The Sincere Company, Limited

Stock code: 244

2018-19 ANNUAL REPORT

Contents

CORPORATE INFORMATION

REGISTERED OFFICE

24th Floor, Leighton Centre,
77 Leighton Road, Hong Kong

AUDITOR

Ernst & Young

SOLICITORS

Anthony Siu & Co

PRINCIPAL BANKERS

Citibank N.A.
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
JP Morgan Chase Bank N. A.
The Hongkong & Shanghai Banking Corporation Limited

SHARE REGISTRAR & TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre,
183 Queen's Road East,
Hong Kong

(Tricor Tengis Limited will relocate to
Level 54, Hopewell Centre,
183 Queen's Road East,
Hong Kong with effect from 11 July 2019)

BOARD OF DIRECTORS

Mr. Philip K H MA *(Chairman & CEO)*
Mr. King Wing MA
Mr. Eric K K LO
Mr. Charles M W CHAN
Mr. Peter TAN
Mr. Anders W L LAU

MANAGEMENT

Mr. Philip K H MA
Mr. Kelvin K H LEE
Ms. Ada S P CHEUNG

COMPANY SECRETARY

Ms. Ada S P CHEUNG

WEBSITE

Company: www.sincere.com.hk
Financial information:
www.irasia.com/listco/hk/sincere/index.htm

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of shareholders of the Company will be held at 2/F Hibiscus Room, Hotel Jen Hong Kong, 508 Queen's Road West, Western District, Hong Kong on 2 August 2019 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the Reports of the Directors and Independent Auditor for the year ended 28 February 2019.

2. (a) To re-elect Mr. Ma King Huen Philip as Executive Director of the Company.

   (b) To re-elect Mr. Chan Man Wai Charles as Non-Executive Director of the Company.

   (c) To authorise the Board of Directors to fix the Directors' remuneration.

3. To re-appoint Ernst & Young as independent auditor and to authorise the Board of Directors to fix their remuneration.

4. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

   "**THAT**:

   (a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to purchase its shares be and is hereby generally and unconditionally approved;

   (b) the total number of shares of the Company to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the total number of shares of the Company in issue on the date of this Resolution; and

   (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

      (i) the conclusion of the next Annual General Meeting of the Company;

      (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Company's Articles of Association or any applicable laws to be held; or

      (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

NOTICE OF ANNUAL GENERAL MEETING

5. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"**THAT**:

(a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with additional shares of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers at any time during or after the Relevant Period;

(c) the total number of shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors of the Company pursuant to paragraph (a) above, otherwise than pursuant to: (i) a Rights Issue; or (ii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Articles of Association of the Company; or (iii) the exercise of subscription rights under the Share Option Scheme of the Company should not exceed 20% of the number of shares of the Company in issue on the date of this Resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Company's Articles of Association or any applicable laws to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to holders of shares on the Register of Members on a fixed record date in proportion to their holdings of shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlement or having regard to any restrictions and obligations under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory outside Hong Kong)."

NOTICE OF ANNUAL GENERAL MEETING

6. To consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

   "**THAT** the general mandate granted to the Directors of the Company and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers, be and is hereby extended by the addition thereto of such number of shares which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to such general mandate of such number of shares of the Company which has been purchased by the Company since the granting of such general mandate pursuant to the exercise by the Directors of the Company of the powers of the Company to purchase such shares, provided that such number of shares shall not exceed 10% of the total number of shares of the Company in issue on the date of this resolution."

By order of the Board
Ada S P CHEUNG
Company Secretary

Hong Kong, 20 June 2019

Notes:

1. For determining the entitlement to attend and vote at the Annual General Meeting to be held on Friday, 2 August 2019, the register of members of the Company will be closed from Monday, 29 July 2019 to Friday, 2 August 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the Annual General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch share registrar in Hong Kong Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong* no later than 4:30 p.m. on Friday, 26 July 2019.

2. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's Share Registrars, Tricor Tengis Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong*, not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of a proxy form will not preclude a member from attending the meeting and voting in person.

4. Concerning item 4 above, the Directors will exercise the powers conferred thereby to repurchase shares of the Company in circumstances which they deem appropriate for the benefits of the shareholders.

5. Concerning item 5 above, approval is being sought from the members for a general mandate to authorise allotment of shares under the Companies Ordinance and the Listing Rules. The directors have no immediate plan to issue any new shares of the Company under that mandate, if granted.

6. Concerning item 6 above, approval is being sought to increase the number of shares which the Directors may issue under their general mandate by the number of any shares repurchased during the Relevant Period.

7. A circular containing further details in respect of the above items 2 and 4 to 6 will be sent to members together with the 2018/19 Annual Report.

8. As at the date of this notice, the executive director of the Company is Mr. Philip K H Ma, the non-executive director of the Company is Mr. Charles M W Chan and the independent non-executive directors are Mr. King Wing Ma, Mr. Eric K K Lo, Mr. Peter Tan and Mr. Anders W L Lau.

* Tricor Tengis Limited will relocate to Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 11 July 2019.

MISSION STATEMENT

Founded in 1900, The Sincere Company, Limited is one of the Hong Kong's oldest and most respected retail groups.

At the core of Sincere's success is its unwavering dedication to quality service and customer satisfaction. Through its chain of department stores, the Company strives to provide consumers with a competitive range of merchandise at affordable prices.

Sincere's on-going commitment to prudent expansion in Hong Kong and China demonstrates the Company's determination to sustain its position as a leading retailer into the next century and beyond.

CHAIRMAN & CEO'S REVIEW OF OPERATIONS

On behalf of the Board of Directors (the "Board") of The Sincere Company, Limited (the "Company"), I would like to present shareholders with the Annual Report for the year ended 28 February 2019.

Philip K H MA
Chairman & CEO

RESULTS

The Group's total revenue was HK$311.9 million (2018: HK$355.9 million) during the year; representing a 12% drop from last year. The loss attributable to equity holders of the Company for this financial year was HK$132.1 million (2018: HK$90.5 million), loss increased by HK$41.6 million or 45.9% compared with previous year. This was mainly due to an increase in loss in the department store operations segment by HK$18.3 million and an increase in securities trading segment loss by HK$17.8 million as compared to last year. Such increase in loss was attributable to (i) the decrease in gross profit of the department store operations due to the unseasonably warm winter and resulting quiet end-of-year sales period; (ii) the impairment loss on the Group's property, plant and equipment due to the operating losses in department store operations; and (iii) the increase in net realised losses arising from trading in and unrealised losses as a result of mark to market losses in the Group's investment in financial assets at fair value through profit or loss. Details were further explained at the "Business Review" section below.

CHAIRMAN & CEO'S REVIEW OF OPERATIONS

LIQUIDITY AND FINANCIAL RESOURCES

At 28 February 2019, the Group had cash and bank balances of HK$110.7 million (2018: HK$111.4 million), of which HK$78.4 million (2018: HK$75.3 million) were pledged. The Group's gearing increased from 56% to 666% in total debt to the shareholders' fund in comparison to last year. The interest expense charged to the consolidated income statement for the year was HK$4.9 million (2018: HK$4.0 million). The interest-bearing bank borrowings of the Group as of 28 February 2019 were HK$190.0 million (2018: HK$94.3 million), which were repayable within one year or on demand. The bank borrowings were largely in Hong Kong dollars, with interest rates ranging from 1.4% to 5.1% per annum. The current ratio was 1.1 (2018: 1.8). The increase in bank borrowings was mainly used to support normal operations in department stores.

Further to the Company's announcement dated 22 March 2019, 12 April 2019, 6 May 2019 and 22 May 2019, the Board proposed an open offer to provide additional working capital. The gross proceeds from the open offer are expected to be approximately HK$102.7 million. The net proceeds from the Open Offer after deducting related expenses are estimated to be approximately HK$92.5 million.

The Group currently employs a foreign currency hedging policy on the Euro for the purchase of inventories, which hedges approximately fifty percent of the European inventory purchase for resale at 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 operations during the year. All borrowings were secured against securities investments, a property and bank deposits.

EMPLOYEES AND REMUNERATION POLICIES

At 28 February 2019, the Group had 328 employees (2018: 303), 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 sales commission schemes. The Group provides employee benefits such as employee stock options, staff purchase discounts, subsidised medical care and training courses.

DIVIDENDS

The Board does not recommend the payment of a dividend for the financial year ended 28 February 2019.

BUSINESS REVIEW

DEPARTMENT STORE OPERATION

The year under review was one of the more difficult periods in recent years. The Group's core department store operations delivered revenues of HK$310.8 million (2018: HK$353.6 million) or a drop of 12% as compared to last year. Gross profit of the department store operations decreased significantly resulting in segment losses of HK$104.0 million (2018: HK$85.6 million) representing an increase of 21.4% as compared to the previous year. Both China-US trade war and unseasonably warm winter significantly affected all six department stores, which resulted in sales decline which ranged from 9% to 17%. Impairment loss on the Group's property, plant and equipment for the retail operation of HK$9.5 million (2018: HK$5.4 million) was made due to the sustained operating losses in department store operations.

CHAIRMAN & CEO'S REVIEW OF OPERATIONS

BUSINESS REVIEW *(continued)*

DEPARTMENT STORE OPERATION *(continued)*

The China-US trade war during the financial year triggered stock market plunge in Hong Kong. Hang Seng Index declined by 22% from 31,592 in mid of May 2018 to 24,540 near the end of October 2018. As a result of the poor market environment, sale campaigns like "Spring Summer Seasonal Launch" and "Summer Stocktake Sale", were unsatisfactory. Although the market rebounded in early 2019, consumers' confidence in the Hong Kong economy was affected. Local consumer spending was also reduced by such economic uncertainty, especially to those non-necessities, such as high-end clothing and shoes.

In addition, the unseasonably warm winter in 2018, also significantly affected the revenue generated from department store operations during the year. Hong Kong is on track for its hottest year on record and the winter period in Hong Kong during the financial year was considered as the warmest winter in recent years. Such warm weather changed the customers' consumption patterns leading to a drop in demand for thick and warm keeping clothing, heaters and bedding products. It significantly hurt the sales in our department stores in particular our major sale campaigns "X'mas Sale" and "Pre-CNY Sale".

In order to maintain a healthy inventory level, the continued clearance of previous season's inventory is one of our major goals in recent years. With more aggressive markdowns and adjustment in our product mix, the inventory level was under control which resulted in a small drop in gross profit margin. Such strategy led to a reversal of provision for inventories of HK$9.4 million (2018: HK$6.4 million) during the year under review and a lower inventory level of HK$66.9 million (2018: HK$69.3 million) was maintained by the Group.

Excellent customer service is always one of our core values. In the 4th quarter of 2018 and the 1st quarter of 2019, we were recognised by the Hong Kong Retail Management Association Mystery Shopper Program as the Department Store Service Category Leader.

SECURITIES TRADING OPERATION

The global market was volatile throughout the year. The China-US trade war has intensified since the second quarter of 2018, with the US President imposing sweeping tariffs on China for its alleged unfair trade practices, which led China to respond with similarly sized tariffs. Besides, China is trying to slow its credit scale and growth by deleveraging especially for stated-owned enterprises. This includes implementing the "half tightened policy" by the China Central Bank to adjust the monetary markets and creating funding cost increases whilst still keeping financial liquidity stable. These have weakened China and Hong Kong stock markets. Since the negative impact was strongly felt in the China market, the People's Bank of China relaxed the deposit reserve ratios. Following such release of liquidity in the money market in Mainland China, the Hong Kong and China stock market significantly rebounded during the first quarter in 2019. Having said that, the unfavorable effect for the first ten months during the financial year had already impacted the Group, resulting in a segment loss of HK$13.3 million, as compared with last year's segment profit of HK$4.5 million.

CHAIRMAN & CEO'S REVIEW OF OPERATIONS

PROSPECTS

Looking forward, with the gradual recovery of the overall economic environment in Hong Kong in early 2019, the management is cautiously optimistic about our core department stores performance this year.

Our management has implemented several actions to improve our department stores' performance. The Tsuen Wan Citywalk Store was revamped in August 2018 to provide a brand new image to our customers. Despite a slower than expected development in sales after the renovations completed in the second half of the year ended 28 February 2019, we believe the new change could generate a better customer experience in the longer term. At the same time, we expect we will benefit from the increase in foot traffic after nearby new outlet shops in Tsuen Wan Citywalk 2 open. In order to efficiently utilise resources, the under-performing Sincere CWB Store will be closed in early July 2019 when the lease expires. In addition, to improve our stores' foot traffic and widen our product categories, we have introduced new consignment stores to sell popular snacks in Tsuen Wan Citywalk Store, Shamshuipo Dragon Centre Store and Sincere MK Store. To improve our merchandise, our women's merchandising team added stylish Spanish apparels and shoes to complement our Italian and German collection. We believe the encouraging results from several product groups, such as outdoor and handbags, will continue and generate new revenue to the Group in coming year.

On securities trading, the global financial market is still volatile as a result of various uncertainties, including US interest rate upcycle, and the US-China trade war; as such we will remain conservative on our investment strategy, aiming to provide a better investment return in the coming year.

APPRECIATION

On behalf of the Board, I wish to take this opportunity to extend my appreciation to our shareholders, customers, business partners and suppliers for their continued support, and for their confidence in the Group. I would also like to express our sincere thanks to the management and the staff for their commitment and contribution to the Group throughout the year.

Philip K H Ma
Chairman & CEO

27 May 2019

CORPORATE GOVERNANCE REPORT

The Board of the Company has committed to maintaining good corporate governance standards.

The Company's corporate governance practices are based on the principles as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

During the financial year ended 28 February 2019, the Company has complied with the Code Provisions set out in the CG Code, save and except for code provision A.2.1, A.4.1 and A.6.7 which deviations are explained in the relevant paragraphs of this corporate governance report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Specific enquiry has been made to all the directors of the Company (the "Directors") and the Directors have confirmed that they have complied with the Model Code throughout the year ended 28 February 2019.

BOARD OF DIRECTORS

The Board currently comprises six members, consisting of an Executive Director, a Non-Executive Director and four Independent Non-Executive Directors. The biographical information of the Directors are set out in the section headed "Biographies of Directors and Senior Executives" on pages 31 to 32 of this annual report for the year ended 28 February 2019.

Mr. Philip K H Ma and Mr. King Wing Ma are cousins. To the best knowledge of the Company, save as disclosed above and the "Directors' and Chief Executive's Interests in Shares" as set out on pages 27 to 29, there is no financial, business and family relationship among members of the Board. All of them are free to exercise their independent judgement.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

The Board held four board meetings and a general meeting in year 2018/19. The following table shows the attendance of Directors at meetings during the year:

Directors	General Meeting attended/held	Board Meetings attended/held
Executive Director		
Mr. Philip K H Ma *(Chairman & CEO)*	1/1	4/4
Non-Executive Director		
Mr. Charles M W Chan	0/1+	4/4
Independent Non-Executive Directors		
Mr. King Wing Ma	1/1	4/4
Mr. Eric K K Lo	1/1	4/4
Mr. Peter Tan	1/1	2/4
Mr. Anders W L Lau	1/1	4/4

\+ Pursuant to code provision A.6.7 of the CG Code that independent non-executive directors and non-executive director should also attend general meetings. Mr. Charles M W Chan, non-executive director of the Company, did not attend relevant general meeting of the Company due to business arrangement.

Apart from regular Board meetings, the Chairman also held meeting with the independent non-executive directors of the Company without the presence of other director during the year.

Chairman and Chief Executive Officer

Code provision A.2.1 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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

Independent Non-Executive Directors

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules for the appointment of at least three independent non-executive directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received, from each of the Independent Non-Executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-Executive Directors are independent.

Non-Executive Directors and Directors' Re-election

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. The non-executive director and independent non-executive directors of the Company were not appointed for a specific term but are subjected to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's Article of Association.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible to ensure the Company achieves its objectives, approve the business strategic plans and review management performance.

All Directors, including non-executive director and independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All Directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The Directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director of the Company to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Every newly appointed director of the Company will receive formal, comprehensive and tailored induction on the first occasion of his appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

During the year ended 28 February 2019, relevant reading materials including regulatory update and seminar handouts have been provided to the Directors for their reference and studying.

A summary of training received by directors according to the records provided by the directors is as follows:

Directors	**Training on corporate governance, regulatory development and other relevant topics**
Executive Director	
Mr. Philip K H Ma	✓
Non-Executive Director	
Mr. Charles M W Chan	✓
Independent Non-Executive Directors	
Mr. King Wing Ma	✓
Mr. Eric K K Lo	✓
Mr. Peter Tan	✓
Mr. Anders W L Lau	✓

BOARD COMMITTEES

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Audit Committee

The Audit Committee consists of Mr. Charles M W Chan, Non-Executive Director of the Company and Mr. Eric K K Lo, Mr. King Wing Ma, Mr. Peter Tan and Mr. Anders W L Lau, Independent Non-Executive Directors of the Company. Mr. Eric K K Lo is the Chairman of the Audit Committee.

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.

In 2018/19, the Audit Committee held two meetings and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, and arrangements for employees to raise concerns about possible improprieties, and the attendance record, on a named basis is set out below:

Audit Committee Members	Meetings attended/held
Mr. King Wing Ma	2/2
Mr. Eric K K Lo	2/2
Mr. Charles M W Chan	2/2
Mr. Peter Tan	2/2
Mr. Anders W L Lau	2/2

The Group's audited financial statements for the year ended 28 February 2019 have been reviewed by the Audit Committee.

The Audit Committee also met the external auditors twice during the year.

Remuneration Committee

The Remuneration Committee consists of Mr. Charles M W Chan, Non-Executive Director of the Company and Mr. Eric K K Lo, Mr. King Wing Ma, Mr. Peter Tan and Mr. Anders W L Lau, Independent Non-Executive Directors of the Company. Mr. Peter Tan is the Chairman of the Remuneration Committee.

The primary functions of the Remuneration Committee include determining the remuneration packages of individual executive director, making recommendation to the Board the remuneration policy and structure for all Directors; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no director of the Company or any of his associates will participate in deciding his own remuneration.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Remuneration Committee *(continued)*

In 2018/19, the Remuneration Committee held one meeting to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the Executive Directors and other related matters, and the attendance record, on a named basis is set out below:

Remuneration Committee Members	Meeting attended/held
Mr. Charles M W Chan	1/1
Mr. Eric K K Lo	1/1
Mr. King Wing Ma	1/1
Mr. Peter Tan	1/1
Mr. Anders W L Lau	1/1

Pursuant to code provision B.1.5 of the CG Code, details of the annual remuneration of the member of the senior management by brand for the year ended 28 February 2019 is as follows:

	Number of employee(s)
Nil – HK$1,500,000	3
HK$1,500,001 – HK$2,000,000	–
HK$2,000,001 – HK$2,500,000	–
HK$2,500,001 – HK$3,000,000	1

Details of the remuneration of each Director of the Company for the year ended 28 February 2019 are set out in note 25 to the financial statements.

Nomination Committee

The Nomination Committee consists of Mr. Charles M W Chan, Non-Executive Director of the Company and Mr. Eric K K Lo, Mr. King Wing Ma, Mr. Peter Tan and Mr. Anders W L Lau, Independent Non-Executive Directors of the Company. Mr. King Wing Ma is the Chairman of the Nomination Committee.

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of independent non-executive directors.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Nomination Committee *(continued)*

In 2018/19, the Nomination Committee held one meeting to review the structure, size and composition of the Board and the independence of the independent non-executive directors, and to consider the qualifications of the retiring directors standing for election at the Annual General Meeting, and the attendance record, on a named basis is set out below:

Nomination Committee Members	Meeting attended/held
Mr. King Wing Ma	1/1
Mr. Eric K K Lo	1/1
Mr. Charles M W Chan	1/1
Mr. Peter Tan	1/1
Mr. Anders W L Lau	1/1

Board Diversity Policy

The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. In this connection, the Company has adopted a board diversity policy which sets out the approach to achieve diversity on the Board (the "Board Diversity Policy").

