

The logo for Sincere, featuring a dark blue square with the Chinese characters '先施' (Sincere) in white above the English word 'SINCERE' in white. The 'S' is larger and partially overlaps the characters.

S 先施
SINCERE

TM

The Sincere Company, Limited

Stock code: 244

INTERIM REPORT 2012

INTERIM RESULTS

The board of directors of The Sincere Company, Limited (the "Company") herein presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 31 August 2012, together with the comparative amounts. The interim financial statements have not been audited by the Company's auditors, but have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT – UNAUDITED

For the six months ended 31 August 2012

	Notes	2012 HK\$'000	2011 HK\$'000
REVENUE	5	228,064	219,998
Cost of sales		(79,754)	(79,314)
Other income and gains, net		8,720	16,148
Net unrealised loss on securities trading		(12,623)	(16,873)
Selling and distribution costs		(97,607)	(94,255)
General and administrative expenses		(61,597)	(56,636)
Write-back of impairment/(impairment) on deposits, other receivables and financial instruments		312	(28,599)
Other operating expenses		(157)	(2,417)
Finance costs		(914)	(597)
Share of profits less losses of associates		3,246	(1,008)
LOSS BEFORE TAX	6	(12,310)	(43,553)
Income tax expense	7	(275)	(138)
LOSS FOR THE PERIOD		(12,585)	(43,691)
ATTRIBUTABLE TO:			
Equity holders of the Company		(12,382)	(43,582)
Non-controlling interests		(203)	(109)
		(12,585)	(43,691)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	8		
Basic		HK\$(0.03)	HK\$(0.09)
Diluted		HK\$(0.03)	HK\$(0.09)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE
INCOME – UNAUDITED***For the six months ended 31 August 2012*

	2012	2011
	HK\$'000	HK\$'000
LOSS FOR THE PERIOD	(12,585)	(43,691)
OTHER COMPREHENSIVE INCOME/(LOSS):		
Exchange differences arising on translation of foreign operations	(1,713)	(943)
Realisation of exchange fluctuation reserve upon dissolution of an associate	<u>-</u>	<u>1,149</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(14,298)</u>	<u>(43,485)</u>
ATTRIBUTABLE TO:		
Equity holders of the Company	(14,219)	(43,283)
Non-controlling interests	<u>(79)</u>	<u>(202)</u>
	<u>(14,298)</u>	<u>(43,485)</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION –
UNAUDITED**

	Notes	31 August 2012 HK\$'000 (unaudited)	29 February 2012 HK\$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		77,227	81,804
Investment properties		126,660	127,695
Prepaid land premium		714	735
Interests in associates		18,807	14,788
Financial instruments	9	47,626	38,674
Rental deposits		6,486	6,351
Pension scheme assets		3,286	3,286
Total non-current assets		<u>280,806</u>	<u>273,333</u>
CURRENT ASSETS			
Properties under development	10	129,599	130,658
Inventories		82,084	69,005
Debtors	11	4,436	7,333
Prepayments, deposits and other receivables		41,875	36,736
Financial assets at fair value through profit or loss	12	245,339	257,775
Pledged bank balances		21,961	15,514
Pledged deposits with banks		27,412	27,386
Cash and bank balances	13	33,988	52,649
Total current assets		<u>586,694</u>	<u>597,056</u>
CURRENT LIABILITIES			
Creditors	14	94,384	97,997
Deposits, accrued expenses and other payables		39,547	50,376
Interest-bearing bank borrowings		72,370	42,966
Tax payable		48	106
Total current liabilities		<u>206,349</u>	<u>191,445</u>
NET CURRENT ASSETS		<u>380,345</u>	<u>405,611</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>661,151</u>	<u>678,944</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		15,725	19,308
NET ASSETS		<u>645,426</u>	<u>659,636</u>
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		287,154	287,154
Share premium account		26	26
Reserves		374,849	389,068
		<u>662,029</u>	<u>676,248</u>
Non-controlling interests		(16,603)	(16,612)
TOTAL EQUITY		<u>645,426</u>	<u>659,636</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY –
UNAUDITED***For the six months ended 31 August 2012*

