

SINCERE

The Sincere Company, Limited
Interim Report 2005



TM

INTERIM RESULTS

The interim results for the six months ended 31 August 2005 have not been audited by the Company's auditors, but have been reviewed by the Audit Committee on 24 November 2005.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT – UNAUDITED

For the six months ended 31 August 2005

| | Notes | 2005 HK\$'000 | 2004 HK\$'000 |
|--|-------|---------------------|----------------------|
| TURNOVER | 2 | 233,113 | 268,377 |
| Cost of sales | | (142,957) | (193,140) |
| Other revenue | | 5,720 | 4,767 |
| Selling and distribution costs | | (60,323) | (60,053) |
| General and administrative expenses | | (49,113) | (52,495) |
| Other operating expenses | | (31,782) | (30,338) |
| Finance costs – interest expense | | (4,129) | (3,165) |
| Share of profits less losses of associates | | (498) | (9,716) |
| LOSS BEFORE TAX | 3 | (49,969) | (75,763) |
| Tax | 4 | – | – |
| LOSS FOR THE PERIOD | | <u>(49,969)</u> | <u>(75,763)</u> |
| ATTRIBUTABLE TO: | | | |
| Equity holders of the Company | | (47,999) | (77,700) |
| Minority interests | | (1,970) | 1,937 |
| | | <u>(49,969)</u> | <u>(75,763)</u> |
| LOSS PER SHARE | 5 | | |
| Basic | | <u>(8.36 cents)</u> | <u>(13.53 cents)</u> |
| Diluted | | <u>N/A</u> | <u>N/A</u> |

CONDENSED CONSOLIDATED BALANCE SHEET – UNAUDITED

31 August 2005

| | Notes | 31 August 2005 HK\$'000 | (Restated) 28 February 2005 HK\$'000 |
|--|-------|-------------------------------|---|
| NON-CURRENT ASSETS | | | |
| Fixed assets: | | | |
| Property, plant and equipment | | 85,556 | 83,813 |
| Investment properties | | 149,800 | 167,800 |
| Prepaid land premium | | 830 | 842 |
| Deferred expenditure | | 3,510 | – |
| Goodwill | 6 | 6,067 | 6,067 |
| Properties under development | | 99,500 | 111,500 |
| Interests in associates | | 240,240 | 256,235 |
| Available-for-sale investments | 7 | 43,709 | 43,709 |
| Rental deposits | | 5,240 | 4,090 |
| Pension scheme assets | | 5,922 | 5,922 |
| | | 640,374 | 679,978 |
| CURRENT ASSETS | | | |
| Properties held for sale | | 94,214 | 164,413 |
| Inventories | | 59,518 | 46,246 |
| Debtors | 8 | 460 | 912 |
| Prepayments, deposits and other receivables | | 22,460 | 30,589 |
| Investments at fair value through profit or loss | 9 | 256,090 | 251,231 |
| Pledged bank balances | | 11,112 | 8,402 |
| Pledged deposits with banks | | 90,418 | 89,000 |
| Cash and bank balances | 10 | 25,301 | 35,444 |
| | | 559,573 | 626,237 |
| CURRENT LIABILITIES | | | |
| Interest-bearing bank loans and overdrafts, secured | | 217,267 | 289,327 |
| Creditors | 11 | 77,911 | 43,757 |
| Deposits, accrued expenses and other payables | | 39,060 | 42,528 |
| Tax | | 150 | 150 |
| Unclaimed dividends | | 4,605 | 4,605 |
| | | 338,993 | 380,367 |
| NET CURRENT ASSETS | | 220,580 | 245,870 |
| | | 860,954 | 925,848 |
| CAPITAL AND RESERVES | | | |
| Equity attributable to equity holders of the Company | | | |
| Issued share capital | | 287,154 | 287,154 |
| Share premium account | | 26 | 26 |
| Reserves | | 531,267 | 591,092 |
| | | 818,447 | 878,272 |
| Minority interests | | 42,507 | 47,576 |
| | | 860,954 | 925,848 |

