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The Sincere Company, Limited

Stock code: 244

2020
INTERIM REPORT

INTERIM RESULTS

The Board of Directors (the “Board”) of The Sincere Company, Limited (the “Company”) herein presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31 August 2020, together with the comparative amounts. The interim financial statements have not been audited by the Company’s auditor, but have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 August 2020

	Notes	2020 HK\$’000 (unaudited)	2019 HK\$’000 (unaudited) (restated)
REVENUE	4(a)	81,756	138,100
Cost of sales		(45,293)	(61,826)
Other income and gains, net	4(b)	1,352	7,845
Net unrealised loss on securities trading		(1,187)	(11,251)
Selling and distribution expenses		(55,828)	(89,310)
General and administrative expenses		(33,834)	(47,197)
Other operating expenses, net		(8,660)	(8,769)
Finance costs	5	(10,604)	(10,784)
LOSS BEFORE TAX	6	(72,298)	(83,192)
Income tax credit	7	-	1
LOSS FOR THE PERIOD		(72,298)	(83,191)
ATTRIBUTABLE TO:			
Equity holders of the Company		(71,885)	(81,948)
Non-controlling interests		(413)	(1,243)
		(72,298)	(83,191)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	8		
Basic		HK\$(0.07)	HK\$(0.11)
Diluted		HK\$(0.07)	HK\$(0.11)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 August 2020

	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited) (restated)
LOSS FOR THE PERIOD	(72,298)	(83,191)
OTHER COMPREHENSIVE INCOME/(LOSS)		
<i>Other comprehensive income/(loss) that may be reclassified to the income statement in subsequent periods:</i>		
Exchange differences arising on translation of foreign operations	32	(102)
Net other comprehensive income/(loss) that may be reclassified to the income statement in subsequent periods	32	(102)
<i>Other comprehensive income/(loss) that will not be reclassified to the income statement in subsequent periods:</i>		
Revaluation of leasehold land and owned buildings	(12,809)	174,159
Changes in fair value of equity investments designated at fair value through other comprehensive income	1,049	(2,369)
Net other comprehensive income/(loss) that will not be reclassified to the income statement in subsequent periods	(11,760)	171,790
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	(11,728)	171,688
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	(84,026)	88,497
ATTRIBUTABLE TO:		
Equity holders of the Company	(83,329)	89,079
Non-controlling interests	(697)	(582)
	(84,026)	88,497

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 August 2020 HK\$'000 (unaudited)	29 February 2020 HK\$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	279,924	336,805
Equity instruments designated at fair value through other comprehensive income		23,622	22,573
Deposits and other receivables		31,922	26,540
Pension scheme assets		14,672	14,672
Total non-current assets		350,140	400,590
CURRENT ASSETS			
Inventories		53,489	66,289
Reinsurance assets		7	7
Prepayments, deposits and other receivables		17,693	12,863
Financial assets at fair value through profit or loss		12,177	13,364
Pledged bank balances		6,100	6,024
Pledged deposits with banks		114,648	113,017
Cash and bank balances		20,958	13,761
Total current assets		225,072	225,325
CURRENT LIABILITIES			
Creditors	11	29,076	43,479
Lease liabilities	12	104,086	102,454
Insurance contracts liabilities		1,214	1,214
Deposits, accrued expenses and other payables		26,320	28,387
Contract liabilities		1,848	2,887
Interest-bearing bank borrowings	13(a)	171,249	156,719
Other loans	13(b)	2,145	2,136
Total current liabilities		335,938	337,276
NET CURRENT LIABILITIES		(110,866)	(111,951)
TOTAL ASSETS LESS CURRENT LIABILITIES		239,274	288,639

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)

	Notes	31 August 2020 HK\$'000 (unaudited)	29 February 2020 HK\$'000 (audited)
NON-CURRENT LIABILITIES			
Deposits, accrued expenses and other payables		6,027	8,390
Other loans	13(b)	81,115	1,104
Lease liabilities	12	60,977	103,964
Total non-current liabilities		148,119	113,458
NET ASSETS			
		91,155	175,181
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	14	469,977	469,977
Reserves		(410,692)	(327,363)
		59,285	142,614
Non-controlling interests		31,870	32,567
TOTAL EQUITY		91,155	175,181

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 August 2020

	Attributable to equity holders of the Company									
	Share capital HK\$'000	Treasury shares HK\$'000	Reserves					Total reserves HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
			General and other reserves HK\$'000	Asset revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000				
At 1 March 2020 (audited)	469,977	(130,221)	227,496	168,141	(3,753)	(589,026)	(327,363)	32,567	175,181	
Loss for the period	-	-	-	-	-	(71,885)	(71,885)	(413)	(72,298)	
Other comprehensive income/(loss) for the period:										
Change in fair value of equity investments designated at fair value through other comprehensive income	-	-	-	-	1,049	-	1,049	-	1,049	
Exchange differences arising on translation of foreign operations	-	-	316	-	-	-	316	(284)	32	
Revaluation of leasehold land and owned buildings (note 10)	-	-	-	(12,809)	-	-	(12,809)	-	(12,809)	
Total comprehensive income/(loss) for the period	-	-	316	(12,809)	1,049	(71,885)	(83,329)	(697)	(84,026)	
At 31 August 2020 (unaudited)	469,977	(130,221)	227,812	155,332	(2,704)	(660,911)	(410,692)	31,870	91,155	