	Attributable to equity holders of the Company						Total HK\$'000
	Issued share capital HK\$'000	Share premium account HK\$'000	Reserves			Non- controlling interests HK\$'000	
			General and other reserves HK\$'000	Retained profits HK\$'000	Total reserves HK\$'000		
At 1 March 2012	287,154	26	81,232	307,836	389,068	(16,612)	659,636
Loss for the period	-	-	-	(12,382)	(12,382)	(203)	(12,585)
Other comprehensive income/(loss) for the period:							
Exchange differences arising on translation of foreign operations	-	-	(1,837)	-	(1,837)	124	(1,713)
Total comprehensive loss for the period	-	-	(1,837)	(12,382)	(14,219)	(79)	(14,298)
Movement in balances with non-controlling interests	-	-	-	-	-	88	88
At 31 August 2012	287,154	26	79,395	295,454	374,849	(16,603)	645,426

For the six months ended 31 August 2011

	Attributable to equity holders of the Company						Total HK\$'000
	Issued share capital HK\$'000	Share premium account HK\$'000	Reserves			Non- controlling interests HK\$'000	
			General and other reserves HK\$'000	Retained profits HK\$'000	Total reserves HK\$'000		
At 1 March 2011	287,154	26	79,047	316,385	395,432	(16,993)	665,619
Loss for the period	-	-	-	(43,582)	(43,582)	(109)	(43,691)
Other comprehensive income/(loss) for the period:							
Exchange differences arising on translation of foreign operations	-	-	(850)	-	(850)	(93)	(943)
Realisation of exchange fluctuation reserve upon dissolution of an associate	-	-	1,149	-	1,149	-	1,149
Total comprehensive income/(loss) for the period	-	-	299	(43,582)	(43,283)	(202)	(43,485)
Movement in balances with non-controlling interests	-	-	-	-	-	(81)	(81)
At 31 August 2011	287,154	26	79,346	272,803	352,149	(17,276)	622,053

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS – UNAUDITED

For the six months ended 31 August 2012

	2012 HK\$'000	2011 HK\$'000
Net cash flows from/(used in):		
Operating activities	(26,393)	(52,155)
Investing activities	(18,177)	(7,301)
Financing activities	28,831	19,972
Net decrease in cash and cash equivalents	(15,739)	(39,484)
Cash and cash equivalents at beginning of period	42,831	61,563
Cash and cash equivalents at end of period	27,092	22,079
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash on hand and at banks	33,988	33,115
Bank overdrafts	(6,896)	(11,036)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	27,092	22,079

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 August 2012

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and other relevant HKASs and Interpretations, Hong Kong Financial Reporting Standards (collectively, the “HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). They have been prepared under the historical cost convention, except for investment properties and financial assets at fair value through profit or loss, which have been measured at fair value. Save for those new and revised HKFRSs adopted during the period as set out in note 2, the accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 29 February 2012.

2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has applied, for the first time, the following new and revised HKFRSs issued by HKICPA which are effective for the Group’s financial year beginning on 1 March 2012.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters</i>
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Transfers of Financial Assets</i>
HKAS 12 Amendments	Amendments to HKAS 12 <i>Income Taxes – Deferred Tax: Recovery of Underlying Assets</i>

The adoption of the new and revised HKFRSs had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these interim financial statements.

