning will be replaced with individual and collective impairment allowances after the adoption of HKAS 39. Where objective evidence of impairment exists, the recoverable amount of an asset is calculated by discounting the future cash flows to the present value using the original effective interest rate taking into account the value of collateral, if any. The difference between the carrying amount and the recoverable amount of the asset is recognised as impairment.
- (e) The adoption of HKAS 40 has resulted in a change in accounting policy for investment property. Prior to this, changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. After the adoption of HKAS 40, any changes in value of investment property are dealt with in the profit and loss account and there should be no revaluation reserve available for offsetting against revaluation deficits.
- (f) Effects of changes in the above accounting policies on the condensed consolidated balance sheet are as follows:

	Previous accounting policies HK\$'000	Effect of adopting				Total effect on adoption of HKFRSs & HKASs HK\$'000	Adoption of HKFRSs & HKASs HK\$'000
		HKAS 17 HK\$'000	HKFRS 2 HK\$'000	HKFRS 3, HKAS 36 & HKAS 38 HK\$'000	HKAS 32 & HKAS 39 HK\$'000		
<b>At 1 January 2005 (Unaudited)</b>							
Fixed assets	298,049	(207,881)	–	–	–	(207,881)	90,168
Land lease prepayment	–	207,881	–	–	–	207,881	207,881
Loans and advances	3,033,640	–	–	–	77,246	77,246	3,110,886
Negative goodwill	(55,297)	–	–	55,297	–	55,297	–
Intangible asset	126	–	–	–	–	–	126
Total equity:							
Share capital	70,776	–	–	–	–	–	70,776
Share premium account	1,209,593	–	–	–	–	–	1,209,593
Capital redemption reserve	829	–	–	–	–	–	829
Contributed surplus	96,116	–	–	–	–	–	96,116
Capital reserve	85,569	–	–	(85,569)	–	(85,569)	–
Translation reserve	428	–	–	(428)	–	(428)	–
Available-for-sale investment revaluation reserve	16,481	–	–	–	–	–	16,481
Regulatory reserve	–	–	–	–	75,686	75,686	75,686
Retained profits	683,488	–	–	141,294	1,560	142,854	826,342
	<u>2,163,280</u>	<u>–</u>	<u>–</u>	<u>55,297</u>	<u>77,246</u>	<u>132,543</u>	<u>2,295,823</u>

At 30 June 2005 (Unaudited)

Fixed assets	295,662	(206,775)	-	-	-	(206,775)	88,887
Land lease prepayment	-	206,775	-	-	-	206,775	206,775
Loans and advances	3,201,253	-	-	-	81,610	81,610	3,282,863
Negative goodwill	(46,081)	-	-	46,081	-	46,081	-
Intangible asset	113	-	-	13	-	13	126
Total equity:							
Share capital	70,776	-	-	-	-	-	70,776
Share premium account	1,209,593	-	-	-	-	-	1,209,593
Capital redemption reserve	829	-	-	-	-	-	829
Contributed surplus	96,116	-	-	-	-	-	96,116
Capital reserve	85,569	-	-	(85,569)	-	(85,569)	-
Translation reserve	428	-	-	(428)	-	(428)	-
Available-for-sale investment revaluation reserve	15,918	-	-	-	-	-	15,918
Employee share-based compensation reserve	-	-	7,000	-	-	7,000	7,000
Regulatory reserve	-	-	-	-	80,050	80,050	80,050
Retained profits	664,395	-	(7,000)	132,091	1,560	126,651	791,046
	<u>2,143,624</u>	<u>-</u>	<u>-</u>	<u>46,094</u>	<u>81,610</u>	<u>127,704</u>	<u>2,271,328</u>

- (g) Effects of changes in the above accounting policies on the condensed consolidated profit and loss account are as follows:

