

# CHAIRMAN'S STATEMENT

## INTERIM RESULTS AND DIVIDEND

For the half year ended 30th June, 2001, the Group reported a net profit of HK\$38.5 million, a significant improvement compared to the HK\$1.2 million recorded in the same period last year. Turnover also increased by 13% from HK\$832 million to HK\$941 million. Improvement in overall performance was mainly due to the reduction in operating loss in the department store business and satisfactory contributions from the Group's automobile business conducted in the United States.

In view of the satisfactory results achieved, the directors have decided to pay an interim dividend of 4 cents per share (2000: Nil), absorbing a total amount of HK\$11,813,000 (2000: Nil). The interim dividend will be paid on 29th October, 2001 to shareholders whose names appear on the Register of Members of the Company on 19th October, 2001. The Register of Members will be closed from 15th October, 2001 to 19th October, 2001 both dates inclusive, during which period no share transfers will be accepted.

To qualify for the interim dividend, transfers to be dealt with must be lodged at the Company's Share Registrars, Progressive Registration Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong before 5:00 p.m. on 12th October, 2001.

## LIQUIDITY AND FINANCIAL RESOURCES

### Overall Financial Position

The shareholders' equity as at 30th June, 2001 was HK\$4.5 billion, a decrease of 1.1% over that at 31st December, 2000. With cash and marketable securities at 30th June, 2001 of about HK\$449.6 million as well as available banking facilities, the Group has sufficient liquidity to meet its current commitments and working capital requirements.

### Borrowings and Charge on Group Assets

At 30th June, 2001, the Group's total borrowings amounted to HK\$948.3 million, a decrease of about HK\$169.5 million as compared to that at 31st December, 2000. The proportion of borrowings repayable after two years but within five years to the total borrowings at 30th June, 2001 was 91.1%. In view of this maturity profile of the borrowings, the repayment pressure is low. Certain assets comprising principally property interests at book value of HK\$3.5 billion have been pledged to banks as collateral security for banking facilities to the extent of HK\$1.5 billion.

### Gearing Ratio

The gearing ratio, which is computed from the total borrowings of the Group divided by shareholders' funds of the Group as at 30th June, 2001 was 21.1% as compared with 24.6% at 31st December, 2000.

### Funding and Treasury Policies

The Group continues to adopt a prudent funding and treasury policy which has not changed materially from the information disclosed in the 2000 annual report.

# CHAIRMAN'S STATEMENT

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## Capital commitments and Contingent liabilities

At 30th June, 2001, the total amount of the Group's capital expenditure commitments and contingent liabilities was insignificant.

## HALF YEAR BUSINESS REVIEW

### DEPARTMENT STORE OPERATIONS

During the first six months of 2001, the local economy went into a deflationary recession mode. Unemployment remained high while consumer confidence remained negative despite a series of interest rate cuts. This adverse situation was compounded by the continuous outflow of consumer spending by Hong Kong shoppers up north across the border to the tune of HK\$100 million a day as estimated by the Hong Kong Retail Management Association. This further added to the gloom and doom that most Hong Kong retailers face. However, in spite of all these bad tidings, our department stores managed to reduce the operating loss by 30.7% to HK\$65.8 million for the reporting period (2000: HK\$95 million). This was due mainly to the efforts of our retail team in keeping operating costs in check, pushing aggressive promotional campaigns and closing down two unprofitable branch stores located in Mei Foo and Tsimshatsui East during the first half of this year. Despite the closure of these unprofitable branches, we managed to increase our local business turnover by about 18% as compared to the same period last year. This improvement was mainly due to contributions from our new wing on *Plus* flagship store at 345 Nathan Road, Kowloon, which opened in the second half of last year. Our department store operations in the PRC continued to be discouraging. We have at the end of August 2001 terminated our operation in Wuhan as it was no longer viable. To comply with the new SSAP 31 regarding impairment of assets, we have recognized a sum of HK\$11.9 million as impairment loss for our business assets at the Tianjin store.

### PROPERTY INVESTMENTS

Rental income from our local commercial properties was affected by the trend reversal in office leasing activities brought on by weaker demand in the first half of the year. However, we have managed to keep the occupancy rate relatively high to around 90% by offering our tenants favourable leasing or renewal terms and keeping the rental competitive at market levels. We anticipate this would provide for a more steady rental income stream to weather the uncertainties ahead. Despite almost full occupancy for our commercial properties in Melbourne, Australia, our rental income when translated back to Hong Kong currency suffered a 20% decline as compared to the same period last year. This was mainly the result of a persistently weak Australian currency. Overall, the Group still managed to record HK\$133 million operating profits from our property investments.

### AUTOMOBILE DEALERSHIP BUSINESS

The Group's investment in the automobile dealership business in the United States continued to report healthy results in the first half of 2001 despite the apparent slow down of the United States economy. Our share of profits after tax from this associate amounted to about HK\$30.6 million for the reporting period.

# CHAIRMAN'S STATEMENT

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## OTHERS

The Group's investments in equity markets locally and abroad remained lack luster during the first half of 2001 as a result of a worldwide deterioration in equity markets. However, with our prudent management, the Group's equity investment portfolios suffered only a slight drop of about 0.5% in value when compared to the position as at 31st December, 2000. Our investment in the bond market remained relatively stable. An exchange loss of about HK\$10 million was incurred mainly due to unrealized exchange loss arising from the Group's New Zealand and Australian currency deposits.

## STAFF

As at 30th June, 2001, the Group had a total staff of 1,683 (31/12/00: 1,757) of which 576 (31/12/00: 575) were employed in the PRC for the Group's department store business. The Group's remuneration policies, bonus schemes, Mandatory Provident Fund schemes, etc., have not changed materially from the information disclosed in the 2000 annual report.

## OUTLOOK FOR THE REMAINDER OF 2001

Due to the global economic downturn, the remainder of 2001 will be a very challenging and trying period. We expect our local economy will continue to deteriorate thus further affecting our retail and property investment operations. With the present talks about a general consumption tax in Hong Kong and a 24 hours opening of the border check points with the Mainland; the already difficult business environment that we are now faced with may worsen if such policies were to be implemented. Barring further material weakening in the Australian currency, we expect our Australian property investments in Melbourne to perform satisfactorily. Our investments in the United States will be put to the test if the United States economy cannot check its slow down after the numerous interest rate reductions thus far. Unfortunately, the recent horrific terrorist attacks on America and the reprisal actions that the United States and her allies may take will bring further uncertainties to her economic recovery in the near term and those of the rest of the world. Overall, the remainder of 2001 will be a very taxing period for your Group. Your management will concentrate its efforts in realigning its business and operations to meet the challenge ahead. With the management's resolve and the Group's financial ability, we are confident that the Group will be able to ride out this period of uncertainty.

**Karl C. Kwok**  
Chairman

Hong Kong, 17th September, 2001.