CHAIRMAN'S STATEMENT

FINANCIAL REVIEW

2004 RESULTS AND DIVIDEND

For the year ended 31 December 2004, the Group achieved a profit attributable to shareholders of HK$310.6 million representing a 4.8% increase over the HK$296.4 million achieved in 2003. Turnover declined by 10.0% to HK$1,461.0 million compared to the HK$1,623.1 million achieved in 2003. Basic earnings per share increased to 105.2 HK cents in 2004 (2003: 100.4 HK cents). The decline in turnover was due mainly to a decrease in the department store turnover as a result of the closure of two unprofitable branch stores upon lease expiration in February 2004 and reduced income from the Group's investment properties. Despite the decline in turnover, the Group managed to achieve an increase in profit attributable to shareholders as a result of the significant profit contribution from the department store operations and the higher interest income earned, partly offset by the reduced unrealised exchange gains on the Group's holdings of Australian and New Zealand currencies, reduced rental income from investment properties and less profit shared from an associate in the United States.

In respect of 2004, the directors have recommended a final dividend of 41 HK cents (2003: 39 HK cents) per share payable to shareholders on the Register of Members on 16 June 2005 (Hong Kong time) which, together with the interim dividend of 14 HK cents (2003: 13 HK cents) per share paid on 27 October 2004, makes a total payment of 55 HK cents (2003: 52 HK cents) per share for the whole year. Dividend warrants will be sent to shareholders on 27 June 2005 (Hong Kong time). The Register of Members will be closed from 8 June 2005 to 16 June 2005 (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 with 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 7 June 2005 (Hong Kong time).

LIQUIDITY AND FINANCIAL RESOURCES

Overall Financial Position

Shareholders' equity as at 31 December 2004 was HK$5.5 billion, an increase of 19.7% compared with last year. With cash and marketable securities at 31 December 2004 of about HK$1,273.4 million as well as available banking facilities, the Group has sufficient liquidity to meet its current commitments and working capital requirements.

Borrowings and Charges on Group Assets

At 31 December 2004, the Group's total borrowings amounted to HK$826.0 million, a decrease of about HK$47.5 million as compared to last year due to loan repayments. About HK$776.8 million, or 94.0% of total borrowings, which is a mortgage loan for Australian investment properties will be repayable in 2006. The Group will negotiate with its banker to extend this loan as and when required. In view of the existing strong cash position, the Group does not anticipate any liquidity problems. Certain assets, comprising principally property interests, with a book value of HK$3.5 billion have been pledged to banks as collateral security for banking facilities granted 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 2004, was 15.1% as compared with 19.1% 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 and New Zealand 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 2004 of approximately HK$1.4 billion (2003: HK$1.4 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 31 December 2004, the total amount of the Group's capital expenditure commitments was HK$15,079,000 (2003: HK$1,601,000) and contingent liabilities were insignificant.

BUSINESS REVIEW

Department Store Operations

During the year under review, the Group's department stores attained a turnover of HK$1,215.3 million, a decrease of 11.0% when compared with the HK$1,364.8 million recorded in 2003. This decline was due to the closure of the Kowloon Bay and Whampoa branch stores in February 2004. On a same store basis, the department store turnover increased by around 15.9%. This significant growth was attributable to the increased retailing activities during the year as a result of much improved consumer spending. The concerted efforts by retail staff in improving efficiency on the shop floors, improving the merchandise mix and organising aggressive promotional and sales campaigns also contributed to the turnaround of the department store operations. Overall, the Group achieved an operating profit of HK$60.3 million in this sector of business, as opposed to an operating loss of HK$25.7 million recorded in 2003.

Property Investments

While the office leasing market in Hong Kong began its recovery and improved during the year under review and the Group was able to maintain an overall occupancy rate of around 90% for its local commercial properties, the income from local property investments decreased by about 7.1% to HK$92.9 million (2003: HK$100.0 million). This was mainly due to the unfavourable rental rates achieved for lease renewals and new lettings prior to the recovery cycle of the office leasing market.

Income from the property investment portfolio in Australia decreased by 10.7% in Australian currency terms owing to the disposal of a commercial property in Melbourne in late 2003. When translating the actual result into Hong Kong currency a small increase of 0.4% was reported due to the strengthening of the Australian currency towards the year end. The overall achieved occupancy for the commercial properties in Australia stayed above 95%. In September 2004 the Group had disposed of a non-core commercial property in Christchurch, New Zealand at a pre-tax loss of HK$4.5 million.

Overall, the Group's property investment income decreased by about 11% to HK$209.9 million (2003: HK$236.0 million).

Automobile Dealership Business

The Group's investment in the automobile dealership business conducted by an associate in the United States remained sound and contributed to the Group's profit during the year under review. The decrease in the profit shared was due to the lower profit margins attained due to market competition and the increase in expenses associated with the acquisition of additional automobile dealerships during the year.

Others

The Group benefited from a slight appreciation in its holdings of Australian and New Zealand currencies and recorded a net exchange gain of HK$9.8 million for the year (2003: HK$54.6 million). The Group also recorded net realised and unrealised gains on trading securities of HK$9.0 million (2003: HK$1.5 million) and HK$32.5 million (2003: HK$32.4 million) respectively, and charged an impairment loss on non-trading securities of HK$8.0 million (2003: impairment loss written back of HK$3.1 million).

STAFF

As at 31 December 2004, the Group had a total staff of 877 (2003: 1,080). The aggregate emoluments of all employees (excluding directors' emoluments) amounted to approximately HK$152.4 million (2003: HK$173.9 million). The Group will continue to maximise 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 2005

With further improvement in the fundamentals of the Hong Kong economy, management is of the view that, barring unforeseen circumstances, the department stores business will continue to improve. In order to maximise the benefit from this economic recovery cycle, the retail division has renewed its Taikooshing branch store lease for another three years from February 2005 at favourable rental rates. There are plans to reopen the Tsim Sha Tsui East branch store at Wing On Plaza in the second half of 2005 as the KCRC railway extension works in the area have been completed. This will no doubt improve the accessibility and popularity of the district. Rental income from the property investments locally and abroad will continue to contribute to profits. The automobile dealership business in the United States is expected to grow with the acquisition of additional dealerships and will continue to make contribution to Group profits. With its sound financials, the Group will strengthen its core business activities and look for opportunities to expand its business and to improve its earnings.

On behalf of the Board, I would like to thank our management and staff for their efforts in 2004 and our shareholders for their continuing support.

Karl C. Kwok
Chairman

Hong Kong, 12 April 2005