The Sincere Company, Limited

Stock code: 244

2019-20
ANNUAL REPORT

Contents

CORPORATE INFORMATION

REGISTERED OFFICE

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

AUDITOR

Ernst & Young

SOLICITORS

David Norman & 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 54, Hopewell Centre,
183 Queen's Road East,
Hong Kong

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. Arthur T H TSANG
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 ("AGM") will be held at The Pacific Room, 2/F, Island Pacific Hotel, 152 Connaught Road West, Hong Kong on 7 August 2020 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the Report of the Directors and Independent Auditor for the year ended 29 February 2020.

2. (a) To re-elect Mr. Ma King Wing as Independent Non-Executive Director of the Company.

   (b) To re-elect Mr. Lo Kai Kin Eric as Independent Non-Executive Director of the Company.

   (c) To re-elect Mr. Tan Peter as Independent Non-Executive Director of the Company.

   (d) To re-elect Mr. Lau Wai Leung Anders as Independent Non-Executive Director of the Company.

   (e) To authorize 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."

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;

NOTICE OF ANNUAL GENERAL MEETING

(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)."

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, 17 June 2020

NOTICE OF ANNUAL GENERAL MEETING

Notes:

1. For determining the entitlement to attend and vote at the Annual General Meeting to be held on Friday, 7 August 2020, the register of members of the Company will be closed from Monday, 3 August 2020 to Friday 7 August, 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 31 July 2020.

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 54, 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. **In order to prevent the spread of COVID-19 pandemic and to safeguard the health and safety of shareholders, the Company will implement the following precautionary measures at the AGM:**

    - **compulsory body temperature checks and health declarations**
    - **compulsory wearing of surgical face masks**
    - **no provision of refreshments and corporate gifts**
    - **appropriate distancing and spacing in line with the guidance from the Hong Kong Government will be maintained and as such, the Company may limit the number of attendees at the AGM as may be necessary to avoid over-crowding**
    - **all attending shareholders, proxies and other attendees are required to submit at the entrance of the AGM venue a completed declaration form confirming their names and contact details, and be asked whether (a) they have travelled to, or to their best of knowledge had close contact with any person who has recently travelled to, areas outside of Hong Kong at any time in the preceding 14 days of the AGM; and (b) they are subject to any compulsory quarantine prescribed by the Hong Kong Government. Any person who responds affirmatively to any one of the above questions will be denied entry into the AGM venue or be required to leave the AGM venue**

8. **In light of the continuing risks posed by the COVID-19 pandemic, the Company strongly encourages shareholders NOT to attend the AGM in person, and advises shareholders to appoint the Chairman of the AGM as their proxy to vote according to their indicated voting instructions as an alternative to attending the AGM in person.**

9. **Subject to the development of COVID-19 pandemic, the Company may implement further changes and precautionary measures and may issue further announcement on such measures as appropriate.**

10. A circular containing further details in respect of the above items 2 and 4 to 6 will be sent to members together with the 2019/20 Annual Report.

11. 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.

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 29 February 2020.

Philip K H MA
Chairman & CEO

RESULTS

The Group's total revenue was HK$263.3 million (2019: HK$311.9 million) during the year; representing a 16% drop from last year. The loss attributable to equity holders of the Company for this year was HK$147.4 million (2019: HK$132.1 million), loss increased by HK$15.3 million or 11.6% compared with previous year. Such increase in loss was mainly due to (i) the decrease in sales of the department store operations; and (ii) increase in impairment loss on the Group's right-of-use assets of HK12.8 million as a result of sustained operating losses in department store operations. Details were further explained at the "Business Review" section below.

In order to increase the transparency of the financial data to the user of the financial statements, the Group elected to change of accounting policy for leasehold land and owned buildings from cost model to revaluation model during the year. The Group believes that the revaluation model provides more relevant information to the users of its financial statements. Consequently, the net assets attributable to equity holders of the Company had been significantly increased from HK$28.5 million at 28 February 2019 to HK$142.6 million at 29 February 2020.

CHAIRMAN & CEO'S REVIEW OF OPERATIONS

LIQUIDITY AND FINANCIAL RESOURCES

At 29 February 2020, the Group had cash and bank balances of HK$132.8 million (2019: HK$110.7 million), of which HK$119.0 million (2019: HK$78.4 million) were pledged. By reflecting the fair value of the leasehold land and owned buildings using revaluation model, the Group's gearing decreased from 666% to 255% 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$19.2 million (2019: interest expense (without interest on lease liabilities) HK$4.9 million). As of 29 February 2020, the interest-bearing bank borrowings of the Group were HK$156.7 million (2019: HK$190.0 million), which were repayable within one year or on demand. As of 29 February 2020, lease liabilities of the Group were HK$206.4 million (2019: Nil), of which HK$102.5 million were repayable within one year. 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 0.67 (2019: 1.1). The decrease in bank borrowings was financed by the funding from the issue of shares during the year.

As at 29 February 2020, the Group has net current liabilities of HK$112.0 million (2019: net current assets of HK$15.0 million). This liquidity shortfall was mainly attributable to the adoption of HKFRS 16 *Leases* resulting in recognition of current lease liabilities of HK$102.5 million and the decrease in accrued rental expenses of HK$48.6 million classified as deposits, accrued expenses and other payables as at 28 February 2019 which had been net off with right-of-use assets upon the initial application of HKFRS 16 as further explained in note 2.3 to the financial statements.

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 and the impact of the COVID-19 pandemic, 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, (iii) negotiating with its landlords for rental reductions, and (iv) identifying opportunity in realisation of certain of the Group's assets. The management believes that these measures will further improve the Group's operating profitability and the resulting cash flows.

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 bank borrowings were secured against securities investments, leasehold land and owned buildings and bank deposits.

EMPLOYEES AND REMUNERATION POLICIES

At 29 February 2020, the Group had 266 employees (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. 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.

CHAIRMAN & CEO'S REVIEW OF OPERATIONS

DIVIDENDS

The Board does not recommend the payment of a dividend for the year ended 29 February 2020.

BUSINESS REVIEW

DEPARTMENT STORE OPERATION

The year under review was one of the most difficult time for the Hong Kong's retail market. The social and political incidents in Hong Kong since June 2019 have negatively affected the retail market sentiment of Hong Kong in general and reduced the number of visitors from Mainland China. During the year under review, our stores had closed for more than 400 hours in total due to the social incidents. In addition, the threat of China-US trade war created uncertainty to both local and global market and further deteriorated the consumer sentiment. In January 2020, due to the outbreak and wide spreading of the COVID-19, social distancing policies and various other measures have been recommended and implemented by the Hong Kong government in order to contain the COVID-19 in Hong Kong and resulted in significant drop in the number of visitor arrivals to Hong Kong. According to the Visitor Arrival Statistics from the Hong Kong Tourism Board, the number of visitors from both mainland China and non-mainland China were dropped by more than 90% in February 2020 as compared to February 2019. The statistics of retail sales from Census and Statistics Departments also showed that the total retail sales for the year ended 29 February 2020 was dropped by approximately 26% as compared with the same period of last year. As a result, the retail environment has been significantly weakened and the department store operations of the Group have been adversely affected, in particular, since February 2020. Nevertheless, with the support from our loyal Hong Kong customers, the Group's core department store operations delivered revenue of HK$263.1 million (2019: HK$310.8 million) representing a drop of 15% as compared to last year. Excluding the effect of the closure of Sincere CWB store, the revenue was only dropped by 9% during the year.

The impact of the drop in revenue was mitigated by our cost saving measures during the year, such as reduction of part time headcount and successful negotiation of the rental concessions during the second half of 2019. As a result, the segment losses from department store operations moderately increased to HK$113.4 million (2019: HK$104.0 million) representing an increase of 9.0% compared to the previous year. Such increase in segment losses were mainly attributable to the adoption of applicable accounting policy for leases and an impairment loss on the Group's right-of-use assets of HK$12.8 million was made as a result of the sustained operating losses in department store operations.

Excellent customer service is always one of our core values. During the year 2019, we have been awarded "2019 Service Retailers of The Year – Department Store Catergory Award" by the Hong Kong Retail Management Association in the Mystery Shopper Programme.

CHAIRMAN & CEO'S REVIEW OF OPERATIONS

SECURITIES TRADING OPERATION

Both local and global financial markets were volatile throughout the period. The social unstability issue, the intensification of China-US trade war and the outbreak of the COVID-19 significantly affected the financial markets. Hang Seng Index has been volatized between 30,280 and 24,900 during the year. Hence, a segment loss of HK$12.0 million (2019: HK$13.3 million) was resulted. In order to reduce the exposure to market risk the Group was facing and better management of our cash flow, the total amount of securities investment held for trading was reduced from HK$112 million to HK$13 million during the year.

PROSPECTS

Looking forward, with the decrease in the confirmed cases for the COVID-19 and the ease of the social distancing polices implemented by the government previously, the foot traffic for our stores had gradually recovered. The management is of the view that the department store operations would be challenging, but is still cautiously optimistic about our core department stores performance in the coming year. The Group will take a cautious approach in its business planning to weather the current unfavourable environment.

On securities trading, the global financial market is still volatile as a result of various uncertainties, including the COVID-19 and the China-US trade war; as such we will remain conservative on our investment strategy to ensure the Group has a better cash flow position.

Subsequent to the year ended 29 February 2020, a pre-conditional voluntary cash offer was made by Realord to all the shareholders of the Company. Realord together with its subsidiaries (the "Realord Group") are principally engaged in, among other things, property investment and development and commercial operation. As at 31 December 2019, the Realord Group's properties include a commercial complex project, namely Realord Villas (偉祿雅苑) in Shenzhen. A shopping mall namely Realord Vcity (偉祿Vcity) is located inside Realord Villas. With the new investor joining to the Group, the management believe that there would have potential synergy effect between Realord and the Group leveraging on the experience on the Group in the department store operations by cooperating and utilizing the properties held by the Realord Group. For details of the pre-conditional voluntary cash offer, please refer to the joint announcement between the Realord Group and the Group dated 15 May 2020.

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

29 May 2020

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 year ended 29 February 2020, 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 to 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 29 February 2020.

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 29 February 2020.

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 28, there is no financial, business and family relationship among members of the Board. All of them are free to exercise their independent judgment.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

The Board held four board meetings and two general meetings in year 2019/20. The following table shows the attendance of Directors at meetings during the year:

Directors	General Meetings attended/held	Board Meetings attended/held
Executive Director		
Mr. Philip K H Ma *(Chairman & CEO)*	2/2	4/4
Non-Executive Director		
Mr. Charles M W Chan	0/2+	3/4
Independent Non-Executive Directors		
Mr. King Wing Ma	2/2	4/4
Mr. Eric K K Lo	1/2+	4/4
Mr. Peter Tan	0/2+	1/4
Mr. Anders W L Lau	1/2+	3/4

\+ Pursuant to code provision A.6.7of the CG Code that Independent Non-Executive Directors and other Non-Executive Directors should also attend general meeting. Mr. Charles M W Chan, Non-Executive Director of the Company; Mr. Peter Tan, Mr. Eric K K Lo and Mr. Anders W L Lau, Independent Non-Executive Directors of the Company did not attend relevant general meetings of the Company due to business arrangement.

Apart from regular Board meetings, the Chairman also held meetings 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 Articles 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 29 February 2020, 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:

Director	**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 and relationship with external auditor, and internal control or other matters of the Company.

In 2019/20, 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 auditor, 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	1/2
Mr. Peter Tan	1/2
Mr. Anders W L Lau	2/2

The Group's audited financial statements for the year ended 29 February 2020 have been reviewed by the Audit Committee.

