

EXECUTIVE CHAIRMAN'S STATEMENT

The Sincere Company, Limited • Annual Report 2005-06

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 2006.

RESULTS

The year under review was a year of breakthrough to the Group with commendable results. The Group had successfully turned around the loss position and recorded a marginal profit attributable to shareholders as opposed to losses in the previous years. The results were mainly driven by a strong growth in the Hong Kong retail operation and reduction in impairment losses from the property in Dalian. The drop in revenue is solely due to less UK properties being sold this year as compared to last year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 28 February 2006, the Group's total borrowings less cash and cash equivalents amounted to HK\$249 million (2005: HK\$254 million). The Group's gearing was 34.9%, representing an increase of 2% in total debt to the shareholders' funds from the previous year (2005: 32.9%).

The bank borrowings were mainly in HK dollars, US dollars and Pound Sterling with interest rates ranging from 0.685% to 7.75%. The net interest expenses charged to the consolidated income statement for the year were HK\$14 million (2005: HK\$10 million). The maturity profile of the Group's borrowing is set out in notes 25 to the financial statements.

The current ratio had decreased by 0.08 to 1.57 as the Group's net current assets increased from HK\$246 million in 2005 to HK\$249 million in 2006. The Group currently has a foreign currency hedging policy on Euro for the purchase of stocks, which is to hedge 50% of anticipated total value of European stock purchase of the following season. 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 2006, the Group had 567 (2005: 519) 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 2006.

BUSINESS REVIEW

Given the continued economic recovery in Hong Kong, aggressive sales and marketing strategies, and with the implementation of effective costs control, the segment results of the retail operation improved by 86%, representing HK\$26 million increased from last year. This encouraging result was mainly attributable to all the three department stores in Hong Kong that achieved a double-digit growth in turnover through the increase in



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consignment counters and various short-term sale promotion locations "Roadshows" being conducted in different parts of Hong Kong. During the year, income from consignment sales increased by 27% as compared with last year; while Roadshows contributed 5% to the Group's retail turnover.

The advertising business performance maintained though the returns was marginally behind the previous year both in Hong Kong and Shanghai. This was mainly due to the deliberate actions to strengthen the internal operating system within the Company. During the year, the Company mainly engaged in providing advertising and media services.

The home furniture business "Sincere Living" had built a solid platform and recorded a material growth in turnover during the year. The Company has enlarged its office and established a retail operation.

The new travel franchise business "UNIGLOBE" had been firmly established in the second half of the year with the recruitment of an experienced senior management from the travel industry to oversee this operation. It was targeted to begin franchisees operation in Hong Kong and Shanghai in the second half of year 2006.

The investment performances of financial instruments were encouraging and recorded a substantial growth. This was mainly generated from the global portfolios that investing in natural resources and energy. The management will continue monitor the investment opportunities conservatively with more focus on those sectors in view of the growing demand.

In Dalian, the department store tenant provided stable rental income to the Group but the service apartment sustained a low occupancy rate due to the intensive competition in the local market.

In UK, projects of Jubilee Street, Pembroke House and Hyde Park Lancaster Gate No. 17 were completely sold and recognised in the current year. The prestigious duplex penthouse in Lowndes Square was sold in March 2006. The London Parklane Marriot hotel was also sold in May 2006. For Lancaster Gate No. 19-21, six out of the fourteen apartments were sold during the year. The West India Quay project was also going smoothly with thirteen apartments and two penthouses sold in the year, only one apartment and four penthouses remaining in the market.

PROSPECTS

In the coming year, the strong local Hong Kong economy is expected to continue. The Group will concentrate on expanding its local retail market share to maintain a healthy growth. There will be strategic focus on developing the Sincere's brand image as a local middle to upper middle level department store. This would include improving its retail product-mix and continue holding more "Roadshows" in different parts of Hong Kong to serve new customers. The Uniglobe travel agency franchising model would be a good business opportunity for the Group to capture the growing China travel market in years to come.

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

21 June 2006