THE SINCERE COMPANY, LIMITED

Annual Report 2006-2007

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SINCERE
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Contents

CORPORATE INFORMATION

REGISTERED OFFICE

24th Floor, Leighton Centre
77 Leighton Road
Hong Kong

AUDITORS

Ernst & Young

SOLICITORS

Baker & McKenzie
Gallant Y.T. Ho & Co

PRINCIPAL BANKERS

Citibank N.A.
Hang Seng Bank Limited
The Hongkong & Shanghai Banking Corporation Limited
JP Morgan Private Bank

SHARE REGISTRAR & TRANSFER OFFICE

Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

BOARD OF DIRECTORS

Walter K W MA *(Executive Chairman)*
Philip K H MA *(Group Managing Director and Executive Director)*
King Wing MA
Eric K K LO
Charles M W CHAN

MANAGEMENT

Philip K H MA
John Y C FU
Eileen H Y MA
David H W CHOW
Keller S L MAK
Megan T L TJIA

COMPANY SECRETARY

Ada S P CHEUNG

WEBSITE

Company: www.sincere.com.hk
Financial Information: www.irasia.com/listco/hk/sincere/index.htm

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of shareholders of the Company will be held at Lavender Room, 27/F., The Park Lane Hong Kong, 310 Gloucester Road, Hong Kong on 3 August 2007 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 28 February 2007.

2. To declare a final dividend for the year ended 28 February 2007.

3. To re-elect directors and to fix the directors' fees.

4. To appoint auditors and to authorise the directors to fix their remuneration.

5. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

   "**THAT**:

   (a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to purchase shares of HK$0.50 each in the capital of the Company be and is hereby generally and unconditionally approved;

   (b) the total nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of this Resolution; and

   (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

      (i) the conclusion of the next Annual General Meeting of the Company;

      (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Hong Kong Companies Ordinance to be held; or

      (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

NOTICE OF ANNUAL GENERAL MEETING

6. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT**:

(a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company pursuant to Section 57B of the Hong Kong Companies Ordinance and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers at any time during or after the Relevant Period;

(c) the total nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to paragraph (a) above, otherwise than pursuant to: (i) a Rights Issue; or (ii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole part of a dividend on shares of the Company in accordance with the Memorandum and Articles of Association of the Company; or (iii) the exercise of subscription rights under the Share Option Scheme of the Company should not exceed 20% of the total nominal amount of the share capital of the Company in issue on the date of this Resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Hong Kong Companies Ordinance to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the Register of Members on a fixed record date in proportion to their holdings of shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlement or having regard to any restrictions and obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

NOTICE OF ANNUAL GENERAL MEETING

7. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

   "**THAT** the general mandate granted to the directors of the Company and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers, be and is hereby extended by the addition to the total nominal amount of share capital which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such general mandate of an amount representing the total nominal amount of shares in the capital of the Company which has been purchased by the Company since the granting of such general mandate pursuant to the exercise by the directors of the Company of the powers of the Company to purchase such shares, provided that such amount shall not exceed 10% of the total nominal amount of the share capital of the Company in issue on the date of this resolution."

By order of the Board
Ada S P CHEUNG
Company Secretary

Hong Kong, 29 June 2007

Notes:

1. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's Share Registrar, Tengis Limited, 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of a proxy form will not preclude a member from attending the meeting and voting in person.

3. Concerning item 5 above, the Directors will exercise the powers conferred thereby to repurchase shares of the Company in circumstances which they deem appropriate for the benefits of the shareholders.

4. Concerning item 6 above, approval is being sought from the members for a general mandate to authorise allotment of shares under Section 57B of the Hong Kong Companies Ordinance and the Listing Rules. The directors have no immediate plan to issue any new shares of the Company other than shares to be issued pursuant to the Company's Share Option Scheme for employees.

5. Concerning item 7 above, approval is being sought to increase the number of shares which the Directors may issue under their general mandate by the number of any shares repurchased during the Relevant Period.

6. A circular containing further details in respect of the above items 3 and 5 to 7 will be sent to members together with the 2006/07 Annual Report.

7. As at the date of this notice, Mr. Walter K.W. Ma is Executive Chairman and Mr. Philip K.H. Ma is Group Managing Director and Executive Director, Mr. King Wing Ma, Mr. Eric K.K. Lo and Mr. Charles M.W. Chan are Independent Non-executive Directors.

MISSION STATEMENT

Founded in 1900, The Sincere Company, Limited is one of the Hong Kong's oldest and most respected retail groups.

At the core of Sincere's success is its unwavering dedication to quality service and customer satisfaction. Through its chain of department stores, the Company strives to provide consumers with a competitive range of merchandise at affordable prices.

Sincere's on-going commitment to prudent expansion in Hong Kong and China demonstrates the Company's determination to sustain its position as a leading retailer into the next century and beyond.

EXECUTIVE CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of The Sincere Company, Limited, I would like to present the shareholders with the Annual Report for the year ended 28 February 2007.

RESULTS

The year under review was an encouraging year for the Group. In Hong Kong, supported by the strong economic fundamentals including high GDP growth, a low unemployment rate and mild inflation, and supplemented by the completion of various UK property projects, with exchange gains from the appreciation of the UK sterling, and further achieving favorable returns from securities trading, the Group has achieved a profit attributable to the equity holders of the Company of HK$41 million; representing an improvement of over nine times from last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 28 February 2007, the Group's total borrowings less cash and cash equivalents amounted to HK$104 million (2006: HK$249 million). The Group's gearing significantly dropped to 20%, representing a decrease of 15% in total debt to the shareholders' funds (2006: 35%). This improvement was attributable to the completion of various property projects in UK that significantly reduced the bank borrowings from HK$307 million to HK$181 million. The net interest expenses for the year hence reduced to HK$11 million (2006: HK$14 million). The maturity profile of the Group's borrowing is set out in note 26 to the financial statements. The bank borrowings were mainly in HK dollars, US dollars, Japanese Yen and Euro with interest rates ranging from 0.7% to 6.6%.

The current ratio improved by 0.9 to 2.5 as compared to last year. It was mainly attributable to the substantial decrease in bank borrowings. The Group currently has a foreign currency hedging policy on Euro for the purchase of stock, which is to hedge 50% of anticipated total value of European stock purchase of the following season. In addition to the internal generated cash flows, the Group also made use of short term borrowings to finance its operation during the year. Portion of the borrowings were secured against certain properties and bank deposits.

EMPLOYEES AND REMUNERATION POLICIES

As at 28 February 2007, the Group had 533 (2006: 567) employees including part time staff. The Group operates different remuneration schemes for sales and non-sales employees to motivate front-line and back office staff towards higher sales achievement and operating efficiencies. Sales personnel are remunerated on the basis of goal-oriented packages comprising salary and sales commission. Non-sales personnel are offered discretionary year-end bonuses based on individual merit. The Group provides employee benefits such as subsidised medical care, staff purchase discounts and subsidised internal training.

EXECUTIVE CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Affected by the warm winter season and increased number of new entrants into the market, the department store operations recorded a slight drop in the turnover. The segment losses reduced slightly despite additional rental expenses. This result was achieved by carefully blending new product brands with higher profit margin into the existing product mix with tighter control over overheads expenditure. Additional roadshows were put on to increase the market penetration during the year.

The furniture business comprising interior design and decoration services has expanded its operation with the opening of a retail operation in Wanchai, providing better exposure to the public. Contracts from well known corporations and individual users were received and the management is confident to achieve a further growth in the coming year.

The travel franchise business got off the ground by issuing the first franchisee to a local operator in Hong Kong. In Shanghai, two travel agencies which were established to meet the local statutory requirement for qualifying as a master franchisor have been operating for the provision of travel related services.

The Group's securities trading recorded a steady profit growth derived from interest income, dividend income and appreciation in certain overseas funds.

In Dalian, the service apartments and the lease of the department store still brought a stable income to the Group. The management has been reviewing proposals to refurbish the remaining flats of the Building.

In UK, various projects were completed and contributed substantial profits to the Group. The prestigious duplex penthouse in Lowndes Square, the London Parklane Marriot Hotel, the project West India Quay Canary Wharf were sold during the year. The management is actively exploring new development opportunities.

PROSPECTS

Riding on the fierce competition in the local retail apparel market, the global warming effect and the rising operating costs, in particular rental and staff, the Group will continue to focus on products that are less susceptible to weather conditions and those offering higher profit margin to enhance its competitive edge. More brands with a wider product choice will be offered to consumers. To provide a more enjoyable shopping experience; the Company planned to deploy over HK$10 million to refurbish the Central flagship store with an uplifted image by Fall 2007. For the advertising, furniture, and the travel franchising businesses, they have been firmly established last year and the management is confident that there will be ample opportunities for growth and contribution to the Group in the year 2007.

As for the property investments, the on-going prudent approach will prevail, seeking any arrangements with the aim of mapping with the Group's long-term sustainable and profitable business growth strategy.

APPRECIATION

On behalf of the Board, I wish to take this opportunity to extend my appreciation to our shareholders, customers, business partners and suppliers for their continued support and for their confidence in the Group. I would also like to express our sincere thanks to the management and the staff for their commitment and contribution to the Group throughout the year.

Walter K W MA
Executive Chairman

21 June 2007

GROUP MANAGING DIRECTOR'S REVIEW OF OPERATIONS

DEPARTMENT STORE OPERATIONS

On the Hong Kong retail store operation, there is a slight profit improvement despite the turnover recorded a marginal decline of 2%. The decline was mainly in the men's division; which was a result of the warmer weather that brought a significant drop in the demand for winter coats. The trend of dressing down also affected the formal suits. The company however gained good momentum with handbags and shoes and achieved a healthy turnover growth. While benefiting from more flexible product assortments and better purchasing sentiment for ladies, the turnover for the ladies' division recorded an increase.

Apart from enhanced product assortments, the company had focused more on product quality to strengthen its competitiveness by offering imported European merchandises, even in light of the appreciating Euro currency, attractive pricing has been offered to the consumers that were well received and repeated purchases were recorded.

The operation of the new sales channel "Roadshow" has been matured and nearly tripled in turnover. It became an important sales contributor to the company's retail operation. With the experience accumulated from a number of Roadshows held in the past, the company has worked out a flexible blueprint in lowering the set up costs and developed good relationships among landlords and suppliers. These competitive advantages will be the key elements to sustain the growth in future.

Central Store

The turnover recorded a decline of 8% mainly attributable to the unsatisfactory performance of the men's department that represented one third of the store sales mix. With the additional rental, the direct operating profit recorded a decline. To provide our consumers with a better shopping experience and to enhance the productivity per square foot, the company is now working out a full refurbishment plan for this store to provide an uplifted image where all the product departments will be re-arranged to enhance the efficiency and competitiveness. The new store will be ready by Fall 2007.

