

## Group Managing Director's Review of Operations

### RETAIL OPERATIONS

#### Hong Kong

With the solid economic rebound, the Group's retail operation recorded a satisfactory growth and the results were encouraging. The retail management has prepared for this opportunity and launched various marketing and sales campaigns with effective coupon programs generating results that exceeded the targeted revenue and profit.

During the year under review, the sales of household, electrical appliances and in particular the healthcare products recorded a significant growth. This upsurge in demand of healthcare products was mainly from local customers as they become more conscious on healthcare and looking for a more comfortable life style. It is expected that demand for healthcare products will continue to grow.



Men and Ladies apparel also recorded a double-digit growth in terms of turnover and gross profit. However, the gross profit dropped marginally by 0.3%. This was mainly attributed to the consistent appreciation of the Euro dollar, the major denominated currency of our apparel imports, of over 7% over last year which impaired our ability to push the products from Europe. To tackle this currency exchange pressure, the retail management had accomplished a series of strategies including importing products from Japan and using forward contracts to leverage the exchange rate risk.

To promote customers' awareness, apart from television and press advertisements, the retail management made active efforts in exploring sales channels by placing advertisement in the tram station at Central with a slogan "7 minutes to Sincere" which brought a lot of attention. There were better visual merchandising at stores and warehouse sales were also held to promote sales. Besides, attractive seasonal leaflets were distributed through a wider network and discount coupons were sent to selected loyalty customers to promote our products and encourage repeat purchase. These strategies successfully lead to the sales growth and improved market coverage.

On the expenses, there were immediate demands from landlords for rental increases with the economic recovery. The retail management has successfully limited the increases and extended the leasing terms. With effective controls on other costs and overall store expenses, and going along with the healthy business growth, expenses decline of 4.4% of sales was recorded.

With the property market rebound and improvements in the utilization of storage space, the Group disposed part of its warehouse at Gemstar Tower, Hung Hom, Kowloon during the year and such disposal was fully reflected in the current year financial statements.

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### *Central Store*

With the satisfactory growth in turnover and profitability, this store has turned around the direct operating loss position into profit. Several concession counters on the ladies floor were revamped with a new image and the aisle on L3 was widened to provide a more comfortable shopping environment to customers. The health and household sections on L2 were rearranged with a permanent counter of health products which was well received by customers. In the coming year, an overall re-development plan for the entire store will be initiated, and working jointly with the landlord.

### *Shamshuipo Dragon Centre Store*

With turnover growing steadily under effective control over operating expenses, the store has achieved a satisfactory direct operating profit. During the year, the entrances on the 2/F and 3/F were enlarged to enhance the customer flow. Consistent with the operating strategy, this store was still targeting housewives; thus Event hall and household are the major profit generators and both departments recorded a double-digit growth in turnover.

### *Grand Century Place Store*

This store recorded a rapid growth and was the best performer among the three stores during the year. Such growth was mainly driven by the increase in inbound tourists from Mainland China as the shopping centre was linked to the KCR Mongkok railway and Huang Gong bus station. To enhance the Sincere brand image and to strengthen the Group's turnover, the store will be expanded by one-third in two phases. The first phase was completed in May 2005 and the shoes division was expanded. The second phase is expected to complete in August 2005 where the household division will be re-arranged. An internal staircase has been erected inside the store to link up the traffic between the two floors for better customer flow. The management is confident that this will effectively uplift the productivity and positive financial benefits will be reflected in the next financial year.

### **Advertising**

The advertising business recorded a favourable performance: the operation in Shanghai was well established and contributed profits to the Group. During the year, in addition to providing general advertising support, the management also introduced public relation and event marketing services in order to provide a one-stop service to clients. Benefiting from WTO, the management expects that there will be more famous labels admitted into China, and the company intends to concentrate more of its efforts to develop this aspect of business.

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### Home Furniture

The home furniture business "Sincere Living" has been successfully getting its operation on track and contributing to the gross profit of the Group. Various show room projects have been successfully completed in Hong Kong and Southern China with positive response from property developers. During the year, two warehouse sales were held and received good response from the market. In view of the intense price competition, the management has recently enhanced its scope of services to maintain its competitive edge including uplifting the product design, enhancing the brand awareness and extending the design and building services to retail shops and offices.

### Mainland China

In view of the intense market competition of the Shanghai convenient store market and the fact that most players, even the big one, are in loss position, management foresees it would be a long time before this segment would become profitable. Thus, the operation was closed completely in December 2004 to avoid further losses.

### Mövenpick Marché

The restaurant operation performed well and recorded a substantial growth both in revenue and profitability in its final year of operation. The landlord decided to close the shopping center for a one year major renovation, so the restaurant was closed on 5 January 2005.

Having gained successful and valuable experience, the Group and its strategic partner have decided to look for suitable locations to re-open the restaurant. This not only limited to the Hong Kong territories but might also extend to some major cities of Mainland China.

## OTHER OPERATIONS

### Securities Trading

The securities trading recorded a decline in turnover of 77% to HK\$10 million. The segment profit was HK\$5.2 million, representing a decline of 87% over last year. This was mainly attributable to the substantial improvement in the previous year and the slow down of the financial market in early 2005.

### Mainland China Property Investments

The rental income derived from the investment properties in Dalian and Shanghai were stable. In Dalian, with the drop in occupancy rate, the rental income recorded a decline of 5%.

Regarding redevelopment of the Dalian Building, there were several schemes considered during the year and the management is currently working out with potential partners on which of the schemes would bring the best return to the Group.

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## UK Property Investments

The remaining unit at Pembroke House at Chesham Street, London was sold and the whole project was completed. The turnover was recognized in the second half of the year.

Following the completion for the re-development of 73 units in Jubilee Street, 53 units were sold and completed in the year. 15 out of the remaining 20 units were sold after the year end and the other remaining units were reserved and deposits received. This project suffered extensive time delays and cost overruns which resulted in a net loss position.

The project Hyde Park Lancaster Gate No. 17 completed the sale of a flat after the year end and only a mews house remains in the market. Several potential buyers have approached and it is expected that the whole project can be completed very soon.

For the London Marriot Hotel with the 140 Parklane project, one of the two remaining apartments was sold during the year. The rental income from the hotel operation recorded a growth of 21% and the occupancy rate achieved almost 80%.

## LOOKING AHEAD

Sustaining the Group's profitability and getting the best return will be the target objective for the Group in Year 2005. The department store in particular is targeted to provide a positive bottom line and to build Sincere brand equity featuring Sincere as a department store that provides our customers with the best quality merchandise for the price paid.

Apart from strengthening and uplifting the core retail operation, the Group will further expand its businesses and market share in the advertising and furniture segment, re-establish the restaurant operations and to complete the Dalian building re-development plan. The Group will continue to explore other business and regional opportunities especially in Mainland China where the Group has sufficient expertise and connections.

**Philip K H MA**

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