CHAIRMAN'S STATEMENT

FINANCIAL REVIEW

2005 RESULTS AND DIVIDEND

For the year ended 31 December 2005, the Group's profit attributable to shareholders increased by 14.4% to HK$997.3 million (2004 restated: HK$871.7 million), while the Group's turnover increased by 5.2% to HK$1,536.7 million (2004: HK$1,461.0 million).

The Group has adopted new applicable accounting standards in the preparation of the financial report under review. Excluding the effect of HKAS 40 which relates to the revaluation of investment properties, and HK(SIC) Interpretation 21 which relates to deferred tax on valuation gains, the profit attributable to shareholders increased by 28.1% to HK$399.3 million (2004 restated: HK$311.8 million). The improved result was mainly attributable to the higher profit contributions from the department store operations and the property investment division, the higher interest income earned and the increased attributable profit from an associate in the United States, partly offset by the reduced profit from investments in securities and the unrealised exchange loss mainly on the Group's holdings of Australian currency.

Basic earnings per share increased by 42.5 HK cents to 337.7 HK cents in 2005 (2004 restated: 295.2 HK cents). Excluding the earnings which are attributed to the net revaluation gain on investment properties and the related deferred tax thereon, underlying earnings per share for the year rose to 135.2 HK cents (2004 restated: 105.6 HK cents).

In respect of 2005, the directors have recommended a final dividend of 51 HK cents (2004: 41 HK cents) per share payable to shareholders on the Register of Members on 14 June 2006 (Hong Kong time) which, together with the interim dividend of 19 HK cents (2004: 14 HK cents) per share paid on 27 October 2005, makes a total payment of 70 HK cents (2004: 55 HK cents) per share for the whole year. Dividend warrants will be sent to shareholders on 27 June 2006 (Hong Kong time). The Register of Members will be closed from 6 June 2006 to 14 June 2006 (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, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:00 p.m. on 5 June 2006 (Hong Kong time).

LIQUIDITY AND FINANCIAL RESOURCES

Overall Financial Position

Shareholders' equity as at 31 December 2005 was HK$5.9 billion, an increase of 13.5% compared with last year. With cash and marketable securities at 31 December 2005 of about HK$1,333.5 million as well as available banking facilities, the Group has sufficient liquidity to meet its current commitments and working capital requirements.

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

Borrowings and Charges on Group Assets

At 31 December 2005, the Group's total borrowings amounted to HK$724.6 million, a decrease of about HK$101.4 million as compared to last year due to loan repayments and exchange differences. About HK$724.5 million of the total borrowings relates to a mortgage loan for Australian investment properties which is repayable in December 2006. The Group will negotiate with its banker to extend this loan nearer the time as and when required. As this outstanding loan is less than 50% of the security value of the Australian investment properties and taking into consideration the past timely and good repayment record, the Group does not anticipate any difficulties in extending this loan and, if considered appropriate, may choose to reduce or repay the loan. Certain assets, comprising principally property interests with a book value of HK$4.0 billion, have been pledged to banks as collateral security for banking facilities granted to the extent of HK$1.1 billion. In view of the existing strong cash position, the Group does not anticipate any liquidity problems.

Gearing Ratio

The gearing ratio, which is computed from the total borrowings of the Group divided by shareholders' funds of the Group at 31 December 2005, was 12.3% as compared with 15.9% (restated) last year.

Funding and Treasury Policies

The Group adopts a prudent funding and treasury policy. To minimise exposure to foreign exchange fluctuations, the Group's borrowings are primarily denominated in Australian currency to directly tie in with the Group's business in Australia. Hence, the foreign exchange exposure is limited to the net investments in overseas subsidiaries of approximately HK$1.4 billion at 31 December 2005 (at 31 December 2004: HK$1.4 billion as restated).

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 and Australian 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 2005, the total amount of the Group's capital expenditure commitments was HK$10,014,000 (at 31 December 2004: HK$15,079,000) and contingent liabilities were insignificant.