Shamshuipo Dragon Centre Store

The turnover of this store decline 11% with a lower direct operating profit. The drop in turnover was mainly caused by the hardgoods department. There were also lower foot traffic and lesser atrium sales promotions. The company had closely monitored the performance and implemented strategies to sustain the turnover by removing poor performance concession counters and replacing with new varieties of products and merchandises.

Grand Century Place Store

The performance of this store outpaced the other two stores; the turnover recorded a growth of 4% while the direct operating profit recorded a decline. The decline in profit was mainly attributable to the increase in staff costs due to the increase in headcount and salary catch up. The improved turnover was mainly contributed from 8% growth in the ladies department, it represented over half of the store sales mix. Apart from serving the local community, this store also targeted for the Mainland tourists who were seeking for imported merchandises with higher quality. The company grasped this opportunity and the ladies department had been enlarged that yield a satisfactory growth.

OTHER OPERATIONS

Advertising

In Hong Kong, the company mainly engaged in the provision of advertising agency services and the performance was stable. In Shanghai, despite a decline in turnover, the bottom line recorded a healthy growth with a marginal profit.

Home Furniture

With the opening of the retail shop at Wanchai and leased a billboard to enhance the brand awareness, the turnover recorded a growth though losses was sustained due to the increase in occupancy costs. The turnover was mainly derived from the provision of interior design and decoration services for retail shops. In order to strengthen the furniture retailing businesses, the company is reviewing a joint venture proposal to set up a manufacturing line in China. This could lower the costs, enhance the gross profit margin and, provide better control on products availability and quality.

Securities Trading

Given the improved global economy, the Group's securities trading business achieved a commendable result. This was attributable to the appreciation in the capital value of various investment funds and equities. In leveraging the risk and being conservative, funds and bonds investments represented the largest proportion of the portfolios.

Travel business

With the first franchisee successfully granted, travel business has posted a turnover contribution to the Group. Apart from the franchisee fee received, the revenue also included income derived from the provision of agency services. As this business was still in its development stage, the bottom line was in a loss position. This was attributable to the costs for the establishment of the new office and recruitment of new staff that was fully reflected in the year under review. The management has formulated plan to invite franchisees to propel its future growth.

PRC Property Investments

In Dalian, faced with intensified competition in the service apartment market, the occupancy rate has been dropping. With the building passing its ninth year, the existing facilities combining normal wear and tear contrasted with the surrounding new apartments made the building looked less competitive. An impairment loss of HK$74 million had been made for this building. The management was reviewing proposals to rectify its position in the market. Apart from the service apartment, the lower part of the building was still under a long lease to a reputable department store operator with a stable rental income to the Group.

GROUP MANAGING DIRECTOR'S REVIEW OF OPERATIONS

UK Property Investments

During the year, property development in UK recorded a satisfactory result. This was attributable to the sale of various property projects; including the London Parklane Marriot Hotel, a hotel complex tower consisted of hotel rooms, apartments and commercial units; Lowndes Square in Belgravia, a superb penthouse apartment in the top end of the London market; investment in West India Quay, a hotel with 47 service apartments and 158 residential apartments. All these projects were realised and brought favorable returns to the Group.

LOOKING AHEAD

Moving forward, priorities will be placed on sustaining the profitability, solidifying the brand awareness and eliminating the impact on unexpected fluctuations. On the department stores, the company plans to re-arrange the product mix to be less susceptible to weather change, bring in higher quality merchandises to serve the upper market niche and carrying new brands to differentiate itself from competitors. With this plan to serve the higher market segment, the flagship Central store will be refurbished to provide an uplifted image and all the departments will be re-arranged.

Materialised from the completion of various property projects, the Group has the financial agility to capture additional growth opportunities. The company has already planned to upgrade the department stores point of sales and computer systems and to improve the inventory and logistic controls to enhance the productivity and efficiency. On the property development, the Group will explore investment opportunities to widen the revenue base.

For the furniture business, the management will solidify its manpower team and develop its manufacturing line to drive the growth. The Group will also seek to widen its revenue base by boosting the well-prepared travel franchising business. On the advertising front, a senior executive will be stationed in China to capture the advertising opportunities from international events including the 2008 Beijing Olympics and the 2010 World Expo in Shanghai.

With these initiatives and opportunities, the Group is cautiously optimistic to achieve encouraging result in the years ahead.

Philip K H MA
Group Managing Director

21 June 2007

(A) CORPORATE GOVERNANCE PRACTICE

The Company has complied throughout the year ended 28 February 2007 with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that the non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Company's Articles of Association.

(B) MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the code governing the transactions of securities by the Directors. After making specific enquiry to all Directors, it is confirmed by the Company that the Directors of the Company had complied with the relevant standard as provided in such code referred to above.

(C) BOARD OF DIRECTORS

(i) The Board

The Board has five members, comprising three Independent Non-executive Directors and two executive Directors. The Board is responsible to ensure the Company achieves its objectives, approve the business strategic plans and review management performance. The Chief Executive Officer (i.e. Group Managing Director and Executive Director) is responsible for leading the management team to manage day-to-day operation and report to the Board the way the business is run and its performance. The Chairman is responsible for running the Board, ensuring that members of the Board receive accurate, timely and clear information to help them reach well-informed and well-considered decisions; and ensuring that enough time is allowed for discussion of complex or contentious issues.

The positions of the Executive Chairman of the Board and the Chief Executive Officer are held separately by two individuals to ensure their respective independence, accountability and responsibility.

(ii) Relationship among members of the Board

Walter K W Ma, Philip K H Ma and King Wing Ma are cousins. To the best knowledge of the Company, save as disclosed above, there is no financial, business and family relationship among members of the Board. All of them are free to exercise their independent judgement.

CORPORATE GOVERNANCE REPORT

(C) BOARD OF DIRECTORS *(continued)*

(iii) Independent Non-executive Directors

The Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules for the appointment of three Independent Non-executive Directors.

The Company has received, from each of the Independent Non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

(iv) The Board meets regularly and held twelve meetings in year 2006/07. The following table shows the attendance of Directors at Board meetings during the year:

	Attendance	**Attendance Rate**
Executive Directors		
Walter K W MA *(Executive Chairman)*	11/12	92%
Philip K H MA *(Group Managing Director and Executive Director)*	12/12	100%
Independent Non-executive Directors		
King Wing MA	12/12	100%
Eric K K LO	12/12	100%
Charles M W CHAN	11/12	92%

(D) COMMITTEES OF THE BOARD

The Board has established committees, namely Audit Committee, Remuneration Committee and Nomination Committee to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities.

(i) Audit Committee

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee consists of three Independent Non-executive Directors, namely Eric K K Lo, Charles M W Chan and King Wing Ma. Eric K K Lo is the Chairman of the Audit Committee. The Audit Committee held two meetings during the year with attendance rate of 100%.

The Audit Committee is mainly responsible for monitoring the integrity of the Company's financial statements, reviewing the Company's internal control system and its execution, evaluating financial information and related disclosure; and auditing major connected transactions.

The Group's audited financial statements for the year ended 28 February 2007 has been reviewed by the Audit Committee.

(D) COMMITTEES OF THE BOARD *(continued)*

(ii) Remuneration Committee

The Company has established Remuneration Committee with written terms of reference as stated in Code B.1.3 of the Appendix 14 of the Listing Rules. The Remuneration Committee consists of three Independent Non-executive Directors and Charles M W Chan is the Chairman of the Remuneration Committee.

The Remuneration Committee is responsible for ensuring formal and transparent procedures for developing remuneration policies and overseeing the remuneration packages of the executive Directors and senior management. The Remuneration Committee convenes one meeting during the year with attendance rate of 100%. The Remuneration Committee is also responsible for determining the remuneration standards of Directors and senior management, reviewing and approving remuneration plan, deciding bonus and reward system of the Directors and senior management. It takes into account factors such as salaries paid by comparable companies with similar size and trade, education background and qualification of each Director and senior management, time commitment and responsibilities of Directors and senior management.

(iii) Nomination Committee

The Company has established Nomination Committee with written terms of reference as stated in Code A.4.5 of the Appendix 14 of the Listing Rules. The existing Nomination Committee comprises three Independent Non-executive Directors.

The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board and make recommendations to the Board regarding any proposed changes, identifying individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for Directorships, assess the independence of Independent Non-executive Directors; and make recommendations to the Board on relevant matters relating to the appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer.

(E) DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

CORPORATE GOVERNANCE REPORT

(F) AUDITORS' REMUNERATION

During the year, the fees payable to Ernst & Young, the Company's external auditors, for audit services totalled to HK$2,448,000 (2006:HK$2,288,000). Ernst & Young has also provided the Group with non-audit services, including review of interim financial report and provision of tax services, at fees to HK$511,000 (2006:HK$514,000).

(G) INTERNAL CONTROL

The Board has the overall responsibility for maintaining effective internal controls within the Group for the operations of its business.

The internal control system is designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the achieving of business objectives and safeguarding the Group's assets, and compliance with the relevant legislation and regulations. The Audit Committee reviews and monitors the effectiveness of the Group's internal control system twice a year.

The Board is responsible to (a) ensure the Group has complied with the Code and the Listing Rules; (b) monitor the performance and operation of the Group through review and approval of business strategies, budgets and plans and setting of key business performance targets; (c) formulate the business policy, systems and strategy of the Group as a whole; (d) control over capital expenditure and investments; and (e) set standards and targets for safety and health performances.

The Board has set up a Council which consists of Philip K H Ma, and senior management of store operation, merchandising and finance departments to oversee the department stores operations. The Council is responsible to review an annual business plan and budget, which are subject to review and approval by the Board and monitor the performance and operation through comparison of the annual business plan and budget with the actual financial results.

Upon the annual business plan and budget being reviewed and approved by the Board, the department heads of various departments have to strictly adhere to the respective annual departmental plan and budget. The department head of the various departments have to obtain prior approval for any unbudgeted expenses. The Council reviews the key operating statistics and the monthly financial results and hold regular meetings with various department heads to review the business performance against budgets, forecasts, significant business risk sensitivities and strategies and to address accounting and finance related matters.

REPORT OF THE DIRECTORS

The directors submit their annual report and the audited financial statements of the Company and of the Group for the financial year ended 28 February 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries during the financial year consisted of the operation of department stores, holding of properties for investment and rental purposes, property development, securities trading, the provision of advertising agency services and the provision of travel agency franchising services.

RESULTS

The Group's profit for the financial year ended 28 February 2007 and the state of affairs of the Company and of the Group as at that date are set out in the audited financial statements on pages 25 to 79.

A summary of the published results and of the assets, liabilities and minority interests of the Group for the last five financial years is set out on page 82 of the annual report.

SHARE CAPITAL

As at 28 February 2007, the number of issued shares of HK$0.50 each was 574,308,000. There was no movement in the share capital of the Company in the year under review. Details of the Company's share capital are set out in note 28 to the financial statements.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and of the Group are set out in note 38 to the financial statements.

PLEDGE OF ASSETS

Details of the pledge of assets of the Group are set out in notes 13, 23 and 26 to the financial statements.