For the six months ended 31 August 2019

	Attributable to equity holders of the Company									
	Share capital HK\$'000	Treasury shares HK\$'000	Reserves					Total reserves HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
			General and other reserves HK\$'000	Share option reserve HK\$'000	Asset revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000			
At 1 March 2019 (audited)	377,236	(130,221)	227,903	1,538	-	(3,453)	(444,459)	(348,692)	34,112	62,656
Loss for the period (restated)	-	-	-	-	-	-	(81,948)	(81,948)	(1,243)	(83,191)
Other comprehensive income/(loss) for the period:										
Change in fair value of equity investments designated at fair value through other comprehensive income	-	-	-	-	-	(2,369)	-	(2,369)	-	(2,369)
Exchange differences arising on translation of foreign operations	-	-	(763)	-	-	-	-	(763)	661	(102)
Revaluation of leasehold land and owned buildings (restated)	-	-	-	-	174,159	-	-	174,159	-	174,159
Total comprehensive income/(loss) for the period (restated)	-	-	(763)	-	174,159	(2,369)	(81,948)	89,079	(582)	88,497
Issue of shares	102,718	-	-	-	-	-	-	-	-	102,718
Share issue expenses	(9,977)	-	-	-	-	-	-	-	-	(9,977)
Transfer of share option reserve upon the forfeiture of share options	-	-	-	(1,538)	-	-	1,538	-	-	-
At 31 August 2019 (unaudited and restated)	469,977	(130,221)	227,140	-	174,159	(5,822)	(524,869)	(259,613)	33,530	243,894

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 August 2020

	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited) (restated)
Net cash flows from/(used in) operating activities	(37,718)	23,075
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to owned assets in property, plant and equipment	-	(381)
Proceeds from disposal of items of property, plant and equipment	-	213
Increase in pledged bank balances	(76)	(11,766)
Increase in pledged deposits with banks	(1,631)	(564)
Net cash flows used in investing activities	(1,707)	(12,498)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	135,222	115,560
Repayments of bank loans	(120,692)	(172,989)
Increase in other loans	80,020	18
Principal portion of lease payments	(47,928)	(46,485)
Proceeds from issue of shares	-	102,718
Share issue expenses	-	(9,977)
Net cash flows from/(used in) financing activities	46,622	(11,155)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	7,197	(578)
Cash and cash equivalents at beginning of period	13,761	32,318
Cash and cash equivalents at end of period	20,958	31,740
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash on hand and at bank and cash and cash equivalents as stated in the condensed consolidated statement of cash flows	20,958	31,740

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements of the Group for the six months ended 31 August 2020 are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Save for those new and revised Hong Kong Financial Reporting Standards ("HKFRSs") adopted during the period as set out in note 2, the significant accounting policies and basis of preparation used in the preparation of the condensed consolidated interim financial statements are the same as those used in the Group's audited consolidated financial statements for the year ended 29 February 2020.

The financial information relating to the year ended 29 February 2020 that is included in the condensed consolidated statement of financial position as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to those statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 29 February 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

1.1 Basis of Presentation

During the period ended 31 August 2020, the Group recorded a net loss for the period of HK\$72,298,000. The Group's operations are financed by both bank and other borrowings and internal resources. As at 31 August 2020, the Group has net current liabilities of HK\$110,866,000 (29 February 2020: HK\$111,951,000). In addition, the Group's cash and bank balances amounted to HK\$20,958,000 (29 February 2020: HK\$13,761,000) as at 31 August 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 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 with successful cases during the period and subsequent to 31 August 2020, 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 communications with its banks and has successfully renewed the banking facilities with its principal banks during the period. As at 31 August 2020, the Group had unutilised banking facilities of HK\$37,300,000 which included unutilised trade financing facilities of HK\$29,300,000 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, the Group has obtained a term loan of HK\$80,000,000 ("Loan") and a loan facility of up to HK\$70,000,000 ("Facility") from Realord Finance Limited, a wholly owned subsidiary of Realord Group Holdings Limited ("Realord") during the period. 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. As at 31 August 2020 and up to date of this report, the Group had unutilised amount of HK\$70,000,000 under the Facility.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

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

1.1 Basis of Presentation (Cont'd)

The Company's directors have reviewed the Group's cash flow projections prepared by the management. The cash flow projections cover a period of not less than twelve months from 31 August 2020. Management's projections make key assumptions with regard to the anticipated cash flows from the Group's operations, capital expenditures, the continuous availability of bank and other borrowings facilities, the impact of the COVID-19 pandemic and the completion of voluntary cash offer by Realdor as disclosed in note 19 to this report. 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 condensed consolidated interim financial statements.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the condensed consolidated interim financial statements are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 29 February 2020, except for the adoption of the following revised HKFRSs for the first time for the current period's financial information.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions (early adopted)</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

Other than as explained below regarding the impact of amendment to HKFRS 16, the adoption of the revised HKFRSs had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

AMENDMENT TO HKFRS 16

Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the period ended 31 August 2020, certain monthly lease payments for the leases of the Group's office premises and stores have been reduced or waived by the lessors as a result of the COVID-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 March 2020 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the COVID-19 pandemic during the period ended 31 August 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$7,296,000 has been accounted for as a variable lease payment by derecognising part of lease liabilities and crediting to income statement for the period ended 31 August 2020.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

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

GOVERNMENT GRANTS

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

3. SEGMENT INFORMATION

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

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment loss, which is a measure of adjusted loss before tax. The adjusted loss before tax is measured consistently with the Group's loss before tax except that certain interest income, unallocated revenue and finance costs are excluded from such measurement.