HKFRS 1 Amendments	Amendments to HKFRS 1 <i>First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i> ²
HKFRS 7 Amendments	Amendments to HKFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i> ²
HKFRS 9	<i>Financial Instruments</i> ⁴
HKFRS 10	<i>Consolidated Financial Statements</i> ²
HKFRS 11	<i>Joint Arrangements</i> ²
HKFRS 12	<i>Disclosure of Interests in Other Entities</i> ²
HKFRS 13	<i>Fair Value Measurement</i> ²
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12: <i>Transition Guidance</i> ²
HKAS 1 Amendments	Amendments to HKAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i> ¹
HKAS 19 (2011)	<i>Employee Benefits</i> ²
HKAS 27 (2011)	<i>Separate Financial Statements</i> ²
HKAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i> ²
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> ³
HK(IFRIC)-Int 20 <i>Annual Improvements Project</i>	<i>Stripping Costs in the Production Phase of a Surface Mine</i> ² <i>Annual Improvements to HKFRSs 2009-2011 Cycle</i> ²

¹ Effective for annual periods beginning on or after 1 July 2012

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2014

⁴ Effective for annual periods beginning on or after 1 January 2015

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. However, it is not yet in a position to state whether they would have a significant impact on the Group's results of operations and financial position.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) operating segments; and (ii) geographical information.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's operating segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other operating segments. Summary details of the operating segments are as follows:

- (a) the department store operations segment consists of the operations of department stores offering a wide range of consumer products;
- (b) the property rental and development segment consists of the holding of properties for investment and rental purposes and the development and sale of properties;
- (c) the securities trading segment consists of the trading of Hong Kong and overseas securities; and
- (d) the others segment consists of furniture design and manufacturing, advertising agency services and travel agency franchising services.

In determining the Group's geographical information, revenues are attributed to the segments based on the location of the operations.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that interest income, dividend income, unallocated revenue, finance costs and share of profits less losses of associates, are excluded from such measurement.

Inter-segment sales are transacted based on the direct costs incurred or in case of rental income and income from the provision of warehouse services, at an agreed rate.

4. SEGMENT INFORMATION (continued)

(a) Operating segments

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

	Department store operations		Property rental and development		Securities trading		Others		Eliminations		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	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	205,849	199,011	4,733	4,682	421	1,284	17,061	15,021	-	-	228,064	219,998
Inter-segment sales	-	-	14,596	14,851	-	-	2,086	4,869	(16,682)	(19,720)	-	-
Other revenue	30	146	189	-	98	57	74	231	-	-	391	434
Total	<u>205,879</u>	<u>199,157</u>	<u>19,518</u>	<u>19,533</u>	<u>519</u>	<u>1,341</u>	<u>19,221</u>	<u>20,121</u>	<u>(16,682)</u>	<u>(19,720)</u>	<u>228,455</u>	<u>220,432</u>
Segment results	5,856	2,951	(6,374)	(7,365)	(17,688)	(20,626)	(4,765)	(32,622)	-	-	(22,971)	(57,662)
Interest income, dividend income and unallocated revenue											8,329	15,714
Finance costs											(914)	(597)
Share of profits less losses of associates											3,246	(1,008)
Loss before tax											(12,310)	(43,553)
Income tax expense											(275)	(138)
Loss for the period											<u>(12,585)</u>	<u>(43,691)</u>

(b) Geographical information

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

	Hong Kong		Mainland China		United Kingdom		Others		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
	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	<u>212,334</u>	<u>207,654</u>	<u>15,314</u>	<u>11,897</u>	<u>125</u>	<u>129</u>	<u>291</u>	<u>318</u>	<u>228,064</u>	<u>219,998</u>

5. REVENUE

Revenue, which is also the Group's turnover, represents the aggregate of the invoiced value of goods sold less discounts and returns, net income from counter and consignment sales, net realised gain or loss on securities trading, rental income net of outgoings, advertising and travel agency fee income and income from furniture design and manufacturing during the period.

6. LOSS BEFORE TAX

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

	For the six months ended	
	31 August	
	2012	2011
	HK\$'000	HK\$'000
Depreciation	6,955	5,038
Amortisation of prepaid land premium	14	14
Gain on disposal of items of property, plant and equipment [#]	23	9
Impairment/(write-back of impairment) on deposits, other receivables and financial instruments ^Δ	(312)	28,599
Loss on dissolution of an associate, net [*]	–	2,050
Impairment on interests in associates [*]	147	367
	<u>147</u>	<u>367</u>

[#] Amount is included in "Other income and gains, net" on the face of the condensed consolidated income statement.