SEGMENT INFORMATION

The principal activities of the Company and its subsidiaries have not changed during the year and mainly consisted of the operation of department stores, holding of properties for investment and rental purposes, property development, securities trading, the provision of advertising agency services and the provision of travel agency franchising services.

Details of the segment information of the Group are set out in note 4 to the financial statements.

DIVIDENDS

The directors have recommended for adoption at the Annual General Meeting to be held on 3 August 2007 the payment on 10 August 2007 to shareholders registered on 3 August 2007 of a final dividend in respect of the financial year ended 28 February 2007 of HK1.2 cents (2006: Nil) per share. This recommendation has been disclosed in note 11 to the financial statements.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Changes to the property, plant and equipment, and investment properties of the Company and of the Group are disclosed in notes 13 and 14 to the financial statements, respectively. Details of the investment properties of the Group are set out on page 80 of the annual report.

PROPERTIES UNDER DEVELOPMENT

Details of the properties under development of the Group are set out in note 16 to the financial statements and on page 81 of the annual report.

PROPERTIES HELD FOR SALE

Details of the properties held for sale of the Group are set out in note 20 to the financial statements.

RESERVES

Movements in the reserves of the Company and of the Group during the financial year are set out in note 31(b) to the financial statements, and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 28 February 2007, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance, amounted to HK$472,550,000, of which HK$6,892,000 has been proposed as a final dividend for the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 28 February 2007, the Group's sales to the five largest customers and purchases from the five largest suppliers accounted for less than 30% of the Group's turnover and purchases, respectively.

DIRECTORS

The directors who served during the financial year were as follows:

Executive Directors:
Walter K W MA *(Executive Chairman)*
Philip K H MA *(Group Managing Director)*

Independent Non-executive Directors:
King Wing MA
Eric K K LO
Charles M W CHAN

In accordance with article 99 of the Company's Articles of Association, Walter K W Ma, Philip K H Ma and Charles M W Chan will retire and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

No director has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Details of the biographies of the directors and senior executives are set out on page 21 of this annual report.

PRINCIPAL SHAREHOLDERS

At 28 February 2007, according to the register of interests required to be kept by the Company pursuant to Section 336 of Securities and Futures Ordinance (the "SFO") and so far as is known to the directors, The Sincere Life Assurance Company Limited and The Sincere Insurance & Investment Company, Limited were interested in 183,136,032 and 75,608,064 shares of HK$0.50 each of the Company, representing 31.89% and 13.17% of the issued share capital of the Company, respectively. Save for the above, there were no shareholders who had registered an interest, directly or indirectly, of 5% or more of the issued share capital of the Company.

DIRECTORS' INTERESTS IN SHARES

At 28 February 2007, the interests of the directors in the share capital of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(a) Long position in shares of the Company

	Number of ordinary shares held, capacity and nature of interest					
Directors	Personal interests	Family interests	Corporate interests	Other interests	Total	Percentage of the issued share capital
Walter K W MA	9,925,000	–	–	–	9,925,000	1.7
Philip K H MA	2,000,000	–	–	–	2,000,000	0.3
King Wing MA	992,576	–	–	–	992,576	0.2
Eric K K LO	2,200,400	–	–	–	2,200,400	0.4
Charles M W CHAN	40,000	–	–	–	40,000	–

(b) Associated corporations

At 28 February 2007, Walter K W Ma, Philip K H Ma, King Wing Ma and Eric K K Lo held 527, 713, 575 and 216 ordinary shares, respectively, in The Sincere Life Assurance Company Limited. In addition, at 28 February 2007, Philip K H Ma held 500 promoter shares in The Sincere Life Assurance Company Limited.

At 28 February 2007, Walter K W Ma, Philip K H Ma, King Wing Ma and Eric K K Lo held 4,521, 2,485, 6 and 1,019 ordinary shares, respectively, in The Sincere Insurance & Investment Company, Limited.

At 28 February 2007, Walter K W Ma and Philip K H Ma held 10 and 10 ordinary shares, respectively, in The Sincere Company (Perfumery Manufacturers), Limited.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES *(continued)*

In addition to the above, certain directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with minimum company membership requirements.

Save as disclosed herein, as at 28 February 2007, none of the directors or any of their associates had any interests or short position in any of the shares, underlying shares or debentures of the Company or any of its associated corporations that is required to be recorded and kept in the register in accordance with Section 352 of the SFO.

At no time during the financial year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company or their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

During the financial year, the Company continued to hold its investment made in 1997 of a 10% equity interest in and an interest-free shareholders' loan to Goldian Limited ("Goldian"), a company incorporated in Hong Kong, of which Walter K W Ma and Eric K K Lo are directors, and Philip K H Ma is an alternate director to Walter K W Ma. The aggregate of the investment and the loan advancement amounted to HK$12,578,000 as at 28 February 2007.

In the opinion of the directors, the above transactions were transacted on what they considered arm's length basis among the Company and Goldian, and were conducted in the ordinary course of business of the relevant companies.

Apart from the above, none of the directors had a significant beneficial interest in any contract of significance to the business of the Company or any of its subsidiaries to which the Company or any of its subsidiaries was a party during the financial year.

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the financial year.

REPORT OF THE DIRECTORS

BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

Directors

Walter K W MA, aged 77, is the Executive Chairman. Mr. Walter Ma became a director in 1966, Chairman in 1978 and an executive director in 1982. He is also the Chairman of Joyce Boutique Holdings Limited which is listed on the main board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"). He has practiced as a Certified Public Accountant in Hong Kong and, is a fellow of the Hong Kong Institute of Certified Public Accountants and an associate of the CPA Australia. Mr. Walter Ma is the cousin of Mr. Philip K H Ma and Mr. King Wing Ma who are also directors of the Company. Save as disclosed above, Mr. Walter Ma does not have any relationship with any other directors and senior management of the Company. He is also a director of The Sincere Life Assurance Company Limited and The Sincere Insurance & Investment Company, Limited.

Philip K H MA, aged 51, is the Group Managing Director. He joined the board of directors in 1990, became an executive director in 1992, has been President since 1993 and was retitled as Group Managing Director in 1996. He is also an Independent Non-executive Director of North Asia Strategic Holdings Limited which is listed on the Growth Enterprise Market of the Stock Exchange. Mr. Philip Ma holds an MBA degree. He is currently in charge of all aspects of the Group's operations. Mr. Philip Ma is the cousin of Mr. Walter K W Ma and Mr. King Wing Ma who are also directors of the Company. Save as disclosed above, Mr. Philip Ma does not have any relationship with any other directors and senior management of the Company. He is also a director of The Sincere Life Assurance Company Limited and The Sincere Insurance & Investment Company, Limited.

King Wing MA, aged 75, has been an Independent Non-executive Director of the Company since 1980. He is a general medical practitioner with over 43 years' experience in England, the United States of America and Hong Kong. Mr. King Wing Ma is the cousin of Mr. Walter K W Ma and Mr. Philip K H Ma who are also directors of the Company. Save as disclosed above, Mr. King Wing Ma does not have any relationship with any other directors and senior management of the Company.

Eric K K LO, aged 58, has been an Independent Non-executive Director of the Company since December 1993. He is also an Independent Non-executive Director of Joyce Boutique Holdings Limited which is listed on the Stock Exchange. Mr. Lo does not have any relationship with any directors and senior management of the Company.

Charles M W CHAN, aged 51, has been an Independent Non-executive Director of the Company since November 1995. Mr. Chan is also an Executive Director of International Hoteliers Limited. He is a member of the American Institute of Certified Public Accountants. Mr. Chan does not have any relationship with any directors and senior management of the Company.

Senior executives

John Y C FU, aged 46, joined the Company in January 2003, as the Group Director of Finance and Administration, in charge of Finance and Accounting, Administration, MIS, Logistics and Warehousing. He has over 16 years of senior management experience in two leading international retail chains with regional exposures. He holds an MBA degree in General Management and an MSc degree in Finance.

Eileen H Y MA, aged 53, joined the Company in August 2002 as Merchandising Director and currently in charge of Merchandising, Operations and Marketing for the Hong Kong department stores. She has over 30 years' experience in retailing and holds a Bachelor Degree in Marketing.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF OWN LISTED SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the financial year.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year, no director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules, other than those businesses to which the directors were appointed as directors to represent the interest of the Company and/or the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company's shares which are in the hands of the public exceeded 25% of the Company's total issued share capital as at the date of this report.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three members all of whom are Independent Non-executive Directors, namely, Eric K K Lo, Charles M W Chan and King Wing Ma. Regular meetings have been held by the Audit Committee since its establishment and the Audit Committee met two times in the year under review. The primary duties of the Audit Committee are to review the Group's internal control and financial reporting process including interim and annual financial statements before recommending them to the Board of Directors for approval. The Group's audited results for the year ended 28 February 2007 have been reviewed by the Audit Committee.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Walter K W MA
Executive Chairman

Hong Kong, 21 June 2007

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG
安永會計師事務所

To the shareholders of
The Sincere Company, Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of The Sincere Company, Limited set out on pages 25 to 79, which comprise the consolidated and company balance sheets as at 28 February 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 28 February 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street
Central
Hong Kong

21 June 2007

CONSOLIDATED INCOME STATEMENT

Year ended 28 February 2007

	Notes	**2007 HK$'000**	2006 HK$'000
REVENUE	5	**509,785**	468,440
Cost of sales		**(233,191)**	(242,015)
Other income		**112,285**	35,685
Selling and distribution costs		**(136,566)**	(125,743)
General and administrative expenses		**(129,578)**	(109,056)
Other operating expenses		**(79,026)**	(17,609)
Finance costs	8	**(10,907)**	(14,148)
Share of profits less losses of associates		**17,395**	5,746
PROFIT BEFORE TAX	6	**50,197**	1,300
Tax	9	**(1,514)**	–
PROFIT FOR THE YEAR		**48,683**	1,300
ATTRIBUTABLE TO:			
Equity holders of the Company	10	**41,194**	4,128
Minority interests		**7,489**	(2,828)
		48,683	1,300
DIVIDEND			
Proposed final	11	**6,892**	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	12		
Basic		**HK7.2 cents**	HK0.7 cent
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

28 February 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**72,677**	82,635
Investment properties	14	**126,180**	166,380
Prepaid land premium	15	**776**	798
Properties under development	16	**79,100**	108,800
Interests in associates	18	**141,464**	256,863
Available-for-sale investments	19	**9,171**	43,709
Rental deposits		**5,661**	5,404
Pension scheme assets	7	**5,509**	6,039
Total non-current assets		**440,538**	670,628
CURRENT ASSETS			
Properties held for sale	20	**–**	75,260
Inventories		**47,546**	42,584
Debtors	21	**683**	689
Prepayments, deposits and other receivables	22	**129,587**	132,339
Financial assets at fair value through profit or loss	23	**381,695**	263,377
Positive fair values of derivative financial instruments	24	**1,281**	–
Pledged bank balances	26	**21,784**	12,589
Pledged deposits with banks	26	**110,281**	102,240
Cash and bank balances	25	**76,525**	57,135
Total current assets		**769,382**	686,213
CURRENT LIABILITIES			
Interest-bearing borrowings and overdrafts	26	**180,821**	306,579
Creditors	27	**66,523**	88,580
Deposits, accrued expenses and other payables		**47,781**	36,908
Negative fair values of derivative financial instruments	24	**5,319**	–
Tax		**3,917**	150
Unclaimed dividends		**4,605**	4,605
Total current liabilities		**308,966**	436,822
NET CURRENT ASSETS		**460,416**	249,391
TOTAL ASSETS LESS CURRENT LIABILITIES		**900,954**	920,019

