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The Sincere Company, Limited

Interim Report 2002

INTERIM RESULTS

The interim results for the six months ended 31 August 2002 have not been audited by the Company's auditors, but have been reviewed by the Audit Committee on 21 November 2002.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT – UNAUDITED

For the six months ended 31 August 2002

	Notes	2002 HK\$'000	2001 HK\$'000
TURNOVER	2	142,630	214,083
Cost of sales		(105,354)	(150,813)
Income from counter and consignment sales		25,440	30,577
Other revenue		4,015	12,787
Selling and distribution costs		(78,660)	(93,848)
General and administrative expenses		(56,503)	(61,197)
Other operating expenses		(6,756)	(3,611)
LOSS FROM OPERATING ACTIVITIES	3	(75,188)	(52,022)
Finance costs – interest expenses		(5,394)	(18,523)
Share of profits less losses of associates		7,894	(7,983)
LOSS BEFORE TAX		(72,688)	(78,528)
Tax	4	(3,932)	(3,385)
LOSS BEFORE MINORITY INTERESTS		(76,620)	(81,913)
Minority interests		172	2,052
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(76,448)	(79,861)
LOSS PER SHARE	5		
Basic		<u>(13.31 cents)</u>	<u>(13.91 cents)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

For the six months ended 31 August 2002

	Issued Share Capital HK\$'000	Share Premium HK\$'000	Retained Profits HK\$'000	General Reserve HK\$'000	Investment Property Revaluation Reserve HK\$'000	Total HK\$'000
At 1 March 2002	287,154	26	967,295	36,196	20,172	1,310,843
Share of revaluation deficit of an associate	-	-	-	-	(3,467)	(3,467)
Exchange differences on translation of the financial statements of foreign entities	-	-	-	361	-	361
Loss for the period	-	-	(76,448)	-	-	(76,448)
At 31 August 2002	<u>287,154</u>	<u>26</u>	<u>890,847</u>	<u>36,557</u>	<u>16,705</u>	<u>1,231,289</u>

For the six months ended 31 August 2001

	Issued Share Capital HK\$'000	Share Premium HK\$'000	Retained Profits HK\$'000	General Reserve HK\$'000	Investment Property Revaluation Reserves HK\$'000	Total HK\$'000
At 1 March 2001	287,154	26	1,025,349	34,088	287,587	1,634,204
Share of revaluation deficit of an associate	-	-	-	-	(18,067)	(18,067)
Exchange differences on translation of the financial statements of foreign entities	-	-	-	(450)	-	(450)
Loss for the period	-	-	(79,861)	-	-	(79,861)
At 31 August 2001	<u>287,154</u>	<u>26</u>	<u>945,488</u>	<u>33,638</u>	<u>269,520</u>	<u>1,535,826</u>

CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED

31 August 2002

	Notes	31 August 2002 HK\$'000	28 February 2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	6	411,962	363,486
Goodwill	7	23,702	–
Properties under development	8	220,004	279,217
Long term receivables		6,978	10,504
Interests in associates		214,689	259,424
Long term investments	9	51,053	56,853
Rental deposits		13,395	13,266
		<u>941,783</u>	<u>982,750</u>
CURRENT ASSETS			
Properties under development for sale		118,607	79,504
Properties held for sale		57,073	57,910
Inventories		92,866	86,090
Debtors	10	1,752	2,108
Prepayments, deposits and other receivables		27,735	21,716
Marketable securities	11	405,904	450,418
Pledged cash and bank balances		39,649	49,403
Pledged deposits with banks		10,120	21,110
Cash and bank balances	12	24,320	78,067
		<u>778,026</u>	<u>846,326</u>
CURRENT LIABILITIES			
Interest-bearing bank loans and overdrafts, secured		407,760	441,948
Creditors, deposits and accrued expenses	13	69,555	64,661
Tax		479	1,505
Unclaimed dividends		4,605	4,605
		<u>482,399</u>	<u>512,719</u>
NET CURRENT ASSETS		<u>295,627</u>	<u>333,607</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,237,410</u>	<u>1,316,357</u>
MINORITY INTERESTS		<u>(6,121)</u>	<u>(5,514)</u>
		<u>1,231,289</u>	<u>1,310,843</u>
CAPITAL AND RESERVES			
Issued share capital		287,154	287,154
Share premium account		26	26
Reserves		944,109	1,023,663
		<u>1,231,289</u>	<u>1,310,843</u>