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

3. SEGMENT INFORMATION (CONT'D)

(A) OPERATING SEGMENTS

The following table presents revenue and loss for the Group's operating segments for the six months ended 31 August 2020 and 31 August 2019.

	Department store operations		Securities trading		Others		Eliminations		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited) (restated)	(unaudited)	(unaudited)	(unaudited)	(unaudited) (restated)
Segment revenue:										
Sales to external customers	81,269	135,504	-	726	487	1,870	-	-	81,756	138,100
Intersegment sales	-	-	-	-	16,560	15,910	(16,560)	(15,910)	-	-
Other revenue	584	850	369	6,276	2	34	-	-	955	7,160
Total	81,853	136,354	369	7,002	17,049	17,814	(16,560)	(15,910)	82,711	145,260
Segment results	(45,225)	(54,009)	(5,062)	(9,039)	(11,804)	(10,045)	-	-	(62,091)	(73,093)
Interest income and unallocated revenue, net									397	685
Finance costs									(10,604)	(10,784)
Loss before tax									(72,298)	(83,192)
Income tax credit									-	1
Loss for the period									(72,298)	(83,191)

(B) GEOGRAPHICAL INFORMATION

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

	Hong Kong		United Kingdom		Others		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Segment revenue:								
Sales to external customers	81,656	137,700	100	100	-	300	81,756	138,100

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

4. REVENUE, OTHER INCOME AND GAINS, NET

(A) REVENUE

	For the six months ended 31 August	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Revenue from contracts with customers		
Sale of goods – own goods	61,189	103,909
Net income from counter and consignment sales	20,080	31,595
Revenue from other sources		
Net realised gain on securities trading	–	726
Rental income	485	1,863
Gross insurance contracts premium revenue	2	7
	81,756	138,100

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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

4. REVENUE, OTHER INCOME AND GAINS, NET (CONT'D)

(A) REVENUE (CONT'D)

REVENUE FROM CONTRACTS WITH CUSTOMERS (CONT'D)

(ii) Performance obligations (Cont'd)

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\$1,848,000 (2019: HK\$2,210,000) was allocated to the remaining performance obligations as at 31 August 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:

	For the six months ended 31 August	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Loyalty points programme	2,887	1,253

(B) OTHER INCOME AND GAINS, NET

	For the six months ended 31 August	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Bank interest income	351	516
Other interest income from financial assets at fair value through profit or loss	55	180
Dividends from financial assets at fair value through profit or loss	314	6,079
Gain on disposal of items of property, plant and equipment	-	213
Foreign exchange gain, net	45	155
Government subsidy*	420	-
Others	167	702
	1,352	7,845

* There are no unfulfilled conditions or contingencies relating to this income.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the six months ended 31 August	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Interest on bank borrowings	2,630	3,208
Interest on lease liabilities	4,681	7,538
Interest on other loans	3,293	38
	10,604	10,784

6. LOSS BEFORE TAX

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

	For the six months ended 31 August	
	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited) (restated)
Depreciation	41,985	50,161
Provision/(reversal of provision) for inventories ^	4,200	(2,664)
Impairment of items of property, plant and equipment *	-	988
Impairment of right-of-use assets *	8,660	7,781
Gain on disposal of items of property, plant and equipment #	-	(213)
Rent concessions (note 2)	(7,296)	-

Note 1: Government subsidy from government's employment support scheme of HK\$4,215,000 (2019: Nil) and HK\$1,742,000 (2019: Nil) were included in selling and distribution expenses and general and administrative expenses, respectively, on the face of the condensed consolidated income statement for the six months ended 31 August 2020. There is no unfulfilled conditions or contingencies relating to this subsidy.

Note 2: Rent concessions represents the change in lease payment directly related to COVID-19.

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

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

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

7. INCOME TAX

	For the six months ended 31 August 2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Current – Hong Kong	–	–
Current – Elsewhere	–	–
Charge for the period	–	–
Overprovision in prior periods	–	(1)
Total tax charge/(credit) for the period	–	(1)

No provision for Hong Kong profits tax had been made as there were no assessable profits arising in Hong Kong during the period (2019: Nil). During the period ended 31 August 2020, taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates.

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

The calculation of the basic loss per share is based on the loss for the period attributable to equity holders of the Company of HK\$71,885,000 (2019 (restated): HK\$81,948,000) and the weighted average number of ordinary shares of 1,053,519,360 (2019: 731,451,621) in issue throughout the period, as adjusted to reflect the number of treasury shares of 260,443,200 (2019: 260,443,200) held by the Company's subsidiaries.

The Group had no potentially dilutive ordinary shares in issue during the period ended 31 August 2020.

