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The Sincere Company, Limited

Stock code: 244

Interim Report
2014

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 2014, 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

For the six months ended 31 August 2014

	Notes	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
REVENUE	4	166,809	224,756
Cost of sales		(71,138)	(82,443)
Other income and gains, net		19,574	18,482
Net unrealised gain/(loss) on securities trading		10,757	(11,872)
Selling and distribution expenses		(129,334)	(115,622)
General and administrative expenses		(63,722)	(66,123)
Other operating expenses		(372)	(89)
Finance costs		(3,494)	(1,188)
Share of profits less losses of associates		-	118
LOSS BEFORE TAX	5	(70,920)	(33,981)
Income tax expense	6	-	(289)
LOSS FOR THE PERIOD		(70,920)	(34,270)
ATTRIBUTABLE TO:			
Equity holders of the Company		(69,082)	(32,797)
Non-controlling interests		(1,838)	(1,473)
		(70,920)	(34,270)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	7		
Basic		HK\$(0.22)	HK\$(0.10)
Diluted		HK\$(0.22)	HK\$(0.10)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 31 August 2014*

	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
LOSS FOR THE PERIOD	(70,920)	(34,270)
OTHER COMPREHENSIVE INCOME/(LOSS)		
<i>Other comprehensive income/(loss) to be reclassified to the income statement in subsequent periods:</i>		
Exchange differences arising on translation of foreign operations	(890)	4,587
Realisation of exchange fluctuation reserve upon deregistration/disposal of a subsidiary	(1,067)	325
Net other comprehensive income/(loss) to be reclassified to the income statement in subsequent periods	(1,957)	4,912
<i>Other comprehensive income not to be reclassified to the income statement in subsequent periods:</i>		
Actuarial gains on defined benefit plan	-	4,942
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(72,877)	(24,416)
ATTRIBUTABLE TO:		
Equity holders of the Company	(71,144)	(22,712)
Non-controlling interests	(1,733)	(1,704)
	(72,877)	(24,416)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	31 August 2014 HK\$'000 (unaudited)	28 February 2014 HK\$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	105,360	116,471
Interests in associates		–	–
Interest in a joint venture		–	–
Financial instruments		26,326	26,326
Deposits and other receivables		35,973	35,932
		<hr/>	<hr/>
Total non-current assets		167,659	178,729
CURRENT ASSETS			
Inventories		57,842	62,890
Loan to a joint venture		22,890	23,119
Due from a joint venture		1,966	1,053
Debtors	9	453	312
Reinsurance assets		16	16
Prepayments, deposits and other receivables		32,011	25,169
Financial assets at fair value through profit or loss	11	303,204	312,044
Pledged bank balances	11	40,764	30,571
Pledged deposits with banks	11	392,223	180,002
Cash and bank balances		99,127	233,857
		<hr/>	<hr/>
Total current assets		950,496	869,033
CURRENT LIABILITIES			
Creditors	10	44,620	73,023
Insurance contract liabilities		1,224	1,224
Deposits, accrued expenses and other payables		50,463	60,204
Derivative financial instruments		835	439
Interest-bearing bank borrowings	11	422,316	237,874
Other loans		1,920	1,916
Tax payable		14	35
		<hr/>	<hr/>
Total current liabilities		521,392	374,715
		<hr/>	<hr/>
NET CURRENT ASSETS		429,104	494,318
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		596,763	673,047
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(continued)

	<i>Notes</i>	31 August 2014 HK\$'000 (unaudited)	28 February 2014 HK\$'000 (audited)
NON-CURRENT LIABILITIES			
Accrued expenses and other payables		40,562	37,828
Interest-bearing bank borrowings	11	14,435	21,036
Other loans		996	986
Pension scheme liabilities		8,820	8,820
		<hr/>	<hr/>
Total non-current liabilities		64,813	68,670
		<hr/>	<hr/>
NET ASSETS		531,950	604,377
		<hr/>	<hr/>
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		287,180	287,154
Share premium account		–	26
Reserves		183,623	254,767
		<hr/>	<hr/>
		470,803	541,947
		<hr/>	<hr/>
Non-controlling interests		61,147	62,430
		<hr/>	<hr/>
TOTAL EQUITY		531,950	604,377
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 August 2014