In designing the Board Diversity Policy, the Company has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and the Company's compliance with the CG Code and disclosure in this corporate governance report.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditor of the Company about their reporting responsibilities on the financial statements is set out in the independent auditor's report of this annual report on pages 43 to 47.

AUDITOR'S REMUNERATION

During the year, the fees payable to Ernst & Young, the Company's external auditor, for audit services totalled to HK$3,018,000 (2018: HK$3,308,000). Ernst & Young has also provided the Group with non-audit service, including the provision of tax services and agreed-upon procedures, at fees to HK$633,000 (2018: HK$1,008,000).

DIVIDEND POLICY

The Board has the discretion to declare and distribute dividends to the shareholders of the Company, subject to the articles of association of the Company and all applicable laws and regulations. In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and future growth as well as its shareholder value. The Company has no fixed dividend pay-out ratio. The Board considers that, in general, the amount of dividends to be declared will depend on the Group's financial results, cash position, capital requirements, business conditions and strategies, and other factors as may be considered relevant at such time by the Board.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is its duty to monitor the risk management and internal control systems of the Group on an ongoing basis and review their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year, the Board conducted an annual review of both design and implementation effectiveness of the risk management and internal control systems of the Group, including financial, operational and compliance controls, with a view to ensuring that resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions are adequate. In this respect, the audit committee communicates any material issues to the Board.

RISK MANAGEMENT AND INTERNAL CONTROLS *(continued)*

During the year, the Group appointed Corporate Governance Professionals Limited, an operating entity of Baker Tilly Hong Kong Limited ("CGP") to:

- assist in identifying and assessing the risks of the Group through a series of interviews; and
- independently perform internal control review and assess effectiveness of the Group's risk management and internal control systems.

Based on the findings and recommendations of CGP as well as the comments of the audit committee, the Board considered the internal control and risk management systems effective and adequate.

Through the risk identification and assessment processes, risks are identified, assessed, prioritized and allocated treatments. Our risk management framework follows the COSO Enterprise Risk Management – Integrated Framework, which allows the Board and management to manage the risks of the Group effectively.

The Group maintains a risk register to keep track of all identified major risks of the Group. The risk register provides the Board, the audit committee, and management with a profile of its major risks and records management's action taken to mitigate the relevant risks. Each risk is evaluated at least annually based on its likelihood of occurrence and potential impact upon the Group.

The Company will continue to engage external independent professionals to review the Group's system of internal controls and risk management annually and further enhance the Group's internal control and risk management systems as appropriate.

There is currently no internal audit function within the Group. The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit function for the Group in order to meet its needs. Nevertheless, the Directors will continue to review at least annually the need for an internal audit function.

SHAREHOLDERS' RIGHTS

To safeguard shareholders interests and rights, a separate resolution is proposed for each substantially separate issue at shareholders meetings, including the election of individual directors. All resolutions put forward at shareholders meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each shareholders meeting.

Convening a General Meeting by Shareholders

General meetings may be convened by the Board on requisition of shareholder(s) holding not less than one-twentieth of the paid-up capital of the Company or by such shareholder(s) who made the requisition (the "Requisitionist(s)") (as the case may be) pursuant to Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "Companies Ordinance"). The objects of the meeting must be stated in the requisition which must be signed by the Requisitionist(s) and deposited at the registered office of the Company. Shareholders should follow the requirements and procedures as set out in Companies Ordinance for convening a general meeting.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(continued)*

Putting Forward Proposals at General Meetings

Pursuant to the Companies Ordinance, shareholders representing not less than one-fortieth of the total voting rights of all shareholders; or not less than 50 shareholders holding shares in the Company may make requisition in writing for proposing resolution or business to be dealt with at the next general meeting.

Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for putting forward a proposal at a general meeting.

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company.

Note: The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following address:

24th Floor, Leighton Centre, 77 Leighton Road, Hong Kong
(For the attention of the Company Secretary)

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

INVESTOR RELATIONS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The chairman of the Board, all other members of the Board including non-executive and independent non-executive directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the annual general meetings to meet shareholders and answer their enquiries.

During the year under review, the Company has not made any change to its Articles of Association. An up to date version of the Company's Articles of Association is available on the Company's website and the Stock Exchange's website.

REPORT OF THE DIRECTORS

The Directors of the Company (the "Directors") present their annual report and the audited financial statements of the Company and its subsidiaries (together, the "Group") for the financial year ended 28 February 2019.

PRINCIPAL ACTIVITIES

The principal activities of the Group have not changed during the financial year and mainly consisted of the operation of department stores, securities trading and the provision of general and life insurances.

BUSINESS REVIEW

A review of the business of the Group during the year, including a discussion of the principal risks and uncertainties facing the group and an indication of likely future developments in the Group's business, is provided in the "Chairman & CEO's Review of Operation" set out on pages 7 to 10 of this annual report. This discussion forms part of this Report of the Directors.

The financial risk management objectives and policies of the Group are summarised in note 32 to the financial statements.

The key financial and business performance indicators comprise of revenue, finance costs, the loss attributable to equity holders and debt to equity ratio. Details of the key performance indicators are provided in the "Chairman & CEO's Review of Operations" set out on pages 7 to 10 of this annual report.

A discussion of the Group's environmental policies and community involvement is contained in the "Environmental, Social and Governance Report" on pages 33 to 42 of this annual report.

Details of the Group's compliance with laws and regulations and relationships with key stakeholders are discussed below:

Compliance with Laws and Regulations

The Group continues to update its compliance and risk management policies and procedures, and senior management is delegated with continuing responsibility to monitor compliance with all significant legal and regulatory requirements. To the best knowledge of the Board and management, save as disclosed in note 35 to the financial statement, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group.

REPORT OF THE DIRECTORS

BUSINESS REVIEW *(continued)*

Relationships with key stakeholders

The Group's success also depends on the support from key stakeholders which comprise employees, customers and suppliers.

Employees

Employees are regarded as the most important and valuable assets of the Group. The objective of the Group's human resource management is to reward and recognise well-performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives, and to promote career development and progression by appropriate training and providing opportunities within the Group for career advancement.

Customers

The Group maintains a good relationship with its customers. It is the Group's mission to provide excellent customer services whilst maintaining long term profitability, business and asset growth. Various means have been established to strengthen the communications between the customers and the Group in the provision of excellent customer services. A customer complaint handling mechanism is in place to receive, analyse and study complaints and make recommendations on remedies with the aim of improving service quality.

Suppliers

Sound relationships with key suppliers of the Group are important in supply chain, meeting business challenges and regulatory requirements, which can derive cost effectiveness and foster long term business benefits. We have developed long-standing relationships with a number of our suppliers and take great care of them to ensure that they share our commitment to quality and ethics.

RESULTS

The Group's loss for the financial year ended 28 February 2019 and the Group's financial position as at that date are set out in the audited financial statements on pages 48 to 151.

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on page 152 of the annual report.

CLOSURE OF REGISTER OF MEMBERS

For determining the entitlement to attend and vote at the Annual General Meeting of the Company ("AGM") to be held on Friday, 2 August 2019, the register of members of the Company will be closed from Monday, 29 July 2019 to Friday, 2 August 2019, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company's registrar Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong (Tricor Tengis Limited will relocate to Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong with effect from 11 July 2019) no later than 4:30 p.m. on Friday, 26 July 2019.

REPORT OF THE DIRECTORS

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 22 and 23 to the financial statements, respectively.

SIGNIFICANT INVESTMENTS HELD AND PERFORMANCE

As at 28 February 2019, the Group has held for trading investments with fair value of HK$112 million (2018: HK$153 million). During the year, the Group recorded realised losses of HK$3 million (2018: loss of HK$1 million) and unrealised loss on fair value of HK$9 million (2018: gain of HK$4 million). Information in relation to the 10 largest investments as at 28 February 2019 is set out as follows:

	Name	Nature of investment	Principal businesses	No. of shares/units/ amount of bonds held	Cost of acquisition HK$'000	Dividends received for the year HK$'000	Realised gain/(loss) for the year HK$'000	Unrealised gain /(loss) on fair value change for the year HK$'000	Fair value as at 28 February 2019 HK$'000	% of total assets
1.	HSBC Holdings plc (Stock Code: 0005)	Equity	Banks	208,000	20,297	828	–	(2,881)	13,343	3.34%
2.	1992 Multi-Strategy Fund Corporation CL I *(Formerly known as: Highbridge Capital Corporation CLI LIQ)*	Fund	Equity and fixed income	161	7,270	–	–	29	12,774	3.20%
3.	Fullerton Short Term Interest Rate Fund – D	Fund	Fixed income securities and money market instrument	1,468,946	11,729	–	–	351	12,152	3.04%
4.	China Mobile Ltd (Stock Code: 0941)	Equity	Telecommunication services	110,000	5,737	336	–	1,012	9,086	2.28%
5.	Hang Seng Bank Ltd (Stock Code: 0011)	Equity	Banks	45,000	4,489	313	–	–	8,753	2.19%
6.	C432 PA Offshore Feeder Fund L.P.CLS A USD	Fund	Real estate	914,005	8,554	–	–	240	6,958	1.74%

REPORT OF THE DIRECTORS

SIGNIFICANT INVESTMENTS HELD AND PERFORMANCE *(continued)*

	Name	Nature of investment	Principal businesses	No. of shares/units/ amount of bonds held	Cost of acquisition HK$'000	Dividends received for the year HK$'000	Realised gain/(loss) for the year HK$'000	Unrealised gain /(loss) on fair value change for the year HK$'000	Fair value as at 28 February 2019 HK$'000	% of total assets
7.	CK Hutchison Holdings Ltd (Stock Code: 0001)	Equity	Conglomerates	56,120	5,048	164	–	(811)	4,689	1.17%
8.	JP Morgan Funds JPM Europe Equity Plus EUR FD Per Acc -A-	Fund	Equity	26,139	3,716	–	–	(372)	3,832	0.96%
9.	CK Asset Holdings Ltd (Stock Code: 1113)	Equity	Property development	56,120	–*	98	–	(143)	3,656	0.92%
10.	Nordea 1 – Stable Return Fund HM	Fund	Equity and bond	22,586	3,151	88	–	(23)	2,976	0.75%
					69,991	1,827				

* In 2015, shareholders of CK Hutchison Holdings Limited would receive one share of CK Asset Holdings Limited for every one share of CK Hutchison Holdings Limited held by them under the spin-off proposal.

During the financial year, the Group received approximately HK$7 million (2018: HK$11 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. The Group holds these investments for trading. The Group would review and refine its investment portfolio regularly based on market conditions and its capital needs.

DIVIDEND

The Board does not recommend the payment of any dividend in respect of the financial year ended 28 February 2019.

MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 28 February 2019, the Group's sales to the five largest customers and purchases from the five largest suppliers accounted for less than 30% of the Group's turnover and purchases, respectively.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, every director shall be entitled to be indemnified out of the asset of the Company against all costs, charges, losses, expenses and liabilities (subject to and so far as may be permitted by the Hong Kong Companies Ordinance (Cap. 622)) which he may sustain or incur in or about the execution and discharge of his duties or in relation thereto. The Company has arranged appropriate directors' and officers' liability coverage for the directors and officers of the Group.

REPORT OF THE DIRECTORS

DIRECTORS

The directors who served during the financial year and up to the date of the report were as follows:

Executive Director:

Mr. Philip K H MA *(Chairman & CEO)*

Non-Executive Director:

Mr. Charles M W CHAN

Independent Non-Executive Directors:

Mr. King Wing MA
Mr. Eric K K LO
Mr. Peter TAN
Mr. Anders W L LAU *(appointed on 1 March 2018)*

In accordance with articles 85 and 93 of the Company's Articles of Association, Mr. Philip K H Ma and Mr. Charles M W Chan will retire and being eligible, will offer themselves for re-election at the forthcoming AGM.

The Company has received, from each of the Independent Non-Executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). The Company considers that all of the Independent Non-Executive Directors are independent.

A letter of appointment setting out the terms and conditions of appointment is provided to each Director. None of the Directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

Details of the "Biographies Of The Directors And Senior Executives" are set out on pages 31 to 32 of this annual report.

DIRECTORS OF SUBSIDIARIES

During the year and up to the date of this annual report, Mr. Philip K H Ma held directorship in some of the Company's subsidiaries. Other directors of the Company's subsidiaries include Mr. Ma Kin Kai John, Mr. Ma King Cheuk, Mr. Ma Francis, Mr. Yuen Chu Kau, Mr. Ma King Wong Steve, Mr. Ma Wai Tak Victor and Ms. Ada S P Cheung.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

At 28 February 2019, the interests of every person (not being a Director or Chief Executive of the Company) in the shares and underlying shares of the Company as recorded in the register of interests to be kept by the Company pursuant to Section 336 of Securities and Futures Ordinance (the "SFO") were as follow:

Long position in the shares and share options of the Company

Name	Capacity	Nature of interest	Number of shares and share options	Approximate % of shares in issue
The Sincere Life Assurance Company Limited	Beneficial owner/ Interests of controlled corporations	Corporate	258,744,096 *(Notes 1, 4)*	28.16
The Sincere Insurance & Investment Company, Limited	Beneficial owner	Corporate	75,608,064 *(Notes 2, 3, 4)*	8.23
The Company	Interests of controlled corporations	Corporate	260,443,200 *(Notes 3,4)*	28.34
Win Dynamic Limited	Beneficial owner/Interests of controlled corporations/ Party to S.317 Agreement*	Corporate	253,300,225 *(Note 5)*	27.57
Mr. Yuan Lie Ming Peter	Beneficial owner	Personal	58,163,000	6.33

* "S.317 Agreement" is an agreement falling within S.317 of the SFO

Notes:

(1) The Sincere Life Assurance Company Limited beneficially owned 183,136,032 shares of the Company, representing approximately 19.93% of the issued shares of the Company and had a deemed interest of 75,608,064 shares of the Company, representing approximately 8.23% of the issued shares of the Company by virtue of its interests of 36.01% in the issued shares of The Sincere Insurance & Investment Company, Limited.

(2) The Sincere Insurance & Investment Company, Limited beneficially owned 75,608,064 shares of the Company, representing approximately 8.23% of the issued shares of the Company.

(3) The Company was deemed to be interested in 260,443,200 shares of the Company, representing 28.34% of the issued shares of the Company, by virtue of its 56.96% interests in The Sincere Life Assurance Company Limited, 57.98% interest in The Sincere Insurance & Investment Company, Limited and 62.37% interest in The Sincere Company (Perfumery Manufacturers), Limited.

(4) There is duplication of interests between the Company, The Sincere Life Assurance Company Limited (see Note(1)) and The Sincere Insurance & Investment Company, Limited (see Note (2)).

(5) Win Dynamic Limited ("Win Dynamic") beneficially owned 243,282,367 shares of the Company, representing approximately 26.48% of the issued shares of the Company and a deemed interest by reason of being party to a S.317 Agreement in a further 10,017,858 shares of the Company, representing approximately 1.09% of the issued shares of the Company.

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

At 28 February 2019, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures and the details of any right to subscribe for shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) and of the exercise of any such rights, 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 in the Listing Rules, were as follows:

(a) Long position in shares of the Company

Name of Director	Capacity	Personal interests	Corporate interests	S.317 Agreement interests	Other interests	Total interests	Approximate % of shares in issue
Mr. Philip K H Ma	Beneficial owner/ Interest of controlled corporation/Party to S.317 Agreement	3,200,000	243,282,367 *(Notes 1, 3)*	677,987 *(Notes 1, 3)*	6,139,871 *(Note 4)*	253,300,225	27.57
Mr. King Wing Ma	Beneficial owner	1,240,928	Nil	Nil	613,987 *(Note 4)*	1,854,915	0.20
Mr. Eric K K Lo	Beneficial owner	2,200,400	Nil	Nil	613,987 *(Note 4)*	2,814,387	0.31
Mr. Charles M W Chan	Beneficial owner/ Party to S.317 Agreement	64,000	Nil	252,622,238 *(Notes 2, 3)*	613,987 *(Note 4)*	253,300,225	27.57
Mr. Peter Tan	Beneficial Owner	40,000	Nil	Nil	613,987 *(Note 4)*	653,987	0.07

REPORT OF THE DIRECTORS

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

(a) Long position in shares of the Company *(continued)*

Notes:

(1) Win Dynamic beneficially owned 243,282,367 shares of the Company representing 26.48% of the issued shares of the Company. Mr. Charles M W Chan beneficially owned 677,987 shares representing 0.07% of the issued shares of the Company. Mr. Philip K H Ma was deemed to be interested in the same 243,282,367 shares and 677,987 shares of the Company by virtue his personal interests of 75% in the issued share capital of Win Dynamic and by reason being party to a S.317 Agreement.

(2) Win Dynamic beneficially owned 243,282,367 shares of the Company. Mr. Philip K H Ma beneficially owned 9,339,871 shares of the Company. Mr. Charles M W Chan was deemed to be interested in the same 243,282,367 shares and 9,339,871 shares of the Company by reason being party to a S.317 Agreement. Mr. Charles M W Chan is also the beneficial and legal owner of 25% of the issued shares in Win Dynamic.

(3) Mr. Philip K H Ma was deemed interested in the 253,300,225 shares of the Company in which Win Dynamic is interested by virtue of his personal interest in 75% of the issued share capital of Win Dynamic which is his controlled corporation and by reason of being party to the same S.317 Agreement as Win Dynamic. Mr. Charles M W Chan was also deemed interested in the same 253,300,225 shares of the Company by reason of being party to that S.317 Agreement. There is thus duplication of the interests of Mr. Philip K H Ma, Win Dynamic and Mr. Charles M W Chan.

(4) Share options were granted by the Company to each of Mr. Philip K H Ma, Mr. King Wing Ma, Mr. Eric K K Lo, Mr. Charles M W Chan and Mr. Peter Tan, the particulars of which are set out below:

Name	Date of grant	No. of share options as at 28 February 2019	Option period	Exercise price of share options HK$ per share
Mr. Philip K H Ma	29/02/2016	6,139,871	29/02/2016-28/02/2021	0.332
Mr. King Wing Ma	29/02/2016	613,987	29/02/2016-28/02/2021	0.332
Mr. Eric K K Lo	29/02/2016	613,987	29/02/2016-28/02/2021	0.332
Mr. Charles M W Chan	29/02/2016	613,987	29/02/2016-28/02/2021	0.332
Mr. Peter Tan	29/02/2016	613,987	29/02/2016-28/02/2021	0.332

REPORT OF THE DIRECTORS

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

(b) Associated corporations

At 28 February 2019, 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 28 February 2019, 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 28 February 2019, 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 28 February 2019, 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 28 February 2019, 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 are 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.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

None of the Directors and their respective connected entities had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the financial year.

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 financial year.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year, no Director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules, other than those businesses to which the Directors were appointed as Directors to represent the interest of the Company and/or the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company's shares which are in the hands of the public exceeded 25% of the Company's total number of shares in issue as at the date of this report.

DONATIONS

The Group has made donations of approximately HK$251,000 during the financial year.

AUDIT COMMITTEE

The Audit Committee of the Company comprises five members, namely Mr. Eric K K Lo, Mr. King Wing Ma, Mr. Peter Tan and Mr. Anders W L Lau, Independent Non-Executive Directors of the Company and Mr. Charles M W Chan, Non-Executive Director of the Company. Regular meetings have been held by the Audit Committee since its establishment and the Audit Committee met two times in the year under review. The primary duties of the Audit Committee are to review the Group's internal control and financial reporting process, including interim and annual financial statements before recommending them to the Board of Directors for approval. The Group's audited results for the year ended 28 February 2019 have been reviewed by the Audit Committee.