	Effect of adopting				Total effect on adoption of HKFRSs & HKASs HK\$'000
	HKAS 17 HK\$'000	HKFRS 2 HK\$'000	HKFRS 3, HKAS 36 & HKAS 38 HK\$'000	HKAS 32 & HKAS 39 HK\$'000	
Increase in employee share option benefits	-	(7,000)	-	-	(7,000)
Decrease in impairment allowances for impaired assets	-	-	-	4,364	4,364
Decrease in depreciation	(1,106)	-	-	-	(1,106)
Increase in amortisation of land lease prepayment	1,106	-	-	-	1,106
Decrease in amortisation of negative goodwill	-	-	(9,216)	-	(9,216)
Decrease in amortisation of intangible asset	-	-	13	-	13
Total increase/(decrease) in profit	<u>-</u>	<u>(7,000)</u>	<u>(9,203)</u>	<u>4,364</u>	<u>(11,839)</u>
Increase/(decrease) in basic earnings per share (HK\$)	<u>-</u>	<u>(0.0099)</u>	<u>(0.0130)</u>	<u>0.0062</u>	<u>(0.0167)</u>

### 3. Operating expenses

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Staff costs:		
Salaries and other staff costs	<b>44,010</b>	43,048
Pension contributions	<b>3,250</b>	3,226
Less: Forfeited contributions ( <i>note (a)</i> )	<b>(475)</b>	(74)
Net pension contributions	<b>2,775</b>	3,152
	<b>46,785</b>	46,200
Employee share option benefits ( <i>note (b)</i> )	<b>7,000</b>	–
	<b>53,785</b>	46,200
Other operating expenses:		
Operating lease rentals on leasehold buildings	<b>9,878</b>	10,035
Depreciation	<b>2,010</b>	2,716
Amortisation of land lease prepayment	<b>1,106</b>	1,415
Amortisation of intangible asset	–	13
Auditors' remuneration	<b>1,061</b>	721
Amortisation and write off of commission expenses	<b>102</b>	2,855
Write back for other impaired assets	<b>(48)</b>	(30)
Administrative and general expenses	<b>8,695</b>	9,123
Others	<b>29,105</b>	27,055
	<b>105,694</b>	100,103

#### Notes:

- (a) As at 30 June 2005, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2004: Nil). The current period credits arose in respect of staff who left the scheme during the period.
- (b) The employee share option benefits are preliminary estimate of fair value of share options at the date of acceptance amortised over expected vesting periods. The periods and terms open to directors and employees for exercise of share options have yet to be determined up to the date of interim results announcement. The vesting periods for the exercise of share options will be determined when the Company gives notification of the exercise periods. For the interim period, the directors and employees were unable to exercise their share options as the Company did not give any notification to exercise the share options. It will be inappropriate to input data based on guesstimates to the parameters of popular option pricing models to compute the share option value. Upon determination of vesting periods by the Company, the details of the share option value will be disclosed accordingly in due course. Therefore, the basis and the amount disclosed herein are subject to changes in the second half of 2005.

#### 4. Tax

	For the six months ended 30 June	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Hong Kong:		
Current tax charge	46,800	46,053
Under provisions in prior years	–	2,998
Deferred tax income	(1,442)	(12,881)
	<u>45,358</u>	<u>36,170</u>

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	For the six months ended 30 June			
	2005 HK\$'000 (Unaudited)	%	2004 HK\$'000 (Unaudited)	%
Hong Kong:				
Profit before tax	<u>262,141</u>		<u>186,802</u>	
Tax at the applicable tax rate	45,875	17.5	32,690	17.5
Estimated tax effect of net (income)/ expense that is not (taxable)/deductible	(520)	(0.2)	255	0.1
Adjustments in respect of current tax of previous periods	–	–	2,998	1.7
Estimated tax losses from previous periods utilised	(447)	(0.2)	–	–
Estimated tax losses not recognised	450	0.2	227	0.1
Tax charge at the Group's effective rate	<u>45,358</u>	<u>17.3</u>	<u>36,170</u>	<u>19.4</u>

#### 5. Dividends

	For the six months ended 30 June			
	2005 HK\$ per ordinary share	2004	2005 HK\$'000	2004 HK\$'000
Interim dividend	0.06	0.05	42,465	35,388
Special dividend	0.29	1.75	205,250	1,238,577
	<u>0.35</u>	<u>1.80</u>	<u>247,715</u>	<u>1,273,965</u>

## 6. Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK\$216,783,000 (2004: HK\$150,632,000) and the weighted average number of 707,758,412 (2004: 707,758,412) ordinary shares in issue during the period.