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 2005*

| | Reserves | | | | | | | | Total HK\$'000 |
|---|--|---|---|--------------------------------|--|---------------------------------|-------------------------------|-----------------------------------|-------------------|
| | Issued share capital HK\$'000 | Share premium account HK\$'000 | Investment property revaluation reserves HK\$'000 | General reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Retained profits HK\$'000 | Total reserves HK\$'000 | Minority interests HK\$'000 | |
| At 1 March 2005 | | | | | | | | | |
| As previously reported | 287,154 | 26 | 94,069 | 46,613 | 15,147 | 435,263 | 591,092 | 47,576 | 925,848 |
| Effect of adopting HKAS17 (notes 1(d) and (f)) | - | - | (94,069) | - | - | 94,069 | - | - | - |
| As restated | 287,154 | 26 | - | 46,613 | 15,147 | 529,332 | 591,092 | 47,576 | 925,848 |
| Exchange differences on translation of the financial statements of foreign entities | - | - | - | - | (11,826) | - | (11,826) | - | (11,826) |
| Loss for the period | - | - | - | - | - | (47,999) | (47,999) | (1,970) | (49,969) |
| Movement in balances with minority interests | - | - | - | - | - | - | - | (3,099) | (3,099) |
| At 31 August 2005 | 287,154 | 26 | - | 46,613 | 3,321 | 481,333 | 531,267 | 42,507 | 860,954 |

For the six months ended 31 August 2004

| | Reserves | | | | | | | | Total HK\$'000 |
|---|--|---|---|--------------------------------|--|---------------------------------|-------------------------------|-----------------------------------|-------------------|
| | Issued share capital HK\$'000 | Share premium account HK\$'000 | Investment property revaluation reserves HK\$'000 | General reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Retained profits HK\$'000 | Total reserves HK\$'000 | Minority interests HK\$'000 | |
| At 1 March 2004 | 287,154 | 26 | 25,205 | 46,613 | 15,158 | 553,977 | 640,953 | (7,815) | 920,318 |
| 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) | 1,937 | (75,763) |
| Share of revaluation surplus of associates | - | - | 8,458 | - | - | - | 8,458 | - | 8,458 |
| Capital contribution from minority interests | - | - | - | - | - | - | - | 1,813 | 1,813 |
| Movement in balances with minority interests | - | - | - | - | - | - | - | 41,588 | 41,588 |
| At 31 August 2004 | 287,154 | 26 | 33,663 | 46,613 | 8,772 | 476,277 | 565,325 | 37,523 | 890,028 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED*For the six months ended 31 August 2005*

| | 2005 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Net cash inflow/(outflow) from: | | |
| Operating activities | 76,773 | 144,922 |
| Investing activities | (12,049) | (102,768) |
| Financing activities | (60,162) | (89,027) |
| | <u>4,562</u> | <u>(46,873)</u> |
| Increase/(decrease) in cash and cash equivalents | | |
| Cash and cash equivalents at beginning of period | 359 | 18,584 |
| Effects of foreign exchange rate changes, net | 292 | (4,777) |
| | <u>5,213</u> | <u>(33,066)</u> |
| Cash and cash equivalents at end of period | | |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 25,301 | 23,538 |
| Bank overdrafts | (20,088) | (56,604) |
| | <u>5,213</u> | <u>(33,066)</u> |

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 August 2005

1. SIGNIFICANT ACCOUNTING POLICIES

Principal of accounting policies

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the audited financial statements for the year ended 28 February 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group and are adopted for the first time for the current period's financial statements:

| | |
|----------------|--|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after Balance Sheet Date |
| HKAS 12 | Income Taxes |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 28 | Investments in Associates |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 40 | Investment Property |
| HKFRS 2 | Share-based Payment |
| HKFRS 3 | Business Combinations |
| HK(SIC)-Int 21 | Income Taxes – Recovery of Revalued Non-depreciable Assets |
| HK-Int 4 | Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases |

The adoption of HKASs 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 28, 33, 37, 38, HKFRS 2, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the Group's accounting policies and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting other HKFRSs is summarised as follows:

(a) *HKAS 1 – Presentation of Financial Statements*

In prior periods, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from the net assets. Minority interests in the results of the Group for the period were also separately presented in the consolidated profit and loss account as a reduction before arriving at the profit attributable to the equity holders of the Company.

