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The Sincere Company, Limited

Stock code: 244

2019

INTERIM REPORT

INTERIM RESULTS

The Board of Directors (the "Board") of The Sincere Company, Limited (the "Company") herein presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 31 August 2019, together with the comparative amounts. The interim financial statements have not been audited by the Company's auditor, but have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 August 2019

	Notes	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
REVENUE	4	138,100	146,082
Cost of sales		(61,826)	(68,409)
Other income and gains, net		7,845	3,740
Net unrealised loss on securities trading		(11,251)	(8,215)
Selling and distribution expenses		(86,289)	(96,215)
General and administrative expenses		(47,197)	(44,845)
Other operating expenses, net		(8,769)	(7)
Finance costs	5	(10,784)	(1,803)
LOSS BEFORE TAX	6	(80,171)	(69,672)
Income tax credit/(expense)	7	1	(10)
LOSS FOR THE PERIOD		(80,170)	(69,682)
ATTRIBUTABLE TO:			
Equity holders of the Company		(78,927)	(68,364)
Non-controlling interests		(1,243)	(1,318)
		(80,170)	(69,682)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	8		
Basic		HK\$(0.11)	HK\$(0.10)
Diluted		HK\$(0.11)	HK\$(0.10)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 August 2019

	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
LOSS FOR THE PERIOD	(80,170)	(69,682)
OTHER COMPREHENSIVE LOSS		
<i>Other comprehensive loss that may be reclassified to the income statement in subsequent periods:</i>		
Exchange differences arising on translation of foreign operations	(102)	(478)
Net other comprehensive loss that may be reclassified to the income statement in subsequent periods	(102)	(478)
<i>Other comprehensive loss that will not be reclassified to the income statement in subsequent periods:</i>		
Changes in fair value of equity investments designated at fair value through other comprehensive income	(2,369)	-
Net other comprehensive loss that will not be reclassified to the income statement in subsequent periods	(2,369)	-
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(2,471)	(478)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(82,641)	(70,160)
ATTRIBUTABLE TO:		
Equity holders of the Company	(82,059)	(69,328)
Non-controlling interests	(582)	(832)
	(82,641)	(70,160)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 August 2019 HK\$'000 (unaudited)	28 February 2019 HK\$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		26,795	27,261
Right-of-use assets	2	201,591	-
Interests in associates		-	-
Equity instruments designated at fair value through other comprehensive income		20,504	22,873
Deposits and other receivables		27,847	25,654
Pension scheme assets		14,670	14,670
Total non-current assets		291,407	90,458
CURRENT ASSETS			
Inventories		77,537	66,896
Reinsurance assets		24	24
Prepayments, deposits and other receivables		15,356	19,164
Financial assets at fair value through profit or loss		39,819	111,939
Pledged bank balances		18,595	6,829
Pledged deposits with banks		72,125	71,561
Cash and bank balances		31,740	32,318
Total current assets		255,196	308,731
CURRENT LIABILITIES			
Creditors	10	43,168	52,774
Insurance contracts liabilities		1,232	1,232
Deposits, accrued expenses and other payables		24,276	46,336
Contract liabilities		2,210	1,253
Interest-bearing bank borrowings	11	132,616	190,045
Other loans		2,107	2,100
Tax payable		-	1
Lease liabilities	2	101,824	-
Total current liabilities		307,433	293,741
NET CURRENT ASSETS/(LIABILITIES)		(52,237)	14,990
TOTAL ASSETS LESS CURRENT LIABILITIES		239,170	105,448

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

	Notes	31 August 2019 HK\$'000 (unaudited)	28 February 2019 HK\$'000 (audited)
NON-CURRENT LIABILITIES			
Accrued expenses and other payables		9,067	41,725
Other loans		1,078	1,067
Lease liabilities	2	156,269	–
Total non-current liabilities		166,414	42,792
NET ASSETS			
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	12	469,977	377,236
Reserves		(430,751)	(348,692)
		39,226	28,544
Non-controlling interests		33,530	34,112
TOTAL EQUITY		72,756	62,656

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 August 2019

	Attributable to equity holders of the Company							Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Treasury shares HK\$'000	Reserves				Total reserves HK\$'000		
			General and other reserves HK\$'000	Share option reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000			
At 1 March 2019 (audited)	377,236	(130,221)	227,903	1,538	(3,453)	(444,459)	(348,692)	34,112	62,656
Loss for the period	-	-	-	-	-	(78,927)	(78,927)	(1,243)	(80,170)
Other comprehensive income/(loss) for the period:									
Change in fair value of equity investments designated at fair value through other comprehensive income	-	-	-	-	(2,369)	-	(2,369)	-	(2,369)
Exchange differences arising on translation of foreign operations	-	-	(763)	-	-	-	(763)	661	(102)
Total comprehensive loss for the period	-	-	(763)	-	(2,369)	(78,927)	(82,059)	(582)	(82,641)
Issue of shares (note 12)	102,718	-	-	-	-	-	-	-	102,718
Share issue expenses (note 12)	(9,977)	-	-	-	-	-	-	-	(9,977)
Transfer of share option reserve upon the forfeiture of share options	-	-	-	(1,538)	-	1,538	-	-	-
At 31 August 2019 (unaudited)	469,977	(130,221)	227,140	-	(5,822)	(521,848)	(430,751)	33,530	72,756

