# CHAIRMAN'S STATEMENT

## FINANCIAL REVIEW

### 2003 RESULTS AND DIVIDEND

For the year ended 31 December 2003, the Group attained a 24.3% increase in its profit attributable to shareholders of HK$296.4 million (2002: HK$238.5 million as restated), while its overall turnover decreased by 6% to HK$1,623.1 million (2002: HK$1,726.3 million). Earnings per share increased to 100.4 HK cents per share from the 80.8 HK cents per share achieved in 2002. Despite the outbreak of SARS (severe acute respiratory syndrome) which seriously affected Hong Kong from late March until the latter part of June, the Group managed to achieve these positive results due mainly to a substantial reduction in the operating loss of its department store business, further unrealised exchange gains on its holdings of Australian and New Zealand currencies, an increase in unrealised gains on its holdings of trading securities and the decrease in deferred tax provisions arising from its activities overseas.

In respect of 2003, your directors have recommended a final dividend of 39 HK cents (2002: 26 HK cents) per share payable to shareholders on the Register of Members on 9 June 2004 (Hong Kong time) which, together with the interim dividend of 13 HK cents (2002: 17 HK cents) per share paid on 27 October 2003, makes a total payment of 52 HK cents (2002: 43 HK cents) per share for the whole year. Dividend warrants will be sent to shareholders on 16 June 2004 (Hong Kong time). The Register of Members will be closed from 1 June 2004 to 9 June 2004 (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 31 May 2004 (Hong Kong time).

## LIQUIDITY AND FINANCIAL RESOURCES

### Overall Financial Position

Shareholders' equity as at 31 December 2003 was HK$4.6 billion, an increase of 6.6% compared with last year. With cash and marketable securities at 31 December 2003 of about HK$1,135.1 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 31 December 2003, the Group's total borrowings amounted to HK$873.5 million, an increase of about HK$67.2 million as compared to last year as the exchanges rates for the Australian and New Zealand currencies have moved up by 31.8% and 24.1% respectively. The proportion of borrowings repayable after 2 years but within 5 years to the total borrowings at 31 December 2003 was 85.0%. In view of this maturity profile of the borrowings, the repayment pressure is low. Certain assets, comprising principally property interests, with a book value of HK$2.9 billion have been pledged to banks as collateral security for banking facilities to the extent of HK$1.1 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 31 December 2003, was 19.1% as compared with 18.7% 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 31 December 2003 of approximately HK$1.4 billion (2002: HK$1.1 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 Groups' interest rate and foreign exchange exposure is closely monitored.

**Capital Commitments and Contingent Liabilities**

At 31 December 2003, the total amount of the Group's capital expenditure commitments and contingent liabilities was insignificant.

## BUSINESS REVIEW

**Department Store Operations**

During the year under review, the first half of the year was adversely affected by continuous deflation, high unemployment and weak consumer spending which was compounded by the outbreak of SARS in the second quarter; however, in the second half of the year, especially toward the latter of the third quarter and the fourth quarter, we saw our business improve with a return of consumer confidence. No doubt, the increase in individual visitors from the Mainland to Hong Kong under the Individual Visit Scheme for Mainlanders by our Government since July 2003 had helped to revive our local economy. Our retail operations directly or indirectly benefited from this influx of visitors from the Mainland and the improvement in consumer sentiment.

Overall, the Group's department store turnover for the year was HK$1,364.8 million, representing a decline of 5.6% from the HK$1,445.5 million recorded in 2002. Despite the decrease in turnover, the operating loss in this sector of business was reduced by 51.3% to HK$25.7 million (2002: HK$52.7 million). This substantial reduction of loss was achieved through tighter cost control, improved efficiency on the shop floors and our aggressive promotional and sales campaigns.

In February 2004 the Group closed down two unprofitable stores at Kowloon Bay and Whampoa upon their lease expirations. We expect our retail business will further improve without the burden of these two stores. Our retail management will continue to work towards the target of making our retail operations profitable.

**Property Investments**

The oversupply of office spaces and reduced business activities continued to put pressure on the local office rental market. The Group's net operating profit from rental activities from commercial property investment in Hong Kong decreased by about 19% when compared to last year. However, the Group was able to maintain an overall occupancy rate of around 90% during the year under review. Income from the Group's overseas property investment portfolio in Australia dropped by about 17% in Australian currency terms due to the disposal of certain commercial properties in Melbourne in early 2002 and 2003 and the increase in supply of new office space in Melbourne, which negatively impacted the rental market in which our buildings are situated. When translating the actual result into Hong Kong currency a slight drop in net operating profit from rental activities of 0.5% was reported due to the strengthening of Australian currency during the period under review. The Group, further to its disposal of certain commercial properties in Melbourne, Australia in 2002, disposed of during the year another commercial property in Melbourne at a pre-tax profit of HK$14.6 million. Overall, the Group's property investment income decreased by about 19% to HK$236.0 million (2002: HK$291.8 million).

**Automobile Dealership Business**

The Group's investment in the automobile dealership business conducted by an associate in the United States remained strong and made a significant after tax profit contribution of about HK$73.9 million (2002: HK$74.1 million) to the Group's profit for the year despite the apparent slow revival of the United States domestic economy.

**Others**

In the year under review, the Group benefited from a further appreciation in its holdings of Australian and New Zealand currencies and recorded a net exchange gain of HK$54.6 million (2002: HK$25.0 million). The Group also recorded net unrealised and realised gains on trading securities of HK$32.4 million (2002: net unrealised loss HK$7.6 million) and HK$1.5 million (2002: HK$0.6 million) respectively, and wrote back an impairment loss on non-trading securities of HK$3.1 million (2002: HK$5.8 million), while there was a net realised gain on non-trading securities of HK$21.6 million in 2002.

**STAFF**

As at 31 December 2003, the Group had a total staff of 1,080 (2002: 1,095). The aggregate emoluments of all employees (excluding directors' emoluments) amounted to approximately HK$173.9 million (2002: HK$185.7 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.

## OUTLOOK FOR 2004

Driven by the improved visitors flow from Mainland China and the more robust stock and property markets, the local economy has started to recover. While the structural economic issues such as persistent deflation and high unemployment will not be resolved in the near future, we anticipate that our department store business will improve further in 2004. Proactive measures will continue to be taken to strengthen the competitive edge of our retail business and to improve our operating efficiency. The rental income from our investment properties locally and overseas will continue to be under pressure due to the oversupply of office space in the various office markets. However, recent market trends indicate that the office rental market in Hong Kong is on the road to recovery. Our automobile dealership associate in the United States is expected to perform steadily. With the gradual recovery in local economy and the Group's strong balance sheet and cash position, the Group will continue to focus on ways and means to improve the Group's overall performance and to look for good investments locally and overseas when opportunities arise.

On behalf of the Board, I wish to record, with considerable regret, the death of Sir Oswald Cheung during the year. I would also like to thank our management and staff for their efforts in 2003 and our shareholders for their continuing support.

**Karl C. Kwok**
Chairman

Hong Kong, 15 April 2004.