### (b) Diluted earnings per share

Diluted earnings per share for the six months ended 30 June 2005 has not been presented as the exercise of share options does not have a material dilutive effect on the basic earnings per share.

Diluted earnings per share for the six months ended 30 June 2004 has not been presented as no diluting events existed during the period.

## 7. Loans and advances

### (a) Advances to customers and other accounts

	<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000 (Restated)
Loans and advances to customers	3,424,577	3,249,726
Interest receivable	<u>42,627</u>	<u>45,129</u>
	<b>3,467,204</b>	3,294,855
Impairment allowances for impaired assets:		
Individual impairment allowances	<u>(76,571)</u>	(79,180)
Collective impairment allowances	<u>(107,770)</u>	(104,789)
	<b>(184,341)</b>	(183,969)
	<b><u>3,282,863</u></b>	<b><u>3,110,886</u></b>

Certain loans and advances were secured by properties, taxi cabs and taxi licences.

The maturity profile of loans and advances to customers as at 30 June 2005 and 31 December 2004 is analysed by the remaining periods to their contractual maturity dates as follows:

	<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000
Repayable:		
On demand	21,914	21,929
Within three months or less	483,888	487,806
Within one year or less but over three months	1,127,206	1,116,740
Within five years or less but over one year	1,150,933	1,043,277
After five years	426,739	369,050
Undated	<u>213,897</u>	<u>210,924</u>
	<b><u>3,424,577</u></b>	<b><u>3,249,726</u></b>

## (b) Gross amount of impaired loans and advances

	<b>30 June 2005</b>		31 December 2004	
	<b>Gross amount HK\$'000 (Unaudited)</b>	<b>Percentage of total loans and advances</b>	Gross amount HK\$'000 (Restated)	Percentage of total loans and advances
Gross impaired loans and advances				
Overdue for:				
Six months or less but over three months	<b>52,119</b>	<b>1.6</b>	48,870	1.5
One year or less but over six months	<b>24,855</b>	<b>0.7</b>	25,133	0.8
Over one year	<b>52,227</b>	<b>1.5</b>	52,163	1.6
	<b>129,201</b>	<b>3.8</b>	126,166	3.9
Rescheduled and overdue for:				
One year or less but over six months	–	–	23	–
Over one year	<b>60,364</b>	<b>1.8</b>	61,364	1.9
	<b>60,364</b>	<b>1.8</b>	61,387	1.9
Total impaired loans and advances	<b>189,565</b>	<b>5.6</b>	187,553	5.8
Impairment allowances for impaired loans:				
Individual impairment allowances	<b>(76,571)</b>		(79,180)	
Collective impairment allowances	<b>(93,849)</b>		(91,027)	
	<b>(170,420)</b>		(170,207)	
	<b>19,145</b>		17,346	

(c) Impairment allowances for impaired assets

		<b>30 June 2005</b>	31 December 2004
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	<b>(Restated)</b>
Balance at beginning of period/year		<b>183,969</b>	308,054
Recoveries		<b>29,698</b>	46,609
Charge for the period/year		<b>106,900</b>	219,951
Amounts released		<b>(29,698)</b>	(46,609)
Net charge to the condensed consolidated profit and loss account		<b>77,202</b>	173,342
Amounts written off		<b>(106,528)</b>	(266,790)
Adoption of HKFRSs and HKASs	2	<b>184,341</b>	261,215
		<b>–</b>	(77,246)
Balance at end of period/year		<b>184,341</b>	183,969

(d) Repossessed assets

The amount of repossessed assets was less than 1% (2004: less than 1%) of total gross loans and advances and was immaterial to the Group. Accordingly, the amount was not separately disclosed.