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

9. DIVIDEND

The Board has decided not to declare an interim dividend for the six months ended 31 August 2020 (2019: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

	Owned assets HK\$'000 (unaudited)	Right-of- use assets HK\$'000 (unaudited)	Total HK\$'000 (unaudited)
31 August 2020			
At beginning of period, net of accumulated depreciation and impairment	22,504	314,301	336,805
Additions	–	6,573	6,573
Depreciation provided for the period	(424)	(41,561)	(41,985)
Impairment provided for the period	–	(8,660)	(8,660)
Revaluation adjustment	(1,342)	(11,467)	(12,809)
At end of period, net of accumulated depreciation and impairment	20,738	259,186	279,924

As at 31 August 2020, the Group's leasehold land and owned buildings with an aggregate carrying value of HK\$171,943,000 (29 February 2020: HK\$188,195,000) were pledged as security for the bank loans granted (note 13(a)).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

10. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

Note:

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\$171,943,000 (29 February 2020: HK\$188,195,000) which included fair value of owned buildings and leasehold land of HK\$20,633,000 (29 February 2020: HK\$22,388,000) and HK\$151,310,000 (29 February 2020: HK\$165,807,000), respectively, as at the date of revaluation on 31 August 2020. 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\$12,809,000 resulting from the above revaluation was recognised in other comprehensive income.

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 31 August 2020 were estimated by using significant unobservable inputs and the fair value measurement was categorised under Level 3. During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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

As at 31 August 2020

Class of properties	Valuation techniques	Unobservable input (i.e., average market unit rate)
Hong Kong – Warehouse	Market approach	HK\$4,077/square feet

11. CREDITORS

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

	31 August 2020 HK\$'000 (unaudited)	29 February 2020 HK\$'000 (audited)
Current – 3 months	22,533	37,246
4 – 6 months	4,849	4,775
7 – 12 months	809	147
Over 1 year	885	1,311
	29,076	43,479

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

12. 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 period are disclosed in note 10 to the condensed consolidated interim financial statements.

(B) LEASE LIABILITIES

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

	31 August 2020 HK\$'000 (unaudited)	29 February 2020 HK\$'000 (audited)
Carrying amount beginning of the period/year	206,418	340,730
Addition	6,573	60
Accretion of interest recognised during the period/year	4,681	13,431
Payments	(52,609)	(105,287)
Modification of leases	-	(42,516)
Carrying amount at end of period/year	165,063	206,418
Analysed into payable:		
Within one year	104,086	102,454
In the second year	60,050	86,600
In the third to fifth years, inclusive	927	17,364
Carrying amount at end of period/year	165,063	206,418
Less: current portion	(104,086)	(102,454)
Non-current portion	60,977	103,964

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

13. INTEREST-BEARING BANK BORROWINGS AND OTHER LOANS

(A) INTEREST-BEARING BANK BORROWINGS

	31 August 2020			29 February 2020		
	Effective interest rate %	Maturity	HK\$'000 (unaudited)	Effective interest rate %	Maturity	HK\$'000 (audited)
Current						
Bank loans, secured	Hong Kong Interbank Offered Rate ("HIBOR")+1.75	2020-2021	6,908	HIBOR+1.75	2020	6,419
Bank loans, secured	HIBOR+1.5	2020-2021	158,521	HIBOR+1.5	2020	144,554
Bank loans, secured	1.85	2020-2021	5,820	3.25	2020	5,746
			171,249			156,719
				31 August 2020		29 February 2020
				HK\$'000		HK\$'000
				(unaudited)		(audited)
Analysed into:						
Within one year or on demand				171,249		156,719

The interest-bearing borrowings are mainly denominated in Hong Kong dollars.

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

- (i) the pledge of certain of the Group's bank balances of HK\$6,100,000 (29 February 2020: HK\$6,024,000) and time deposits amounting to HK\$114,648,000 (29 February 2020: HK\$113,017,000);
- (ii) the pledge of certain of the Group's marketable securities with an aggregate market value of approximately HK\$5,855,000 (29 February 2020: HK\$6,572,000); 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\$171,943,000 (29 February 2020: HK\$188,195,000).

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

13. INTEREST-BEARING BANK BORROWINGS AND OTHER LOANS (CONT'D)

(B) OTHER LOANS

	31 August 2020 HK\$'000 (unaudited)	29 February 2020 HK\$'000 (audited)
Other loans	83,260	3,240
Less: Amount repayable within one year or on demand and classified as current portion	(2,145)	(2,136)
Amount classified as non-current portion	81,115	1,104
	31 August 2020 HK\$'000 (unaudited)	29 February 2020 HK\$'000 (audited)
Analysed into:		
Within one year or on demand	2,145	2,136
In the second year	81,115	1,104
	83,260	3,240

The other loans were unsecured, bore interest at 2% to 10% (29 February 2020: 2%) per annum. Except for the other loan of HK\$2,145,000 (29 February 2020: HK\$2,136,000) which was repayable on demand, the remaining other loan balance is repayable in the second year after the reporting period. These balances were denominated in Hong Kong dollars.