^Δ During the period ended 31 August 2011, impairment on deposits, other receivables and financial instruments represented by a total amount of approximately HK\$16,826,000 relating to the Group's acquisition of non-negotiable convertible promissory notes of TR-BIZ, a private limited company in the United States and the related interest receivables of approximately HK\$2,469,000, and HK\$9,304,000 mainly for the Group's deposit for investment in Mainland China. During the period ended 31 August 2012, write-back of impairment on other receivables of approximately HK\$312,000 was recorded.

^{*} Amounts are included in "Other operating expenses" on the face of the condensed consolidated income statement.

7. INCOME TAX

	For the six months ended	
	31 August	
	2012	2011
	HK\$'000	HK\$'000
Current – Hong Kong	–	–
Current – Elsewhere		
Charge for the period	275	138
	<u>275</u>	<u>138</u>
Total tax charge for the period	275	138

No provision for Hong Kong profits tax has been made during the period (2011: Nil) as the Group did not generate any assessable profits arising in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rate of tax prevailing in the locations in which the Group operates.

8. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic loss per share is based on the net loss attributable to equity holders of the Company for the period of HK\$12,382,000 (2011: HK\$43,582,000) and the 486,233,000 (2011: 486,233,000) ordinary shares in issue throughout the period, as adjusted to reflect the number of shares held by an associate through reciprocal shareholding.

No adjustments have been made to the basic loss per share for the current and prior periods as there were no dilutive potential ordinary shares in existence during these periods.

9. FINANCIAL INSTRUMENTS

	31 August 2012 HK\$'000	29 February 2012 HK\$'000
Available-for-sale investments		
Unlisted investments at cost:		
Hong Kong	53	53
PRC/Mainland China	37,575	29,924
Taiwan	24,409	23,108
United States	17,176	17,176
	79,213	70,261
Less: Provision for impairment	(31,587)	(31,587)
Net carrying amount	47,626	38,674

Note:

First Promissory Note

During the year ended 28 February 2009, the Group acquired a non-negotiable convertible promissory note (the "First Promissory Note") of TR-BIZ, a private limited company in the United States. The principal amount of the First Promissory Note was US\$2,250,000, equivalent to approximately HK\$17,550,000, bore interest at the United States prime rate per annum. It consisted of an option to be converted into a 7.5% membership interest in any time during the 3-year maturity period.

The First Promissory Note was designated as financial asset at fair value through profit or loss upon initial recognition as it contained embedded derivatives. The First Promissory Note was stated at cost because the range of reasonable fair value estimates was so significant that the directors were of the opinion that its fair value could not be measured reliably. As at 28 February 2011, the carrying amount of the First Promissory Note was approximately HK\$12,926,000, after a provision for impairment of HK\$4,624,000 had been made which was considered necessary by the directors of the Company.

On 24 July 2011, the option expired and the carrying amount of the First Promissory Note approximately HK\$12,926,000 was reclassified from financial assets at fair value through profit or loss to loans and receivables and recorded under "Prepayments, deposits and other receivables". In view of the default in both interest and principal payments for the First Promissory Note and the financial difficulties of TR-BIZ, a provision for impairment of HK\$12,926,000 was made during the period ended 31 August 2011 which was considered necessary by the directors of the Company.

Second Promissory Note

During the year ended 28 February 2010, the Group acquired an additional non-negotiable convertible promissory note (the "Second Promissory Note") of TR-BIZ. The principal amount of the Second Promissory Note was US\$500,000, equivalent to approximately HK\$3,900,000, bore a fixed interest rate of 18% per annum and repayable on or before 15 February 2010. The fixed interest rate was adjusted to 24% per annum after 15 February 2010. It consisted of an option to be converted into membership interest on or before 1 March 2010.

