

The Sincere Company, Limited

Interim Report 2004



TM

SINCERE

## INTERIM RESULTS

The interim results for the six months ended 31 August 2004 have not been audited by the Company's auditors, but have been reviewed by the Audit Committee on 25 November 2004.

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT – UNAUDITED

For the six months ended 31 August 2004

	Notes	2004 HK\$'000	2003 HK\$'000
TURNOVER	2	226,942	193,521
Cost of sales		(193,140)	(127,646)
Income from counter and consignment sales		41,435	26,999
Other revenue		4,767	6,072
Selling and distribution costs		(60,053)	(72,926)
General and administrative expenses		(52,495)	(53,219)
Other operating expenses		(30,338)	(63,812)
LOSS FROM OPERATING ACTIVITIES	3	(62,882)	(91,011)
Finance costs – interest expenses		(3,165)	(3,676)
Share of profits less losses of associates		(9,716)	(9,453)
LOSS BEFORE TAX		(75,763)	(104,140)
Tax	4	–	–
LOSS BEFORE MINORITY INTERESTS		(75,763)	(104,140)
Minority interests		(1,937)	3,146
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(77,700)	(100,994)
LOSS PER SHARE	5		
Basic		(13.53 cents)	(17.59 cents)
Diluted		N/A	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED**

31 August 2004

	Notes	31 August 2004 HK\$'000	29 February 2004 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		<b>284,834</b>	309,762
Goodwill	6	<b>12,422</b>	12,777
Properties under development		<b>179,575</b>	123,900
Long term receivables		<b>286</b>	3,591
Interests in associates		<b>202,927</b>	205,075
Long term investments	7	<b>43,708</b>	49,058
Rental deposits		<b>3,321</b>	3,243
Pension scheme assets		<b>5,774</b>	5,774
		<b>732,847</b>	713,180
<b>CURRENT ASSETS</b>			
Properties under development for sale		<b>131,227</b>	235,722
Properties held for sale		<b>19,041</b>	19,745
Inventories		<b>56,834</b>	50,407
Debtors	8	<b>1,531</b>	2,440
Prepayments, deposits and other receivables		<b>23,409</b>	31,631
Marketable securities	9	<b>245,785</b>	312,667
Pledged bank balances		<b>12,995</b>	28,613
Pledged deposits with banks		<b>98,647</b>	46,541
Cash and bank balances	10	<b>23,538</b>	47,095
		<b>613,007</b>	774,861
<b>CURRENT LIABILITIES</b>			
Interest-bearing bank loans and overdrafts, secured		<b>359,028</b>	267,727
Creditors, deposits and accrued expenses	11	<b>92,043</b>	99,391
Tax		<b>150</b>	150
Unclaimed dividends		<b>4,605</b>	4,605
		<b>455,826</b>	371,873
<b>NET CURRENT ASSETS</b>		<b>157,181</b>	402,988
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>890,028</b>	1,116,168
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank loans, secured		–	195,850
<b>MINORITY INTERESTS</b>		<b>37,523</b>	(7,815)
		<b>852,505</b>	928,133
<b>CAPITAL AND RESERVES</b>			
Issued share capital		<b>287,154</b>	287,154
Share premium account		<b>26</b>	26
Reserves		<b>565,325</b>	640,953
		<b>852,505</b>	928,133

**Walter K W MA**  
Director

**Philip K H MA**  
Director

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED***For the six months ended 31 August 2004*

	Reserves							Total HK\$'000
	Issued share capital HK\$'000	Share premium HK\$'000	General and other reserves HK\$'000	Investment		Retained profits HK\$'000	Total reserves HK\$'000	
				revaluation reserves HK\$'000	property reserves HK\$'000			
At 1 March 2004	287,154	26	61,771	25,205	553,977	640,953	928,133	
Share of revaluation surplus of an associate	-	-	-	8,458	-	8,458	8,458	
Exchange differences on translation of the financial statements of foreign entities	-	-	(6,386)	-	-	(6,386)	(6,386)	
Loss for the period	-	-	-	-	(77,700)	(77,700)	(77,700)	
At 31 August 2004	<b>287,154</b>	<b>26</b>	<b>55,385</b>	<b>33,663</b>	<b>476,277</b>	<b>565,325</b>	<b>852,505</b>	