BUSINESS REVIEW

Department Store Operations

The performance of the Group's department store operations continued to improve during the year under review. Turnover for the year rose by 4.8% to HK$1,273.9 million from HK$1,215.3 million attained in 2004. This steady growth in turnover was attributable to positive consumer sentiment as a result of better economic conditions. Our retail management's continuous efforts in achieving further operational efficiencies and the generation of additional sales from successful marketing and promotional campaigns had also helped to produce the improved results. Overall, the Group achieved an operating profit of HK$84.4 million in this sector of business, compared to an operating profit of HK$60.3 million achieved the year before.

BUSINESS REVIEW (Continued)

Department Store Operations (Continued)

The Group reopened its Tsim Sha Tsui East branch store at Wing On Plaza, Mody Road, Tsim Sha Tsui East in August 2005. With the KCR Tsim Sha Tsui East railway link in operation and the anticipated relocation of the bus terminus in 2007 from the existing one at the Tsim Sha Tsui Star Ferry Pier to the site adjacent to Wing On Plaza, the Group expects that this branch will benefit from the improved economic activities in Tsim Sha Tsui East as more people and potential shoppers will be brought to the areas surrounding Wing On Plaza.

Property Investments

The Group's property investment income for the year ended 31 December 2005 increased by about 20.0% to HK$257.3 million (2004: HK$214.4 million).

The recovery in the local economy has stimulated further demand for office space during the year under review. Office leasing activities had been strong throughout the year and notably accelerated during the second half of the year, resulting in a significant growth in office occupancy and rental rates. Benefiting from the increase in market activities, the Group achieved an increase in overall occupancy for its commercial properties in Hong Kong from a level of about 90% achieved in 2004 to over 95% in the year under review. Overall rentals increased for both new leases and renewals. Rental income from local property investments went up steadily by 8.6% to HK$100.9 million.

Income from the commercial office properties in Australia increased by 35.2% to HK$153.1 million mainly owing to a one-off compensation of HK$33.3 million received from a tenant for early lease termination. The overall achieved occupancy for the commercial properties in Australia remained at above 95%.

The Group has elected the fair value model for investment properties under HKAS 40. As at 31 December 2005, the investment properties of the Group were revalued at HK$4,575.7 million (31 December 2004: HK$4,135.2 million). As a result of the revaluation, a net gain of HK$729.7 million (2004: HK$681.4 million) and related deferred tax thereon of HK$132.3 million (2004: HK$121.2 million) have been included in the current year's income statement.

Automobile Dealership Business

The Group's associate in the United States engaged in the automobile dealership business continued to contribute to the Group's profit during the year under review. Despite the achievement of 14.9% growth in turnover, the associate was affected by increased operational costs and interest expenses associated with acquisitions of automobile dealerships and recorded a decrease in profit before taxation by 8.7% but an increase in profit after taxation by 18.9% compared to last year.

Others

The Group suffered from a slight exchange loss mainly in its holdings of Australian currency and accordingly recorded a net exchange loss of HK$4.4 million for the year (2004: exchange gain HK$9.8 million). The Group also recorded net realised and unrealised gains on trading securities of HK$3.6 million (2004: HK$9.0 million) and HK$12.9 million (2004: HK$32.5 million) respectively, and wrote back provisions upon the dissolution of a subsidiary in China of HK$10.0 million (2004: HK$1.6 million).

CHAIRMAN'S STATEMENT

(Continued)

STAFF

At 31 December 2005, the Group had a total staff of 979 (2004: 877). The staff costs (excluding directors' remuneration) amounted to approximately HK$157.3 million (2004: HK$152.4 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 2006

Barring further substantial rises in interest rates which would impact adversely on market sentiment, the Group remains positive that the Hong Kong economy will continue to improve in 2006 which will be beneficial to the Group's local operations. The performance of the Group's local investment properties is expected to improve further from rising office demands. Our investment properties in Australia will continue to contribute to the Group's profits. Our retail management team will continue with its efforts in improving our department stores' customer service, quality and merchandising mix, and operational efficiency. Our automobile dealership associate in the United States is expected to continue to perform positively with the acquisitions of more dealerships this year.

On behalf of the Board, I would like to thank our management and staff for their efforts in 2005 and our shareholders for their continuing support.

Karl C. Kwok
Chairman

Hong Kong, 12 April 2006