14. SHARE CAPITAL

	31 August 2020 HK\$'000 (unaudited)	29 February 2020 HK\$'000 (audited)
Issued and fully paid: 1,313,962,560 ordinary shares	469,977	469,977

As at 31 August 2020 and 29 February 2020, The Sincere Life Assurance Company Limited ("Sincere LA"), The Sincere Insurance & Investment Company, Limited ("Sincere II") and The Sincere Company (Perfumery Manufacturers), Limited ("Perfumery"), subsidiaries of the Company, held 183,136,032, 75,608,064 and 1,699,104 ordinary shares of the Company, respectively. Accordingly, 260,443,200 ordinary shares of the Company held by the Company's subsidiaries were recognised in the Group's condensed consolidated interim financial statements as treasury shares through deduction from equity by HK\$130,221,000.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

15. RELATED PARTY TRANSACTIONS

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

	For the six months ended 31 August 2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Management service fees to a related company	473	473

The management service fees were charged by Rise Legend International Limited for the provision of key management personnel service to the Group.

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

	For the six months ended 31 August 2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Short term employee benefits	9,028	10,918
Post-employment benefits, including pension cost for a defined benefit plan of HK\$7,000 (2019: HK\$20,000)	28	49
Total compensation paid to key management personnel	9,056	10,967

16. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

Assets measured at fair value:

As at 31 August 2020

	Fair value measurement using			Total HK\$'000 (unaudited)
	Quoted prices in active markets (Level 1) HK\$'000 (unaudited)	Significant observable inputs (Level 2) HK\$'000 (unaudited)	Significant unobservable inputs (Level 3) HK\$'000 (unaudited)	
Equity instruments designated at fair value through other comprehensive income	-	-	23,622	23,622
Financial assets at fair value through profit or loss	5,854	6,323	-	12,177
	5,854	6,323	23,622	35,799

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

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

As at 29 February 2020

	Fair value measurement using			Total HK\$'000 (audited)
	Quoted prices in active markets (Level 1) HK\$'000 (audited)	Significant observable inputs (Level 2) HK\$'000 (audited)	Significant unobservable inputs (Level 3) HK\$'000 (audited)	
Equity instruments designated at fair value through other comprehensive income	-	-	22,573	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

During the period ended 31 August 2020 and the year ended 29 February 2020, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

The Group did not have any financial liabilities measured at fair value under Level 3 as at 31 August 2020 and 29 February 2020. As at 31 August 2020 and 29 February 2020, management used the following valuation techniques and key input for the valuation of financial assets measured at fair value under Level 3.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs
As at 31 August 2020		
Equity instruments designated at fair value through other comprehensive income	Adjusted net assets and market approach	Discount for lack of marketability of 34.1%
As at 29 February 2020		
Equity instruments designated at fair value through other comprehensive income	Adjusted net assets and market approach	Discount for lack of marketability of 35.6%

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

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

At 31 August 2020, it is estimated that an increase/decrease of 3% in each of the unobservable inputs, with all other variables held constant, would have increased/decreased the Group's other comprehensive income as follows:

	Increase/ (decrease) in unobservable inputs %	Increase/ (decrease) in other comprehensive income HK\$'000
As at 31 August 2020		
Discount for lack of marketability	3 (3)	(776) 787
As at 29 February 2020		
Discount for lack of marketability	3 (3)	(720) 732

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

	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Unlisted equity securities:		
At 1 March	22,573	22,873
Net gain/(losses) recognised in other comprehensive income	1,049	(2,369)
At 31 August	23,622	20,504

17. OUTSTANDING COMMITMENTS AND CONTINGENT LIABILITIES

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

	31 August 2020 HK\$'000 (unaudited)	29 February 2020 HK\$'000 (audited)
Irrevocable letters of credit	15,010	17,548
Bank guarantees given in lieu of property rental deposits	19,654	26,692

(b) During the period ended 31 August 2020, certain non-compliance matters regarding the Group's insurance business are brought to the attention of the Company. Details of which are disclosed in note 18 below.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

18. 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 ("IA") regulatory filings were not made by Sincere LA and certain IA regulatory filings/prior written consents were not made/sought by Sincere II in connection with Win Dynamic Limited ("Win Dynamic"), the controlling shareholder of the Company interested in approximately 50.42% of, the Company's shares in issue, 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.

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) ("IO") of Sincere II on 20 December 2017 (the "Change"). Pursuant to a directive which was imposed by the IA on Sincere II in its letter in March 2016, Sincere II was required to obtain the written consent of the IA for the Change before it took place. Sincere II was also required under the IO to file for the Change to the IA by January 2018. For Sincere LA, it is required under the IO to file for the Change to the IA 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 IO. Pursuant to the IO, 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 IA for the Change; and failing to file the Change with the IA) 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 IA. Since then, 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 31 August 2020. Sincere LA and Sincere II would continue to discuss with IA and monitor the progress in relation thereof.

19. PRE-CONDITIONAL VOLUNTARY CASH OFFER

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.

On 16 June 2020, the Group published its annual report for the year ended 29 February 2020 which indicated that the Group's consolidated net assets attributable to the equity holders of the Company as at 29 February 2020 ("February 2020 NAV") was approximately HK\$142.6 million and no final dividend was declared for the year ended 29 February 2020. Based on the amount of the February 2020 NAV, the offer price is adjusted upwards to HK\$0.3935 per share, which is the same as the maximum offer price as stated in joint announcement of the Company and Realord dated 15 May 2020.