For the six months ended 31 August 2018

	Attributable to equity holders of the Company							Non-controlling interests HK\$'000	Total HK\$'000
	Share capital HK\$'000	Treasury shares HK\$'000	Reserves				Total reserves HK\$'000		
			General and other reserves HK\$'000	Share option reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000			
At 1 March 2018 (audited)	377,236	(130,221)	230,678	1,538	7,549	(310,899)	(201,355)	36,500	212,381
Loss for the period	-	-	-	-	-	(68,364)	(68,364)	(1,318)	(69,682)
Other comprehensive income/(loss) for the period:									
Exchange differences arising on translation of foreign operations	-	-	(964)	-	-	-	(964)	486	(478)
Total comprehensive loss for the period	-	-	(964)	-	-	(68,364)	(69,328)	(832)	(70,160)
At 31 August 2018 (unaudited)	377,236	(130,221)	229,714	1,538	7,549	(379,263)	(270,683)	35,668	142,221

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 August 2019

	Note	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Net cash flows from/(used in) operating activities		30,613	(74,747)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to items of property, plant and equipment		(381)	(104)
Increase in deposits of property, plant and equipment		-	(3,802)
Proceeds from disposal of items of property, plant and equipment		213	163
Increase in pledged bank balances		(11,766)	(380)
Increase in pledged deposits with banks		(564)	(250)
Advance to an associate		-	(4)
Net cash flows used in investing activities		(12,498)	(4,377)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	12	102,718	-
Share issue expenses	12	(9,977)	-
Repayments of bank loans		(172,989)	(210,138)
New bank loans		115,560	278,810
Increase in other loans		18	15
Principal portion of lease payments		(54,023)	-
Net cash flows from/(used in) financing activities		(18,693)	68,687
NET DECREASE IN CASH AND CASH EQUIVALENTS		(578)	(10,437)
Cash and cash equivalents at beginning of period		32,318	36,078
Cash and cash equivalents at end of period		31,740	25,641
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash on hand and at bank and cash and cash equivalents as stated in the condensed consolidated statement of cash flows		31,740	25,641

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 August 2019

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 31 August 2019 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Save for those new and revised Hong Kong Financial Reporting Standards ("HKFRSs") adopted during the period as set out in note 2, the significant accounting policies and basis of preparation used in the preparation of the condensed consolidated interim financial statements are the same as those used in the Group's audited consolidated financial statements for the year ended 28 February 2019.

The financial information relating to the year ended 28 February 2019 that is included in the condensed consolidated statement of financial position as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 28 February 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

1.1 Going concern basis

The Group's operations are financed by both bank borrowings and internal resources. As at 31 August 2019, the Group's current liabilities exceeded its current assets by HK\$52,237,000 (28 February 2019: net current assets of HK\$14,990,000). This liquidity shortfall was mainly attributable to the adoption of HKFRS 16 resulting in recognition of current lease liabilities of HK\$101,824,000 netting off with the decrease in accrued rental expenses of HK\$48,647,000 classified as other payables and accruals as at 28 February 2019 which had been reclassified to net off with right-of-use assets upon the initial application of HKFRS 16 *Leases* as further explained in note 2 below.

The Group's cash and cash equivalents amounted to HK\$31,740,000 (28 February 2019: HK\$32,318,000) as at 31 August 2019. In addition, during the six months ended 31 August 2019, the Group reported a loss of HK\$80,170,000 (2018: HK\$69,682,000).

Amid the challenging business environment, the Group had continued to make payments to suppliers of merchandise according to predetermined schedule, and made scheduled repayment of bank borrowings and interest. The Group also recorded a net cash inflow from operations of HK\$30,613,000 during the period.

The management closely monitors the Group's financial performance and liquidity position to assess the Group's ability to continue as a going concern. In view of these circumstances, the management has been continuously implementing measures to improve profitability, control operating costs and contain capital expenditures in order to improve the Group's operating performance and alleviate its liquidity risk. These measures include (i) continuously remapping its marketing strategies and pricing policies, (ii) continuing its measures to control capital and operating expenditures, and (iii) negotiating with its landlords for rental reduction with successful cases during the period and subsequent to 31 August 2019. The management believes that these measures will further improve the Group's operating profitability and the resulting cash flows. With respect to the Group's bank financing, the Group maintains continuous communication with its banks and has successfully renewed the banking facilities with its principal banks. As at 31 August 2019, the Group had unutilised banking facilities of HK\$119,223,000 in which unutilised trade financing facilities amounted to HK\$45,834,000 and unutilised term loan and overdraft facilities amounted to HK\$73,389,000. Based on the latest communications with the banks, the directors of the Company are not aware of any intention of the principal banks to withdraw their banking facilities or require early repayment of the borrowings, and the directors believe that the existing banking facilities will be renewed when their current terms expire given the good track records and relationships the Group has with the banks.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