*For the six months ended 31 August 2003*

	Reserves							Total HK\$'000
	Issued share capital HK\$'000	Share premium HK\$'000	General and other reserves HK\$'000	Investment		Retained profits HK\$'000	Total reserves HK\$'000	
				revaluation reserves HK\$'000	property reserves HK\$'000			
At 1 March 2003	287,154	26	38,812	16,967	723,671	779,450	1,066,630	
Share of revaluation surplus of an associate	-	-	-	20,589	-	20,589	20,589	
Exchange differences on translation of the financial statements of foreign entities	-	-	(870)	-	-	(870)	(870)	
Loss for the period	-	-	-	-	(100,994)	(100,994)	(100,994)	
At 31 August 2003	<b>287,154</b>	<b>26</b>	<b>37,942</b>	<b>37,556</b>	<b>622,677</b>	<b>698,175</b>	<b>985,355</b>	

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED***For the six months ended 31 August 2004*

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Net cash inflow/(outflow) from:		
Operating activities	<b>144,922</b>	69,096
Investing activities	<b>(102,768)</b>	(9,554)
Financing activities	<b>(89,027)</b>	(63,120)
	<hr/>	<hr/>
Decrease in cash and cash equivalents	<b>(46,873)</b>	(3,578)
Cash and cash equivalents at beginning of period	<b>18,584</b>	6,150
Effects of foreign exchange rate changes, net	<b>(4,777)</b>	617
	<hr/>	<hr/>
Cash and cash equivalents at end of period	<b>(33,066)</b>	3,189
	<hr/>	<hr/>

## ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS

Cash and bank balances	<b>23,538</b>	24,609
Bank overdrafts	<b>(56,604)</b>	(21,420)
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	<b>(33,066)</b>	3,189
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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 August 2004

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

The unaudited condensed consolidated interim financial statements of the Group are prepared in accordance with 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 29 February 2004.

Figures for the year ended 29 February 2004 are extracted from the Group's annual financial statements for that year.

## 2. SEGMENT INFORMATION

### (a) Business segments

The following table presents revenue and results for the Group's business segments.

	Department store operations		Restaurant operations		Property rental		Property development		Securities trading		Corporate and others		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	90,726	126,937	12,978	8,990	5,602	9,238	119,928	28,314	(4,479)	18,547	2,187	1,495	-	-	226,942	193,521
Inter-segment sales	-	-	-	-	1,980	3,992	-	-	-	-	5,011	2,230	(6,991)	(6,222)	-	-
Other revenue	41,950	27,566	9	1	1	3	3	373	593	111	1	1	(658)	(520)	41,899	27,535
<b>Total</b>	<b>132,676</b>	<b>154,503</b>	<b>12,987</b>	<b>8,991</b>	<b>7,583</b>	<b>13,233</b>	<b>119,931</b>	<b>28,687</b>	<b>(3,886)</b>	<b>18,658</b>	<b>7,199</b>	<b>3,726</b>	<b>(7,649)</b>	<b>(6,742)</b>	<b>268,841</b>	<b>221,056</b>
Segment results	(23,377)	(42,718)	70	(1,779)	1,652	7,070	(5,140)	(10,322)	(6,472)	16,089	(856)	(1,174)	-	-	(34,123)	(32,834)
Interest, dividend income and unallocated revenue															4,303	5,536
Unallocated expenses															(4,664)	(7,201)
Impairment on fixed assets in People's Republic of China ("PRC")	(3,894)	(3,094)	-	-	-	(4,643)	-	-	-	-	-	-	-	-	(3,894)	(7,737)
Impairment on fixed assets in Hong Kong ("HK")	(13,575)	-	-	-	-	-	-	-	-	-	-	-	-	-	(13,575)	-
Impairment on investment properties in PRC	-	-	-	-	(5,800)	(24,686)	-	-	-	-	-	-	-	-	(5,800)	(24,686)
Impairment on properties under development in PRC	-	-	-	-	(4,200)	(20,671)	-	-	-	-	-	-	-	-	(4,200)	(20,671)
Impairment on other assets	(929)	(3,418)	-	-	-	-	-	-	-	-	-	-	-	-	(929)	(3,418)
Loss from operating activities															(62,882)	(91,011)
Finance costs															(3,165)	(3,676)
Share of profits less losses of associates															(9,716)	(9,453)
Loss before tax															(75,763)	(104,140)
Tax															-	-
Loss before minority interests															(75,763)	(104,140)
Minority interests															(1,937)	3,146
Net loss from ordinary activities attributable to shareholders															(77,700)	(100,994)

