

**sincere**先施

**The Sincere Company, Limited**

Stock code: 244

Interim Report  
**2016**

## INTERIM RESULTS

The Board of Directors (the “Board”) 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 2016, 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 2016

	Notes	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
<b>REVENUE</b>	4	<b>171,615</b>	163,427
Cost of sales		<b>(69,921)</b>	(62,838)
Other income and gains, net		<b>11,545</b>	15,154
Net unrealised loss on securities trading		<b>(658)</b>	(21,130)
Selling and distribution expenses		<b>(117,298)</b>	(128,205)
General and administrative expenses		<b>(52,836)</b>	(57,417)
Other operating income, net		<b>2,496</b>	403
Finance costs		<b>(1,290)</b>	(3,409)
<b>LOSS BEFORE TAX</b>	5	<b>(56,347)</b>	(94,015)
Income tax expense	6	<b>(13)</b>	(23)
<b>LOSS FOR THE PERIOD</b>		<b>(56,360)</b>	(94,038)
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Company		<b>(55,142)</b>	(92,502)
Non-controlling interests		<b>(1,218)</b>	(1,536)
		<b>(56,360)</b>	(94,038)
<b>LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	7		
Basic		<b>HK\$(0.18)</b>	HK\$(0.29)
Diluted		<b>HK\$(0.18)</b>	HK\$(0.29)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 August 2016

	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
<b>LOSS FOR THE PERIOD</b>	<u>(56,360)</u>	<u>(94,038)</u>
<b>OTHER COMPREHENSIVE LOSS</b>		
<i>Other comprehensive loss to be reclassified to the income statement in subsequent periods:</i>		
Exchange differences arising on translation of foreign operations	<u>(738)</u>	<u>(6,432)</u>
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	<u>(57,098)</u>	<u>(100,470)</u>
<b>ATTRIBUTABLE TO:</b>		
Equity holders of the Company	<u>(56,333)</u>	(98,940)
Non-controlling interests	<u>(765)</u>	<u>(1,530)</u>
	<u>(57,098)</u>	<u>(100,470)</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<i>Notes</i>	<b>31 August 2016 HK\$'000 (unaudited)</b>	29 February 2016 HK\$'000 (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>51,648</b>	61,178
Interests in associates		–	–
Financial instruments		<b>26,326</b>	26,326
Deposits and other receivables		<b>31,731</b>	28,375
		<hr/>	<hr/>
Total non-current assets		<b>109,705</b>	115,879
<b>CURRENT ASSETS</b>			
Inventories		<b>79,687</b>	48,358
Reinsurance assets		<b>21</b>	21
Prepayments, deposits and other receivables		<b>24,945</b>	36,921
Financial assets at fair value through profit or loss		<b>192,925</b>	202,782
Pledged bank balances		<b>40,227</b>	50,295
Pledged deposits with banks		<b>80,743</b>	85,979
Cash and bank balances		<b>56,599</b>	44,217
		<hr/>	<hr/>
Total current assets		<b>475,147</b>	468,573
<b>CURRENT LIABILITIES</b>			
Creditors	9	<b>68,326</b>	82,947
Insurance contracts liabilities		<b>1,229</b>	1,229
Deposits, accrued expenses and other payables		<b>42,357</b>	46,192
Interest-bearing bank borrowings	10	<b>168,247</b>	92,593
Other loans		<b>1,909</b>	1,924
Tax payable		<b>1</b>	1
		<hr/>	<hr/>
Total current liabilities		<b>282,069</b>	224,886
		<hr/>	<hr/>
<b>NET CURRENT ASSETS</b>		<b>193,078</b>	243,687
		<hr/>	<hr/>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>302,783</b>	359,566
		<hr/>	<hr/>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	<i>Notes</i>	<b>31 August 2016 HK\$'000 (unaudited)</b>	29 February 2016 HK\$'000 (audited)
<b>NON-CURRENT LIABILITIES</b>			
Accrued expenses and other payables		<b>61,563</b>	59,188
Interest-bearing bank borrowings	10	<b>4,915</b>	6,975
Other loans		<b>1,005</b>	1,005
Pension scheme liabilities		<b>228</b>	228
		<hr/>	<hr/>
Total non-current liabilities		<b>67,711</b>	67,396
		<hr/>	<hr/>
<b>NET ASSETS</b>		<b>235,072</b>	292,170
		<hr/>	<hr/>
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Share capital		<b>287,180</b>	287,180
Reserves		<b>(110,517)</b>	(54,184)
		<hr/>	<hr/>
		<b>176,663</b>	232,996
Non-controlling interests		<b>58,409</b>	59,174
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		<b>235,072</b>	292,170
		<hr/>	<hr/>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 August 2016

