

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 29 February 2004.

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, the operation of restaurants, the operation of convenience chain stores and the provision of advertising agency services.

RESULTS

The Group's loss for the financial year ended 29 February 2004 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 69.

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 72.

CAPITAL

As at 29 February 2004, 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 Company's share capital 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, the operation of restaurants, the operation of convenience chain stores and the provision of advertising agency services.

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 29 February 2004.

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 71 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 71 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 29 February 2004, 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, King Wing Ma and Eric K K Lo 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 22.

REPORT OF THE DIRECTORS

PRINCIPAL SHAREHOLDERS

At 29 February 2004, according to the register of interests kept by the Company pursuant to the 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 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 5% or more of the issued share capital of the Company.

DIRECTORS' INTERESTS IN SHARES

At 29 February 2004, 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 Companies, were as follows:

(a) Long position in shares of the Company

Directors	Number of ordinary shares held				Total	Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests		
Walter K W MA	9,925,000	—	—	—	9,925,000	1.7
Philip K H MA	2,000,000	—	—	—	2,000,000	0.3
John K K MA	3,200,000	—	—	—	3,200,000	0.6
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 29 February 2004, 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 29 February 2004, Philip K H MA and John K K MA held 500 and 565 promoter shares, respectively, in The Sincere Life Assurance Company Limited.

At 29 February 2004, 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 29 February 2004, 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.

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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES *(continued)*

Save as disclosed herein, as at 29 February 2004, 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 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\$20,250,000.

During the financial year, advertising services provided to and services fee of approximately HK\$1,023,000 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 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 74, 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 & Investment Company, Limited.

Philip K H MA, aged 48, 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 & Investment Company, Limited.

John K K MA, aged 74, 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 & Investment Company, Limited as the controller.

King Wing MA, aged 72, 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 55, 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 48, 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 56, 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 43, 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.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTION

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. Details are set out in note 35 to the financial statements.

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 this connected transaction was 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, 24 June 2004