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)**(a) HKAS 1 – Presentation of Financial Statements (continued)*

Upon the adoption of HKAS 1, minority interests at the balance sheet date are presented in the consolidated balance sheet as an element of capital and reserves, separately from the equity attributable to the equity holders of the Company, and the minority interests in the results of the Group for the period are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the Company.

The presentation of minority interests in the consolidated balance sheet, profit and loss account and statement of changes in equity for the comparative period has been restated, accordingly.

(b) HKAS 17 – Leases

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings unless the payments cannot be allocated reliably between the land and building elements. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land premium for land, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premium for land under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

The change has been adopted retrospectively and the comparative amounts have been restated to reflect the reclassification of leasehold land.

(c) HKAS 32 and HKAS 39 – Financial Instruments

Prior to 1 March 2005, investments of the Group were classified into long term investments and marketable securities, which were stated at cost less impairment and fair values, respectively.

Upon the adoption of HKAS 32 and 39, all long term investments and marketable securities held as at 28 February 2005 were redesignated into available-for-sale investments and investments at fair value through profit or loss on 1 March 2005, respectively.

There is no effect on adoption of HKAS 32 and 39, as the accounting policy on measurement of the investments as at 28 February 2005 was the same as that for the available-for-sale investments and investments at fair value through profit or loss.

(d) HKAS 40 – Investment Property

In prior periods, changes in fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to profit and loss account. Any subsequent revaluation surplus was credited to the profit and loss account to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the profit and loss account in the period in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit and loss account in the period of the retirement or disposal.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) *HKAS 40 – Investment Property (continued)*

The Group has taken advantage of the transitional provisions of HKAS 40 to adjust the effect of adopting the standard to the opening balance of retained profits rather than restating the comparative amounts to reflect the changes retrospectively. The effects of the above changes are summarised in Notes 1(f) and (h) to the interim financial statements.

(e) *HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets*

In prior periods, goodwill arising on acquisitions on or after 1 March 2001 was capitalised and amortised on a straight line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 March 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill.

The effects of the above changes are summarised in Note 1(g) to the condensed consolidated financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

(f) *Effect on opening balance of total equity at 1 March 2005*

| Effect of new policies (Increase/(Decrease)) | Note | Investment property revaluation reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|------|--|---|--------------------------|
| HKAS 40 | | | | |
| Surplus on revaluation of investment property | 1(d) | (94,069) | 94,069 | – |
| Total effect at 1 March 2005 | | <u>(94,069)</u> | <u>94,069</u> | <u>–</u> |

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Effect on loss after tax for the six months ended 31 August 2005 and 2004

| Effect of new policies (Decrease)/(Increase) | Notes | For the six months ended 31 August | | | |
|---|-------|---|-------------------|---|-------------------|
| | | 2005 | | 2004 | |
| | | Equity holders of the Company HK\$'000 | Total HK\$'000 | Equity holders of the Company HK\$'000 | Total HK\$'000 |
| Effect on loss after tax: | | | | | |
| HKAS 40 | | | | | |
| Surplus on revaluation of investment property | 1(d) | 15,907 | 15,907 | – | – |
| HKFRS 3 | | | | | |
| Discontinuation amortisation of goodwill | 1(e) | 355 | 355 | – | – |
| Total effect for the period | | <u>16,262</u> | <u>16,262</u> | <u>–</u> | <u>–</u> |
| Effect on loss per share: | | | | | |
| Basic | | <u>HK2.83 cents</u> | | <u>–</u> | |
| Diluted | | <u>N/A</u> | | <u>N/A</u> | |

