

## Executive Chairman's Statement

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 2005.

### RESULTS

The year under review is a heartening year for the Group. The Group recorded a turnover of HK\$559 million, representing an increase of 40% as compared to last year. Net loss attributable to shareholders was HK\$119 million, a 30% year on year improvement and loss per share amounted to 21 HK cents. The increase in turnover was mainly due to the sale of UK properties and the growth in the Hong Kong retail operation. The reduction in the net loss was mainly attributable to the improvement in the Hong Kong retail operation by 46% and the positive stabilizing of Dalian properties.



### LIQUIDITY AND FINANCIAL RESOURCES

As at 28 February 2005, the Group's total borrowings less cash and cash equivalents amounted to HK\$254 million (2004: HK\$416 million). The Group's gearing was 32.9%, representing a decrease of 17% in total debt to the shareholders' funds from the previous year (2004: 49.9%). 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 1.1% to 6.5%. The net interest expense charged to the consolidated profit and loss account for the year was HK\$10 million (2004: HK\$8 million).

The current ratio had decreased by 0.43 to 1.65 as the Group's net current assets decreased from HK\$403 million in 2004 to HK\$246 million in 2005. There was no significant exposures to foreign currency fluctuation. In addition to the internal generated cash flows, the Group also made use of short term borrowings to finance its operation during the year. All borrowings were secured against certain properties and bank deposits.

### EMPLOYEES AND REMUNERATION POLICIES

As at 28 February 2005, the Group had 519 (2004: 717) 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 towards 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 28 February 2005.

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### BUSINESS REVIEW

Following the Hong Kong economic rebound, revival of consumer confidence and rising number of inbound tourists, the Group has achieved respectable growth in revenues and profitability. In particular, the turnover from retail operation recorded HK\$310 million, representing an increase of 9%. During the year, the Group has continued to bring in more consignment counters, widening the imported brands and expanding the product categories with higher dollar per transaction and profitability. These strategies have proved to be successful. Income from consignment sales recorded HK\$105 million, representing an increase of 24% and the segment loss reduced to HK\$30 million, representing an improvement of 46%.

The turnover of the advertising business recorded a growth of 27%. During the year, the Company enlarged its market coverage by providing public relation service to clients and the response was well received from the market. The management will continue review the business strategy to expand the customer base.

The home furniture business "Sincere Living" has been operated for a year and contributed to the Group. The company mainly engaged in providing retail furniture sales, show flats and decoration services. With the local property market generally active, the operation management will seize the opportunity to enlarge its market share and scope of services to improve the profitability.

As a result of the inbound tourist from Mainland China, the Group's restaurant operation "Mövenpick Marché" recorded a turnover of HK\$24 million, on a comparable basis representing 31% growth from last year while the turnover generated from tour groups recorded a growth of 42%. With the lease having expired and the landlord having decided to refurbish the entire shopping center, the restaurant was closed in early 2005. The management is currently looking for another suitable location to re-establish the "Marché" restaurant.

The Group's security investment strategy is a conservative approach. It provides a stable income to the Group.

In China, the Dalian properties received a steady rental income but the service apartments rental showed a decline. Facing intense competition, the convenient chain stores ceased operation in Shanghai in December 2004.

In UK, Pembroke House in Belgravia was completely sold in the second half of the year. For Jubilee Street, over two-third of the units were sold, while the remaining units were reserved and deposits received. The Park Lane Marriott Hotel project generates improved rental income and one of the two remaining flats were sold during the year. The refurbishment for the 14 apartments at Lancaster Gate No. 19-21 was completed and sales had been launched as scheduled. The Hyde Park Lancaster Gate No. 17 project has the mews house only remaining on the market and the other flat has been sold in the first half of year 2005. The prestigious development project Lowndes Square has completed the refurbishment of the duplex penthouse, which has been offered to the market.

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### PROSPECTS

In the coming year, the Group will continue to benefit from the economic growth of Hong Kong and Mainland China. In particular to capture the rising number of inbound tourists to Hong Kong, the department store has expanded the Grand Century Place store by one-third in May 2005, providing a more comfortable shopping experience with an uplifted image.

With the positive local retail environment, the Group will grasp the opportunity to expand the productivity per square foot. Actions to be taken include focusing on products with higher transaction values and hence higher dollar margins, enlarging the sales network, implementing more effective marketing programs and widening the product varieties. Besides, the Group will continue to further improve the profit margins.

In addition to strengthening the retail operation, the Group will be aggressively looking for suitable opportunities to diversify its businesses and to achieve a new business horizon in the coming future.

### APPRECIATION

On behalf of the board, I wish to take this opportunity to extend my appreciation to our shareholders, customers, business partners and suppliers for their continued support and for their confidence in the Group. I would also like to express our sincere thanks to the management and the staff for their commitment and contribution to the Group throughout the year.

**Walter K W MA**  
*Executive Chairman*

28 June 2005