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 29 February 2004.

RESULTS

The year under review was an encouraging year for the Group. The overall economy was challenging confronted by high unemployment rate, low consumer sentiment and the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the first half of the year that vexed the retail industry in Hong Kong. From the middle of the year when SARS started to diminish, a series of government policies stimulated the local economy, allowing local banks to perform Renminbi clearing business and relaxing the rules for PRC individuals to travel to Hong Kong. This quickly placed the overall market sentiment on the road to recovery. For the entire year, the Group recorded a consolidated turnover of $313 million, which is almost the same as last year. The net loss attributable to shareholders was significantly reduced to $169 million, a 32% improvement from the previous year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 29 February 2004, the Group's total borrowings less cash and cash equivalents amounted to HK$416 million (2003: HK$412 million). The Group's gearing was 49.9%, representing an increase of 8.8% in total debt to the shareholders' funds, as compared to last year (2003: 41.1%). The maturity profile of the Group's borrowing is set out in note 24 to the financial statements. The bank borrowings were 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 was HK$8 million (2003: HK$14 million). There was no significant exposures to foreign currency fluctuations. In addition to the internal generated cash flows, the Group also made use of short term and long term borrowings to finance its operation during the year. All borrowings were secured against certain properties and bank deposits.

The current ratio had improved by 0.64 to 2.08 as the Group's net current assets increased from HK$226 million in 2003 to HK$403 million in 2004.

EMPLOYEES AND REMUNERATION POLICIES

As at 29 February 2004, the Group had 717 (2003: 727) 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 for 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 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 29 February 2004.

BUSINESS REVIEW

The performance of the retail operation in the year under review has improved. During the first half of the year, the sluggish economy suppressed the spending mood of customers; the department stores have only achieved 80% income of the previous year; with the resurgence of the economy in the second half, the performance recorded a significant growth with 2% over the previous year. The retail operation is still our core business that represents 63% of the Group's consolidated turnover. Expenses were persistently under stringent control and the Group has successfully curtailed the operating expenses by 10%.

In the retail operation, the department stores had solidified their position in the core Ladies and Men's apparel business and expanded the range of hard goods. Acute pricing competition and on-going deep discounts being offered on all fronts of the retail market suppressed the overall margin of the retail business. To improve the product range, more consignment counters were being introduced during the year. In the furniture business, the operating management found that it was necessary to refine the overall strategy, both geographically and operationally; hence "Sincere Living" was re-launched.

The Group's restaurant operation, Mövenpick Marché, has successfully reduced the food costs and operating expenses by 22% to meet the unavoidable drop in sales of 4% from previous year. Losses has significantly been reduced by $5 million to $2 million, a 75% improvement over the previous year. To react to the challenging business environment, more special events have been introduced to prompt repeat customers. The operation management will continue to improve operational efficiencies and to sustain and enhance our branding in the food and beverage industry.

The advertising business, 360 Communications Limited, has been operating for a year. The company has built a basic clientele and contributed a steady turnover with satisfactory income to the Group. With the rapid growth of media advertising in Shanghai, the company has opened an office there in late 2003. In the coming year, the company will further develop and enhance its strength in both Hong Kong and PRC.

Under a more stable economic environment with low interest rate, the global stock market started to revamp. The Group's securities investment position remains conservative and continues to receive a stable dividend and interest income.

In PRC, the overall economy is persistently having over 8% GDP growth; however, SARS also impaired the occupancy in the Dalian apartments resulting in an overall drop in occupancy rates by 20%. Daily Stop convenient chain stores located in Shanghai were under fierce competition. At the end of the year, there were 72 stores in operation. Shanghai now has an over-supply of convenience stores with over four thousand in number. The operating management will be reviewing the overall business strategy.

In UK, Pembroke House in Belgravia had sold two more units with only one remaining that is let out for rental income. In Jubilee Street, over half of the units available for sale were reserved and deposits have been received; the refurbishment is just completed after much delay. Two units of 140 Parklane were sold in current year and sales were fully reflected while potential buyers are expressing interest in the remaining two apartments. The Parklane Marriott Hotel recorded an improved occupancy rate with 76%. The development at 17 Lancaster Gate are nearly sold out and the new redevelopment project started late last year to convert a hotel at Lancaster Gate No. 19-21 into 14 apartments was progressing well and sales are expected to be launched by late 2004. West India Quay will be completing in the fourth quarter of 2004. The new development is a prestigious penthouse apartment in the famous Belgravia Lowndes Square.

PROSPECTS

Continuing with the improved economy and a more stable global political environment, management believes that there are ample opportunities for the coming year. A series of strategies to increase the volume of sales in the retail business will be adopted. Controls on the operating cost will be continued to further improve the profitability of the Group.

With the signing of the Closer Economic Partnership Arrangements (CEPA) between the governments of Mainland China and the HKSAR, and the imminent opening of the Mainland retail doors to foreign investors due to the WTO admission requirements by the end of 2004, the development of PRC market would still be the focal mission of the Group. Notwithstanding the controls on the macro economy being implemented by the Mainland Chinese government, the large consumer market and the perpetually growing economy would still be an attraction where our strengths could be applied. Management will put more focus to exploring the potential opportunities and to enhancing the existing PRC businesses.

In the coming year, the Group will sharpen the core retail business, expand the market share in different business segments, explore new opportunities in different markets and further strengthen its working capital and liquidity.

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 effectively react to the market on its bounce-back during the second half of the year. I would also like to thank our shareholders and customers for their loyal support to the Group.

Walter K W MA
Executive Chairman

24 June 2004