	Attributable to equity holders of the Company								
	Issued share capital HK\$'000	Share premium account HK\$'000	Reserves				Non- controlling interests HK\$'000	Total HK\$'000	
			Treasury shares HK\$'000	General and other reserves HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000			Total reserves HK\$'000
At 1 March 2014 (audited)	287,154	26	(130,221)	238,948	5,754	140,286	254,767	62,430	604,377
Loss for the period	-	-	-	-	-	(69,082)	(69,082)	(1,838)	(70,920)
Other comprehensive income/(loss) for the period:									
Exchange differences arising on translation of foreign operations	-	-	-	(995)	-	-	(995)	105	(890)
Realisation of exchange fluctuation reserve upon deregistration of a subsidiary	-	-	-	(1,067)	-	-	(1,067)	-	(1,067)
Total comprehensive loss for the period	-	-	-	(2,062)	-	(69,082)	(71,144)	(1,733)	(72,877)
Transfer from share premium to share capital upon abolition of par value [#]	26	(26)	-	-	-	-	-	-	-
Movement in balances with non-controlling interests	-	-	-	-	-	-	-	450	450
At 31 August 2014 (unaudited)	287,180	-	(130,221)	236,886	5,754	71,204	183,623	61,147	531,950

[#] Pursuant to the transitional provisions for the abolition of the nominal value of share capital included in the new Hong Kong Companies Ordinance which became effective on 3 March 2014, the balance of the share premium account as at 3 March 2014 has been transferred to issued share capital.

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(continued)**

For the six months ended 31 August 2013

	Attributable to equity holders of the Company								
	Issued share capital HK\$'000	Share premium account HK\$'000	Reserves					Non- controlling interests HK\$'000	Total HK\$'000
			Treasury shares HK\$'000	General and other reserves HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total reserves HK\$'000		
At 1 March 2013 (audited)	287,154	26	(130,221)	233,781	5,754	224,271	333,585	62,198	682,963
Loss for the period	-	-	-	-	-	(32,797)	(32,797)	(1,473)	(34,270)
Other comprehensive income/(loss) for the period:									
Exchange differences arising on translation of foreign operations	-	-	-	4,754	-	-	4,754	(167)	4,587
Realisation of exchange fluctuation reserve upon disposal of a subsidiary	-	-	-	325	-	-	325	-	325
Actuarial gains/(losses) on defined benefit plan	-	-	-	-	-	5,006	5,006	(64)	4,942
Total comprehensive income/(loss) for the period	-	-	-	5,079	-	(27,791)	(22,712)	(1,704)	(24,416)
Final 2013 dividend paid (note 8)	-	-	-	-	-	(8,615)	(8,615)	-	(8,615)
Dividend attributable to subsidiaries*	-	-	-	-	-	2,239	2,239	1,668	3,907
Movement in balances with non-controlling interests	-	-	-	-	-	-	-	309	309
At 31 August 2013 (unaudited)	287,154	26	(130,221)	238,860	5,754	190,104	304,497	62,471	654,148

* The dividend attributable to subsidiaries represents that portion of the Company's dividend received by subsidiaries in relation to the treasury shares of 260,443,200 held by these subsidiaries.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 August 2014

	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Net cash flows from/(used in):		
Operating activities	(89,877)	(87,041)
Investing activities	(223,158)	28,156
Financing activities	178,247	121,201
Net increase/(decrease) in cash and cash equivalents	(134,788)	62,316
Cash and cash equivalents at beginning of period	226,499	220,753
Cash and cash equivalents at end of period	91,711	283,069
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash on hand and at banks	61,297	50,307
Time deposits with original maturity of less than three months	37,830	240,236
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	99,127	290,543
Bank overdrafts	(7,416)	(7,474)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	91,711	283,069

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 August 2014

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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, Interpretations and 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 financial assets at fair value through profit or loss and derivative financial instruments, 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 condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 28 February 2014.

2. CHANGES IN ACCOUNTING POLICIES 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 2014.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – <i>Investment Entities</i>
HKAS 32 Amendments	Amendments to HKAS 32 <i>Financial Instruments:</i> <i>Presentation – Offsetting Financial Assets and Financial Liabilities</i>
HKAS 39 Amendments	Amendments to HKAS 39 <i>Financial Instruments:</i> <i>Recognition and Measurement –</i> <i>Novation of Derivatives and Continuation of Hedge Accounting</i>
HK(IFRIC)-Int 21	<i>Levies</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. 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 securities trading segment consists of the trading of Hong Kong and overseas securities; and
- (c) the others segment consists of sublease of properties, furniture design and manufacturing, advertising agency services, travel agency franchising services and general and life insurances.