The Audit Committee also met the external auditor 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 2019/20, 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 Director 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	0/1
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 29 February 2020 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 29 February 2020 are set out in note 26 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 2019/20, 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	0/1
Mr. Peter Tan	1/1
Mr. Anders W L Lau	1/1

Board Diversity Policy

The Company recognizes 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' RESPONSIBILTY 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 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 29 February 2020. 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 bank and other borrowings facilities and the impact of the COVID-19 pandemic. 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 bank and other borrowings facilities. 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 bank and other borrowings facilities, believe that the Group will have sufficient financial resources to operate 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 on pages 43 to 49.

AUDITOR'S REMUNERATION

During the year, the fees payable to Ernst & Young, the Company's external auditor, for audit services totalled to HK$2,930,000 (2019: HK$3,018,000). Ernst & Young has also provided the Group with non-audit service, including the provision of tax services, agreed-upon procedures and other reporting services, at fees to HK$1,963,000 (2019: HK$633,000).

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 the risk management and internal control systems of the Group, covering all material controls, 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 engaged an independent professional consultancy firm for performing independent review of the adequacy and effectiveness of the internal control and risk management. The consultancy firm 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. The review results has been properly reported to the Audit Committee.

Based on the internal control review and risk assessment conducted during the year, no significant control deficiency was identified.

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 shareholders holding not less than one-twentieth of the paid-up capital of the Company or by such shareholders 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 year ended 29 February 2020.

PRINCIPAL ACTIVITIES

The principal activities of the Group have not changed during the 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 are provided in the Chairman & CEO's Review of Operations 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 33 to the financial statements.

The key financial and business performance indicators are comprised of revenue, finance costs, loss attributable to equity holders of the Company and the 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 relationship 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 are 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 36 to the financial statements, 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 to ensure that they share our commitment to quality and ethics.

RESULTS

The Group's loss for the year ended 29 February 2020 and the Group's financial position as at that date are set out in the audited financial statements on pages 50 to 149.

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five years is set out on page 150 of the annual report.

REPORT OF THE DIRECTORS

USE OF NET PROCEEDS FROM OPEN OFFER

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 29 February 2020 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	29.2	–
	92.7	92.7	–

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, 7 August 2020, the register of members of the Company will be closed from Monday, 3 August 2020 to Friday 7 August, 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 31 July 2020.

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 23 and 24 to the financial statements, respectively.

REPORT OF THE DIRECTORS

SIGNIFICANT INVESTMENTS HELD AND PERFORMANCE

As at 29 February 2020, the Group has held for trading investments with fair value of HK$13 million (2019: HK$112 million). During the year, the Group recorded realised losses of HK$4 million (2019: HK$3 million) and unrealised loss on fair value of HK$7 million (2019: HK$9 million). Information in relation to the 10 largest investments as at 29 February 2020 is set out as follows:

	Name	Nature of investment	No. of shares/units/ amount of bonds held	Realised gain/(loss) for the year *HK$'000*	Unrealised gain/(loss) on fair value change for the year *HK$'000*	Fair value as at 29 February 2020 *HK$'000*	% of total assets
1.	C432 PA Offshore Feeder Fund L.P.CLS A USD	Fund	914,005	–	(3,293)	3,665	0.59%
2.	CK Hutchison Holdings Ltd (Stock Code: 0001)	Equity	26,708	(293)	(419)	1,812	0.29%
3.	CK Asset Holdings Ltd (Stock Code: 1113)	Equity	26,708	(295)	(439)	1,301	0.21%
4.	Chong Hing Bank 6% 041120 M/N	Bond	150,000	–	(10)	1,198	0.19%
5.	HLP Finance Ltd 4.75% 250622 J/D	Bond	100,000	–	22	826	0.13%
6.	ING Groep N.V.-CVA (EUR)	Equity	10,263	–	(299)	761	0.12%
7.	Lenovo Group Limited (Stock Code: 992)	Equity	130,000	(190)	(294)	625	0.10%
8.	PEG venture capital private II offshore	Fund	488,522	–	(95)	617	0.10%
9.	STEPSTONE CAPITAL PARTNERS II OFFSHORE LP CL A	Fund	491,358	–	(45)	557	0.09%
10.	TF CAPITAL INVESTORS II OFFSHORE LP CLASS B	Fund	475,000	–	(610)	431	0.07%
				(778)	(5,482)	11,793	1.89%

During the year, the Group received approximately HK$7 million (2019: HK$7 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.

REPORT OF THE DIRECTORS

DIVIDEND

The Board does not recommend the payment of any dividend in respect of the year ended 29 February 2020.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 29 February 2020, 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 or other officer 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 (Cap622)) 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.

DIRECTORS

The Directors who served during the 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

In accordance with articles 85 and 93 of the Company's Articles of Association, Mr. King Wing Ma, Mr. Eric K K Lo, Mr. Peter Tan and Mr. Anders W L Lau 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 all of the Independent Non-Executive Directors are independent.

REPORT OF THE DIRECTORS

DIRECTORS *(continued)*

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. John K K Ma, Mr. Francis Ma, Mr. Steve K W Ma, Mr. Victor W T Ma and Ms. Ada S P Cheung.

SUBSTANTIAL SHAREHOLDERS

At 29 February 2020, 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 follows:

Long positions 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 *(Note 1,4)*	19.69
The Sincere Insurance & Investment Company, Limited	Beneficial owner	Corporate	75,608,064 *(Note 2,4)*	5.75
The Company	Interests of controlled corporations	Corporate	260,443,200 *(Note 3,4)*	19.82
Win Dynamic Limited ("Win Dynamic")	Beneficial owner/Interests of controlled corporations/ Party to an S.317 Agreement*	Corporate	667,747,676 *(Note 5)*	50.82
Yuan Lie Ming Peter	Beneficial owner	Personal	93,060,800	7.08

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

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS *(continued)*

Long positions in the shares and share options of the Company *(continued)*

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 of 75,608,064 shares of the Company, representing approximately 5.75% 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 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% 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 662,525,276 shares of the Company, representing approximately 50.42% of the issued shares of the Company and a deemed interest by reason of being a party to an S.317 Agreement in a further 5,222,400 shares of the Company, representing approximately 0.40% of the issued shares of the Company.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

At 29 February 2020, 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 positions in shares of the Company

Name of Director	Capacity	Personal interests	Corporate interests	S.317 Agreement interests	Total interests	Approximate % of shares in issue
Mr. Philip K H Ma	Beneficial owner/ Interests of controlled corporation/Party to S.317 Agreement	5,120,000	662,525,276 *(Note 1, 3)*	102,400 *(Note 1, 3)*	667,747,676	50.82
Mr. King Wing Ma	Beneficial owner	1,240,928	Nil	Nil	1,240,928	0.09
Mr. Eric K K Lo	Beneficial owner	2,200,400	Nil	Nil	2,200,400	0.17
Mr. Charles M W Chan	Beneficial owner/ Party to S.317 Agreement	102,400	Nil	667,645,276 *(Note 2, 3)*	667,747,676	50.82
Mr. Peter Tan	Beneficial owner	40,000	Nil	Nil	40,000	0.00

REPORT OF THE DIRECTORS

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

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

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.

(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 29 February 2020, 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 29 February 2020, 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 29 February 2020, 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 29 February 2020, 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 29 February 2020, 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 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.

REPORT OF THE DIRECTORS

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, the holding company of the Company, or any of its subsidiaries was a party during the year. Save for Win Dynamic being the underwriter of the Open Offer referred in note 23 to the financial statements.

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 year.

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 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$240,000 during the 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 29 February 2020 have been reviewed by the Audit Committee.

REPORT OF THE DIRECTORS

AUDITOR

Ernst & Young retire and a resolution for their 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, 29 May 2020

BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

EXECUTIVE DIRECTOR

Philip K H MA, aged 64, 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 Life"), The Sincere Insurance & Investment Company, Limited ("Sincere I&I"), The Sincere Company (Perfumery Manufacturers), Limited, Win Dynamic Limited ("Win Dynamic") and various other subsidiaries of the Company. Sincere Life and Win Dynamic are 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 64, 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 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 88, 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 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 71, 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 has resigned as an Independent Non-Executive Director of Joyce Boutique Group Limited on 27 April 2020, a company formerly listed on the main board of the Stock Exchange (formerly stock code: 647). He does not have any relationship with any Directors and senior management of the Company.

Peter TAN, aged 64, 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. 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 64, 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. On 20 December 2018, he was appointed as Independent Non-Executive Director of Rizhao Port Jurong Co. Ltd (stock code: 6117), which is a company listed on the main board of Stock Exchange on 18 June 2019, and he has resigned on 18 September 2019. He has also resigned as Independent Non-Executive Director of Shanghai Dongzheng Automotive Finance Co., Ltd (stock code: 2718) on 31 December 2019, which is a company listed on the main board of 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

Arthur T H TSANG, aged 37, joined the Company in January 2020 as the Financial Controller. He has over 10 years of experience working in international audit firms and a company listed on the main board of Stock Exchange. He is currently a member of the Hong Kong Institute of Certified Public Accountants and the CFA Institute.

Ada S P CHEUNG, aged 47, 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 and the Association of Chartered Certified 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"). Our reporting boundary is limited to retail and office operations in Hong Kong unless other specified. Disclosed content of the report has been reviewed by the Board of Directors of the Company.

Based on the principle of materiality, this report focuses on the environmental and social impacts of our operations and sales activities. The materiality assessment is the exercise through which we identify issues of importance to the Company from a sustainability perspective and to prioritize those which are considered material. 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 139 g of sulphur oxides (SOx) (2018/19: 141 g), 69,111 g of nitrogen oxides (NOx) (2018/19: 66,238 g), and 6,780 g of particulate matter (PM) (2018/19: 6,432 g) during the year, which mainly came from emissions from its own fleet.

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
- Double-sided printing
- Electrical & electronic products and batteries were well maintained to prolong life span
- Print only when necessary
- Reduce box files consumption by reusing old box files or applying electronic means for filing
- 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 and cups 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	2019/20
Paper Recycling	kg	1,417.00	**700.00**
Toner Recycling	kg	263.08	**192.78**

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)*

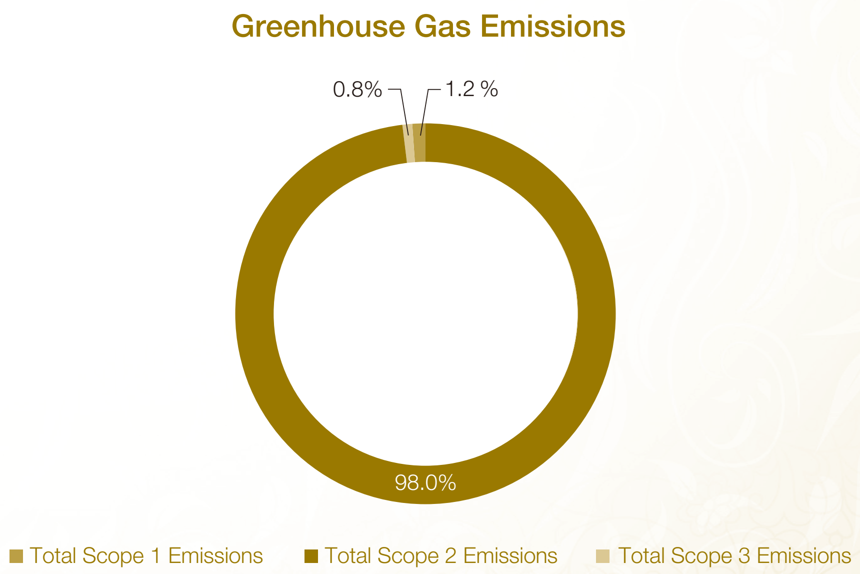
Energy Conservation *(continued)*

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 2,867,256 kWh (2018/19: 3,277,107 kWh) of electricity. The following table shows our GHG emissions and energy consumption in this year.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A. ENVIRONMENTAL *(continued)*

A2. Use of Resources *(continued)*

Energy Conservation *(continued)*

Electricity Management (continued)

GHG Emissions	Unit	2018/19	2019/20
Total Scope 1 Emissions	tCO^2e	24.35	**24.06**
Total Scope 2 Emissions	tCO^2e	2,293.97	**2,007.08**
Total Scope 3 Emissions	tCO^2e	16.50	**16.50**
Total GHG Emissions	tCO^2e	2,334.82	**2,047.64**
Total GHG Emissions/Employee	tCO^2e/employee	7.12	**7.45**
Total GHG Emissions/Floor Area	tCO^2e/square metre	0.11	**0.11**

Energy Consumption	Unit	2018/19	2019/20
Diesel Consumption	L	4,882.39	**4,947.30**
Petrol Consumption	L	4,227.54	**4,061.26**
Electricity Consumption	kWh	3,227,107.00	**2,867,256.00**
Electricity Consumption/Employee	kWh/employee	9,991.18	**10,426.39**
Electricity Consumption/Floor Area	kWh/square metre	153.38	**149.91**

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.