	Attributable to equity holders of the Company							
	Share capital HK\$'000	Treasury shares HK\$'000	Reserves			Total reserves HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
			General and other reserves HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000			
At 1 March 2016 (audited)	287,180	(130,221)	221,674	6,251	(151,888)	(54,184)	59,174	292,170
Loss for the period	-	-	-	-	(55,142)	(55,142)	(1,218)	(56,360)
Other comprehensive income/(loss) for the period:								
Exchange differences arising on translation of foreign operations	-	-	(1,191)	-	-	(1,191)	453	(738)
Total comprehensive loss for the period	-	-	(1,191)	-	(55,142)	(56,333)	(765)	(57,098)
Transfer of share option reserve upon the lapse of share options	-	-	-	(207)	207	-	-	-
At 31 August 2016 (unaudited)	287,180	(130,221)	220,483	6,044	(206,823)	(110,517)	58,409	235,072

For the six months ended 31 August 2015

	Attributable to equity holders of the Company							
	Share capital HK\$'000	Treasury shares HK\$'000	General and other reserves HK\$'000	Share option reserve HK\$'000	Reserves		Non-controlling interests HK\$'000	Total HK\$'000
					Retained profits/(accumulated loss) HK\$'000	Total reserves HK\$'000		
At 1 March 2015 (audited)	287,180	(130,221)	230,024	5,608	27,016	132,427	59,786	479,393
Loss for the period	-	-	-	-	(92,502)	(92,502)	(1,536)	(94,038)
Other comprehensive income/(loss) for the period:								
Exchange differences arising on translation of foreign operations	-	-	(6,438)	-	-	(6,438)	6	(6,432)
Total comprehensive loss for the period	-	-	(6,438)	-	(92,502)	(98,940)	(1,530)	(100,470)
At 31 August 2015 (unaudited)	287,180	(130,221)	223,586	5,608	(65,486)	33,487	58,256	378,923

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 August 2016

	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Net cash flows used in operating activities	<u>(75,586)</u>	<u>(77,448)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to items of property, plant and equipment	(911)	(6,026)
Proceeds from disposal of items of property, plant and equipment	–	860
Decrease in pledged bank balances	10,068	28,289
Decrease in pledged deposits with banks	5,236	126,658
Increase in time deposits with original maturity of more than three months	(8,670)	–
Advance to an associate	(4)	(78)
Net cash flows from investing activities	<u>5,719</u>	<u>149,703</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of bank loans	(74,258)	(329,828)
New bank loans	145,529	288,352
Decrease in other loans	(15)	(15)
Net cash flows from/(used in) financing activities	<u>71,256</u>	<u>(41,491)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,389</b>	<b>30,764</b>
Cash and cash equivalents at beginning of period	<u>42,912</u>	<u>80,576</u>
Cash and cash equivalents at end of period	<u><b>44,301</b></u>	<u>111,340</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash on hand and at banks	47,929	76,690
Time deposits with original maturity of less than three months	–	36,090
Time deposits with original maturity of more than three months	8,670	–
Cash and cash equivalents as stated in the condensed consolidated statement of financial position	<u>56,599</u>	<u>112,780</u>
Less: Time deposits with original maturity of more than three months	(8,670)	–
Bank overdrafts	(3,628)	(1,440)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	<u><b>44,301</b></u>	<u>111,340</u>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 August 2016

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 31 August 2016 are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Appendix 16 to 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, which have been measured at fair value. Save for those revised Hong Kong Financial Reporting Standards (“HKFRSs”) adopted during the period as set out in note 2, the significant accounting policies and basis of preparation used in the preparation of the condensed consolidated interim financial statements are the same as those used in the Group’s audited consolidated financial statements for the year ended 29 February 2016.

The financial information relating to the year ended 29 February 2016 that is included in the condensed consolidated statement of financial position as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 29 February 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company’s auditors have reported on those financial statements. The auditors’ report was unqualified; did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

### 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has applied, for the first time, the following revised HKFRSs issued by HKICPA which are effective for the Group’s financial year beginning on 1 March 2016.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to HKAS 1	<i>Disclosure Initiative</i>
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of HKFRSs

The adoption of the revised HKFRSs has 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 mainly consists of sublease of properties, advertising agency 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/(expenses) and finance costs 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 2016 and 31 August 2015.

