

**sincere**先施

**The Sincere Company, Limited**

Stock code: 244



ANNUAL REPORT  
**2020-21**

# CONTENTS

<i>Corporate Information</i>	2
<i>Mission Statement</i>	4
<i>Chairman’s Review Of Operations</i>	5
<i>Other Information</i>	10
<i>Corporate Governance Report</i>	17
<i>Report of the Directors</i>	29
<i>Biographies of Directors and Senior Executives</i>	41
<i>Environmental, Social and Governance Report</i>	46
<i>Independent Auditor’s Report</i>	61
<i>Audited Financial Statements</i>	
<i>Consolidated:</i>	
<i>Income statement</i>	68
<i>Statement of comprehensive income</i>	69
<i>Statement of financial position</i>	70
<i>Statement of changes in equity</i>	72
<i>Statement of cash flows</i>	74
<i>Notes to financial statements</i>	76
<i>Five-Year Financial Summary</i>	187

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

- Dr. LIN Xiaohui (*Chairman*)  
(appointed on 9 June 2021 and re-designated on 11 June 2021)
- Madam SU Jiaohua (*Chief Executive Officer*)  
(appointed on 9 June 2021 and re-designated on 11 June 2021)
- Dr. YU Lai (appointed on 9 June 2021)
- Mr. CHAN Chu Kin  
(appointed on 9 June 2021)

### Non-executive Directors

- Dr. TAI Tak Fung  
(appointed on 9 June 2021)
- Mr. Philip K H MA  
(re-designated on 11 June 2021 and had tendered his resignation with effect from 1 July 2021)
- Mr. Charles M W CHAN  
(resigned on 4 June 2021)

### Independent non-executive Directors

- Mr. Eric K K LO
- Mr. Peter TAN
- Mr. Anders W L LAU
- Mr. YU Leung Fai  
(appointed on 9 June 2021)
- Mr. YUAN Baoyu  
(appointed on 9 June 2021)
- Mr. CHUNG Chun Hung Simon  
(appointed on 9 June 2021)
- Mr. King Wing MA  
(had tendered his resignation with effect from 1 July 2021)

## AUDIT COMMITTEE

- Mr. Eric K K LO (*Chairman*)
- Mr. Peter TAN
- Mr. Anders W L LAU
- Mr. YU Leung Fai
- Mr. King Wing MA  
(had tendered his resignation with effect from 1 July 2021)
- Mr. Charles M W CHAN  
(resigned on 4 June 2021)

## REMUNERATION COMMITTEE

- Mr. Peter TAN (*Co-Chairman*)
- Mr. YUAN Baoyu (*Co-Chairman*)  
(appointed on 11 June 2021)
- Mr. Eric K K LO
- Mr. Anders W L LAU
- Mr. YU Leung Fai
- Mr. CHUNG Chun Hung Simon  
(appointed on 11 June 2021)
- Mr. King Wing MA  
(had tendered his resignation with effect from 1 July 2021)
- Mr. Charles M W CHAN  
(resigned on 4 June 2021)

## NOMINATION COMMITTEE

- Mr. CHUNG Chun Hung Simon (*Chairman*)  
(appointed on 11 June 2021)
- Mr. Eric K K LO
- Mr. Peter TAN
- Mr. Anders W L LAU
- Mr. YU Leung Fai  
(appointed on 11 June 2021)
- Mr. YUAN Baoyu  
(appointed on 11 June 2021)
- Mr. King Wing MA  
(had tendered his resignation with effect from 1 July 2021)
- Mr. Charles M W CHAN  
(resigned on 4 June 2021)

# CORPORATE INFORMATION

## EXECUTIVE COMMITTEE

Dr. LIN Xiaohui (*Chairman*)  
(appointed on 11 June 2021)  
Madam SU Jiaohua  
(appointed on 11 June 2021)  
Dr. YU Lai  
(appointed on 11 June 2021)  
Mr. CHAN Chu Kin  
(appointed on 11 June 2021)

## COMPANY SECRETARY

Mr. CHAN Chu Kin  
(appointed on 11 June 2021)  
Ms. Ada S P CHEUNG  
(resigned on 15 June 2021)

## LEGAL ADVISERS

Holman Fenwick Willan  
Debevoise & Plimpton

## AUDITOR

Ernst & Young  
*Certified Public Accountants*  
*Registered Public Interest Entity Auditor*

## PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited  
Hang Seng Bank Limited  
The Hongkong & Shanghai Banking  
Corporation Limited  
Bank of China (Hong Kong) Limited

## SHARE REGISTRAR & TRANSFER OFFICE

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

## REGISTERED OFFICE

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

## STOCK CODE

244

## WEBSITE

**Company:**  
[www.sincere.com.hk](http://www.sincere.com.hk)

**Financial information:**  
[www.irasia.com/listco/hk/sincere/index.htm](http://www.irasia.com/listco/hk/sincere/index.htm)

## MISSION STATEMENT

Founded in 1900, The Sincere Company, Limited (“Sincere” or the “Company”) 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 demonstrates the Company’s determination to sustain its position as a leading retailer in the next century and beyond.

# CHAIRMAN'S REVIEW OF OPERATIONS

On behalf of the Board of Directors (the "Board") of the Company, I would like to present shareholders with the annual report for the year ended 28 February 2021.

## RESULTS

Total revenue of the Company and its subsidiaries (the "Group") was approximately HK\$177.5 million (2020: HK\$263.3 million) during the year; representing an approximately 32.6% drop from last year. The loss attributable to equity holders of the Company for the financial year was approximately HK\$145.0 million (2020: HK\$147.4 million), loss decreased by approximately HK\$2.4 million or 1.6% as compared with the previous year. It was mainly due to the net impact of (i) the decrease in gross profit of the department store operations due to COVID-19 pandemic since early 2020; (ii) the decrease in operating expenses as a result of pro-active measures together with the additional rental concession obtained from landlords and the government's employment support scheme; (iii) the increase in impairment loss on the Group's right-of-use assets as a result of sustained operating losses in department store operations; and (iv) the decrease in operation loss of the securities trading operations due to the decrease in investment held by the Group. Details were further explained at the "Business Review" section below.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 28 February 2021, the Group had cash and bank balances, pledged bank balances and pledged deposits with banks of approximately HK\$191.7 million (2020: HK\$132.8 million), of which approximately HK\$103.7 million (2020: HK\$119.0 million) were pledged. As at 28 February 2021, the Group's gearing ratio, being the interest-bearing bank borrowings, other loans and lease liabilities to net assets of approximately 1,514% (2020: 209%).

The interest expense charged to the consolidated income statement for the year ended 28 February 2021 was approximately HK\$20.3 million (2020: HK\$19.2 million). The interest-bearing bank borrowings of the Group as of 28 February 2021 were approximately HK\$162.7 million (2020: HK\$156.7 million), which were repayable within one year or on demand. The bank borrowings were largely in Hong Kong dollars, with interest rates of Hong Kong Interbank Offered Rate + 1.5% per annum. All bank borrowings were secured against securities investments, a property and bank deposits. The current ratio was approximately 0.53 (2020: 0.67).

## CHAIRMAN'S REVIEW OF OPERATIONS

As disclosed in the announcements of the Company dated 25 February 2021 and 31 March 2021, on 18 February 2021, the Company entered into a HK\$150,000,000 loan facility agreement with a financial institution that is independent of the Group and of its connected persons. As one of the conditions of the facility, the Company executed a debenture which gives (i) a first fixed charge over the fixed property and assets of the Company; and (ii) a first floating charge over the undertaking and all other property assets and rights of the Company, in favour of the lender. Accordingly, as at 28 February 2021, among the other loans of approximately HK\$153.3 million (2020: HK\$3.2 million), approximately HK\$150 million (2020: nil) of them were secured and approximately HK\$3.3 million (2020: HK\$3.2 million) of them were unsecured. Subsequent to the end of the reporting period, on 12 May 2021, the HK\$150,000,000 loan was fully settled. Further details are disclosed in note 37 to the financial statements.

The increase in bank borrowings and other loans were due to the operating loss during the year.

As at 28 February 2021, the Group had net current liabilities of approximately HK\$243,678,000 (2020: HK\$111,951,000) and a deficit attributable to the equity holders of the Company of approximately HK\$2,977,000 (2020: equity attributable to equity holders of the Company of HK\$142,614,000). The Company also had net current liabilities of approximately HK\$264,730,000 (2020: HK\$151,588,000) and net liabilities of approximately HK\$48,218,000 (2020: net assets of HK\$75,624,000). In addition, the Group's cash and bank balances amounted to approximately HK\$87,949,000 (2020: HK\$13,761,000) as at 28 February 2021.

