

GROUP MANAGING DIRECTOR'S REVIEW OF OPERATIONS

The Sincere Company, Limited • Annual Report 2005-06

RETAIL OPERATIONS

Hong Kong

The Group had achieved an encouraging result and reported a profitable year. The major segments results comprising department store operation, property rental, property development and securities trading showed a respectable growth as compared with last year.

On the retail operation, the management was excited to see the fruits of various business strategies being implemented in the past few years; including the new and successful sales distribution channels, continuing efforts in increasing the consignment counters, better coordination with suppliers and aggressive sales promotions. Riding on the continued economic recovery in Hong Kong last year, there were increases in a few running costs, in particular on retail rental. However, the segment results in the retail operation still recorded a significant 86% improvement, with management exercising effective cost control to protect the Company profitability.



Faced with intense sales competition within the industry, the management explored a new sales channel, namely, "Roadshows" to conduct short-term promotional sales in non-traditional Sincere sales area. Suppliers were invited to set up sales counters at selected retail locations operated by the Company during a specified event period of one or two weeks. The Roadshows size ranges were around a few thousands sq. ft. During the year, there were eleven Roadshows covering Causeway Bay, Tsimshatsui, Wong Tai Sin, Tsz Wan Shan, Shatin and Tin Shui Wai. These Roadshows were well received by consumers and contributed operating profit to the Group.

On the product-mix, along with the economic recovery and the local average income per capita increasing, the management had offered fine quality apparels with higher gross profit margin. This was in line with the overall retail objective and successfully lifted the gross profit margin by 0.3 percentage point of sales as compared to last year.

There were various creative marketing programs that attended to the wishes of customers, in particular, a "Dreams Come True" lucky draw was held during November 2005 to January 2006 that offered various luxury prizes including a helicopter trip with accommodation in Macau, fine dining at luxurious hotels, etc. Such programmes were very well received and the management was excited to see the customers were delighted when shopping at Sincere.

On costs control, despite immediate pressures from landlords for rental increases, the stores' total operating expenses dropped by 1.5 percentage point of sales. It reflected the Company's productivity was improving.

Central Store

This flagship store consistently dominated the total stores turnover and recorded a growth of 16%. The direct operating profit recorded a remarkable growth of two times from last year and was mainly driven by the growth in turnover while the costs decreased by 3.4 percentage point of sales. The lease of this store, due to expire in 2006, has been successfully renewed for 6 years with the landlord. This renewal has secured the continuation of long-term services being provided to our customers at Central district area. The management is now planning a major refurbishing for next year in order to generate sustainable profitable return.

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Shamshuipo Dragon Centre Store

This store achieved a substantial growth in direct operating profit of 50% from last year. The growth resulted from the increase in turnover of 19% and more consignment counters were arranged in this store that effectively reduced the operating costs. During the year, the signage near the Lai Kok Estate has been revamped to provide a new look and enhance customer awareness.

Grand Century Place Store

This store recorded a growth of 12% in turnover, which was the least among other stores. This was disrupted by the expansion program on the third floor with renovations completed in September 2005. With the expansion, the store has expanded by one third in space. The shoes department was moved from the first floor to the third floor with expanded range and varieties for customers to choose from. This yielded a significant increase in the turnover for the shoes department from last year. The management expect the sales for this store will be the highest growth for the coming year.

Advertising

Despite the turnover growth of 7%, there was a marginal loss mainly driven by the increase in staff costs. In Hong Kong, an experienced senior management has joined to oversee the operation. In Shanghai, a new account servicing executive team and a designer were recruited to cope with the long-term development. Faced with intense competition, the increased headcounts will be playing an important role to strengthen connections with customers and to prepare for further growth opportunities.

Home Furniture

Benefiting from the resurgence of the local property market, the furniture business "Sincere Living" has doubled in turnover and the net loss was reduced by 13% from last year. During the year, turnover was mainly generated by providing interior design and decoration services to retail office and residential customers. To grasp the growth momentum, the management had proactively expanded its operation. More project and product designers have been recruited and a 4,000 sq. ft. store has been opened in February 2006 at Wanchai to offer retail customers choices of furniture, including direct imported European furniture, kitchen cabinets and home accessories.

OTHER OPERATIONS

Securities Trading

Despite the successive increases in US interest rates and volatility in the markets, the gains from investment in financial instruments still sustained healthy growth when compared with last year.

Travel Business

The new travel franchise business "UNIGLOBE" was introduced by the Group in September 2005, where the Group has obtained an exclusive right for granting licenses to selected franchisees so as to enable them to operate their own travel agency. During the year, solid preparation work with a new office has been established in Causeway Bay with a seasoned senior travel industry executive coming on board. It was targeted to invite franchisees to join by the third quarter of 2006 in Hong Kong and Shanghai. The expertise of Uniglobe is to provide business travel management for small to medium size business enterprises.

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PRC Property Investments

In Dalian, the rental income from the department store remained the same as last year while the occupancy rates for the service apartments were under pressure due to strong competition. There was, however, concrete progress on a particular selected scheme to refurbish the remaining flats and it was expected that there would be further development in the coming year.

UK Property Investments

During the year, the remaining nineteen units of the Jubilee Street project were sold and had been recognised in the current year. This concluded the whole project of seventy-three units that commenced since year 2000 though there was extensive time and costs overrun. This is the first UK project that the Group suffered extensive losses after a successful run of over ten years.

With the disposal of the remaining flat and the mews in the current year, the project Hyde Park Lancaster Gate No. 17 has also been completed. This project commenced in 2001 contributed favourable profits to the Group.

For the London Parklane Marriot Hotel with the 140 Parklane project, the last remaining apartment was sold and recognised in the current year. Upon disposal of all the eighteen residential and three commercial units, the hotel was also sold in May 2006 after the financial year ended and hence we shall be completing the entire project by the next financial year. The Group recognises the hotel operation is now mature after four years of operation and now is a good time to cash out in this favourable market.

The prestigious duplex penthouse in Lowndes Square was sold at a favourable price in March 2006 after the financial year ended and such disposal shall be recognised in the coming year. The penthouse was purchased and held for sale after refurbishment in which the Company had 90% equity interests.

For the West India Quay project, thirteen apartments and two penthouses were sold during the year. At the balance sheet date, there were only one apartment and four penthouses still offering to the market for sale. Again the project is expected to give the Group a profitable return.

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LOOKING AHEAD

The core retail operation will continue be a major growth driver. The management will concentrate on building the Sincere brand image; persistently improving the product-mix to respond to the market changes and to enhance the gross profit margin. More Roadshows will be conducted to reach out to new customers in Hong Kong and improve the bottom line of the retail operation.

With the core department store business on the right track, the management will focus its energy to drive the newly established Uniglobe travel, advertising and furniture businesses in anticipation of a significant contribution to the Group. On the real estate front, the Group will aggressively seek out opportunities for the Dalian investment and look at new projects in the UK. The financial position of the Group is much improved with the completion of various UK projects. The management is confident of being able to build on the positive result this year and go from strength to strength.

Philip K H MA

Group Managing Director

21 June 2006