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 certain interest income, unallocated revenue, finance costs and share of profits less losses of associates, are excluded from such measurement.

Intersegment 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.

3. SEGMENT INFORMATION (continued)**(a) Operating segments**

The following table presents revenue and profit/(loss) for the Group's operating segments for the six months ended 31 August 2014 and 31 August 2013.

	Department store operations		Securities trading		Others		Eliminations		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Segment revenue:										
Sales to external customers	162,422	209,195	1,647	(144)	2,740	15,705	-	-	166,809	224,756
Intersegment sales	-	-	-	-	17,229	17,963	(17,229)	(17,963)	-	-
Other revenue	72	27	15,289	10,617	808	4,711	-	-	16,169	15,355
Total	162,494	209,222	16,936	10,473	20,777	38,379	(17,229)	(17,963)	182,978	240,111
Segment results	(76,276)	(17,357)	20,438	(7,616)	(14,993)	(11,065)	-	-	(70,831)	(36,038)
Interest income and unallocated revenue									3,405	3,127
Finance costs									(3,494)	(1,188)
Share of profits less losses of associates									-	118
Loss before tax									(70,920)	(33,981)
Income tax expense									-	(289)
Loss for the period									(70,920)	(34,270)

3. SEGMENT INFORMATION (continued)

(b) Geographical information

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

	Hong Kong		Mainland China		United Kingdom		Others		Consolidated	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Segment revenue:										
Sales to external customers	166,390	211,416	-	13,573	133	202	286	(435)	166,809	224,756

4. 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, advertising and travel agency fee income, income from furniture design and manufacturing and gross insurance contracts premium revenue during the period.

5. LOSS BEFORE TAX

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

	For the six months ended	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Depreciation	11,493	7,166
Gain on disposal of available-for-sale investments [#]	(696)	(4,182)
Impairment/(write-back of impairment) on inventories [^]	12,760	(2,835)
Impairment on interest in an associate*	4	27
Loss on disposal of items of property, plant and equipment*	368	-
Gain on deregistration of a subsidiary [#]	(1,067)	-
Loss on disposal of a subsidiary [#]	-	423

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

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

[^] Amount is included in "Cost of sales" on the face of the condensed consolidated income statement.

6. INCOME TAX

	For the six months ended 31 August	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current – Hong Kong	–	–
Current – Elsewhere		
Charge for the period	–	289
	<hr/>	<hr/>
Total tax charge for the period	–	289
	<hr/>	<hr/>

No provision for Hong Kong profits tax has been made as there were no assessable profits arising in Hong Kong during the period (2013: Nil). During the period ended 31 August 2013, taxes on profits assessable elsewhere had been calculated at the rate of taxes prevailing in the locations in which the Group operates.

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

The calculation of basic loss per share is based on the loss for the period attributable to equity holders of the Company of HK\$69,082,000 (2013: HK\$32,797,000) and the 313,864,800 ordinary shares (2013: 313,864,800) in issue throughout the period, as adjusted to reflect the number of treasury shares of 260,443,200 (2013: 260,443,200) held by the Company's subsidiaries.

No adjustments have been made to the basic loss per share for the current and prior periods as the share options in issue have no dilutive effect during the periods ended 31 August 2014 and 31 August 2013.

8. DIVIDEND

	For the six months ended 31 August	
	2014	2013
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Dividend paid during the period		
Final dividend in respect of the financial year ended		
28 February 2014 – Nil		
(2013: final dividend in respect of the financial year ended		
28 February 2013 – HK1.5 cents per ordinary share)	–	8,615
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The board of directors of the Company has decided not to declare an interim dividend for the six months ended 31 August 2014 (2013: Nil).

9. 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 one month. The Group seeks to maintain strict control over its outstanding receivables by 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 2014 HK\$'000 (unaudited)	28 February 2014 HK\$'000 (audited)
Within 3 months not past due	453	305
Over 3 months past due	45	52
Total debtors	498	357
Impairment	(45)	(45)
Total	453	312

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.