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	2019/20
Paper Consumption	kg	3,437.50	**3,462.50**
Toner Consumption	kg	263.08	**192.78**
Carton Box Consumption	kg	101	**37**

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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. This includes but not limited to the Employment Ordinance (Chapter 57 of the laws of Hong Kong), anti-discrimination ordinances implemented by The Equal Opportunities Commission. 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. An internal performance management system is used to objectively review employees' performance level. Observations and evaluations of employee's work behaviour and accomplishments form the basis for decision making within the reward system.

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

The Group employs 266 staff in total as of February 2020.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(continued)*

B1. Employment and Labour Practices *(continued)*

Employment Practices and Equal Opportunity *(continued)*

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

		2018/19	**2019/20**
(a)	Hong Kong and Mainland China		
	Breakdown by gender	328	**266**
	Employees – Female	232	**185**
	Employees – Male	96	**81**
	Breakdown by age group		
	Employees Age < 30	59	**42**
	Employees Age 30 – 50	145	**110**
	Employees Age > 50	124	**114**
	Breakdown by employment type		
	Employees – Part-time	67	**32**
	Employees – Full-time	261	**234**

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. The Company also provides subsidised medical care and life insurances to employees.

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 year, the total staff training hours were 334.5 (2018/19: 349.5).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B. SOCIAL *(continued)*

B4. Labour Standard

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. Identification check has performed during hiring process to ensure the employee reaches legal minimum age for working. The Group has not identified any material non-compliance in relation to child or forced labour-related laws and regulations.

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. Our employees are expected to carry out their work in a responsible and honest manner. All staff must avoid receiving any money or in-kind donation or gifts from either clients or any third parties.

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.

The Company did not observe nor receive any legal cases regarding corrupt practices, bribery, conflicts of interest, extortion, fraud, money laundering brought against the Company or its employees.

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.

The Company has also participated in different types of community events including Love Teeth Day, Dress Casual Day, Orbis World Sight Day, The Community Chest Green Day and Skip Lunch Day to show our care to our society.

In addition, we have a total donations of approximately HK$240,000 (2018/19: HK$251,000) to the following beneficiaries, such as Kelv Support Group, The Better Hong Kong Foundation and The Community Chest of Hong Kong.

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 50 to 149, which comprise the consolidated statement of financial position as at 29 February 2020, 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 29 February 2020, 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2.1 to the consolidated financial statements which indicates that the Group recorded a consolidated net loss for the year of HK$149,253,000 during the year ended 29 February 2020, and the Group had net current liabilities of HK$111,951,000. These conditions, along with other matters as set forth in note 2.1 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the ability of the Group to continue as a going concern. Our opinion is not modified in respect of this matter.

INDEPENDENT AUDITOR'S REPORT

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. In addition to the matters described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report. 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.

Key audit matter	How our audit addressed the key audit matter
Inventory provision	
As at 29 February 2020, the Group had net inventory balances of HK$66,289,000. 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.

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Estimation of impairment of right-of-use assets	
As at 29 February 2020, the net book value of the Group's buildings under right-of-use assets ("ROU assets") amounted to HK$148,494,000. Management has conducted an assessment of impairment for the ROU assets of the Group to determine whether the carrying amount of the assets is higher than the recoverable amount. The recoverable amount is determined based on the higher of the value in use and fair value less costs of disposal. The value-in-use is calculated from cash flow projections for the remaining lease periods using data from the Group's internal forecasts and as such relies upon management assumptions, such as the estimates of future performance, corporate expense allocation and the discount rate. The fair value less costs of disposal of the ROU assets, reflected the market valuation of the Group's leases less any costs for restoration. Fair value was determined based on a valuation performed by an independent professional external valuer. As a result of the Group's impairment review completed during the year, an impairment charge of HK$12,789,000 was recognised. The significant judgements and estimates and disclosures of ROU assets are included in notes 3, 7 and 11 to the financial statements.	Our audit procedures included assessing the appropriateness of the methodology applied by the management in calculating the impairment charges, and the judgements applied in determining the cash generating units ("CGUs") of the business, which the Group has determined to be the individual stores for the purpose of impairment assessment for the value-in-use calculation. With regard to management's value-in-use calculation assessment, we evaluated and tested the assumptions used in the discounted cash flow projections of each CGU by; evaluating the expected growth rate by making reference to the historical results; comparing the discount rate used with the 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. In relation to the fair value less costs of disposal of the ROU assets, we considered the objectivity, independence and expertise of the external valuer engaged by management and assessed the lease related data, including estimates used by the external valuer. Such procedures included comparing the underlying key estimates and assumptions against open market information. We involved our internal valuation specialists to assist us in evaluating the appropriateness of the methodology and the key assumptions used in the valuation. We also assessed the disclosures relating to the assumptions used in the impairment assessment of the ROU assets.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Fair value measurement of leasehold land and owned buildings	
As at 29 February 2020, the Group has leasehold land of HK$165,807,000 under right-of-use assets, and buildings of HK$22,388,000 under owned assets included in property, plant and equipment (collectively the "Properties"), which were measured at fair value. The measurement of the fair value of the Properties and the related deferred tax impact requires management's significant judgement and estimates. Management appointed a professional valuer to assist in the valuation of the Properties and determined the fair value with reference to the valuation carried out by the external valuers. The management determined the deferred tax impact based on the expected manner of recovery of the Properties. The significant judgements and estimates and disclosures are included in notes 3 and 11 to the financial statements.	For the measurement of the fair value, we reviewed the competency, capability and objectivity of the external valuer appointed by management. We assessed the related data and assumptions being adopted, including the unobservable inputs and other estimates, by comparing key valuation parameters including the saleable unit rate per square foot with market information. We also involved our internal valuation specialists to assist us in reviewing the valuation methodologies applied and key valuation parameters adopted in the valuation. For the deferred tax impact, we obtained an understanding and evaluated the assumptions used by the management in the determination of the expected manner of recovery of the Properties which included reference to the business plan of the Group. We also involved our internal tax specialists to assist us in reviewing the expected tax consequences arising from the recovery of the Properties. We then assessed the disclosures related to the assumptions used in determining the fair value.

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.

INDEPENDENT AUDITOR'S REPORT

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 Chung Yuk Man.

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

29 May 2020

CONSOLIDATED INCOME STATEMENT

Year ended 29 February 2020

	Notes	2020 HK$'000	2019 HK$'000
REVENUE	5	**263,312**	311,865
Cost of sales		**(130,513)**	(142,113)
Other income and gains, net	5	**10,800**	11,418
Net unrealised loss on securities trading		**(6,690)**	(8,653)
Selling and distribution expenses		**(165,849)**	(196,236)
General and administrative expenses		**(86,806)**	(93,106)
Other operating expenses, net		**(14,285)**	(13,004)
Finance costs	6	**(19,209)**	(4,898)
LOSS BEFORE TAX	7	**(149,240)**	(134,727)
Income tax expense	8	**(13)**	(16)
LOSS FOR THE YEAR		**(149,253)**	(134,743)
ATTRIBUTABLE TO:			
Equity holders of the Company		**(147,364)**	(132,068)
Non-controlling interests		**(1,889)**	(2,675)
		(149,253)	(134,743)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	10		
Basic		**HK$(0.17)**	HK$(0.20)
Diluted		**HK$(0.17)**	HK$(0.20)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 29 February 2020

	2020 HK$'000	2019 HK$'000
LOSS FOR THE YEAR	**(149,253)**	(134,743)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss that may be reclassified to the income statement in subsequent periods:		
Exchange differences arising on translation of foreign operations	**(61)**	(425)
Realisation of exchange fluctuation reserve upon deregistration of subsidiaries	**–**	(2,036)
Net other comprehensive loss that may be reclassified to the income statement in subsequent periods	**(61)**	(2,461)
Other comprehensive income/(loss) that will not be reclassified to the income statement in subsequent periods:		
Actuarial gains/(losses) on a defined benefit plan	**1,257**	(1,519)
Revaluation of leasehold land and owned buildings *(note 11)*	**168,141**	–
Changes in fair value of equity investments designated at fair value through other comprehensive income	**(300)**	(11,002)
Net other comprehensive income/(loss) that will not be reclassified to the income statement in subsequent periods	**169,098**	(12,521)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**19,784**	(149,725)
ATTRIBUTABLE TO:		
Equity holders of the Company	**21,329**	(147,337)
Non-controlling interests	**(1,545)**	(2,388)
	19,784	(149,725)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

29 February 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	**336,805**	27,261
Interests in associates	12	**–**	–
Equity investments designated at fair value through other comprehensive income	13	**22,573**	22,873
Deposits and other receivables		**26,540**	25,654
Pension scheme assets	22	**14,672**	14,670
Total non-current assets		**400,590**	90,458
CURRENT ASSETS			
Inventories		**66,289**	66,896
Reinsurance assets	16	**7**	24
Prepayments, deposits and other receivables		**12,863**	19,164
Financial assets at fair value through profit or loss	14	**13,364**	111,939
Pledged bank balances	17(a)	**6,024**	6,829
Pledged deposits with banks	17(a)	**113,017**	71,561
Cash and bank balances	15	**13,761**	32,318
Total current assets		**225,325**	308,731
CURRENT LIABILITIES			
Creditors	18	**43,479**	52,774
Lease liabilities	19	**102,454**	–
Insurance contracts liabilities	20	**1,214**	1,232
Deposits, accrued expenses and other payables		**28,387**	46,336
Contract liabilities		**2,887**	1,253
Interest-bearing bank borrowings	17(a)	**156,719**	190,045
Other loans	17(b)	**2,136**	2,100
Tax payable		**–**	1
Total current liabilities		**337,276**	293,741
NET CURRENT ASSETS/(LIABILITIES)		**(111,951)**	14,990
TOTAL ASSETS LESS CURRENT LIABILITIES		**288,639**	105,448