The Second Promissory Note was designated as financial assets at fair value through profit or loss upon initial recognition as it contained embedded derivatives. On 1 March 2010, the option expired and the carrying amount of the Second Promissory Note amounted to HK\$3,900,000 was reclassified from financial assets at fair value through profit or loss to loans and receivables and recorded under "Prepayments, deposits and other receivables" as current assets. In view of the default in both interest and principal payments for the Second Promissory Note and the financial difficulties of TR-BIZ, a provision for impairment of HK\$3,900,000 was made during the period ended 31 August 2011 which was considered necessary by the directors of the Company.

10. PROPERTIES UNDER DEVELOPMENT

As at 31 August 2012, properties under development of HK\$129,599,000 (29 February 2012: HK\$130,658,000) were located in Dalian, Mainland China and held under medium term leases.

As at 31 August 2012, certain floors of the Group's properties under development located in Dalian were restricted to transfer under an injunction granted by Liaoning Province High People's Court (note 16).

11. DEBTORS

The Group's trading terms with its customers are mainly on credit, except for department store operations, where payment is normally made on a cash basis. The credit period is generally for a period of one month. The Group seeks to maintain strict control over its outstanding receivables from the sales department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its debtor balances. Trade receivables are non-interest-bearing.

An aged analysis of the debtors as at the end of the reporting period, based on the payment due date, is as follows:

	31 August 2012 HK\$'000	29 February 2012 HK\$'000
Within 3 months not past due	573	612
Within 3 months past due	2,666	4,870
Over 3 months past due	1,197	1,851
Total debtors	4,436	7,333
Impairment	—	—
Total	4,436	7,333

Debtors that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default. Debtors that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 August 2012 HK\$'000	29 February 2012 HK\$'000
Listed investments, at fair value:		
Hong Kong	72,145	78,767
Elsewhere	64,454	74,706
	136,599	153,473
Other investments, at fair value	108,740	104,302
	245,339	257,775

The above investments at 31 August 2012 were classified as held for trading.

At the end of the reporting period, investments held for trading with an aggregate market value of approximately HK\$184,892,000 (29 February 2012: HK\$191,432,000) were pledged to banks to secure banking facilities granted to the Group.

13. CASH AND BANK BALANCES

	31 August 2012 HK\$'000	29 February 2012 HK\$'000
Cash on hand and at banks	33,988	52,649

14. CREDITORS

An aged analysis of the creditors as at the end of the reporting period is as follows:

	31 August 2012 HK\$'000	29 February 2012 HK\$'000
Current – 3 months	92,073	94,159
4 – 6 months	1,811	2,220
7 – 12 months	458	1,579
Over 1 year	42	39
	94,384	97,997

15. OUTSTANDING COMMITMENTS

Outstanding commitments at the end of the reporting period were as follows:

	31 August 2012 HK\$'000	29 February 2012 HK\$'000
Irrevocable letters of credit	<u>14,744</u>	<u>7,762</u>

In addition, the Group had contracted, but not provided for, commitments in respect of fitting out works and system implementation relating to property, plant and equipment amounting to approximately HK\$8,990,000 (29 February 2012: Nil) and no commitments in respect of construction works relating to properties under development (29 February 2012: HK\$4,473,000) as at 31 August 2012.

16. CONTINGENT LIABILITIES

On 12 April 2011, the Liaoning Province High People's Court (遼寧省高級人民法院), (the "High People's Court") issued a notice to the Company, The Sincere Department Store (China) Limited ("Sincere China") and Dalian Sincere Building Co. Ltd. ("Dalian Sincere"), wholly-owned subsidiaries of the Company. The former potential buyer and an independent third party of the Group, Dashang Jiahua Group Limited (大商嘉華集團有限公司) ("Dashang Jiahua") claimed that Sincere China failed to transfer all its interests and rights in its wholly-owned subsidiary, Dalian Sincere, in accordance with a letter of intent entered into between Sincere China and Dashang Jiahua on 17 April 2009. The major assets of Dalian Sincere is Dalian Sincere Building located in the PRC (the "Property"). On 30 June 2009, the letter of intent expired.