	Department store operations		Securities trading		Others		Eliminations		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	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	168,949	161,916	812	(364)	1,854	1,875	-	-	171,615	163,427
Intersegment sales	-	-	-	-	14,559	14,603	(14,559)	(14,603)	-	-
Other revenue	165	600	9,354	10,454	2,460	64	-	-	11,979	11,118
Total	<u>169,114</u>	<u>162,516</u>	<u>10,166</u>	<u>10,090</u>	<u>18,873</u>	<u>16,542</u>	<u>(14,559)</u>	<u>(14,603)</u>	<u>183,594</u>	<u>174,545</u>
Segment results	(54,734)	(67,059)	4,231	(15,979)	(4,120)	(11,604)	-	-	(54,623)	(94,642)
Interest income and unallocated revenue/ (expenses), net									(434)	4,036
Finance costs									(1,290)	(3,409)
Loss before tax									(56,347)	(94,015)
Income tax expense									(13)	(23)
Loss for the period									<u>(56,360)</u>	<u>(94,038)</u>

#### (b) Geographical information

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

	Hong Kong		Mainland China		United Kingdom		Others		Consolidated	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
	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	170,607	163,944	50	52	110	122	848	(691)	171,615	163,427

## 4. REVENUE

Revenue represents the aggregate of the invoiced value of goods sold less discounts and returns, net income from counter and consignment sales, net realised gain/(loss) on securities trading, rental income, advertising agency fee income 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	
	31 August	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Depreciation	10,433	12,634
Impairment on inventories <sup>^</sup>	–	1,413
Impairment on interest in an associate*	4	78
Impairment on other receivables	–	533
Write-off of other receivables	182	–
Gain on disposal of items of property, plant and equipment*	–	(481)
Write-back of impairment of a deposit <sup>Δ</sup> *	(2,500)	–
Write-back of other payables <sup>#</sup>	(2,444)	–
	<u>10,433</u>	<u>12,634</u>

<sup>^</sup> Amount is included in "Cost of sales" on the face of the condensed consolidated income statement.

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

<sup>Δ</sup> Amount represented write-back of impairment of HK\$2,500,000 for the Group's deposit for an investment in Mainland China.

<sup>#</sup> Amount is included in "Other income and gains, net" on the face of the condensed consolidated income statement.

## 6. INCOME TAX

	For the six months ended	
	31 August	
	2016	2015
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current – Hong Kong	–	–
Current – Elsewhere		
Charge for the period	13	23
	<u>13</u>	<u>23</u>
Total tax charge for the period	13	23

No provision for Hong Kong profits tax had been made as there were no assessable profits arising in Hong Kong during the period (2015: Nil). During the period ended 31 August 2016, taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates.

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

The calculation of the basic loss per share is based on the loss for the period attributable to equity holders of the Company of HK\$55,142,000 (2015: HK\$92,502,000) and the 313,864,800 ordinary shares (2015: 313,864,800) in issue throughout the period, as adjusted to reflect the number of treasury shares of 260,443,200 (2015: 260,443,200) held by the Company's subsidiaries.

No adjustment had been made to the basic loss per share amount presented for the period ended 31 August 2016 in respect of a dilution as the impact of the share options outstanding during the period had an anti-dilutive effect on the basic loss per share amount presented.

No adjustment had been made to the basic loss per share for the prior period as the share options in issue during the period ended 31 August 2015 had no dilutive effect.

## 8. DIVIDEND

The Board has decided not to declare an interim dividend for the six months ended 31 August 2016 (2015: Nil).

## 9. CREDITORS

An aging analysis of the creditors as at the end of the reporting period, based on invoice date, is as follows:

	<b>31 August 2016 HK\$'000 (unaudited)</b>	29 February 2016 HK\$'000 (audited)
Current – 3 months	<b>59,570</b>	79,793
4 – 6 months	<b>6,922</b>	2,538
7 – 12 months	<b>1,678</b>	265
Over 1 year	<b>156</b>	351
	<b>68,326</b>	82,947