CONSOLIDATED BALANCE SHEET (Continued)

28 February 2007

	Notes	2007 HK$'000	2006 HK$'000
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital	28	**287,154**	287,154
Share premium account	29	**26**	26
Reserves	31(a)	**627,934**	591,789
Proposed final dividend	11	**6,892**	–
		922,006	878,969
MINORITY INTERESTS		**(21,052)**	41,050
Total equity		**900,954**	920,019

Walter K W Ma
Director

Philip K H Ma
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 28 February 2007

	Attributable to equity holders of the Company							
			Reserves					
	Issued share capital	Share premium account	General and other reserves*#	Retained profits*	Proposed final dividend	Total reserves	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 March 2005	287,154	26	61,760	529,332	–	591,092	47,576	925,848
Exchange adjustment recognised directly in equity	–	–	(3,431)	–	–	(3,431)	–	(3,431)
Total income and expense recognised directly in equity	–	–	(3,431)	–	–	(3,431)	–	(3,431)
Profit for the year	–	–	–	4,128	–	4,128	(2,828)	1,300
Total income and expense for the year	–	–	(3,431)	4,128	–	697	(2,828)	(2,131)
Movement in balances with minority shareholders	–	–	–	–	–	–	(3,698)	(3,698)
At 28 February 2006 and 1 March 2006	287,154	26	58,329	533,460	–	591,789	41,050	920,019
Exchange adjustment recognised directly in equity	–	–	8,737	–	–	8,737	–	8,737
Total income and expense recognised directly in equity	–	–	8,737	–	–	8,737	–	8,737
Realisation of exchange fluctuation reserve upon deregistration of subsidiaries	–	–	(6,894)	–	–	(6,894)	–	(6,894)
Profit for the year	–	–	–	41,194	–	41,194	7,489	48,683
Total income and expense for the year	–	–	1,843	41,194	–	43,037	7,489	50,526
Proposed final 2007 dividend	–	–	–	(6,892)	6,892	–	–	–
Movement in balances with minority shareholders	–	–	–	–	–	–	(69,591)	(69,591)
At 28 February 2007	**287,154**	**26**	**60,172****	**567,762****	**6,892**	**634,826**	**(21,052)**	**900,954**

* Included in the balances of retained profits and general and other reserves at 28 February 2007 were amounts of HK$92,096,000 (2006: HK$191,131,000) and HK$26,336,000 (2006: HK$15,299,000) respectively, attributable to associates.

** These reserves amounts comprise the consolidated reserves of HK$627,934,000 (2006: HK$591,789,000) in the consolidated balance sheet.

Included in the general and other reserves at 28 February 2007 was an amount of HK$13,560,000 (2006: HK$11,717,000) attributable to the exchange fluctuation reserve.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 28 February 2007

	Notes	**2007** **HK$'000**	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**50,197**	1,300
Adjustments for:			
Interest expense		**10,907**	14,148
Share of profits less losses of associates		**(17,395)**	(5,746)
Interest income		**(14,830)**	(6,408)
Depreciation		**11,638**	12,135
Amortisation of prepaid land premium		**22**	22
Goodwill impairment		**–**	6,067
Impairment on items of property, plant and equipment in Mainland China		**3,940**	3,205
Fair value loss on investment properties in Mainland China		**40,200**	1,420
Impairment on properties under development in Mainland China		**29,700**	2,700
Loss/(gain) on disposal/write-off of items of property, plant and equipment		**(1)**	485
Gain on disposal of an available-for-sale investment		**(3,022)**	–
Gain on deregistration of subsidiaries	*34*	**(6,420)**	–
Dividend income received from an available-for-sales investment		**(65,849)**	–
Exchange realignment		**(3,862)**	(270)
		35,225	29,058
Decrease/(increase) in pension scheme assets		**530**	(117)
Decrease in properties held for sale		**75,260**	89,153
Decrease/(increase) in inventories		**(4,962)**	3,662
Decrease in debtors		**6**	223
Decrease/(increase) in prepayments, deposits and other receivables		**1,878**	(101,728)
Increase in financial assets at fair value through profit or loss		**(118,318)**	(12,146)
Net decrease in fair values of derivative financial instruments		**4,038**	–
Increase/(decrease) in creditors		**(22,057)**	44,823
Increase/(decrease) in deposits, accrued expenses and other payables		**11,063**	(5,620)
Cash generated from/(used in) operations		**(17,337)**	47,308
Interest received		**14,830**	6,408
Interest paid		**(10,907)**	(14,148)
Overseas tax refund		**2,120**	–
Net cash inflow/(outflow) from operating activities		**(11,294)**	39,568

CONSOLIDATED CASH FLOW STATEMENT (Continued)

Year ended 28 February 2007

	Notes	2007 HK$'000	2006 HK$'000
Net cash inflow/(outflow) from operating activities		**(11,294)**	39,568
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to items of property, plant and equipment		**(3,964)**	(14,707)
Advances from associates		**27,401**	1,957
Proceeds received from disposal of an available-for-sale investment		**37,560**	–
Payment of rental deposits		**(257)**	(1,314)
Increase in pledged bank balances		**(9,195)**	(4,187)
Increase in pledged deposits with banks		**(8,041)**	(13,240)
Proceeds on disposal of items of property, plant and equipment		**40**	60
Dividend income received from an available-for-sale investment		**65,849**	–
Dividend income received from an associate		**116,430**	–
Net cash inflow/(outflow) from investing activities		**225,823**	(31,431)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of bank loans		**(1,761,050)**	(380,227)
New bank loans and other borrowings		**1,651,168**	416,683
Minority interests		**(69,381)**	(3,698)
Net cash inflow/(outflow) from financing activities		**(179,263)**	32,758
NET INCREASE IN CASH AND CASH EQUIVALENTS		**35,266**	40,895
Cash and cash equivalents at beginning of year		**41,254**	359
CASH AND CASH EQUIVALENTS AT END OF YEAR		**76,520**	41,254
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**76,525**	57,135
Bank overdrafts	26	**(5)**	(15,881)
		76,520	41,254

BALANCE SHEET

28 February 2007

	Notes	**2007 HK$'000**	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**10,989**	15,926
Interests in subsidiaries	17	**669,961**	790,545
Interests in associates	18	**16,088**	16,112
Available-for-sale investments	19	**9,171**	9,171
Rental deposits		**5,661**	5,404
Pension scheme assets	7	**5,509**	6,039
Total non-current assets		**717,379**	843,197
CURRENT ASSETS			
Inventories		**47,367**	42,412
Debtors, prepayments and deposits		**10,023**	13,286
Pledged deposits with banks		**35,610**	34,195
Cash and bank balances	25	**30,483**	18,120
Total current assets		**123,483**	108,013
CURRENT LIABILITIES			
Interest-bearing borrowings and overdrafts	26	**–**	37,533
Creditors	27	**62,092**	84,704
Deposits, accrued expenses and other payables		**14,435**	14,184
Unclaimed dividends		**4,605**	4,605
Total current liabilities		**81,132**	141,026
NET CURRENT ASSETS/(LIABILITIES)		**42,351**	(33,013)
TOTAL ASSETS LESS CURRENT LIABILITIES		**759,730**	810,184
EQUITY			
Issued share capital	28	**287,154**	287,154
Share premium account	29	**26**	26
Reserves	31(b)	**465,658**	523,004
Proposed final dividend	11	**6,892**	–
Total equity		**759,730**	810,184

Walter K W Ma
Director

Philip K H Ma
Director

NOTES TO FINANCIAL STATEMENTS

28 February 2007

1. CORPORATE INFORMATION

The Sincere Company, Limited is a limited liability company incorporated in Hong Kong. The principal activities of the Company and its subsidiaries during the year consisted of the operation of department stores, holding of properties for investment and rental purposes, property development, securities trading, the provision of advertising agency services and the provision of travel agency franchising services.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, derivative financial instruments and financial assets at fair value through profit or loss, which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 28 February 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"

The principal changes in accounting policies are as follows:

(a) HKAS 19 Employee Benefits

The amendment to HKAS 19 regarding actuarial gains and losses, group plans and disclosures introduces an additional recognition option for actuarial gain and losses arising in post-employment defined benefit schemes and additional disclosure requirements for the defined benefit schemes. The Group has not used this option, and hence the adoption of this amendment has had no effect on these financial statements other than the required additional disclosures.

(b) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 28 February 2007 or 28 February 2006.

(c) HKAS 27 Consolidated and Separate Financial Statements

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements as described in note 2.4 "Summary of significant accounting policies" below.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

(d) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(iii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. This revised standard will affect the disclosures about qualitative information about the Group's objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for accounting periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 "Segment Reporting".

HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for accounting periods beginning on or after 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. In the opinion of the directors, while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs should not have any significant impact on the Group's results of operations and financial position.

NOTES TO FINANCIAL STATEMENTS (Continued)

28 February 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

Certain associates also hold shares in The Sincere Company, Limited and, in these cases, in computing the Group's share of results, appropriate elimination is made of any amount by which these companies' own reported results have been affected by such shareholdings. The enhancement of the Group's share of the associates' retained profits resulting from the latters' receipt of dividends from The Sincere Company, Limited is reflected as a movement in the reserves of associates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, pension scheme assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs necessary to make the sale.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on investments held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale investments are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets *(continued)*

Assets carried at amortised cost *(continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets (continued)

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing borrowings and overdrafts)

Financial liabilities including creditors, deposits, other payables and interest-bearing borrowings and overdrafts are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial guarantee contracts

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Derivative financial instruments held for trading are typically entered into with the intention to settle in the near future. These instruments are initially recorded at fair value. Subsequent to initial recognition, these instruments are remeasured at fair value.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap and equity contracts are determined by reference to market values for similar instruments.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	2% – 4%
Furniture, fixtures and equipment	10% – 20%
Motor vehicles	16 $^{2}/_{3}$% – 25%
Leasehold improvements	Shorter of lease terms and useful lives

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Properties under development

Properties under development are stated at cost which includes all development expenditure, finance charges capitalised and other costs directly attributable to such properties.