**8. Other assets**

	<b>30 June 2005</b>	31 December 2004
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	
Inventories	<b>23,334</b>	29,649
Interest receivable from banks	<b>104</b>	17
Other debtors, deposits and prepayments	<b>74,423</b>	79,907
Deferred expenditure	<b>102</b>	45
Intangible asset	<b>126</b>	126
Deferred tax assets	<b>19,928</b>	20,365
	<b>118,017</b>	130,109

Other assets are shown net of provisions.

Included in other debtors, deposits and prepayments were other receivables of HK\$66,746,000 (2004: HK\$69,386,000), which were secured by taxi licences and a property. Full provision has been made for the unsecured portion.

As the trade receivables are immaterial to the Group, the maturity profile thereof has not been disclosed.

## 9. Other liabilities

	<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000
Creditors, accruals and interest payable	57,452	68,283
Tax payable	76,486	39,559
Provision for long service payments	4,304	4,268
Deferred tax liabilities	7,155	9,034
	<u>145,397</u>	<u>121,144</u>

As the trade payables are immaterial to the Group, the maturity profile thereof has not been disclosed.

## 10. Employee share-based compensation reserve

	<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000
At beginning of period/year	–	–
Employee share option benefits	7,000	–
	<u>7,000</u>	<u>–</u>
At end of period/year	<u>7,000</u>	<u>–</u>

- (a) Share options are granted to the directors and employees of the Company and its subsidiaries to subscribe for shares in the Company in accordance with the terms and conditions of the Share Option Scheme (the “Scheme”) approved by the shareholders of the Company at the annual general meeting on 28 February 2002 and further amended by shareholders of Company at the annual general meeting on 9 March 2005. Each share option gives the holder the right to subscribe for one ordinary share.

Under the Scheme of the Company, 66,526,000 share options were granted on 18 May 2005, of which 65,976,000 share options were accepted by eligible directors and employees. The share options are exercisable during certain periods as notified by the Company from time to time before the expiry on 9 June 2015.

The Group is not legally bound or obliged to repurchase or settle the options in cash.

- (b) Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	<b>For the six months ended 30 June 2005</b>		For the year ended 31 December 2004	
	Average exercise price per share HK\$ (Unaudited)	Number of options	Average exercise price per share HK\$	Number of options
At beginning of period/year	–	–	–	–
Granted	7.29	65,976,000	–	–
	<u>7.29</u>	<u>65,976,000</u>	<u>–</u>	<u>–</u>
At end of period/year	<u>7.29</u>	<u>65,976,000</u>	<u>–</u>	<u>–</u>

Remaining contractual life of the 65,976,000 outstanding options was 9.95 years as at 30 June 2005.

At 30 June 2005, all the 65,976,000 outstanding options (2004: Nil) were exercisable at a weighted average exercise price of HK\$7.29 (2004: Nil).

During the six months ended 30 June 2005 and 2004, no share options were exercised.

- (c) The share option value was not disclosed herein as the periods and terms open to directors and employees for exercise of share options have yet to be determined up to the date of interim results announcement. The vesting periods for the exercise of share options will be determined when the Company gives notification of the exercise periods. For the interim period, the directors and employees were unable to exercise their share options as the Company did not give any notification to exercise the share options. It will be inappropriate to input data based on guesstimates to the parameters of popular option pricing models to compute the share option value. Upon determination of vesting periods by the Company, the details of the share option value will be disclosed accordingly in due course.
- (d) Had all the outstanding employee share options been fully exercised on 30 June 2005, the Group would have received proceeds of HK\$480,965,040. The market value of the shares issued based on the closing price of HK\$8.05 per share on that date would have been HK\$531,106,800. The directors and employees concerned under the Scheme would have made a gain of HK\$0.76 per share or, in aggregate, HK\$50,141,760.