An injunction was granted by the High People's Court on 12 April 2011 which prohibited Dalian Sincere from transferring certain floors of the Property and the plaintiff from transferring certain floors of its hotel located in Dalian until further rulings. As at 31 August 2012 and subsequent to the reporting period, no judgement has been granted to this litigation.

Having consulted with the PRC legal counsels, the directors are of the opinion that this case will not have material adverse effect on the Group's financial position and no provision for the litigation was made as at 31 August 2012.

17. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group also had the following transactions with a related party during the period:

(i) Rental expenses of HK\$268,000 (2011: HK\$266,000) were paid to an associate. The rental expenses were mutually agreed between the Group and the associate.

(b) Compensation of key management personnel of the Group:

	For the six months ended 31 August	
	2012 HK\$'000	2011 HK\$'000
Short term employee benefits	14,840	14,818
Post-employment benefits, including pension costs for defined benefit schemes of HK\$343,000 (2011: HK\$354,000)	350	360
Total compensation paid to key management personnel	<u>15,190</u>	<u>15,178</u>

18. EVENTS AFTER THE REPORTING PERIOD

On 14 September 2012, the Company together with two wholly-owned subsidiaries, Sincere China and Dalian Sincere, entered into a conditional sales and purchase agreement with an independent third party, Dashang Jiahua to (i) dispose of the entire equity interest in Dalian Sincere at a consideration of RMB72,000,000 and (ii) assign its debt with Dalian Sincere to Dashang Jiahua at a consideration of RMB229,000,000 ("Proposed Disposal"). The aggregate consideration is RMB301,000,000.

The Proposed Disposal is subject to the fulfillment of certain precedent conditions including the passing of shareholders' resolution approving the sales and purchase agreement and the transfer of interest in Dalian Sincere to be approved by the Foreign Economic and Trade Bureau of China (外經貿主管部門). The litigation as mentioned in note 16 to the Condensed Consolidated Financial Statements will be settled shortly after the completion of the Proposed Disposal.

Further details of the Proposed Disposal were disclosed in the Company's announcement dated 27 September 2012.

19. COMPARATIVE AMOUNTS

Certain comparative amounts have been revised to conform with the current period's presentation. The directors are in the opinion that such presentation would present more fairly the operations of the Group.

20. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 25 October 2012.

INTERIM RESULTS

The Group's unaudited consolidated turnover for the six months ended 31 August 2012 was HK\$228 million. The department store business continued to improve. The loss attributable to shareholders was HK\$12 million, representing an improvement when compared to a loss of HK\$44 million from the last corresponding period. The loss for the period was mainly due to the mark to market unrealised loss of the securities investment.

BUSINESS REVIEW AND FUTURE PROSPECTS

Despite general slowdown of the economy, the retail operation is holding its own. The turnover of the department stores operation recorded a moderate growth of 3% while the gross profit improved with 6% increase with the better performance of the European goods.

The Central store turnover was similar to the last corresponding period while the gross profit grew by 4%. The Grand Century Place store turnover and the gross profit achieved a moderate growth despite shopping mall major renovation. From the first quarter of the year, one third of the retail tenants have moved out and certain escalators were suspended that impaired the foot traffic. The store management has successfully re-merchandised the store to cater for the renovation with favourable hit rate improvement. The Shamshuipo store has improved after renovations last year. Sales went up over 10% and the dollars per ticket sales up by 15%. The Tsuen Wan Citywalk store turnover and the gross profit both recorded a healthy growth of 6%, this store is now better known in the vicinity and commenced to gain loyal customers with repeated purchases.

The turnover and the gross profit of the promotional short term "Roadshow" decreased by 14% due to the continuous keen competition on sites availability and higher operating cost during the reported period.

The performance of the boutique store "22nd Avenue" was below expectation, the management has been fine tuning on the product mix to suit the consumers.

On securities trading, a loss of HK\$18 million was recorded though it has improved from last year. The loss was mainly attributable to the fair market value accounting adjustment as of the reporting date and that was the major hit on the overall reported results of the Group.