10. CREDITORS

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

	31 August 2014 HK\$'000 (unaudited)	28 February 2014 HK\$'000 (audited)
Current – 3 months	41,634	68,830
4 – 6 months	1,693	1,556
7 – 12 months	112	1,723
Over 1 year	1,181	914
	44,620	73,023

11. INTEREST-BEARING BANK BORROWINGS

	31 August 2014 HK\$'000 (unaudited)	28 February 2014 HK\$'000 (audited)
Bank loans, secured	429,335	251,552
Bank overdrafts, secured	7,416	7,358
	436,751	258,910
Analysed into:		
Within one year or on demand	422,316	237,874
In the second year	3,978	10,027
In the third year to fifth year, inclusive	10,457	11,009
	436,751	258,910
Less: Amounts repayable within one year or on demand and classified as current portion	(422,316)	(237,874)
Amount classified as non-current portion	14,435	21,036

The bank loans and overdrafts bear interest at rates ranging from 0.9% to 5.0% (28 February 2014: 0.9% to 5.0%) per annum. The interest-bearing borrowings and overdrafts are mainly denominated in Hong Kong dollars.

The Group's bank borrowings and banking facilities are secured by:

- (i) the pledge of certain of the Group's bank balances of HK\$40,764,000 (28 February 2014: HK\$30,571,000) and time deposits amounting to HK\$392,223,000 (28 February 2014: HK\$180,002,000);
- (ii) the pledge of certain of the Group's marketable securities with an aggregate market value of approximately HK\$239,011,000 (28 February 2014: HK\$236,973,000); and
- (iii) mortgages over certain of the Group's leasehold land and buildings which had an aggregate carrying value at the end of the reporting period of approximately HK\$30,972,000 (28 February 2014: HK\$31,481,000).

12. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions disclosed elsewhere in these condensed consolidated financial statements, the Group had the following material transaction with a related party during the period:

	For the six months ended 31 August	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Interest income from a joint venture	<u>932</u>	<u>–</u>

Balance represented interest income arising from the loan to a joint venture, which bore interest at 8% per annum.

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

	For the six months ended 31 August	
	2014 HK\$'000 (unaudited)	2013 HK\$'000 (unaudited)
Short term employee benefits	16,161	15,390
Post-employment benefits, including pension cost for defined benefit plan of HK\$608,000 (2013: HK\$348,000)	<u>616</u>	<u>356</u>
Total compensation paid to key management personnel	<u>16,777</u>	<u>15,746</u>

13. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The following tables illustrate the fair value measurement of the Group's financial instruments:

Assets/(liabilities) measured at fair value:**As at 31 August 2014**

	Fair value measurement using		Total HK\$'000 (unaudited)
	Quoted prices in active markets (Level 1) HK\$'000 (unaudited)	Significant observable inputs (Level 2) HK\$'000 (unaudited)	
Financial assets at fair value through profit or loss	192,290	110,914	303,204
Derivative financial instruments	–	(835)	(835)
	192,290	110,079	302,369

As at 28 February 2014

	Fair value measurement using		Total HK\$'000 (audited)
	Quoted prices in active markets (Level 1) HK\$'000 (audited)	Significant observable inputs (Level 2) HK\$'000 (audited)	
Financial assets at fair value through profit or loss	202,892	109,152	312,044
Derivative financial instruments	–	(439)	(439)
	202,892	108,713	311,605

As at 31 August 2014 and 28 February 2014, the Group had no financial instruments measured at fair value under Level 3 for both financial assets and financial liabilities.

During the period ended 31 August 2014 and the year ended 28 February 2014, there were no transfer of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

13. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

At the end of the reporting period, the carrying amounts of the Group's other financial assets and financial liabilities approximated their fair values.

Fair values of listed investments are measured based on quoted prices in active markets. Fair values of unlisted investments are estimated based on value inputs that are observable either directly or indirectly.

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 23 October 2014.

INTERIM RESULTS

The first half of the financial year 2014/15 was a period of change and development for the Group. Revenue of the department store operations was impaired by the closures of the two major stores, namely the Central store at Nan Fung Tower which was the number one store before the lease expired in August 2013 and, the Grand Century Place store at Mongkok East Station which was the number two store where the lease expired in April 2014. The three new strategic stores being opened at late 2013 to early 2014 were still on their learning curves and yet to match with the revenue that was previously generated by the two closed stores. With the slow down on the visiting PRC tourists, there were pressure on the retail industry and posed aggressive markdowns by competitors. Faced with the above combined challenges, the Group's unaudited consolidated revenue for the six months ended 31 August 2014 decreased by 26% to HK\$167 million and the loss attributable to shareholders increased to HK\$69 million, approximately double of last period.

