



sincere先施

The Sincere Company, Limited

Stock code: 244

2017
INTERIM
REPORT

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 2017, 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 2017

	Notes	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
REVENUE	4	159,426	171,615
Cost of sales		(73,582)	(69,921)
Other income and gains, net		8,114	11,545
Net unrealised gain/(loss) on securities trading		7,193	(658)
Selling and distribution expenses		(103,904)	(117,298)
General and administrative expenses		(49,658)	(52,836)
Other operating income/(expenses), net		(4)	2,496
Finance costs		(1,750)	(1,290)
LOSS BEFORE TAX	5	(54,165)	(56,347)
Income tax expense	6	(1)	(13)
LOSS FOR THE PERIOD		(54,166)	(56,360)
ATTRIBUTABLE TO:			
Equity holders of the Company		(53,031)	(55,142)
Non-controlling interests		(1,135)	(1,218)
		(54,166)	(56,360)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	7		
Basic		HK\$(0.17)	HK\$(0.18)
Diluted		HK\$(0.17)	HK\$(0.18)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 August 2017

	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
LOSS FOR THE PERIOD	<u>(54,166)</u>	<u>(56,360)</u>
OTHER COMPREHENSIVE 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	414	(738)
Realisation of exchange fluctuation reserve upon deregistration of subsidiaries	<u>(627)</u>	<u>–</u>
OTHER COMPREHENSIVE LOSS TO BE RECLASSIFIED TO THE INCOME STATEMENT IN SUBSEQUENT PERIODS, NET OF TAX	<u>(213)</u>	<u>(738)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(54,379)</u>	<u>(57,098)</u>
ATTRIBUTABLE TO:		
Equity holders of the Company	(52,969)	(56,333)
Non-controlling interests	<u>(1,410)</u>	<u>(765)</u>
	<u>(54,379)</u>	<u>(57,098)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 August 2017 HK\$'000 (unaudited)	28 February 2017 HK\$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		43,715	47,211
Interests in associates		–	–
Financial instruments		26,326	26,326
Deposits and other receivables		30,750	32,309
Pension scheme assets		11,149	11,149
		<hr/>	<hr/>
Total non-current assets		111,940	116,995
CURRENT ASSETS			
Inventories		76,917	76,178
Reinsurance assets		19	19
Prepayments, deposits and other receivables		19,146	17,067
Financial assets at fair value through profit or loss		166,158	154,597
Pledged bank balances		4,226	39,845
Pledged deposits with banks		75,241	75,221
Cash and bank balances		24,385	30,962
		<hr/>	<hr/>
Total current assets		366,092	393,889
CURRENT LIABILITIES			
Creditors	9	57,692	63,294
Insurance contracts liabilities		1,227	1,227
Deposits, accrued expenses and other payables		35,064	31,615
Interest-bearing bank borrowings	10	168,956	139,544
Other loans		1,937	1,932
Tax payable		1	1
		<hr/>	<hr/>
Total current liabilities		264,877	237,613
NET CURRENT ASSETS		<hr/> 101,215	<hr/> 156,276
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 213,155	<hr/> 273,271

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

	<i>Notes</i>	31 August 2017 HK\$'000 (unaudited)	28 February 2017 HK\$'000 (audited)
NON-CURRENT LIABILITIES			
Accrued expenses and other payables		59,052	61,887
Interest-bearing bank borrowings	10	713	2,828
Other loans		1,036	1,026
		<hr/>	<hr/>
Total non-current liabilities		60,801	65,741
		<hr/>	<hr/>
NET ASSETS			
		152,354	207,530
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		287,180	287,180
Reserves		(190,410)	(137,441)
		<hr/>	<hr/>
		96,770	149,739
Non-controlling interests		55,584	57,791
		<hr/>	<hr/>
TOTAL EQUITY		152,354	207,530
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 August 2017

	Attributable to equity holders of the Company							
	Share capital HK\$'000	Treasury shares HK\$'000	Reserves				Non-controlling interests HK\$'000	Total HK\$'000
			General and other reserves HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total reserves HK\$'000		
At 1 March 2017 (audited)	287,180	(130,221)	219,402	6,044	(232,666)	(137,441)	57,791	207,530
Loss for the period	-	-	-	-	(53,031)	(53,031)	(1,135)	(54,166)
Other comprehensive income/(loss) for the period:								
Exchange differences arising on translation of foreign operations	-	-	731	-	-	731	(317)	414
Realisation of exchange fluctuation reserve upon deregistration of subsidiaries	-	-	(669)	-	-	(669)	42	(627)
Total comprehensive income/(loss) for the period	-	-	62	-	(53,031)	(52,969)	(1,410)	(54,379)
Deregistration of subsidiaries	-	-	-	-	-	-	(797)	(797)
At 31 August 2017 (unaudited)	287,180	(130,221)	219,464	6,044	(285,697)	(190,410)	55,584	152,354

