

## GROUP MANAGING DIRECTOR'S REVIEW OF OPERATIONS



*Prudent conduct of operations is the focused approach and the New Management is expected to carry out a complete facelift of Sincere.*

### RETAIL OPERATIONS

#### Hong Kong

The retail sector showed no significant improvement in year 2000: this was reflected in the performance of the Group, which was still affected by the general economic and market downturn. However, Sincere's overall strategies to consolidate the retail operations and to cut unprofitable operations have successfully improved efficiency and productivity.

The overall performance of the retail operations was sustained despite the closure of the Kowloon City Plaza ("KCP") store in July 2000. The decision to let the tenancy agreement of the KCP store expire was in line with the Group's consolidation strategy. In order to further recoup our new market focus, the management has adopted the same strategy for the Lee Theatre Plaza store as it failed to make favourable contributions to the Group. This shows that we are strongly committed to further strengthening our core business and improving its merchandise, service, and pricing as well as the shopping environment for consumers.

The Grand Century Place store outperformed other stores due to heavy traffic in the mall from New Territories residents and mainlander tourists. In Shamshuipo Dragon Centre store, more shop space was being made available for renting out to cosmetics brands as counters after our

## GROUP MANAGING DIRECTOR'S REVIEW OF OPERATIONS (Continued)

effective space consolidation. In addition, traffic within the area has become more and more vibrant with the opening of a block of government office towers in the neighborhood.

The Central store was slightly affected by the instability of the property market, which reduced purchasing power from the consumer sector with a corresponding sales drop in home furnishing products.

On the whole, our retail operations continued to have a strong presence in the market place. Despite the difficult time we have experienced, our stores have outperformed the Hong Kong department store industry performance. In order to capitalize on our expertise, the Directors intend to concentrate on specialty shops. The first specialty shop, Studio Sincere, was opened in Mongkok in March 2001 and 3 more new shops are expected to be in operation this year. The management is aggressively on the lookout for best-fit sites for the new shops.

To celebrate Sincere's centenary last year, we continued to strengthen its reputation as Hong Kong's leading retailer with the appointment of Ms Joanna Charrington as General Manager - Retail. We are delighted to have Ms Charrington on board: as a seasoned executive with a solid retail background, she will spearhead a facelift for the Group's outlets, monitor overall sales and operations, and develop specialty stores and e-commerce. Her additional responsibilities will include repositioning the Sincere Group's portfolio, strategic business development, sourcing merchandise and streamlining the procurement process. In the next few years, the management will be equipped with a stronger position to effectively deploy both Sincere's human and financial resources in achieving favorable sales and market dominance.

### **The PRC**

During the period under review, the management continued to reposition the non-profitable operations.

In Shanghai, we have successfully redeveloped the Nanjing Road site into a food and entertainment complex for leasing out. The complex subsequently achieved more than 90% occupancy rate with multi-national corporate tenants such as Pizza Hut and TCBY etc. A minimum ten-year lease agreement guarantees a steady annual cash in-flow for the Group.

## GROUP MANAGING DIRECTOR'S REVIEW OF OPERATIONS (Continued)

With the increased intensity in the retail market, we have decided to replicate this successful business model in Dalian to lease out the store. This will enable us to minimize most of the operating expenses as well as providing us with stable rental income and a strong liquidity position.

### **Mövenpick Marché**

With a prime strategic location, store operation maintained a solid flow of income although this year no significant growth was seen because of the economic uncertainties. The repositioning of the building by the Landlord during the period will contribute favourable stimulus to the overall traffic in the building. Our consistency in turnover reflected our right strategy in market position and we will continue to improve customer service and food quality.

### **PROPERTY INVESTMENTS**

#### **Hong Kong**

No disposals of property during the year under review and therefore no contribution has derived from this sector.

#### **The PRC**

The Dalian property market remained quiet during the period under review. The Group has continued to adopt a prudent approach to launch new developments of Dalian serviced apartments, where we have consistently maintained a high occupancy rate of 90%. We strongly believe our approach will enable us to generate a substantial level of income from the current marketplace.

#### **UK**

The Group currently has five property investments in the UK. Pembroke House situated in Belgravia, in the heart of Central London, was acquired in September 1999. The renovation work to convert and upgrade the property into luxury apartments is underway. The property is expected to be available for sales in September 2001. Positive cash inflow is expected and will be recorded in the coming fiscal year.

Another property investment in the UK is a site in Jubilee Street in the City of London, which was acquired by the Group in March 2000. The old school converted living apartments will be available for public sales at the end of 2001. We expect to record the revenue of disposal of these apartments in the first half of 2002.

## **GROUP MANAGING DIRECTOR'S REVIEW OF OPERATIONS** (Continued)

Our joint development of the Park Lane Hotel project will become the flagship of Marriott International. Its renovation has begun with opening scheduled in the fourth quarter, 2002. The whole complex will house a 157-room hotel, retail shops and podium and 18 luxurious apartments overlooking Hyde Park.

The Group made an investment to acquire a block of Hyde Park Lancaster Gate apartments in January 2001, the same area where the Group had a successful project in the mid 90's.

With strong prospects for quality city living, the Group was excited to participate in a newly built high-rise apartment building project in the fashionable Canary Wharf West India Quay area in June 2001.

### **LOOKING AHEAD**

Despite the unstable economic climate, Sincere has adopted its prudent strategies to consolidate the retail operations and to cut non-profitable operations, leaving room for other emerging opportunities. We were able to sustain our turnover in retail and to reduce bank debt by approximately 32%. In addition, the general expense was reduced by over HK\$10 million. As at balance sheet date, the Group's current ratio is 1.31 and a gearing ratio (long-term liabilities to shareholder's fund) of 21%. We will continue to invest in the UK property market, based on our successful track record in the property redevelopment with top quality services and management.

Equipped with our focused strategies, we are in a strong position to further enhance our corporate performance. We will continue to streamline the existing business for a better efficiency in both the human and financial resources allocation. We will sustain our strong market presence across the region, particularly in Hong Kong. Together with the new management injection, Sincere will look into opportunities of developing our own private brand and will continue to develop our specialty shops. We expect to see a complete facelift of Sincere in the coming year.

**Philip K H MA**  
*Group Managing Director*

21 June 2001