(h) Effect on income or expenses recognised directly in equity for the six months ended 31 August 2005 and 2004

| Effect of new policies (Increase)/(Decrease) | Note | For the six months ended 31 August | | | |
|---|------|---|-------------------|---|-------------------|
| | | 2005 | | 2004 | |
| | | Equity holders of the Company HK\$'000 | Total HK\$'000 | Equity holders of the Company HK\$'000 | Total HK\$'000 |
| HKAS 40 | | | | | |
| Surplus on revaluation of investment property no longer recognised in investment property revaluation reserve | 1(d) | (15,907) | (15,907) | – | – |
| Total effect for the period | | <u>(15,907)</u> | <u>(15,907)</u> | <u>–</u> | <u>–</u> |

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 | |
|--|--------------------------------|----------|--------------------------|----------|--------------------|----------|-------------------------|----------|-----------------------|----------|-------------------------|----------|--------------|----------|--------------|----------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | 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 | 155,320 | 132,161 | - | 12,978 | 5,968 | 5,602 | 61,762 | 119,928 | 7,906 | (4,479) | 2,157 | 2,187 | - | - | 233,113 | 268,377 |
| Inter-segment sales | - | - | - | - | 8,977 | 1,980 | 2,534 | - | - | - | 4,621 | 5,011 | (16,132) | (6,991) | - | - |
| Other revenue | 800 | 515 | - | 9 | - | 1 | 113 | 3 | 295 | 593 | 112 | 1 | - | (658) | 1,320 | 464 |
| Total | 156,120 | 132,676 | - | 12,987 | 14,945 | 7,583 | 64,409 | 119,931 | 8,201 | (3,886) | 6,890 | 7,199 | (16,132) | (7,649) | 234,433 | 268,841 |
| Segment results | (9,215) | (23,377) | (109) | 70 | 3,089 | 1,652 | (8,923) | (5,140) | 4,936 | (6,472) | (5,904) | (856) | - | - | (16,126) | (34,123) |
| Interest, dividend income and unallocated revenue | | | | | | | | | | | | | | | 4,400 | 4,303 |
| Unallocated expenses | | | | | | | | | | | | | | | (3,616) | (4,664) |
| Impairment on fixed assets in Mainland China | - | (3,894) | - | - | - | - | - | - | - | - | - | - | - | - | - | (3,894) |
| Impairment on fixed assets in Hong Kong ("HK") | - | (13,575) | - | - | - | - | - | - | - | - | - | - | - | - | - | (13,575) |
| Changes in fair values of investment properties in Mainland China | - | - | - | - | (18,000) | (5,800) | - | - | - | - | - | - | - | - | (18,000) | (5,800) |
| Impairment on properties under development in Mainland China | - | - | - | - | (12,000) | (4,200) | - | - | - | - | - | - | - | - | (12,000) | (4,200) |
| Impairment on other assets | - | (929) | - | - | - | - | - | - | - | - | - | - | - | - | - | (929) |
| Loss from operating activities | | | | | | | | | | | | | | | (45,342) | (62,882) |
| Finance costs | | | | | | | | | | | | | | | (4,129) | (3,165) |
| Share of profits less losses of associates | - | - | - | - | 12,534 | (1,706) | (9,816) | (5,049) | - | - | (3,216) | (2,961) | - | - | (498) | (9,716) |
| Loss before tax | | | | | | | | | | | | | | | (49,969) | (75,763) |
| Tax | | | | | | | | | | | | | | | - | - |
| Loss for the period | | | | | | | | | | | | | | | (49,969) | (75,763) |

2. SEGMENT INFORMATION (continued)**(b) Geographical segments**

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

| | HK | | Mainland China | | United Kingdom | | Others | | Consolidated | |
|-----------------------------|----------------|----------|----------------|----------|----------------|----------|--------------|----------|----------------|----------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | 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 | 163,508 | 143,134 | 4,694 | 7,509 | 61,820 | 119,928 | 3,091 | (2,194) | 233,113 | 268,377 |

3. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

| | For the six months ended | |
|--|--------------------------|----------|
| | 31 August | |
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Depreciation | 5,525 | 6,845 |
| Amortisation of prepaid land premium | 12 | 12 |
| Amortisation and impairment of goodwill* | – | 355 |
| Impairment on fixed assets* | – | 17,469 |
| Changes in fair values of investment properties in Mainland China* | 18,000 | 5,800 |
| Impairment on properties under development in Mainland China* | 12,000 | 4,200 |
| Impairment on other assets | – | 929 |
| Write-back on impairment of available-for-sale investments* | – | (2,250) |
| Loss on disposal of fixed assets | 555 | 408 |

* 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 (2004: Nil).

No overseas tax has been provided during the period (2004: 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\$47,999,000 (2004: HK\$77,700,000) and the 574,308,000 (2004: 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 goodwill capitalised as an asset in the balance sheet, arising from the acquisition of subsidiaries, are as follows:

| | HK\$'000 |
|---------------------------------------|---------------|
| Remaining unamortised cost: | |
| At 1 March 2005 | 22,962 |
| Accumulated impairment: | |
| At 1 March 2005 | 16,895 |
| Impairment provided during the period | — |
| At 31 August 2005 | <u>16,895</u> |
| Net book value: | |
| At 31 August 2005 | <u>6,067</u> |
| At 28 February 2005 | <u>6,067</u> |

7. AVAILABLE-FOR-SALE INVESTMENTS

| | As at 31 August 2005 HK\$'000 | As at 28 February 2005 HK\$'000 |
|---------------------------------|--|--|
| Unlisted investments at cost: | | |
| Hong Kong | 13,052 | 13,052 |
| Taiwan | 23,108 | 23,108 |
| Overseas | 34,538 | 34,538 |
| | <u>70,698</u> | 70,698 |
| Less: Provisions for impairment | <u>(26,989)</u> | (26,989) |
| | <u>43,709</u> | <u>43,709</u> |

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 as at 31 August 2005 was as follows:

| | As at 31 August 2005 HK\$'000 | As at 28 February 2005 HK\$'000 |
|--------------------|--|--|
| Current – 3 months | 401 | 640 |
| 4 – 6 months | — | 176 |
| 7 – 12 months | 45 | 96 |
| Over 1 year | 14 | — |
| | <u>460</u> | <u>912</u> |

9. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | As at 31 August 2005 HK\$'000 | As at 28 February 2005 HK\$'000 |
|--------------------------------------|--|--|
| Listed investments, at market value: | | |
| Hong Kong | 27,886 | 26,197 |
| Overseas | 228,204 | 225,034 |
| | 256,090 | 251,231 |

At the balance sheet date, investments at fair value through profit or loss with an aggregate market value of approximately HK\$148,652,000 (28 February 2005: HK\$243,364,000) were pledged to certain banks to secure banking facilities granted to the Group.

10. CASH AND BANK BALANCES

| | As at 31 August 2005 HK\$'000 | As at 28 February 2005 HK\$'000 |
|---------------------------|--|--|
| Cash on hand and in banks | 22,907 | 29,288 |
| Deposits with banks | 2,394 | 6,156 |
| | 25,301 | 35,444 |

11. CREDITORS

The age analysis of trade creditors at 31 August 2005 included in the total creditors balance was as follows:

| | As at 31 August 2005 HK\$'000 | As at 28 February 2005 HK\$'000 |
|--------------------|--|--|
| Current – 3 months | 74,804 | 42,414 |
| 4 – 6 months | 1,797 | 139 |
| 7 – 12 months | 333 | 265 |
| Over 1 year | 977 | 939 |
| | 77,911 | 43,757 |

12. CONTINGENT LIABILITIES

Contingent liabilities at the balance sheet date were as follows:

| | As at 31 August 2005 HK\$'000 | As at 28 February 2005 HK\$'000 |
|---|--|--|
| Guarantees executed by the Group in favour of a bank to secure a loan granted to an associate | 333,230 | 356,387 |

In addition to the above, the Group's share of guarantee provided by certain associates amounted to approximately HK\$219,532,000 (28 February 2005: HK\$47,575,000) as at the balance sheet date in respect of a banking facility granted to their associate.