Properties under development which have either been pre-sold or which are intended for sale, and are expected to be completed within one year from the balance sheet date, are classified as current assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Income from property sale is recognised when the legally binding sale contracts are signed.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Retirement benefits

The Group operates a funded final salary defined benefit pension scheme (the "Scheme") for those employees who are eligible to participate in the Scheme. The expected costs of providing pensions under the Scheme are charged to the income statement over the periods during which the employees provide the related services to the Group.

An actuarial estimate is made annually by a professionally qualified independent actuary, using the projected unit credit actuarial valuation method, of the present value of the Group's future defined benefit obligation under the Scheme earned by the employees as at the balance sheet date (the "Scheme obligation"). The assets contributed by the Group to the Scheme (the "Scheme assets") are held separately from the assets of the Group in an independently administered fund, and are valued at their fair value at the balance sheet date.

The effect of actuarial gains and losses experienced in the estimation of the Scheme obligation and the valuation of the Scheme assets is initially recorded in the balance sheet and is subsequently recognised in the income statement only when the net cumulative actuarial gains or losses in the balance sheet exceed 10% of the higher of the Scheme obligation and the fair value of Scheme assets at the beginning of the period. Such "excess" net cumulative actuarial gains or losses are recognised in the income statement over the expected average remaining working lives of the employees participating in the Scheme.

The net total of the fair value of the Scheme assets, plus any actuarial losses (less any actuarial gains) not recognised, plus any past service cost not yet recognised and minus the present value of the Scheme obligation, is recognised in the balance sheets within non-current assets or non-current liabilities, as appropriate. If the net amount results in an asset, the amount of the asset is limited to the net total of any net cumulative actuarial losses remaining in the balance sheet, and the present value of any future refunds from the Scheme or reductions in future contributions to the Scheme. Movements in the net asset or liability recognised in the balance sheets during the period, other than those deferred in the balance sheets, are recorded in the income statement for the period.

The amounts of the contributions payable by the Group to the Scheme are determined by the actuary using the projected unit credit actuarial valuation method.

In addition, the Group also operates a defined contribution Mandatory Provident Fund ("MPF") retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance. Contributions to the MPF Scheme are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The Group's employer contributions are fully and immediately vested in favour of the employees when contributed to the MPF Scheme.

The employees of the subsidiaries established in Mainland China are members of the Central Pension Scheme operated by the Mainland China government. The subsidiaries are required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. The only obligation for the subsidiaries with respect to the Central Pension Scheme is to meet the required contributions under the Central Pension Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) trading of securities, on the trade day;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets;

(c) dividend income, when the shareholders' right to receive payment is established;

(d) rental income, in the period in which the properties are let out and on the straight-line basis over the lease terms;

(e) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(f) sale of properties, when the legally binding unconditional sales contracts are signed and exchanged;

(g) advertising agency fee income, on completion of the services; and

(h) income from counter and consignment sales, when the goods are sold.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

The functional currencies of certain subsidiaries and associates outside Hong Kong are currencies other than Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of an entity outside Hong Kong, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of subsidiaries outside Hong Kong are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of subsidiaries outside Hong Kong which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a member of the key management personnel of the Group;

(d) the party is a close member of the family of any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS (Continued)

28 February 2007

3. SIGNIFICANT ACCOUNTING ESTIMATES

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Estimation of impairment losses of available-for-sale investments

In the absence of current prices in an active market for similar unlisted equity securities, the Group determines their fair values by using valuation techniques based on information from a variety of sources, including the latest financial information of the available-for-sale investments.

The carrying amount of the available-for-sale investments at 28 February 2007 was HK$9,171,000 (2006: HK$43,709,000), further details of which are set out in note 19 to the financial statements.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the department store operations segment consists of the operations of department stores offering a wide range of consumer products;

(b) the property rental segment consists of holding of properties for investment and rental purposes;

(c) the property development segment consists of the development and sale of properties;

(d) the securities trading segment consists of the trading of Hong Kong and overseas securities; and

(e) the corporate and others segment consists of corporate income and expenses items, advertising agency services and travel agency franchising services.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the businesses, and assets are attributed to the segments based on the location of the assets.

Intersegment sales are transacted based on the direct costs incurred or in case of rental income and income from the provision of warehouse services, an agreed rate.

4. SEGMENT INFORMATION *(continued)*

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 28 February 2007 and 2006.

	Department store operations		Property rental		Property development		Securities trading		Corporate and others		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:														
Sales to external customers	**349,271**	355,042	**9,112**	10,744	**119,010**	78,476	**27,480**	18,439	**4,912**	5,739	**–**	–	**509,785**	468,440
Intersegment sales	**–**	–	**17,342**	18,116	**–**	–	**–**	–	**10,078**	7,749	**(27,420)**	(25,865)	**–**	–
Other revenue	**6,480**	1,309	**–**	11,154	**–**	–	**678**	703	**125**	–	**–**	–	**7,283**	13,166
Total	**355,751**	356,351	**26,454**	40,014	**119,010**	78,476	**28,158**	19,142	**15,115**	13,488	**(27,420)**	(25,865)	**517,068**	481,606
Segment results	**(4,311)**	(4,375)	**(74,434)**	9,207	**12,807**	(13,256)	**17,940**	12,263	**(12,140)**	(8,793)	**–**	–	**(60,138)**	(4,954)
Interest, dividend income and unallocated revenue													**105,002**	22,519
Unallocated expenses													**(1,155)**	(7,863)
Finance costs													**(10,907)**	(14,148)
Share of profits less losses of associates													**17,395**	5,746
Profit before tax													**50,197**	1,300
Tax													**(1,514)**	–
Profit for the year													**48,683**	1,300
Segment assets	**151,936**	126,248	**286,857**	365,837	**12,931**	126,501	**608,607**	450,781	**17,397**	22,184	**(27,692)**	(26,303)	**1,050,036**	1,065,248
Unallocated assets													**18,415**	18,849
Interests in associates	**–**	–	**–**	–	**33,041**	153,203	**–**	–	**108,423**	103,660		–	**141,464**	256,863
Bank overdrafts included in segment assets	**–**	15,881	**–**	–	**–**	–	**5**	–	**–**	–		–	**5**	15,881
Total assets													**1,209,920**	1,356,841
Segment liabilities	**110,006**	131,312	**8,987**	8,502	**17,826**	6,858	**8,726**	701	**5,822**	4,877	**(27,692)**	(26,303)	**123,675**	125,947
Unallocated liabilities													**185,286**	294,994
Bank overdrafts included in segment assets	**–**	15,881	**–**	–	**–**	–	**5**	–	**–**	–		–	**5**	15,881
Total liabilities													**308,966**	436,822

NOTES TO FINANCIAL STATEMENTS (Continued)

28 February 2007

4. SEGMENT INFORMATION *(continued)*

(a) Business segments *(continued)*

	Department store operations		Property rental		Property development		Securities trading		Corporate and others		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:														
Depreciation	**8,184**	8,819	**2,724**	2,579	**–**	–	**84**	84	**646**	653	**–**	–	**11,638**	12,135
Amortisation of prepaid land premium	**–**	–	**22**	22	**–**	–	**–**	–	**–**	–	**–**	–	**22**	22
Capital expenditure	**2,945**	12,740	**840**	561	**–**	–	**–**	336	**179**	1,070	**–**	–	**3,964**	14,707
Loss/(gain) on disposal/ write-off of items of property, plant and equipment	**(40)**	516	**39**	12	**–**	–	**–**	–	**–**	(43)	**–**	–	**(1)**	485
Write-back of provision for obsolete inventories	**(141)**	(827)	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(141)**	(827)
Impairment on items of property, plant and equipment in Mainland China	**–**	–	**3,940**	3,205	**–**	–	**–**	–	**–**	–	**–**	–	**3,940**	3,205
Fair value loss on investment properties in Mainland China	**–**	–	**40,200**	1,420	**–**	–	**–**	–	**–**	–	**–**	–	**40,200**	1,420
Impairment on properties under development in Mainland China	**–**	–	**29,700**	2,700	**–**	–	**–**	–	**–**	–	**–**	–	**29,700**	2,700
Impairment on goodwill	**–**	–	**–**	6,067	**–**	–	**–**	–	**–**	–	**–**	–	**–**	6,067

(b) Geographical segments

The following table presents revenue and certain assets and expenditure information for the Group's geographical segments.

	Hong Kong		Mainland China		United Kingdom ("UK")		Others		Eliminations		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:												
Sales to external customers	**387,364**	373,889	**7,271**	8,990	**107,010**	78,476	**8,140**	7,085	**–**	–	**509,785**	468,440
Segment assets	**688,002**	525,585	**234,694**	314,401	**45,972**	279,704	**241,252**	237,151	**–**	–	**1,209,920**	1,356,841
Capital expenditure	**3,847**	14,120	**111**	587	**–**	–	**6**	–	**–**	–	**3,964**	14,707

5. REVENUE

Revenue represents the Group's turnover from the invoiced value of goods sold less discounts and returns, net income from counter and consignment sales, gross proceeds from the sale of properties, net gain or loss on securities trading, rental income net of outgoings, and advertising agency fee income during the year, and is analysed as follows:

	2007	2006
	HK$'000	*HK$'000*
Sales of goods – own goods	**226,710**	220,996
Net income from counter and consignment sales	**122,561**	134,046
Gross proceeds from sale of properties	**119,010**	78,476
Net gain on securities trading	**27,480**	18,439
Property rental, net of outgoings	**9,112**	10,744
Advertising agency fee income	**4,912**	5,739
	509,785	468,440

NOTES TO FINANCIAL STATEMENTS (Continued)

28 February 2007

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2007	2006
	HK$'000	*HK$'000*
Depreciation	**11,638**	12,135
Amortisation of prepaid land premium	**22**	22
Auditors' remuneration	**2,448**	2,288
Employee benefits expenses, excluding directors' remuneration *(note 33)*		
Wages and salaries	**62,050**	55,822
Pension contributions, including pension costs for defined benefit scheme of HK$2,661,000 (2006: HK$1,878,000)	**3,303**	2,068
	65,353	57,890
Impairment on items of property, plant and equipment in Mainland China*	**3,940**	3,205
Fair value loss on investment properties in Mainland China*	**40,200**	1,420
Impairment on properties under development in Mainland China*	**29,700**	2,700
Write-back of provision for obsolete inventories**	**(141)**	(827)
Impairment of goodwill*	**–**	6,067
Net gain on financial assets at fair value through profit or loss	**(27,480)**	(18,439)
Operating lease rental payments in respect of land and buildings:		
Minimum lease payments	**82,648**	74,615
Contingent rent	**1,553**	936
Loss/(gain) on disposal/write-off of items of property, plant and equipment	**(1)**	485
Exchange losses/(gains), net	**(10,757)**	144
Gross rental income	**(9,112)**	(9,965)
Less: Outgoings	**–**	–
Net rental income	**(9,112)**	(9,965)
Dividends from listed investments	**(9,417)**	(11,794)
Interest income	**(14,830)**	(6,408)
Dividend income received from an available-for-sale investment***	**(65,849)**	–
Gain on disposal of an available-for-sale investment***	**(3,022)**	–
Gain on deregistration of subsidiaries***	**(6,420)**	–

Dividend income of HK$116,430,000 (2006: Nil) from an unlisted associate was eliminated on consolidation.