Walter K W MA
Director

Philip K H MA
Director

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED*For the six months ended 31 August 2002*

	2002	2001
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from :		
Operating activities	(54,648)	73,031
Investing activities	33,867	41,922
Financing activities	(45,044)	(32,862)
	<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents	(65,825)	82,091
Cash and cash equivalents at beginning of period	69,061	23,018
Effects of foreign exchange rate changes, net	361	(450)
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<u>3,597</u>	<u>104,659</u>
 ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	24,320	126,972
Bank overdrafts	(20,723)	(22,313)
	<hr/>	<hr/>
	<u>3,597</u>	<u>104,659</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 August 2002

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting”. The accounting policies and basis of presentation are the same as those used in the annual financial statements for the year ended 28 February 2002. Figures for the year ended 28 February 2002 are extracted from the Group annual financial statements for that year.

Impact of new/revised statements of standard accounting practice

The following relevant SSAPs issued by the Hong Kong Society of Accountants are effective for accounting periods commencing on or after 1 March 2002:

- SSAP 1 (Revised) : “Presentation of financial statements”
- SSAP 11 (Revised) : “Foreign currency translation”
- SSAP 15 (Revised) : “Cash flow statements”
- SSAP 25 (Revised) : “Interim financial reporting”
- SSAP 34 : “Employee benefits”

The main revision to SSAP 1 is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the current interim period and the comparative balances have been presented in accordance with this revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. This revised SSAP has had no major impact on these condensed consolidated financial statements.

The main revision to SSAP 15 is to classify cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current interim period and the comparative balances have been presented in accordance with this revised SSAP.

SSAP 25 (Revised) prescribes the presentation and disclosures following changes in SSAP 1 (Revised) and SSAP 15 (Revised). The condensed consolidated financial statements for the current interim period and comparative balances have been presented in accordance with this revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosure requirements for employee benefits. This SSAP has had no major impact on these condensed consolidated financial statements.

2. SEGMENTAL INFORMATION

(a) Business segments

The following tables present revenue and results for the Group's business segments.

	For the six months ended 31 August															
	Department store operations		Restaurant operations		Property rental		Property development		Securities trading		Corporate and others		Eliminations		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:																
Sales to external customers	135,721	181,686	10,942	12,801	8,311	8,050	-	42,626	(12,383)	(31,080)	39	-	-	-	142,630	214,083
Inter-segment sales	-	-	-	-	3,600	4,800	-	-	-	-	-	-	(3,600)	(4,800)	-	-
Other revenue	25,440	30,983	-	-	-	-	-	-	-	-	-	-	-	-	25,440	30,983
Total	<u>161,161</u>	<u>212,669</u>	<u>10,942</u>	<u>12,801</u>	<u>11,911</u>	<u>12,850</u>	<u>-</u>	<u>42,626</u>	<u>(12,383)</u>	<u>(31,080)</u>	<u>39</u>	<u>-</u>	<u>(3,600)</u>	<u>(4,800)</u>	<u>168,070</u>	<u>245,066</u>
Segment results	<u>(52,188)</u>	<u>(34,796)</u>	<u>(5,333)</u>	<u>(6,279)</u>	<u>10,061</u>	<u>7,160</u>	<u>(3,092)</u>	<u>8,959</u>	<u>(16,085)</u>	<u>(34,702)</u>	<u>(195)</u>	<u>(285)</u>	<u>-</u>	<u>-</u>	<u>(66,832)</u>	<u>(59,943)</u>
Interest, dividend income and unallocated revenue															4,015	12,381
Unallocated expenses															(12,371)	(4,460)
Loss from operating activities															(75,188)	(52,022)
Finance costs															(5,394)	(18,523)
Share of profits less losses of associates															7,894	(7,983)
Loss before tax															(72,688)	(78,528)
Tax															(3,932)	(3,385)
Loss before minority interests															(76,620)	(81,913)
Minority interests															172	2,052
Net loss from ordinary activities attributable to shareholders															<u>(76,448)</u>	<u>(79,861)</u>

(b) Geographical segments

The following tables present revenue and results for the Group's geographical segments.

