CHAIRMAN'S STATEMENT

FINANCIAL REVIEW

2001 RESULTS AND DIVIDEND

For the year ended 31st December, 2001, the Group reported a profit attributable to shareholders of HK$91.9 million, an increase of 94.3% above the HK$47.3 million achieved in 2000. Basic earnings per share improved to 31.1 cents in 2001 (2000 restated: 16 cents). The improved results were due mainly to the better than expected performance of our associate in the automobile dealership business in the United States despite the economic slow down and the tragic events of September 11, and the overall reduction in loss of our retail business.

In respect of 2001, your directors have recommended a final dividend of 12 cents per share (2000: 9 cents per share) payable to shareholders on the Register of Members on 17th June, 2002 which, together with the interim dividend of 4 cents per share (2000: Nil) paid on 29th October, 2001, makes a total payment of 16 cents per share for the whole year (2000: 9 cents per share). Dividend warrants will be sent to shareholders on 25th June, 2002. The Register of Members will be closed from 11th June, 2002 to 17th June, 2002, 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 4:00 p.m. on 10th June, 2002.

LIQUIDITY AND FINANCIAL RESOURCES

Overall Financial Position

The shareholders' equity as at 31st December, 2001 was HK$4.5 billion, a decrease of 1.7% compared with last year. With cash and marketable securities at 31st December, 2001 of about HK$483.5 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, 2001, the Group's total borrowings amounted to HK$0.9 billion, a decrease of about HK$191.4 million as compared to last year. The proportion of borrowings repayable after two years but within five years to the total borrowings at 31st December, 2001 was 87%. 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$3.4 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 31st December, 2001, was 20.7% as compared with 24.6% 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 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$1.0 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, 2001, the total amount of the Group's capital expenditure commitments and contingent liabilities was insignificant.

BUSINESS REVIEW

DEPARTMENT STORE OPERATIONS

In the year under review, the Group's department store operations in Hong Kong continued to operate under adverse market conditions due to the prevailing deflationary recession, high unemployment, and negative consumer confidence. Despite these difficult conditions, our local department store business managed to achieve a moderate increase in turnover by 3.2% to HK$1.47 billion. The turnover in 2001 reflected a full year revenue from our wing on *Plus* store at our Wing On Kowloon Centre at 345 Nathan Road, Kowloon which opened in July 2000. The additional business volume contributed by this store was more than adequate to offset the loss of turnover from our closure of two unprofitable branch stores located in Mei Foo and Tsimshatsui East during the first half of 2001. With the increase in turnover and the various stringent cost control and streamlining measures implemented during the year, the loss from our local operations was reduced by 45.2% from HK$142.5 million in 2000 to HK$78 million in 2001.

Our department store operations in the PRC continued to perform disappointingly in the year under review despite all our efforts. As a result, we had to close down the Wuhan store at the end of August 2001. Furthermore, in January 2002, the Group reached an agreement with the landlord to terminate the lease of the Group's department store premises in Tianjin with effect from 1st May, 2002. The Group would cease its retail business in Tianjin upon the termination of the lease. A provision of HK$15.7 million had been made in the financial statements to reduce the value of assets to their recoverable amounts and to provide for other expected liabilities and expenses to be incurred in connection with the cessation of the business in Tianjin.

The overall loss from the Group's department store activities in Hong Kong and the PRC was reduced by 28.5% to HK$118.3 million in 2001 (2000 restated: HK$165.4 million).

PROPERTY INVESTMENTS

The Group's property investments continued to account for most of the Group's operating profit in 2001 despite poor local office leasing activities. The Group considers it vital to keep rental competitive at market levels. By offering favourable leasing and renewal terms to tenants, the Group was able to maintain the average occupancy rate at a level of around 90% and secured a steady rental income stream in 2001. The Group's investments in commercial properties in Melbourne, Australia continued to report satisfactory results with an achieved average occupancy rate of over 90% in the year under review. However, the Group suffered a decline in rental income when translating the rental income from the Australian currency back to the Hong Kong currency due to the persistently weak Australian currency.

CHAIRMAN'S STATEMENT

(Continued)

During the first quarter of 2002, the Group has entered into agreements with various independent third parties for the disposal of its interests in certain commercial properties located in Melbourne, Australia and expects to make a profit before tax of approximately HK$45 million. The sale of the Group's commercial property at 493 St Kilda Road, Melbourne, Australia was completed on 8th March, 2002 while the settlement for the sale of the Group's commercial properties at Southbank, Melbourne, Australia is scheduled to take place on 15th April, 2002. The Group considered it an opportune time to realize certain of its investments in Australia at profit. The proceeds of sale of the properties after repaying bank borrowings will be used for working capital or future investment purposes, if and when opportunities arise. The details of these disposals have been reported in a circular to our shareholders on 26th March, 2002.

To comply with the new SSAP 31, the Group has recognized impairment loss of HK$11.8 million on certain land in PRC and the United States.

AUTOMOBILE DEALERSHIP BUSINESS

Dah Chong Hong Trading Corporation, the Group's associate, performed strongly in its automobile dealership business in the United States during the year under review despite the apparent slow down of the United States economy. Benefiting from the interest rate-cuts and the attractive financing terms offered by manufacturers to stimulate car sales, this associate brought in a significant after tax profit contribution of about HK$67.1 million to the Group's profit for the year.

OTHERS

The Group's investments and dealings in securities remained lackluster under the weak local and worldwide stock market situation in 2001. To reflect the downward adjustment in stock markets at the year end, the Group had made further provisions of HK$13.4 million and HK$3.9 million for the unrealized loss on trading securities and impairment loss on non-trading securities respectively. A provision for unrealized loss of about HK$8 million was also made against the Group's exposure to the Australian and New Zealand currencies which continued to decline in value.

STAFF

As at 31st December, 2001, the Group had a total staff of 1,663 (2000: 1,757) of which 572 (2000: 575) 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$214.3 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") Schemes 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 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.

CHAIRMAN'S STATEMENT
(Continued)

OUTLOOK FOR 2002

The Group remains cautious in its outlook on the local economy in 2002 in view of the persistent deflationary recession and the predicted higher unemployment rate during this year. We do not anticipate a quick recovery in the local commercial office rental market nor a quick return in customer spending. The Group will continue its present strategy to maximize occupancy by keeping the rental competitive. In anticipation of the continuous difficult business conditions for the current year which will no doubt put pressure on our retail performance, our management will take further steps to sharpen the competitive edge of the business. Barring unforeseen surges in interest rates which may adversely affect our associate's automobile dealership business, we expect our associate in the United States to operate profitably. 2002 will be another challenging year for the Group. However, with the Group's financial strength and management's dedication, we shall do our best to improve the Group's overall performance.

On behalf of the Board, I would like to thank our management and staff for their efforts in 2001 and our shareholders for their support.

Karl C. Kwok
Chairman

Hong Kong, 11th April, 2002.