* *Amounts are included in "Other operating expenses" on the face of the consolidated income statement.*

** *Amount is included in "Cost of sales" on the face of the consolidated income statement.*

*** *Amounts are included in "Other income" on the face of the consolidated income statement.*

7. PENSION SCHEME ASSETS

(a) The amounts recognised in the balance sheets were as follows:

The Group and the Company

	Notes	**2007** **HK$'000**	2006 *HK$'000*
Present value of defined benefit obligation	*7(c)*	**(40,239)**	(37,730)
Fair value of pension scheme assets	*7(d)*	**41,284**	38,252
		1,045	522
Net unrecognised actuarial losses		**4,464**	5,517
Net asset recognised at 28 February		**5,509**	6,039

(b) The components of the Group's net pension scheme cost recognised in the consolidated income statement for the year, together with the actual return on the pension scheme assets for the year were as follows:

	2007 **HK$'000**	2006 *HK$'000*
Current service cost	**3,244**	2,972
Interest cost on defined benefit obligations	**1,576**	1,403
Expected return on pension scheme assets	**(2,120)**	(2,418)
Net cumulative actuarial losses recognised in the income statement	**134**	85
	2,834	2,042
Actuarial return/(loss) on pension scheme assets	**320**	(1,698)

The above amount of the Group's net pension scheme cost was included in the "General and administrative expenses" on the face of the consolidated income statement.

7. PENSION SCHEME ASSETS *(continued)*

(c) Movements in the present value of the Group's and the Company's defined benefit obligation were as follows:

	Notes	**2007** **HK$'000**	2006 HK$'000
At 1 March		**37,730**	35,849
Interest cost		**1,576**	1,403
Current service cost		**3,244**	2,972
Benefits paid		**(1,712)**	(1,616)
Actuarial gain		**(599)**	(878)
At 28 February	*7(a)*	**40,239**	37,730

(d) Movements in the Group's and the Company's fair value of pension scheme assets were as follows:

	Notes	**2007** **HK$'000**	2006 HK$'000
At 1 March		**38,252**	36,989
Expected return on scheme assets		**2,120**	2,418
Contributions		**2,304**	2,159
Benefits paid		**(1,712)**	(1,616)
Actuarial gain/(loss) on scheme assets		**320**	(1,698)
At 28 February	*7(a)*	**41,284**	38,252

(e) The Group and the Company expect to pay HK$1,956,000 as contributions to the pension scheme assets during the year ending 28 February 2008.

7. PENSION SCHEME ASSETS *(continued)*

(f) Scheme assets consist of the following:

	2007	2006
Equities	**14%**	13%
Bonds	**85%**	86%
Cash	**1%**	1%
Total	**100%**	100%

(g) The principal actuarial assumptions used in determining the Group's and the Company's net pension scheme assets as at the balance sheet date were as follows:

	2007	2006
	%	%
Discount rate	**4.25**	4.25
Expected rate of return on the pension scheme assets	**5.5**	5.5
Future salary increase rate	**4.5**	4.5

The expected rate of return on the pension scheme asset is based on market expectation, at the beginning of the period, for returns over the entire life of the related obligations.

(h) Other historical information of the Group's and the Company's pension scheme assets and liabilities were as follows:

	2007	2006
	HK$'000	*HK$'000*
Present value of the defined benefit obligation	**(40,239)**	(37,730)
Fair value of pension scheme assets	**41,284**	38,252
Experienced gain/(loss) arising on pension scheme assets	**320**	(1,698)
Experienced gain arising on pension scheme liabilities	**599**	878

(i) In addition to the above disclosures, the following information is further provided pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The actuarial valuation of the Group's and the Company's pension scheme as at 28 February 2007 was performed by Mr. Aaron Wong, Fellow of the Society of Actuarial, of Watson Wyatt Hong Kong Limited, using the valuation method detailed under the heading "Employee benefits: *Retirement benefits*" in note 2.4 to the financial statements.

As at 28 February 2007, the level of funding of the pension scheme was 103% (2006: 101%), as calculated under the projected unit credit actuarial valuation method.

8. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interest on bank loans and other loans wholly repayable within five years	**10,907**	14,148

NOTES TO FINANCIAL STATEMENTS (Continued)

28 February 2007

9. TAX

No provision for Hong Kong profits tax has been made during the year (2006: Nil) as the Group did not generate any assessable profits arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates, based on country legislation, interpretations and practices in respect thereof.

	Group	
	2007	2006
	HK$'000	*HK$'000*
Group:		
Current – Hong Kong	**–**	–
Current – Elsewhere	**–**	–
Charge for the year	**3,634**	–
Overprovision in prior years	**(2,120)**	–
Total tax charge for the year	**1,514**	–

A reconciliation of the tax expense applicable to profit before tax using the statutory rates, ranging from 17.5% to 33%, for the locations in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Profit before tax	**50,197**	1,300
Tax at the statutory tax rate	**1,473**	3,999
Profits less losses attributable to associates	**(4,330)**	(1,932)
Adjustments in respect of current tax of previous periods	**(2,120)**	–
Income not subject to tax	**(22,462)**	(12,829)
Expenses not deductible for tax	**29,336**	6,508
Deferred tax not recognised	**427**	280
Tax losses not recognised	**727**	4,516
Tax losses utilised from previous periods	**(1,537)**	(542)
Tax charge at the Group's effective rate	**1,514**	–

9. TAX *(continued)*

The Group has tax losses arising in Hong Kong of approximately HK$900,868,000 (2006: HK$931,842,000) that are available indefinitely for offsetting against future taxable profits of the Group. Deferred tax asset has not been recognised in respect of these losses as the Group has been loss-making for some time.

The share of tax attributable to an associate was zero in the current year; while HK$33,000 was included in "Share of profits less losses of associates" on the face of the consolidated income statement in last year.

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 28 February 2007 includes a loss of HK$50,454,000 (2006: net loss of HK$18,732,000) dealt with in the financial statements of the Company (note 31(b)).

11. DIVIDEND

	2007	2006
	HK$'000	*HK$'000*
Proposed final – HK1.2 cents (2006: Nil) per ordinary share	**6,892**	–

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the Company for the year of HK$41,194,000 (2006: HK$4,128,000) and the 574,308,000 (2006: 574,308,000) shares in issue throughout the year.

No diluted earnings per share is presented for both current and last years as there are no dilutive potential ordinary shares in existence during these years.

NOTES TO FINANCIAL STATEMENTS (Continued)

28 February 2007

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings *HK$'000*	Furniture, fixtures, equipment and motor vehicles *HK$'000*	Leasehold improvements *HK$'000*	Total *HK$'000*
28 February 2007				
Cost:				
At 1 March 2006	**94,128**	**35,158**	**75,797**	**205,083**
Additions	**–**	**1,944**	**2,020**	**3,964**
Write-off	**–**	**(1,842)**	**–**	**(1,842)**
Disposals	**–**	**(279)**	**–**	**(279)**
Exchange re-alignment	**2,887**	**251**	**–**	**3,138**
At 28 February 2007	**97,015**	**35,232**	**77,817**	**210,064**
Accumulated depreciation and impairment:				
At 1 March 2006	**31,449**	**29,935**	**61,064**	**122,448**
Depreciation provided during the year	**2,439**	**1,843**	**7,356**	**11,638**
Impairment provided during the year	**3,940**	**–**	**–**	**3,940**
Write-off	**–**	**(1,803)**	**–**	**(1,803)**
Disposals	**–**	**(279)**	**–**	**(279)**
Exchange re-alignment	**1,216**	**227**	**–**	**1,443**
At 28 February 2007	**39,044**	**29,923**	**68,420**	**137,387**
Net book value:				
At 28 February 2007	**57,971**	**5,309**	**9,397**	**72,677**
28 February 2006				
Cost:				
1 March 2005	94,128	37,779	73,909	205,816
Additions	–	3,026	11,681	14,707
Write-off	–	(627)	(6,657)	(7,284)
Disposals	–	(5,020)	(3,136)	(8,156)
At 28 February 2006	94,128	35,158	75,797	205,083
Accumulated depreciation and impairment:				
At 1 March 2005	25,750	33,749	62,504	122,003
Depreciation provided during the year	2,494	1,769	7,872	12,135
Impairment provided during the year	3,205	–	–	3,205
Write-off	–	(627)	(6,644)	(7,271)
Disposals	–	(4,956)	(2,668)	(7,624)
At 28 February 2006	31,449	29,935	61,064	122,448
Net book value:				
At 28 February 2006	62,679	5,223	14,733	82,635

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company

	Furniture, fixtures, equipment and motor vehicles *HK$'000*	Leasehold improvements *HK$'000*	Total *HK$'000*
28 February 2007			
Cost:			
At 1 March 2006	**29,254**	**58,679**	**87,933**
Additions	**1,733**	**977**	**2,710**
Disposals	**(279)**	**–**	**(279)**
At 28 February 2007	**30,708**	**59,656**	**90,364**
Accumulated depreciation:			
At 1 March 2006	**25,822**	**46,185**	**72,007**
Provided during the year	**1,238**	**6,409**	**7,647**
Disposals	**(279)**	**–**	**(279)**
At 28 February 2007	**26,781**	**52,594**	**79,375**
Net book value:			
At 28 February 2007	**3,927**	**7,062**	**10,989**
28 February 2006			
Cost:			
At 1 March 2005	32,386	51,628	84,014
Additions	1,604	9,921	11,525
Disposals	(4,736)	(2,870)	(7,606)
At 28 February 2006	29,254	58,679	87,933
Accumulated depreciation:			
At 1 March 2005	29,478	41,108	70,586
Provided during the year	1,037	7,478	8,515
Disposals	(4,693)	(2,401)	(7,094)
At 28 February 2006	25,822	46,185	72,007
Net book value:			
At 28 February 2006	3,432	12,494	15,926

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The tenures and locations of the Group's buildings are as follows:

	Hong Kong	**Mainland China**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Net book value:			
Medium term leasehold	38,589	19,382	57,971

The net book value of the buildings included an impairment loss of HK$3,940,000 (2006: HK$3,205,000), which was charged to the income statement for the year. The impairment loss was determined by management with reference to the open market value of those buildings at the balance sheet date.

The Group's buildings situated in Hong Kong are pledged as security to a bank for a bank loan granted (note 26).

14. INVESTMENT PROPERTIES

	Group	
	2007	2006
	HK$'000	*HK$'000*
Carrying amount at 1 March	**166,380**	167,800
Net loss from fair value adjustments	**(40,200)**	(1,420)
Carrying amount at 28 February	**126,180**	166,380

The investment properties are situated in Mainland China and held under medium term leases.