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

29 February 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT LIABILITIES			
Deposits, accrued expenses and other payables		**8,390**	41,725
Other loans	*17(b)*	**1,104**	1,067
Lease liabilities	*19*	**103,964**	–
Total non-current liabilities		**113,458**	42,792
NET ASSETS		**175,181**	62,656
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*23*	**469,977**	377,236
Reserves	*25*	**(327,363)**	(348,692)
		142,614	28,544
Non-controlling interests		**32,567**	34,112
TOTAL EQUITY		**175,181**	62,656

Philip K H Ma
Director

Charles M W Chan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 29 February 2020

	Attributable to equity holders of the Company									
		Reserves								
	Share capital	Treasury shares	General and other reserves#	Share option reserve	Asset revaluation reserve	Investment revaluation reserve	Accumulated losses	Total reserves	Non-controlling interests	Total
	HK$'000	*HK$'000* *(note 23)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 March 2018	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 22)*	–	–	–	–	–	–	(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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 29 February 2020

	Attributable to equity holders of the Company									
		Reserves								
	Share capital	Treasury shares	General and other reserves#	Share option reserve	Asset revaluation reserve	Investment revaluation reserve	Accumulated losses	Total reserves	Non-controlling interests	Total
	HK$'000	*HK$'000* (*note 23*)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 March 2019	377,236	(130,221)	227,903	1,538	-	(3,453)	(444,459)	(348,692)	34,112	62,656
Loss for the year	-	-	-	-	-	-	(147,364)	(147,364)	(1,889)	(149,253)
Other comprehensive income/(loss) for the year:										
Changes in fair value of equity investments designated at fair value through other comprehensive income	-	-	-	-	-	(300)	-	(300)	-	(300)
Exchange differences related to foreign operations	-	-	(407)	-	-	-	-	(407)	346	(61)
Actuarial gains/(losses) on a defined benefit plan (*note 22*)	-	-	-	-	-	-	1,259	1,259	(2)	1,257
Revaluation of leasehold land and owned buildings (*note 11*)	-	-	-	-	168,141	-	-	168,141	-	168,141
Total comprehensive income/(loss) for the year	-	-	(407)	-	168,141	(300)	(146,105)	21,329	(1,545)	19,784
Issue of shares (*note 23*)	102,718	-	-	-	-	-	-	-	-	102,718
Share issue expenses (*note 23*)	(9,977)	-	-	-	-	-	-	-	-	(9,977)
Transfer of share option reserve upon the forfeiture of share options	-	-	-	(1,538)	-	-	1,538	-	-	-
At 29 February 2020	469,977	(130,221)	227,496	-	168,141	(3,753)	(589,026)	(327,363)	32,567	175,181

Included in the general and other reserves at 29 February 2020 was a debit amount of HK$11,315,000 (2019: HK$10,908,000) attributable to the exchange fluctuation reserve.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 29 February 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(149,240)**	(134,727)
Adjustments for:			
Interest expense	6	**19,209**	4,898
Bank interest income	7	**(1,039)**	(853)
Other interest income from financial assets at fair value through profit or loss	7	**(278)**	(727)
Depreciation	7	**95,572**	5,132
Impairment of items of property, plant and equipment	7	**14,213**	9,612
Impairment of an interest in an associate	7	**9**	4
Provision for an onerous contract	7	**–**	3,152
Reversal of provision for inventories	7	**(543)**	(9,384)
Gain on disposal of items of property, plant and equipment	7	**(213)**	(158)
Gain on deregistration of subsidiaries	7	**–**	(2,036)
Write-back of other payables	7	**(489)**	–
Bad debts written off	7	**1,295**	–
Exchange realignment		**(61)**	(414)
		(21,565)	(125,501)
Decrease in inventories		**1,150**	11,775
Decrease/(increase) in reinsurance assets		**17**	(10)
Decrease in prepayments, deposits and other receivables		**4,120**	1,379
Decrease in financial assets at fair value through profit or loss		**98,575**	41,467
Decrease in creditors		**(9,295)**	(13,678)
Increase/(decrease) in insurance contracts liabilities		**(18)**	11
Decrease in deposits, accrued expenses and other payables		**(2,148)**	(4,861)
Increase in contract liabilities		**1,634**	1,253
Movement in pension scheme assets		**1,255**	1,163
Cash generated from/(used in) operations		**73,725**	(87,002)
Interest paid		**(19,209)**	(4,898)
Interest received		**1,317**	1,580
Overseas taxes paid		**(14)**	(16)
Net cash flows from/(used in) operating activities		**55,819**	(90,336)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 29 February 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to owned assets in property, plant and equipment		**(1,561)**	(6,411)
Proceeds from disposal of items of property, plant and equipment		**213**	160
Decrease/(increase) in pledged bank balances		**805**	(2,382)
Increase in pledged deposits with banks		**(41,456)**	(688)
Advance to an associate		**(9)**	(4)
Net cash flows used in investing activities		**(42,008)**	(9,325)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of bank loans		**(485,220)**	(442,427)
New bank loans		**451,894**	538,148
Increase in other loans		**73**	180
Principal portion of lease payments		**(91,856)**	–
Proceeds from issue of shares	23	**102,718**	–
Expenses on issue of shares	23	**(9,977)**	–
Net cash flows from/(used in) financing activities		**(32,368)**	95,901
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(18,557)**	(3,760)
Cash and cash equivalents at beginning of year		**32,318**	36,078
CASH AND CASH EQUIVALENTS AT END OF YEAR		**13,761**	32,318
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash on hand and at banks and cash and cash equivalents as stated in consolidated statement of cash flows	15	**13,761**	32,318

NOTES TO FINANCIAL STATEMENTS

29 February 2020

1. CORPORATE AND GROUP INFORMATION

The Sincere Company, Limited 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 year and mainly consisted of the operation of department stores, securities trading and the provision of general and life insurances. In the opinion of the directors, the holding company and the ultimate holding company of the Company is Win Dynamic Limited ("Win Dynamic"), which is incorporated in Hong Kong.

2.1 BASIS OF PRESENTATION

During the year ended 29 February 2020, the Group recorded a net loss for the year of HK$149,253,000 (2019: HK$134,743,000). The Group's operations are financed by both bank and other borrowings and internal resources. As at 29 February 2020, the Group has net current liabilities of HK$111,951,000 (28 February 2019: net current assets of HK$14,990,000). In addition, the Group's cash and bank balances amounted to HK$13,761,000 (28 February 2019: HK$32,318,000) as at 29 February 2020.

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 and the impact of the COVID-19 pandemic, 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, (iii) negotiating with its landlords for rental reductions, and (iv) identifying opportunity in realisation of certain of the Group's assets. 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 during the year. As at 29 February 2020, the Group had unutilised banking facilities of HK$49,578,000 which included unutilised trade financing facilities of HK$41,578,000 and unutilised term loan and overdraft facilities of HK$8,000,000. 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 record and relationships the Group has with the banks. In addition, subsequent to 29 February 2020, the Group has obtained a new term loan of HK$80,000,000 ("Loan") and a new loan facility of up to HK$70,000,000 ("Facility") from Realord Finance Limited, a wholly owned subsidiary of Realord Group Holdings Limited ("Realord"). The Loan is unsecured, interest bearing at 10% per annum and repayable within 18 months from the date of withdrawal. The Facility is unsecured, interest bearing at 13% per annum and repayable within 12 months from the date of first withdrawal.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

2.1 BASIS OF PRESENTATION *(continued)*

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 29 February 2020. 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 bank and other borrowings facilities and the impact of the COVID-19 pandemic. 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 bank and other borrowings facilities. 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 bank and other borrowings facilities, believe that the Group will have sufficient financial resources to operate as a going concern.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any future liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effect of these adjustments has not been reflected in these financial statements.

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, 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, equity investments designated at fair value through other comprehensive income and leasehold land and owned buildings 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 29 February 2020. 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).

NOTES TO FINANCIAL STATEMENTS

29 February 2020

2.2 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

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.

2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

HKFRS 16	*Leases*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
Annual Improvements to HKFRSs 2015-2017 Cycle	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 consolidated 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 continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. 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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

(a) *(continued)*

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of office buildings and stores. As a lessee, the Group previously classified leases as either finance leases or 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 elective exemption for leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 March 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact 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 liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the 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 in property, plant and equipment.

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

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease
- 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

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

(a) *(continued)*

Impact on transition (continued)

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

	Increase/ (decrease) *HK$'000*
Assets	
Increase in property, plant and equipment and total assets	292,083
Liabilities	
Increase in lease liabilities	340,730
Decrease in deposits, accrued expenses and other payables	(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 are as follows:

	HK$'000
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 ended 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

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

(b) Revaluation of leasehold land and owned buildings

The Group re-assessed its accounting for property, plant and equipment with respect to measurement of a certain class of property, plant and equipment after initial recognition. The Group had previously measured all property, plant and equipment using the cost model whereby, after initial recognition of the asset classified as property, plant and equipment, the asset was carried at cost less accumulated depreciation and accumulated impairment losses.

The Group elected to change the method of accounting for leasehold land and owned buildings classified as property, plant and equipment, as the Group believes that the revaluation model provides more relevant information to the users of its financial statements. In addition, available valuation techniques provide reliable estimates of the leasehold land and owned buildings' fair value. The Group applied the revaluation model prospectively.

After initial recognition, leasehold land and owned buildings are measured at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. For details refer to note 11 to the financial statements.

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.

HKFRS 17	*Insurance Contracts*[2]
Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[1]

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

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

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

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. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 March 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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.

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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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.

Fair value measurement

The Group measures its derivative financial instruments, equity investments and leasehold land and owned buildings 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement *(continued)*

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.

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, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accumulated for in accordance with the relevant accounting policy for the revalued asset.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Investments and other financial assets

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" 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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(continued)*

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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.

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 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

29 February 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets *(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.

Derecognition of financial assets

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets

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

29 February 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities

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:

Financial liabilities at amortised cost (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

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.

Derivative financial instruments

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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Offsetting of financial instruments

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 or valuation 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.

Buildings are measured at fair value less accumulated depreciation and impairment losses recognised after the date of revaluation. Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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:

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 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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 (applicable from 1 March 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). 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. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Leasehold land	55 years
Buildings	2 to 3 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

When the right-of-use assets relate to interests in leasehold land, the corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "property, plant and equipment".

The Group's right-of-use assets are included in property, plant and equipment.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 March 2019) *(continued)*

Group as a lessee *(continued)*

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 its incremental borrowing rate at the lease commencement date because 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 the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of buildings (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases (applicable from 1 March 2019) *(continued)*

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the income statement due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Leases (applicable before 1 March 2019)

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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 24 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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

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.

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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

- 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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

Retirement benefits *(continued)*

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.

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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Insurance contracts liabilities *(continued)*

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.

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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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, and 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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

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.

Revenue recognition

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 with 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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

Revenue from contracts with customers *(continued)*

(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.

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 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

29 February 2020

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 subsidiary ("Sincere LA Group"), The Sincere Insurance & Investment Company, Limited ("Sincere II") and its subsidiary ("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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

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 year, are described below.

Estimation of impairment of property, plant and equipment

For owned assets and right-of-use assets included in property, plant and equipment, 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. The calculation of the fair value less costs of disposal is based on available data from market rent and discounted to the net present value of market rent less any costs to transform or restoration. Further details of the impairment of property, plant and equipment are set out in note 11 to the financial statements.

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 29 February 2020 was HK$66,289,000 (2019: HK$66,896,000).