	For the six months ended 31 August									
	Hong Kong		People's Republic of China		United Kingdom		Others		Consolidated	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	151,085	180,843	1,581	2,769	-	42,626	(10,036)	(12,155)	142,630	214,083
Segment results	<u>(38,308)</u>	<u>(38,372)</u>	<u>(12,658)</u>	<u>(13,007)</u>	<u>(3,092)</u>	<u>6,157</u>	<u>(12,774)</u>	<u>(14,721)</u>	<u>(66,832)</u>	<u>(59,943)</u>

3. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	For the six months ended	
	31 August	
	2002	2001
	HK\$'000	HK\$'000
Depreciation	14,284	11,531
Amortisation of goodwill	504	–
Impairment loss on long term investments (note 9)	5,800	–
	<u>14,284</u>	<u>11,531</u>

4. TAX

Tax in the condensed consolidated profit and loss account represents:

	For the six months ended	
	31 August	
	2002	2001
	HK\$'000	HK\$'000
Provision for tax in respect of profit for the period:		
Hong Kong	–	–
Overseas	–	3,200
	<u>–</u>	<u>3,200</u>
Associates	3,932	185
	<u>3,932</u>	<u>3,385</u>
Tax charge for the period	<u>3,932</u>	<u>3,385</u>

No provision for Hong Kong tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2001: Nil).

Overseas tax has been provided on the profits of the overseas subsidiaries in accordance with tax laws of the country in which these subsidiaries operate.

5. LOSS PER SHARE

The calculation of loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$76,448,000 (2001: HK\$79,861,000) and the 574,308,000 (2001: 574,308,000) shares in issue throughout the period.

No diluted loss per share is presented for both current and last period as there are no dilutive potential ordinary shares.

6. FIXED ASSETS

The valuations of the Group's investment properties have been independently reviewed by Castores Magi Surveyors Limited as at 31 August 2002 on an open market basis and the amount was same as that as at 28 February 2002.

7. GOODWILL

The amounts of the goodwill capitalised as an asset in the balance sheet, arising from the acquisition of additional shares of a subsidiary, is as follows:

	HK\$'000
Cost:	
Acquisition of additional shares of a subsidiary	24,206
Accumulated amortisation:	
Amortisation provided during the period	<u>(504)</u>
Net book value:	
At 31 August 2002	<u><u>23,702</u></u>

8. PROPERTIES UNDER DEVELOPMENT

	HK\$'000	HK\$'000
At 1 March 2002/At 1 March 2001	279,217	408,939
Additions	–	31,247
Interest capitalised	–	6,055
Transferred to fixed assets	(59,213)	–
Transferred to properties under development for sale	–	(79,504)
Transfer to properties held for sale	–	<u>(87,520)</u>
At 31 August 2002/At 28 February 2002	<u><u>220,004</u></u>	<u><u>279,217</u></u>

9. LONG TERM INVESTMENTS

	As at 31 August 2002 HK\$'000	As at 28 February 2002 HK\$'000
Unlisted investments at cost:		
Hong Kong	21,824	21,824
Taiwan	23,108	23,108
Overseas	<u>34,533</u>	<u>34,533</u>
	79,465	79,465
Less: Provisions for impairment	<u>(28,412)</u>	<u>(22,612)</u>
	<u><u>51,053</u></u>	<u><u>56,853</u></u>

10. DEBTORS

The maturity profile of current portion of the amounts due from purchasers of units in the Sincere House at 31 August 2002 was as follows:

	As at 31 August 2002 HK\$'000	As at 28 February 2002 HK\$'000
Current – 3 months	425	520
4 – 6 months	434	519
7 – 12 months	<u>893</u>	<u>1,069</u>
	<u><u>1,752</u></u>	<u><u>2,108</u></u>

11. MARKETABLE SECURITIES

	As at 31 August 2002 HK\$'000	As at 28 February 2002 HK\$'000
Listed investments, at market value:		
Hong Kong	36,931	33,900
Overseas	368,973	416,518
	<u>405,904</u>	<u>450,418</u>

As at the balance sheet date, marketable securities with an aggregate market value of approximately HK\$366,450,000 (28 February 2002: HK\$400,280,000) were pledged to banks to secure banking facilities granted to the Group.