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 ("Joint Announcement"), 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. On 3 August 2020, the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong has issued the no-bid confirmation. Save for pre-condition (ii) in the Joint Announcement, all the pre-conditions remain outstanding as at the date of this report.

Further details are disclosed in the joint announcements of the Company and Realord dated 15 May 2020, 5 June 2020, 17 June 2020, 17 July 2020, 4 August 2020, 4 September 2020 and 6 October 2020.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONT'D)

31 August 2020

20. EVENT AFTER THE REPORTING PERIOD

The board of directors of the Company announced that, on 29 October 2020, Win Dynamic executed a deed of gift (the "Deed") in favour of the Company at no consideration. Pursuant to the Deed, Win Dynamic has irrevocably undertaken to the Company to give to the Company the net sale proceeds that Win Dynamic will be entitled to receive from Realord upon its acceptance of the voluntary cash offer relating to all the 662,525,276 shares of the Company held by it, which is expected to amount to approximately HK\$260,442,992 (after deducting Win Dynamic's ad valorem stamp duty).

In light of the operating and financial position of the Group and to alleviate the liquidity adversity of the Group, after its discussion with the management of the Company, Win Dynamic offered to help restore the financial health of the Company by giving to the Company the net sale proceeds to be received from the voluntary cash offer if the voluntary cash offer is made and becomes unconditional. To effect this, Win Dynamic has executed the Deed in favour of the Company. The Company at present intends that this gift from Win Dynamic, when received, will be applied as working capital of the Group.

The Company understands that in order to facilitate the Deed, Mr. Philip K H Ma and Mr. Charles M W Chan, who are the shareholders and directors of Win Dynamic (and are also directors of the Company) have irrevocably agreed to waive all sums owed to them by Win Dynamic.

The directors of the Company consider that the Deed is in the interests of the Group and its shareholders as a whole.

Further details are disclosed in the announcement of the Company dated 29 October 2020.

21. COMPARATIVE AMOUNTS

Certain amounts in the condensed consolidated interim financial statements for the period ended 31 August 2019 have been restated to conform with the change of accounting policy with respect to the measurement of leasehold land and owned buildings as at 1 March 2019 as detailed in the Group's audited consolidated financial statements for the year ended 29 February 2020 and to conform with current period presentation.

22. APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 29 October 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM RESULTS

The unaudited consolidated revenue of the Group for the six months ended 31 August 2020 was HK\$81.8 million, decreased by HK\$56.3 million or 40.8% as compared to the same period of last year. The unaudited loss attributable to equity holders of the Company for the six months ended 31 August 2020 was HK\$71.9 million, losses decreased by HK\$10.0 million or 12.2% from last period. This was mainly due to (i) the decrease in department store segment loss of HK\$8.8 million from HK\$54.0 million in the same period last year to HK\$45.2 million in current period; and (ii) decrease in securities trading segment loss of HK\$3.9 million from HK\$9.0 million in the same period last year to HK\$5.1 million in current period.

BUSINESS REVIEW AND FUTURE PROSPECTS

DEPARTMENT STORE OPERATIONS

During the period under review, our Group's performance was affected by the COVID-19 pandemic since early 2020. Our department store operations recorded revenue of HK\$81.3 million (2019: HK\$135.5 million), dropped by 40.0% against the same period of last year as people's sentiment for outgoing and spending reduced leading to decrease in our store traffic in current period. Deeper discount and extended sales period were offered leading to further decrease in department stores' gross profit in current period.

As a result, the Group had put pro-active measures to reduced operating expenses, such as advertisements and staff costs, during the period. Together with the additional rental concession obtained from landlords and the government's employment support scheme, the Group's selling and distribution expenses and general and administrative expenses reduced by HK\$33.5 million (2020: HK\$55.8 million; 2019: HK\$89.3 million) and HK\$13.4 million (2020: HK\$33.8 million; 2019: HK\$47.2 million), respectively, in current period. Hence, the overall segment loss has been reduced to HK\$45.2 million.

To maintain a healthy inventory level, continuing the clearance of previous season inventory is our major goal in this period. With more aggressive markdown and reduced the purchase for high end products, the inventory level is under control. The inventory level reduced from HK\$66.3 million as at 29 February 2020 to HK\$53.5 million as at 31 August 2020.

MANAGEMENT DISCUSSION AND ANALYSIS (CONT'D)

SECURITIES TRADING

With the investment portfolio alignment in last year, significant portion of the investment had been disposed of. As a result, the net realised gain reduced from last period gain of HK\$0.7 million to nil in this period. Net unrealised loss reduced significantly from last period loss of HK\$11.3 million to loss of \$1.2 million this period. Dividend income decreased from HK\$6.1 million in last period to HK\$0.3 million in current period. Hence, a segment loss of HK\$5.1 million (2019: HK\$9.0 million) was resulted. The Group holds these investments for trading. The Group would review and refine its investment portfolio regularly based on market conditions and its capital needs.

PROSPECTS

Looking forward, with the confirmed cases for the COVID-19 maintained at a relatively low level 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 with the new norm that COVID-19 would not die out in short run, 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.