Estimation of fair value of leasehold land and owned buildings

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the dates of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

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

Estimation uncertainty *(continued)*

Estimation of fair value of leasehold land and owned buildings *(continued)*

The carrying amounts of leasehold land under right-of-use assets and buildings under owned assets included in property, plant and equipment (collectively the "Properties") at 29 February 2020 were HK$165,807,000 and HK$22,388,000, respectively. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 11 to the financial statements.

Deferred tax related to leasehold land and owned buildings

The measurement of deferred tax liabilities and deferred tax assets shall reflect the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. In respect of the Properties, significant management judgement is required to determine the expected manner of recovery of the Properties (i.e. whether the Group expects to recover the asset through sale or through use). Based on the business plan of the Group and the activities being taken by the management, management has determined that the Properties will be recovered through sale. Accordingly, the deferred tax liabilities relating to the Properties were measured on a recovery through sale basis and no deferred tax was recognised as at 29 February 2020.

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 29 February 2020 was HK$14,672,000 (2019: HK$14,670,000).

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 32 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 29 February 2020 was HK$22,573,000. Further details are included in note 13 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

29 February 2020

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 29 February 2020 and 28 February 2019.

	Department store operations		Securities trading		Others		Eliminations		Total	
	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000
Segment revenue:										
Sales to external customers	263,110	310,816	(3,543)	(2,739)	3,745	3,788	-	-	263,312	311,865
Intersegment sales	-	-	-	-	31,818	30,714	(31,818)	(30,714)	-	-
Other revenue	2,230	120	7,523	7,942	34	2,592	-	-	9,787	10,654
Total	265,340	310,936	3,980	5,203	35,597	37,094	(31,818)	(30,714)	273,099	322,519
Segment results	(113,394)	(103,965)	(12,028)	(13,328)	(19,053)	(13,300)	-	-	(144,475)	(130,593)
Interest income and unallocated revenue, net									1,013	764
Finance costs (other than interest on lease liabilities)									(5,778)	(4,898)
Loss before tax									(149,240)	(134,727)
Income tax expense									(13)	(16)
Loss for the year									(149,253)	(134,743)
Segment assets	281,654	135,735	18,956	119,367	224,321	64,093	(31,818)	(30,714)	493,113	288,481
Unallocated assets									132,802	110,708
Total assets									625,915	399,189
Segment liabilities	315,435	167,044	303	573	10,095	9,585	(31,818)	(30,714)	294,015	146,488
Unallocated liabilities									156,719	190,045
Total liabilities									450,734	336,533

NOTES TO FINANCIAL STATEMENTS

29 February 2020

4. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

	Department store operations		Securities trading		Others		Eliminations		Total	
	2020 **HK$'000**	2019 HK$'000	**2020** **HK$'000**	2019 HK$'000	**2020** **HK$'000**	2019 HK$'000	**2020** **HK$'000**	2019 HK$'000	**2020** **HK$'000**	2019 HK$'000
Other segment information:										
Depreciation	**83,683**	3,525	**-**	378	**11,889**	1,229	**-**	–	**95,572**	5,132
Impairment of items of property, plant and equipment	**10,816**	9,453	**-**	–	**3,397**	159	**-**	–	**14,213**	9,612
Capital expenditure of property, plant and equipment	**1,561**	6,346	**-**	–	**60**	65	**-**	–	**1,621**	6,411
Loss/(gain) on disposal of items of property, plant and equipment	**(213)**	2	**-**	–	**-**	(160)	**-**	–	**(213)**	(158)
Provision for an onerous contract	**-**	3,152	**-**	–	**-**	–	**-**	–	**-**	3,152
Reversal of provision for inventories	**(543)**	(9,384)	**-**	–	**-**	–	**-**	–	**(543)**	(9,384)
Impairment of an interest in an associate	**-**	–	**-**	–	**9**	4	**-**	–	**9**	4
Bad debts written off	**1,262**	–	**-**	–	**33**	–	**-**	–	**1,295**	–
Gain on deregistration of subsidiaries	**-**	–	**-**	–	**-**	(2,036)	**-**	–	**-**	(2,036)
Write-back of other payables	**-**	–	**-**	–	**(489)**	–	**-**	–	**(489)**	–

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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	
	2020 HK$'000	2019 HK$'000	**2020 HK$'000**	2019 HK$'000	**2020 HK$'000**	2019 HK$'000	**2020 HK$'000**	2019 HK$'000	**2020 HK$'000**	2019 HK$'000	**2020 HK$'000**	2019 HK$'000
Segment revenue:												
Sales to external customers	**262,819**	311,121	**–**	–	**203**	210	**290**	534	**–**	–	**263,312**	311,865
Non-current assets	**363,345**	52,157	**–**	758	**–**	–	**–**	–	**–**	–	**363,345**	52,915

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 29 February 2020 and 28 February 2019, 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*.

5. REVENUE, OTHER INCOME AND GAINS, NET

(a) Revenue

	2020 HK$'000	2019 HK$'000
Revenue from contracts with customers		
Sale of goods – own goods	**204,754**	235,329
Income from counter and consignment sale	**58,356**	75,487
Revenue from other sources		
Net realised loss on securities trading	**(3,543)**	(2,739)
Rental income	**3,738**	3,721
Gross insurance contracts premium revenue	**7**	67
	263,312	311,865

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

(a) Revenue *(continued)*

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 the sale 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 a 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.

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 programme which is based on the relative standalone selling price. The transaction price of HK$2,887,000 (2019: HK$1,253,000) was allocated to the remaining performance obligations as at 29 February 2020 which are expected to be recognised as revenue within one year.

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:

	2020 ***HK$'000***	2019 *HK$'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Loyalty points programme	**1,253**	1,005

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

(b) Other income and gains, net

	2020 *HK$'000*	2019 *HK$'000*
Bank interest income	1,039	853
Other interest income from financial assets at fair value through profit or loss	278	727
Dividends from financial assets at fair value through profit or loss	7,239	7,215
Gain on disposal of items of property, plant and equipment	213	158
Write-back of other payables	489	–
Gain on deregistration of subsidiaries	–	2,036
Foreign exchange gain/(loss), net	103	(118)
Others	1,439	547
	10,800	11,418

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 *HK$'000*	2019 *HK$'000*
Interest on bank borrowings	5,712	4,812
Interest on lease liabilities	13,431	–
Others	66	86
	19,209	4,898

NOTES TO FINANCIAL STATEMENTS

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7. LOSS BEFORE TAX

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

	2020	2019
	HK$'000	*HK$'000*
Cost of inventories sold	**131,054**	151,437
Reversal of provision for inventories	**(543)**	(9,384)
Reinsurers' share portion and commission, net of gross change in unearned premiums	**2**	60
Cost of sales	**130,513**	142,113
Depreciation	**95,572**	5,132
Auditor's remuneration	**2,930**	3,018
Employee benefit expense, excluding directors' and chief executive's remuneration *(note 26)*:		
Wages and salaries	**66,420**	67,448
Pension contributions, including a pension cost for a defined benefit plan of HK$1,304,000 (2019: HK$1,226,000)	**3,812**	3,714
	70,232	71,162
Impairment of an interest in an associate *	**9**	4
Bad debts written off	**1,295**	–
Operating lease rental payments:		
Minimum lease payments	**–**	121,864
Contingent rent	**–**	1,189
Other charges in respect of rental premises	**20,796**	26,698
Lease payments not included in the measurement of lease liabilities *(note 19(c))*	**7,740**	–
Provision for an onerous contract *	**–**	3,152
Impairment of items of property, plant and equipment*$^{\Delta}$	**14,213**	9,612
Gain on disposal of items of property, plant and equipment **	**(213)**	(158)
Gain on deregistration of subsidiaries **	**–**	(2,036)
Net realised loss on securities trading	**3,543**	2,739
Underwriting profit	**(5)**	(7)
Bank interest income **	**(1,039)**	(853)
Other interest income from financial assets at fair value through profit or loss **	**(278)**	(727)
Dividends from financial assets at fair value through profit or loss **	**(7,239)**	(7,215)
Foreign exchange loss/(gain), net **	**(103)**	118
Write-back of other payables **	**(489)**	–

* 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.

$^{\Delta}$ Amounts included an impairment of right-of-use assets of HK$12,789,000.

NOTES TO FINANCIAL STATEMENTS

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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.

	2020	2019
	HK$'000	*HK$'000*
Current – Hong Kong	**–**	–
Current – Elsewhere		
Charge for the year	**13**	16
Total tax charge for the year	**13**	16

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:

	2020	2019
	HK$'000	*HK$'000*
Loss before tax	**(149,240)**	(134,727)
Tax at the statutory tax rates	**(25,070)**	(22,580)
Income not subject to tax	**(895)**	(2,761)
Expenses not deductible for tax	**2,649**	6,443
Deferred tax not recognised	**(94)**	(156)
Tax losses not recognised	**23,423**	19,070
Tax charge at the Group's effective rate	**13**	16

The Group has tax losses arising in Hong Kong of approximately HK$1,793,264,000 (2019: HK$1,654,117,000) 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.

NOTES TO FINANCIAL STATEMENTS

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9. DIVIDENDS

The board of directors did not recommend the payment of any dividend for the year ended 29 February 2020 (2019: Nil).

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$147,364,000 (2019: HK$132,068,000) attributable to equity holders of the Company and the weighted average number of ordinary shares of 891,605,524 (2019: 658,449,600). The weighted average number of ordinary shares in issue used in the basic loss per share calculation for the year ended 29 February 2020 has been adjusted to reflect the number of treasury shares of 260,443,200 (2019: 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 29 February 2020 and 28 February 2019 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.

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11. PROPERTY, PLANT AND EQUIPMENT

	Owned assets				Right-of-use assets			
	Buildings *HK$'000*	Furniture, fixtures, equipment and motor vehicles *HK$'000*	Leasehold improvements *HK$'000*	Total *HK$'000*	Leasehold land *HK$'000*	Buildings *HK$'000*	Total *HK$'000*	Total *HK$'000*
29 February 2020								
Cost or valuation:								
At 28 February 2019	51,952	45,015	97,837	194,804	–	–	–	194,804
Effect of adoption of HKFRS 16	(45,718)	–	–	(45,718)	45,718	292,083	337,801	292,083
At 1 March 2019 (as restated)	6,234	45,015	97,837	149,086	45,718	292,083	337,801	486,887
Additions	–	396	1,165	1,561	–	60	60	1,621
Modification of leases	–	–	–	–	–	(42,516)	(42,516)	(42,516)
Disposal	–	(564)	–	(564)	–	–	–	(564)
Write off	–	(25,554)	(25,942)	(51,496)	–	–	–	(51,496)
Revaluation adjustment	19,984	–	–	19,984	148,157	–	148,157	168,141
Reversal upon revaluation	(3,830)	–	–	(3,830)	(28,068)	–	(28,068)	(31,898)
At 29 February 2020	22,388	19,293	73,060	114,741	165,807	249,627	415,434	530,175
Accumulated depreciation and impairment:								
At 28 February 2019	24,791	45,015	97,737	167,543	–	–	–	167,543
Effect of adoption of HKFRS 16	(21,816)	–	–	(21,816)	21,816	–	21,816	–
At 1 March 2019 (as restated)	2,975	45,015	97,737	145,727	21,816	–	21,816	167,543
Provided during the year	855	37	84	976	6,252	88,344	94,596	95,572
Impairment	–	359	1,065	1,424	–	12,789	12,789	14,213
Disposal	–	(564)	–	(564)	–	–	–	(564)
Write off	–	(25,554)	(25,942)	(51,496)	–	–	–	(51,496)
Reversal upon revaluation	(3,830)	–	–	(3,830)	(28,068)	–	(28,068)	(31,898)
At 29 February 2020	–	19,293	72,944	92,237	–	101,133	101,133	193,370
Net book value:								
At 29 February 2020	22,388	–	116	22,504	165,807	148,494	314,301	336,805

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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 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

As at 29 February 2020, the Group's leasehold land and owned buildings with an aggregate carrying value of HK$188,195,000 (2019: land and buildings of HK$26,403,000) were pledged as security for the bank loans granted (note 17(a)).