On the advertising business, the turnover recorded a decline with the gross profit maintained at the similar level. The decline in turnover was due to the unfavorable performance in the PRC region, the economic growth in the PRC has been slowing down and many operators curtailed the advertising budget.

On the furniture business, turnover recorded a satisfactory growth of 19%, although the gross profit margin slightly reduced with the increased direct costs, an improvement in the bottom line has been achieved.

For the Dalian project, the Company announced on 27 September 2012 that it has entered into a conditional sale and purchase agreement on 14 September 2012 to dispose of the entire equity interest and related debt of a wholly-owned subsidiary at total consideration of RMB301,000,000. The transaction is subject to shareholders' approval and the fulfillment of certain precedent conditions. Management is optimistic the sale will proceed and full payment will be received within six months.

Looking ahead, a new department store namely SU-PA-DE-PA was opened on 29 September 2012 at Domain, a new shopping mall at the Yau Tong MTR station, this new retailing concept store has 45,000 square feet splits over two floors where around 20,000 square feet on the first floor is the department store operated by the Company and features some of the better-known international brands. The second floor is the supermarket operated by the A. S. Watson Group features international Asian flavours. SU-PA-DE-PA is a new shopping experience for the people of East Kowloon, and the Company is proud to work on this new business concept with the A.S. Watson Group to provide the best of both worlds – a famous supermarket with a great department store – in a contemporary environment. Apart from this new store, the Group will continue exploring new locations to open further stores. The Grand Century Place store will downsize commencing from the third quarter of the year due to the mall remodeling. This store has performed very well since the opening of the mall in 1997.

On securities trading, the Hang Seng Index has been improving after the reported period and the financial development in the eurozone were more positive. The investment philosophy remains conservative and management is cautiously optimistic on a better return. The advertising business will continue pushing new media in the PRC, including social media and online advertising. The travel franchise business will concentrate on expanding the franchisees network over different regions in the PRC. On the Dalian property development, upon shareholders' approval, the management will ensure a smooth completion of the sale transaction with careful consideration on managing the sales proceeds to be received upon completion early next year.

Facing the uncertainty in the economy in the coming months, the Group will be prudent and conservative in its approach in the coming year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 August 2012, the Group had cash and bank balance of total HK\$83 million (29 February 2012: HK\$96 million) of which HK\$49 million (29 February 2012: HK\$43 million) were pledged. The Group's gearing increased by 4% to 13% in total debt to the shareholders' funds as compared to that of 29 February 2012. The maturity of all bank borrowings ranged from less than one year to four years. The bank borrowings were mainly in HK dollars, AUD and Euro with interest rates ranging from 1% to 5%. The net interest expense charged to the consolidated income statement for the period was HK\$0.9 million (2011: HK\$0.6 million).

The current ratio decreased by 0.3 from 3.1 to 2.8 as compared to that of 29 February 2012. The Group currently has a foreign currency hedging policy on Euro for the purchase of inventories, which hedges half of the anticipated total value of the European inventory purchase for re-sale at the department stores. In addition to the internal generated cash flows, the Group also made use of short term borrowings to finance its operation during the period. All borrowings were secured against the securities investment, certain properties and bank deposits.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 August 2012, the Group had 589 employees (29 February 2012: 597) (including part time staff). The Group operates different remuneration schemes for sales and non-sales employees to motivate front-line and back office staff towards higher sales achievement and operating efficiencies. Apart from basic salary and discretionary year-end bonuses based on individual merit, sales personnel are further remunerated on the basis of goal-oriented packages comprising several scheme of sales commission. The Group provides employee benefits such as staff purchase discounts, subsidized medical care and training courses.

INTERIM DIVIDEND

The Board of Directors of the Company has decided not to declare an interim dividend for the six months ended 31 August 2012.

PRINCIPAL SHAREHOLDERS

At 31 August 2012, 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 issued equity share capital of the Company.