## 10. INTEREST-BEARING BANK BORROWINGS

	<b>31 August 2016 HK\$'000 (unaudited)</b>	29 February 2016 HK\$'000 (audited)
Bank loans, secured	<b>169,534</b>	98,263
Bank overdrafts, secured	<b>3,628</b>	1,305
	<b><u>173,162</u></b>	<u>99,568</u>
Analysed into:		
Within one year or on demand	<b>168,247</b>	92,593
In the second year	<b>4,203</b>	4,147
In the third to fifth years, inclusive	<b>712</b>	2,828
	<b><u>173,162</u></b>	<u>99,568</u>
Less: Amounts repayable within one year or on demand and classified as current portion	<b><u>(168,247)</u></b>	<u>(92,593)</u>
Amount classified as non-current portion	<b><u>4,915</u></b>	<u>6,975</u>

The bank loans and overdrafts bear interest at rates ranging from 0.8% to 5.0% (29 February 2016: 1.2% 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\$40,227,000 (29 February 2016: HK\$50,295,000) and time deposits amounting to HK\$80,743,000 (29 February 2016: HK\$85,979,000);
- (ii) the pledge of certain of the Group's marketable securities with an aggregate market value of approximately HK\$102,100,000 (29 February 2016: HK\$146,295,000); and
- (iii) mortgages over certain of the Group's leasehold land and buildings with an aggregate carrying value at the end of the reporting period of approximately HK\$28,943,000 (29 February 2016: HK\$29,451,000).

## 11. RELATED PARTY TRANSACTIONS

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

	<b>For the six months ended</b>	
	<b>31 August</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Management service fees to a related company	<u>739</u>	<u>–</u>

The management service fees to Strategic Consulting Company, were charged at a monthly service fee of HK\$100,000 with incentive commission for the provision of key management personnel services to the Group.

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

	<b>For the six months ended</b>	
	<b>31 August</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Short term employee benefits	<b>11,120</b>	12,255
Post-employment benefits, including pension cost for a defined benefit plan of HK\$360,000 (2015: HK\$360,000)	<u>369</u>	<u>378</u>
Total compensation paid to key management personnel	<u><b>11,489</b></u>	<u>12,633</u>

## 12. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

*Assets measured at fair value:*

**As at 31 August 2016**

	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	<u>125,976</u>	<u>66,949</u>	<u>192,925</u>

As at 29 February 2016

	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	<u>125,337</u>	<u>77,445</u>	<u>202,782</u>

As at 31 August 2016 and 29 February 2016, 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 2016 and the year ended 29 February 2016, there were no transfers 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. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 28 October 2016.

## INTERIM RESULTS

The unaudited consolidated revenue of the Group for the six months ended 31 August 2016 was HK\$172 million, increased by HK\$8 million or 5% as compared to the same period of last year. The unaudited loss attributable to equity holders of the Company for the six months ended 31 August 2016 was HK\$55 million, losses reduced by HK\$37 million or 40% from last period. This improvement was due to a better department store operation at a segment loss of HK\$55 million, which decreased loss by HK\$12 million from last period and, a better securities trading segment profit of HK\$4 million as compared to a loss of HK\$16 million in the same period of last year. The other segments recorded HK\$4 million loss which has reduced mainly due to the successful collections of an impaired China investment.

## BUSINESS REVIEW AND FUTURE PROSPECTS

### DEPARTMENT STORE OPERATIONS

The department store operations recorded revenue of HK\$169 million, growth by 4% against the same period of last year. This contrasted with the Census and Statistics Department of the Hong Kong Government that has kept reporting a drop in the total retail sales; which for the first eight months this year to August 2016 has decreased by over 10% as compared with last period, a result of the continued drag from slowdown in inbound tourism and the more cautious local consumer sentiment amid subpar economic conditions.

The positive sales result of our department stores derived from several key drivers, including the extension of sale campaigns, the introduction of new and high value products such as fur coats and crocodile handbags, and the launch of a new stamp redemption marketing program offering household and travel items at attractive redemption prices to customers. All six comparable stores have recorded a revenue growth, from a marginal 1% at the Mongkok store, to the highest 19% at the Causeway Bay store supported by the new merchandises; while the Yau Tong Domain store, the Central Li Po Chun store, the Tsuen Wan Citywalk store and the Shamshuiipo Dragon Centre store ranges between 3% to 12% sales growth. Roadshow as expected with lack of suitable venues has generated insignificant revenue of HK\$1 million when compared to HK\$4 million in last period.