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

Notes:

(a) Impairment assessment of property plant and equipment

During the year, the Group's management identified certain stores which continued to underperform and estimated the recoverable amounts of these stores, where each of these is a separate cash-generating unit. Based on the value-in-use calculation, the carrying amounts of owned assets of such stores were written down by HK$1,424,000 (2019: HK$9,612,000) during the year. As at 29 February 2020, the aggregate recoverable amount of these owned assets was nil (2019: Nil). The estimate of the recoverable amount of each cash-generating unit was determined by applying a discount rate of 9% (2019: 11%) to the cashflow projections.

In addition, the Group's management also estimated the recoverable amounts of right-of-use buildings by using fair value less costs of disposal based on valuation performed by Castorer Magi (Hong Kong) Limited, independent professionally qualified valuers. Based on the recoverable amounts, the carrying amounts of right-of-use buildings were written down by HK$12,789,000. The fair value measurement was categorised under Level 3.

Below is a summary of the valuation techniques used and the key inputs to the valuation of right-of-use buildings:

Valuation techniques	Significant unobservable inputs	Range
Discounted cash flow method	Estimated rental value (per sq.ft. and per month)	HK$31 to HK$95
	Discount rate	10%

(b) Revaluation of leasehold land and owned buildings

Management determined that the leasehold land and owned buildings constitute a separate class of property, plant and equipment, based on the nature, characteristics and risks of the property.

The Group's leasehold land and owned buildings were revalued based on valuations performed by Castorer Magi (Hong Kong) Limited, independent professionally qualified valuers, at HK$188,195,000 and HK$201,320,000 as at the dates of revaluation on 29 February 2020 and 1 March 2019, respectively. The valuations were based on comparable market transactions and evidence and considered adjustments to reflect differences in transaction timing, location and tenure. Revaluation deficit of HK$6,018,000 resulting from the above revaluation was recognised in other comprehensive income.

Had such leasehold land and owned buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK22,967,000 and HK$3,132,000, respectively. The Group appoints an external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group discusses with the valuer on the valuation assumptions and valuation results when the valuation is performed for financial reporting. In estimating the fair value of the leasehold land and owned buildings, the highest and best use of the leasehold land and owned buildings is their current use.

The fair values of the Group's leasehold land and owned buildings as at 29 February 2020 and 1 March 2019 were estimated by using significant unobservable inputs and the fair value measurement was categorised under Level 3. During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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

Notes: (continued)

(b) Revaluation of leasehold land and owned buildings *(continued)*

Reconciliation of carrying amount on leasehold land and owned buildings

	Owned buildings *HK$'000*	Leasehold land *HK$'000*	Total *HK$'000*
Carrying amount at 1 March 2019*	3,259	23,902	27,161
Level 3 revaluation gain recognised due to change in accounting policy to revaluation model at 1 March 2019	20,899	153,260	174,159
Carrying amount and fair value as at 1 March 2019	24,158	177,162	201,320
Depreciation for the year	(855)	(6,252)	(7,107)
Level 3 revaluation deficit on revaluation at 29 February 2020	(915)	(5,103)	(6,018)
Carrying amount and fair value at 29 February 2020	22,388	165,807	188,195

* The Group changed the accounting policy with respect to the measurement of leasehold land and owned buildings as at 1 March 2019 on a prospective basis. Therefore, the fair value of leasehold land and owned buildings was not measured at 1 March 2018.

Below is a summary of the valuation technique used and the key input to the valuation of leasehold land and owned buildings:

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Class of properties	*Valuation techniques*	*Unobservable input (i.e. average market unit rate)*
Hong Kong – Warehouse	Market approach	HK$4,471/sq.ft.

1 March 2019

Class of properties	*Valuation techniques*	*Unobservable input (i.e. average market unit rate)*
Hong Kong – Warehouse	Market approach	HK$4,790/sq.ft.

Significant increase (decrease) in estimated price per square foot in isolation would result in a significantly higher (lower) fair value on a linear basis.

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12. INTERESTS IN ASSOCIATES

	2020 HK$'000	2019 HK$'000
Share of net assets other than goodwill	–	–
Due from an associate	9,921	9,912
Provision for impairment #	(9,921)	(9,912)
	–	–

As at 29 February 2020, an aggregate impairment of HK$9,921,000 (2019: HK$9,912,000) was recognised for an amount due from an associate with a gross carrying amount of HK$9,921,000 (2019: HK$9,912,000) (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

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12. INTERESTS IN ASSOCIATES *(continued)*

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

	2020	2019
	HK$'000	*HK$'000*
Total assets	**–**	–
Total liabilities	**(15,800)**	(16,532)
Profit/(loss) before tax	**(9)**	1,592

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 loss of the associates for the current year and the amount of the Group's unrecognised share of losses cumulatively were HK$5,000 (2019: share of gains of HK$796,000) and HK$9,638,000 (2019: HK$9,633,000), respectively.

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

Equity investments designated at fair value through other comprehensive income

	2020	2019
	HK$'000	*HK$'000*
Unlisted investments, at fair value:		
The Wing Sang Co. Ltd	**810**	822
Oriental Finance (HK) Limited and		
Yestock Car Rental Company Limited	**3,815**	5,482
The Sincere Department Store Limited	**17,948**	16,569
	22,573	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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14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020	2019
	HK$'000	*HK$'000*
Listed investments, at fair value	**6,572**	65,705
Other investments, at quoted price	**6,792**	46,234
	13,364	111,939

The above investments at 29 February 2020 and 28 February 2019 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$6,572,000 (2019: HK$72,358,000) were pledged to banks to secure certain banking facilities granted to the Group (note 17(a)).

15. CASH AND BANK BALANCES

	2020	2019
	HK$'000	*HK$'000*
Cash on hand and at banks	**13,761**	32,318

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$1,221,000 (2019: HK$3,183,000). 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.

16. REINSURANCE ASSETS

	2020	2019
	HK$'000	*HK$'000*
Reinsurers' share of insurance contracts liabilities (note 20)	**7**	24

NOTES TO FINANCIAL STATEMENTS

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17. INTEREST-BEARING BANK BORROWINGS AND OTHER LOANS

(a) Interest-bearing bank borrowings

	2020 HK$'000	2019 HK$'000
Bank loans, secured	**156,719**	190,045

The bank loans bear interest at rates ranging from 1.4% to 5.1% (2019: 1.4% to 5.1%) per annum and are repayable within one year or on demand. The interest-bearing bank 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$6,024,000 (2019: HK$6,829,000) and time deposits amounting to HK$113,017,000 (2019: HK$71,561,000);

(ii) the pledge of certain of the Group's marketable securities with an aggregate market value of approximately HK$6,572,000 (2019: HK$72,358,000) (note 14); and

(iii) mortgages over certain of the Group's leasehold land and owned buildings with an aggregate carrying value at the end of the reporting period of approximately HK$188,195,000 (2019: land and buildings of HK$26,403,000) (note 11).

(b) Other loans

	2020 HK$'000	2019 HK$'000
Other loans	**3,240**	3,167
Less: Amount repayable within one year or on demand and classified as current portion	**(2,136)**	(2,100)
Amount classified as non-current portion	**1,104**	1,067

The other loans were unsecured, bore interest at 2% (2019: 2%) per annum and repayable on demand, except for an amount of HK$1,104,000 (2019: HK$1,067,000) which was not repayable in the next twelve months after the end of the reporting period. The balances were denominated in Hong Kong dollars.

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18. CREDITORS

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

	2020	2019
	HK$'000	*HK$'000*
Current – 3 months	**37,246**	49,763
4 – 6 months	**4,775**	2,494
7 – 12 months	**147**	29
Over 1 year	**1,311**	488
	43,479	52,774

19. LEASES

The Group as a lessee

The Group has lease contracts for office premises and stores used in its operations. Lump sum payments were made upfront to acquire the leasehold land from the owner with a lease period of 55 years, and no ongoing payments will be made under the terms of these land leases. Leases of office premises and stores generally have lease terms between one and nine years. There are several lease contracts that include extension and termination options and variable lease payments.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are disclosed in note 11 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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19. LEASES *(continued)*

The Group as a lessee *(continued)*

(b) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	HK$'000
Carrying amount as at 1 March 2019	340,730
Addition	60
Accretion of interest recognised during the year (note 6)	13,431
Payments	(105,287)
Modification of leases	(42,516)
Carrying amount as at 29 February 2020	206,418
Analysed into payable:	
Within one year	102,454
In the second year	86,600
In the third to fifth years, inclusive	17,364
Carrying amount as at 29 February 2020	206,418
Less: current portion	(102,454)
Non-current portion	103,964

The maturity analysis of lease liabilities is disclosed in note 33 to the financial statements.

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 ***HK$'000***
Interest on lease liabilities	**13,431**
Depreciation charge of right-of-use assets	**94,596**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 29 February 2020 (included in selling and distribution expenses)	**7,089**
Variable lease payments not included in the measurement of lease liabilities (included in selling and distribution expenses)	**651**
Total amount recognised in profit or loss	**115,767**

NOTES TO FINANCIAL STATEMENTS

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19. LEASES *(continued)*

The Group as a lessee *(continued)*

(d) The total cash outflow for leases are disclosed in note 27(b) to the financial statements.

The Group as a lessor

The Group subleases a premise under an operating lease arrangement. Rental income recognised by the Group during the year was HK$3,738,000 (2019: HK$3,721,000), details of which are included in note 5 to the financial statements. The contractual arrangement of the operating lease expired at the end of the year.

20. INSURANCE CONTRACTS LIABILITIES

		2020			2019		
	Notes	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
Life insurance contracts	(a)	1,206	–	1,206	1,206	–	1,206
General insurance contracts	(b)	8	(7)	1	26	(24)	2
Total insurance contracts liabilities		1,214	(7)	1,207	1,232	(24)	1,208
			(Note 16)			(Note 16)	

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

		2020			2019		
	Notes	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
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

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20. INSURANCE CONTRACTS LIABILITIES *(continued)*

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

(i) Life reserve is analysed as follows:

	2020	2019
	HK$'000	*HK$'000*
At beginning of year	**1,078**	1,078
Increase in the year	**–**	–
At end of year	**1,078**	1,078

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

	2020			2019		
	Insurance contracts liabilities	**Reinsurers' share of liabilities**	**Net**	Insurance contracts liabilities	Reinsurers' share of liabilities	Net
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'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

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20. INSURANCE CONTRACTS LIABILITIES *(continued)*

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

		2020			2019		
	Notes	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*
Provision for claims reported by policyholders and claims incurred but not reported ("IBNR")	*21(d)*	–	–	–	–	–	–
Provision for unearned premiums	*(i)*	8	(7)	1	26	(24)	2
Total insurance contracts liabilities		8	(7)	1	26	(24)	2

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

	2020			2019		
	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	26	(24)	2	15	(14)	1
Premiums written in the year	20	(18)	2	67	(60)	7
Premiums earned during the year	(38)	35	(3)	(56)	50	(6)
At end of year	8	(7)	1	26	(24)	2

NOTES TO FINANCIAL STATEMENTS

29 February 2020

21. 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.