31 August 2019

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

1.1 Going concern basis (Cont'd)

The Company's directors have reviewed the Group's cash flow projections prepared by the management. The cash flow projections cover a period of not less than twelve months from 31 August 2019. Based on these cash flow projections, the Group will have sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from 31 August 2019. Management's projections make key assumptions with regard to the anticipated cash flows from the Group's operations, capital expenditures and the continuous availability of banking facilities. The Group's ability to achieve the projected cash flows depends on management's ability to successfully implement the aforementioned improvement measures on profitability and liquidity and the continuous availability of banking facilities from its banks. The directors, after making due enquiries and considering the basis of management's projections described above and after taking into account the reasonably possible changes in the operational performance and the successful renewal and continuous availability of the banking facilities, believe that there will be sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from 31 August 2019. Accordingly, the condensed consolidated interim financial statements have been prepared on a going concern basis.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 28 February 2019, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 March 2019.

Amendments to HKFRS 9
HKFRS 16
Amendments to HKAS 19
Amendments to HKAS 28
HK(IFRIC)-Int 23
Annual Improvements
2015-2017 Cycle

*Prepayment Features with Negative Compensation
Leases
Plan Amendment, Curtailment or Settlement
Long-term Interests in Associates and Joint Ventures
Uncertainty over Income Tax Treatments*
Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 *Leases*, the new and revised standards are not relevant to the preparation of the Group's condensed consolidated interim financial statements. The nature and impact of HKFRS 16 are described below:

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 account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 March 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of accumulated losses at 1 March 2019, and the comparative information for 28 February 2019 was not restated and continues to be reported under HKAS 17.

NEW DEFINITION OF A LEASE

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 March 2019.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONT'D)

NEW DEFINITION OF A LEASE (CONT'D)

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

AS A LESSEE – LEASES PREVIOUSLY CLASSIFIED AS OPERATING LEASES

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for offices and retail shops. As a lessee, the Group previously classified leases as operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 March 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 March 2019.

The right-of-use assets were 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 condensed consolidated statement of financial position immediately before 1 March 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the condensed consolidated statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 March 2019:

- Applied the short-term exemptions to leases with a lease term that ends within 12 months from the date of initial application;
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- Applied a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relied on the entity's assessment of whether leases were onerous by applying HKAS 37 immediately before 1 March 2019 as an alternative to performing an impairment review; and
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

31 August 2019

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONT'D)

AS A LESSEE – LEASES PREVIOUSLY CLASSIFIED AS OPERATING LEASES (CONT'D)

Impacts on transition (Cont'd)

The impacts arising from the adoption of HKFRS 16 as at 1 March 2019 are as follows:

	Increase/ (decrease) HK\$'000 (unaudited)
Assets	
Increase in right-of-use assets and total assets	292,083
Liabilities	
Increase in lease liabilities	340,730
Decrease in other payable and accruals	(48,647)
Increase in total liabilities	292,083

The lease liabilities as at 1 March 2019 reconciled to the operating lease commitments as at 28 February 2019 is as follows:

	HK\$'000 (unaudited)
Operating lease commitments as at 28 February 2019	324,479
Weighted average incremental borrowing rate as at 1 March 2019	5.1%
Discounted operating lease commitments as at 1 March 2019	303,996
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 29 February 2020	(8,805)
Add: Payments for optional extension periods not recognised as at 28 February 2019	45,539
Lease liabilities as at 1 March 2019	340,730

SUMMARY OF NEW ACCOUNTING POLICIES

The accounting policy for leases as disclosed in the annual financial statements for the year ended 28 February 2019 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 March 2019:

RIGHT-OF-USE ASSETS

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

31 August 2019

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONT'D)

SUMMARY OF NEW ACCOUNTING POLICIES (CONT'D)

LEASE LIABILITIES

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

SIGNIFICANT JUDGEMENT IN DETERMINING THE LEASE TERM OF CONTRACTS WITH RENEWAL OPTIONS

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

AMOUNTS RECOGNISED IN THE CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

The carrying amounts of the Group's right-of-use assets and lease liabilities, and the movement during the period are as follows:

	Right-of-use assets	Lease liabilities
	Land and buildings HK\$'000	HK\$'000
As at 1 March 2019	292,083	340,730
Depreciation charge (note 6)	(46,559)	-
Interest expense (note 5)	-	7,538
Payments	-	(54,023)
Modification of contractual terms	(36,152)	(36,152)
Impairment (note 6)	(7,781)	-
	201,591	258,093
As at 31 August 2019	201,591	258,093
Analysed for reporting purpose as :		
Non-current	201,591	156,269
Current	-	101,824
	201,591	258,093

The Group recognised rental expenses from short-term leases and variable lease payments not based on index or rate of HK\$6,160,000 for the six months ended 31 August 2019.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

31 August 2019

3. SEGMENT INFORMATION

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

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

- the department store operations segment consists of the operations of department stores offering a wide range of consumer products;
- the securities trading segment consists of the trading of Hong Kong and overseas securities; and
- the others segment mainly consists of sublease of properties and general and life insurances.