AUDITOR

Ernst & Young retire and a resolution for the reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Philip K H MA
Chairman & CEO

Hong Kong, 27 May 2019

BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

EXECUTIVE DIRECTOR

Philip K H MA, aged 63, is the Chairman & Chief Executive Officer of the Company. He joined the Company in 1990, became an Executive Director in 1992, then became the President of the Company in 1993, was re-titled as Group Managing Director in 1996, re-designated as Deputy Chairman & Chief Executive Officer of the Company in 2012 and appointed as Chairman & Chief Executive Officer of the Company in 2014. He holds an MBA degree. He is currently in charge of all aspects of the Group's operations. He is a cousin of Mr. King Wing Ma, who is also a Director of the Company. He also holds directorships in The Sincere Life Assurance Company Limited ("Sincere LA"), The Sincere Insurance & Investment Company, Limited ("Sincere II"), The Sincere Company (Perfumery Manufacturers), Limited, Win Dynamic Limited ("Win Dynamic") and various other subsidiaries of the Company. He is also a shareholder of Sincere LA and Win Dynamic, being the substantial shareholders of the Company. Save as disclosed above, he does not have any relationship with any other Directors and senior management of the Company.

NON-EXECUTIVE DIRECTOR

Charles M W CHAN, aged 63, became an Independent Non-Executive Director of the Company in November 1995 and was re-designated as a Non-Executive Director of the Company since 18 September 2017. He is also a member of each of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. He is an Executive Director of Victoria Park Hotels Limited. He is also a director and shareholder of Win Dynamic, being the substantial shareholder of the Company. He is a member of the American Institute of Certified Public Accountants. He does not have any relationship with any Directors and senior management of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

King Wing MA, aged 87, has been an Independent Non-Executive Director of the Company since 1980. He is also the Chairman of the Nomination Committee and a member of each of the Audit Committee and Remuneration Committee of the Company. He is a registered doctor with over 40 years' experience in England, the United States of America ("USA") and Hong Kong. He is the cousin of Mr. Philip K H Ma who is also a Director of the Company. Save as disclosed above, he does not have any relationship with any other Directors and senior management of the Company.

Eric K K LO, aged 70, has been an Independent Non-Executive Director of the Company since December 1993. He is also the Chairman of the Audit Committee and a member of each of the Remuneration Committee and Nomination Committee of the Company. He is an Independent Non-Executive Director of Joyce Boutique Holdings Limited (stock code: 647) which is a company listed on the main board of the Stock Exchange. He does not have any relationship with any Directors and senior management of the Company.

Peter TAN, aged 63, has been an Independent Non-Executive Director of the Company since 2012. He is also the Chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee of the Company. He was the co-founder and chief executive officer of TLC Capital Management Pte Ltd. Born in Singapore in 1955, he completed his pre-tertiary education in Singapore before leaving for the USA to pursue both his graduate and post-graduate degrees in the USA. After graduating from Northwestern University's Kellogg School of Management MBA class in 1983, he began his career in the banking sector. In early 2013, he joined Knowledge Universe as chief executive officer. He is also an Independent Non-Executive Director of Tristate Holdings Limited (stock code: 458) which is listed on the main board of the Stock Exchange. He does not have any relationship with any Directors and senior management of the Company.

BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

Anders W L LAU, aged 63, was appointed as an Independent Non-Executive Director of the Company on 1 March 2018. He is also a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company. He is also an Independent Non-Executive Director of Shanghai Dongzheng Automotive Finance Co., Ltd (stock code: 2718) which is a company listed on the main board of the Stock Exchange. He previously worked for an international accounting firm for over 30 years. He is a member of the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. He does not have any relationship with any Directors and senior management of the Company.

SENIOR EXECUTIVES

Kelvin K H LEE, aged 34, joined the Company in February 2019 as the Financial Controller. He has over 10 years of experience working in an international audit services firm and an multi-national corporation. He is a member of the Hong Kong Institute of Certified Public Accountants and Institute of Chartered Accountants in England and Wales.

Ada S P CHEUNG, aged 46, joined the Company in January 2003 and became the company secretary since August 2004. She is a member of the Hong Kong Institute of Certified Public Accountants. She is also a member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company strives continuously to incorporate sustainability initiatives into our daily operations and management. While sharing the vision of becoming the preferred choice of our stakeholders, the Company is committed to improving our Environmental, Social and Governance ("ESG") performance by upholding good corporate governance standards, protecting our environment, engaging the community and promoting social integration.

This report has complied with the "comply or explain" provisions set out in the "Environmental, Social and Governance Reporting Guide" under Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Based on the principle of materiality, this report focuses on the environmental and social impacts of our operations and sales activities. This report identified the following material ESG issues:

ESG Aspects	Material ESG issues
A. Environmental	
A1 Emissions	Air Emissions
	Waste Management and Reduction
A2 Use of Resources	Energy Conservation
A3 The Environmental and Natural Resources	Impacts to Natural Resources
B. Social	
B1 Employment	Employment Practices
	Equal Opportunity
B2 Health and Safety	Workplace Health and Safety
B3 Development and Training	Staff Training
B4 Labour Standards	Prohibition against Child and Forced Labour
B5 Supply Chain Management	Sustainable Supply Chain
B6 Product Responsibility	Data Privacy
B7 Anti-corruption	Anti-corruption
B8 Community Investment	Supporting the Community

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL

The Company is committed to the long term sustainability of the environment and communities in which we operate. To the best knowledge, the Company has not identified any material non-compliance with all relevant laws and regulations regarding environmental issues during the year. During the year, the Company measured and managed its environmental performance in several aspects throughout its operations.

A1. Emissions

i. Air Emissions

Air pollution has become one of the major critical problems in cities. We reckon that every company should take its responsibility to tackle this problem. To mitigate air pollution, we have been taking considerable measures to control our emissions.

To evaluate the air emissions, the Company assessed the fuel consumption based on the distribution network within Hong Kong. The Company owns its fleet used to deliver the goods. Based on the current delivery model, the Company consistently reviews its operation to optimise the efficiency of the logistic network to remain economically competitive and environmentally sustainable, for example, reducing the number of miles driven and hours spent. Optimising the efficiency of the distribution network and continuous communicating with the Company logistics manager lead the Company to stay economically competitive and environmentally sustainable. The Company remains committed to improve the fuel efficiency, optimise transportation network and track emission reduction.

In addition, the Company has implemented the following measures:

– Regular maintenance and cleaning of vehicles
– Green driving practices (e.g. no idling engine)

As a result, the Company emitted 141 g of sulphur oxides (SOx) (2017/18: 198 g), 66,238 g of nitrogen oxides (NOx) (2017/18: 117,661 g), and 6,432 g of particulate matter (PM) (2017/18: 11,050 g) during the year, which mainly came from emissions from its own fleet.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL *(continued)*

A1. Emissions *(continued)*

ii. Waste Management and Reduction

The Company works diligently in reducing our waste produced from operations by sorting of waste, and to re-use materials wherever possible. It recognises the importance of waste reduction and waste separation at source for recycling. The Company has put continuous efforts to implement various waste management initiatives among our operation boundaries.

We advocate the use of electronic means to replace paper for communication. The Company has also promoted the reuse of paper for printing informal documents and returned the used toner cartridges to a third party for recycling regularly.

Furthermore, we have implemented various waste reduction measures as follows:

– Affix reminder at collection point(s) and prominent area(s) in the office to encourage waste recycling
– Affix reminders in printers and photocopiers to remind staff of saving paper
– Apply electronic functions to reduce photocopying and printing publications
– Buy electrical & electronic equipment and batteries only when necessary
– Double-sided printing
– Electrical & electronic products and batteries were well maintained to prolong life span
– Print only when necessary and print in black & white
– Reduce box files consumption by reusing old box files or applying electronic means for filing
– Reduce paper towel consumption by use of hand dryers
– Reduce the frequency of replacing rubbish bags
– Repair broken items to avoid waste disposal as far as possible
– Reuse furniture when moving or renovation
– Reuse materials for decorating festive events (e.g. Christmas and Chinese New Year, etc.)
– Reuse old envelopes
– Reuse single-sided printed paper
– Reuse stationeries, e.g. paper clips, folders, binders, envelopes
– Use refillable containers for cleaning products
– Use re-useable containers, dishes, cups and coffee filters in the pantry wherever possible

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL *(continued)*

A1. Emissions *(continued)*

ii. Waste Management and Reduction *(continued)*

Amounts of waste collected for recycling by weight are shown in following table:

Waste collected for recycling	Unit	2018/19	2017/18
Paper Recycling	kg	**1,417.00**	3,136.00
Toner Recycling	kg	**263.08**	333.39

iii. Greenhouse Gas Emissions

We are committed to managing our environmental footprint responsibly and we leverage our resources and engage our people to make a difference along our operations. To cut down our greenhouse gas emissions, we have implemented energy and saving measures resources (see "A2 Use of Resources – Energy Conservation" below).

A2. Use of Resources

Energy Conservation

The impact of global climate change is a challenge that businesses and organisations around the world must face and address. The Company is committed to minimising the adverse impact that its operations may have on the environment. Using energy efficiently will help us conserve resources and tackle climate change.

Electricity Management

We promote green lighting in the workplace to reduce usage of electricity. This involves installing energy-saving lights and using energy-saving light bulbs in our office and stores facilities. We also encourage our employees to switch off the lights in the areas of the workplace that are not being used.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL *(continued)*

A2. Use of Resources *(continued)*

Energy Conservation *(continued)*

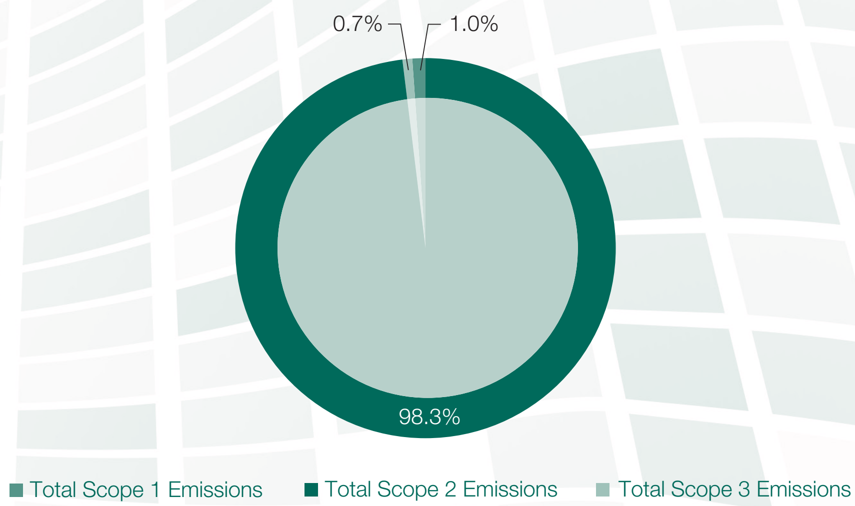
Electricity Management (continued)

Energy consumption accounts for a major part of our greenhouse gas (GHG) emissions. To reduce our carbon footprint, we have implemented the following measures:

- Affix reminder to remind staff of switching the office equipment into standby mode in the office after use (e.g. photocopiers, printer, etc.) for office equipment
- Follow the maintenance schedules of appliances as recommended in the instruction manual of the related appliance
- Power off electronic and electrical appliances after office hours
- Regular maintenance and cleaning of equipment
- Switch-off unnecessary wireless connection
- Unwanted materials & thick ice were regularly cleared & defrosted from refrigerator

During the year, we consumed 3,277,107 kWh (2017/18: 3,436,170 kWh) of electricity. The following table shows our GHG emissions and energy consumption in this year.

Greenhouse Gas Emissions



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL *(continued)*

A2. Use of Resources *(continued)*

Energy Conservation *(continued)*

Electricity Management (continued)

GHG Emissions	Unit	2018/19	2017/18
Total Scope 1 Emissions	tCO2e	**24.35**	33.98
Total Scope 2 Emissions	tCO2e	**2,293.97**	2,405.32
Total Scope 3 Emissions	tCO2e	**16.50**	24.54
Total GHG Emissions	tCO2e	**2,334.82**	2,463.83
Total GHG Emissions/Employee	tCO2e/employee	**7.12**	8.13
Total GHG Emissions/Floor Area	tCO2e/square metre	**0.11**	0.12

Energy Consumption	Unit	2018/19	2017/18
Diesel Consumption	L	**4,882.39**	8,008.70
Petrol Consumption	L	**4,227.54**	4,710.15
Electricity Consumption	kWh	**3,227,107.00**	3,436,170.00
Electricity Consumption/Employee	kWh/employee	**9,991.18**	11,340.50
Electricity Consumption/Floor Area	kWh/square metre	**153.38**	160.08

A3. The Environmental and Natural Resources

While benefiting from the natural environment and resources, we should bear the responsibilities and fulfil the obligations of protecting them and making appropriate use. The Company has taken considerable efforts to minimise the impact generated from our business operations to our natural environment.

We have implemented following measures, including:

– Choose proper sized packages and avoid using fillers in packaging
– Minimise the use of tape and strapping when sealing packages

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL *(continued)*

A3. The Environmental and Natural Resources *(continued)*

Reducing the packaging material bring both the environmental and economic benefit. The Company is dedicated to optimise the design of the packaging such that it can deliver against key performance criteria while using the least amount of packaging material. We measure different types of material used to gauge our environmental performance. The following tables show the figures of material consumption in our business operations:

Material Consumption	Unit	2018/19	2017/18
Paper Consumption	kg	**3,437.50**	5,112.50
Toner Consumption	kg	**263.08**	333.39
Carton Box Consumption	kg	**101**	209

B. SOCIAL

The Company realises the importance of compliance with regulatory requirements and risk of non-compliance with the laws and regulations regarding social issues. We have not identified any material non-compliance with the relevant laws and regulations that have a significant impact on the business and operation of the Company during the year.

B1. Employment and Labour practices

Employment

As key enablers in achieving its economic, environmental and social objectives, our staff is among our most valuable assets. In the Company, we believe that creating a workplace that offers a strong sense of belonging may inspire our employees to champion our core values. We strive to create an environment where every employee can develop to their full potential and work happily.

Employment Practices and Equal Opportunity

The Company recognised that employees are key contributors towards our success, we aim to create a harmonious working environment for our employees through competitive remuneration packages that are structured to be commensurate with individual responsibilities, qualification, experience and performance. We believe in equal opportunities and diversity in terms of age, sex, nationality, disability and religion. Employees are encouraged report on discriminatory practices to the management.

We have not identified any material non-compliance to employment laws and regulations during the year.

The Group employs 328 staff in total as of February 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(continued)*

B1. Employment and Labour practices *(continued)*

Employment *(continued)*

Employment Practices and Equal Opportunity (continued)

Workforce statistic by gender, employment type, age group and geographical region:

		2018/19	2017/18
(a)	Hong Kong and Mainland China		
	Breakdown by gender	**328**	303
	Employees – Female	**232**	214
	Employees – Male	**96**	89
	Breakdown by age group		
	Employees Age < 30	**59**	43
	Employees Age 30 – 50	**145**	152
	Employees Age > 50	**124**	108
	Breakdown by employment type		
	Employees – Part-time	**67**	58
	Employees – Full-time	**261**	245

B2. Health and Safety

The Company values the safety and well-being of staff. Our employees are provided with occupational safety education and training to enhance their safety awareness.

We have not identified any material non-compliance case of health and safety laws and regulations during the year.

B3. Development and Training

To enable our talents to develop themselves to their fullest potential and to provide them with the essential skill sets to deliver the best, a comprehensive development plan has been established.

The Company encourages personal development of staff. We provide structured training programmes in the form of workshops, seminars and on-the-job coaching for our staff with regard to their positions, job responsibilities and experience, and provide subsidy support appropriate external professional training. During the financial year, the total staff training hours were 349.5 (2017/18: 1,769).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(continued)*

B4. Labour Standards

The Company prohibits the use of child labour and forced or compulsory labour at all its units and suppliers. No employee is made to work against his/her will or work as forced labour, or subject to corporal punishment or coercion of any type related to work.

B5. Supply Chain Management

We are aware of the social and environmental risks of our supply chain. To foster long term business benefits, we maintain sound relationships with our key suppliers to meet business challenges and regulatory requirements. With long-standing relationships with a number of suppliers, we also share our commitment to quality and business ethics to them.

B6. Product Responsibility

As a responsible company, we are fully aware of the importance to comply with relevant laws and regulations concerning the provision and use of our products and services, relating to health and safety, advertising, labelling and privacy matters.

The Company values the confidentiality of personal and sensitive commercial data. In addition to compliance with the Personal Data (Privacy) Ordinance, we require in our terms of employment strict adherence to the Company's data privacy and confidentiality policies.

The Company takes appropriate action to protect intellectual property rights, which gives the business competitive edge. A specific department is responsible for the registration of the Company's self-created trademarks and patents.

We have not identified any material non-compliance of product and service quality laws and regulations during the year.

B7. Anti-corruption

The Company is committed to adhering to the highest ethical standards and maintaining a corporate culture of integrity and justice for preventing, detecting and reporting all types of fraud, including corruption.

To demonstrate our commitment to the highest standards of openness, accountability and probity, the Company has established a written whistle-blowing policy and reporting procedures under which any suspected misconduct or malpractice can be directly reported to our independent directors.

No material non-compliance case was noted in relation to business fraud laws and regulations during the year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(continued)*

B8. Community Investment

We pursue sustainable development of our community by assessing and managing the social impact of our operations on the marketplace and by supporting initiatives that create effective and lasting benefits to communities in our operating boundaries.

Supporting the Community

To contribute towards the promotion of harmony and stability of the society, we communicate with non-government entities and charities to understand the needs of our community, participate in community events and make donations to causes that help those who are in need.

During the year, we have 25 staff and each of them committed 2.5 hours for our voluntary activities.

On 17 January 2019, 25 staff and a volunteer joined a charity visit at The Mongkok Kai-Fong Association Ltd., Chan Hing Social Service Centre as social caring in leisure time.

The Company has also participated in different types of community events including Skip Lunch Day and The Community Chest Green Day to show our care to our society.

The following table shows the details breakdown of focus areas contributed.

Number of Community Initiatives	
No. of Volunteering Activities	1
Number of community initiatives in different areas	
Focus Area – Culture	2

In addition, we have a total donations of approximately HK$251,000 (2017/18: HK$228,000) to the following beneficiaries, such as The Catholic Women's League, The Better Hong Kong Company Ltd, HK & Macau Member of SCPPCC, Chi Heng Foundation, Heifer Race, The Community Chest of Hong Kong and Chan Hing Social Service Centre.

In the future, we will engage in more meaningful charity campaigns to support a wide range of charitable activities covering social welfare services and assistance to the needy in Hong Kong.