(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.

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

Life insurance *(continued)*

(b) Key assumptions *(continued)*

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.

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.

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21. 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

29 February 2020

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

General insurance *(continued)*

(d) Loss development triangle *(continued)*

Gross insurance claims

	2011 and before *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$'000*	2020 *HK$'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 20(b))

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

General insurance *(continued)*

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

Net insurance claims

	2011 and before *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$'000*	2020 *HK$'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 20(b))

22. 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 or early retirement due to incapacity. In addition to the above, a flat pension payment equal to 50% of final salary payable and years of 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 has the legal form of a foundation and it is administrated by independent trustees with the assets held separately from those of the Group. The Scheme is administrated by two (2019: 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 28% in equity and 72% in debt instruments (2019: a mix of 29% in equity and 71% 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 29 February 2020 by an independent qualified professional valuer, Willis 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:

	2020	2019
Discount rate	**0.9%**	1.6%
Expected rate of salary increase	**2.0%**	3.0%

The actuarial valuation showed that the market value of plan assets was HK$52,553,000 (2019: HK$54,440,000) and that the actuarial value of these assets represented 139% (2019: 137%) of the benefits that had accrued to qualifying employees.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

22. 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*
2020				
Discount rate	**0.25**	**(510)**	**0.25**	**527**
Long-term salary increase rate	**0.25**	**525**	**0.25**	**(513)**
2019				
Discount rate	0.25	(582)	0.25	599
Long-term salary increase rate	0.25	594	0.25	(581)

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

29 February 2020

22. PENSION SCHEME ASSETS *(continued)*

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

	2020	2019
	HK$'000	*HK$'000*
Current service cost	**1,576**	1,575
Net interest income	**(236)**	(313)
Net benefit expenses	**1,340**	1,262

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:

	2020	2019
	HK$'000	*HK$'000*
At beginning of year	**39,770**	38,899
Current service cost	**1,576**	1,575
Interest cost	**630**	690
Actuarial losses/(gains)	**(1,829)**	626
Benefit paid	**(2,266)**	(2,020)
At end of year	**37,881**	39,770

NOTES TO FINANCIAL STATEMENTS

29 February 2020

22. PENSION SCHEME ASSETS *(continued)*

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

2020

		Pension cost credited/(charged) to the income statement				Remeasurement income/(losses) in other comprehensive loss						
	At 1 March 2019	Service cost	Net interest income/ (expense)	Sub-total included in the income statement	Benefit paid	Return on plan assets (excluding amounts included in net interest expense)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income/(loss)	Contribution by employer	At 29 February 2020
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Defined benefit obligations	(39,770)	(1,576)	(630)	(2,206)	2,266	–	11	590	1,228	1,829	–	(37,881)
Fair value of plan assets	54,440	–	866	866	(2,266)	(572)	–	–	–	(572)	85	52,553
Benefit assets/ (liabilities)	14,670	(1,576)	236	(1,340)	–	(572)	11	590	1,228	1,257	85	14,672

2019

		Pension cost credited/(charged) to the income statement				Remeasurement losses in other comprehensive loss						
	At 1 March 2018	Service cost	Net interest income/ (expense)	Sub-total included in the income statement	Benefit paid	Return on plan assets (excluding amounts included in net interest expense)	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive loss	Contribution by employer	At 28 February 2019
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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

NOTES TO FINANCIAL STATEMENTS

29 February 2020

22. PENSION SCHEME ASSETS *(continued)*

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

	2020	2019
Equity instruments, quoted in an active market	**28%**	29%
Debt instruments, at quoted prices	**72%**	71%
Total	**100%**	100%

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

	2020 *HK$'000*	2019 *HK$'000*
Within the next 12 months	**85**	92

The average duration of the defined benefit obligations at the end of the reporting period was 5.2 years (2019: 5.5 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, and 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 interest rate of 4.00% per annum and a salary increase rate of 4.00% per annum were assumed in the valuation.

(i) As at 29 February 2020, the Group had an amount due to the Scheme of HK$7,000 (2019: HK$7,000), which was included in "Deposits, accrued expenses and other payables" on the face of the consolidated statement of financial position.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

23. SHARE CAPITAL

	2020	2019
	HK$'000	*HK$'000*
Issued and fully paid:		
1,313,962,560 (2019: 918,892,800) ordinary shares	**469,977**	377,236

As at 29 February 2020 and 28 February 2019, 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 2018, 28 February 2019, and 1 March 2019	918,892,800	377,236
Issue of shares	395,069,760	102,718
Share issue expenses	–	(9,977)
At 29 February 2020	**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, 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 three 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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

24. 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 which 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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

24. SHARE OPTION SCHEME *(continued)*

3. Total number of shares available for issue *(continued)*

(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 29 February 2020 was 1,313,962,560 (2019: 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:

(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.

24. SHARE OPTION SCHEME *(continued)*

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

29 February 2020

24. SHARE OPTION SCHEME *(continued)*

Set out below are the outstanding share options under the Option Scheme as at 29 February 2020:

Name or category of participant	At 1 March 2019	Granted during the year	Cancelled or lapsed during the year	Exercised during the year	At 29 February 2020	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$ per share
	Number of share options							
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	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

29 February 2020

24. SHARE OPTION SCHEME *(continued)*

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

	Number of share options							
Name or category of participant	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	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			

* 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 was HK$0.365.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

24. SHARE OPTION SCHEME *(continued)*

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

	2020 Weighted average exercise price HK$ per share	**2020** Number of options	2019 Weighted average exercise price HK$ per share	2019 Number of options
At beginning of year	**0.332**	**15,963,665**	0.332	15,963,665
Lapsed during the year before the Open Offer	**0.332**	**(15,963,665)**	–	–
At end of year	**N/A**	**–**	0.332	15,963,665

All share options lapsed during the year. At the date of approval of these financial statements, no share option was outstanding under the Option Scheme.

25. 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.

26. 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:

	2020 ***HK$'000***	2019 *HK$'000*
Fees	**2,426**	2,426
Other emoluments:		
Salaries, allowances and other benefits	**12,495**	12,893
Pension contributions including pension cost for a defined benefit plan of HK$36,000 (2019: HK$36,000)	**36**	36
	14,957	15,355

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 24 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

26. 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
2020				
Executive director				
Mr. Philip K H Ma #	1,876	12,245	36	14,157
Non-executive director				
Mr. Charles M W Chan	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	12,495	36	14,957
2019				
Executive director				
Mr. Philip K H Ma #	1,876	12,643	36	14,555
Non-executive director				
Mr. Charles M W Chan	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

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

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

NOTES TO FINANCIAL STATEMENTS

29 February 2020

26. 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 (2019: one) director of the Company and his remuneration is included in the directors' and chief executive's remuneration above. The remuneration of the remaining four (2019: four) highest paid individuals, analysed by nature thereof and designated band, is set out below:

	2020 ***HK$'000***	2019 *HK$'000*
Salaries and allowances	**5,358**	5,656
Pension contributions	**39**	42
	5,397	5,698

	Number of individuals	
	2020	2019
Nil – HK$1,500,000	**3**	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**	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 24 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Changes in liabilities arising from financing activities

	Lease liabilities	Other loans	Interest-bearing bank borrowings
	HK$'000	*HK$'000*	*HK$'000*
At 1 March 2018	–	2,987	94,324
Changes from financing cash flows	–	180	95,721
At 28 February 2019	–	3,167	190,045
Effect of adoption of HKFRS 16	340,730	–	–
At 1 March 2019 (restated)	**340,730**	**3,167**	**190,045**
Changes from financing cash flows	**(91,856)**	**73**	**(33,326)**
New lease	**60**	**–**	**–**
Modification of leases	**(42,516)**	**–**	**–**
Interest expense	**13,431**	**–**	**–**
Interest paid classified as operating cash flows	**(13,431)**	**–**	**–**
At 29 February 2020	**206,418**	**3,240**	**156,719**

(b) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020
	HK$'000
Within operating activities	**21,171**
Within financing activities	**91,856**
	113,027

NOTES TO FINANCIAL STATEMENTS

29 February 2020

28. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group subleased 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:

	2020 *HK$'000*	2019 *HK$'000*
Within one year	–	2,820

During the year, the Group did not receive any contingent rent (2019: Nil).

(b) As lessee

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

At 28 February 2019, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	HK$'000
Within one year	126,652
In the second to fifth years, inclusive	197,827
	324,479

Certain non-cancellable operating leases of the Group included above were subject to contingent rent payments, which were charged at 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

29 February 2020

29. OUTSTANDING COMMITMENTS AND CONTINGENT LIABILITIES

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

	2020 *HK$'000*	2019 *HK$'000*
Irrevocable letters of credit	**17,548**	21,059
Bank guarantees given in lieu of property rental deposits and to a supplier	**26,692**	23,095

(b) During the year ended 29 February 2020, 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 29 February 2020. Details of which are disclosed in note 36 to the financial statements.

30. 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:

	2020 HK$' 000	2019 *HK$'000*
Management service fees to related companies	**946**	856

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:

	2020 *HK$'000*	2019 *HK$'000*
Short term employee benefits	**18,193**	18,894
Post-employment benefits, including pension cost for a defined benefit plan of HK$42,000 (2019: HK$42,000)	**85**	93
Total compensation of key management personnel	**18,278**	18,987

Further details of directors' and the chief executive's emoluments are included in note 26 to the financial statements.

NOTES TO FINANCIAL STATEMENTS

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31. 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	
	2020	2019
	HK$'000	*HK$'000*
Financial assets included in prepayments, deposits and other receivables	**30,011**	35,925
Pledged bank balances	**6,024**	6,829
Pledged deposits with banks	**113,017**	71,561
Cash and bank balances	**13,761**	32,318
	162,813	146,633

	2020	2019
	HK$'000	*HK$'000*
Financial assets at fair value through profit or loss held for trading		
Financial assets at fair value through profit or loss	**13,364**	111,939
Financial assets at fair value through other comprehensive income		
Equity investments designated at fair value through other comprehensive income	**22,573**	22,873

Financial liabilities

	2020	2019
	HK$'000	*HK$'000*
Financial liabilities at amortised cost		
Creditors	**43,479**	52,774
Provision for claims of life insurance	**128**	128
Financial liabilities included in deposits, accrued expenses and other payables	**34,879**	86,084
Interest-bearing bank borrowings	**156,719**	190,045
Other loans	**3,240**	3,167
Lease liabilities	**206,418**	–
	444,863	332,198

32. 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:

2020

	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	–	–	22,573	22,573
Financial assets at fair value through profit or loss	6,572	6,792	–	13,364
	6,572	6,792	22,573	35,937

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

During the years ended 29 February 2020 and 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 29 February 2020 and 28 February 2019. As at 29 February 2020 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.

The fair values of financial assets at fair value through profit or loss categorised under Level 2 fair value measurement is determined based on the quoted prices from the fund managers.

NOTES TO FINANCIAL STATEMENTS

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

Information about Level 3 fair value measurements

	Valuation technique	Significant unobservable input
Equity investments designated at fair value through other comprehensive income	Market approach	Discount for lack of marketability of 35.6% (2019: 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 29 February 2020 and 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*
2020		
Discount for lack of marketability	**3**	**(720)**
	(3)	**732**
2019		
Discount for lack of marketability	3	(1,051)
	(3)	1,057

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

Information about Level 3 fair value measurements *(continued)*

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

	2020 *HK$'000*	2019 *HK$'000*
Unlisted equity securities:		
At the beginning of the year	**22,873**	33,875
Net losses recognised in other comprehensive income	**(300)**	(11,002)
At the end of the year	**22,573**	22,873

33. 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:

	2020 *HK$'000*	2019 *HK$'000*
Increase/decrease in interest expense	**1,567**	1,900

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

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 the 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$.

