CHAIRMAN'S STATEMENT

FINANCIAL REVIEW

2006 RESULTS AND DIVIDEND

For the year ended 31 December 2006, the Group's profit attributable to shareholders decreased by 42.9% to HK$567.5 million (2005 restated: HK$994.5 million). This was mainly due to the modest increase in the net valuation gain on the Group's investment properties net of related deferred tax of HK$209.1 million in 2006 when compared to the substantial increase of HK$597.9 million recorded in 2005. Excluding this non-cash item, the underlying profit attributable to shareholders declined by 9.6% to HK$358.4 million (2005 restated: HK$396.6 million). This was caused primarily by the reduced profit contribution from the Group's automobile dealership associate in the United States in 2006, the inclusion of certain one-off items recorded in 2005: HK$33.3 million compensation from a tenant of one of the Group's commercial properties in Australia for early lease termination, HK$10 million net gain on dissolution of a subsidiary in China and HK$9.2 million gain from disposal of certain non-core investment properties in the United States and Hong Kong. Adjusted for these one-off items net of income tax thereon, the Group's underlying profit attributable to shareholders would have increased by 0.4% when compared to 2005.

The Group's turnover increased by 7.4% to HK$1,148.6 million (2005 restated: HK$1,069.9 million). The increase in the Group's turnover was mainly attributable to the continued improvement in the Group's department stores sales whilst the turnover from the Group's property investment business remained steady.

Basic earnings per share decreased to 192.2 HK cents in 2006 (2005 restated: 336.7 HK cents). Excluding the earnings which are attributable to the net valuation gain on investment properties and the related deferred tax thereon, underlying earnings per share for the year decreased to 121.4 HK cents (2005 restated: 134.2 HK cents).

In respect of 2006, the directors have recommended a final dividend of 45 HK cents (2005: 51 HK cents) per share payable to shareholders on the Register of Members on 13 June 2007 (Hong Kong time) which, together with the interim dividend of 18 HK cents (2005: 19 HK cents) per share paid on 26 October 2006, makes a total payment of 63 HK cents (2005: 70 HK cents) per share for the whole year. Dividend warrants will be sent to shareholders on 26 June 2007 (Hong Kong time). The Register of Members will be closed from 5 June 2007 to 13 June 2007 (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 4 June 2007 (Hong Kong time).

LIQUIDITY AND FINANCIAL RESOURCES

Overall Financial Position

Shareholders' equity as at 31 December 2006 was HK$6.3 billion, an increase of 7.5% compared with 2005. With cash and marketable securities at 31 December 2006 of about HK$1.5 billion 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 2006, the Group's total borrowings amounted to HK$783.2 million, an increase of about HK$58.6 million, due mainly to exchange differences, as compared to that at 31 December 2005. The Group's total borrowings of HK$783.2 million relate to a mortgage loan for Australian investment properties which was extended in December 2006 and is repayable after two years but within five years. In view of this maturity profile of borrowings, the repayment pressure is low. Certain assets, comprising principally property interests with a book value of HK$4.3 billion, have been pledged to banks as collateral security for banking facilities granted to the extent of HK$0.9 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 2006, was 12.4% as compared with 12.3% at 31 December 2005.

Funding and Treasury Policies

The Group adopts a prudent funding and treasury policy. To minimise exposure to foreign exchange fluctuations, the Group's borrowings in Australia for its Melbourne property investment are denominated in Australian currency. Hence, the foreign exchange exposure is limited to the net investments in overseas subsidiaries of approximately HK$1.5 billion at 31 December 2006 (at 31 December 2005: HK$1.4 billion).

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

Funding and Treasury Policies (Continued)

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 may be 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 2006, the total amount of the Group's capital expenditure commitments was HK$1,372,000 (at 31 December 2005: HK$10,014,000) and contingent liabilities were insignificant.