INDEPENDENT AUDITOR'S REPORT

To the members of
The Sincere Company, Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of The Sincere Company, Limited (the "Company") and its subsidiaries (the "Group") set out on pages 48 to 151, which comprise the consolidated statement of financial position as at 28 February 2019, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 28 February 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Inventory provision	
As at 28 February 2019, the Group had net inventory balances of HK$66,896,000. The estimation of inventory provision required management's significant judgement and estimates, which included the marketability and estimated selling prices, based on the nature and condition of the inventories, the historical and current ageing pattern of the inventories and the sales strategy of the Group. The significant accounting judgements and estimates and disclosures of inventory provision are included in notes 3 and 7 to the financial statements.	Our procedures included the testing of the ageing analysis of the Group's inventories. We recalculated the inventory provision based on the Group's policy and assessed the assumptions used in the inventory provision calculation by reviewing the basis, the rationale and the consistency of the inventory provision policy, and considering the historical and current inventory ageing information, reviewing the latest selling prices of the inventories and taking into account the prevailing market conditions.
Estimation of impairment of property, plant and equipment	
As at 28 February 2019, the net book value of the Group's property, plant and equipment ("PPE") amounted to HK$27,261,000. For land and buildings, management conducted impairment review by comparing the net carrying amount with the fair value as determined based on the valuation performed by an independent professional external valuer. For other PPE, management conducted impairment review of certain cash-generating units ("CGUs") of the Group where there were indicators of impairment by considering the recoverable amounts of the relevant CGUs. Management identified individual store as a CGU for the purpose of impairment assessment based on value-in-use calculation. The amount of any impairment loss was measured as the difference between the CGU's carrying amount and its recoverable amount. The impairment assessment involved management's significant estimation and judgement and included management's assumptions used in each CGU's discounted cash flow projections. The significant judgements and estimates and disclosures of impairment of PPE are included in notes 3, 7 and 11 to the financial statements.	In evaluating management's impairment assessment of land and buildings, we assessed the valuation performed by the independent professional external valuer by conducting market research and checking to recently transacted prices of similar properties. With regard to management's impairment assessment of other PPE, we evaluated and tested the assumptions used in the discounted cash flow projections of each CGU by comparing the expected growth rate by making reference to the historical results; comparing the discount rate with relevant industry's weighted average cost of capital; and assessing the methodology adopted by management in its preparation of the discounted cash flows with reference to the requirements of the prevailing accounting standard.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Chan Kam Yee.

Ernst & Young
Certified Public Accountants
22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

27 May 2019

CONSOLIDATED INCOME STATEMENT

Year ended 28 February 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	5	**311,865**	355,865
Cost of sales		**(142,113)**	(153,931)
Other income and gains, net	5	**11,418**	22,368
Net unrealised gain/(loss) on securities trading		**(8,653)**	3,981
Selling and distribution expenses		**(196,236)**	(211,138)
General and administrative expenses		**(93,106)**	(100,848)
Other operating expenses, net		**(13,004)**	(5,207)
Finance costs	6	**(4,898)**	(3,952)
LOSS BEFORE TAX	7	**(134,727)**	(92,862)
Income tax expense	8	**(16)**	(18)
LOSS FOR THE YEAR		**(134,743)**	(92,880)
ATTRIBUTABLE TO:			
Equity holders of the Company		**(132,068)**	(90,497)
Non-controlling interests		**(2,675)**	(2,383)
		(134,743)	(92,880)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	10		
Basic		**HK$(0.20)**	HK$(0.22)
Diluted		**HK$(0.20)**	HK$(0.22)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 28 February 2019

	2019 *HK$'000*	2018 *HK$'000*
LOSS FOR THE YEAR	**(134,743)**	(92,880)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to the income statement in subsequent periods:		
Exchange differences arising on translation of foreign operations	**(425)**	699
Realisation of exchange fluctuation reserve upon deregistration of subsidiaries	**(2,036)**	9,678
Net other comprehensive income/(loss) that may be reclassified to the income statement in subsequent periods	**(2,461)**	10,377
Other comprehensive income/(loss) that will not be reclassified to the income statement in subsequent periods:		
Actuarial gains/(losses) on a defined benefit plan	**(1,519)**	7,882
Changes in fair value of equity investments designated at fair value through other comprehensive income	**(11,002)**	–
Net other comprehensive income/(loss) that will not be reclassified to the income statement in subsequent periods	**(12,521)**	7,882
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(149,725)**	(74,621)
ATTRIBUTABLE TO:		
Equity holders of the Company	**(147,337)**	(71,463)
Non-controlling interests	**(2,388)**	(3,158)
	(149,725)	(74,621)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

28 February 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**27,261**	35,607
Interests in associates	12	**–**	–
Equity investments designated at fair value through other comprehensive income	13	**22,873**	–
Financial instruments	13	**–**	26,326
Deposits and other receivables		**25,654**	30,236
Pension scheme assets	21	**14,670**	17,352
Total non-current assets		**90,458**	109,521
CURRENT ASSETS			
Inventories		**66,896**	69,287
Reinsurance assets	16, 19	**24**	14
Prepayments, deposits and other receivables		**19,164**	15,961
Financial assets at fair value through profit or loss	14	**111,939**	153,406
Pledged bank balances	17(a)	**6,829**	4,447
Pledged deposits with banks	17(a)	**71,561**	70,873
Cash and bank balances	15	**32,318**	36,078
Total current assets		**308,731**	350,066
CURRENT LIABILITIES			
Creditors	18	**52,774**	66,452
Insurance contracts liabilities	19	**1,232**	1,221
Deposits, accrued expenses and other payables		**46,336**	33,951
Contract liabilities		**1,253**	–
Interest-bearing bank borrowings	17(a)	**190,045**	94,324
Other loans	17(b)	**2,100**	1,941
Tax payable		**1**	1
Total current liabilities		**293,741**	197,890
NET CURRENT ASSETS		**14,990**	152,176
TOTAL ASSETS LESS CURRENT LIABILITIES		**105,448**	261,697

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

28 February 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Accrued expenses and other payables		**41,725**	55,819
Other loans	*17(b)*	**1,067**	1,046
Total non-current liabilities		**42,792**	56,865
NET ASSETS		**62,656**	204,832
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*22*	**377,236**	377,236
Reserves	*24*	**(348,692)**	(208,904)
		28,544	168,332
Non-controlling interests		**34,112**	36,500
TOTAL EQUITY		**62,656**	204,832

Philip K H Ma
Director

Charles M W Chan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 28 February 2019

	Attributable to equity holders of the Company								
		Reserves							
	Share capital	Treasury shares	General and other reserves#	Share option reserve	Investment revaluation reserve	Accumulated losses	Total reserves	Non-controlling interests	Total
	HK$'000	*HK$'000* (note 22)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 March 2017	287,180	(130,221)	219,402	6,044	–	(232,666)	(137,441)	57,791	207,530
Loss for the year	–	–	–	–	–	(90,497)	(90,497)	(2,383)	(92,880)
Other comprehensive income/(loss) for the year:									
Exchange differences related to foreign operations	–	–	1,598	–	–	–	1,598	(899)	699
Realisation of exchange fluctuation reserve upon deregistration of subsidiaries	–	–	9,678	–	–	–	9,678	–	9,678
Actuarial gains on a defined benefit plan *(note 21)*	–	–	–	–	–	7,758	7,758	124	7,882
Total comprehensive income/(loss) for the year	–	–	11,276	–	–	(82,739)	(71,463)	(3,158)	(74,621)
Issues of shares *(note 22)*	93,038	–	–	–	–	–	–	–	93,038
Share issue expenses *(note 22)*	(2,982)	–	–	–	–	–	–	–	(2,982)
Deregistration of subsidiaries	–	–	–	–	–	–	–	(18,133)	(18,133)
Transfer of share option reserve upon the lapse of share options	–	–	–	(4,506)	–	4,506	–	–	–
At 28 February 2018	377,236	(130,221)	230,678	1,538	–	(310,899)	(208,904)	36,500	204,832

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 28 February 2019

	Attributable to equity holders of the Company								
		Reserves							
	Share capital HK$'000	Treasury shares HK$'000 (note 22)	General and other reserves# HK$'000	Share option reserve HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total reserves HK$'000	Non-controlling interests HK$'000	Total HK$'000
As at 28 February 2018	377,236	(130,221)	230,678	1,538	-	(310,899)	(208,904)	36,500	204,832
Impact on initial application of HKFRS 9 *(note 2.3(b))*	-	-	-	-	7,549	-	7,549	-	7,549
As at 1 March 2018 (restated)	377,236	(130,221)	230,678	1,538	7,549	(310,899)	(201,355)	36,500	212,381
Loss for the year	-	-	-	-	-	(132,068)	(132,068)	(2,675)	(134,743)
Other comprehensive income/(loss) for the year:									
Changes in fair value of equity investments designated at fair value through other comprehensive income	-	-	-	-	(11,002)	-	(11,002)	-	(11,002)
Exchange differences related to foreign operations	-	-	(739)	-	-	-	(739)	314	(425)
Realisation of exchange fluctuation reserve upon deregistration of subsidiaries	-	-	(2,036)	-	-	-	(2,036)	-	(2,036)
Actuarial losses on a defined benefit plan *(note 21)*	-	-	-	-	-	(1,492)	(1,492)	(27)	(1,519)
Total comprehensive loss for the year	-	-	(2,775)	-	(11,002)	(133,560)	(147,337)	(2,388)	(149,725)
At 28 February 2019	377,236	(130,221)	227,903	1,538	(3,453)	(444,459)	(348,692)	34,112	62,656

Included in the general and other reserves at 28 February 2019 was a debit amount of HK$10,908,000 (2018: HK$8,133,000) attributable to the exchange fluctuation reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 28 February 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(134,727)**	(92,862)
Adjustments for:			
Interest expense	6	**4,898**	3,952
Bank interest income	7	**(853)**	(416)
Other interest income from financial assets at fair value through profit or loss	7	**(727)**	(1,172)
Depreciation	7	**5,132**	7,741
Impairment of items of property, plant and equipment	7	**9,612**	5,366
Impairment/(reversal of impairment) of an interest in an associate	7	**4**	(9)
Provision for an onerous contract	7	**3,152**	–
Reversal of provision for inventories	7	**(9,384)**	(6,387)
Gain on disposal of items of property, plant and equipment	7	**(158)**	(185)
Gain on deregistration of subsidiaries	7	**(2,036)**	(9,021)
Write-back of other payables	7	**–**	(59)
Bad debts written off	7	**–**	54
Exchange realignment		**(414)**	687
		(125,501)	(92,311)
Decrease in inventories		**11,775**	13,278
Decrease/(increase) in reinsurance assets		**(10)**	5
Decrease in prepayments, deposits and other receivables		**1,379**	3,125
Decrease in financial assets at fair value through profit or loss		**41,467**	1,191
Increase/(decrease) in creditors		**(13,678)**	3,158
Increase/(decrease) in insurance contracts liabilities		**11**	(6)
Decrease in deposits, accrued expenses and other payables		**(4,861)**	(3,107)
Increase in contract liabilities		**1,253**	–
Movement in pension scheme assets		**1,163**	1,679
Cash used in operations		**(87,002)**	(72,988)
Interest paid		**(4,898)**	(3,952)
Interest received		**1,580**	1,588
Overseas taxes paid		**(16)**	(18)
Net cash flows used in operating activities		**(90,336)**	(75,370)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 28 February 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to items of property, plant and equipment		**(6,411)**	(1,541)
Proceeds from disposal of items of property, plant and equipment		**160**	235
Decrease/(increase) in pledged bank balances		**(2,382)**	35,398
Decrease/(increase) in pledged deposits with banks		**(688)**	4,348
Repayment from/(advance to) an associate		**(4)**	9
Net cash flows from/(used in) investing activities		**(9,325)**	38,449
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of bank loans		**(442,427)**	(474,998)
New bank loans		**538,148**	426,950
Increase in other loans		**180**	29
Proceeds from issue of shares		**–**	93,038
Expenses on issue of shares		**–**	(2,982)
Net cash flows from financing activities		**95,901**	42,037
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(3,760)**	5,116
Cash and cash equivalents at beginning of year		**36,078**	30,962
CASH AND CASH EQUIVALENTS AT END OF YEAR		**32,318**	36,078
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash on hand and at banks and cash and cash equivalents as stated in the consolidated statement of cash flows	15	**32,318**	36,078

NOTES TO FINANCIAL STATEMENTS

28 February 2019

1. CORPORATE AND GROUP INFORMATION

The Sincere Company, Limited (the "Company") is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 24th Floor, Leighton Centre, 77 Leighton Road, Hong Kong. The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") have not changed during the financial year and mainly consisted of the operation of department stores, securities trading and the provision of general and life insurances.

2.1 BASIS OF PRESENTATION

The Group incurred a net loss of approximately HK$134,743,000 during the year ended 28 February 2019, and, as of that date, the Group had net current assets of approximately HK$14,990,000. In preparing the consolidated financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group. The directors of the Company have adopted the going concern basis for the preparation of the consolidated financial statements and taken the following measures in order to improve the working capital and liquidity and cash flow position of the Group.

(i) As further explained in note 35, the Company has proposed an open offer for the subscription of the new shares of the Company at the open offer price of HK$0.26 per new share of the Company on the basis of three open offer shares for every five existing shares of the Company held by the shareholders of the Company (except for the Sincere Companies as defined in note 35). Upon the completion of the open offer, the net proceeds of approximately HK$92,500,000 from the open offer will be available for use by the Group; and

(ii) A substantial shareholder, Win Dynamic Limited ("Win Dynamic"), of which 70% and 30% is owned by Mr. Philip K H Ma and Mr. Charles M W Chan, directors of the Company, respectively, has undertaken to provide continuous financial support up to HK$92,500,000 for the Group to meet its liabilities and obligations as and when they fall due in the event that the open offer mentioned above does not proceed for any reason.

Accordingly, the directors of the Company are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future and it is appropriate to prepare the consolidated financial statements on the going concern basis.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and equity investments designated at fair value through other comprehensive income which have been measured at fair value. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$’000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 28 February 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the income statement. The Group’s share of components previously recognised in other comprehensive income is reclassified to the income statement or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

Except for the amendments to HKFRS 4 and *Annual Improvements 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) Amendments to HKFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 March 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position.

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 March 2018 is as follows:

	Note	HKAS 39 measurement Category	HKAS 39 measurement Amount	Re-classification	Fair value remeasure-ment	HKFRS 9 measurement Amount	HKFRS 9 measurement Category
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	
Financial assets							
Equity investments designated at fair value through other comprehensive income	*(i)*	N/A	–	26,326	7,549	33,875	FVOCI[1] (equity)
Financial instruments	*(i)*	AFS[2]	26,326	(26,326)	–	–	N/A
Financial assets at fair value through profit or loss		FVPL[5]	153,406	–	–	153,406	FVPL (mandatory)
Financial assets included in prepayments, deposits and other receivables		L&R[3]	36,020	–	–	36,020	AC[4]
Pledged bank balances		L&R	4,447	–	–	4,447	AC
Pledged deposits with banks		L&R	70,873	–	–	70,873	AC
Cash and bank balances		L&R	36,078	–	–	36,078	AC
			327,150	–	7,549	334,699	

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) *(continued)*

Classification and measurement *(continued)*

	HKAS 39 measurement		HKFRS 9 measurement	
	Category	Amount *HK$'000*	Amount *HK$'000*	Category
Financial liabilities				
Creditors	AC	66,452	66,452	AC
Provision for claims of life insurance	AC	128	128	AC
Financial liabilities included in deposits, accrued expenses and other payables	AC	86,828	86,828	AC
Interest-bearing bank borrowings	AC	94,324	94,324	AC
Other loans	AC	2,987	2,987	AC
		250,719	250,719	

[1] FVOCI: Financial assets at fair value through other comprehensive income
[2] AFS: Available-for-sale investments
[3] L&R: Loans and receivables
[4] AC: Financial assets or financial liabilities at amortised cost
[5] FVPL: Financial assets at fair value through profit or loss

Note:

(i) The Group has elected the option to irrevocably designate its previous available-for-sale equity investments as equity investments designated at fair value through other comprehensive income.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(b) *(continued)*

Classification and measurement *(continued)*

The impact of transition to HKFRS 9 on reserves as at 1 March 2018 is as follows:

	HKAS 39 *HK$'000*	Revaluation *HK$'000*	Tax effect *HK$'000*	HKFRS 9 *HK$'000*
Investment revaluation reserve	–	7,549	–	7,549

Impairment

There was no significant impact for replacing the aggregate opening impairment allowance under HKAS 39 with expected credit losses allowances under HKFRS 9 on the above financial assets as at 1 March 2018.

(c) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.5 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(c) *(continued)*

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 March 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance as at 1 March 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Presentation of contract liabilities

The Group has changed the presentation of the amount of contract liabilities in relation to the loyalty points programme, which were previously included in "Deposits, accrued expenses and other payables" in the consolidated statements of financial position and cash flows to reflect the terminology of HKFRS 15:

	As at 1 March 2018		
Consolidated statement of financial position (extract)	As previously stated *HK$'000*	Effects of the adoption of HKFRS 15 *HK$'000*	Restated *HK$'000*
Deposits, accrued expenses and other payables	33,951	(1,005)	32,946
Contract liabilities	–	1,005	1,005

	As at 28 February 2019		
Consolidated statement of financial position (extract)	**Results without the adoption of HKFRS 15** ***HK$'000***	**Effects of the adoption of HKFRS 15** ***HK$'000***	**Results as reported** ***HK$'000***
Deposits, accrued expenses and other payables	**47,589**	**(1,253)**	**46,336**
Contract liabilities	**–**	**1,253**	**1,253**

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(c) *(continued)*

Presentation of contract liabilities *(continued)*

Consolidated statement of cash flows (extract)	As at 28 February 2019 Results without the adoption of HKFRS 15 HK$'000	Effects of the adoption of HKFRS 15 HK$'000	Results as reported HK$'000
Changes in working capital			
Deposits, accrued expenses and other payables	(3,608)	(1,253)	(4,861)
Contract liabilities	–	1,253	1,253

Loyalty points programme

Prior to adoption of HKFRS 15, the loyalty points programme was offered by the Group in the allocation of a portion of the transaction price to the loyalty points programme using the fair value of points issued and recognition of the deferred revenue in relation to points issued but not yet redeemed or expired. The Group concluded that under HKFRS 15, the loyalty points programme gives rise to a separate performance obligation because it generally provides a material right to the customer. Under HKFRS 15, the Group has allocated a portion of the transaction price to the loyalty points programme based on relative standalone selling price. The Group has determined that, considering the relative stand-alone selling prices, the changes under HKFRS 15 did not have material impact on the amount allocated to the loyalty points programme compared to the previous accounting policy. However, the deferred revenue related to this loyalty points programme was reclassified to contract liabilities as described above.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

(d) Amendments to HKAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) HK(IFRIC)-Int 22 provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 March 2020.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 March 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of accumulated losses at 1 March 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During the year, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of approximately HK$291,819,000 and lease liabilities of approximately HK$340,730,000 will be recognised at 1 March 2019.

2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 March 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 March 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 March 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in the consolidated income statement and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

If an investment in an associate becomes an investment in a joint venture, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in consolidated income statement.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

The Group measures its derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 - based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 - based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, pension scheme assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Treasury shares

Own equity instruments which are held by the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 March 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 March 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 March 2018) *(continued)*

Subsequent measurement *(continued)*

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the income statement. Dividends are recognised as other income in the income statement when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the income statement when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 March 2018) *(continued)*

Subsequent measurement *(continued)*

Financial assets at fair value through profit or loss (continued)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 March 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 March 2018) *(continued)*

Subsequent measurement *(continued)*

Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" (applicable before 1 March 2018) below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains, net in the income statement. The loss arising from impairment is recognised in the income statement.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the income statement, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the income statement. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively, and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" (applicable before 1 March 2018) below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 March 2018) *(continued)*

Subsequent measurement *(continued)*

Available-for-sale financial investments (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to the income statement over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 March 2018 and HKAS 39 applicable before 1 March 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKFRS 9 applicable from 1 March 2018)

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 March 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 March 2018) *(continued)*

Financial assets carried at amortised cost (continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities (policies under HKFRS 9 applicable from 1 March 2018 and HKAS 39 applicable before 1 March 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 March 2018 and HKAS 39 applicable before 1 March 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments (policies under HKFRS 9 applicable from 1 March 2018 and HKAS 39 applicable before 1 March 2018)

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative.

Derivative financial instruments held for trading are typically entered into with the intention to settle in the near future. These instruments are initially recorded at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the income statement.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 March 2018 and HKAS 39 applicable before 1 March 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is currently an enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation *(continued)*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land and buildings	2% – 4%
Furniture, fixtures and equipment	10% – 20%
Motor vehicles	$16^2/_3$% – 25%
Leasehold improvements	Shorter of lease terms and useful lives

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases *(continued)*

Prepaid land premium under operating leases is initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

If the Group has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("Equity-settled transactions").