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment 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 and finance costs are excluded from such measurement.

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

(A) OPERATING SEGMENTS

The following table presents revenue and loss for the Group's operating segments for the six months ended 31 August 2019 and 31 August 2018.

	Department store operations		Securities trading		Others		Eliminations		Total	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Segment revenue:										
Sales to external customers	135,504	143,632	726	550	1,870	1,900	-	-	138,100	146,082
Intersegment sales	-	-	-	-	15,910	15,346	(15,910)	(15,346)	-	-
Other revenue/(expense)	850	(104)	6,276	3,066	34	169	-	-	7,160	3,131
Total	136,354	143,528	7,002	3,616	17,814	17,415	(15,910)	(15,346)	145,260	149,213
Segment results	(54,009)	(52,139)	(9,039)	(9,537)	(7,024)	(6,802)	-	-	(70,072)	(68,478)
Interest income and unallocated revenue, net									685	609
Finance costs									(10,784)	(1,803)
Loss before tax									(80,171)	(69,672)
Income tax credit/(expense)									1	(10)
Loss for the period									(80,170)	(69,682)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

31 August 2019

3. SEGMENT INFORMATION (CONT'D)

(B) GEOGRAPHICAL INFORMATION

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

	Hong Kong		United Kingdom		Others		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018
	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Segment revenue: Sales to external customers	137,700	145,358	100	107	300	617	138,100	146,082

4. REVENUE

	For the six months ended 31 August	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Revenue from contracts with customers		
Sale of goods – own goods	103,909	107,238
Net income from counter and consignment sales	31,595	36,394
Revenue from other sources		
Net realised gain on securities trading	726	550
Rental income	1,863	1,862
Gross insurance contracts premium revenue	7	38
	138,100	146,082

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 31 August	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Interest on bank borrowings	3,208	1,759
Interest on lease liabilities (note 2)	7,538	–
Others	38	44
	10,784	1,803

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

31 August 2019

6. LOSS BEFORE TAX

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

	For the six months ended 31 August	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Depreciation of property, plant and equipment	581	2,503
Depreciation of right-of-use assets	46,559	-
Reversal of provision for inventories [^]	(2,664)	-
Impairment on interest in an associate *	-	4
Impairment of items of property, plant and equipment *	988	-
Impairment of right-of-use assets *	7,781	-
Gain on disposal of items of property, plant and equipment #	(213)	(161)

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

*

Amount is included in "Other operating expenses, net" on the face of the condensed consolidated income statement.

#

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

7. INCOME TAX

	For the six months ended 31 August	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Current – Hong Kong	-	-
Current – Elsewhere	-	-
Charge for the period	-	10
Overprovision in prior periods	(1)	-
Total tax charge/(credit) for the period	(1)	10

No provision for Hong Kong profits tax had been made as there were no assessable profits arising in Hong Kong during the period (2018: Nil). During the period ended 31 August 2019, taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates.

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

The calculation of the basic loss per share is based on the loss for the period attributable to equity holders of the Company of HK\$78,927,000 (2018: HK\$68,364,000) and the weighted average number of ordinary shares of 731,451,621 (2018: 658,449,600) in issue throughout the period, as adjusted to reflect the number of treasury shares of 260,443,200 (2018: 260,443,200) held by the Company's subsidiaries.

No adjustment had been made to the basic loss per share amounts presented for the periods ended 31 August 2019 and 2018 in respect of a dilution as the impact of the share options outstanding during the periods had an anti-dilutive effect on the basic loss per share amounts presented.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

31 August 2019

9. DIVIDEND

The Board has decided not to declare an interim dividend for the six months ended 31 August 2019 (2018: Nil).

10. CREDITORS

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

	31 August 2019 HK\$'000 (unaudited)	28 February 2019 HK\$'000 (audited)
Current – 3 months	39,991	49,763
4 – 6 months	1,788	2,494
7 – 12 months	261	29
Over 1 year	1,128	488
	43,168	52,774

11. INTEREST-BEARING BANK BORROWINGS

	31 August 2019 HK\$'000 (unaudited)	28 February 2019 HK\$'000 (audited)
Bank loans, secured	132,616	190,045
Analysed into:		
Within one year or on demand	132,616	190,045

The bank loans bear interest at rates ranging from 1.4% to 5.1% (28 February 2019: 1.4% to 5.1%) per annum. The interest-bearing borrowings are mainly denominated in Hong Kong dollars.

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

- (i) the pledge of certain of the Group's bank balances of HK\$18,595,000 (28 February 2019: HK\$6,829,000) and time deposits amounting to HK\$72,125,000 (28 February 2019: HK\$71,561,000);
- (ii) the pledge of certain of the Group's marketable securities with an aggregate market value of approximately HK\$29,504,000 (28 February 2019: HK\$72,358,000); and
- (iii) mortgages over certain of the Group's leasehold land and buildings with an aggregate carrying value at the end of the reporting period of approximately HK\$25,897,000 (28 February 2019: HK\$26,403,000).