BUSINESS REVIEW AND FUTURE PROSPECTS

Revenue of the department store operations was HK\$162 million, reduced by 22%. As mentioned above, it was mainly affected by the learning curve of the three new stores which could only achieve approximately 60% of the revenue previously contributed by the two significant stores that were closed and impairment on inventories of HK\$13 million has been made. With the high operating costs in particular on rental and depreciation, the retail segment recorded a loss of HK\$76 million, increased by HK\$59 million over the last corresponding period. The management have been putting enormous efforts to rectify the situation, including stores layout and merchandise make up have been reorganised in anticipation of better sell-through. Focus group meetings are taken place to better understand customers and non-customers' needs and perception. Different marketing and public campaigns are put in to bring in more store traffic and awareness.

On the comparable stores performance, revenue for both Shamshuipo and Tsuen Wan Citywalk stores are relatively stable. The revenue of SU-PA-DE-PA store at Yau Tong Domain shopping centre dropped by over 10% as certain consignment counters have moved out. The revenue of 22nd Avenue store recorded a decline, this store will be closed upon the lease expiry in November 2014.

On the new stores, it is going through a transitional store development phase. Sincere MK store has been operated for one year as of the reporting date, as planned, this store on one hand is to secure the customers from the closed Grand Century Place store and on the other hand, is to expand the younger customer segment in light of the location. A number of actions were taken included the fine tuning of product mix with clear zoning of European and Korean apparels, expanded the travel and household sections on the basement level and, eliminated the non-profit making concession counters. It was pleased to note that there were gradual improvements. Sincere CWB store has been operated for about six months since its grand opening in April 2014. This store targeted for the middle to upper middle market in Causeway Bay. In the earlier stage, the designated promotional offers successfully attracted customers to this new store, though in the past few months along with the keen competitions in the vicinity, the sales had slow down. We have taken appropriate measures to identify the right customers and increase the traffic flow, included the re-blending of the product mix, launched targeting promotions, and enhanced the appearance by adopting prominent signage. We will continue reviewing the situation and strive for a better performance. The Central Li Po Chun store had the best start of the three new stores and benefited from the previous Central store at Nan Fung Tower, loyal customers have returned to us and there were new customers patronized hence the sales was satisfactory.

Revenue of the Roadshow has gone down by 26% as lesser number of events was held. The rental for certain venues have increased significantly to an unaffordable level, as a result, there were only thirty-one Roadshows being held as compared to thirty-eight in last period. However, the overall performances on both the average daily sales and average sales per ticket have improved.

On the securities trading, as compared with end of February 2014, the market has improved. With one-third of the investment portfolio being Hong Kong listed, an unrealised gain of HK\$11 million was recorded as compared to an unrealised loss of HK\$12 million in last period. Dividend from securities investments and bond interest income amounted to HK\$15 million, gone up by 47% from last period.

On the other investments, the segment result recorded a loss of HK\$15 million, increased by HK\$4 million or 35% from last period. It was mainly attributable to the income from available-for-sale investment reduced by over HK\$3 million while the insurance business remained inactive. The advertising business has placed more focus on serving new clients in China and getting into the content planning and editorial business for in-flight magazine. The travel franchise business remained dormant.

In London UK, the joint venture property project at Lancaster Gate is now on the market. Several potential buyers were approached and it is expected that the project would be finalised in the second half of 2014.

Looking ahead to the second half of 2014, the core Hong Kong retail operation is expected to be continuously challenging. Management is well prepared to meet the challenges and opportunities ahead.

Late this year, we will also launch a new way of shopping through the latest on-line TV channel, customers shall be able to order on-line and prompt delivery will be provided.

On the securities trading, strategies will remain conservative. The advertising operation will focus on the in-flight magazine project and expand into other clienteles. The joint venture property project at Lancaster Gate will be kept offering to the market while the management is exploring a new venture in the North of London. Lastly, though the operating environment is tough, the management is working hard to reposition Sincere for better performance for the future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 August 2014, the Group had cash and bank balance of total HK\$532 million (28 February 2014: HK\$444 million) of which HK\$433 million (28 February 2014: HK\$211 million) were pledged. The Group's gearing increased by 45.0% to 92.8% in total interest-bearing bank borrowings to the shareholders' equity as compared to that of 28 February 2014. The increase of borrowings mainly used to facilitate the department store operations.

The maturity of all bank borrowings ranged from less than one year to five years. The bank borrowings were mainly in HK dollars with interest rates ranging from 0.9% to 5.0%. The interest expense charged to the condensed consolidated income statement for the period was HK\$3.5 million (2013: HK\$1.2 million).