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, management has been continuously implementing measures to improve profitability, control operating costs and reduce 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 the opportunity in realisation of certain assets of the Group. 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 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.

# CHAIRMAN'S REVIEW OF OPERATIONS

## EMPLOYEES AND REMUNERATION POLICIES

As at 28 February 2021, the Group had 222 employees (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. Apart from 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 also provides employee benefits such as employee stock options, staff purchase discounts, subsidised medical care and training courses.

## DIVIDENDS

The Board did not recommend the payment of a dividend for the financial year ended 28 February 2021.

## BUSINESS REVIEW

### DEPARTMENT STORE OPERATION

During the year under review, our Group's performance was affected by the COVID-19 pandemic since early 2020. Our department store operations recorded revenue of approximately HK\$176.7 million (2020: HK\$263.1 million), dropped by approximately 32.8% against last year as the public sentiment for outgoing and spending reduced leading to a decrease in our store traffic in the current year. Deeper discount and extended sales period were offered leading to further decrease in department stores' gross profit in the current year.

As a result, the Group had adopted pro-active measures to reduce operating expenses, such as advertisements and staff costs, during the year. With the additional rental concession obtained from landlords and the government's employment support scheme, the overall segment loss slightly decreased to approximately HK\$108.5 million (2020: HK\$110.0 million).

To maintain a healthy inventory level, continuing the clearance of previous season inventory is our major goal in this year. With more aggressive markdown and reduced the purchase for high end products, the inventory level is under control. The inventory level reduced from approximately HK\$66.3 million as at 29 February 2020 to approximately HK\$42.9 million as at 28 February 2021.

# CHAIRMAN'S REVIEW OF OPERATIONS

## SECURITIES TRADING OPERATION

With the investment portfolio alignment in last year, significant portion of the investment had been disposed of. As a result, the Group recorded net realised gain on securities trading of approximately HK\$6,000 this year as compared with net realised loss of approximately HK\$3.5 million last year. Net unrealised loss reduced significantly from last year of approximately HK\$6.7 million to approximately HK\$0.7 million this year. Dividend income decreased from approximately HK\$7.2 million in last year to approximately HK\$1.0 million in current year. Hence, a segment loss of approximately HK\$8.9 million (2020: HK\$12.0 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 number of 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 department 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 more cautious approach in its business planning to weather the current unfavourable environment.

As further disclosed in the section headed "Voluntary Conditional Cash Offer" in this annual report, the voluntary conditional cash offer made by Realord Group Holdings Limited ("Realord" or the "Offeror") to acquire all of the issued shares of the Company (the "Shares") (collectively the "Offer") closed on 3 June 2021. Upon the close of the Offer, Realord has become the controlling shareholder of the Company. As mentioned in the offer document dated 5 May 2021 (the "Offer Document") issued by Realord in connection with the Offer, Realord intended to continue with the Group's existing principal business. Realord also intended to preserve the brand heritage of "Sincere (先施)" and rally the department store operations on the platform of the Realord group and to support the operation and improve the liquidity position of the Group. Realord would also make any changes it deems necessary or appropriate to the Company's business and operations in order to enhance the value of the Company and strengthen its revenue. With the support of Realord as the new controlling shareholder of the Company, the Board is optimistic about the prospects of the Group.

# CHAIRMAN'S REVIEW OF OPERATIONS

## 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.

**Lin Xiaohui**  
*Chairman*

30 June 2021

## OTHER INFORMATION

### VOLUNTARY CONDITIONAL CASH OFFER

On 15 May 2020, Realord and the Company jointly announced, among others, the Offer. The then controlling shareholder of the Company, Win Dynamic Limited (“Win Dynamic”), had executed an irrevocable undertaking to Realord that Win Dynamic would tender, or procure the tender of, all of its shares in the Company to accept the Offer. In addition, subsidiaries of the Company, including The Sincere Insurance & Investment Company, Limited (“Sincere II”), The Sincere Life Assurance Company Limited (“Sincere LA”) and The Sincere Company (Perfumery Manufacturers), Limited (“Perfumery”) (collectively the “Sincere Companies”) had also executed irrevocable undertakings to accept the Offer (collectively the “Irrevocable Undertakings”).