DIRECTORS' INTERESTS IN SHARES

At 31 August 2012, the interests of the Directors in the share capital of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(a) Long position in shares of the Company

Directors	Number of ordinary shares held, capacity and nature of interest					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	
John Y C FU	40,000	–	–	–	40,000	–	
King Wing MA	1,240,928	–	–	–	1,240,928	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 2012, Mr. Walter K W MA, Mr. Philip K H MA, Mr. King Wing MA and Mr. Eric K K LO held 527, 713, 1,225 and 216 ordinary shares, respectively, in The Sincere Life Assurance Company Limited. In addition, at 31 August 2012, Mr. Philip K H MA held 500 promoter shares and Mr. King Wing Ma held 834 promoter shares in The Sincere Life Assurance Company Limited.

At 31 August 2012, Mr. Walter K W MA, Mr. Philip K H MA, Mr. King Wing MA and Mr. Eric K K LO held 4,521, 2,485, 26 and 1,019 ordinary shares, respectively, in The Sincere Insurance & Investment Company, Limited.

At 31 August 2012, Mr. Walter K W MA and Mr. Philip K H MA and Mr. King Wing Ma each held 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 2012, 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

On 1 August 2000, the Company adopted a share option scheme (the "Old Option Scheme") for the purpose of providing incentives and rewards to eligible participants for their contribution to the Group. Eligible participants of the Old Option Scheme include any full-time employees and Directors, excluding any Non-executive Directors, of the Group. The Old Option Scheme expired on 31 July 2010 and there was no share option outstanding up to 31 August 2012.

On 6 December 2010, the Company adopted a new share option scheme (the "New Scheme"). The following is a summary of the New Scheme:

1. Purpose

The purpose of the New Scheme is to provide incentives and/or rewards to participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest ("Invested Entity").

2. Participants

Any person belonging to any of the following classes of persons:

- (a) any employee(s) (whether full time or part time employee(s), including any Executive Director but not any Non-Executive Director) of the Company, its subsidiaries or any Invested Entity (“Eligible Employee(s)”);
- (b) any Non-Executive Director (including Independent Non-Executive Directors) of the Company, any of its subsidiaries or any Invested Entity;
- (c) any supplier of goods or services to any member of the Group or any Invested Entity;
- (d) any customer of the Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and
- (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

3. Total number of shares available for issue

- (a) The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the New Scheme. Options lapsed in accordance with the terms of the New Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating the 10% limit.
- (b) The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the New Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share option schemes of the Company under the limit as “refreshed” shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit as “refreshed”. Options previously granted under the New Scheme or any other share option schemes of the Company (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of the New Scheme or any other share option schemes of the Company) will not be counted for the purpose of calculating the limit as “refreshed”.
- (c) The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.
- (d) The total number of Company shares in issue as of 31 August 2012 was 574,308,000.

4. Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue. Where any further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the total number of shares in issue, such further grant must be separately approved by the shareholders in general meeting.

Where any grant of options to a substantial shareholder or an independent Non-Executive Director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of shares in issue; and
- (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK\$5,000,000,

such further grant of options must be approved by the shareholders in a general meeting.

5. Period within which the shares must be taken up

The board may in its absolute discretion determine and notify to each grantee, save that such period shall not be more than ten years from the offer date subject to the provisions for early termination set out in the New Scheme and that the Board may at its discretion determine the minimum period for which the option has to be held before the exercise of the subscription right attaching thereto.

6. Basis of determining the subscription price

The subscription price in respect of any particular option shall be such price as determined by the Board in its absolute discretion at the time of the making of the offer (which shall be stated in the letter containing the offer) but in any case the subscription price shall not be lower than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the offer date, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the offer date; and (iii) the nominal value of the Company shares.

7. Remaining life of the New Scheme

The New Scheme will expire on 5 December 2020.

No options had been granted or agreed to be granted under the New Scheme up to the date of approval of these financial statements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed shares 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 condensed consolidated interim financial statements for the six months ended 31 August 2012.

ADOPTION OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

The Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (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

The Company has complied throughout the period ended 31 August 2012 with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, 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.

By order of the Board

Walter K W Ma

Executive Chairman

Hong Kong, 25 October 2012