### (b) Geographical segments

The following table presents revenue for the Group's geographical segments.

	Hong Kong		PRC		United Kingdom		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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	101,699	152,114	7,509	5,280	119,928	28,314	(2,194)	7,813	226,942	193,521

**3. LOSS FROM OPERATING ACTIVITIES**

The Group's loss from operating activities is arrived at after charging/(crediting):

	For the six months ended	
	31 August	
	2004	2003
	HK\$'000	HK\$'000
Depreciation	6,857	9,061
Amortisation and impairment of goodwill*	355	2,765
Impairment on fixed assets*	17,469	7,737
Impairment on investment properties in PRC*	5,800	24,686
Impairment on properties under development in PRC*	4,200	20,671
Impairment on other assets	929	3,418
Write-back on impairment of long term investments (note 7)*	(2,250)	–
Loss on disposal of fixed assets	408	1,169
	<u>408</u>	<u>1,169</u>

\* Amounts are included in "Other operating expenses" on the face of the condensed consolidated profit and loss account.

**4. TAX**

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 (2003: Nil).

No overseas tax has been provided during the period (2003: Nil).

**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\$77,700,000 (2003: HK\$100,994,000) and the 574,308,000 (2003: 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. GOODWILL**

The amounts of the goodwill capitalised as an asset in the balance sheet, arising from the acquisition of subsidiaries, are as follows:

	HK\$'000
Cost:	
At 1 March 2004 and 31 August 2004	25,870
Accumulated amortisation and impairment:	
At 1 March 2004	(13,093)
Amortisation provided during the period	(355)
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At 31 August 2004	(13,448)
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Net book value:	
At 31 August 2004	12,422
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At 29 February 2004	12,777
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**7. LONG TERM INVESTMENTS**

	As at 31 August 2004 HK\$'000	As at 29 February 2004 HK\$'000
Unlisted investments at cost, less provision:		
Hong Kong	13,124	20,724
Taiwan	23,108	23,108
Overseas	34,538	34,538
	<hr/>	<hr/>
	70,770	78,370
Less: Provisions for impairment	(27,062)	(29,312)
	<hr/>	<hr/>
	43,708	49,058
	<hr/>	<hr/>

**8. DEBTORS**

The maturity profile of the current portion of the amounts due from purchasers of units in the Sincere House and debtors from other services at 31 August 2004 was as follows:

	<b>As at 31 August 2004 HK\$'000</b>	As at 29 February 2004 HK\$'000
Current – 3 months	323	1,454
4 – 6 months	1,152	326
7 – 12 months	56	660
	<hr/>	<hr/>
	<b>1,531</b>	<b>2,440</b>
	<hr/>	<hr/>

**9. MARKETABLE SECURITIES**

	<b>As at 31 August 2004 HK\$'000</b>	As at 29 February 2004 HK\$'000
Listed investments, at market value:		
Hong Kong	27,548	31,800
Overseas	218,237	280,867
	<hr/>	<hr/>
	<b>245,785</b>	<b>312,667</b>
	<hr/>	<hr/>

At the balance sheet date, marketable securities with an aggregate market value of approximately HK\$148,870,000 (29 February 2004: HK\$299,143,000) were pledged to banks to secure banking facilities granted to the Group.