12. SHARE CAPITAL

	31 August 2019 HK\$'000 (unaudited)	28 February 2019 HK\$'000 (audited)
Issued and fully paid: 1,313,962,560 (28 February 2019: 918,892,800) ordinary shares	469,977	377,236

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

31 August 2019

12. SHARE CAPITAL (CONT'D)

As at 31 August 2019 and 28 February 2019, The Sincere Life Assurance Company Limited ("Sincere LA"), The Sincere Insurance & Investment Company, Limited ("Sincere II") and The Sincere Company (Perfumery Manufacturers), Limited ("Perfumery"), subsidiaries of the Company, held 183,136,032, 75,608,064 and 1,699,104 ordinary shares of 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 2019	918,892,800	377,236
Issue of shares	395,069,760	102,718
Share issue expenses	-	(9,977)
At 31 August 2019	1,313,962,560	469,977

Note:

Pursuant to the joint announcements dated 22 March 2019 and 28 May 2019 issued by the Company and Win Dynamic Limited, in relation to among other things, the open offer and the prospectus of the Company dated 5 July 2019 and the announcements dated 22 July 2019 and 29 July 2019 issued by the Company, the Company proposed an open offer on the basis of open offer shares for every five existing shares at the subscription price of HK\$0.26 per open offer share ("Open Offer"). A total of 395,069,760 shares were issued under the Open Offer on 29 July 2019. The gross proceeds from the Open Offer were approximately HK\$102,718,000. The net proceeds after deducting related expenses of approximately HK\$9,977,000 were approximately HK\$92,741,000.

13. RELATED PARTY TRANSACTIONS

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

	For the six months ended 31 August	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Management service fees to related companies	473	383

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

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

	For the six months ended 31 August	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Short term employee benefits	10,918	9,224
Post-employment benefits, including pension cost for a defined benefit plan of HK\$20,000 (2018: HK\$21,000)	49	39
Total compensation paid to key management personnel	10,967	9,263

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

31 August 2019

14. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

Assets measured at fair value:

As at 31 August 2019

	Fair value measurement using			Total HK\$'000 (unaudited)
	Quoted prices in active markets (Level 1) HK\$'000 (unaudited)	Significant observable inputs (Level 2) HK\$'000 (unaudited)	Significant unobservable inputs (Level 3) HK\$'000 (unaudited)	
Equity instruments designated at fair value through other comprehensive income	-	-	20,504	20,504
Financial assets at fair value through profit or loss	32,623	7,196	-	39,819
	32,623	7,196	20,504	60,323

As at 28 February 2019

	Fair value measurement using			Total HK\$'000 (audited)
	Quoted prices in active markets (Level 1) HK\$'000 (audited)	Significant observable inputs (Level 2) HK\$'000 (audited)	Significant unobservable inputs (Level 3) HK\$'000 (audited)	
Equity instruments 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

During the period ended 31 August 2019 and the year ended 28 February 2019, 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 31 August 2019 and 28 February 2019. As at 31 August 2019 and 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

31 August 2019

14. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONT'D)

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs
As at 31 August 2019		
Equity instruments designated at fair value through other comprehensive income	Adjusted net assets and market approach	Discount for lack of marketability of 35.6%
As at 28 February 2019		
Equity instruments designated at fair value through other comprehensive income	Adjusted net assets and market approach	Discount for lack of marketability of 35.6%

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

At 31 August 2019, it is estimated that an increase/decrease of 3% in each of the unobservable inputs, with all other variables held constant, would have increased/decreased the Group's other comprehensive income as follows:

	Increase/ (decrease) in unobservable inputs %	Increase/ (decrease) in other comprehensive income HK\$' 000
As at 31 August 2019		
Discount for lack of marketability	3 (3)	(905) 922
As at 28 February 2019		
Discount for lack of marketability	3 (3)	(1,051) 1,057

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

	HK\$'000 (unaudited)
Unlisted equity securities:	
At 1 March 2019	22,873
Net losses recognised in other comprehensive income	(2,369)
At 31 August 2019	20,504

No fair value change in the unlisted equity securities during the period ended 31 August 2018.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

31 August 2019

14. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONT'D)

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.

15. OUTSTANDING COMMITMENTS AND CONTINGENT LIABILITIES

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

	31 August 2019 HK\$'000 (unaudited)	28 February 2019 HK\$'000 (audited)
Irrevocable letters of credit	21,960	21,059
Bank guarantees given in lieu of property rental deposits and to a supplier	26,691	23,095

(b) During the period ended 31 August 2019, certain non-compliance matters regarding the Group's insurance business are brought to the attention of the Company. Details of which are disclosed in note 16 below.

16. CONTINGENT LIABILITIES

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 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 Limited ("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.

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, 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 31 August 2019. Sincere LA and Sincere II will continue to discuss with IA and monitor the progress in relation thereof.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)

31 August 2019

17. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 25 October 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM RESULTS

The unaudited consolidated revenue of the Group for the six months ended 31 August 2019 was HK\$138 million, decreased by HK\$8 million or 5% as compared to the same period of last year. The unaudited loss attributable to equity holders of the Company for the six months ended 31 August 2019 was HK\$80 million, losses increased by HK\$10 million or 15% from last period. This was mainly due to the impairment of right-of-use assets of HK\$7.8 million and impairment of items of property, plant and equipment of HK\$1 million during the period.