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*
2020		
Investments denominated in:		
Euro	**5**	**(77)**
	(5)	**77**
2019		
Investments denominated in:		
Euro	5	(429)
	(5)	429

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

Credit risk

Maximum exposure and year-end staging as at 29 February 2020 and 28 February 2019

The tables below show 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 29 February 2020 and 28 February 2019. The amounts presented are gross carrying amounts for financial assets.

	2020				
	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets included in prepayments, deposits and other receivables					
– Normal*	30,011	–	–	–	30,011
– Doubtful*	–	–	–	–	–
Pledged bank balances					
– Not yet past due	6,024	–	–	–	6,024
Pledged deposits with banks					
– Not yet past due	113,017	–	–	–	113,017
Cash and bank balances					
– Not yet past due	13,761	–	–	–	13,761
	162,813	–	–	–	162,813

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

Credit risk *(continued)*

***Maximum exposure and year-end staging as at 29 February 2020 and 28 February 2019** (continued)*

	2019				
	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'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".

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 and other borrowings to ensure that the Group maintains sufficient cash to meet its liquidity requirements.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

33. 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:

2020

	On demand or within 1 year *HK$'000*	**More than 1 year** *HK$'000*	**Total** *HK$'000*
Creditors	**43,479**	**–**	**43,479**
Provision for claims of life insurance	**128**	**–**	**128**
Deposits, accrued expenses and other payables	**26,489**	**8,390**	**34,879**
Interest-bearing bank borrowings	**159,714**	**–**	**159,714**
Other loans	**2,136**	**1,104**	**3,240**
Lease liabilities	**106,605**	**111,005**	**217,610**
	338,551	**120,499**	**459,050**

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

NOTES TO FINANCIAL STATEMENTS

29 February 2020

33. 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 29 February 2020.

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.

	2020 ***HK$'000***	2019 *HK$'000*
Increase/decrease in loss before tax	**1,336**	11,194

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, lease liabilities 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 lease liabilities and total equity attributable to equity holders of the Company.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

Capital management *(continued)*

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

	2020	2019
	HK$'000	*HK$'000*
Total interest-bearing bank borrowings and lease liabilities	**363,137**	190,045
Total equity attributable to equity holders of the Company	**142,614**	28,544
Gearing ratio	**255%**	666%

NOTES TO FINANCIAL STATEMENTS

29 February 2020

34. 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:

	2020	2019
	HK$'000	*HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**110,732**	–
Interests in subsidiaries	**147,720**	163,676
Equity investments designated at fair value through other comprehensive income	**18,719**	17,352
Deposits	**26,533**	25,518
Pension scheme assets	**12,792**	12,780
Total non-current assets	**316,496**	219,326
CURRENT ASSETS		
Inventories	**66,289**	66,896
Prepayments, deposits and other receivables	**8,882**	13,256
Pledged deposits with banks	**64,350**	60,427
Cash and bank balances	**7,420**	15,015
Total current assets	**146,941**	155,594
CURRENT LIABILITIES		
Creditors	**43,467**	52,767
Lease liabilities	**77,638**	–
Deposits, accrued expenses and other payables	**22,508**	40,585
Contract liabilities	**2,887**	1,253
Interest-bearing bank borrowings	**152,029**	178,525
Total current liabilities	**298,529**	273,130
NET CURRENT LIABILITIES	**(151,588)**	(117,536)
TOTAL ASSETS LESS CURRENT LIABILITIES	**164,908**	101,790
NON-CURRENT LIABILITIES		
Deposits, accrued expenses and other payables	**8,390**	41,725
Lease liabilities	**80,894**	–
Total non-current liabilities	**89,284**	41,725
NET ASSETS	**75,624**	60,065

NOTES TO FINANCIAL STATEMENTS

29 February 2020

34. 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)*

	2020 ***HK$'000***	2019 *HK$'000*
EQUITY		
Share capital	**469,977**	377,236
Reserves (note)	**(394,353)**	(317,171)
TOTAL EQUITY	**75,624**	60,065

Philip K H Ma
Director

Charles M W Chan
Director

NOTES TO FINANCIAL STATEMENTS

29 February 2020

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

Note:

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

	General reserve	Share option reserve	Investment revaluation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 March 2018	46,613	1,538	6,905	(250,336)	(195,280)
Loss for the year	–	–	–	(120,832)	(120,832)
Other comprehensive income/(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 and 1 March 2019	**46,613**	**1,538**	**7,301**	**(372,623)**	**(317,171)**
Loss for the year	**–**	**–**	**–**	**(79,808)**	**(79,808)**
Other comprehensive income for the year:					
Change in fair value of equity instruments at FVOCI	**–**	**–**	**1,366**	**–**	**1,366**
Actuarial gains on a defined benefit plan	**–**	**–**	**–**	**1,260**	**1,260**
Total comprehensive loss for the year	**–**	**–**	**1,366**	**(78,548)**	**(77,182)**
Transfer of share option reserve upon the forfeiture of share options	**–**	**(1,538)**	**–**	**1,538**	**–**
At 29 February 2020	**46,613**	**–**	**8,667**	**(449,633)**	**(394,353)**

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

29 February 2020

35. 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.

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.

NOTES TO FINANCIAL STATEMENTS

29 February 2020

35. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(continued)*

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

Sincere LA Group

	2020	2019
Percentage of effective equity interest held by non-controlling interests	**43.04**	43.04

	2020 *HK$'000*	2019 *HK$'000*
Loss for the year allocated to non-controlling interests	**(1,139)**	(1,679)
Accumulated balances of non-controlling interests at the reporting dates	**41,780**	43,038

The following tables illustrate the summarised financial information of Sincere LA and its subsidiary. The amounts disclosed are before any inter-company eliminations:

	2020 *HK$'000*	2019 *HK$'000*
Loss for the year	**(1,016)**	(949)
Total comprehensive income/(loss) for the year	**55,894**	(5,508)
Current assets	**5,006**	6,307
Non-current assets	**69,737**	11,479
Current liabilities	**(5,754)**	(4,691)
Net cash flows used in operating activities	**(91)**	(3,645)
Net cash flows from/(used in) investing activities	**103**	(489)
Net cash flows from financing activities	**320**	2,221
Net increase/(decrease) in cash and cash equivalents	**332**	(1,913)

36. CONTINGENT LIABILITIES

As set out in the Company's announcement dated 22 May 2019, a non-compliance matter (the "Incident") occurred in which certain Insurance Authority regulatory filings were not made by Sincere LA and certain Insurance Authority regulatory filings/prior written consents were not made/sought by Sincere II in connection with Win Dynamic acquiring 26.48% of the Company's shares in issue and becoming a substantial shareholder of the Company as a result of the completion (the "Rights Issue Completion") of the rights issue of the Company in December 2017.

36. CONTINGENT LIABILITIES *(continued)*

As a result of the Rights Issue Completion, Win Dynamic and Mr. Philip K H Ma each became a new "controller" within the meaning of section 9(1)(a)(iii)(B) of the Insurance Ordinance (Cap. 41 of the laws of Hong Kong) of Sincere II on 20 December 2017 (the "Change"). Pursuant to a directive which was imposed by the Insurance Authority on Sincere II in its letter in March 2016, Sincere II was required to obtain the written consent of the Insurance Authority for the Change before it took place. Sincere II was also required under the Insurance Ordinance to file for the Change to the Insurance Authority by January 2018. For Sincere LA, it is required under the Insurance Ordinance to file for the Change to the Insurance Authority by January 2018.

As a result of the non-compliance matter, Sincere LA and Sincere II may be subject to the potential liability and supervisory actions under the Insurance Ordinance. Pursuant to the Insurance Ordinance, 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 two offences (for failing to obtain written consent of the Insurance Authority for the Change; and failing to file the Change with the Insurance Authority) and may be liable, respectively, to (i) a fine of HK$200,000, together with a fine of HK$1,000 for each day on which the first offence continues; and (ii) a fine of HK$200,000, together with a fine of HK$2,000 for each day on which the second offence continues. Further, both Sincere LA and Sincere II may be subject to disciplinary actions of the Insurance Authority. Both Sincere LA and Sincere II are in the process of carrying out the requisite remediation actions. Based on the available information and opinion given by the legal counsel of Sincere LA and Sincere II, the board of directors, 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 29 February 2020. Sincere LA and Sincere II would continue to discuss with Insurance Authority and monitor the progress in relation thereof.

37. EVENTS AFTER THE REPORTING PERIOD

Subsequent to 29 February 2020, on 15 May 2020, Realord, a listed company in Hong Kong, announced a pre-conditional voluntary cash offer to acquire all the issued shares of the Company with an offer price ranging from HK$0.3806 to HK$0.3935 per share. The controlling shareholder of the Company, Win Dynamic, has executed an irrevocable undertaking to Realord that Win Dynamic will tender, or procure the tender of, all of its shares in the Company. In addition, the subsidiaries of the Company, including Sincere LA, Sincere II and Perfumery have also executed irrevocable undertakings to accept the offer.

Upon the satisfaction of the pre-conditions and the acceptance by Win Dynamic of the offer referred to in the joint announcement dated 15 May 2020, the holding company of the Company will be changed to Realord. At the same time, Sincere LA, Sincere II and Perfumery will dispose of their 260,443,200 shares in the Company to Realord, and will receive gross proceeds of not less than approximately HK$99.1 million and not more than approximately HK$102.5 million.

Further details are disclosed in the joint announcement of the Company and Realord dated 15 May 2020.

38. COMPARATIVE AMOUNTS

As further explained in note 2.3 to the financial statements, the Group adopted HKFRS 16 on 1 March 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 May 2020.

FIVE-YEAR FINANCIAL SUMMARY

29 February 2020

The consolidated results, assets, liabilities and non-controlling interests of the Group for the last five years, as extracted from the published audited financial statements are summarised below.

	Years ended 28/29 February				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
CONTINUING OPERATIONS					
REVENUE	**263,312**	311,865	355,865	375,276	384,338
LOSS BEFORE TAX	**(149,240)**	(134,727)	(92,862)	(94,994)	(183,109)
INCOME TAX EXPENSE	**(13)**	(16)	(18)	(30)	(29)
LOSS FOR THE YEAR	**(149,253)**	(134,743)	(92,880)	(95,024)	(183,138)
Attributable to:					
Equity holders of the Company	**(147,364)**	(132,068)	(90,497)	(92,614)	(181,796)
Non-controlling interests	**(1,889)**	(2,675)	(2,383)	(2,410)	(1,342)
	(149,253)	(134,743)	(92,880)	(95,024)	(183,138)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
PROPERTY, PLANT AND EQUIPMENT	**336,805**	27,261	35,607	47,211	61,178
OTHER NON-CURRENT ASSETS	**63,785**	63,197	73,914	69,784	54,701
NET CURRENT ASSETS/ (LIABILITIES)	**(111,951)**	14,990	152,176	156,276	243,687
NON-CURRENT LIABILITIES	**(113,458)**	(42,792)	(56,865)	(65,741)	(67,396)
NON-CONTROLLING INTERESTS	**(32,567)**	(34,112)	(36,500)	(57,791)	(59,174)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	**142,614**	28,544	168,332	149,739	232,996