The investment properties were revalued as at 28 February 2007 by Castores Magi Surveyors Limited, an independent firm of professionally qualified valuers, on an open market, existing use basis at HK$126,180,000 (2006: HK$166,380,000). A revaluation deficit of HK$40,200,000 (2006: HK$1,420,000) resulting from the valuation was charged to the income statement. The investment properties are leased to third parties under operating leases, further summary details of which are included in Note 36(a) to the financial statements.

15. PREPAID LAND PREMIUM

	2007	2006
	HK$'000	*HK$'000*
Carrying amount at 1 March	**820**	842
Amortisation during the year	**(22)**	(22)
Carrying amount at 28 February	**798**	820
Current portion included in prepayments, deposits and other receivables	**(22)**	(22)
Non-current portion	**776**	798

The Group's leasehold land included above is situated in Mainland China and is held under a medium term lease.

16. PROPERTIES UNDER DEVELOPMENT

	Group	
	2007	2006
	HK$'000	*HK$'000*
Carrying value:		
At beginning of year	**108,800**	111,500
Provision for impairment	**(29,700)**	(2,700)
At end of year	**79,100**	108,800

The properties under development are located in Dalian, Mainland China and were valued as at 28 February 2007 by Castores Magi Surveyors Limited on an open market, existing use basis at HK$79,100,000 (2006: HK$108,800,000). An impairment loss of HK$29,700,000 (2006: HK$2,700,000) resulting from the valuation was charged to the income statement.

NOTES TO FINANCIAL STATEMENTS (Continued)

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17. INTERESTS IN SUBSIDIARIES

	Company 2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**11,275**	49,913
Due from subsidiaries	**1,533,636**	1,436,267
Due to subsidiaries	**(195,336)**	(64,690)
	1,349,575	1,421,490
Less: Provision for impairment	**(679,614)**	(630,945)
	669,961	790,545

The balances with subsidiaries are unsecured and not repayable within the next 12 months from the balance sheet date. Certain of the balances bear interest at 4.3% (2006: 4.3%) per annum. The carrying amounts of the balances due from/to subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital/ paid-up capital	Class of shares held	Percentage of equity attributable to the Company Directly	Indirectly	Principal activities
Citihood Developments Limited	British Virgin Islands	US$30,000	Registered	100	–	Investment holding
Dalian Sincere Building Co., Ltd.*	People's Republic of China ("PRC")/ Mainland China	RMB72,000,000	N/A	–	100	Property development
Finsbay Investment Limited	British Virgin Islands	US$10,000	Registered	–	51	Investment holding
Jubilee Street Limited	UK	GBP967	Ordinary "A" shares	–	100	Property investment
		GBP33	Ordinary "B" shares	–	–	
Ottoway Limited	British Virgin Islands	US$1	Registered	100	–	Investment holding

17. INTERESTS IN SUBSIDIARIES *(continued)*

Company	Place of incorporation/ registration and operations	Nominal value of issued/ registered share capital/ paid-up capital	Class of shares held	Percentage of equity attributable to the Company Directly	Percentage of equity attributable to the Company Indirectly	Principal activities
Palatial Estates Holding Inc.	British Virgin Islands	US$50,000	Registered	100	–	Investment holding
Right View Limited	Hong Kong	HK$2	Ordinary	–	100	Property holding
Silveroute Limited	British Virgin Islands	US$1	Registered	100	–	Securities trading
Sincere B.V.I. Limited	British Virgin Islands	US$100	Registered	100	–	Investment holding
The Sincere Department Store (China) Limited	British Virgin Islands	US$50,000	Registered	100	–	Investment holding
The Sincere Finance Company, Limited	Hong Kong	HK$2	Ordinary	100	–	Provision of finance
Springview Limited	Hong Kong	HK$500,000	Ordinary	100	–	Securities trading
360 Communications Limited	Hong Kong	HK$100	Ordinary	–	70	Advertising agency
Pacific Falcon Limited	Hong Kong	HK$10,000	Ordinary	–	85	Residential project design and furniture retailing
CPC No. 4 Limited	Guernsey	GBP100	Ordinary	–	90	Property development
Uniglobe Travel One (China) Limited	Hong Kong	HK$10,000	Ordinary	100	–	Travel franchising agency
Sincere (Shanghai) Commercial Company Limited*	PRC/ Mainland China	US$1,000,000	N/A	100	–	Provision of management services

* Registered as a wholly-foreign-owned enterprise under the PRC law.

The above table lists the subsidiaries of the Company, which in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS (Continued)

28 February 2007

18. INTERESTS IN ASSOCIATES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted shares, at cost	**–**	–	**16,611**	16,611
Share of net assets other than goodwill	**186,312**	274,310	**–**	–
	186,312	274,310	**16,611**	16,611
Due to associates	**(44,848)**	(17,447)	**(523)**	(499)
	141,464	256,863	**16,088**	16,112

The Group's share of the post-acquisition accumulated reserves of associates at 28 February 2007 was HK$118,432,000 (2006: HK$206,430,000).

The balances with associates are unsecured, interest-free and not repayable within the next 12 months from the balance sheet date. The carrying amounts of the balances approximate to their fair values.

The following table illustrates the summarised financial information of the Group's associates:

	2007	2006
	HK$'000	*HK$'000*
Total assets	**752,739**	1,954,918
Total liabilities	**208,737**	1,107,319
Revenue	**178,800**	333,194
Profit before tax	**50,795**	32,627

18. INTERESTS IN ASSOCIATES *(continued)*

Particulars of the principal associates are as follows:

Company	Business structure	Place of incorporation	Particulars of issued shares held	Percentage of ownership interest attirbutable to the Group	Principal activities
Tailbay Investments Limited	Corporate	British Virgin Islands	Ordinary shares of US$1 each	30.00	Investment holding
The Sincere Life Assurance Company Limited ("Life")	Corporate	Hong Kong	Ordinary shares of HK$10 each	48.09	Insurance and investment
The Sincere Insurance & Investment Company, Limited ("Insurance")	Corporate	Hong Kong	Ordinary shares of HK$100 each	40.67	General insurance and investment
The Sincere Company (Perfumery Manufacturers) Limited ("Perfumery")	Corporate	Hong Kong	Ordinary shares of HK$100 each	37.15	Investment holding
140 Park Lane Limited	Corporate	UK	Ordinary shares of GBP0.1 each	30.00	Property investment
Lancaster Partnership Limited	Corporate	UK	Ordinary shares of GBP0.01 each	50.00	Property investment

At 28 February 2007, Life, Insurance and Perfumery directly held 31.89%, 13.17% and 0.30%, respectively, of the issued share capital of the Company.

The above table lists the associates of the Company, which in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO FINANCIAL STATEMENTS (Continued)

28 February 2007

19. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted investments at cost:				
Hong Kong	**13,052**	13,052	**13,052**	13,052
Taiwan	**23,108**	23,108	**23,108**	23,108
Others	**–**	34,538	**–**	–
	36,160	70,698	**36,160**	36,160
Less: Provision for impairment	**(26,989)**	(26,989)	**(26,989)**	(26,989)
	9,171	43,709	**9,171**	9,171

During the year, the Group disposed of one of its unlisted investment in UK at a consideration of approximately HK$37,560,000, resulting in a gain on disposal of HK$3,022,000, which was credited to the consolidated income statement in current year.

At 28 February 2007, the unlisted investments in Hong Kong and Taiwan of the Group and of the Company represented interests of 10% (2006: 10%) and 19.9% (2006: 19.9%) in the issued share capital of Goldian Limited and The Sincere Department Store Limited, respectively, against which provisions for impairment of HK$12,578,000 (2006: HK$12,578,000) and HK$14,411,000 (2006: HK$14,411,000) have been made as considered necessary by the directors of the Company.

20. PROPERTIES HELD FOR SALE

	Group	
	2007	2006
	HK$'000	*HK$'000*
At beginning of year	**75,260**	164,413
Additions	**–**	3,950
Sold during the year	**(83,226)**	(77,851)
Exchange realignment	**7,966**	(15,252)
At end of year	**–**	75,260

21. DEBTORS

The maturity profile of the amounts due from the purchasers of units in the Sincere House and the debtors from other services at the balance sheet date was as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current – 3 months	**673**	689
4 – 6 months	**10**	–
	683	689

The carrying amounts of the debtors approximate to their fair values.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

At the balance sheet date, prepayments, deposits and other receivables included a deposit of HK$110,302,000 (2006: HK$103,030,000) (the "Deposit") for application of new shares under an initial public offering. The carrying amounts of prepayments, deposits and other receivables approximate to their fair values. Subsequent to the balance sheet date, HK$109,845,000 of the Deposit was refund and applied to repay the loan borrowed for the application of the said new shares (note 26).

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK$'000	*HK$'000*
Listed equity investments, at market value:		
Hong Kong	**36,188**	26,253
Elsewhere	**345,507**	237,124
	381,695	263,377

The above equity investments at 28 February 2007 were classified as held for trading.

At the balance sheet date, marketable securities with an aggregate market value of approximately HK$377,659,000 (2006: HK$252,863,000) were pledged to banks to secure banking facilities granted to the Group (note 26).

24. DERIVATIVE FINANCIAL INSTRUMENTS

The following is the summary of the fair value of each significant type of derivatives at 28 February 2007:

	Assets	**Liabilities**
	HK$'000	*HK$'000*
Derivatives held for trading, at market value:		
Equity contracts	–	2,010
Interest rate swaps	81	541
Foreign exchange rate contracts	1,200	2,768
	1,281	5,319

25. CASH AND BANK BALANCES

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash on hand and at banks	**54,366**	43,614	**8,324**	18,120
Deposits with banks	**22,159**	13,521	**22,159**	–
	76,525	57,135	**30,483**	18,120

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and bank balances and the deposits approximate to their fair values.

26. INTEREST-BEARING BORROWINGS AND OVERDRAFTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank loans, secured	**83,826**	199,343	**–**	21,652
Bank overdrafts, secured	**5**	15,881	**–**	15,881
Other borrowings, unsecured *(note 22)*	**96,990**	91,355	**–**	–
	180,821	306,579	**–**	37,533
Portion due within one year included under current liabilities	**(180,821)**	(306,579)	**–**	(37,533)
Non-current portion	**–**	–	**–**	–

The bank loans and overdrafts bear interest at floating rates ranging from 0.745% to 6.57% per annum. The carrying amounts of the bank loans, other borrowings and overdrafts approximate to their fair values.

Certain of the Group's bank loans are secured by:

(a) the pledge of certain of the Group's cash and bank balances of HK$21,784,000 (2006: HK$12,589,000) and time deposits amounting to HK$110,281,000 (2006: HK$102,240,000).

(b) the pledge of certain of the Group's marketable securities with an aggregate market value of approximately HK$377,659,000 (2006: HK$252,863,000) (note 23).

(c) mortgages over the Group's buildings which had an aggregate carrying value at the balance sheet date of approximately HK$38,589,000 (2006: HK$39,604,000) (note 13).