## 11. Reserves

	<b>30 June 2005 HK\$'000 (Unaudited)</b>	31 December 2004 HK\$'000 (Restated)
Share premium account	<b>1,209,593</b>	1,209,593
Capital redemption reserve	<b>829</b>	829
Contributed surplus	<b>96,116</b>	96,116
Capital and translation reserve	–	–
Available-for-sale investment revaluation reserve	<b>15,918</b>	16,481
Employee share-based compensation reserve	<b>7,000</b>	–
Regulatory reserve:		
At beginning of period/year	<b>75,686</b>	–
Prior year adjustments*	–	75,686
Transfer from retained profits	<b>4,364</b>	–
At end of period/year	<b>80,050</b>	75,686
Retained profits:		
At beginning of period/year	<b>826,342</b>	1,827,668
Net profit for the period/year	<b>216,783</b>	412,889
Dividend declared and paid	<b>(247,715)</b>	(1,557,069)
Transfer to regulatory reserve	<b>(4,364)</b>	–
Prior year adjustments*	–	142,854
At end of period/year	<b>791,046</b>	826,342
	<b><u>2,200,552</u></b>	<b><u>2,225,047</u></b>

\* *Note:* The prior year adjustments are detailed in note 2 to the interim financial statements following the adoption of HKFRSs and HKASs.

## 12. Operating lease arrangements

As at 30 June 2005, the Group had total future minimum lease rental payables under non-cancellable operating leases falling due as follows:

	<b>30 June 2005</b> <i>HK\$'000</i> <b>(Unaudited)</b>	31 December 2004 <i>HK\$'000</i>
Within one year	<b>16,349</b>	15,134
In the second to fifth years, inclusive	<b>13,818</b>	4,776
	<b><u>30,167</u></b>	<b><u>19,910</u></b>

## 13. Commitments and contingent liabilities

### (a) Commitments

	<b>30 June 2005</b>		31 December 2004	
	<b>Contractual amount</b> <i>HK\$'000</i> <b>(Unaudited)</b>	<b>Risk weighted amount</b> <i>HK\$'000</i> <b>(Unaudited)</b>	Contractual amount <i>HK\$'000</i>	Risk weighted amount <i>HK\$'000</i>
Capital commitments contracted for, but not provided in the financial statements	–	–	330	330
Undrawn loan facilities with an original maturity of under one year or which are unconditionally cancellable	<b>1,338</b>	–	1,483	–
	<b><u>1,338</u></b>	<b><u>–</u></b>	<b><u>1,813</u></b>	<b><u>330</u></b>

As at 30 June 2005 and 31 December 2004, the Company had no material outstanding commitments.

### (b) Contingent liabilities

As at 30 June 2005 and 31 December 2004, the Company and the Group had no material contingent liabilities.

During the six months ended 30 June 2005 and the year ended 31 December 2004, the Company and the Group had no derivative activities.

## 14. Comparative figures

Due to the adoption of new HKFRSs and HKASs for the current period, the accounting treatment and presentation of certain items on the financial statements have been revised to comply with the new requirements. Accordingly, certain figures have been adjusted to reserves in prior year. Also, certain comparative figures have been reclassified to conform with the current period's presentation.



(c) Advances to customers by industry sectors and basis of classification

	<b>30 June 2005</b> <i>HK\$'000</i>	31 December 2004 <i>HK\$'000</i>
Loans for use in Hong Kong		
Industrial, commercial and financial:		
Property investment	<b>57,508</b>	58,442
Wholesale and retail trade	–	93
Manufacturing	<b>2,028</b>	1,713
Licensed public vehicles	<b>511,753</b>	446,482
Individuals:		
Loans for the purchase of residential properties	<b>23,544</b>	27,448
Others	<b>2,750,792</b>	2,635,596
Loans for use outside Hong Kong	<b>78,952</b>	79,952
	<b><u>3,424,577</u></b>	<b><u>3,249,726</u></b>

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.

**Capital adequacy and liquidity ratios of JCG Finance Company, Limited (“JCG Finance”)**

	<b>30 June 2005</b> <b>Unadjusted ratio</b>	31 December 2004 Unadjusted ratio
Capital adequacy ratio	<b><u>44.22%</u></b>	<b><u>38.69%</u></b>
	<b>For the six months ended 30 June</b> <b>2005</b>	<b>2004</b>
Average liquidity ratio	<b><u>77.89%</u></b>	<b><u>76.07%</u></b>

The above unadjusted capital adequacy ratio and average liquidity ratio for the period 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 Public Financial Limited (formerly known as “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.