On 28 April 2021, Realord announced the pre-conditions of the Offer had been satisfied or waived (as the case may be).

As disclosed in the Offer Document, the final offer price is HK\$0.3935 per share. In addition, the Offer was then conditional only on valid acceptances of the Offer would result in Realord holding more than 50% of the voting rights of the Company.

On 7 May 2021, Realord announced the Offer had become unconditional in all respects.

As disclosed in the announcement of Realord dated 3 June 2021, the Offer closed on 3 June 2021. Realord had received valid acceptances in respect of a total of 1,044,695,362 Shares under the Offer, representing approximately 79.51% of the then entire issued share capital of the Company. Accordingly, Realord has become the controlling shareholder of the Company.

Further details are disclosed in the joint announcement of Realord and the Company dated 15 May 2020 (“Joint Announcement”), the Offer Document, the response document of the Company dated 20 May 2021 (“Response Document”), and the announcements issued by Realord on 7 May 2021 and 3 June 2021.

## OTHER INFORMATION

### DEED AND PURPORTED CANCELLATION

On 29 October 2020, Win Dynamic, the then controlling shareholder of the Company, executed a deed in favour of the Company at no consideration (“Deed”). Pursuant to the Deed, Win Dynamic has irrevocably undertaken to the Company to give to the Company the sum falling to be paid by Realord to Win Dynamic upon its acceptance of the Offer relating to all the 662,525,276 Shares held by it, which is expected to amount to approximately HK\$260,442,992 (after deducting Win Dynamic’s ad valorem stamp duty) (“WD Proceeds”). As disclosed in the announcement of the Company dated 29 October 2020, the Company at that time intended that this gift from Win Dynamic, when received, would be applied as working capital of the Group.

On 4 February 2021, the Company announced that the Board had received a letter from Win Dynamic dated 3 February 2021 stating that the Deed is null and void and cancelled with immediate effect, for the reason that it was executed by Win Dynamic under undue influence and duress, given without separate legal representation or proper advice, and is an undervalue transaction pursuant to section 265D of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) (the “Purported Cancellation”).

As stated in the Company’s announcement dated 4 February 2021, the Board (with Mr. Philip K H Ma (“Mr. Philip Ma”) and Mr. Charles M W Chan (“Mr. Charles Chan”) (collectively the “Dissenting Directors”) disagreeing) does not admit the Deed is null or void or has been cancelled. For the interest of the Company and its shareholders as a whole, the Board had resolved to include the review of the implication of the Purported Cancellation to the terms of reference of the independent committee of the Board comprising independent non-executive directors of the Company, namely Mr. King Wing Ma, Mr. Eric K K Lo, Mr. Peter Tan and Mr. Anders W L Lau (collectively the “IBC”). The IBC had thereafter sought separate legal advice in respect of the Purported Cancellation.

In response to a letter from the legal adviser of the IBC to Win Dynamic requesting for evidence to support its reason for the Purported Cancellation, Win Dynamic responded in its reply letter that its professional advisers have advised it not to provide to the Company any information relating to the Deed.

Realord was informed, amongst other things, that the Board (except for the Dissenting Directors) (i.e., the IBC) did not admit that the Purported Cancellation is valid or effective. In response to an email from the legal adviser of the IBC to the legal adviser of Realord requiring the proceeds received by Win Dynamic from its sale of Shares to Realord to be paid to the Company and not Win Dynamic, the legal adviser of Realord responded, amongst other things, that Realord would conduct the Offer, including but not limited to the settlement of the cash consideration for the valid acceptances of the Offer, in accordance with the terms and conditions of the Offer and in compliance with the Codes on Takeovers and Mergers (the “Takeover Code”).

## OTHER INFORMATION

Subsequently, as announced by Realord on 11 May 2021 that, on 10 May 2021, Realord issued a writ of summons with an indorsement of claim in the High Court of Hong Kong against Win Dynamic in relation to the Purported Cancellation. Realord claimed against Win Dynamic, among others, for an order of specific performance requiring Win Dynamic to forthwith pay the Company the WD Proceeds, or such other sum as the court may determine. On 11 May 2021, Realord further applied to the High Court of Hong Kong for an interlocutory injunction against Win Dynamic in respect of the WD Proceeds. Realord further announced on 14 May 2021 that, on 14 May 2021, the High Court of Hong Kong has granted an interim-interim injunction such that Win Dynamic was restrained from disposing of the WD Proceeds which, after deducting the seller's ad valorem stamp duty, amounted to HK\$260,435,373.