(d) the pledge of certain of the Group's properties held for sale which had an aggregate carrying value of HK$75,260,000 at 28 February 2006 (note 20). The pledge was released during the year following the disposal of the properties.

NOTES TO FINANCIAL STATEMENTS (Continued)

28 February 2007

27. CREDITORS

The age analysis of trade creditors at the balance sheet date was as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Current – 3 months	**61,077**	84,501	**59,898**	82,853
4 – 6 months	**2,707**	1,988	**349**	516
7 – 12 months	**477**	277	**388**	277
Over 1 year	**2,262**	1,814	**1,457**	1,058
	66,523	88,580	**62,092**	84,704

The carrying amounts of the creditors approximate to their fair values.

28. SHARE CAPITAL

	2007	2006
	HK$'000	*HK$'000*
Authorised:		
600,000,000 ordinary shares of HK$0.50 each	**300,000**	300,000
Issued and fully paid:		
574,308,000 ordinary shares of HK$0.50 each	**287,154**	287,154

29. SHARE PREMIUM ACCOUNT

	2007	2006
	HK$'000	*HK$'000*
At beginning and end of year	**26**	26

30. SHARE OPTION SCHEME

The Company operates the share option scheme (the "Option Scheme") for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group. Eligible participants of the Option Scheme include any full-time employees and directors, excluding any non-executive directors, of the Group. The Option Scheme became effective on 1 August 2000 and, unless otherwise amended or altered, will remain in force for a period of 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Option Scheme is an amount equivalent, upon their exercise, of up to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Option Scheme is limited to 25% of the aggregate number of shares issuable under the Option Scheme.

The offer of the grant of a share option may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a date determinable by the directors, and ends on a date which is not later than 10 years from the commencement date of the exercise period or the expiry date of the Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 90% of the average of the closing price of the Company's shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of offer of the option; and (ii) the nominal value of the Company's shares.

No options had been granted or agreed to be granted under the Option Scheme up to the date of approval of these financial statements.

31. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) Company

	General reserve *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 March 2005	46,613	495,123	541,736
Loss for the year	–	(18,732)	(18,732)
At 28 February 2006 and 1 March 2006	46,613	476,391	523,004
Loss for the year	–	(50,454)	(50,454)
Proposed final 2007 dividend	–	(6,892)	(6,892)
At 28 February 2007	**46,613**	**419,045**	**465,658**

32. GOODWILL

	Total *HK$'000*
28 February 2007	
Cost at 1 March 2006 and 28 February 2007	22,962
Accumulated impairment at 1 March 2006 and 28 February 2007	(22,962)
Net carrying amount at 28 February 2007	–
28 February 2006	
Cost at 1 March 2005 and 28 February 2006	22,962
Accumulated impairment at 1 Mach 2005	(16,895)
Impairment during the year	(6,067)
Accumulated impairment at 28 February 2006	(22,962)
Net carrying amount at 28 February 2006	–

33. REMUNERATION OF THE DIRECTORS AND OF THE FIVE HIGHEST PAID INDIVIDUALS

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	Executive directors				Independent non-executive directors						Total	
	Walter K W Ma		Philip K H Ma		King Wing Ma		Eric K K Lo		Charles M W Chan			
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK\$'000	*HK\$'000*	***HK\$'000***	*HK\$'000*	***HK\$'000***	*HK\$'000*	***HK\$'000***	*HK\$'000*	***HK\$'000***	*HK\$'000*	***HK\$'000***	*HK\$'000*
Fees	**1,564**	1,748	**913**	1,028	**110**	110	**182**	182	**110**	110	**2,879**	3,178
Salaries, allowance and other benefits	**10,715**	8,959	**9,112**	7,830	**50**	–	**50**	–	**50**	–	**19,977**	16,789
Pension contributions including pension cost for defined benefit scheme of HK\$173,000 (2006: HK\$164,000)	**–**	–	**173**	173	**–**	–	**–**	–	**–**	–	**173**	173
	12,279	10,707	**10,198**	9,031	**160**	110	**232**	182	**160**	110	**23,029**	20,140

There was no other emoluments payable to the Independent Non-executive Directors during the year (2006: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

Of the five highest paid individuals, two (2006: two) are directors of the Company and their remuneration are included in the directors' remuneration above. The remuneration of the remaining three highest paid individuals, analysed by nature thereof and designated bands, is set out below:

	Group	
	2007	2006
	HK\$'000	*HK\$'000*
Salaries and allowances	**4,250**	4,563
Pension contributions	**74**	73
	4,324	4,636

	Number of individuals	
	2007	2006
HK\$1,000,001 – HK\$1,500,000	**2**	2
HK\$1,500,001 – HK\$2,000,000	**1**	–
HK\$2,000,001 – HK\$2,500,000	**–**	1

34. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

Deregistration of subsidiaries

	Note	**2007** **HK$'000**	2006 *HK$'000*
Net assets disposed of:			
Prepayments, deposits and other receivables		**874**	–
Other payables		**(190)**	–
Minority interests		**(210)**	–
Realisation of exchange reserves		**(6,894)**	–
		(6,420)	–
Gain on deregistration	*6*	**6,420**	–
		–	–

No cash inflow/outflow of cash and cash equivalents in respect of the deregistration of subsidiaries during the year.

35. PLEDGE OF ASSETS

Details of the Group's bank loans and overdrafts, which are secured by the assets of the Group, are included in notes 13, 23 and 26, to the financial statements.

36. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 16 years.

At the balance sheet date, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with their tenants falling due as follows:

	Group		**Company**	
	2007 **HK$'000**	2006 *HK$'000*	**2007** **HK$'000**	2006 *HK$'000*
Within one year	**7,403**	7,128	**2,566**	2,412
In the second to fifth years, inclusive	**19,156**	20,525	**156**	2,256
After five years	**49,875**	52,524	**–**	–
	76,434	80,177	**2,722**	4,668

During the year, the Group did not receive any contingent rent.

36. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

The Group leases certain of its land and buildings under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**77,938**	50,081	**65,232**	38,409
In the second to fifth years, inclusive	**251,894**	101,246	**250,437**	87,150
After five years	**24,000**	–	**24,000**	–
	353,832	151,327	**339,669**	125,559

Certain non-cancellable operating leases included above were subject to contingent rent payments, which were charged at 9% to 9.25% (2006: 9.25%) of the gross sales attributable to the leased premises in excess of the base rents as determined in accordance with the lease agreements.

37. OUTSTANDING COMMITMENTS

Outstanding commitments at the balance sheet date were as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Irrevocable letters of credit	**7,813**	7,928	**7,813**	7,928

NOTES TO FINANCIAL STATEMENTS (Continued)

28 February 2007

38. CONTINGENT LIABILITIES

Contingent liabilities at the balance sheet date were as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantee executed by the Company in favour of a bank to secure a loan granted to an associate (the "Associate") *(Note)*	–	313,698	–	313,698

In addition to the above, the Group's share of guarantee provided by certain associates amounted to approximately HK$169,361,000 (2006: HK$212,257,000) as at the balance sheet date in respect of a banking facility granted to their associate.

Note: The banking facility granted to the Associate subject to guarantee given to the bank by the Company was released after the repayment of the bank loan during the year.

39. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group also paid insurance premium expenses of approximately HK$1,078,000 (2006: HK$955,000) to an associate.

(b) Compensation of key management personnel of the Group:

	2007	2006
	HK$'000	*HK$'000*
Short term employee benefits	**27,293**	24,780
Post-employment benefits	**247**	246
Total compensation paid to key management personnel	**27,540**	25,026

Further details of directors' emoluments are included in note 33 to the financial statements.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, other borrowings and overdrafts, short term deposits and cash. The Group has various other financial assets and liabilities, such as debtors, financial assets at fair value through profit or loss, other receivables, creditors and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, foreign currency risk, liquidity risk and interest rate risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Credit risk

Financial instruments that are subject to credit risk are mainly related to cash and cash equivalents consisting of short-term bank deposits and cash and bank balances. They are placed with licensed banks having high credit ratings and in short terms. The management foresees minimal credit risks.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(b) Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Also, the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group currently has a foreign currency hedging policy on Euro for the purchase of stock, which is to hedge 50% of anticipated total value of European stock purchases of the following season.

(c) Liquidity risk

The Group maintains a balance between continuity of funding and the flexibility through the use of bank overdrafts, interest-bearing bank loans and other borrowings. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and available banking facilities to meet its liquidity requirements in short and longer terms.

(d) Interest rate risk

The Group is exposed to fair value interest rate risk through the impact of rate changes on interest-bearing bank borrowings and overdrafts. The fair value interest rate risk relates primarily to floating-rate borrowings (see note 26). The Group will continue to maintain a reasonable mix of floating rate and fixed rate borrowings or obtain the most favourable interest rates available.

41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 June 2007.

SCHEDULE OF INVESTMENT PROPERTIES

28 February 2007

Location	Use	Tenure
Dalian Sincere Building 18 Jie Fang Road Zhong Shan District Dalian Mainland China	Commercial/residential	Medium term leasehold
Zhong Xin Fu Shen Building 20 Hubei Road Huangpu District Shanghai Mainland China	Residential	Medium term leasehold

SCHEDULE OF PROPERTIES UNDER DEVELOPMENT

28 February 2007

Address	Category of lease	Use	Stage of completion	Expected completion date	Percentage interest	Site area (sq.ft.)	Gross floor area (sq.ft.)
Dalian Sincere Building 18 Jie Fang Road Zhong Shan District Dalian Mainland China	Medium term	Commercial/ residential	85% constructed	End of 2008	100%	35,000	540,000

FIVE-YEAR SUMMARY

28 February 2007

The consolidated results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, are summarised below.

	Year ended 29/28 February				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
REVENUE	**509,785**	468,440	558,633	398,733	364,956
PROFIT/(LOSS) BEFORE TAX	**50,197**	1,300	(124,991)	(184,029)	(248,099)
TAX	**(1,514)**	–	–	843	(5,880)
	48,683	1,300	(124,991)	(183,186)	(253,979)
Attributable to:					
Equity holders of the Company	**41,194**	4,128	(118,714)	(169,694)	(248,756)
Minority interests	**7,489**	(2,828)	(6,277)	(13,492)	(5,223)
	48,683	1,300	(124,991)	(183,186)	(253,979)

	As at 29/28 February				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS, LIABILITIES AND MINORITY INTERESTS					
PROPERTY, PLANT AND EQUIPMENT	**72,677**	82,635	83,813	134,398	163,243
INTERESTS IN ASSOCIATES	**141,464**	256,863	256,235	205,075	223,603
OTHER ASSETS	**226,397**	331,130	339,908	373,685	457,546
NET CURRENT ASSETS	**460,416**	249,391	245,892	403,010	226,073
NON-CURRENT LIABILITIES	**–**	–	–	(195,850)	–
MINORITY INTERESTS	**21,052**	(41,050)	(47,576)	7,815	(3,835)
	922,006	878,969	878,272	928,133	1,066,630