

*Our dedicated staff,
stringent cost control and
streamlining measures
strengthened the Group's
competitive edge.*



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 2003.

RESULTS

The year under review was a difficult one. The slow down of the world economy and the local consumer sentiment were continuously clouded with escalating unemployment, salary reduction and deflation. During the year, the Group recorded a consolidated turnover of HK\$314 million as compared to HK\$370 million in last year, and a loss of approximately HK\$249 million as compared to a loss of approximately HK\$58 million last year. The loss was mainly due to the provision made to devalue our PRC properties, which resulted in a loss of HK\$98 million and the gain of HK\$76 million on disposal of an associate in last year which had reduced the total loss for that period. Yet the Group continued to exercise effective control over expenses with reduction of HK\$41 million in operating expenses and HK\$16 million in interest expense during the year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 28 February 2003, the Group's total borrowings less cash and cash equivalents amounted to HK\$412 million (2002: HK\$364 million). The Group's gearing was 41.1%, representing an increase of 7.4% in total debt to shareholders' funds, as compared to last year (2002: 33.7%). The maturity profile of the Group's borrowing is set out in note 24 to the financial statements. The bank borrowings were made mainly in HK dollars, US dollars and Pound Sterling with interest rates ranging from 1.89% to 5.0%. The net interest expense for the year were HK\$14 million (2002: HK\$30 million).

The current ratio had decreased by 0.21 from 1.65 to 1.44 as the Group's net current assets reduced from HK\$334 million in 2002 to HK\$226 million in 2003.

EMPLOYEES AND REMUNERATION POLICIES

As at 28 February 2003, the Group had 727 (2002: 688) employees (including part time staff). The Group operates different remuneration schemes for sales and non-sales employees to motivate front-line staff for higher sales achievement. 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 subsidized medical care, staff purchase discounts and subsidized internal training.

DIVIDENDS

The Board of Directors do not recommend the payment of a dividend for the year ended 28 February 2003. (2002: Nil)

BUSINESS REVIEW

During the year under review, the Group's retail business was affected by the economic downturn and weak customer sentiment. The incident of 11 September in the USA carried over the adverse effect for the first half of the year. The Group's turnover in retail operation dropped by 17%. To minimize the losses, the Group has taken measures to exercise tight control on retail expenses and had successfully curtailed the operating expenses. This resulted in a decline of general and administrative expenses of HK\$13 million.

In the retail operations, Ladies' and Men's Wear were still the major sales contributors to the Group. The Group's strategy has continued to solidify its position in this segment of business while expanding the range of hard goods to provide a wider selection of merchandise for the customers.

The Group's restaurant operation, Mövenpick Marché, showed an improvement. The operating loss had significantly reduced by HK\$5 million though the turnover showed a reduction of 7%. This was mainly attributable to the effective control on the food costs and operating expenses. Competition was still intense in the vicinity, tourists mainly came from Mainland China, more so than Western and the Japanese. The operation management will focus on excelling themselves in product quality and differentiation to expand our market share in this market segment.

In PRC, the department store previously operated by the Group has been leased to the major department store operator in Dalian and generating a stable rental income for the Group. As at 28 February 2003, the Group set up a franchisee system in Shanghai and opened 41 convenience stores under a network of retail chain stores called "Sincere Daily Stop". These stores were in operation during the second half of the year.

In the UK, property sale slowed down due to the threat of the Middle East War and the Iraq crisis. Certain of the pre-sold Pembroke House in Belgravia were cancelled but subsequently remarketed. Currently, one of the remaining three units was leased on a short-term basis. Following the successful pre-sale marketing program, 39 units in Jubilee Street were being reserved and deposits were received during the year. The exciting refurbishment of the Park Lane Marriot Hotel has been completed and was in operation since November 2002. It was voted as the Newcomer Hotel of the year in London. The Hyde Park Lancaster Gate 15 and 16 were successfully sold during the year and the marketing program would be continued for the remaining units.

PROSPECTS

Last year, the Company appointed a new retail management team to plan ahead for a refreshed Sincere, to build a stronger management team to get into different market segments and to capture the market bounce-back when it comes. There are plans to renovate and upgrade the image of the stores.

Given the global economic downturn, high unemployment, weak purchasing sentiment and the recent SARS outbreak in Hong Kong, the management anticipates the retail business will be similarly difficult and challenging in the coming year. The Mongkok Argyle Street store will be closed at the end of August 2003 when the lease expires. The Group will consolidate and implement tight control on operating expenses and cash flow, capture more sales by targeting a wider customer segment, eliminate unprofitable business operations, improve the product mix and reduce the input costs.

With the stable GDP growth of over 7% in the Mainland China, the Group will deploy more resources as one of the key growth drivers. The Group will continue to explore its business and expand its operations in China to diversify the risk and will continue to look for new business opportunities. The expansion of The Sincere Daily Stop will be one of our key focuses. We expect to see a rapid business expansion of this retail convenience stores this year. We would also extend our furniture business to Shanghai with Day One Living Lifestyle store and the first store is expected to be opened in the third quarter of this year. The Group is confident that our existing China focused business portfolio will achieve higher growth for the year to come.

APPRECIATION

On behalf of the board, I wish to take this opportunity to extend my appreciation to all the directors and employees for their commitment and dedication that gives the Group dynamism to succeed in this difficult time. I would also like to thank our shareholders and customers for their trust and support.

Walter K W MA

Executive Chairman

19 June 2003