CHAIRMAN'S STATEMENT

FINANCIAL REVIEW

2002 RESULTS AND DIVIDEND

For the year ended 31st December, 2002, despite the decline in the Group's overall turnover by 7.4% to HK$1,726.3 million (2001: HK$1,863.7 million), the Group was able to record a profit attributable to shareholders of HK$242.3 million, a substantial improvement of 163.7% when compared to the HK$91.9 million reported last year. Earnings per share increased to 82.0 HK cents per share from the 31.1 HK cents per share achieved in the preceding year. These improved results were due mainly to the gain on the disposal of certain investment properties in Australia, the share of the profit on the disposal of properties in the United States by an associate, the favourable change in unrealized exchange difference on the Group's exposure to the Australian and New Zealand currencies, an overall gain on investment in securities, and a significant reduction in loss of the Group's department stores business.

In respect of 2002, your directors have recommended a final dividend of 26 HK cents (2001: 12 HK cents) per share payable to shareholders on the Register of Members on 12th June, 2003 (Hong Kong time) which, together with the interim dividend of 17 HK cents (2001: 4 HK cents) per share paid on 28th October, 2002, makes a total payment of 43 HK cents (2001: 16 HK cents) per share for the whole year. Dividend warrants will be sent to shareholders on 23rd June, 2003 (Hong Kong time). The Register of Members will be closed from 5th June, 2003 to 12th June, 2003 (Hong Kong time), both dates inclusive, during which period no share transfer will be effected. To qualify for the final dividend, transfers to be dealt with must be lodged at the Company's Share Registrars, Progressive Registration Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong before 4:00 p.m. on 3rd June, 2003 (Hong Kong time).

LIQUIDITY AND FINANCIAL RESOURCES

Overall Financial Position

The shareholders' equity as at 31st December, 2002 was HK$4.4 billion, a decrease of 1.8% compared with last year. With cash and marketable securities at 31st December, 2002 of about HK$806.2 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 31st December, 2002, the Group's total borrowings amounted to HK$806.4 million, a decrease of about HK$120.0 million as compared to last year. The proportion of borrowings repayable after two years but within five years to the total borrowings at 31st December, 2002 was 86.3%. 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$3.0 billion have been pledged to banks as collateral security for banking facilities to the extent of HK$1.0 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 31st December, 2002, was 18.4% as compared with 20.7% last year.

Funding and Treasury Policies

The Group adopts a prudent funding and treasury policy. To minimise exposure on foreign exchange fluctuations, the Group's borrowings are primarily denominated in Australian, New Zealand and United States currencies to directly tie in with the Group's businesses in the relevant countries. Hence, the foreign exchange exposure is limited to the net investments in these countries at 31st December, 2002 of approximately HK$1.1 billion (2001: HK$1.0 billion).

The Group's borrowings are on a floating rate basis. For overseas borrowings, when appropriate and at times of interest rate uncertainty or volatility, hedging instruments including swaps and forwards are used to assist in the Group's management of interest rate exposure. The Group's cash and bank balances are mainly denominated in Hong Kong, United States, Australian and New Zealand currencies. The use of financial instruments for hedging the Group's interest rate and foreign exchange exposure is closely monitored.

Capital Commitments and Contingent Liabilities

At 31st December, 2002, the Group's capital expenditure commitments were HK$7.9 million (2001: HK$0.3 million). At 31st December, 2002, the Group's contingent liabilities were insignificant.

BUSINESS REVIEW

Department Store Operations

During the year under review, the Hong Kong economy continued to be adversely affected by deflation, high unemployment and weak consumer spending. As a result of the poor business environment and also due to the closure of two unprofitable branch stores at Mei Foo and Tsimshatsui East during the first half of 2001 and the closure of our unprofitable Tianjin branch store, our remaining department store in the PRC, in May of 2002, our turnover decreased by 6.8% to HK$1,445.5 million (2001: HK$1,551.2 million). However, on existing store basis, the turnover actually grew by around 1.8%. Our more proactive and aggressive promotional and sales campaigns had helped to prevent a more serious drop in turnover. Overall, the operating loss in this sector of business was reduced by 55.5% to HK$52.7 million (2001: HK$118.3 million). The closure of unprofitable branches, stringent cost control, the extra efforts by our retail staff in improving sale and the merchandising mix and in streamlining our retail operations had all contributed to the reduction of the loss.