For the six months ended 31 August 2016

	Attributable to equity holders of the Company							
	Share capital HK\$'000	Treasury shares HK\$'000	Reserves				Non-controlling interests HK\$'000	Total HK\$'000
			General and other reserves HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total reserves 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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 August 2017

	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Net cash flows used in operating activities	<u>(69,114)</u>	<u>(75,586)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to items of property, plant and equipment	(435)	(911)
Proceeds from disposal of items of property, plant and equipment	139	–
Decrease in pledged bank balances	35,619	10,068
Decrease/(increase) in pledged deposits with banks	(20)	5,236
Increase in time deposits with original maturity of more than three months	–	(8,670)
Advance to an associate	(4)	(4)
Deregistration of a subsidiary	(74)	–
Net cash flows from investing activities	<u>35,225</u>	<u>5,719</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of bank loans	(165,037)	(74,258)
New bank loans	192,334	145,529
Increase/(decrease) in other loans	15	(15)
Net cash flows from financing activities	<u>27,312</u>	<u>71,256</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(6,577)	1,389
Cash and cash equivalents at beginning of period	<u>30,962</u>	<u>42,912</u>
Cash and cash equivalents at end of period	<u>24,385</u>	<u>44,301</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash on hand and at banks	24,385	47,929
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>24,385</u>	<u>56,599</u>
Less: Time deposits with original maturity of more than three months	–	(8,670)
Bank overdrafts	–	(3,628)
Cash and cash equivalents as stated in the condensed consolidated statement of cash flows	<u>24,385</u>	<u>44,301</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 August 2017

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 31 August 2017 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 28 February 2017.

The financial information relating to the year ended 28 February 2017 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 28 February 2017 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 auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor 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 2017.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12 included in <i>Annual Improvements 2014-2016 Cycle</i>	<i>Disclosure of Interests in Other Entities</i>

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 2017 and 31 August 2016.

	Department store operations		Securities trading		Others		Eliminations		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	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	157,800	168,949	(244)	812	1,870	1,854	-	-	159,426	171,615
Intersegment sales	-	-	-	-	14,776	14,559	(14,776)	(14,559)	-	-
Other revenue	133	165	5,402	9,354	313	2,460	-	-	5,848	11,979
Total	157,933	169,114	5,158	10,166	16,959	18,873	(14,776)	(14,559)	165,274	183,594
Segment results	(53,956)	(54,734)	7,215	4,231	(7,940)	(4,120)	-	-	(54,681)	(54,623)
Interest income and unallocated revenue/ (expenses), net									2,266	(434)
Finance costs									(1,750)	(1,290)
Loss before tax									(54,165)	(56,347)
Income tax expense									(1)	(13)
Loss for the period									(54,166)	(56,360)

(b) Geographical information

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

	Hong Kong		Mainland China		United Kingdom		Others		Consolidated	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	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	159,376	170,607	-	50	102	110	(52)	848	159,426	171,615

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 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	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Depreciation	3,931	10,433
Impairment on inventories [^]	2,360	–
Impairment on interest in an associate*	4	4
Write-off of other receivables	–	182
Gain on disposal of items of property, plant and equipment [#]	(126)	–
Gain on deregistration of subsidiaries [#]	(1,954)	–
Write-back of impairment of a deposit ^Δ *	–	(2,500)
Write-back of other payables [#]	–	(2,444)
	<u> </u>	<u> </u>

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

* Amounts are included in "Other operating income/(expenses), net" on the face of the condensed consolidated income statement.

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

[#] Amounts are 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	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current – Hong Kong	–	–
Current – Elsewhere		
Charge for the period	<u>1</u>	<u>13</u>
Total tax charge for the period	<u>1</u>	<u>13</u>

No provision for Hong Kong profits tax had been made as there were no assessable profits arising in Hong Kong during the period (2016: Nil). During the period ended 31 August 2017, 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\$53,031,000 (2016: HK\$55,142,000) and the 313,864,800 ordinary shares (2016: 313,864,800) in issue throughout the period, as adjusted to reflect the number of treasury shares of 260,443,200 (2016: 260,443,200) held by the Company's subsidiaries.

No adjustment had been made to the basic loss per share amounts presented for the periods ended 31 August 2017 and 2016 in respect of a dilution as the impact of the share options outstanding during the periods had an anti-dilutive effect on the basic loss per share amounts presented.

