

The directors submit their annual report and the audited financial statements of the Company and of the Group for the financial year ended 28 February 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries during the financial year consisted of the operation of department stores, holding of properties for investment and rental purposes, property development, securities trading, the provision of advertising agency services and the provision of travel agency franchising services.

RESULTS

The Group's profit for the financial year ended 28 February 2006 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 85.

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 88 of the annual report.

SHARE CAPITAL

As at 28 February 2006, 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 27 to the financial statements.

CONTINGENT LIABILITIES

Details of the contingent liabilities of the Company and of the Group are set out in note 34 to the financial statements.

PLEDGE OF ASSETS

Details of the pledge of assets of the Group are set out in notes 12, 20 and 23 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, holding of properties for investment and rental purposes, property development, securities trading, the provision of advertising agency services and the provision of travel agency franchising services.

Details of the segment information of the Group 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 28 February 2006.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Changes to the property, plant and equipment of the Company and of the Group are disclosed in notes 12 and 13 to the financial statements, respectively.

REPORT OF THE DIRECTORS

The Sincere Company, Limited • Annual Report 2005-06

PROPERTIES UNDER DEVELOPMENT

Details of the properties under development of the Group are set out in note 16 to the financial statements and on page 87 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.

RESERVES

Movements in the reserves of the Company and of the Group during the financial year are set out in note 30(b) to the financial statements, and in the consolidated statement of changes in equity, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 28 February 2006, 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*)

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 21 of this annual report.

PRINCIPAL SHAREHOLDERS

At 28 February 2006, according to the register of interests required to be kept by the Company pursuant to 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 of 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 28 February 2006, 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 Issuers, were as follows:

(a) Long position in shares of the Company

Directors	Number of ordinary shares held, capacity and nature of interest					Percentage of issued share capital
	Personal interests	Family interests	Corporate interests	Other interests	Total	
Walter K W MA	9,925,000	–	–	–	9,925,000	1.7
Philip K H MA	2,000,000	–	–	–	2,000,000	0.3
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 28 February 2006, Walter K W MA, Philip K H MA, King Wing MA and Eric K K LO held 527, 713, 575 and 216 ordinary shares, respectively, in The Sincere Life Assurance Company Limited. In addition, at 28 February 2006, Philip K H MA held 500 promoter shares in The Sincere Life Assurance Company Limited.

At 28 February 2006, Walter K W MA, Philip K H MA, King Wing MA and Eric K K LO held 4,521, 2,485, 6 and 1,019 ordinary shares, respectively, in The Sincere Insurance & Investment Company, Limited.

At 28 February 2006, Walter K W MA and Philip K H MA held 10 and 10 ordinary shares, respectively, in The Sincere Company (Perfumery Manufacturers), Limited.

REPORT OF THE DIRECTORS

The Sincere Company, Limited • Annual Report 2005-06

DIRECTORS' INTERESTS IN SHARES *(continued)*

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.

Save as disclosed herein, as at 28 February 2006, 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 of 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\$12,578,000 as at 28 February 2006.

During the financial year, the Group provided advertising services and charged services fee of approximately HK\$42,000 thereof to a related company, of which Charles M W Chan, an independent non-executive director of the Company, is an executive director. 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 among the Company, 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.

BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

Directors

Walter K W MA, aged 76, is the Executive Chairman. Mr. Ma became a director in 1966, Chairman in 1978 and an executive director in 1982. He is also the Chairman of Joyce Boutique Holdings Limited of which is listed on the main board of the Stock Exchange of Hong Kong Limited ("Stock Exchange"). He has practiced as a Certified Public Accountant in Hong Kong and, is a fellow of the Hong Kong Institute of Certified Public Accountants and an associate of the CPA Australia. Mr. Ma is the cousin of Mr. Philip K H Ma and Mr. King Wing Ma who are also directors of the Company. Save as disclosed above, Mr. Ma does not have any relationship with any other directors and senior management of the Company. He is also a director of The Sincere Life Assurance Company Limited and The Sincere Insurance & Investment Company, Limited.

Philip K H MA, aged 50, 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 is also an Independent Non-executive Director of North Asia Strategic Holdings Limited which is listed on the Growth Enterprise Market of the Stock Exchange. Mr. Philip Ma holds an MBA degree. He is currently in charge of all aspects of the Group's operations. Mr. Philip Ma is the cousin of Mr. Walter K W Ma and Mr. King Wing Ma who are also directors of the Company. Save as disclosed above, Mr. Philip Ma does not have any relationship with any other directors and senior management of the Company. He is also a director of The Sincere Life Assurance Company Limited and The Sincere Insurance & Investment Company, Limited.

King Wing MA, aged 74, has been an Independent Non-executive Director of the Company since 1980. He is a general medical practitioner with over 42 year's experience in England, the United States of America and Hong Kong. Mr. King Wing Ma is the cousin of Mr. Walter K W Ma and Mr. Philip K H Ma who are also directors of the Company. Save as disclosed above, Mr. King Wing Ma does not have any relationship with any other directors and senior management of the Company.

Eric K K LO, aged 57, has been an Independent Non-executive Director of the Company since December 1993. Mr. Lo is an Independent Non-executive Director of Joyce Boutique Holdings Limited of which is listed on the Stock Exchange. He is also a director of Bang & Olufsen (Hong Kong) Limited and Hsin Chong Land Limited. Mr. Lo does not have any relationship with any directors and senior management of the Company.

Charles M W CHAN, aged 50, has been an Independent Non-executive Director of the Company since November 1995. Mr. Chan is also an Executive Director of International Hoteliers Limited. He is a member of the American Institute of Certified Public Accountants. Mr. Chan does not have any relationship with any directors and senior management of the Company.

Senior executives

Philip Y F KUNG, aged 58, 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 45, 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.

REPORT OF THE DIRECTORS

The Sincere Company, Limited • Annual Report 2005-06

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.

CONNECTED TRANSACTIONS

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. 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The directors have reviewed and confirmed that those connected transactions were 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.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year, no director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules, other than those businesses to which the directors were appointed as directors to represent the interest of the Company and/or the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company's shares which are in the hands of the public exceeded 25% of the Company's total issued share capital as at the date of this report.

POST BALANCE SHEET EVENT

Details of the significant post balance sheet event of the Group are set out in note 36 to the financial statements.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three members all of whom are Independent Non-executive Directors, namely, Mr. Eric K K Lo, Mr. Charles M W Chan and Mr. Ma King Wing. Regular meetings have been held by the Audit Committee since its establishment and the Audit Committee met two times in the year under review. The primary duties of the Audit Committee are to review the Group's internal control and financial reporting process including interim and annual financial statements before recommending them to the Board of directors for approval. The Group's audited results for the year ended 28 February 2006 have been reviewed by the Audit Committee.

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, 21 June 2006