BUSINESS REVIEW AND FUTURE PROSPECTS

DEPARTMENT STORE OPERATIONS

During the period under review, Hong Kong's retail market was significantly affected by the poor social atmosphere and the cautious consumer sentiment. As a result of the continuous social incidents in Hong Kong, together with the effect of depreciation of Renminbi, the number of visitor arrivals from mainland China to Hong Kong had greatly reduced. The threat of China-US trade war further deteriorated the consumer sentiment. The recent provisional statistics of retail sales for August 2019 from Census and Statistics Department showed that the total retail sales for the first eight months of 2019 was estimated to be dropped by 6% as compared with the same period in 2018.

Our Group's performance was unavoidably affected by the above events. Our department operations recorded revenue of HK\$136 million, dropped by 5% against the same period of last year, which was in line with the market performance. By improving our merchandise, such as sourcing stylish Spanish apparels and shoes to complement our Italian and German collection, the gross profit ratio for the department operations had a slightly increase by approximately 2%. Consequently, the gross profit for all six department stores was only dropped by 2%, despite the closure of the Sincere CWB Store in early July 2019.

With the aim of continued clearance of previous season's inventories, since year ended 28 February 2019, the Group successfully cleared those aged inventories and a reversal of provision for inventories of HK\$2.7 million was made during the period.

In view of the possibility of economic downturn, the Group had put more effort on managing the net cash flows from operating activities during the period. A cash inflow from operating activities of HK\$31 million was generated, as compared to a cash outflow of HK\$75 million with the same period in 2018. Such cash inflow was used for repayment of interest-bearing bank borrowings to reduce the interest expenses and the gearing ratio.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

SECURITIES TRADING

Both local and global financial markets were volatile throughout the period. The social instability issue and the intensification of China-US trade war significantly affected the financial markets. Despite the continuous release of money liquidity from the Chinese Central Government, Hang Seng Index was dropped by more than 10% during the period under review. Hence, a segment loss of HK\$9 million (2018: HK\$9.5 million) was resulted. In order to reduce the exposure to market risk the Group was facing, the total amount of securities investment held for trading was reduced from HK\$112 million to HK\$40 million during the period.

PROSPECTS

Looking ahead, given the persistent poor social atmosphere and the instability of the global stock market, the Group expects the operating environment would continue to be difficult in 2019 and 2020. The management of the department stores will return to basics to sustain the store operations, improve the gross profit margin, strengthen the merchandising mix and enhance the customer services. The management will also streamline the operation and curtail the operating and management costs to protect the bottom line.

On the securities trading investments, the management will remain cautious to position its investment and stay liquid until the market conditions show a clear sign of improvement. To conclude, the management team is prepared for the challenges ahead, priority would be given to sustain the core department store operation and to maintain a healthy cash position for the Group.

USE OF NET PROCEEDS

The Group has received approximately HK\$92.7 million net proceeds, after deducting underwriting fee and other related expenses, from issuing of the Company's shares in 2019.

These net proceeds were applied up to 31 August 2019 in accordance with the proposed applications set out in the section headed "REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS" in the Company's prospectus dated 5 July 2019 as follows:

	Net proceeds (HK\$ million)		
	Available	Utilised	Unutilised
Repayment of interest-bearing bank borrowings	23.5	23.5	-
Procurement of inventories	40.0	40.0	-
General working capital	29.2	18.8	10.4
	92.7	82.3	10.4

The Group held the unutilised net proceeds in short-term deposits with banks in Hong Kong as at 31 August 2019.

LIQUIDITY AND FINANCIAL RESOURCES

At 31 August 2019, the Group had cash and bank balances of HK\$122.5 million (28 February 2019: HK\$110.7 million), of which HK\$90.7 million (28 February 2019: HK\$78.4 million) were pledged.

The interest-bearing bank borrowings of the Group at 31 August 2019 were HK\$133 million (28 February 2019: HK\$190 million), which was repayable within one year. The bank borrowings were mainly in HK dollars with interest rates ranging from 1.4% to 5.1% per annum. The interest expense charged to the condensed consolidated income statement, excluding the interest on lease liabilities, for the period was HK\$3 million (2018: HK\$2 million).

The Group's gearing ratio, which is total interest-bearing bank borrowings to the equity attributable to equity holders of the Company, decreased from 666% as of 28 February 2019 to 338% as of 31 August 2019. The decrease was attributable to the completion of open offer during the period and a new funding from open offer of totally HK\$103 million was received by the Group. The current ratio of the Group at 31 August 2019 was 0.83 as compared to 1.05 at 28 February 2019.

In addition to internally generated cash flows, the Group also made use of both long-term and short-term borrowings to finance its operation during the period. All interest-bearing bank borrowings were secured against the securities investment, a property and bank deposits.