**10. CASH AND BANK BALANCES**

	<b>As at 31 August 2004 HK\$'000</b>	As at 29 February 2004 HK\$'000
Cash on hand and in banks	22,464	44,738
Deposits with banks	1,074	2,357
	<hr/>	<hr/>
	<b>23,538</b>	<b>47,095</b>
	<hr/>	<hr/>

**11. CREDITORS**

The age analysis of trade creditors at 31 August 2004 included in the total creditors balance was as follows:

	<b>As at 31 August 2004 HK\$'000</b>	As at 29 February 2004 HK\$'000
Current – 3 months	<b>35,336</b>	37,599
4 – 6 months	<b>1,177</b>	921
7 – 12 months	<b>8,802</b>	596
Over 1 year	<b>764</b>	427
	<b>46,079</b>	39,543

**12. CONTINGENT LIABILITIES**

Contingent liabilities at the balance sheet date were as follows:

	<b>As at 31 August 2004 HK\$'000</b>	As at 29 February 2004 HK\$'000
Guarantees executed by the Group in favour of banks to secure a loan granted to an associate	<b>278,447</b>	336,856
Letter of guarantee executed by the Group in lieu of rental and utility deposits	<b>8,414</b>	9,474

**13. OUTSTANDING COMMITMENTS**

Outstanding commitments at 31 August 2004 were as follows:

	<b>As at 31 August 2004 HK\$'000</b>	As at 29 February 2004 HK\$'000
Irrevocable letters of credit	<b>16,443</b>	9,885
Capital commitments		
– contracted, but not provided for	<b>14,921</b>	2,000
– authorised, but not contracted for	–	26,555
Commitments to purchase foreign currencies	<b>172,976</b>	177,453
Commitments to sell foreign currencies	<b>172,456</b>	177,097

In addition to the above, an associate of the Group had outstanding capital commitments in aggregate of approximately HK\$6,215,000 (29 February 2004: HK\$14,075,000) 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.

#### 14. RELATED PARTY TRANSACTIONS

During the period, the Group had the following transactions with related parties. The directors confirm that all of these transactions were carried out in the ordinary and usual course of business of the Group.

	Notes	For the six months ended	
		31 August	
		2004	2003
		HK\$'000	HK\$'000
Provision of advertising services to a related company	(a)	44	408
Managements fee paid to a shareholder	(b)	186	601
		<b>230</b>	<b>1,009</b>

Notes:

- (a) The advertising services provided to and services fees charged to this related company of which Charles M W CHAN, an independent non-executive director of the Company, is an executive director of this related company, were carried out in the ordinary course of business of the Group and were effected on prices and terms similar to other customers.
- (b) Management fee related to services rendered by a minority shareholder, who has 19% equity interest in Sino State Development Limited, a subsidiary of the Company and was charged at a rate of approximately HK\$93,000 per month from March 2004 to April 2004.

#### INTERIM RESULTS

The Group's unaudited consolidated turnover for the six months ended 31 August 2004 amounted to HK\$227 million, representing an increase of 17% from the last corresponding period. This improvement was mainly resulted from the sale of UK properties. With the concurrent expenses control, the net loss attributable to shareholders decreased by HK\$23 million to HK\$78 million, representing an improvement of 23%. The loss was mainly attributable to the impairment of a property in Hong Kong of HK\$14 million, the provision for the closure of convenient chain store operations in Shanghai of HK\$11 million and the continued impairment of property in Dalian of HK\$10 million.