BUSINESS REVIEW

Department Store Operations

The Group's department stores business continued to achieve steady improvement in turnover during the year under review, despite severe competition amongst retailers and the exceptional warm weather in the winter months. For the year ended 31 December 2006, the Group's department stores attained a turnover of HK$892.9 million, an increase of 10.6% when compared to HK$807.1 million as restated in 2005. This was a result of the department store operations' continuous efforts in improving operational efficiency, better merchandise mix, friendly customer service and more aggressive sales and promotional campaigns. The inclusion of the full year revenue from our new Tsim Sha Tsui East branch store which reopened in August 2005 also contributed to the increase in turnover. However, the Group's department store business recorded a slight decrease in operating profit by 2.5% to HK$82.3 million (2005: HK$84.4 million), due mainly to increased occupancy costs and other related operating expenses.

Property Investments

The Group's property investment income for the year ended 31 December 2006 amounted to HK$223.9 million (2005: HK$257.3 million), a decrease of 13.0%. This was due mainly to one-off compensation of HK$33.3 million received from a tenant for the early termination of a lease in one of the Group's investment properties in Melbourne recorded in 2005.

BUSINESS REVIEW (Continued)

Property Investments (Continued)

Compared to 2005, the strong demand for office space in Hong Kong continued during the year under review, pushing both rents and occupancy rates to a higher level. Benefiting from a robust property market, the Group achieved a 13.3% increase in rental income from its commercial properties in Hong Kong to HK$114.3 million (2005: HK$100.9 million) with an overall occupancy rate of over 95% throughout the year under review.

Income from the commercial office properties in Australia decreased by 30.6% to HK$106.2 million (2005: HK$153.1 million) mainly owing to the above stated one-off compensation of HK$33.3 million and the decrease in rental income as a result of the lower occupancy. The office leasing market in Melbourne, Australia remained highly competitive throughout the year under review and the Group had to offer additional leasing incentives for new lettings and renewals. At 31 December 2006, the overall occupancy rate was about 86%.

Automobile Dealership Business

Despite the slight decline and keen price competition in the car sales market in the United States, the Group's associate engaging in automobile dealership business in the United States continued to contribute profit to the Group. However, the level of after tax profit contribution decreased by about 23% due to increased operating costs and interest expenses associated with the additional dealership acquisitions during the year under review.

Others

The Group benefited from an appreciation in its holdings of Australian currency and accordingly recorded a net exchange gain of HK$5.4 million for the year (2005: exchange loss HK$4.4 million). The Group also recorded net realised and unrealised gains on trading securities of HK$12.3 million (2005: HK$3.6 million) and HK$25.3 million (2005: HK$12.9 million) respectively.

STAFF

As at 31 December 2006, the Group had a total staff of 953 (2005: 979). The staff costs (excluding directors' remuneration) amounted to approximately HK$168.4 million (2005: HK$157.3 million). The Group will continue to maximise its human resources. The Group provides employee benefits such as staff insurance, staff discount on purchases, a housing scheme, the Mandatory Provident Fund ("MPF") Scheme and MPF exempted defined contribution retirement schemes. Discretionary management bonuses are granted to senior managers and preferential staff loans for defined purposes are offered to managerial staff.

STAFF (Continued)

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 2007

The Group expects the current favourable economic climate and positive consumer sentiment in Hong Kong to continue. This will bring benefit to the Group's department stores business. The Group's investment properties in Hong Kong will further benefit from the positive office rental trend while the occupancy rate for the investment properties in Melbourne is expected to rise in 2007 though the Group has to offer additional leasing incentives for new lettings under the prevailing market conditions. Barring any significant slow down in the car sales market in the United States, our automobile dealership associate in the United States is expected to continue to contribute profit to the Group.

This year we will be celebrating the centenary of the founding of our department stores business and will look forward to promoting our retail sales to a new height.

On behalf of the Board, I would like to thank our management and staff for their efforts in 2006 and our shareholders for their continuous support.

Karl C. Kwok
Chairman

Hong Kong, 12 April 2007