The cost of Equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 23 to the financial statements.

The cost of Equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for Equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Employee benefits

Retirement benefits

The Group operates a funded final salary defined benefit pension scheme (the "Scheme") for those employees who are eligible to participate in the Scheme.

An actuarial estimate is made annually by a professionally qualified independent actuary, using the projected unit credit actuarial valuation method, of the present value of the Group's future defined benefit obligation under the Scheme earned by the employees as at the end of the reporting period (the "Scheme obligation"). The assets contributed by the Group to the Scheme (the "Scheme assets") are held separately from the assets of the Group in an independently administered fund, and are valued at their fair value at the end of the reporting period.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net defined benefit liability), are recognised immediately in the statement of financial position with a corresponding debit or credit to retained profits/accumulated losses through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to the income statement in subsequent periods.

Past service costs are recognised in the income statement at the earlier of

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "General and administrative expenses" in the income statement by function.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Retirement benefits (continued)

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- Net interest expense or income

In addition, the Group also operates a defined contribution Mandatory Provident Fund ("MPF") retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance. Contributions to the MPF Scheme are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF scheme. The Group's employer contributions are fully and immediately vested in favour of the employees when contributed to the MPF Scheme.

The employees of the subsidiaries established in Mainland China are members of the Central Pension Scheme operated by the Mainland China government. The subsidiaries are required to contribute a certain percentage of their covered payroll to the Central Pension Scheme to fund the benefits. The only obligation for the subsidiaries with respect to the Central Pension Scheme is to meet the required contributions under the Central Pension Scheme.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Product classification – Insurance contracts

Insurance contracts are those contracts when the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits payable after an insured event with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Insurance contracts liabilities

General insurance contracts liabilities

General insurance contracts liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with handling costs. Delays can be experienced in the notification and settlement of certain types of general insurance claims. Therefore, the ultimate cost cannot be known with certainty at the end of the reporting period.

Outstanding claims

Full provision has been made for outstanding claims, including those incurred but not reported until after the end of the reporting period, and also for the related claims handling expenses estimated to be necessarily and directly incurred in the claims settlement process. This provision, although not a precise assessment, has been made in light of available information and after taking into account the direct claims handling expenses and possible recoveries from other parties. Claims provisions are not discounted for the time value of money and no estimates of inflationary adjustment are admitted until confirmed as necessary. The provisions are derecognised when they are discharged or settled.

Unearned premiums

Unearned premiums are computed at the rate of 40% of the premiums earned during the year, net of premiums ceded in respect of risks reinsured.

Liability adequacy test

At each reporting date, the Group reviews its unexpired risk and a liability adequacy test is performed in accordance with HKFRSs to determine whether there is any overall excess of expected claims over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the income statement by setting up a provision for premium deficiency.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Insurance contracts liabilities *(continued)*

Life insurance contracts liabilities

Life insurance contracts liabilities are recognised when contracts are entered into and premiums are charged. The provision for life insurance contracts consists of outstanding claims and the life reserve.

Life reserve

Life reserve represents a reserve to cover unexpired risk of life insurance policies and is valued by an independent actuary. The resultant surplus or deficit is transferred to or from the income statement.

Reinsurance

The Group cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurers' policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence that occurred after initial recognition of the reinsurance asset that the Group may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. The impairment loss is recorded in the income statement.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders.

Premiums and claims are presented on a gross basis for ceded reinsurance.

Reinsurance assets are derecognised when the contractual rights are extinguished or expire.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside the income statement is recognised, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable from 1 March 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) *Sale of goods*

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer.

Some contracts for the sale of goods provide customers with rights of return. The rights of return give rise to variable consideration. For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

(b) *Income from counter and consignment sale*

Commission income from counter and consignment sale is recognised at a point in time and based on certain percentage of sales made by the customers in accordance with the terms of contracts.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable from 1 March 2018) *(continued)*

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Net realised gain/loss of security trading investments is recognised on the trade date.

Insurance premium income is recognised on the basis of policies issued.

Other income

Interest income is recognised on an accrual basis using the effective interest rate method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 March 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) trading of securities, on the trade date;
(b) interest income, on an accrual basis using the effective interest rate method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial assets;
(c) dividend income, when the shareholders' right to receive payment is established;
(d) rental income, on a time proportion basis over the lease terms;
(e) sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
(f) sale of properties, when the significant risks and rewards of ownership have been transferred to the buyer;
(g) income from counter and consignment sales, when the goods are sold;
(h) premium income, on the basis of policies issued; and
(i) revenue arising from the trading of investments, on the trade date basis.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contract liabilities (applicable from 1 March 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or income statement is also recognised in other comprehensive income or income statement, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of an operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates prevailing at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Consolidation of entities in which the Group holds less than a majority of voting rights

The Company considers that it controls The Sincere Life Assurance Company Limited ("Sincere LA") and its subsidiaries ("Sincere LA Group"), The Sincere Insurance & Investment Company, Limited ("Sincere II") and its subsidiaries ("Sincere II Group") and The Sincere Company (Perfumery Manufacturers), Limited ("Perfumery") even though it owns less than 50% of the voting rights. This is because the Company is the single largest shareholder of Sincere LA Group, Sincere II Group and Perfumery with 48.09%, 40.67% and 37.15% direct equity interests, respectively. Based on the Company's absolute size of holding in Sincere LA Group, Sincere II Group and Perfumery, the relative size and dispersion of the shareholdings owned by the other shareholders who acted as principal of their investments in Sincere LA Group, Sincere II Group and Perfumery, and past history of voting patterns in the shareholders' meetings of Sincere LA Group, Sincere II Group and Perfumery, the directors concluded that the Group has had control over Sincere LA Group, Sincere II Group and Perfumery since the dates on which the Group obtained control. The Group has consolidated the financial statements of Sincere LA Group, Sincere II Group and Perfumery based on its 56.96%, 57.98% and 62.37% effective equity interests and accounted for the remaining equity interests of 43.04%, 42.02% and 37.63%, as non-controlling interests, respectively.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimation of impairment of property, plant and equipment

As at 28 February 2019, the aggregate carrying amount of the Group's property, plant and equipment was HK$27,261,000 (2018: HK$35,607,000). For property, plant and equipment other than land and buildings, management conducted an impairment review of certain cash-generating units ("CGUs") of the Group where there were indicators of impairment by considering the recoverable amounts of the relevant CGUs. Management identifies individual store as a CGU for the purpose of impairment assessment based on value-in-use calculation. The amount of any impairment loss was measured as the difference between the CGU's carrying amount and its recoverable amount. The recoverable amount is the higher of value in use and fair value less costs of disposal. Value in use is the estimated future cash flows, based on key assumptions including expected growth or deterioration rate, discounted to their present values using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Where the actual future cash flows are less or more than expected, or there are unfavourable changes in facts and circumstances which result in downward revision of the estimated future cash flows for the purpose of determining the value in use, further impairment loss or reversal of impairment loss may arise. Further details of the impairment of property, plant and equipment are set out in note 11 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty *(continued)*

Estimation of provision for inventories

The Group reviews an ageing analysis at the end of the reporting period, and determines the provision for inventories by reference to the nature and condition of the inventories, the marketability and estimated selling prices, the historical and current ageing pattern of the inventories and the sales strategy of the Group. The carrying value of inventories as at 28 February 2019 was HK$66,896,000 (2018: HK$69,287,000).

Valuation of share options

The fair value of options granted under the share option scheme is determined using the binomial model. The significant inputs into the model were the weighted average share price at the grant date, exercise price, risk-free interest rate, dividend yield, expected volatility, expected life of options, and exit rate of directors and staff. When the actual results of the inputs differ from management's estimate, it will have an impact on share option expenses and the related share option reserve of the Company. Further details of the share options are set out in note 23 to the financial statements.

Pension and other retirement benefits

The determination of the Group's obligation, fair value of plan assets and cost for defined benefits is performed by independent actuaries engaged by the Group and is dependent on the selection of certain assumptions used by them in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets, rates of salary and pension increase and the average remaining working life of employees. In accordance with the Group's accounting policy for pension obligations, actual results that differ from the Group's assumptions are recognised immediately in other comprehensive income as and when they occur. While the Group believes that the actuaries' assumptions are reasonable and appropriate, significant differences in the Group's actual experience or significant changes in the Group's assumptions may materially affect its pension and other retirement obligations. The carrying value of pension scheme assets as at 28 February 2019 was HK$14,670,000 (2018: HK$17,352,000).

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 31 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers), select the price multiple and make estimates about the discount for lack of marketability. The Group classifies the fair value of these investments as Level 3. The fair value of the unlisted equity investments at 28 February 2019 was HK$22,873,000. Further details are included in note 13 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

4. SEGMENT INFORMATION

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

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

(a) the department store operations segment consists of the operations of department stores offering a wide range of consumer products;

(b) the securities trading segment consists of the trading of Hong Kong and overseas securities; and

(c) the others segment mainly consists of the sublease of properties and the provision of 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 resource 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.

Segment assets exclude pledged bank balances, pledged deposits with banks and cash and bank balances as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings as these liabilities are managed on a group basis.

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

NOTES TO FINANCIAL STATEMENTS

28 February 2019

4. SEGMENT INFORMATION *(continued)*

(a) Operating segments

The following tables present revenue, loss and certain asset, liability and expenditure information for the Group's operating segments for the years ended 28 February 2019 and 2018.

	Department store operations		Securities trading		Others		Eliminations		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:										
Sales to external customers	**310,816**	353,581	**(2,739)**	(1,468)	**3,788**	3,752	**-**	–	**311,865**	355,865
Intersegment sales	**-**	–	**-**	–	**30,714**	30,631	**(30,714)**	(30,631)	**-**	–
Other revenue	**120**	560	**7,942**	12,213	**2,592**	9,193	**-**	–	**10,654**	21,966
Total	**310,936**	354,141	**5,203**	10,745	**37,094**	43,576	**(30,714)**	(30,631)	**322,519**	377,831
Segment results	**(103,965)**	(85,646)	**(13,328)**	4,479	**(13,300)**	(8,145)	**-**	–	**(130,593)**	(89,312)
Interest income and unallocated revenue, net									**764**	402
Finance costs									**(4,898)**	(3,952)
Loss before tax									**(134,727)**	(92,862)
Income tax expense									**(16)**	(18)
Loss for the year									**(134,743)**	(92,880)
Segment assets	**135,735**	141,023	**119,367**	172,059	**64,093**	65,738	**(30,714)**	(30,631)	**288,481**	348,189
Unallocated assets									**110,708**	111,398
Total assets									**399,189**	459,587
Segment liabilities	**167,044**	181,505	**573**	312	**9,585**	9,245	**(30,714)**	(30,631)	**146,488**	160,431
Unallocated liabilities									**190,045**	94,324
Total liabilities									**336,533**	254,755

NOTES TO FINANCIAL STATEMENTS

28 February 2019

4. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

	Department store operations		Securities trading		Others		Eliminations		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:										
Depreciation	**3,525**	6,040	**378**	411	**1,229**	1,290	**–**	–	**5,132**	7,741
Impairment of items of property, plant and equipment	**9,453**	5,366	**–**	–	**159**	–	**–**	–	**9,612**	5,366
Capital expenditure	**6,346**	1,277	**–**	–	**65**	264	**–**	–	**6,411**	1,541
Loss/(gain) on disposal of items of property, plant and equipment	**2**	(97)	**–**	–	**(160)**	(88)	**–**	–	**(158)**	(185)
Provision for an onerous contract	**3,152**	–	**–**	–	**–**	–	**–**	–	**3,152**	–
Reversal of provision for inventories	**(9,384)**	(6,387)	**–**	–	**–**	–	**–**	–	**(9,384)**	(6,387)
Impairment/(reversal of impairment) of an interest in an associate	**–**	–	**–**	–	**4**	(9)	**–**	–	**4**	(9)
Bad debts written off	**–**	54	**–**	–	**–**	–	**–**	–	**–**	54
Gain on deregistration of subsidiaries	**–**	–	**–**	–	**(2,036)**	(9,021)	**–**	–	**(2,036)**	(9,021)
Write-back of other payables	**–**	–	**–**	–	**–**	(59)	**–**	–	**–**	(59)

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4. SEGMENT INFORMATION *(continued)*

(b) Geographical information

The following table presents revenue and non-current asset information.

	Hong Kong		Mainland China		United Kingdom ("UK")		Others		Eliminations		Consolidated	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue: Sales to external customers	**311,121**	355,705	**–**	–	**210**	213	**534**	(53)	**–**	–	**311,865**	355,865
Non-current assets	**52,157**	64,838	**758**	1,005	**–**	–	**–**	–	**–**	–	**52,915**	65,843

The non-current asset information above is based on the locations of the assets and includes property, plant and equipment and deposits and other receivables.

(c) Information about major customers

For the years ended 28 February 2019 and 2018, as no revenue derived from an individual customer of the Group has accounted for over 10% of the Group's total revenue, no information about major customers is presented under HKFRS 8 *Operating Segments*.

NOTES TO FINANCIAL STATEMENTS

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5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

	2019 **HK$'000**	2018 HK$'000
Revenue from contracts with customers		
Sale of goods – own goods	**235,329**	266,857
Income from counter and consignment sale	**75,487**	86,724
Revenue from other sources		
Net realised loss on securities trading	**(2,739)**	(1,468)
Rental income	**3,721**	3,714
Gross insurance contracts premium revenue	**67**	38
	311,865	355,865

Revenue from contracts with customers

(i) Disaggregated revenue information

All the revenue from contracts with customers are recognised at a point in time and are derived from Hong Kong.

(ii) Performance obligations

Sale of goods – own goods

For sales of goods, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the department stores. Payment of the transaction price is due immediately at the point the customer purchases the goods.

Income from counter and consignment sale

For income from counter and consignment sale, the counters and consignors will pay the commission income based on certain percentage of sales in accordance with the terms of contracts. The Group receives the entire sales proceeds from ultimate customers on behalf of the counters and consignors and reimburses the sales proceeds back to counters and consignors after deducting the commission income.

NOTES TO FINANCIAL STATEMENTS

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5. REVENUE, OTHER INCOME AND GAINS, NET *(continued)*

(a) Revenue *(continued)*

Revenue from contracts with customers *(continued)*

(ii) Performance obligations (continued)

Provision for loyalty points programme

The performance obligation is satisfied upon utilisation of loyalty points. The Group allocated a portion of the transaction prices to the loyalty points programme which is based on the relative standalone selling price. The transaction price of HK$1,253,000 was allocated to the remaining performance obligations as at 28 February 2019.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 *HK$'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Loyalty points programme	**1,005**

As a practical expedient, the transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 28 February 2019 are not disclosed in the notes to the financial statements because all the remaining performance obligations in relation to the sale of goods are a part of contracts that have an original expected duration of one year or less.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

5. REVENUE, OTHER INCOME AND GAINS, NET *(continued)*

(b) Other income and gains, net

	2019	2018
	HK$'000	*HK$'000*
Bank interest income	**853**	416
Other interest income from financial assets at fair value through profit or loss	**727**	1,172
Dividends from financial assets at fair value through profit or loss	**7,215**	10,983
Gain on disposal of items of property, plant and equipment	**158**	185
Gain on deregistration of subsidiaries	**2,036**	9,021
Write-back of other payables	**–**	59
Foreign exchange loss, net	**(118)**	(39)
Others	**547**	571
	11,418	22,368

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2019	2018
	HK$'000	*HK$'000*
Interest on bank borrowings	**4,812**	3,835
Others	**86**	117
	4,898	3,952

NOTES TO FINANCIAL STATEMENTS

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7. LOSS BEFORE TAX

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

	2019 **HK$'000**	2018 HK$'000
Cost of inventories sold	**151,437**	160,284
Reversal of provision for inventories	**(9,384)**	(6,387)
Reinsurers' share portion and commission, net of gross change in unearned premiums	**60**	34
Cost of sales	**142,113**	153,931
Depreciation	**5,132**	7,741
Auditor's remuneration	**3,018**	3,308
Employee benefit expense, excluding directors' and chief executive's remuneration *(note 25)*:		
Wages and salaries	**67,448**	70,791
Pension contributions, including a pension cost for a defined benefit plan of HK$1,226,000 (2018: HK$1,728,000)	**3,714**	4,339
	71,162	75,130
Impairment/(reversal of impairment) of an interest in an associate *	**4**	(9)
Bad debts written off	**–**	54
Operating lease rental payments:		
Minimum lease payments	**148,562**	149,176
Contingent rent	**1,189**	2,668
Provision for an onerous contract *	**3,152**	–
Impairment of items of property, plant and equipment *	**9,612**	5,366
Gain on disposal of items of property, plant and equipment **	**(158)**	(185)
Gain on deregistration of subsidiaries **	**(2,036)**	(9,021)
Net realised loss on securities trading	**2,739**	1,468
Underwriting profit	**(7)**	(4)
Rental income	**(3,721)**	(3,714)
Bank interest income **	**(853)**	(416)
Other interest income from financial assets at fair value through profit or loss **	**(727)**	(1,172)
Dividends from financial assets at fair value through profit or loss **	**(7,215)**	(10,983)
Foreign exchange loss, net **	**118**	39
Write-back of other payables **	**–**	(59)

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

** Amounts are included in "Other income and gains, net" on the face of the consolidated income statement.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

8. INCOME TAX

No provision for Hong Kong profits tax had been made as there were no assessable profits arising in Hong Kong for both years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates.

	2019 ***HK$'000***	2018 *HK$'000*
Current – Hong Kong	**–**	–
Current – Elsewhere		
Charge for the year	**16**	18
Total tax charge for the year	**16**	18

A reconciliation of the tax credit applicable to loss before tax at the statutory rates for the locations in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Loss before tax	**(134,727)**	(92,862)
Tax at the statutory tax rates	**(22,580)**	(15,879)
Income not subject to tax	**(2,761)**	(3,659)
Expenses not deductible for tax	**6,443**	3,884
Deferred tax not recognised	**(156)**	434
Tax losses not recognised	**19,070**	15,238
Tax charge at the Group's effective rate	**16**	18

The Group has tax losses arising in Hong Kong of approximately HK$1,654,117,000 (2018: HK$1,543,671,000) that are available indefinitely for offsetting against future taxable profits of the Group. No deferred tax assets have been recognised in respect of these losses as the Company and certain of its subsidiaries have been loss-making for some time.

9. DIVIDENDS

The board of directors did not recommend the payment of any dividend for the year ended 28 February 2019 (2018: Nil).

NOTES TO FINANCIAL STATEMENTS

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

The calculation of the basic loss per share amounts is based on the loss for the year of HK$132,068,000 (2018: HK$90,497,000) attributable to equity holders of the Company and the weighted average number of ordinary shares of 658,449,600 (2018: 402,568,777). The weighted average number of ordinary shares in issue used in the basic loss per share calculation for the year ended 28 February 2019 has been adjusted to reflect the number of treasury shares of 260,443,200 held by the Company's subsidiaries. The weighted average number of ordinary shares in issue used in the basic loss per share calculation for the year ended 28 February 2018 had been adjusted for the rights issue in the prior year, and to reflect the number of treasury shares of 260,443,200 held by the Company's subsidiaries.

No adjustment had been made to the basic loss per share amounts presented for the years ended 28 February 2019 and 2018 in respect of a dilution as the impact of the share options outstanding during the years had an anti-dilutive effect on the basic loss per share amounts presented.

11. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings *HK$'000*	Furniture, fixtures, equipment and motor vehicles *HK$'000*	Leasehold improvements *HK$'000*	Total *HK$'000*
28 February 2019				
Cost:				
At 1 March 2018	51,952	45,594	105,012	202,558
Additions	–	189	6,222	6,411
Disposals	–	(712)	(13,388)	(14,100)
Exchange realignment	–	(56)	(9)	(65)
At 28 February 2019	51,952	45,015	97,837	194,804
Accumulated depreciation and impairment:				
At 1 March 2018	23,729	41,094	102,128	166,951
Depreciation provided during the year	1,062	1,683	2,387	5,132
Impairment	–	3,001	6,611	9,612
Disposals	–	(710)	(13,388)	(14,098)
Exchange realignment	–	(53)	(1)	(54)
At 28 February 2019	24,791	45,015	97,737	167,543
Net book value:				
At 28 February 2019	27,161	–	100	27,261

NOTES TO FINANCIAL STATEMENTS

28 February 2019

11. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Land and buildings *HK$'000*	Furniture, fixtures, equipment and motor vehicles *HK$'000*	Leasehold improvements *HK$'000*	Total *HK$'000*
28 February 2018				
Cost:				
At 1 March 2017	51,952	45,801	104,222	201,975
Additions	–	489	1,052	1,541
Disposals	–	(805)	(286)	(1,091)
Exchange realignment	–	109	24	133
At 28 February 2018	51,952	45,594	105,012	202,558
Accumulated depreciation and impairment:				
At 1 March 2017	22,666	39,705	92,393	154,764
Depreciation provided during the year	1,063	2,046	4,632	7,741
Impairment	–	–	5,366	5,366
Disposals	–	(755)	(286)	(1,041)
Exchange realignment	–	98	23	121
At 28 February 2018	23,729	41,094	102,128	166,951
Net book value:				
At 28 February 2018	28,223	4,500	2,884	35,607

As at 28 February 2019, the Group's leasehold land and buildings with an aggregate carrying value of HK$26,403,000 (2018: HK$27,418,000) were pledged as security for the bank loans granted (note 17(a)).

During the year, the Group's management identified certain stores which continued to underperform and estimated the recoverable amounts of these stores, each of these is a separate cash-generating unit. Based on the value in use calculation, the carrying amounts of property, plant and equipment of such stores were written down by HK$9,612,000 (2018: HK$5,366,000) during the year. As at 28 February 2019, the aggregate recoverable amount of these cash-generating units was nil (2018: HK$1,104,000). The estimate of the recoverable amount of each cash-generating unit was determined using a discount rate of 11% (2018: 11%).

NOTES TO FINANCIAL STATEMENTS

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12. INTERESTS IN ASSOCIATES

	2019	2018
	HK$'000	*HK$'000*
Share of net assets other than goodwill	**–**	–
Due from an associate	**9,912**	9,908
Provision for impairment #	**(9,912)**	(9,908)
	–	–

As at 28 February 2019, an aggregate impairment of HK$9,912,000 (2018: HK$9,908,000) was recognised for an amount due from an associate with a gross carrying amount of HK$9,912,000 (2018: HK$9,908,000) (before deducting the impairment losses) because the relevant associate had suffered losses for years. The impairment provision had taken into account the net asset value and operating performance of the associate.

The balance with an associate is unsecured, interest-free and not repayable within the next twelve months from the end of the reporting period.

Particulars of the associates are as follows:

Company	**Business structure**	**Place of incorporation**	**Particulars of issued shares held**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Lancaster Partnership Limited #	Corporate	UK	Ordinary shares of GBP0.01 each	50.00	Property investment
CPE Investments Limited	Corporate	British Virgin Islands	Ordinary shares of US$1 each	50.00	Investment holding

During the year ended 28 February 2019, Lancaster Partnership Limited, an associate of the Group, was deregistered.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

12. INTERESTS IN ASSOCIATES *(continued)*

The following table illustrates the summarised financial information of the Group's associates extracted from their management accounts:

	2019	2018
	HK$'000	*HK$'000*
Total assets	**–**	92,995
Total liabilities	**(16,532)**	(105,518)
Profit/(loss) before tax	**1,592**	(19)

The Group has discontinued the recognition of its share of losses of associates because the share of losses of the associates exceeded the Group's interests in the associates and the Group has no obligation to take up further losses. The amount of the Group's unrecognised share of gains of the associates for the current year and the amount of the Group's unrecognised share of losses cumulatively were HK$796,000 (2018: share of losses of HK$10,000) and HK$9,633,000 (2018: HK$10,429,000), respectively.

13. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/FINANCIAL INSTRUMENTS

(a) Equity investments designated at fair value through other comprehensive income

	2019	2018
	HK$'000	*HK$'000*
Unlisted investments, at fair value:		
The Wing Sang Co. Ltd	**822**	–
Oriental Finance (HK) Limited and Yestock Car Rental Company Limited ("Yestock Group")	**5,482**	–
The Sincere Department Store Limited ("SDSL")	**16,569**	–
	22,873	–

The above equity investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature.

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13. EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/FINANCIAL INSTRUMENTS *(continued)*

(b) Financial instruments

	2019 *HK$'000*	2018 *HK$'000*
Unlisted investments, at cost:		
The Wing Sang Co. Ltd	–	53
Yestock Group	–	37,575
SDSL	–	24,409
	–	62,037
Less: Provision for impairment	–	(35,711)
Portion classified as non-current assets	–	26,326

At 28 February 2018, provision for impairment of HK$21,300,000 and HK$14,411,000 had been made to Yestock Group and SDSL, respectively, as the directors of the Company considered that the carrying amounts of the investments exceeded the recoverable amounts.

NOTES TO FINANCIAL STATEMENTS

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14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2019	2018
	HK$'000	*HK$'000*
Listed investments, at fair value	**65,705**	94,938
Other investments, at quoted price	**46,234**	58,468
	111,939	153,406

The above investments at 28 February 2019 and 2018 were classified as financial assets at fair value through profit or loss as they were held for trading.

At the end of the reporting period, investments held for trading with an aggregate market value of approximately HK$72,358,000 (2018: HK$77,033,000) were pledged to banks to secure certain banking facilities granted to the Group (note 17(a)).

15. CASH AND BANK BALANCES

	2019	2018
	HK$'000	*HK$'000*
Cash on hand and at banks	**32,318**	36,078

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$3,183,000 (2018: HK$5,773,000). RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and time deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS

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16. REINSURANCE ASSETS

	2019	2018
	HK$'000	*HK$'000*
Reinsurers' share of insurance contracts liabilities *(note 19)*	**24**	14

17. INTEREST-BEARING BANK BORROWINGS AND OTHER LOANS

(a) Interest-bearing bank borrowings

	2019	2018
	HK$'000	*HK$'000*
Bank loans, secured	**190,045**	94,324

The bank loans bear interest at rates ranging from 1.4% to 5.1% (2018: 2.2% to 5.0%) per annum and are repayable within one year or on demand. 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$6,829,000 (2018: HK$4,447,000) and time deposits amounting to HK$71,561,000 (2018: HK$70,873,000);

(ii) the pledge of certain of the Group's marketable securities with an aggregate market value of approximately HK$72,358,000 (2018: HK$77,033,000) (note 14); 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$26,403,000 (2018: HK$27,418,000) (note 11).

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17. INTEREST-BEARING BANK BORROWINGS AND OTHER LOANS *(continued)*

(b) Other loans

	2019 HK$'000	2018 HK$'000
Other loans	**3,167**	2,987
Less: Amount repayable within one year or on demand and classified as current portion	**(2,100)**	(1,941)
Amount classified as non-current portion	**1,067**	1,046

The other loans were unsecured, bore interest at 2% (2018: 2%) per annum and repayable on demand, except for an amount of HK$1,067,000 (2018: HK$1,046,000) which was not repayable in the next twelve months after the end of the reporting period. The balances were denominated in Hong Kong dollars.

18. CREDITORS

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

	2019 HK$'000	2018 HK$'000
Current – 3 months	**49,763**	60,111
4 – 6 months	**2,494**	5,657
7 – 12 months	**29**	109
Over 1 year	**488**	575
	52,774	66,452

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19. INSURANCE CONTRACTS LIABILITIES

	Notes	2019 Insurance contracts liabilities HK$'000	2019 Reinsurers' share of liabilities HK$'000	2019 Net HK$'000	2018 Insurance contracts liabilities HK$'000	2018 Reinsurers' share of liabilities HK$'000	2018 Net HK$'000
Life insurance contracts	*(a)*	**1,206**	**–**	**1,206**	1,206	–	1,206
General insurance contracts	*(b)*	**26**	**(24)**	**2**	15	(14)	1
Total insurance contracts liabilities		**1,232**	**(24)**	**1,208**	1,221	(14)	1,207
			(Note 16)			*(Note 16)*	

(a) Life insurance contracts liabilities are analysed as follows:

	Notes	2019 Insurance contracts liabilities HK$'000	2019 Reinsurers' share of liabilities HK$'000	2019 Net HK$'000	2018 Insurance contracts liabilities HK$'000	2018 Reinsurers' share of liabilities HK$'000	2018 Net HK$'000
Life reserve	*(i)*	**1,078**	**–**	**1,078**	1,078	–	1,078
Provision for claims	*(ii)*	**128**	**–**	**128**	128	–	128
		1,206	**–**	**1,206**	1,206	–	1,206

(i) Life reserve is analysed as follows:

	2019 HK$'000	2018 HK$'000
At beginning of year	**1,078**	1,078
Increase in the year	**–**	–
At end of year	**1,078**	1,078

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19. INSURANCE CONTRACTS LIABILITIES *(continued)*

(a) Life insurance contracts liabilities are analysed as follows: *(continued)*

(ii) The provision for claims of life insurance contracts is analysed as follows:

	2019 Insurance contracts liabilities HK$'000	2019 Reinsurers' share of liabilities HK$'000	2019 Net HK$'000	2018 Insurance contracts liabilities HK$'000	2018 Reinsurers' share of liabilities HK$'000	2018 Net HK$'000
At beginning of year	**128**	**–**	**128**	128	–	128
Claims incurred during the year	**–**	**–**	**–**	–	–	–
Claims paid during the year	**–**	**–**	**–**	–	–	–
At end of year	**128**	**–**	**128**	128	–	128

(b) General insurance contracts liabilities are analysed as follows:

	Notes	2019 Insurance contracts liabilities HK$'000	2019 Reinsurers' share of liabilities HK$'000	2019 Net HK$'000	2018 Insurance contracts liabilities HK$'000	2018 Reinsurers' share of liabilities HK$'000	2018 Net HK$'000
Provision for claims reported by policyholders and claims incurred but not reported ("IBNR")	*20(d)*	**–**	**–**	**–**	–	–	–
Provision for unearned premiums	*(i)*	**26**	**(24)**	**2**	15	(14)	1
Total insurance contracts liabilities		**26**	**(24)**	**2**	15	(14)	1

NOTES TO FINANCIAL STATEMENTS

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19. INSURANCE CONTRACTS LIABILITIES *(continued)*

(b) General insurance contracts liabilities are analysed as follows: *(continued)*

(i) The provision for unearned premiums is analysed as follows:

	2019			2018		
	Insurance contracts liabilities *HK$'000*	Reinsurers' share of liabilities *HK$'000*	Net *HK$'000*	Insurance contracts liabilities *HK$'000*	Reinsurers' share of liabilities *HK$'000*	Net *HK$'000*
At beginning of year	**15**	**(14)**	**1**	21	(19)	2
Premiums written in the year	**67**	**(60)**	**7**	38	(34)	4
Premiums earned during the year	**(56)**	**50**	**(6)**	(44)	39	(5)
At end of year	**26**	**(24)**	**2**	15	(14)	1

20. INSURANCE CONTRACTS LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES

Life insurance

(a) Terms and conditions

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

Life insurance contracts offered by the Group are whole life contracts. Whole life contracts are conventional regular premium products when lump sum benefits are payable on death or permanent disability.

The main risk that the Group is exposed to is mortality risk – risk of loss arising due to policy holder death experience being different than expected. This risk does not vary significantly in relation to the location of the risk insured by the Group, type of risk insured or industry.

For contracts for which death or disability is the insured risk, the significant factors that could increase the overall frequency of claims are epidemics, widespread changes in lifestyle and natural disasters, resulting in earlier or more claims than expected.

NOTES TO FINANCIAL STATEMENTS

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20. INSURANCE CONTRACTS LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(continued)*

Life insurance *(continued)*

(b) Key assumptions

Material judgement is required in determining the liabilities and in the choice of assumptions. Assumptions in use are based on past experience, current internal data, external market indices and benchmarks which reflect current observable market prices and other published information. Assumptions and prudent estimates are determined at the date of valuation and no credit is taken for possible beneficial effects of voluntary withdrawals. Assumptions are further evaluated on a continuous basis in order to ensure realistic and reasonable valuations.

The key assumptions to which the estimation of liabilities is particularly sensitive are as follows:

Mortality rates

Assumptions are based on standard industry and national tables, according to the type of contract written and the territory in which the insured person resides. They reflect recent historical experience and are adjusted when appropriate to reflect the Group's own experiences. An appropriate, but not excessive, prudent allowance is made for expected future improvements. Assumptions are differentiated by sex, underwriting class and contract type.

An increase in rates will lead to a larger number of claims (and claims could occur sooner than anticipated), which will increase the expenditure and reduce profits for the shareholders.

Discount rates

Life insurance liabilities are determined as the sum of the discounted value of the expected benefits and future administration expenses directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet these future cash outflows. Discount rates are based on current industry risk rates, adjusted for the Group's own risk exposure.

A decrease in the discount rate will increase the value of the insurance liability and therefore reduce profits for the shareholders.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

20. INSURANCE CONTRACTS LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(continued)*

General insurance

(a) Terms and conditions

The major class of general insurance written by the Group was property damage. Risks under these policies usually cover a 12-month duration.

For general insurance contracts, the most significant risks arise from natural disasters. For longer tail claims that take some years to settle, there is also inflation risk.

These risks do not vary significantly in relation to the location of the risk insured by the Group, type of risk insured and industry.

Claims provisions (comprising provisions for claims reported by policyholders and IBNR) are established to cover the ultimate cost of settling the liabilities in respect of claims that have occurred and are estimated based on known facts at the end of the reporting period.

The provisions are refined regularly as part of an ongoing process as claims experience develops, certain claims are settled and further claims are reported. Outstanding claims provisions are not discounted for the time value of money.

The measurement process primarily includes projection of future claims costs through a combination of actuarial and statistical projection techniques. In certain cases, where there is a lack of reliable historical data on which the estimation of claims development, relevant benchmarks of similar business are used in developing claims estimates. Claims provisions are separately analysed by class of business. In addition, larger claims are usually separately assessed by loss adjusters. The claims projection assumptions are generally intended to provide the best estimate of the most likely or expected outcome.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

20. INSURANCE CONTRACTS LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(continued)*

General insurance *(continued)*

(b) Assumptions

The principal assumption underlying the estimates is the Group's past claims development experience. This includes assumptions in respect of average claims costs, claims handling costs and number of claims for each accident year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: one-off occurrence, changes in market factors such as public attitude to claiming, economic conditions, as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

(c) Sensitivities

The insurance claims provision is sensitive to the above key assumptions. The sensitivity to certain assumptions, e.g. legislative change and uncertainty in the estimation process, is not possible to quantify. Furthermore, because of the delays that arise between occurrence of a claim and its subsequent notification and eventual settlement, the outstanding claim provision is not known with certainty at the end of the reporting period.

Consequently, the ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognised in subsequent financial statements.

(d) Loss development triangle

Reproduced below is an exhibit that shows the development of claims over a period of time on a gross and net basis.

The tables show the estimate of cumulative incurred claims, including both notified and IBNR claims, for each successive accident year at the end of each reporting period, together with cumulative claims as at the end of the reporting period.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

20. INSURANCE CONTRACTS LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(continued)*

General insurance *(continued)*

(d) Loss development triangle *(continued)*

Gross insurance claims

	2010 and before HK$'000	2011 HK$'000	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	2019 HK$'000	Total HK$'000
Accident year	3,664	-	-	-	-	-	-	-	-	-	
One year later	3,677	-	-	-	-	-	-	-	-	-	
Two years later	3,952	-	-	-	-	-	-	-	-	-	
Three years later	3,915	-	-	-	-	-	-	-	-	-	
Four years later	3,915	-	-	-	-	-	-	-	-	-	
Five years later	3,915	-	-	-	-	-	-	-	-	-	
Six years later	3,915	-	-	-	-	-	-	-	-	-	
Seven years later	3,915	-	-	-	-	-	-	-	-	-	
Eight years later	3,915	-	-	-	-	-	-	-	-	-	
Nine years later	3,915	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative gross claims	3,915	-	-	-	-	-	-	-	-	-	3,915
Cumulative gross payments to date	(3,915)	-	-	-	-	-	-	-	-	-	(3,915)
Total gross general insurance claims liability as per the consolidated statement of financial position	-	-	-	-	-	-	-	-	-	-	-
											(Note 19(b))

NOTES TO FINANCIAL STATEMENTS

28 February 2019

20. INSURANCE CONTRACTS LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES *(continued)*

General insurance *(continued)*

(d) ***Loss development triangle*** *(continued)*

Net insurance claims

	2010 and before HK$'000	2011 HK$'000	2012 HK$'000	2013 HK$'000	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	2018 HK$'000	2019 HK$'000	Total HK$'000
Accident year	2,717	-	-	-	-	-	-	-	-	-	
One year later	2,694	-	-	-	-	-	-	-	-	-	
Two years later	2,969	-	-	-	-	-	-	-	-	-	
Three years later	2,983	-	-	-	-	-	-	-	-	-	
Four years later	2,983	-	-	-	-	-	-	-	-	-	
Five years later	2,983	-	-	-	-	-	-	-	-	-	
Six years later	2,983	-	-	-	-	-	-	-	-	-	
Seven years later	2,983	-	-	-	-	-	-	-	-	-	
Eight years later	2,983	-	-	-	-	-	-	-	-	-	
Nine years later	2,983	-	-	-	-	-	-	-	-	-	
Current estimate of cumulative net claims	2,983	-	-	-	-	-	-	-	-	-	2,983
Cumulative net payments to date	(2,983)	-	-	-	-	-	-	-	-	-	(2,983)
Total net general insurance claims liability as per the consolidated statement of financial position	-	-	-	-	-	-	-	-	-	-	-
											(Note 19(b))

NOTES TO FINANCIAL STATEMENTS

28 February 2019

21. PENSION SCHEME ASSETS

The Group operates a funded final salary defined benefit pension scheme (the "Scheme") for those employees who are eligible to participate in the Scheme. The Scheme provides lump sum benefits based on a multiple of a member's final salary and years of service upon the member's retirement, death, disability or leaving service.

The Group's defined benefit plan is a final salary plan, which requires contributions to be made to a separately administered fund. The plan is under a trust with the assets held separately from those of the Group. The Scheme is administrated by two (2018: two) trustees and one of them is independent. The trustees are responsible for ensuring that the Scheme is administered in accordance with the trust deed and rules and to act on behalf of all members impartially, prudently and in good faith.

The trustees periodically review the investment strategy and funding position. The investment portfolio is a mix of 29% in equity and 71% in debt instruments (2018: a mix of 30% in equity and 70% in debt instruments).

The plan is exposed to interest rate risk, investment risk and salary risk.

The most recent actuarial valuations of the present value of the defined benefit obligations were carried out on 28 February 2019 by an independent qualified professional valuer, Towers Watson Hong Kong Limited, using the projected unit credit actuarial valuation method.