#### BUSINESS REVIEW AND PROSPECTS

The Hong Kong economy has experienced a solid upturn in the first half of 2004 with real GDP growth of 9.5%. Benefited from the continuing influx of Mainland inbound tourists and an upsurge of consumer spending and investment, the Group's retail operation in Hong Kong achieved a satisfactory result. Despite the closure of the Mongkok store in August 2003 and the Company has concentrated more on consignment sale with an increase of 53% as compared to last corresponding period, the revenues of the period on a comparable basis for the department store recorded a favourable growth of 24%. The operating management has executed various rationalization programmes, including Household Fair, Shoes Festival, Crazy Sales and various exclusive offers to institutions to enlarge the customer base. With the implementation of successful campaigns, the overall departments of Men, Ladies and Household were all recorded with a double-digit percentage growth during the period over last year.

During the period, the family floor of Central Store has been expanded, the promotional zone in Shamshuipo Dragon Centre Store was well developed and the productivity has been increased. On reaping the benefits of the inbound tourists, the favourable increase in the foot traffic of the Grand Century Place Store was the most apparent.

The management is negotiating with a potential buyer for the disposal of a property in Hong Kong. As such, an impairment of HK\$14 million has been provided during the period under review with reference to the current market value.

The Mövenpick Marché restaurant recorded a healthy growth both in turnover and profit as compared to last corresponding period. Such substantial improvement was mainly due to the operational efficiencies being achieved in a period not affected by major epidemic outbreaks and numerous campaigns being launched, including Buy One Get One Free, Curry Promotion, Kids Cooking Class, Asparagus promotion and Mexican Food Festivals.

12

In PRC, the general GDP growth for the first nine months of this year was well over 9%. However, for the convenience store operations in Shanghai, they were all facing with intense competition and high running costs. In Shanghai city, a city with 14 million populations, there are almost 5,000 convenient stores which is similar to Tokyo. Most of the industry operators are in a loss position with the intense competition. Management foresees this overcrowding will continue and thus decided to exit to avoid further losses.

The apartments in Dalian were producing favourable rental income where the occupancy rate had increased by 24% as compared to last corresponding period. With the renewed interest in the Great North East Provinces, re-development schemes on the rest of the building are being actively considered. In view of the forthcoming development and the general property scene at Dalian, Management has made a provision of impairment on the property of HK\$10 million in the current period.

The home furnishing operation "Sincere Living" has been operated since August 2003 in Hong Kong and started to contribute turnover to the Group. During the period under review, the operation has expanded to Mainland where a subsidiary was incorporated in Shanghai with a representative office in Guangzhou. The company was mainly engaging in providing interior design and tailor made furniture but has also started to provide decoration services to clients.

On the UK property investment, the remaining flat in Belgravia project in Chesham Street, London was sold in July 2004 and completion will take place in October 2004. The previous reserved units in Jubilee Street project were completed and the turnover of 39 units out of 73 units had been recognized in the current period while the remaining units were under offer for sale. Massive sales programs were being launched and Management believed that all flats will be sold in 2005. The Park Lane Marriott Hotel project maintaining a stable rental income and a flat was sold during the period. The 17 Hyde Park Lancaster Gate project only has two remaining flats on the market. As for the prestigious development project Lowndes Square, it has already attracted keen interest from potential buyers, despite there are still two further months as scheduled to complete the refurbishment.

Looking ahead, in view of the persistent inbound traffic from Mainland, the Group has already signed off an expansion plan for the Grand Century Place Store with shopping space to be enlarged by one-third, going along with an uplifted image, this expansion will be presented in the first half of year 2005 and will be able to provide a more comfortable shopping experience to customers. In PRC, the Group will evaluate every opportunity to explore new business and to develop the restaurant, home furnishing and advertising businesses.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group continued to be financed by a combination of its equity capital base, cash flow generated from operations and bank borrowings. As usual, bank and other liabilities were being met upon their maturities in the normal course of business.