Further details are disclosed in the announcements of the Company dated 29 October 2020 and 4 February 2021, the Offer Document, the Response Document and the announcements of Realord dated 11 May 2021 and 14 May 2021.

### EVENTS AFTER THE REPORTING PERIOD

Save for those disclosed in note 40 to the financial statements, the following events occurred subsequent to 28 February 2021:

- (a) On 25 May 2021, the Company received a letter (the "Requisition Letter") from Realord requesting the Board to convene a general meeting of the Company pursuant to articles 52, 82, 84, 85 and 101 of the articles of associations of the Company and section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) for considering and, if thought fit, passing several resolutions.

On 8 June 2021, a notice convening the general meeting of the Company to be held at Crowne Plaza Hong Kong Causeway Bay, Club@28 VIP Lounge 2, 28/F, 8 Leighton Road, Causeway Bay, Hong Kong on Monday, 5 July 2021 at 10:00 a.m. has been made.

Further details are disclosed in the announcement of the Company dated 26 May 2021 and the circular of the Company dated 8 June 2021.

## OTHER INFORMATION

- (b) As disclosed by the Company on page 14 of the Response Document that:

“As at the Latest Practicable Date, (i) Mr. Eric K K Lo, Mr. Peter Tan, Mr. Charles M W Chan and Mr. Anders W L Lau, intend to resign upon or after the Final Closing Date...”

On 4 June 2021, Mr. Charles Chan has tendered his resignation as a non-executive director of the Company with effect from 4 June 2021 due to personal reason. On 8 June 2021, the Company has supplemented that Mr. Charles Chan’s reason for resignation was due to his intention to devote more time to his own business engagement.

On 8 June 2021, Mr. Eric K K Lo, Mr. Peter Tan and Mr. Anders W L Lau have informed the Board that they have decided not to resign for the time being, pending an orderly change in management and in the Board. None of them have committed to remain on the Board for any specific time period and each may resign at any time.

Further details are disclosed in the announcements of the Company dated 4 June 2021, 8 June 2021 and the Response Document.

- (c) On 8 June 2021, the Company announced that Mr. Philip Ma has tendered his resignation as the chairman (the “Chairman”), chief executive officer, executive director and authorised representative (the “Authorised Representative”) of the Company with effect from 1 July 2021 as he wishes to devote more time to his family.

The Company further announced that Mr. King Wing Ma has tendered his resignation as the Company’s independent non-executive director with effect from 1 July 2021 as he wishes to devote more time to his family.

The Company also announced that Ms. Ada S P Cheung has tendered her resignation as company secretary of the Company (the “Company Secretary”) and Authorised Representative with effect from 15 June 2021 due to her other personal commitments.

Further details are disclosed in the announcement of the Company dated 8 June 2021.

## OTHER INFORMATION

- (d) On 10 June 2021, the Board announced the following changes in the composition of the Board, with effect from 9 June 2021:
- (1) Dr. Lin Xiaohui (“Dr. Lin”), Madam Su Jiaohua (“Madam Su”), Dr. Yu Lai (“Dr. Yu”) and Mr. Chan Chu Kin (“Mr. Chan”) have been appointed as executive directors of the Company;
  - (2) Dr. Tai Tak Fung has been appointed as non-executive director of the Company; and
  - (3) Mr. Yu Leung Fai (“Mr. Yu”), Mr. Yuan Baoyu (“Mr. Yuan”) and Mr. Chung Chun Hung Simon (“Mr. Chung”) have been appointed as the independent non-executive directors of the Company.

Further details are disclosed in the announcement of the Company dated 10 June 2021.