12. CASH AND BANK BALANCES

	As at 31 August 2002 HK\$'000	As at 28 February 2002 HK\$'000
Cash on hand and in banks	14,577	28,803
Deposits with banks	9,743	49,264
	<u>24,320</u>	<u>78,067</u>

13. CREDITORS

The age analysis of trade creditors at 31 August 2002 included in the total creditors balance was as follows:

	As at 31 August 2002 HK\$'000	As at 28 February 2002 HK\$'000
Current – 3 months	27,111	24,620
4 – 6 months	1,169	1,346
7 – 12 months	779	783
Over 1 year	–	451
	<u>29,059</u>	<u>27,200</u>

14. CONTINGENT LIABILITIES

Contingent liabilities at the balance sheet date were as follows:

	As at 31 August 2002 HK\$'000	As at 28 February 2002 HK\$'000
Guarantees executed by the Group in favour of banks to secure a loan granted to an investee company	<u>7,289</u>	<u>10,950</u>
Guarantees executed by the Group in favour of banks to secure a loan granted to an associate	<u>278,623</u>	<u>255,209</u>

15. OUTSTANDING COMMITMENTS

Outstanding commitments at the balance sheet date were as follows:

	As at 31 August 2002 HK\$'000	As at 28 February 2002 HK\$'000
Irrevocable letters of credit	20,468	18,767
Capital commitments contracted, but not provided for	83,795	110,284
Commitments to purchase foreign currencies	78,019	40,069
Commitments to sell foreign currencies	<u>78,019</u>	<u>40,778</u>

In addition to the above, certain associates of the Group had outstanding capital commitments in aggregate of approximately HK\$117,838,000 (28 February 2002: HK\$109,864,000) as at the balance sheet date in respect of the property development projects in London, the United Kingdom. In the opinion of the management, these property development projects will be financed by bank borrowings instead of internal financial resources.

INTERIM RESULTS

The retail industry in Hong Kong continues to have a difficult operating environment as Hong Kong deflation remains at a rate of over 3% and unemployment at a rate of over 7%. Overall spending sentiment in the retail industry is low with further impact from worldwide instability on economic recovery and political issues. Competition is keen in the market with sales programs being pushed out much earlier and discounts much deeper than in prior periods. The Group does recognize the difficulties and thus we continue to focus on maximizing profitability, capturing market opportunities, improving customer satisfaction, controlling costs and people development during the period. Although the Group overall turnover has dropped by 33.4% to HK\$142.6 million (due to closure of Lee Theatre Plaza store and Dalian retail operations and lack of sales proceed from disposition of UK property trade units), the consistency of Group strategies on costs control has reduced the overall selling and distribution and general expenses by 12.8% and financing costs by 70.9% so that net loss has been reduced to HK\$76.4 million.

BUSINESS REVIEW AND FUTURE PROSPECTS

The Group's retail operations in Hong Kong have achieved a performance during the period in line with general market. Due to the continuous weak purchasing sentiment in Hong Kong, the Group retail turnover has dropped by 6% as compared to the overall Hong Kong retail industry has drop of 5%. Since the general market does not expect any major improvement in purchasing sentiment for the rest of the year, the Group will take a cautiously aggressive approach in planning for our sales campaigns to boost our retail turnover. We will continue to build on our strength in controlling the expenses and reducing financial costs that has again contributed 12.8% savings amounting to HK\$19.9 million on selling and general expenses and 70.9% savings amounting to HK\$13.1 million on financing expenses to the Group bottom-line during the period.

Besides concentrating our focus on the stores at Central, Mongkok Argyle Street, the Grand Century Place and the Shamshuipo Dragon Centre, the Group has started to look into different opportunities in capturing and expanding its retail market share. In October 2002, the Group has developed a brand new concept called "Day One" for our home furniture business. It aims to provide life style ideas and products to a larger range of customers. By synergizing our advertising ideas, the Group has started its own business, 360 Communications Limited, in this area in August 2002 so that we can provide professional services to our stores and at the same time we will explore external opportunities in this area.

During the period under review, the Group has completed the repositioning strategy for Dalian's retail operations. Both Shanghai and Dalian operations are now providing steady rental income and cash flow for the Group. With the success of our repositioning strategy in PRC, the Group will continue to look into new opportunities to invest in PRC.