8. DIVIDEND

The Board has decided not to declare an interim dividend for the six months ended 31 August 2017 (2016: Nil).

9. CREDITORS

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

	31 August 2017 HK\$'000 (unaudited)	28 February 2017 HK\$'000 (audited)
Current – 3 months	50,655	58,360
4 – 6 months	5,787	3,887
7 – 12 months	405	965
Over 1 year	845	82
	57,692	63,294

10. INTEREST-BEARING BANK BORROWINGS

	31 August 2017 HK\$'000 (unaudited)	28 February 2017 HK\$'000 (audited)
Bank loans, secured	169,669	142,372
Analysed into:		
Within one year or on demand	168,956	139,544
In the second year	713	2,828
	169,669	142,372
Less: Amounts repayable within one year or on demand and classified as current portion	(168,956)	(139,544)
Amount classified as non-current portion	713	2,828

The bank loans bear interest at rates ranging from 1.4% to 5.0% (28 February 2017: 1.4% to 5.0%) per annum. The interest-bearing borrowings 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\$4,226,000 (28 February 2017: HK\$39,845,000) and time deposits amounting to HK\$75,241,000 (28 February 2017: HK\$75,221,000);
- (ii) the pledge of certain of the Group's marketable securities with an aggregate market value of approximately HK\$78,505,000 (28 February 2017: HK\$66,215,000); 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\$27,926,000 (28 February 2017: HK\$28,436,000).

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 related parties during the period:

	For the six months ended	
	31 August	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Management service fees to related companies	476	739

The management service fees were charged to Strategic Consulting Company and Rise Legend International Limited for the provision of key management personnel services to the Group.

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

	For the six months ended	
	31 August	
	2017	2016
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Short term employee benefits	10,730	11,120
Post-employment benefits, including pension cost for a defined benefit plan of HK\$23,000 (2016: HK\$360,000)	38	369
Total compensation paid to key management personnel	10,768	11,489

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 2017

	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>102,426</u>	<u>63,732</u>	<u>166,158</u>

As at 28 February 2017

	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>100,206</u>	<u>54,391</u>	<u>154,597</u>

As at 31 August 2017 and 28 February 2017, 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 2017 and the year ended 28 February 2017, 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. OUTSTANDING COMMITMENTS

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

	31 August 2017 HK\$'000 (unaudited)	28 February 2017 HK\$'000 (audited)
Irrevocable letters of credit	19,114	16,914

14. EVENT AFTER THE END OF THE REPORTING PERIOD

On 18 September 2017, the Company proposes to raise gross proceeds of not less than approximately HK\$93,000,000 and not more than approximately HK\$98,700,000 by way of the rights issue on the basis of three rights shares for every five existing shares at a subscription price of HK\$0.27 per rights share ("Rights Issue"). The net proceeds from the proposed Rights Issue after deducting related expenses are estimated to be not less than approximately HK\$89,500,000 and not more than approximately HK\$95,200,000. The proposed Rights Issue has not yet completed up to the date of approval of these condensed consolidated financial statements. Details of the proposed Rights Issue are set out in the announcements of the Company dated 18 September 2017.

15. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 23 October 2017.

INTERIM RESULTS

The unaudited consolidated revenue of the Group for the six months ended 31 August 2017 was HK\$159 million, decreased by HK\$12 million or 7% 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 2017 was HK\$53 million, losses reduced by HK\$2 million or 4% from last period. This improvement was mainly due to a better securities trading segment profit of HK\$7 million, which increased profit by HK\$3 million in the same period of last year.

BUSINESS REVIEW AND FUTURE PROSPECTS

DEPARTMENT STORE OPERATIONS

The department store operations recorded revenue of HK\$158 million, dropped by 7% against the same period of last year. Despite the Hong Kong general retail market is recovering slowly, we have recorded a drop in both sales and gross profit margin.

Extended from an unseasonably warm winter of the year 2016, the Group had reduced purchases from major suppliers in order to avoid further inventory backlog. The clearance of fall/winter apparels and shoes had become one of the business objectives, but sales performance was not satisfactory under our major and extended “Crazy Sale” campaign with an aggressive markdown. Reasons included the hit of several typhoons that seriously affected the traffic to our stores, and the departure of several concession counters due to their own change in business strategy that reduced their contributions, resulted in a decline of sales in all our six stores, from the lowest 2% drop at the Causeway Bay store to the highest 11% drop at the Yau Tong Domain store. The remaining Shamshuipo Dragon Centre store, the Central Li Po Chun store, the Mongkok store, and the Tsuen Wan Citywalk store ranged between 5% to 10% sales decline.