As at 31 August 2004, the Group's total borrowings less cash and bank balances amounted to HK\$335 million (HK\$416 million as at 29 February 2004). All borrowings were secured against certain properties and bank deposits. The Group's gearing ratio representing total borrowings to shareholders' funds, decreased from 49.9% as at 29 February 2004 to 42.1% at 31 August 2004. The bank borrowings were made mainly in HK dollars, US dollars and Pound Sterling with interest rates ranging from 1.8% to 6.5%. The net interest expenses for the period was HK\$3 million (2003: HK\$4 million). Throughout the period, the Group maintained certain assets and liabilities in foreign currencies, most of which the currency exchange rates were relatively stable and management did not envisage any material exchange risk arising from foreign currency movements. As at 31 August 2004 the total outstanding foreign exchange contracts purchased with banks amounted to HK\$173 million. The Group made use of short term borrowings to finance its operation during the period.

The current ratio decreased by 0.74 to 1.34 as the Group's net current assets decreased by HK\$246 million to HK\$157 million from prior year end.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 August 2004, the Group had 662 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 for 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 subsidised medical care, staff purchase discounts and subsidised internal training.

## INTERIM DIVIDEND

The Board of Directors of the Company has decided not to declare an interim dividend for the year ending 28 February 2005.

## PRINCIPAL SHAREHOLDERS

At 31 August 2004, according to the register of interests kept by the Company pursuant to the Section 336 of the 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 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 5% or more of the nominal value of issued equity share capital of the Company.

## DIRECTORS' INTERESTS IN SHARES

As at 31 August 2004, the interests of 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 under Section 352 of the SFO, were as follows:

### (a) Long position in shares of the Company

14	Directors	Number of ordinary shares held				Total	Percentage of issued share capital
		Personal interests	Family interests	Corporate interests	Other interests		
	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 31 August 2004, 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 31 August 2004, Philip K H MA held 500 promoter shares in The Sincere Life Assurance Company Limited.

At 31 August 2004, 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 31 August 2004, Walter K W MA and Philip K H MA held 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 herein, as at 31 August 2004, none of the directors or any of their associates had any interests or short positions 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 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.

## SHARE OPTION SCHEME

The Company operates a share option scheme (“Option Scheme”) for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group. Eligible participants of the Option Scheme include any full-time employees and directors, excluding any non-executive directors, of the Group. The Option Scheme became effective on 1 August 2000 and, unless otherwise amended or altered, will remain in force for a period of 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Option Scheme is an amount equivalent, upon their exercise, of up to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Option Scheme is limited to 25% of the aggregate number of shares issuable under the Option Scheme.

The offer of the grant of a share option may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences on a date determinable by the directors, and ends on a date which is not later than 10 years from the commencement date of the exercise period or the expiry date of the Option Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) 90% of the average of the closing price of the Company’s shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of offer of the option; and (ii) the nominal value of the Company’s shares.

No options had been granted or agreed to be granted under the Option Scheme up to the date of these condensed consolidated financial statements.

## 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.

## AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting including the review of the unaudited consolidated interim financial statements for the six months ended 31 August 2004.

## ADOPTION OF THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Director’s securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the period under review.



## 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.

## DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES

As at 31 August 2004, the Group has provided guarantees for facilities granted to its affiliated company in an aggregate exceeded 8% of the relevant percentage ratios under Rule 13.16 of the Listing Rules. Details were as follow:

<b>Affiliated company</b>	<b>Attributable interest held by the Group</b>	<b>Guarantees given</b>	<b>Guaranteed banking facilities utilised</b>
	%	HK\$'000	HK\$'000
140 Park Lane Limited	30	278,447	219,383

Save as disclosed above, there is no guarantee given for any of its affiliated companies of the Group. At 31 August 2004, the pro forma combined balance sheet of the above affiliated company is set out below:

	HK\$'000
Non-current assets	1,133,316
Current assets	241,077
Current liabilities	(195,227)
Non-current liabilities	(859,418)
	<hr/>
	319,748
	<hr/>