## **INTERIM AND SPECIAL DIVIDENDS**

The Board of Directors has on 29 June 2005 declared an interim dividend of HK\$0.06 and a special dividend of HK\$0.29 (2004: interim dividend of HK\$0.05 and a special dividend of HK\$1.75) per share payable on 30 September 2005 to shareholders whose names appear on the register of members of the Company on 22 September 2005.

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members will be closed from 20 September 2005 to 22 September 2005, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend and special dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 16 September 2005.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

#### *Business and corporate development*

In the first half of year 2005, Hong Kong's economy gained growth momentum led mainly by the growth in the US's and China's economy, strong performance in the local property market and growth in consumer spending as consumer sentiment and confidence continued to improve locally. With continued growth in the economy, Hong Kong's unemployment rate improved further to 5.8% at the end of May 2005.

During the period under review, competition for the Group's core business in consumer loans and taxi financing loans was keen amongst financial institutions, while trading volume of taxi licences remained low. Despite such a competitive and challenging business environment, the Group's total gross loans and advances after bad debts written off of HK\$106.5 million increased moderately by 5.4% or HK\$174.9 million to HK\$3,424.6 million as at 30 June 2005 from HK\$3,249.7 million as at the end of December 2004. The loan growth was mainly from the consumer loans and taxi financing loans.

For the six months ended 30 June 2005, the Group recorded a profit after tax of HK\$216.8 million representing an increase of 43.9% or HK\$66.2 million when compared to HK\$150.6 million in the corresponding period of last year. The Group's earnings per share for the six months ended 30 June 2005 improved to HK\$0.306 per share. The directors have declared the payment of a special dividend of HK\$0.29 per share together with an interim dividend of HK\$0.06 per share on 29 June 2005. The total dividend of HK\$0.35 per share is payable on 30 September 2005.

## *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 corresponding period in the previous year, the Group's operating income from personal and commercial lending increased marginally by 2.8% or HK\$12.1 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 54.2% or HK\$93.5 million mainly due to the decrease in impairment allowances for impaired assets in the same period.

## **Financial Review**

### *Profit and loss analysis*

The increase in profit after tax in the first half of 2005 when compared to the corresponding period in the previous year was mainly attributed to the reduction in impairment allowances for impaired assets and the increase in net interest income in the period under review.

During the period under review, the Group's impairment allowances for impaired assets decreased by 50.2% or HK\$77.8 million to HK\$77.2 million due to reduction in bad debts.

The Group's net interest income increased by 4.0% or HK\$13.9 million to HK\$357.1 million as compared to the corresponding period in the previous year. Interest income increased by 5.5% or HK\$19.3 million to HK\$368.5 million mainly from growth in loans and advances. Interest expense increased by 91.7% or HK\$5.4 million to HK\$11.4 million mainly due to the growth in average customer deposits during the period over the corresponding period in the previous year after the distribution of the special dividend in September 2004, and increase in interest rates offered on customer deposits. During the period under review, the Group's customer deposits from a connected party increased by HK\$469.6 million when compared to the end of June 2004.

The Group's non-interest income decreased by 10.9% or HK\$10.8 million to HK\$87.9 million mainly due to nil amortisation of negative goodwill since the adoption of new accounting standards, and the decrease in fee income from lower volume of refinancing loans in the first half of 2005.

During the period under review, the Group's operating expenses increased by 5.6% or HK\$5.6 million to HK\$105.7 million when compared to the corresponding period in the previous year. The Group continued to exercise effective control over its operating costs and maintained a low cost to operating income ratio of 23.7% for the six months ended 30 June 2005.

### *Contingent liabilities and commitments*

There were no material contingent liabilities of the Group at the end of the period under review and the Group did not incur any material capital expenditure commitment during the period under review. There were no significant changes in charges over the Group's assets when compared to that disclosed in the Company's 2004 Annual Report. 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 are essentially the same as that reported in the Company's 2004 Annual Report.