With the above sale campaigns and a higher mix of household products at lower margin, there was a slight drop in the gross profit margin; however, a marginal growth in the gross profit dollars had been achieved. During the current period, there were major cost cutting exercises, in particular on the rent re-negotiations and salaries reductions which have successfully reduced the expenses by over HK\$10 million, hence the overall segment recorded a loss of HK\$55 million which decreased loss by HK\$12 million or 18% from last period.

### SECURITIES TRADING

On the securities trading, market volatility has remained vigorous and continual, the Brexit from the European Union added uncertainties. For the reported period up to 31 August 2016, a segment profit of HK\$4 million was recorded that contrasted with the significant segment loss of HK\$16 million owing to the mark-to-market unrealised loss adjustment in last period.



## PROSPECTS

Looking ahead, the global economy still has many uncertainties; the US presidential election, the Brexit moving forward, the slow China export and economic momentum still clouded the outlook. The Hong Kong Government already indicated that the near-term retail sales performance would continue to be difficult. Our department store target is to continue to maintain the business growth momentum and through various cost control, we cautiously expect to see a better performing year.

In October 2016, we have successfully launched the customer relationship management program (CRM) with a digital application accessible by all mobile phone users. This new VIP membership is offered free to all our existing VIP members and to all new customers, aiming to strengthen customer loyalty through better communication, and providing target reward programs with different shopping privileges. This is not just to increase sales revenue but also to enhance customer services and communication, further development with better facilities for our members from this CRM system would be initiated.

On the securities trading, the investment strategy will remain conservative and with the recent growth momentum in the global financial market, we are cautiously optimistic on a better investment return in this financial year.

## LIQUIDITY AND FINANCIAL RESOURCES

At 31 August 2016, the Group had cash and bank balance of HK\$178 million (29 February 2016: HK\$180 million), of which HK\$121 million (29 February 2016: HK\$136 million) were pledged.

The interest-bearing bank borrowings of the Group at 31 August 2016 were HK\$173 million (29 February 2016: HK\$100 million), of which HK\$168 million (29 February 2016: HK\$93 million) was repayable within one year, while the remaining balance was repayable within the second and fifth years. The bank borrowings were mainly in HK dollars with interest rates ranging from 0.8% to 5.0%. The interest expense charged to the condensed consolidated income statement for the period was HK\$1.3 million (2015: HK\$3.4 million).

The Group's gearing ratio, which is total interest-bearing bank borrowings to the shareholders' fund, increased from 43% as of 29 February 2016 to 98% as of 31 August 2016. The increase was attributable to extended bank borrowings to support the department store operations and the decrease in shareholders' fund. The current ratio of the Group at 31 August 2016 was 1.7 as compared to 2.1 at 29 February 2016.

The Group currently has a foreign currency hedging policy on Euro for the purchase of inventories, which hedges approximately fifty percent of the European inventory purchase for resale at the department stores. In addition to internally generated cash flows, the Group also made use of both long-term and short-term borrowings to finance its operation during the period. All interest-bearing bank borrowings were secured against the securities investment, a property and bank deposits.

## EMPLOYEES AND REMUNERATION POLICIES

At 31 August 2016, the Group had 383 employees (29 February 2016: 392) 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 achieving higher sales 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 schemes of sales commission. The Group provides employee benefits such as employee stock options, staff purchase discounts, subsidised medical care and training courses.

## INTERIM DIVIDEND

The Board has decided not to declare an interim dividend for the six months ended 31 August 2016.

## PRINCIPAL SHAREHOLDERS

At 31 August 2016, 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' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

At 31 August 2016, the interests of the Directors and Chief Executive of the Company 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 Company's issued share capital
Philip K H MA	Personal Interest	Ordinary shares	2,000,000	0.3
	Personal Interest	Share options	11,400,000	2.0
John Y C FU	Personal Interest	Ordinary shares	40,000	–
	Personal Interest	Share options	4,560,000	0.8
King Wing MA	Personal Interest	Ordinary shares	1,240,928	0.2
	Personal Interest	Share options	1,140,000	0.2
Eric K K LO	Personal Interest	Ordinary shares	2,200,400	0.4
	Personal Interest	Share options	1,140,000	0.2
Charles M W CHAN	Personal Interest	Ordinary shares	40,000	–
	Personal Interest	Share options	1,140,000	0.2
Peter TAN	Personal Interest	Ordinary shares	40,000	–
	Personal Interest	Share options	1,140,000	0.2

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES (continued)

### (b) Associated corporations

At 31 August 2016, Mr Philip K H Ma, Mr King Wing Ma and Mr Eric K K Lo held 1,028, 1,225 and 216 ordinary shares, respectively, in The Sincere Life Assurance Company Limited. In addition, at 31 August 2016, 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 2016, Mr Philip K H Ma, Mr King Wing Ma and Mr Eric K K Lo held 2,538, 26 and 1,019 ordinary shares, respectively, in The Sincere Insurance & Investment Company, Limited.