With the extended sale campaign period, the aggressive pricing for the clearance of fall/winter inventories and a further provision of HK\$2 million on slow-moving inventories, a drop in gross profit margin and dollar was resulted. This negative position was compensated by rental reductions from the re-negotiation with landlords in the middle of year 2016; a significant drop of depreciation expenses as a result of the fully depreciated leasehold improvements; and with further cost cutting on various aspects such as salaries reduction, the total segment costs have significantly reduced by HK\$12 million. Hence the overall segment loss has been reduced to HK\$54 million or HK\$1 million improvement against last year.

SECURITIES TRADING

On securities trading, the continued synchronised expansion in global activity provided a steady backdrop for asset markets. With inflation decelerating amid weaker oil prices, the market experienced low volatility. This steady economic backdrop supported a relatively tranquil environment. Hence, for the reported period up to 31 August 2017, a segment profit of HK\$7 million was recorded or HK\$3 million better than last year.

PROSPECTS

Despite the increasingly fierce competition of the retail industry, we are still optimistic that the business performance could be improved in the year ahead through various means; with the lead of our experienced management team, we will focus on strengthening sales and marketing activities, such as VIP nights and other theme fairs; procuring diversified fashionable items with high quality so as to keep abreast of market dynamics; providing premium and personal services to our loyal customers by analysing the big data from our CRM system. In the meantime, cost controls would further be enhanced to improve operating efficiencies.

On securities trading, though the global financial market is still uncertain by various factors, including the US interest rate upcycle, the balance sheet reduction by Fed, we will keep our conservative investment strategy and target on a better investment return in this financial year.

On 18 September 2017, the Company proposed to raise gross proceeds of not less than approximately HK\$93 million and not more than approximately HK\$99 million by way of the rights issue on the basis of three rights shares for every five existing shares at a subscription price of HK\$0.27 per rights share. The net proceeds from the proposed rights issue after deducting related expenses are estimated to be not less than approximately HK\$89 million and not more than approximately HK\$96 million. The rights issue will provide positive cash inflow for the Company to settle its existing bank loans and to support the department store future operations.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 August 2017, the Group had cash and bank balance of HK\$104 million (28 February 2017: HK\$146 million), of which HK\$79 million (28 February 2017: HK\$115 million) were pledged.

The interest-bearing bank borrowings of the Group at 31 August 2017 were HK\$170 million (28 February 2017: HK\$142 million), of which HK\$169 million (28 February 2017: HK\$140 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 1.4% to 5.0%. The interest expense charged to the condensed consolidated income statement for the period was HK\$2 million (2016: HK\$1 million).

The Group's gearing ratio, which is total interest-bearing bank borrowings to the shareholders' fund, increased from 95% as of 28 February 2017 to 175% as of 31 August 2017. The increase was attributable to extended bank borrowings to support the department store operations and the decrease in shareholders' fund due to the loss incurred in current period. The current ratio of the Group at 31 August 2017 was 1.4 as compared to 1.7 at 28 February 2017.

The Group currently employs 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 investments, a property and bank deposits.

SIGNIFICANT INVESTMENTS HELD

As at 31 August 2017, the Group has held for trading investments with fair value of HK\$166 million (28 February 2017: HK\$155 million). During the period, the Group recorded realised losses of HK\$0.2 million (2016: gain HK\$0.8 million) and unrealised gain on fair value of HK\$7 million (2016: loss HK\$0.7 million). Information in relation to the 10 largest investments as at 31 August 2017 are set out as follows:

	Company name	Nature of investment	No. of shares/units/ amount of bonds held	Realised gain/(loss) for the period HK\$'000	Unrealised gain/(loss) on fair value change for the period HK\$'000	Fair value as at 31 August 2017 HK\$'000	% of total assets
1.	HSBC Holdings plc (Stock Code: 0005)	Equity	208,000	–	2,808	15,808	3.31%
2.	Highbridge Capital Corporation CLI LIQ	Fund	48	–	212	12,326	2.58%
3.	Fullerton Short Term Interest Rate Fund – D	Fund	1,468,946	–	31	11,761	2.46%
4.	China Mobile Ltd (Stock Code: 0941)	Equity	110,000	–	(286)	9,130	1.91%
5.	Nordea 1 Stable Return USD HDG ACC HB	Fund	43,912	–	93	8,700	1.82%
6.	Hang Seng Bank Ltd (Stock Code: 0011)	Equity	45,000	–	936	8,100	1.69%
7.	Starwood Waypoint Homes	Fund	26,738	–	895	7,760	1.62%
8.	Value Partners Classic Fund CI C	Fund	48,887	–	1,418	7,405	1.55%
9.	C432 PA Offshore Feeder Fund L.P.CLS A USD	Fund	914,005	–	256	6,709	1.40%
10.	CK Hutchison Holdings Ltd (Stock Code: 0001)	Equity	56,120	–	365	5,747	1.20%

During the period, the Group received approximately HK\$5 million (2016: HK\$8 million) of dividends from the securities held. The above table lists the investments which principally formed a significant portion of the total assets of the Group.