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 earnings. The average liquidity ratio of JCG Finance, a wholly-owned subsidiary of the Company, stood high at 77.89% during the period under review. The Company has declared the payment of a special dividend of HK\$0.29 per share and an interim dividend of HK\$0.06 per share. The total dividend of HK\$0.35 per share amounting to HK\$247.7 million will be payable to the shareholders on 30 September 2005.

### *Asset quality and capital adequacy*

With improvement in asset quality, the impaired loan ratio of the Group improved further to 5.6% as at 30 June 2005 when compared to 5.8% as at 31 December 2004. The consolidated capital adequacy ratio of JCG Finance strengthened further by 5.53% to 44.22% at the end of June 2005 when compared to 38.69% at the end of December 2004.

### *Human resources management*

The objectives of the Group's human resources management are essentially the same as that disclosed in the Company's 2004 Annual Report. To retain, motivate and enhance staff morale, share options were granted to employees in May 2005 pursuant to the Share Option Scheme approved on 28 February 2002. As at the end of June 2005, the Group had a staff force of about 460 people. For the six months ended 30 June 2005, the Group's staff costs amounted to HK\$53.8 million.

## **Prospects**

For the second half of year 2005, the economic growth of Hong Kong is expected to remain relatively stable despite rising interest rates and possible slowdown in the US economy. The competition for consumer loan business in Hong Kong is expected to intensify further with financial institutions having full access and benefits from sharing positive credit data for consumer loans.

To face such competition and challenges, the Group will remain focused on selected market segments to expand its customer base and market share, particularly in consumer loans through aggressive marketing and promotional activities. The Group will also continue to strengthen its credit risk management through stringent credit assessment procedures to ensure good loan asset quality.

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

## **PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 June 2005.

## **CORPORATE GOVERNANCE**

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the 2005 interim financial statements, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except for the deviations in respect of the service term and rotation of directors under code provisions A.4.1 and A.4.2 of the Listing Rules.

Under code provisions A.4.1 and A.4.2 of the Listing Rules, (a) non-executive directors should be appointed for specific terms and subject to re-election, and (b) all directors appointed to fill casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

According to the Bye-laws of the Company, one-third of the directors for the time being shall retire from office by rotation at each annual general meeting. The directors to retire by rotation shall be those who wish to retire and do not wish to offer themselves for re-election, those who were appointed by the Board during the year to fill casual vacancy and those who have been longest in office since their last re-election or appointment. However, as between directors who became or were last re-elected on the same day, those to retire shall be determined by drawing lots (unless they otherwise agree among themselves). As there are nine directors, and one-third of them shall retire subject to rotation, and barring unforeseen resignation/retirement during a year, each director is effectively appointed under an average term of 3 years. Any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next annual general meeting of the Company and shall retire and be subject to re-election.

The Board will review in the current year the relevant Bye-laws and propose any amendment, if necessary, to ensure compliance with the Code on Corporate Governance Practices as set out in the Listing Rules.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code of the Listing Rules. Following specific enquiry by the Company, all directors confirmed that they have complied with the required standards as set out in the Model Code throughout the period under review.

## **REVIEW BY AUDIT COMMITTEE**

The 2005 interim financial statements have been reviewed by the Company's Audit Committee which comprises three Independent Non-executive Directors and one Non-executive Director.

By Order of the Board  
**Tan Sri Dato' Sri Dr. Teh Hong Piow**  
*Chairman*

Hong Kong, 15 July 2005

*As at the date of this announcement, the Board of Directors of the Company comprises Tan Sri Dato' Sri Dr. Teh Hong Piow, Datuk Tay Ah Lek, Mr. Chang Kat Kiam and Mr. Wong Kong Ming as Non-executive Directors, Mr. Tan Yoke Kong and Mr. Lee Huat Oon as Executive Directors, and Dato' Yeoh Chin Kee, Mr. Geh Cheng Hooi, Paul and Mr. Lee Chin Guan as Independent Non-executive Directors.*

*\* For identification purpose only*

“Please also refer to the published version of this announcement in China Daily”