13. OUTSTANDING COMMITMENTS

Outstanding commitments at 31 August 2005 were as follows:

| | As at 31 August 2005 HK\$'000 | As at 28 February 2005 HK\$'000 |
|---|--|--|
| Irrevocable letters of credit | 13,086 | 12,883 |
| Capital commitments – contracted, but not provided for | 2,257 | – |
| Capital contribution to a wholly-owned subsidiary in Mainland China | 3,510 | – |
| Commitments to purchase foreign currencies | 105,101 | 100,969 |
| Commitments to sell foreign currencies | 104,908 | 100,772 |

In addition to the above, an associate of the Group had outstanding capital commitments in aggregate of approximately HK\$143,322,000 (28 February 2005: HK\$14,075,000) as at the balance sheet date in respect of certain property development projects in Australia. Last year balance represented capital commitment in respect of certain property development projects in London, the United Kingdom and were completed during the period. In the opinion of the management, these property development projects will be financed by bank borrowings instead of internal financial resources.

14. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 24 November 2005.

INTERIM RESULTS

The Group's unaudited consolidated turnover for the six months ended 31 August 2005 amounted to HK\$233 million, representing a period-on-period decrease of 13%. The decline was mainly attributed to lesser UK properties being realised in the current period plus the closure of the restaurant.

The net loss attributable to shareholders recorded an improvement of 38% from HK\$78 million losses to HK\$48 million, in which a decrease in fair value of HK\$18 million for the investment property and a provision for impairment of HK\$12 million for the property under development in Dalian have been included. This improvement was a result of the improvement in the retail business in Hong Kong plus a revaluation surplus arising from a UK property investment.

BUSINESS REVIEW AND PROSPECTS

Several positive factors created a favourable macro economic climate in the Hong Kong retail industry; the local property market rebound, general wages per capita increased, the revival of the tourist industry and the growth in consumer sentiment. The turnover in the retail segment recorded a growth of 17%. To gradually improve the gross profit margin has been a target for the retail management, through the continuous refinement of product mix to suit our customers, the gross margin has improved slightly. To reinforce our core retail business, the Group has watched for other growth drivers to increase the top sales line. "Roadshows" were conducted at the heart of Tsimshatsui in July and at Shatin in October that was well received by customers. The management believes that such programs are successful because it is a good sales channel to reach the other parts of Hong Kong which Sincere stores are not nearby.

On the stores operation, all three stores recorded a healthy sales and profit growth. The Shamshuipo Store in particular has conducted several promotion events at the shopping centre's atrium; the entrance near Lai Kok Estate had also been enlarged to make it more inviting. The Grand Century Place Store was expanded by one third in floor space with a contemporary look; the shoes department had been moved from the first floor to the third floor and the Ladies and Men's apparels were expanded on the second floor. The renovation and layout re-arrangement were completed in late September 2005 whilst the business growth as a result of the expansion will be expected by the end of year 2005. The Central Store maintained a steady growth and VIP customers still generated a major part of the sales volume. To sustain our competitiveness in the market, a designer house has been appointed to provide a lift to the image of the store, which will benefit both the Company and the landlord.

The apartments in Dalian continued to secure a stable rental income to the Group and the occupancy rate has maintained its momentum. For the Dalian Sincere Building, a strategic plan has been in place with a local developer to complete the development of the Building.

The advertising operation have been strengthened with the addition of an experienced senior management where improvements in performance will be expected.

Benefited from the local property market rebound, the home furnishing operation "Sincere Living" recorded a satisfactory growth. Apart from the residential market, the Company had also provided interior design and decoration services to offices and shops. The Company recently began to provide furniture laminated with the official Disney characters.