At 31 August 2016, Mr Philip K H Ma and Mr King Wing 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 2016, none of the Directors and Chief Executive of the Company 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 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").

## SHARE OPTION SCHEME (continued)

### 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 2016 was 574,308,000.

## SHARE OPTION SCHEME (continued)

### 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 a 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.

## SHARE OPTION SCHEME (continued)

Set out below are the outstanding share options under the Option Scheme as at 31 August 2016:

Name or category of participant	Number of share options					At 31 August 2016	Dates of grant of share options	Exercise periods of share options	Exercise prices of share options HK\$ per share
	At 1 March 2016	Granted during the period	Cancelled or lapsed during the period	Exercised during the period	At 31 August 2016				
<b>Executive Directors</b>									
Philip K H Ma	5,700,000	-	-	-	5,700,000	28 February 2013	28 February 2013 to 27 February 2018	0.820	
	5,700,000	-	-	-	5,700,000	29 February 2016	29 February 2016 to 28 February 2021	0.358	
John Y C Fu	2,280,000	-	-	-	2,280,000	28 February 2013	28 February 2013 to 27 February 2018	0.820	
	2,280,000	-	-	-	2,280,000	29 February 2016	29 February 2016 to 28 February 2021	0.358	
<b>Independent Non-Executive Directors</b>									
King Wing Ma	570,000	-	-	-	570,000	28 February 2013	28 February 2013 to 27 February 2018	0.820	
	570,000	-	-	-	570,000	29 February 2016	29 February 2016 to 28 February 2021	0.358	
Eric K K Lo	570,000	-	-	-	570,000	28 February 2013	28 February 2013 to 27 February 2018	0.820	
	570,000	-	-	-	570,000	29 February 2016	29 February 2016 to 28 February 2021	0.358	
Charles M W Chan	570,000	-	-	-	570,000	28 February 2013	28 February 2013 to 27 February 2018	0.820	
	570,000	-	-	-	570,000	29 February 2016	29 February 2016 to 28 February 2021	0.358	
Peter Tan	570,000	-	-	-	570,000	28 February 2013	28 February 2013 to 27 February 2018	0.820	
	570,000	-	-	-	570,000	29 February 2016	29 February 2016 to 28 February 2021	0.358	
<b>Other grantees</b>									
Employees in aggregate	3,130,000	-	-	-	3,130,000	28 February 2013	28 February 2013 to 27 February 2018	0.820	
	5,130,000	-	-	-	5,130,000	29 February 2016	29 February 2016 to 28 February 2021	0.358	
Non-employees in aggregate	2,850,000	-	-	-	2,850,000	28 February 2013	28 February 2013 to 27 February 2018	0.820	
	4,845,000	-	(1,995,000)	-	2,850,000	29 February 2016	29 February 2016 to 28 February 2021	0.358	
	<u>36,475,000</u>	<u>-</u>	<u>(1,995,000)</u>	<u>-</u>	<u>34,480,000</u>				

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

There was no purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries 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 2016.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS ("MODEL CODE")

The Company has adopted 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 PRACTICE

The Company has complied throughout the period ended 31 August 2016 with the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules, save and except for code provision A.2.1, A.4.1 and A.6.7.

Code provision A.2.1 of the CG Code stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. Mr Philip K H Ma, being the Chairman and Chief Executive Officer of the Company, provides leadership to the Board ensuring that members of the Board receive accurate, timely and clear information to help them reach well-informed and well-considered decisions. He is also responsible for leading the management team to manage day-to-day operation and report to the Board the way the business is run. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same individual can provide the Company with strong and consistent leadership and allows for effective and efficient planning and implementation of business decisions and strategies.

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The independent 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 Meeting in accordance with the Company's Articles of Association.

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors should also attend general meeting. Mr Charles M W Chan and Mr Peter Tan, both are Independent Non-Executive Directors of the Company did not attend the general meeting of the Company held on 5 August 2016 due to business arrangement.

By order of the Board  
**Philip K H Ma**  
*Chairman & CEO*