The current ratio decreased by 0.5 from 2.3 to 1.8 as compared to that of 28 February 2014. 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 investments, a property and bank deposits.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 August 2014, the Group had 437 employees (28 February 2014: 571) (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, subsidised 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 2014.

PRINCIPAL SHAREHOLDERS

At 31 August 2014, according to the register of interests required to be 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 the Company, representing 31.89% and 13.17% of the total number of shares of the Company in issue, respectively. Save for the above, there were no other shareholders who had registered an interest, directly or indirectly, of 5% or more of the total number of shares of the Company in issue.

DIRECTORS' INTERESTS IN SHARES

At 31 August 2014, the interests of the Directors in the share capital of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(a) Long position in shares of the Company

Name	Capacity and nature of interest	Shares/equity derivatives	Number of Shares/equity derivatives held	Percentage of the total number of shares of the Company in issue
Walter K W MA	Personal Interest	Ordinary shares	9,925,000	1.7
	Personal Interest	Share options	5,700,000	1.0
Philip K H MA	Personal Interest	Ordinary shares	2,000,000	0.3
	Personal Interest	Share options	5,700,000	1.0
John Y C FU	Personal Interest	Ordinary shares	40,000	–
	Personal Interest	Share options	2,280,000	0.4
King Wing MA	Personal Interest	Ordinary shares	1,240,928	0.2
	Personal Interest	Share options	570,000	0.1
Eric K K LO	Personal Interest	Ordinary shares	2,200,400	0.4
	Personal Interest	Share options	570,000	0.1
Charles M W CHAN	Personal Interest	Ordinary shares	40,000	–
	Personal Interest	Share options	570,000	0.1
Peter TAN	Personal Interest	Ordinary shares	40,000	–
	Personal Interest	Share options	570,000	0.1

(b) Associated corporations

At 31 August 2014, 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, a subsidiary of the Company. In addition, at 31 August 2014, 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 2014, 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, a subsidiary of the Company.

At 31 August 2014, Mr Walter K W Ma and Mr Philip K H Ma held 10 and 10 ordinary shares, respectively, in The Sincere Company (Perfumery Manufacturers), Limited, a subsidiary of the Company.

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 2014, none of the Directors or any of their associates had any interests or short position in any of the shares, underlying shares or debentures of the Company or any of its associated corporations that is required to be recorded and kept in the register in accordance with Section 352 of the SFO.

At no time during the financial year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company or their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

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

1. Purpose

The purpose of the Option 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 Option 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 Option Scheme. Options lapsed in accordance with the terms of the Option 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 Option Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the Option 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 Option Scheme or any other share option schemes of the Company (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Option 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 Option 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 the Company’s shares in issue as of 31 August 2014 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 Option 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's shares.

7. Remaining life of the Option Scheme

The Option Scheme will expire on 5 December 2020.

8. Acceptance of the option

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee.

Set out below are the outstanding share options under the Option Scheme as at 31 August 2014:

Name or category of participant	Number of share options					Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$ per share
	At 1 March 2014	Granted during the period	Cancelled or lapsed during the period	Exercised during the period	At 31 August 2014			
Executive Directors								
Walter K W Ma	5,700,000	-	-	-	5,700,000	28 February 2013	28 February 2013 to 27 February 2018	0.82
Philip K H Ma	5,700,000	-	-	-	5,700,000	28 February 2013	28 February 2013 to 27 February 2018	0.82
John Y C Fu	2,280,000	-	-	-	2,280,000	28 February 2013	28 February 2013 to 27 February 2018	0.82
Independent Non-Executive Directors								
King Wing Ma	570,000	-	-	-	570,000	28 February 2013	28 February 2013 to 27 February 2018	0.82
Eric K K Lo	570,000	-	-	-	570,000	28 February 2013	28 February 2013 to 27 February 2018	0.82
Charles M W Chan	570,000	-	-	-	570,000	28 February 2013	28 February 2013 to 27 February 2018	0.82
Peter Tan	570,000	-	-	-	570,000	28 February 2013	28 February 2013 to 27 February 2018	0.82
Other grantees								
Employees in aggregate	3,700,000	-	-	-	3,700,000	28 February 2013	28 February 2013 to 27 February 2018	0.82
Non-employees in aggregate	2,850,000	-	-	-	2,850,000	28 February 2013	28 February 2013 to 27 February 2018	0.82
	<u>22,510,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,510,000</u>			

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 2014.

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 2014 with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, except the Code Provision A.4.1 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
Philip K H MA
Chairman & CEO

Hong Kong, 23 October 2014