

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 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries have not changed during the financial year and consisted of the operation of department stores, the rental of properties, property development, securities trading and the operation of restaurants. The Group also engaged in operating convenience chain stores and an advertising agency during the year.

RESULTS

The Group's loss for the financial year ended 28 February 2003 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 21 to 65.

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 68.

CAPITAL

As at 28 February 2003, the number of issued shares of HK\$0.50 each was 574,308,000. There was no movement in the share capital of the Group in the year under review. Details of the share capital of the Group are set out in note 26 to the financial statements.

CONTINGENT LIABILITIES

Details of the contingent liabilities are set out in note 34 to the financial statements.

PLEDGE OF ASSETS

Details of the pledge of assets are set out in notes 12, 14, 19, 20 and 22 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, the rental of properties, property development, securities trading, and the operation of restaurants. The Group also engaged in operating convenience chain stores and an advertising agency during the year.

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

DIVIDENDS

The directors do not recommend the payment of a dividend in respect of the financial year ended 28 February 2003.

FIXED ASSETS

Changes to the fixed assets of the Company and of the Group are disclosed in note 12 to the financial statements.

PROPERTIES UNDER DEVELOPMENT

Details of the properties under development of the Group are set out in note 14 to the financial statements and on page 67 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 and on page 67 of the annual report.

RESERVES

Movements in the reserves of the Company and of the Group during the financial year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 28 February 2003, 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 (*Chairman*)

Philip K H MA (*Group Managing Director*)

John K K MA (*Secretary*)

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, all directors continue in office for the ensuing year.

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 18.

PRINCIPAL SHAREHOLDERS

At 28 February 2003, according to the register of interests kept by the Company pursuant to the Securities (Disclosure of Interests) Ordinance (Cap. 396) of the Laws of Hong Kong (the "SDI Ordinance") and so far as is known to the directors, The Sincere Life Assurance Company Limited and The Sincere Insurance and Investment Company Limited were interested in 183,136,032 and 75,608,064 shares of HK\$0.50 each in the Company, representing 31.89% and 13.17% of the issued share capital of the Company, respectively. Save for the above, there were no other shareholders who had registered an interest, directly or indirectly, of 10% or more of the issued share capital of the Company.

DIRECTORS' INTERESTS IN SHARES

At 28 February 2003, the interests of the directors in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance), which had been notified to the Company pursuant to Section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under Section 31 or Part 1 of the Schedule of the SDI Ordinance) or which are required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, were as follows:

(a) *Company*

Directors	Number of ordinary shares held			
	Personal interests	Family interests	Corporate interests	Other interests
Walter K W MA	9,925,000	—	—	—
Philip K H MA	2,000,000	—	—	—
John K K MA	3,200,000	—	—	—
King Wing MA	992,576	—	—	—
Eric K K LO	2,200,400	—	—	—
Charles M W CHAN	40,000	—	—	—

(b) *Associated corporations*

At 28 February 2003, Walter K W MA, Philip K H MA, John K K MA, King Wing MA and Eric K K LO held 527, 713, 2,382, 575 and 216 ordinary shares, respectively, in The Sincere Life Assurance Company Limited. In addition, at 28 February 2003, Philip K H MA and John K K MA held 500 and 565 promoter shares, respectively, in The Sincere Life Assurance Company Limited.

At 28 February 2003, Walter K W MA, Philip K H MA, John K K MA, King Wing MA and Eric K K LO held 4,521, 2,485, 2,197, 6 and 1,019 ordinary shares, respectively, in The Sincere Insurance & Investment Company, Limited.

At 28 February 2003, Walter K W MA, Philip K H MA and John K K MA held 10, 10 and 10 ordinary shares, respectively, in The Sincere Company (Perfumery Manufacturers) Limited.

DIRECTORS' INTERESTS IN SHARES *(continued)*

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

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.

SHARE OPTION SCHEME

Due to the adoption during the financial year of Statement of Standard Accounting Practice 34 "Employee benefits", disclosures relating to the Company's share option scheme have been moved to note 28 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

During the financial year, the Company continued to hold its investment made in 1997 in 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 loan advancement amounted to HK\$21,351,000.

During the financial year, advertising services provided to and services fee of approximately HK\$792,000 was charged to a related company, of which Charles M W CHAN, an independent non-executive director of the Company, is an executive director of this related company. Details are set out in note 35 to the financial statements.

In the opinion of the directors, the above transactions were transacted on what they considered arm's length bases between the Company and Goldian and a related company 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 contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the financial year.

BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

Directors

Walter K W MA, aged 73, is the Executive Chairman. He became a director in 1966, Chairman in 1978 and an executive director in 1982. Walter K W MA is a Certified Public Accountant. He is a director of The Sincere Life Assurance Company Limited and The Sincere Insurance and Investment Company Limited.

Philip K H MA, aged 47, 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 holds an MBA degree. Philip K H MA is currently in charge of all aspects of the Group's operations. He is a director of The Sincere Life Assurance Company Limited and The Sincere Insurance and Investment Company Limited.

John K K MA, aged 73, has been an executive director since 1982. He joined Sincere in 1961 and became a director in 1966. He also heads The Sincere Life Assurance Company Limited and The Sincere Insurance and Investment Company Limited as the controller.

King Wing MA, aged 71, has been a non-executive director of the Company since 1980. He is a general medical practitioner with over 39 years' experience in England, the United States of America and Hong Kong.

Eric K K LO, aged 54, has been a non-executive director since December 1993. Eric K K LO is a director of Bang & Olufsen (Hong Kong) Limited.

Charles M W CHAN, aged 47, became a non-executive director of the Company in November 1995. Charles M W CHAN is an executive director of International Hoteliers Limited.

Senior executives

Philip Y F KUNG, aged 55, joined the Company in July 2002 as General Manager of the Retail Division in charge of Operations, Marketing and Merchandising for the Hong Kong department stores. He has over 30 years' experience in retailing, tourism and consumer marketing. He holds an MA degree in Economics.

John Y C FU, aged 42, 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.

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.

CONNECTED TRANSACTIONS

During the financial year, the Group had the following connected transactions with related parties.

- (a) On 2 April 2002, The Sincere Department Store (China) Limited ("Sincere Department Store"), a wholly-owned subsidiary of the Company, has entered into a share transfer agreement with the former minority shareholder of Dalian Sincere Building Co., Ltd. ("Dalian Sincere"), formerly known as "Dalian Sincere (Qiu Lin) Building Co., Ltd.". Pursuant to the agreement, Sincere Department Store acquired the remaining 30% equity interests of Dalian Sincere at the consideration of RMB25.5 million (approximately HK\$24 million) from the former minority shareholder of Dalian Sincere. Thereafter, Dalian Sincere became a wholly-owned subsidiary of the Group.
- (b) During the financial year, 360 Communications Limited, a 60% owned subsidiary of the Group, acted as the advertising agent which arranged advertising services for a related company of which Charles M W CHAN, an independent non-executive director of the Company, is an executive director of this related company.

Save as disclosed therein, there were no other transactions needed to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

The directors have reviewed and confirmed that those connected transactions were conducted in the ordinary and usual course of the Group's businesses, and on terms no less favourable than those offered by unrelated third parties.

AUDIT COMMITTEE

The Company established an audit committee (the "Audit Committee") in 1999 in compliance with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules. The present members of the Audit Committee are King Wing MA, Eric K K LO and Charles M W CHAN.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the financial year, 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.

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, 19 June 2003