OTHER INFORMATION (CONT'D)

SIGNIFICANT INVESTMENTS HELD

As at 31 August 2019, the Group has held for trading investments with fair value of HK\$40 million (28 February 2019: HK\$112 million). During the period, the Group recorded realised gain of HK\$0.7 million (2018: HK\$0.6 million) and unrealised loss on fair value of HK\$11 million (2018: HK\$8 million). Information in relation to the 10 largest investments as at 31 August 2019 are 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 period HK\$'000	Realised gain/(loss) for the period HK\$'000	Unrealised gain/(loss) on fair value change for the period HK\$'000	Fair value as at 31 August 2019 HK\$'000	% of total assets
1. HSBC Holdings plc (Stock Code: 0005)	Equity	Banks	208,000	20,297	503	-	(1,633)	11,710	2.14%
2. China Mobile Ltd (Stock Code: 0941)	Equity	Telecommunication services	110,000	5,737	137	-	(1,941)	7,145	1.31%
3. C432 PA Offshore Feeder Fund LP:CLS A:USD	Fund	Real Estate	914,005	8,554	3,258	-	(3,294)	3,664	0.67%
4. CK Hutchison Holdings Ltd (Stock Code: 0001)	Equity	Conglomerates	53,208	4,700	76	(2)	(811)	3,634	0.66%
5. CK Asset Holdings Ltd (Stock Code: 1113)	Equity	Property development	53,208	-	122	3	(633)	2,833	0.52%
6. CIFI Holdings Group 5.5% 230123 N SUB (RES US)	Bond	Property development	265,000	2,067	-	-	87	2,023	0.37%
7. Lenovo Group Limited (Stock Code: 992)	Equity	Technology products and services	260,000	1,742	56	-	(497)	1,342	0.25%
8. Chong Hing Bank 6% 041120 M/N	Bond	Banks	150,000	1,170	-	-	4	1,211	0.22%
9. HLP Finance Ltd 4.75% 250622 J/D	Bond	Financial	100,000	769	-	-	16	821	0.15%
10. ING Group N.V. -CVA (EUR)	Equity	Banks	10,263	1,872	51	-	(291)	769	0.14%

During the period, the Group received dividends of approximately HK\$6 million (2018: HK\$3 million) 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.

OTHER INFORMATION (CONT'D)

EMPLOYEES AND REMUNERATION POLICIES

At 31 August 2019, the Group had 289 employees (28 February 2019: 328) 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. In addition to basic salary and discretionary bonuses based on individual merit, sales personnel are further remunerated on the basis of goal-oriented packages, comprising several schemes of sales commission. The Group provides employee benefits such as employee stock options, staff purchase discounts, subsidised medical care and training courses.

INTERIM DIVIDEND

The Board has decided not to declare an interim dividend for the six months ended 31 August 2019.

SUBSTANTIAL SHAREHOLDERS

At 31 August 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 required 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)	19.69
The Sincere Insurance & Investment Company, Limited	Beneficial owner	Corporate	75,608,064 (Notes, 2, 4)	5.75
The Company	Interests of controlled corporations	Corporate	260,443,200 (Notes 3, 4)	19.82
Win Dynamic Limited	Beneficial owner/Interests of controlled corporations/Party to S.317 Agreement*	Corporate	667,747,676 (Note 5)	50.82
Yuan Lie Ming Peter	Beneficial owner	Personal	93,060,800	7.08

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

OTHER INFORMATION (CONT'D)

SUBSTANTIAL SHAREHOLDERS (CONT'D)

Notes:

- (1) The Sincere Life Assurance Company Limited beneficially owned 183,136,032 shares of the Company, representing approximately 13.94% of the issued shares of the Company and had a deemed interest in 75,608,064 shares of the Company, representing approximately 5.75% of the issued shares of the Company by virtue of its interest 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 5.75% of the issued shares of the Company.
- (3) The Company was deemed to be interested in 260,443,200 shares of the Company, representing 19.82% of the issued shares of the Company, by virtue of its 56.96% interest 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 662,525,276 shares of the Company, representing approximately 50.42% of the issued shares of the Company and deemed interested by reason of being party to a S.317 Agreement in a further 5,222,400 shares of the Company, representing approximately 0.40% of the issued shares of the Company.

OTHER INFORMATION (CONT'D)

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

At 31 August 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 Rules Governing the Listing of Securities on the Stock Exchange (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	Total interests	Approximate % of shares in issue
Philip K H Ma	Beneficial owner/Interest of controlled corporation/Party to s.317 Agreement	5,120,000	662,525,276 (Notes 1, 3)	102,400 (Notes 1, 3)	667,747,676	50.82
King Wing Ma	Beneficial owner	1,240,928	Nil	Nil	1,240,928	0.09
Eric K K Lo	Beneficial owner	2,200,400	Nil	Nil	2,200,400	0.17
Charles M W Chan	Beneficial owner/ Party to S.317 Agreement	102,400	Nil	667,645,276 (Notes 2, 3)	667,747,676	50.82
Peter Tan	Beneficial Owner	40,000	Nil	Nil	40,000	0.00

Notes:

- (1) Win Dynamic beneficially owned 662,525,276 shares of the Company, representing 50.42% of the issued shares of the Company. Mr Charles M W Chan beneficially owned 102,400 shares representing 0.01% of the issued shares of the Company. Mr Philip K H Ma was deemed to be interested in the same 662,525,276 shares and 102,400 shares of the Company by virtue his personal interests of 70% in the issued share capital of Win Dynamic and by reason being party to a S.317 Agreement.
- (2) Win Dynamic beneficially owned 662,525,276 shares of the Company. Mr Philip K H Ma beneficially owned 5,120,000 shares of the Company. Mr Charles M W Chan was deemed to be interested in the same 662,525,276 shares and 5,120,000 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 30% of the issued shares in Win Dynamic.