During the period under review, the Group introduced a new travel franchise business called "UNIGLOBE". UNIGLOBE Travel is the world's largest single brand travel franchise operation with more than 675 locations in over 28 countries. In July 2005, a ten year master license agreement was signed where the master franchisor granted the Company an exclusive right to grant UNIGLOBE franchises in the Mainland China Shanghai region and neighbouring provinces plus Hong Kong and Macau. The regional office has been established with experienced senior management from the travel industry to oversee this operation. The franchise operation is expected to begin in 2006.

On the UK property investment, sixteen units in Jubilee Street were sold and the remaining four units were under offered. Both the last flat and the mews in 17 Hyde Park Lancaster Gate were sold in the current period. The refurbishments of the fourteen units in 19-21 Lancaster Gate were completed and two units were sold in the current period. The London Marriot Hotel with the 140 Parklane project recorded an occupancy rate of 85% that is better than the market and there are only one apartment remained unsold. For the West India Quay project, fourteen out of the twenty remaining apartments were sold and recognised in the current period. The prestigious penthouse development in Lowndes Square has completed the refurbishment and launched to the market for sale.

Looking ahead, the Hong Kong retail spending have slowed down in the past three months with nervousness in the market, fear of inflation and increase in interest rate. The Company has improved its operation in the first half and is cautiously optimistic that the improvement will continue in the second half.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 August 2005, the Group's total borrowings less cash and cash equivalents amounted to HK\$192 million (HK\$254 million as at 28 February 2005). The Group's gearing was 25.2%, representing a decrease of 6% in total debt to the shareholders' funds from prior year ended 28 February 2005. The bank borrowings were mainly in HK dollars, US dollars and Pound Sterling with interest rates ranging from 2.4% to 7.25%. The net interest expense charged to the consolidated profit and loss account for the period was HK\$4 million (2004: HK\$3 million). The maturity of all bank borrowings was within one year.

The current ratio remains at 1.65 from prior year end. There was no significant exposures to foreign currency fluctuation. In addition to the internal generated cash flows, the Group also made use of short term borrowings to finance its operation during the period under review. All borrowings were secured against certain properties and bank deposits.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 August 2005, the Group had 478 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 2006.

PRINCIPAL SHAREHOLDERS

At 31 August 2005, 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' INTEREST IN SHARES

At 31 August 2005, 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 under Section 352 of the SFO, were as follows:

(a) Long position in shares of the Company

| 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 2005, 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 2005, Philip K. H. MA held 500 promoter shares in The Sincere Life Assurance Company Limited.

At 31 August 2005, 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 2005, 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 2005, 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 2005.

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.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Group is not, or was not, in compliance with the Code of Corporate Governance Practice (the "CG Code") 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.

In compliance with the code provisions of the CG Code which came into force on 1 January 2005, the Company has set up a Remuneration Committee with terms of reference which are in line with the CG Code. The Remuneration Committee comprises of three Independent Non-executive Directors, Mr. King Wing Ma, Mr. Eric K. K. Lo and Mr. Charles M.W. Chan. Mr. Charles M.W. Chan is the chairman of the Committee.

DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES

As at 31 August 2005, the Group has provided guarantees for facilities granted to its affiliated company in an aggregate exceed 8% of the relevant percentage ratios under Rule 13.16 of the Listing Rules. Details were as follows:

| Affiliated company | Attributable interest held by the Group | Guarantees given | Guaranteed Banking facilities utilised |
|---------------------------|--|-----------------------------|---|
| | % | HK\$'000 | HK\$'000 |
| 140 Park Lane Limited | 30 | 281,722 | 258,595 |

Save as disclosed above, there is no guarantee given for any of its affiliated companies of the Group. At 31 August 2005, the pro forma combined balance sheet of the above affiliated company is set out below:

| | |
|-------------------------|-----------|
| | HK\$'000 |
| Non-current assets | 1,384,780 |
| Current assets | 87,923 |
| Current liabilities | (203,340) |
| Non-current liabilities | (702,093) |
| | <hr/> |
| | 567,270 |
| | <hr/> |