The Group's restaurant operation, Mövenpick Marché, is still facing a very difficult operating environment. The management will continue to implement its strategy on pricing, food product mix, customer services and costs control to sustain its competitiveness and market share.

The process for most of the UK projects is on schedule and marketing programs will be pushed out as planned. During the period under review, one of the Group's associates has disposed of a UK project located at Lancaster Gate from which profit has been recognized within the current period.

Since the Asian financial crisis began 1997, the retail industry has been greatly impacted by the weak Hong Kong economy. In order to sustain our existence in the retail industry, the Group has continuously focused on maximizing its profitability, capturing market opportunities, improving customer satisfaction, controlling costs and people development for the past years. Our efforts have resulted in reducing a number of the Group's non-profitable businesses, maximizing our productivity and effectiveness and thus improving our financial position. In looking ahead, the Group will emphasize our effort on improving our overall turnover. The Group will introduce more aggressive sales campaigns such as fashion shows and corporate nights to capture market shares for existing stores. The Group will also work on the development of its new furniture concept, advertising business and cautiously pursue new opportunities in PRC. Besides improving our turnover, the Group will continue our costs control measurements.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review the management has continued its efforts in maintaining a healthy indebtedness risk profile for the Group. As at 31 August 2002 the Group had net current assets of HK\$296 million (HK\$334 million as at 28 February 2002) and total borrowings less cash and cash equivalents amount to HK\$383 million (HK\$364 million as at 28 February 2002). These led the Group to have a slight decrease in the current ratio and gearing ratio (total debt to shareholders' funds) from 1.65 to 1.61 and 33.7% to 33.1% as at 28 February 2002 and as at 31 August 2002, respectively.

EMPLOYEES AND REMUNERATION POLICIES

The Group employed 345 staff as at 31 August 2002 of whom 319 are based in Hong Kong and 26 are based in mainland China.

The Group remunerates its employees largely based on industry practice. Its remuneration packages comprised of salary, commissions and bonuses that are reviewed annually in conjunction with employee performance appraisals.

INTERIM DIVIDEND

The Board of Directors of the Company has decided not to declare an interim dividend for the year ending 28 February 2003.

PRINCIPAL SHAREHOLDERS

At 31 August 2002, according to the register of interests kept by the Company pursuant to the Securities (Disclosure of Interests) Ordinance (Cap. 396) of the Laws of Hong Kong (the "SDI Ordinance") and so far as is known to the Directors, The Sincere Life Assurance Company Limited and The Sincere Insurance and Investment Company Limited were interested in 183,136,032 and 75,608,064 shares of HK\$0.50 each in 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 10% or more of the issued share capital of the Company.

DIRECTORS' SHAREHOLDINGS

At 31 August 2002, the interests of the directors in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance), which had been notified to the Company pursuant to Section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under Section 31 or Part 1 of the Schedule of the SDI Ordinance) or which are required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, were as follows:

(a) Company

Directors	Number of ordinary shares held			
	Personal interests	Family interests	Corporate interests	Other interests
Walter K W MA	9,925,000	–	–	–
Philip K H MA	2,000,000	–	–	–
John K K MA	3,200,000	–	–	–
King Wing MA	992,576	–	–	–
Eric K K LO	2,200,400	–	–	–
Charles M W CHAN	40,000	–	–	–

(b) Associated corporations

At 31 August 2002, Walter K W MA, Philip K H MA, John K K MA, King Wing MA and Eric K K LO held 527, 713, 2,382, 575 and 216 ordinary shares, respectively, in The Sincere Life Assurance Company Limited. In addition, at 31 August 2002, Philip K H MA and John K K MA held 500 and 565 promoter shares, respectively, in The Sincere Life Assurance Company Limited.

At 31 August 2002, Walter K W MA, Philip K H MA, John K K MA, King Wing MA and Eric K K LO held 4,521, 2,485, 2,197, 6 and 1,019 ordinary shares, respectively, in The Sincere Insurance and Investment Company Limited.

At 31 August 2002, Walter K W MA, Philip K H MA and John K K MA held 10, 10 and 10 ordinary shares, respectively, in The Sincere Company (Perfumery Manufacturers) Limited.

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 above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

At no time during the financial period 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.

PURCHASE, SALE AND 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 period.

CODE OF BEST PRACTICE

In the opinion of the Directors, the company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the period, except that the non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Company's Articles of Association.