EMPLOYEES AND REMUNERATION POLICIES

At 31 August 2017, the Group had 331 employees (28 February 2017: 377) including part-time staff. The Group operates various remuneration schemes for sales and non-sales employees to motivate front-line and back-office staff towards achieving higher sales and operating efficiencies. Besides basic salary and discretionary 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 of Directors of the Company has decided not to declare an interim dividend for the six months ended 31 August 2017.

PRINCIPAL SHAREHOLDERS

At 31 August 2017, 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 shares of the Company 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. After 31 August 2017, Win Dynamic Limited was interested in 188,318,880 shares of the Company, representing 32.79% of the total number of shares of the Company in issue and had a deemed interest by reason of Section 317 of the SFO in a further 14,580,000 shares of the Company, representing 2.54% of the total number of shares of the Company in issue, as a result of arrangements in connection with the proposed Rights Issue. Details of the proposed Rights Issue are set out in note 14 to the condensed consolidated financial statements and the announcements of the Company dated 18 and 19 September 2017. 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 2017, 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 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 total number of shares in issue
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

* After 31 August 2017 Mr Philip K H Ma acquired a deemed interest by reason of Section 317 of the SFO in a further 189,498,880 shares of the Company, representing 33.0% of the total number of shares of the Company in issue, as a result of arrangements in connection with the proposed Rights Issue. Details of the proposed Rights Issue are set out in note 14 to the unaudited condensed consolidated interim financial statements and the announcements of the Company dated 18 and 19 September 2017.

** After 31 August 2017 Mr Charles M W Chan acquired a deemed interest by reason of Section 317 of the SFO in a further 201,718,880 shares of the Company, representing 35.1% of the total number of shares of the Company in issue, as a result of arrangements in connection with the proposed Rights Issue. Details of the proposed Rights Issue are set out in note 14 to the unaudited condensed consolidated interim financial statements and the announcements of the Company dated 18 and 19 September 2017.

DIRECTORS' INTERESTS IN SHARES (continued)

(b) Associated corporations

At 31 August 2017, 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 2017, 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 2017, 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 2017, 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 2017, 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").

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 a 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 Company shares in issue as of 31 August 2017 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 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 2017:

Name or category of participant	Number of share options				At 31 August 2017	Dates of grant of share options	Exercise periods of share options	Exercise prices of share options HK\$ per share
	At 1 March 2017	Granted during the period	Cancelled or lapsed during the period	Exercised during the period				
Executive Directors								
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
Independent Non-Executive Directors								
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
Other grantees								
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
	2,850,000	-	-	-	2,850,000	29 February 2016	29 February 2016 to 28 February 2021	0.358
	<u>34,480,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,480,000</u>			

PURCHASE, SALE AND 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 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS ("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 of Hong Kong Limited (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 complied throughout the period ended 31 August 2017 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 both 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 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.

CORPORATE GOVERNANCE PRACTICE (continued)

Code provision A.6.7 of the CG Code is to the effect that independent non-executive director should also attend general meetings. Mr Eric K K Lo and Mr Peter Tan, both of whom were at the relevant time independent non-executive directors of the Company did not attend the general meeting of the Company held on 4 August 2017 due to prior business arrangements.

Mr Charles M W Chan has been re-designated from an independent non-executive director to a non-executive director with effect from 18 September 2017. For details please refer to the announcements of the Company dated 18 and 19 September 2017. Following the re-designation of Mr Charles M W Chan as a non-executive director, there is no independent non-executive director having appropriate qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The Company is seeking to identify a suitable candidate to be appointed as a new independent non-executive director within three months after the date of the re-designation of Mr Charles M W Chan in accordance with Rule 3.11 of the Listing Rules. Further announcement(s) will be made by the Company as and when appropriate.

Following the re-designation of Mr Charles M W Chan as mentioned above, Mr Peter Tan, an independent non-executive director, has been appointed as the chairman of the remuneration committee of the Company with effect from 18 September 2017, while Mr Charles M W Chan continues to be a member of the audit committee, remuneration committee and nomination committee of the Company.

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

Hong Kong, 23 October 2017