As disclosed in the annual report for year ended 29 February 2020 and respective announcements of the Company, the pre-conditional voluntary cash offer was made by Realord to all the shareholders of the Company. On 3 August 2020, the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong has issued the no-bid confirmation. Save for pre-condition (ii) in the Joint Announcement, all the pre-conditions remain outstanding. Further announcement setting out the progress and any material developments in relation to the offer will be made as and when necessary.

The board of directors of the Company announced that, on 29 October 2020, Win Dynamic, the controlling shareholder of the Company interested in approximately 50.42% of the Company's shares in issue, executed the Deed in favour of the Company at no consideration. Pursuant to the Deed, Win Dynamic has irrevocably undertaken to the Company to give to the Company the net sale proceeds that Win Dynamic will be entitled to receive from Realord upon its acceptance of the voluntary cash offer relating to all the 662,525,276 shares of the Company held by it, which is expected to amount to approximately HK\$260,442,992 (after deducting Win Dynamic's ad valorem stamp duty). The Company at present intends that this gift from Win Dynamic, when received, will be applied as working capital of the Group. The directors of the Company consider that the Deed is in the interests of the Group and its shareholders as a whole.

OTHER INFORMATION

LIQUIDITY AND FINANCIAL RESOURCES

At 31 August 2020, the Group had cash and bank balances of HK\$141.7 million (29 February 2020: HK\$132.8 million), of which HK\$120.7 million (29 February 2020: HK\$119.0 million) were pledged.

The interest expense (excluding interest on lease liabilities) charged to the condensed consolidated income statement for the period was HK\$5.9 million (2019: interest expense (excluding interest on lease liabilities) HK\$3.2 million).

As of 31 August 2020, the interest-bearing bank borrowings of the Group were HK\$171.2 million (29 February 2020: HK\$156.7 million), which were repayable within one year or on demand. As of 31 August 2020, the other loans of the Group were HK\$83.2 million (29 February 2020: HK\$3.2 million) of which HK\$2.1 million (29 February 2020: HK\$2.1 million) were repayable within one year or on demand and HK\$81.1 million (29 February 2020: HK\$1.1 million) were repayable in the second year. As of 31 August 2020, lease liabilities of the Group were HK\$165.1 million (29 February 2020: HK\$206.4 million), of which HK\$104.1 million (29 February 2020: HK\$102.5 million) were repayable within one year.

The Group's gearing increased from 112% to 429% in interest-bearing bank borrowings and other loans to the shareholders' fund in comparison to last year. The increase in bank borrowings and other loans was used to finance the Group's operations during the period.

As at 31 August 2020, the Group has net current liabilities of HK\$110.9 million (29 February 2020: HK\$112.0 million). This liquidity shortfall was mainly attributable to the adoption of HKFRS 16 *Leases* resulting in recognition of current lease liabilities of HK\$104.1 million (29 February 2020: HK\$102.5 million) as at 31 August 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 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, and (iii) negotiating with its landlords for rental reductions with successful cases during the period and subsequent to 31 August 2020, 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 up to 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 operation during the period. All interest-bearing bank borrowings were secured against the securities investment, leasehold land and owned buildings and bank deposits.

OTHER INFORMATION (CONT'D)

EMPLOYEES AND REMUNERATION POLICIES

At 31 August 2020, the Group had 251 employees (29 February 2020: 266) 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.

INTERIM DIVIDEND

The Board has decided not to declare an interim dividend for the six months ended 31 August 2020.

SUBSTANTIAL SHAREHOLDERS

At 31 August 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 required to be kept by the Company pursuant to Section 336 of Securities and Futures Ordinance (the "SFO") were as follows:

Long position in the shares and share options of the Company

Name	Capacity	Nature of interest	Number of shares and share options	Approximate % of shares in issue
The Sincere Life Assurance Company Limited	Beneficial owner/ Interests of controlled corporations	Corporate	258,744,096 (Notes 1, 4)	19.69
The Sincere Insurance & Investment Company, Limited	Beneficial owner	Corporate	75,608,064 (Notes 2, 3, 4)	5.75
The Company	Interests of controlled corporations	Corporate	260,443,200 (Notes 3, 4)	19.82
Win Dynamic Limited	Beneficial owner/ Interests of controlled corporations/ Party to S.317 Agreement*	Corporate	667,747,676 (Note 5)	50.82
Yuan Lie Ming Peter	Beneficial owner	Personal	74,916,800	5.70
Dr. Lin Xiaohui	Interests of controlled corporations	Corporate	922,968,476 (Note 6)	70.24
Manureen Holdings Limited	Interests of controlled corporations	Corporate	922,968,476 (Note 6)	70.24
Realord Group Holdings Limited	Beneficial owner	Corporate	922,968,476 (Note 6)	70.24
Madam Su Jiaohua	Interest of spouse	Family	922,968,476	70.24

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

OTHER INFORMATION (CONT'D)

SUBSTANTIAL SHAREHOLDERS (CONT'D)

Notes:

- (1) The Sincere Life Assurance Company Limited beneficially owned 183,136,032 shares of the Company, representing approximately 13.94% of the issued shares of the Company and had a deemed interest in 75,608,064 shares of the Company, representing approximately 5.75% of the issued shares of the Company by virtue of its interest of 36.01% in the issued shares of The Sincere Insurance & Investment Company, Limited.
- (2) The Sincere Insurance & Investment Company, Limited beneficially owned 75,608,064 shares of the Company, representing approximately 5.75% of the issued shares of the Company.
- (3) The Company was deemed to be interested in 260,443,200 shares of the Company, representing 19.82% of the issued shares of the Company, by virtue of its 56.96% interest in The Sincere Life Assurance Company Limited, 57.98% interest in The Sincere Insurance & Investment Company, Limited and 62.37% interest in The Sincere Company (Perfumery Manufacturers), Limited.
- (4) There is duplication of interests between the Company, The Sincere Life Assurance Company Limited (see Note (1)) and The Sincere Insurance & Investment Company, Limited (see Note (2)).
- (5) Win Dynamic beneficially owned 662,525,276 shares of the Company, representing approximately 50.42% of the issued shares of the Company and deemed interested by reason of being party to a S.317 Agreement in a further 5,222,400 shares of the Company, representing approximately 0.40% of the issued shares of the Company.
- (6) There is duplication of interests among Dr. Lin Xiaohui, Manureen Holdings Limited, Realord Group Holdings Limited and Madam Su Jiaohua.

Reference is made to the Joint Announcement issued by Realord Group Holdings Limited and the Company dated 15 May 2020 in relation to the Offer. Capitalised terms used in this note have the same meanings as those defined in the Joint Announcement. Win Dynamic has irrevocably undertaken to the Offeror to tender, or procure the tender of, all of the 662,525,276 SinCo Shares beneficially owned by it for acceptance under the Offer. Each of the Sincere Companies has irrevocably undertaken to the Offeror to tender, or procure the tender of, all of the SinCo Shares beneficially owned by it, being 183,136,032 SinCo Shares in the case of Sincere LA, 75,608,064 SinCo Shares in the case of Sincere II and 1,699,104 SinCo Shares in the case of Perfumery, for acceptance under the Offer. As a result:

- the Offeror is interested in 922,968,476 SinCo Shares, representing 70.24% of the issued shares of the Company;
- Manureen Holdings Limited is deemed to be interested in 922,968,476 SinCo Shares, representing 70.24% of the issued shares of the Company, by virtue of its 74.62% interest in the Offeror;
- Dr. Lin Xiaohui is deemed to be interested in 922,968,476 SinCo Shares, representing 70.24% of the issued shares of the Company, by virtue of its 70% interest in Manureen Holdings Limited;
- Madam Su Jiaohua is deemed to be interested in 922,968,476 SinCo Shares, representing 70.24% of the issued shares of the Company, by virtue of being the spouse of Dr. Lin Xiaohui.

OTHER INFORMATION (CONT'D)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

At 31 August 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 position in shares of the Company

Name of Director	Capacity	Personal interests	Corporate interests	S.317 Agreement interests	Total interests	Approximate % of shares in issue
Mr. Philip K H Ma	Beneficial owner/Interest of controlled corporation/ Party to s.317 Agreement	5,120,000	662,525,276 (Notes 1, 3)	102,400 (Notes 1, 3)	667,747,676	50.82
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 (Notes 2, 3)	667,747,676	50.82
Mr. Peter Tan	Beneficial Owner	40,000	Nil	Nil	40,000	0.00

Notes:

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

OTHER INFORMATION (CONT'D)

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

(a) Long position in shares of the Company (Cont'd)

Notes: (Cont'd)

- (3) Mr Philip K H Ma was deemed to be 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 to be interested in the same 667,747,676 shares of the Company by reason of being party to that S.317 Agreement. There is thus duplication of the interests of Mr. Philip K H Ma, Win Dynamic and Mr Charles M W Chan.

(b) Associated corporations

At 31 August 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 31 August 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 31 August 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 31 August 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 31 August 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 financial year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company or their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

OTHER INFORMATION (CONT'D)

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

OTHER INFORMATION (CONT'D)

SHARE OPTION SCHEME (CONT'D)

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

- c. The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.
- d. The total number of Company shares in issue as of 31 August 2020 was 1,313,962,560.

4. MAXIMUM ENTITLEMENT OF EACH PARTICIPANT

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

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

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

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

5. PERIOD WITHIN WHICH THE SHARES MUST BE TAKEN UP

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

OTHER INFORMATION (CONT'D)

SHARE OPTION SCHEME (CONT'D)

6. BASIS OF DETERMINING THE SUBSCRIPTION PRICE

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

7. REMAINING LIFE OF THE OPTION SCHEME

The Option Scheme will expire on 5 December 2020.

8. ACCEPTANCE OF THE OPTION

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

No share option was granted and outstanding under the Option Scheme.

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

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

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting including the review of the unaudited condensed consolidated interim financial statements for the six months ended 31 August 2020.

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

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

OTHER INFORMATION (CONT'D)

CORPORATE GOVERNANCE

The Company has complied throughout the period ended 31 August 2020 with the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 to the Listing Rules, save and except for code provision A.2.1, A.4.1 and A.6.7.

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

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election. The non-executive director and independent non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's Annual General Meeting in accordance with the Company's Articles of Association.

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

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

Hong Kong, 29 October 2020