OTHER INFORMATION (CONT'D)

DIRECTOR'S AND CHIEF EXECUTIVE'S INTERESTS IN SHARES (CONT'D)

Notes: (Cont'd)

- (3) Mr Philip K H Ma was deemed interested in the 667,747,676 shares of the Company in which Win Dynamic is interested by virtue of his personal interest in 70% 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 667,747,676 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.

(b) Associated corporations

At 31 August 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 31 August 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 31 August 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 31 August 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 31 August 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 is required to be recorded and kept in the register in accordance with Section 352 of the SFO.

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

SHARE OPTION SCHEME

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

1. PURPOSE

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

2. PARTICIPANTS

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

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

3. TOTAL NUMBER OF SHARES AVAILABLE FOR ISSUE

- a. The total number of shares which may be issued upon exercise of all options to be granted under the Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the Option Scheme. Options lapsed in accordance with the terms of the Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating the 10% limit.
- b. The Company may seek approval of the shareholders in general meeting for refreshing the 10% limit under the Option Scheme save that the total number of shares which may be issued upon exercise of all options to be granted under the Option Scheme and any other share option schemes of the Company under the limit as "refreshed" shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit as "refreshed". Options previously granted under the Option Scheme or any other share option schemes of the Company (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Option Scheme or any other share option schemes of the Company) will not be counted for the purpose of calculating the limit as "refreshed".

OTHER INFORMATION (CONT'D)

SHARE OPTION SCHEME (CONT'D)

3. TOTAL NUMBER OF SHARES AVAILABLE FOR ISSUE (CONT'D)

- c. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.
- d. The total number of Company shares in issue as of 31 August 2019 was 1,313,962,560.

4. MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

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

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

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

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

5. PERIOD WITHIN WHICH THE SHARES MUST BE TAKEN UP

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

SHARE OPTION SCHEME (CONT'D)

6. BASIS OF DETERMINING THE SUBSCRIPTION PRICE

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

7. REMAINING LIFE OF THE OPTION SCHEME

The Option Scheme will expire on 5 December 2020.

8. ACCEPTANCE OF THE OPTION

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

OTHER INFORMATION (CONT'D)

SHARE OPTION SCHEME (CONT'D)

Set out below are the outstanding share options under the Option Scheme as at 31 August 2019:

Name or category of participant	Number of share options				At 31 August 2019	Dates of grant of share options	Exercise periods of share options	Exercise price of share options HK\$ per share
	At 1 March 2019	Granted during the period	Lapsed during the period	Exercised during the period				
Executive director								
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								
Charles M W Chan	613,987	-	(613,987)	-	-	29 February 2016	29 February 2016 to 28 February 2021	0.332
Independent non-executive directors								
King Wing Ma	613,987	-	(613,987)	-	-	29 February 2016	29 February 2016 to 28 February 2021	0.332
Eric K K Lo	613,987	-	(613,987)	-	-	29 February 2016	29 February 2016 to 28 February 2021	0.332
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)	-	-			

Note:

The closing prices of the Company's shares immediately before the date on which the options were granted on 29 February 2016 was HK\$0.365.

OTHER INFORMATION (CONT'D)

SHARE OPTION SCHEME (CONT'D)

Pursuant to the joint announcement dated 26 August 2019 issued by the Company and Win Dynamic, following the completion of the mandatory unconditional cash offers, all share options of the Company had lapsed in accordance with the terms of the share option scheme adopted by the Company on 6 December 2010.

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

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

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting including the review of the unaudited condensed consolidated interim financial statements for the six months ended 31 August 2019.

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

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Director's securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the period under review.

CORPORATE GOVERNANCE

The Company has complied throughout the period ended 31 August 2019 with the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules, save and except for code provision A.2.1, A.4.1 and A.6.7.

Code provision A.2.1 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 running. 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.

OTHER INFORMATION (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

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 subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's Articles of Association.

Code provision A.6.7 of the CG Code that independent non-executive directors and other non-executive directors should also attend general meetings. Mr Charles M W Chan being the non-executive director of the Company and Mr Eric K K Lo, Mr Peter Tan and Mr Anders W L Lau being the independent non-executive directors of the Company did not attend the general meeting of the Company due to business arrangement. Mr Charles M W Chan and Mr Peter Tan did not attend the annual general meeting of the Company due to business arrangement.

By order of the Board
The Sincere Company, Limited
Philip K H Ma
Chairman & CEO

Hong Kong, 25 October 2019