

Department Stores operations remain as our core business, yet niche retail concepts in China in the area of convenience chain stores, lifestyle home furnishings and advertising provide opportunities for growth.



RETAIL OPERATIONS

Hong Kong

The economic downturn, weak consumer sentiment and persistently high unemployment continued to impact on the already sluggish retail industry, such that the Group's turnover in retail operations dropped by 17% as compared to last year. Facing such difficulties, the management had taken appropriate steps to sustain the sales. During the year under review, we have a new General Manager for retail department stores and recruited a Merchandising Director to substantiate the product range. We had modified our buying strategy to focus more on mature customers which we believe have a better purchasing power. In addition, we started a new concept "Event Hall" in all four stores that offered different kinds of products based on the prevailing market condition and local customer profile of each store, like selling health food products during fall and winter; and candies and biscuits during Chinese New Year. This concept was well received by the customers. The Group has also brought in more consignment sales, aimed to reduce the carrying cost of inventory, sharing the risk and the operating costs of the store with the suppliers.

To combat against weak external forces, tight control over expenses has been extended. The general administrative expenses have reduced by 10%, selling and distribution costs reduced by 16% and finance costs reduced by 53%. This was the result of the Group's continued effort in enhancing operational efficiency and reducing overheads.

Central Store

The turnover has decreased as compared to last year due to the strategic decision of removing furniture and sub-letting the entire third floor to Day One Living, a subsidiary selling lifestyle furnitures. In addition to the re-arrangement of floor selling space, we had added more new counters to the ground floor, including the watch shop and jewellery, and the travel and outdoor merchandise section so as to attract different customers and to widen the customer base. We had re-arranged the second floor as a family floor, targeted for office ladies as well as housewives. We have expanded the bedding and kitchenware to enrich the product varieties and therefore boost up the sales.

Shamshuipo Dragon Centre Store

Turnover increased slightly mainly driven by the household section. During the year, we adopted a strategy of targeting housewives by expanding and re-grouping the bedding and electrical departments on the family floor. In addition, we launched the event hall mainly selling health food and snacks that were changed periodically based on the local market condition and target customers.

Grand Century Place Store

The shop expanded its household department by renting an additional area of 1,500 square feet. With the additional space, most of the sales departments were re-grouped and re-arranged to provide a better shopping environment for customers. This strategy has successfully pushed up the household sales. As this mall is next to the Mongkok Railway station, we believe the returning Mainland China tourists and Mongkok foot traffic will improve the performance.

Mongkok Store

To push up the sales, we have put in promotion counters and kiosks on the ground floor, expanded the household department, revamped the third floor into concession counters for handbags, ladies wear and accessories. Yet the result were not apparent. As the lease will expire at the end of August 2003, the Group will vacant from this premise.

Overall for all the stores in the coming year, the Group will continuously fine-tune strategies to enlarge the customer base from different market segments, focus further to provide a better service to our loyal and new VIP members, eliminating the unprofitable departments, improving the customer services, enlarging the product range, renovating the stores to provide a better shopping experience to our customers.

Home Furnitures

In October 2002, along with its strategic partners, the Group developed "Day One Living" home lifestyle furnitures. The merchandises are foreign designed but manufactured in China and Asia. It aims to appeal to a wider range of customers with Value for Money products. The shop was located at the third floor of the Central flagship store. Through its unique design, "Day One Living" has teamed up and worked well with local property developers in building up its business, show flats in new developments have improved the exposure. Future expansion will be in China.

PRC

In Dalian, the department store previously operated by the Group has been leased to the biggest department store operator in North Eastern China and hence generating a stable monthly income. In Shanghai, the Group has invested in a joint venture project of convenient chain stores called "Sincere Daily Stop". The chain stores have been in operation since October 2002. Operating as a franchisor, the Group provides logistical support, merchandising and retail expertise to interested franchisees. The Group anticipates number of stores opened in Shanghai will be over 100 by the end of 2003. In addition, the Group is opening the "Day One Living" home furnishing stores in Shanghai during the third quarter of year 2003. It is targeted to the middle level income group and foreign residents. As Shanghai has become an international city and many foreign enterprises have set up representative offices there, the management anticipates this region has strong potential for growth in the years ahead.

Mövenpick Marché

The restaurant operating losses have been significantly reduced although turnover dropped by around 7%. This improvement in the operating losses was mainly attributable to the effective control on food costs and operating expenses. With increasing tourists coming from the Mainland China, the management has taken appropriate steps to capture the customers from this segment and sustain the turnover by providing discount on selective items, widening the food selection to suit for different customer taste and maintaining a pleasant and clean environment.

OTHER OPERATIONS***Advertising***

The newly launched advertising business, 360 Communications Limited, has started to contribute turnover to the Group. During the year, it provided professional services in launching the Group's sales campaign in retail operations. It aims to reduce costs and better allocation of resources. It has also started to penetrate into the external market by attracting new customers in the hospitality and luxury consumer products sector.

PRC Property Investments

Competition in Dalian's apartments market has been intense and therefore the occupancy rate recorded a decline. The Group has been seeking strategic partners to further develop the building in order to increase our operational competitiveness.

UK Property Investments

The Group had five prime property investments in the UK; namely Pembroke House at Chesham Street, Jubilee Street, Lancaster Gate, 140 Parklane and West India Quay.

Due to the Iraq crisis, the pre-sold contracts of the remaining units of The Pembroke House in Chesham Street situated in Belgravia, in the heart of Central London, were cancelled during the year. Subsequently, the products were relaunched and sold. Now one of the remaining three units was leased out on a short term basis.

Following the pre-sale marketing program, 39 units in Jubilee Street were being reserved and deposits were received during the year. The refurbishing work is expected to be completed in August 2003 and turnover will start to be realized upon completion. The Group anticipates no problem in selling the remaining units as this project is priced very competitively for young professionals.

The Hyde Park Lancaster Gate Nos.15 and 16 were sold during the year and the turnover has been recorded. No. 17 has been converted into 6 apartments and 1 garage, the refurbishing work was in progress and expected to be completed in different phases in 2003. Nos. 19–21 were acquired during the year and planned to be redeveloped into 14 apartments and is expected to be completed by the second quarter of 2004.

The refurbishment of 140 Park Lane as the London Marriot flagship Hotel has been completed and was in operation since November 2002. It is a complex consisting of 157 rooms for hotel operations, 18 apartments for sale and with commercial units at the ground floor for lease. The hotel was voted as the Newcomer Hotel of the Year in 2002. Occupancy rates are on the rise again after the Iraq crisis, 14 units out of the 18 apartments were sold. Besides, the commercial units were successfully leased and brought in stable rental income to the Group.

The investment in West India Quay has performed well. As expected, the sale of the residential units was well received in the market. Deposits have been secured on over 60% of the units. The turnover will be recognized upon completion in late 2004.

LOOKING AHEAD

The Middle East War, the slowdown of the World economy, the SARS crisis and the deflationary, high unemployment environment in Hong Kong were a series of events seriously affecting the Group business in the past period. We will adopt a series of actions to minimize the losses, including further curtailing the operating expenses, eliminating the loss-sustaining activities, improving the customer services, differentiating its products among competitors, improving the product mix and, lowering the input costs.

Yet opportunities in China and niche retail concepts in the area of convenience stores, lifestyle home furnishings and advertising provides opportunities for growth. To prepare for the economic recovery and hence to grasp the fruits of a better yield, the Group will further strengthen its working capital and liquidity seeking opportunities to explore strategic investments that could create synergies to the Group.

Philip K H MA

Group Managing Director

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