Property Investments

The downward spiral in local office rents during 2002 continued to put pressure on our office property leasing activities. Our rental income from commercial property investments in Hong Kong decreased by about 10.3% when compared to last year. However, the Group still managed to maintain an overall occupancy rate of around 90% during the year under review. The Group had during the year disposed of some of its commercial property holdings in Melbourne, Australia (the particulars of which had been fully described in the Discloseable Transaction circular to shareholders dated 26th March, 2002) and realized a pre-tax profit of around HK$48.7 million translated at an average exchange rate for the year. The remaining commercial property investments in Melbourne continued to perform well and will continue to contribute to the rental income of the Group.

Automobile Dealership Business

The Group's investment in the automobile dealership business conducted by an associate in the United States remained strong and contributed to the Group's profit during the year despite the apparent slow down of her domestic economy. The Group also shared a pre-tax profit on the disposal of certain properties by this associate of about HK$39.1 million.

Others

The Group recorded a net exchange gain of HK$25.0 million as compared to a net exchange loss of HK$8.3 million last year. This was due mainly to the Group's exposure to the Australian and New Zealand currencies as the exchange rates for these two currencies had moved up by 10.2% and 26.3% respectively by the year end since 1st January, 2002. The Group also wrote back an impairment loss on non-trading securities of HK$5.8 million and recorded a realized net gain on non-trading securities of HK$21.6 million in 2002, while there was a net charge of impairment loss on non-trading securities of HK$3.9 million in 2001.

STAFF

As at 31st December, 2002, the Group had a total staff of 1,095 (2001: 1,663). The decrease in the number of staff employed was due to the cessation of department store operation in Tianjin. The aggregate emoluments of all employees (excluding directors' emoluments) amounted to approximately HK$185.7 million (2001: HK$214.3 million). The Group will continue to maximize its human resources. The Group provides employee benefits such as staff insurance, staff discount purchase, housing scheme, Mandatory Provident Fund ("MPF") Scheme and MPF exempted defined contribution schemes. Discretionary management bonus is granted to senior managers and preferential staff loan for defined purposes is offered to managerial staff.

In addition to basic salaries, the Group's retail division provides sales incentive gratuities to sales operation staff in order to motivate their sales efforts. The Group's retail division also formulates and launches in-house training programmes for various levels of staff to maintain and upgrade service quality and managerial capacities. The Group also provides external training sponsorship and tuition assistance.

CHAIRMAN'S STATEMENT

(Continued)

OUTLOOK FOR 2003

We anticipate that our retail operations and local rental income will continue to be affected by the poor business environment in Hong Kong. The recent outbreak of the US - Iraq war and the atypical pneumonia virus attack in Hong Kong will cast further uncertainties on any prospects of an economic recovery. The latter has already caused a significant adverse impact on our retail turnover. The contribution from our investment properties in Melbourne, Australia is expected to perform satisfactorily while the contribution from our automobile dealership associate in the United States may come under pressure from the prolonged economic slowdown in the United States. We envisage that the business environment in Hong Kong, especially for our operations, will continue to remain difficult. With a healthy balance sheet and adequate cash resources, the Group will look for good investments when opportunities arise and when the investment climate becomes more settled. In the meantime, the Group will continue with its efforts to improve its overall performance.

On behalf of the Board, I would like to thank our management and staff for their efforts in 2002 and our shareholders for their continuing support.

Karl C. Kwok
Chairman

Hong Kong, 11th April, 2003.