CHAIRMAN'S STATEMENT

FINANCIAL REVIEW

2000 RESULTS AND DIVIDEND

For the year ended 31st December, 2000, the Group achieved a 13% increase on its profit attributable to shareholders of HK$50.3 million (1999 HK$44.4 million); while the Group's turnover also increased by about 5% to HK$1.83 billion (1999 HK$1.74 billion). The results included a profit of HK$12.6 million from the disposal of a non-strategic investment in an associate in Singapore, a loss of HK$14.4 million on the cessation of the mortgage servicing and origination business in the United States, and the write-off of a HK$19.6 million pre-opening expenses comprising mainly of rental, rates and building management fees for the Group's new large scale department store at 345 Nathan Road, Kowloon in the first half of 2000. Earnings per share improved to 17 cents in 2000 (1999 15 cents).

In respect of 2000, your directors have recommended a final dividend of 9 cents per share (1999 4 cents per share) payable to shareholders on the Register of Members on 22nd June, 2001. No interim dividend was paid in 2000. In 1999, an interim dividend of 4 cents per share was paid. Dividend warrants will be sent to shareholders on 3rd July, 2001. The Register of Members will be closed from 15th June, 2001 to 22nd June, 2001, 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, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong before 5:00 p.m. on 14th June, 2001.

LIQUIDITY AND FINANCIAL RESOURCES

Overall Financial Position

The shareholders' equity as at 31st December, 2000 was HK$4.5 billion, an increase of 1.1% over last year. With cash and marketable securities at 31st December, 2000 of about HK$520.5 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, 2000, the Group's total borrowings amounted to HK$1.1 billion, a decrease of about HK$491.6 million as compared to last year. The proportion of borrowings repayable after 5 years to the total borrowings at 31st December, 2000 was 84.9%. 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$3.7 billion have been pledged to banks as collateral security for banking facilities to the extent of HK$1.6 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, 2000, was 25.0% as compared with 36.4% in 1999.

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 Hong Kong, 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 of approximately HK$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 Group's interest rate and foreign exchange exposure is closely monitored.

Capital Commitments and Contingent Liabilities

At 31st December, 2000, 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 Group's retail business turnover increased for the first time since 1997 by around 10% to HK$1.51 billion (1999 HK$1.37 billion). The opening of the new wing on *Plus* mega store of over 100,000 sq.ft. in the second half of the year at our Wing On Kowloon Centre at 345 Nathan Road, Kowloon contributed to this improvement in our business volume despite the closure of the Central and Aberdeen branch stores in February 2000. However, the operating environment remained difficult and highly competitive. The overall operating loss of our retail business before the abovementioned one-time write-off in pre-opening expenses was slightly reduced to about HK$145.8 million as compared to the loss of HK$151.3 million in 1999. We have temporarily closed our branch store located at Wing On Plaza, Tsimshatsui East at the end of March 2001 in order to mitigate our expected loss due to the adverse operating environment and disruption around the store site to be brought about by the construction of the East Rail Extension linking Hunghom and Tsimshatsui. We shall review the situation in 2004 when these construction works are expected to be completed. At the end of May 2001, we shall be closing down our Mei Foo branch store which had been in operation since the 1970s due to lease expiration and the deterioration in business at that branch during the past few years as more modern shopping malls have been opened near that region. We hope to keep to our policy of relocating our staff affected by branch closures to work in our other branches so as to avoid redundancies. We shall continue to operate the remaining six stores providing about 450,000 sq.ft. of shopping space for our local customers. The Group considers it a prudent policy to close down branch stores with poor business prospects. Our retail operations in China have so far been unprofitable and the management will review and reconsider the future of these operations.

PROPERTY INVESTMENTS

Rental income from our local properties in 2000 decreased slightly when compared to 1999. This was caused by decrease in rental values on lease renewals and new lettings and a slower than expected improvement in the commercial rental market. However during the last quarter of the year under review, the situation had improved slightly. Income from our major overseas property investment portfolio in Australia increased by about 6.6% in Australian terms, but due to the persistently weak Australian currency which had declined by around 13.7% since the beginning of 2000 the actual result as translated into Hong Kong currency reflected a drop of approximately 8%. The Group's property investments in Houston, Texas had shown positive growth in rental rates. On the whole, our overall property investment income decreased by about 5% to HK$295.9 million (1999 HK$312.1 million).

AUTOMOBILE DEALERSHIP BUSINESS

The Group's associates, Dah Chong Hong Trading Corporation, engaging in automobile dealership business in the United States performed very well in 2000 and made a significant after tax profit contribution of about HK$48 million to the Group's profit for the year.

OTHERS

The Group disposed its non-core interest in an associate involved in the Bugis Junction project in Singapore and made a net profit of HK$12.6 million. As mentioned in my last Chairman's Statement, the Group had decided to discontinue its mortgage servicing and origination business conducted in the United States as it was no longer viable. The winding down process of this business had proceeded slower than expected due to the deterioration of the U.S. economy with a resulting decrease in value of certain recoverable assets. In the premises, the Group had made a further provision of HK$14.4 million in order to reflect the situation. The Group's investment in securities was affected by a weaker stock market at the year end and our exposure to the Australian and New Zealand currencies suffered as a result of their decline in value.

STAFF

As at 31st December, 2000, the Group had a total staff of 1,757 (1999 1,849) of which 575 (1999 647) were employed in the PRC for the Group's department store business. The aggregate emoluments of all employees (excluding directors' emoluments) amounted to approximately HK$207.8 million, a drop of HK$2.4 million from last year. 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 provident fund scheme. 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 has introduced 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 2001

The Group expects local consumer spending to remain cautious despite the seemingly favourable trends of mild wage increase and sizeable interest rate decrease. This will not aid the recovery of our department store business but the Group will continue with the various operational rationalization programs and stringent cost control measures. Our local property investment income would benefit from a stabilized and gradually improving commercial rental market. It is not expected that there will be any significant increase in contribution to our profit from our property investment income in Australia as long as the Australian currency remains weak. Our associated operations in the automobile dealership business in the United States are expected to be affected by the apparent decline in consumer spending in the United States.

While the bad years of recession and deflation brought on by the Asian financial crisis since the second half of 1997 may be over, however this gradual recovery is now overshadowed by the ill wind gathering over the horizon as a result of the economic slow down in the United States. Consumer confidence and investor sentiment may once again be adversely affected as is already demonstrated by the nervous behaviour of stock markets world over. On the whole, 2001 appears to be another testing year for our Group.

Karl C. Kwok
Chairman

Hong Kong, 9th April, 2001.