(a) The principal actuarial assumptions used as at the end of the reporting period are as follows:

	2019	2018
Discount rate	**1.6%**	1.8%
Expected rate of salary increase	**3.0%**	3.0%

NOTES TO FINANCIAL STATEMENTS

28 February 2019

21. PENSION SCHEME ASSETS *(continued)*

(b) A quantitative sensitivity analysis for significant assumptions as at the end of the reporting period is shown below:

	Increase in rate %	Increase/ (decrease) in net defined benefit obligations *HK$'000*	Decrease in rate %	Increase/ (decrease) in net defined benefit obligations *HK$'000*
2019				
Discount rate	**0.25**	**(582)**	**0.25**	**599**
Long-term salary increase rate	**0.25**	**594**	**0.25**	**(581)**
2018				
Discount rate	0.25	(606)	0.25	623
Long-term salary increase rate	0.25	618	0.25	(605)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on defined benefit obligations as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligations as it is unlikely that changes in assumptions would occur in isolation of one another.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

21. PENSION SCHEME ASSETS *(continued)*

(c) The total expenses recognised in the income statement in respect of the plan are as follows:

	2019 **HK$'000**	2018 HK$'000
Current service cost	**1,575**	1,950
Net interest income	**(313)**	(178)
Net benefit expenses	**1,262**	1,772

The above amount of the Group's net pension scheme cost was included in the "General and administrative expenses" on the face of the consolidated income statement.

(d) The movements in the present value of the defined benefit obligations are as follows:

	2019 **HK$'000**	2018 HK$'000
At beginning of year	**38,899**	44,131
Current service cost	**1,575**	1,950
Interest cost	**690**	696
Actuarial losses/(gains)	**626**	(3,723)
Benefit paid	**(2,020)**	(4,155)
At end of year	**39,770**	38,899

NOTES TO FINANCIAL STATEMENTS

28 February 2019

21. PENSION SCHEME ASSETS *(continued)*

(e) The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2019

		Pension cost credited/(charged) to the income statement				Remeasurement losses in other comprehensive loss						
	At 1 March 2018 *HK$'000*	Service cost *HK$'000*	Net interest expense *HK$'000*	Sub-total included in the income statement *HK$'000*	Benefit paid *HK$'000*	Return on plan assets (excluding amounts included in net interest expense) *HK$'000*	Actuarial changes arising from changes in demographic assumptions *HK$'000*	Actuarial changes arising from changes in financial assumptions *HK$'000*	Experience adjustments *HK$'000*	Sub-total included in other comprehensive loss *HK$'000*	Contribution by employer *HK$'000*	At 28 February 2019 *HK$'000*
Defined benefit obligations	(38,899)	(1,575)	(690)	(2,265)	2,020	-	(19)	(467)	(140)	(626)	-	(39,770)
Fair value of plan assets	56,251	-	1,003	1,003	(2,020)	(893)	-	-	-	(893)	99	54,440
Benefit assets/(liabilities)	17,352	(1,575)	313	(1,262)	-	(893)	(19)	(467)	(140)	(1,519)	99	14,670

2018

		Pension cost credited/(charged) to the income statement				Remeasurement gains in other comprehensive income						
	At 1 March 2017 *HK$'000*	Service cost *HK$'000*	Net interest expense *HK$'000*	Sub-total included in the income statement *HK$'000*	Benefit paid *HK$'000*	Return on plan assets (excluding amounts included in net interest expense) *HK$'000*	Actuarial changes arising from changes in demographic assumptions *HK$'000*	Actuarial changes arising from changes in financial assumptions *HK$'000*	Experience adjustments *HK$'000*	Sub-total included in other comprehensive income *HK$'000*	Contribution by employer *HK$'000*	At 28 February 2018 *HK$'000*
Defined benefit obligations	(44,131)	(1,950)	(696)	(2,646)	4,155	–	6	497	3,220	3,723	–	(38,899)
Fair value of plan assets	55,280	–	874	874	(4,155)	4,159	–	–	–	4,159	93	56,251
Benefit assets/(liabilities)	11,149	(1,950)	178	(1,772)	–	4,159	6	497	3,220	7,882	93	17,352

NOTES TO FINANCIAL STATEMENTS

28 February 2019

21. PENSION SCHEME ASSETS *(continued)*

(f) The major categories of the fair value of the total plan assets are as follows:

	2019	2018
Equity instruments, quoted in an active market	**29%**	30%
Debt instruments, at quoted prices	**71%**	70%
Total	**100%**	100%

(g) Expected contributions to the defined benefit plan in future years are as follows:

	2019 *HK$'000*	2018 *HK$'000*
Within the next 12 months	**92**	93

The average duration of the defined benefit obligations at the end of the reporting period was 5.5 years (2018: 6.0 years).

(h) In addition to the above disclosures, the following information is further provided pursuant to the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"):

The Group has paid contributions to the Scheme at rates as recommended and calculated by the independent actuary, Ms. Wing Lui, Fellow of the Society of Actuaries, using the attained age valuation method. The latest ongoing funding valuation and solvency funding valuation were performed as at 1 March 2017, the market value of the assets was HK$53,420,000 while the levels of funding were 134% and 234%, respectively. Based on the accrued funding status, the Scheme is fully funded. An investment return rate of 4.00% per annum and a salary increase rate of 4.00% per annum were assumed in the valuation.

(i) As at 28 February 2019, the Group had an amount due to the Scheme of HK$7,000 (2018: HK$15,000), which was included in "Deposits, accrued expenses and other payables" on the face of the consolidated statement of financial position.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

22. SHARE CAPITAL

	2019	2018
	HK$'000	*HK$'000*
Issued and fully paid:		
918,892,800 (2018: 918,892,800) ordinary shares	**377,236**	377,236

As at 28 February 2019 and 28 February 2018, Sincere LA, Sincere II and Perfumery, subsidiaries of the Company, held 183,136,032, 75,608,064 and 1,699,104 ordinary shares in the Company, respectively. Accordingly, 260,443,200 ordinary shares of the Company held by the Company's subsidiaries were recognised in the Group's consolidated financial statements as treasury shares through deduction from equity by HK$130,221,000.

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital
		HK$'000
At 1 March 2017	574,308,000	287,180
Issue of shares	344,584,800	93,038
Share issue expenses	–	(2,982)
At 28 February 2018, 1 March 2018 and 28 February 2019	**918,892,800**	**377,236**

Note:

Pursuant to the Company's announcement dated 26 October 2017 and the prospectus of the Company dated 27 November 2017, the Company proposed a rights issue on the basis of three rights shares for every five existing shares at the subscription price of HK$0.27 per rights share ("Rights Issue"). A total of 344,584,800 shares were issued under the Rights Issue on 20 December 2017. The gross proceeds from the Rights Issue were approximately HK$93,038,000. The net proceeds after deducting related expenses of approximately HK$2,982,000 were approximately HK$90,056,000.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

23. SHARE OPTION SCHEME

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

1. Purpose

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

2. Participants

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

(a) any employee(s) (whether full time or part time employee(s), including any executive director but not any non-executive director) of the Company, its subsidiaries or any Invested Entity ("Eligible Employee(s)");

(b) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;

(c) any supplier of goods or services to any member of the Group or any Invested Entity;

(d) any customer of the Group or any Invested Entity;

(e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and

(f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

23. SHARE OPTION SCHEME *(continued)*

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 the Company's shares in issue as of 28 February 2019 was 918,892,800 (2018: 918,892,800).

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:

NOTES TO FINANCIAL STATEMENTS

28 February 2019

23. SHARE OPTION SCHEME *(continued)*

4. Maximum entitlement of each participant *(continued)*

(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.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

23. SHARE OPTION SCHEME *(continued)*

Set out below are the outstanding share options under the Option Scheme as at 28 February 2019:

Name or category of participant	Number of share options: At 1 March 2018	Granted during the year	Cancelled or lapsed during the year	Exercised during the year	At 28 February 2019	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$ per share
Executive director								
Mr. Philip K H Ma	6,139,871	-	-	-	6,139,871	29 February 2016	29 February 2016 to 28 February 2021	0.332
Non-executive director								
Mr. Charles M W Chan[Δ]	613,987	-	-	-	613,987	29 February 2016	29 February 2016 to 28 February 2021	0.332
Independent non-executive directors								
Mr. King Wing Ma	613,987	-	-	-	613,987	29 February 2016	29 February 2016 to 28 February 2021	0.332
Mr. Eric K K Lo	613,987	-	-	-	613,987	29 February 2016	29 February 2016 to 28 February 2021	0.332
Mr. Peter Tan	613,987	-	-	-	613,987	29 February 2016	29 February 2016 to 28 February 2021	0.332
Other grantees								
Employees in aggregate	4,297,910	-	-	-	4,297,910	29 February 2016	29 February 2016 to 28 February 2021	0.332
Non-employees in aggregate	3,069,936	-	-	-	3,069,936	29 February 2016	29 February 2016 to 28 February 2021	0.332
	15,963,665	-	-	-	15,963,665			

NOTES TO FINANCIAL STATEMENTS

28 February 2019

23. SHARE OPTION SCHEME *(continued)*

Set out below are the outstanding share options under the Option Scheme as at 28 February 2018:

	Number of share options										
Name or category of participant	At 1 March 2017	Granted during the year	Cancelled or lapsed during the year	Adjustment for Right Issue	Cancelled or lapsed during the year	Exercised during the year	At 28 February 2018	Dates of grant of share options	Exercise periods of share options	Exercise prices of share options before the Rights Issue** HK$ per share	Adjusted exercise price of share options after the Rights Issue* HK$ per share
Executive directors											
Mr. Philip K H Ma	5,700,000	–	–	439,871	(6,139,871)	–	–	28 February 2013	28 February 2013 to 27 February 2018	0.820	0.761
	5,700,000	–	–	439,871	–	–	6,139,871	29 February 2016	29 February 2016 to 28 February 2021	0.358	0.332
Mr. John Y C Fu#	2,280,000	–	–	175,949	(2,455,949)	–	–	28 February 2013	28 February 2013 to 27 February 2018	0.820	0.761
	2,280,000	–	–	175,949	(2,455,949)	–	–	29 February 2016	29 February 2016 to 28 February 2021	0.358	0.332
Non-executive director											
Mr. Charles M W Chan^Δ	570,000	–	–	43,987	(613,987)	–	–	28 February 2013	28 February 2013 to 27 February 2018	0.820	0.761
	570,000	–	–	43,987	–	–	613,987	29 February 2016	29 February 2016 to 28 February 2021	0.358	0.332
Independent non-executive directors											
Mr. King Wing Ma	570,000	–	–	43,987	(613,987)	–	–	28 February 2013	28 February 2013 to 27 February 2018	0.820	0.761
	570,000	–	–	43,987	–	–	613,987	29 February 2016	29 February 2016 to 28 February 2021	0.358	0.332
Mr. Eric K K Lo	570,000	–	–	43,987	(613,987)	–	–	28 February 2013	28 February 2013 to 27 February 2018	0.820	0.761
	570,000	–	–	43,987	–	–	613,987	29 February 2016	29 February 2016 to 28 February 2021	0.358	0.332
Mr. Peter Tan	570,000	–	–	43,987	(613,987)	–	–	28 February 2013	28 February 2013 to 27 February 2018	0.820	0.761
	570,000	–	–	43,987	–	–	613,987	29 February 2016	29 February 2016 to 28 February 2021	0.358	0.332
Other grantees											
Employees in aggregate	3,130,000	–	(1,140,000)	153,569	(2,143,569)	–	–	28 February 2013	28 February 2013 to 27 February 2018	0.820	0.761
	5,130,000	–	(1,140,000)	307,910	–	–	4,297,910	29 February 2016	29 February 2016 to 28 February 2021	0.358	0.332
Non-employees in aggregate	2,850,000	–	–	219,936	(3,069,936)	–	–	28 February 2013	28 February 2013 to 27 February 2018	0.820	0.761
	2,850,000	–	–	219,936	–	–	3,069,936	29 February 2016	29 February 2016 to 28 February 2021	0.358	0.332
	34,480,000	–	(2,280,000)	2,484,887	(18,721,222)	–	15,963,665				

NOTES TO FINANCIAL STATEMENTS

28 February 2019

23. SHARE OPTION SCHEME *(continued)*

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

** The closing prices of the Company's shares immediately before the date on which the options were granted on 29 February 2016 and 28 February 2013 were HK$0.365 and HK$0.77, respectively.

Mr. John Y C Fu resigned as an executive director of the Company on 3 January 2018.

Δ Mr. Charles M W Chan was re-designated as a non-executive director of the Company on 18 September 2017.

The fair value of equity-settled share options granted during the year ended 29 February 2016 is estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options are granted. The following table lists the inputs to the model used:

	Share options granted in 2016
Dividend yield (%)	–
Expected volatility (%)	68
Risk-free interest rate (%)	1.11
Expected life of options (years)	5
Exit rate (%)	–
Weighted average share price (HK$ per share)	0.350

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The exit rate is based on the historical data on staff/director turnover rates.

No other feature of the options granted was incorporated into the measurement of fair value. Share option expenses for the share options granted to non-employees were stated at the fair value of equity-settled share options granted as the directors of the Company considered that the fair value of services received from non-employees cannot be reliably measured.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

23. SHARE OPTION SCHEME *(continued)*

The following share options were outstanding under the Option Scheme during the year:

	2019 Weighted average exercise price HK$ per share	**2019** Number of options	2018 Weighted average exercise price HK$ per share	2018 Number of options
At beginning of year	**0.332**	**15,963,665**	0.576	34,480,000
Lapsed during the year before the Rights Issue	**N/A**	**–**	0.589	(2,280,000)
Adjustment arising from the Rights Issue	**N/A**	**–**	N/A	2,484,887
Lapsed during the year after the Rights Issue	**N/A**	**–**	0.705	(18,721,222)
At end of year	**0.332**	**15,963,665**	0.332	15,963,665

No share options were granted, cancelled and exercised during the year. The share options granted on 28 February 2013 lapsed upon expiry on 27 February 2018. The Company had 21,001,222 share options lapsed and the respective share option reserve of HK$4,506,000 had been transferred to accumulated losses during the year ended 28 February 2018.

At the end of the reporting period, the Company had 15,963,665 share options outstanding under the Option Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 15,963,665 additional ordinary shares of the Company and additional share capital of HK$5,300,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 15,963,665 share options outstanding under the Option Scheme, which represented approximately 1.7% of the Company's shares in issue as at that date.

24. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

25. REMUNERATION OF THE DIRECTORS AND CHIEF EXECUTIVE AND THE FIVE HIGHEST PAID INDIVIDUALS

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019	2018
	HK$'000	*HK$'000*
Fees	**2,426**	2,913
Other emoluments:		
Salaries, allowances and other benefits	**12,893**	14,059
Pension contributions including pension cost for a defined benefit plan of HK$36,000 (2018: HK$44,000)	**36**	44
	15,355	17,016

In prior years, certain directors were granted share options, in respect of their services to the Group, under the Option Scheme, further details of which are set out in note 23 to the financial statements. The fair value of such options, which had been fully recognised in the income statement in prior years, was determined as at the date of grant.

25. REMUNERATION OF THE DIRECTORS AND CHIEF EXECUTIVE AND THE FIVE HIGHEST PAID INDIVIDUALS *(continued)*

	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Pension contributions HK$'000	Total HK$'000
2019				
Executive director				
Mr. Philip K H Ma#	**1,876**	**12,643**	**36**	**14,555**
Non-executive director				
Mr. Charles M W ChanΔ	**110**	**50**	**–**	**160**
Independent non-executive directors				
Mr. King Wing Ma	**110**	**50**	**–**	**160**
Mr. Eric K K Lo	**110**	**50**	**–**	**160**
Mr. Peter Tan	**110**	**50**	**–**	**160**
Mr. Anders W L Lau^	**110**	**50**	**–**	**160**
	440	**200**	**–**	**640**
	2,426	**12,893**	**36**	**15,355**
2018				
Executive directors				
Mr. Philip K H Ma#	1,876	12,267	35	14,178
Mr. John Y C Fu*	597	1,592	9	2,198
	2,473	13,859	44	16,376
Non-executive director				
Mr. Charles M W ChanΔ	110	50	–	160
Independent non-executive directors				
Mr. King Wing Ma	110	50	–	160
Mr. Eric K K Lo	110	50	–	160
Mr. Peter Tan	110	50	–	160
	330	150	–	480
	2,913	14,059	44	17,016

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

Mr. Philip K H Ma is also the chief executive of the Company.

* Mr. John Y C Fu resigned as an executive director of the Company on 3 January 2018.

Δ Mr. Charles M W Chan was re-designated as a non-executive director of the Company on 18 September 2017.

^ Mr. Anders W L Lau was appointed as an independent non-executive director of the Company on 1 March 2018.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

25. REMUNERATION OF THE DIRECTORS AND CHIEF EXECUTIVE AND THE FIVE HIGHEST PAID INDIVIDUALS *(continued)*

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

The five highest paid individuals included one (2018: two) director of the Company and his remuneration is included in the directors' and chief executive's remuneration above. The remuneration of the remaining four (2018: three) highest paid individuals, analysed by nature thereof and designated band, is set out below:

	2019 *HK$'000*	2018 *HK$'000*
Salaries and allowances	**5,656**	4,018
Pension contributions	**42**	20
	5,698	4,038

	Number of individuals	
	2019	2018
Nil – HK$1,500,000	**3**	2
HK$1,500,001 – HK$2,000,000	**–**	–
HK$2,000,001 – HK$2,500,000	**–**	–
HK$2,500,001 – HK$3,000,000	**1**	1

In prior years, share options were granted to non-director and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 23 to the financial statements. The fair value of such options, which had been fully recognised in the income statement in prior years, was determined as at the date of grant.

26. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Other loans *HK$'000*	Interest-bearing bank borrowings *HK$'000*
At 1 March 2017	2,958	142,372
Changes from financing cash flows	29	(48,048)
At 28 February 2018 and 1 March 2018	**2,987**	**94,324**
Changes from financing cash flows	**180**	**95,721**
At 28 February 2019	**3,167**	**190,045**

NOTES TO FINANCIAL STATEMENTS

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27. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group subleases a premise under an operating lease arrangement, with a lease negotiated for a term of three years.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with their tenants falling due as follows:

	2019	2018
	HK$'000	*HK$'000*
Within one year	**2,820**	2,820
In the second to fifth years, inclusive	**–**	2,820
	2,820	5,640

During the year, the Group did not receive any contingent rent (2018: Nil).

(b) As lessee

The Group leases certain of its land and buildings under operating lease arrangements, with leases negotiated for terms ranging from one to nine years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2019	2018
	HK$'000	*HK$'000*
Within one year	**126,652**	119,641
In the second to fifth years, inclusive	**197,827**	312,566
	324,479	432,207

Certain non-cancellable operating leases of the Group included above were subject to contingent rent payments, which were charged at 9% (2018: 9%) of the gross sales attributable to the leased premises in excess of the base rents as determined in accordance with the lease agreements.

NOTES TO FINANCIAL STATEMENTS

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28. OUTSTANDING COMMITMENTS AND CONTINGENT LIABILITIES

(a) Outstanding commitments and contingent liabilities at the end of the reporting period were as follows:

	2019 HK$'000	2018 HK$'000
Irrevocable letters of credit	21,059	25,352
Bank guarantees given in lieu of property rental deposits and to a supplier	23,095	22,519

(b) Subsequent to the year ended 28 February 2019, certain non-compliance matters regarding the Group's insurance business are brought to the attention of the Company. No provision has been made as at 28 February 2019. Details of which are disclosed in note 35(ii) to the financial statements.

29. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	2019 HK$'000	2018 HK$'000
Management service fees to related companies	856	2,343

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

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

	2019 HK$'000	2018 HK$'000
Short term employee benefits	18,894	19,733
Post-employment benefits, including pension cost for a defined benefit plan of HK$42,000 (2018: HK$49,000)	93	78
Total compensation of key management personnel	18,987	19,811

Further details of directors' and the chief executive's emoluments are included in note 25 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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30. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets

	Financial assets at amortised cost under HKFRS 9 **2019** ***HK$'000***	*Loans and receivables under HKAS 39* 2018 *HK$'000*
Financial assets included in prepayments, deposits and other receivables	**35,925**	36,020
Pledged bank balances	**6,829**	4,447
Pledged deposits with banks	**71,561**	70,873
Cash and bank balances	**32,318**	36,078
	146,633	147,418

	2019 ***HK$'000***	2018 *HK$'000*
Financial assets at fair value through profit or loss held for trading under HKFRS 9 and HKAS 39		
Financial assets at fair value through profit or loss	**111,939**	153,406
Financial assets at fair value through other comprehensive income under HKFRS 9		
Equity investments designated at fair value through other comprehensive income	**22,873**	–
Available-for-sale financial assets under HKAS 39		
Financial instruments	**–**	26,326

Financial liabilities

	2019 ***HK$'000***	2018 *HK$'000*
Financial liabilities at amortised cost under HKFRS 9 and HKAS 39		
Creditors	**52,774**	66,452
Provision for claims of life insurance	**128**	128
Financial liabilities included in deposits, accrued expenses and other payables	**86,084**	86,828
Interest-bearing bank borrowings	**190,045**	94,324
Other loans	**3,167**	2,987
	332,198	250,719

NOTES TO FINANCIAL STATEMENTS

28 February 2019

31. 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:

2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *HK$'000*	Significant observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*	Total *HK$'000*
Equity investments designated at fair value through other comprehensive income	–	–	22,873	22,873
Financial assets at fair value through profit or loss	65,705	46,234	–	111,939
	65,705	46,234	22,873	134,812

2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *HK$'000*	Significant observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*	Total *HK$'000*
Financial assets at fair value through profit or loss	94,938	58,468	–	153,406

During the years ended 28 February 2019 and 2018, 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.

The Group did not have any financial liabilities measured at fair value under Level 3 as at 28 February 2019 and 2018. As at 28 February 2018, the Group had no financial assets measured at fair value under Level 3. As at 28 February 2019, management used the following valuation techniques and key input for the valuation of financial assets measured at fair value under Level 3.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

31. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable input
Equity investments designated at fair value through other comprehensive income	Market approach	Discount for lack of marketability of 35.6%

The fair value of equity investments designated at fair value through other comprehensive income is determined using the market approach adjusted for lack of marketability discount. The fair value is negatively correlated to the discount for lack of marketability.

At 28 February 2019, it is estimated that an increase/decrease of 3% in the unobservable input, with all other variables held constant, would have increased/decreased the Group's other comprehensive income as follows:

	Increase/ (decrease) in unobservable input %	Increase/ (decrease) in other comprehensive income *HK$'000*
Discount for lack of marketability	3	(1,051)
	(3)	1,057

The movement during the year in the balance of Level 3 fair value measurements is as follows:

	HK$'000
Unlisted equity securities:	
At 1 March 2018	**33,875**
Net losses recognised in other comprehensive income	**(11,002)**
At 28 February 2019	**22,873**

From 1 March 2018, any gains or losses arising from the remeasurement of the Group's unlisted equity securities held for long term strategic purposes are recognised in the investment revaluation reserve in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to accumulated losses.

NOTES TO FINANCIAL STATEMENTS

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32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings, pledged deposits with banks, pledged bank balances and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as creditors and other loans, which arise directly from its operations.

The Group also enters into derivative transactions, including forward currency contracts. The purpose of such contracts is to manage the currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and market risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.5 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank borrowings and overdrafts with floating interest rates. The Group regularly reviews and monitors the mix of fixed and floating interest rate borrowings in order to manage its interest rate risk. Floating rate interest income and expenses are credited/charged to the income statement as earned/incurred. The Group's policy to manage its interest rate risk is to reduce or maintain its current level of interest-bearing borrowings.

At the end of the reporting period, a hypothetical 100-basis point increase/decrease in interest rates on the bank borrowings that are carried at variable rates would increase/decrease the interest expense as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Increase/decrease in interest expense	**1,900**	943

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the unit's functional currency. Also, the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group has a foreign currency hedging policy on Euro for the purchase of inventories, which is to hedge 50% of the anticipated total value of European purchases of inventories of the following season. Given that the Hong Kong dollar is pegged to the United States dollar ("US$"), management does not expect that the Group has significant foreign exchange exposure to US$, and hence the Group has no hedging policy on US$.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Foreign currency risk *(continued)*

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Euro exchange rates, with all other variables held constant, of the Group's loss before tax, in respect of the financial assets at fair value through profit or loss based on their carrying amounts at the end of the reporting period.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in loss before tax HK$'000
2019		
Investments denominated in:		
Euro	**5**	**(429)**
	(5)	**429**
2018		
Investments denominated in:		
Euro	5	(525)
	(5)	525

Credit risk

Maximum exposure and year-end staging as at 28 February 2019

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 28 February 2019. The amounts presented are gross carrying amounts for financial assets.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk *(continued)*

Maximum exposure and year-end staging as at 28 February 2019 *(continued)*

	12-month ECLs	Lifetime ECLs			
	Stage 1 *HK$'000*	Stage 2 *HK$'000*	Stage 3 *HK$'000*	Simplified approach *HK$'000*	*HK$'000*
Financial assets included in prepayments, deposits and other receivables					
– Normal*	35,925	–	–	–	35,925
– Doubtful*	–	–	–	–	–
Pledged bank balances					
– Not yet past due	6,829	–	–	–	6,829
Pledged deposits with banks					
– Not yet past due	71,561	–	–	–	71,561
Cash and bank balances					
– Not yet past due	32,318	–	–	–	32,318
	146,633	–	–	–	146,633

* The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Maximum exposure as at 28 February 2018

The credit risk of the Group's financial assets, which comprised pledged deposits with banks, pledged bank balances, cash and bank balances, financial assets at fair value through profit or loss, available-for-sale investments and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group traded only with recognised and creditworthy third parties, and there was no requirement for collateral. Receivable balances were monitored on an ongoing basis and the Group's exposure to bad debts was not significant.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans to ensure that the Group maintains sufficient cash to meet its liquidity requirements.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Liquidity risk *(continued)*

The maturity profile of the financial liabilities, as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

2019

	On demand or within 1 year *HK$'000*	**More than 1 year** *HK$'000*	**Total** *HK$'000*
Creditors	**52,774**	**–**	**52,774**
Provision for claims of life insurance	**128**	**–**	**128**
Deposits, accrued expenses and other payables	**44,359**	**41,725**	**86,084**
Interest-bearing bank borrowings	**193,544**	**–**	**193,544**
Other loans	**2,100**	**1,067**	**3,167**
	292,905	**42,792**	**335,697**

2018

	On demand or within 1 year *HK$'000*	More than 1 year *HK$'000*	Total *HK$'000*
Creditors	66,452	–	66,452
Provision for claims of life insurance	128	–	128
Deposits, accrued expenses and other payables	31,009	55,819	86,828
Interest-bearing bank borrowings	94,952	–	94,952
Other loans	1,941	1,046	2,987
	194,482	56,865	251,347

NOTES TO FINANCIAL STATEMENTS

28 February 2019

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Market risk

Market risk is the risk that the fair values of investments held for trading decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group was exposed to market risk arising from individual investments classified as held for trading (note 14) as at 28 February 2019.

The following table demonstrates the sensitivity to every 10% change in the fair values of the financial assets with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period.

	2019 ***HK$'000***	2018 *HK$'000*
Increase/decrease in loss before tax	**11,194**	15,341

Insurance risk management

The risk under an insurance contract is the risk that an insured event will occur including the uncertainty of the amount and timing of any resulting claim. The principal risk the Group faces under such contracts is that the actual claims and benefit payments may exceed the carrying amount of insurance liabilities. This is influenced by the frequency of claims, severity of claims, actual benefits paid which are greater than originally estimated and subsequent development of long tail claims. As at the end of the reporting period, no claims and benefit payments of life and general insurances were unsettled.

Capital management

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to the equity holders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and bank balances, interest-bearing bank borrowings and equity attributable to equity holders of the Company, comprising share capital and reserves. The Group monitors capital on the basis of the gearing ratio. This ratio is calculated based on total interest-bearing bank borrowings and total equity attributable to equity holders of the Company.

The gearing ratio as at the end of the reporting period was as follows:

	2019 ***HK$'000***	2018 *HK$'000*
Total interest-bearing bank borrowings	**190,045**	94,324
Total equity attributable to equity holders of the Company	**28,544**	168,332
Gearing ratio	**666%**	56%

NOTES TO FINANCIAL STATEMENTS

28 February 2019

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2019 **HK$'000**	2018 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**–**	6,635
Interests in subsidiaries	**163,676**	196,316
Equity investments designated at fair value through other comprehensive income	**17,352**	–
Financial instruments	**–**	10,051
Deposits	**25,518**	29,868
Pension scheme assets	**12,780**	15,397
Total non-current assets	**219,326**	258,267
CURRENT ASSETS		
Inventories	**66,896**	69,287
Prepayments, deposits and other receivables	**13,256**	9,853
Pledged deposits with banks	**60,427**	59,741
Cash and bank balances	**15,015**	11,447
Total current assets	**155,594**	150,328
CURRENT LIABILITIES		
Creditors	**52,767**	66,448
Deposits, accrued expenses and other payables	**40,585**	28,607
Contract liabilities	**1,253**	–
Interest-bearing bank borrowings	**178,525**	82,670
Total current liabilities	**273,130**	177,725
NET CURRENT LIABILITIES	**(117,536)**	(27,397)
TOTAL ASSETS LESS CURRENT LIABILITIES	**101,790**	230,870
NON-CURRENT LIABILITIES		
Accrued expenses and other payables	**41,725**	55,819
NET ASSETS	**60,065**	175,051

NOTES TO FINANCIAL STATEMENTS

28 February 2019

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Information about the statement of financial position of the Company at the end of the reporting period is as follows: *(continued)*

	2019	2018
	HK$'000	*HK$'000*
EQUITY		
Share capital	**377,236**	377,236
Reserves *(note)*	**(317,171)**	(202,185)
TOTAL EQUITY	**60,065**	175,051

Philip K H Ma
Director

Charles M W Chan
Director

NOTES TO FINANCIAL STATEMENTS

28 February 2019

33. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	General reserve *HK$'000*	Share option reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 March 2017	46,613	6,044	–	(188,534)	(135,877)
Loss for the year	–	–	–	(73,899)	(73,899)
Other comprehensive income for the year:					
Actuarial gains on a defined benefit plan	–	–	–	7,591	7,591
Total comprehensive loss for the year	–	–	–	(66,308)	(66,308)
Transfer of share option reserve upon the lapse of share options	–	(4,506)	–	4,506	–
At 28 February 2018	46,613	1,538	–	(250,336)	(202,185)
At 28 February 2018	**46,613**	**1,538**	**–**	**(250,336)**	**(202,185)**
Impact on initial application of HKFRS 9	**–**	**–**	**6,905**	**–**	**6,905**
At 1 March 2018 (restated)	**46,613**	**1,538**	**6,905**	**(250,336)**	**(195,280)**
Loss for the year	**–**	**–**	**–**	**(120,832)**	**(120,832)**
Other comprehensive loss for the year:					
Change in fair value of equity instruments at FVOCI	**–**	**–**	**396**	**–**	**396**
Actuarial losses on a defined benefit plan	**–**	**–**	**–**	**(1,455)**	**(1,455)**
Total comprehensive loss for the year	**–**	**–**	**396**	**(122,287)**	**(121,891)**
At 28 February 2019	**46,613**	**1,538**	**7,301**	**(372,623)**	**(317,171)**

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.5 to the financial statements. The amount will either be transferred to the share capital account when the related options are exercised, or be transferred to accumulated losses should the related options expire, be forfeited or lapse.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries are as follows:

Company	Place of incorporation/ registration and business	Issued/ registered share capital/ paid-up capital	Class of shares held	Percentage of equity attributable to the Company Directly	Indirectly	Principal activities
Ottoway Limited	British Virgin Islands	US$1	Registered	100	–	Investment holding
Right View Limited	Hong Kong	HK$2	Ordinary	–	100	Property holding
Silveroute Limited	British Virgin Islands	US$1	Registered	100	–	Securities trading
Sincere (Shanghai) Commercial Management Company Limited ^	PRC/Mainland China	US$1,000,000	N/A	100	–	Provision of management services
Sincere II	Hong Kong	HK$20,000,000	Ordinary	40.67#	17.31#	General insurance and investment
Sincere LA	Hong Kong	HK$10,000,000	Ordinary	48.09#	8.87#	Life insurance and investment
Perfumery	Hong Kong	HK$1,300,000	Ordinary	37.15#	25.22#	Investment holding
Springview Limited	Hong Kong	HK$500,000	Ordinary	100	–	Securities trading
The Sincere Finance Company, Limited	Hong Kong	HK$2	Ordinary	100	–	Provision of finance

^ Registered as a wholly-foreign-owned enterprise under PRC law

Sincere LA, Sincere II and Perfumery are accounted for as subsidiaries of the Group based on the factors as explained in note 3 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

34. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

The above table lists the subsidiaries of the Company, which in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

Sincere LA and its subsidiaries

	2019	2018
Percentage of effective equity interest held by non-controlling interests	**43.04**	43.04

	2019 **HK$'000**	2018 HK$'000
Loss for the year allocated to non-controlling interests	**(1,679)**	(1,541)
Accumulated balances of non-controlling interests at the reporting dates	**43,038**	44,861

The following tables illustrate the summarised financial information of Sincere LA and its subsidiaries. The amounts disclosed are before any inter-company eliminations:

	2019 **HK$'000**	2018 HK$'000
Profit/(loss) for the year	**(949)**	2,436
Total comprehensive loss for the year	**(5,508)**	(3,557)
Current assets	**6,307**	7,419
Non-current assets	**11,479**	11,820
Current liabilities	**(4,691)**	(2,197)
Net cash flows used in operating activities	**(3,645)**	(4,201)
Net cash flows from/(used in) investing activities	**(489)**	3,672
Net cash flows from financing activities	**2,221**	–
Net decrease in cash and cash equivalents	**(1,913)**	(529)

NOTES TO FINANCIAL STATEMENTS

28 February 2019

35. EVENTS AFTER THE REPORTING PERIOD

(i) In order to unwind the cross shareholdings between the Company, Sincere LA, Sincere II, Perfumery (collectively the "Sincere Companies"), simplify the group structure and improve the capital efficiency of the Group, on 22 March 2019, the board of directors of the Company (the "Board") proposed the reorganisation which involves (i) the open offer on the basis of three open offer shares for every five existing shares held by the shareholders (except for the Sincere Companies) on the record date at the open offer price of HK$0.26 per open offer share ("Open Offer"); (ii) the proposed share buy-backs and cancellation of the aggregate of 260,443,200 share held by the Sincere Companies ("Buy-backs Share") by the Company from each of the Sincere Companies at the buy-backs price of HK$0.26 per Buy-backs Share ("Share Buy-backs"); and (iii) the proposed acquisition by the Company of all of the issued shares in each of the Sincere Companies which are respectively held by the other Sincere Companies ("Intragroup Transfers") (collectively the "Reorganisation").

Upon the completion of the Reorganisation, Win Dynamic together with the parties acting in concert with it will own 30% or more of the shares of the Company in issue. Pursuant to Rules 13.5 and 26.1 of the Hong Kong Code on Takeovers and Mergers, Win Dynamic will be required to make mandatory offers in cash for all the shares and outstanding share options of the Company not already owned or agreed to be acquired by Win Dynamic and parties acting in concert with it.

(ii) Subsequent to the announcement of the Company dated 22 March 2019 in relation to the Reorganisation, it came to the attention of the Company that there are certain filings/consents required to be made to/obtained from the Insurance Authority (the "IA") by Sincere II and Sincere LA in relation to the Reorganisation pursuant to the Insurance Ordinance (Chapter 41 of the laws of Hong Kong), and there was a previous non-compliance matter of Sincere II and Sincere LA in that requisite IA regulatory filings/consents were not made/obtained in connection with Win Dynamic acquiring approximately 26.48% of the number of shares in issue and becoming a substantial shareholder of the Company as a result of the completion of the rights issue of the Company in December 2017 (the "Incident"). Pursuant to the Insurance Ordinance (Cap. 41 of the laws of Hong Kong), in failing to make the requisite filings/obtain the requisite consents (as the case may be) in relation to the Incident, (a) Sincere LA commits an offence and may be liable to a fine of HK$200,000, together with a fine of HK$2,000 for each day on which the offence continues; and (b) Sincere II commits an offence and may be liable to a fine of HK$200,000, together with a fine of HK$1,000 for each day on which the offence continues. Sincere LA and Sincere II are taking remedial actions in respect thereof and have had on-going communications with IA. IA is currently considering submissions made by Sincere LA and Sincere II. Based on the available information and opinion given by the legal counsel of Sincere LA and Sincere II, the board of the directors of the Company, Sincere LA and Sincere II are not yet in a position to ascertain possible actions that will be imposed by IA, hence no provision has been made as at 28 February 2019. Sincere LA and Sincere II will continue to discuss with IA and monitor the progress in relation thereof.

NOTES TO FINANCIAL STATEMENTS

28 February 2019

35. EVENTS AFTER THE REPORTING PERIOD *(continued)*

(iii) As mentioned in the announcement of the Company dated 22 May 2019, while Sincere LA and Sincere II are taking remedial action in respect of the Incident, after having taken legal advice on the time that may be required to process and obtain the necessary consents/approvals as mentioned above, the Board was in contemplation to abandon the Share Buy-backs and the Intragroup Transfers for the time being and to proceed only with the Open Offer (the "Changes in Contemplation") and would reconsider proposals to unwind the cross shareholdings between the Company and the Sincere Companies once all relevant compliance issues with the IA have been clarified and the Incident has been rectified, as and when appropriate.

It is intended that the agreements to give effect to the Changes in Contemplation, which include (i) a termination agreement to terminate the Share Buy-backs and the Intragroup Transfers; (ii) an amended and restated underwriting agreement in relation to the Open Offer; and (iii) a supplemental agreement to the placing agreement in relation to the Open Offer, will be entered into shortly after the date of publication of the annual results announcement of the Company.

Further details are disclosed in the Company's announcements dated 22 March 2019, 12 April 2019, 6 May 2019 and 22 May 2019.

36. COMPARATIVE AMOUNTS

Certain amounts in the consolidated financial statements for the year ended 28 February 2018 have been reclassified to conform with current year presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 May 2019.

FIVE-YEAR FINANCIAL SUMMARY

28 February 2019

The consolidated results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements are summarised below.

	Years ended 28/29 February				
	2019	2018	2017	2016	2015
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
RESULTS					
REVENUE	**311,865**	355,865	375,276	384,338	370,333
LOSS BEFORE TAX	**(134,727)**	(92,862)	(94,994)	(183,109)	(126,206)
INCOME TAX EXPENSE	**(16)**	(18)	(30)	(29)	(37)
LOSS FOR THE YEAR	**(134,743)**	(92,880)	(95,024)	(183,138)	(126,243)
Attributable to:					
Equity holders of the Company	**(132,068)**	(90,497)	(92,614)	(181,796)	(122,567)
Non-controlling interests	**(2,675)**	(2,383)	(2,410)	(1,342)	(3,676)
	(134,743)	(92,880)	(95,024)	(183,138)	(126,243)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
PROPERTY, PLANT AND EQUIPMENT	**27,261**	35,607	47,211	61,178	97,205
OTHER NON-CURRENT ASSETS	**63,197**	73,914	69,784	54,701	62,217
NET CURRENT ASSETS	**14,990**	152,176	156,276	243,687	376,090
NON-CURRENT LIABILITIES	**(42,792)**	(56,865)	(65,741)	(67,396)	(56,119)
NON-CONTROLLING INTERESTS	**(34,112)**	(36,500)	(57,791)	(59,174)	(59,786)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**28,544**	168,332	149,739	232,996	419,607