## OTHER INFORMATION

- (e) On 11 June 2021, the Board announced that with effect from 11 June 2021:
- (1) Dr. Lin has been appointed as the Chairman;
  - (2) Madam Su has been appointed as the chief executive officer of the Company;
  - (3) Mr. Philip Ma has ceased to act as the Chairman and the chief executive officer of the Company and has been re-designated from an executive director to a non-executive director of the Company;
  - (4) Mr. Yu has been appointed as a member of each of the audit committee of the Company (the “Audit Committee”), the nomination committee of the Company (the “Nomination Committee”) and the remuneration committee of the Company (the “Remuneration Committee”);
  - (5) Mr. Yuan has been appointed as the co-chairman of the Remuneration Committee and a member of the Nomination Committee;
  - (6) Mr. Chung has been appointed as the co-chairman of the Nomination Committee and a member of the Remuneration Committee;
  - (7) the Board has established an executive committee of the Board (the “Executive Committee”);
  - (8) the Board has appointed Dr. Lin as the chairman of the Executive Committee and Madam Su, Dr. Yu and Mr. Chan as members of the Executive Committee;
  - (9) Mr. Chan has been appointed as the acting Company Secretary; and
  - (10) Dr. Lin and Mr. Chan have been appointed as the Authorised Representatives under Rule 3.05 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (collectively, the “Listing Rules”).

Further details are disclosed in the announcement of the Company dated 11 June 2021.

## OTHER INFORMATION

- (f) As at the date of the close of the Offer, 269,267,198 Shares, representing approximately 20.49% of the existing issued share capital of the Company, were held by the public (as defined in the Listing Rules), which was less than the minimum public float requirement of 25% of the existing issued share capital of the Company as required under Rule 8.08(1)(a) of the Listing Rules. Accordingly, the minimum public float requirement was not satisfied. In order to restore the public float to 25%, Realord will have to dispose at least 59,223,442 Shares (the “Relevant Shares”) to public shareholders of the Company. Realord has subsequently informed the Company that it will either sell the Relevant Shares through the open market or place down the Relevant Shares through Realord Asia Pacific Securities Limited, a corporation licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to carry out type 1 regulated activity and a non-wholly owned subsidiary of the Realord, to restore the public float by the end of July 2021, depending on the prevailing market conditions and taking into account the expected date of publication of the annual results of the Company for the year ended 28 February 2021 on 30 June 2021.

In view of the above, the Company has applied to the Stock Exchange for a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a period from 3 June 2021 to 31 July 2021 (the “Waiver Period”). On 28 June 2021, the Stock Exchange has granted the Company a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules during the Waiver Period, subject to the issue of the announcement of the Company dated 29 June 2021. The Stock Exchange may withdraw or change the waiver if the Company’s situation changes.

Further announcement(s) will be made by the Company regarding the restoration of public float as and when appropriate.

Further details are disclosed in the announcement of the Company dated 29 June 2021.

# CORPORATE GOVERNANCE REPORT

The Board 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 to the Listing Rules.

During the year ended 28 February 2021, the Company has complied with the Code Provisions set out in the CG Code, save and except for code provisions 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 as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code governing the transactions of securities by the directors. After specific enquiry to the Directors, it is confirmed that all Directors had complied with the relevant standard as provided in the Model Code throughout the year ended 28 February 2021.

## BOARD OF DIRECTORS

During the year ended 28 February 2021, the Board comprised six members, consisting of an executive Director, a non-executive Director and four independent non-executive Directors.

As at the date of this annual report, the Board currently comprises thirteen members, consisting of four executive Directors, two non-executive Directors and seven 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 41 to 45 of this annual report.

Dr. Lin and Madam Su are spouse. Mr. Philip Ma and Mr. King Wing Ma are cousins. To the best knowledge of the Company, save as disclosed above and in the paragraph headed "Directors' and Chief Executive's Interests in Shares" as set out on pages 36 to 38, there is no other financial, business and family relationship among members of the Board. All of them are free to exercise their independent judgement.

## CORPORATE GOVERNANCE REPORT

The Board held eleven Board meetings and one general meeting during the year ended 28 February 2021. The following table shows the attendance of the Directors at meetings during the year:

Directors	General Meeting(s) attended/held	Board Meeting(s) attended/held
<i>Executive Director</i>		
Mr. Philip K H Ma ( <i>Then Chairman &amp; Chief Executive Officer</i> )	1/1	11/11
<i>Non-Executive Director</i>		
Mr. Charles M W Chan	0/1 <sup>+</sup>	9/11
<i>Independent Non-Executive Directors</i>		
Mr. King Wing Ma	1/1	11/11
Mr. Eric K K Lo	0/1 <sup>+</sup>	9/11
Mr. Peter Tan	0/1 <sup>+</sup>	6/11
Mr. Anders W L Lau	1/1	11/11

+ Pursuant to code provision A.6.7 of the CG Code, independent non-executive Directors and other non-executive Directors should also attend general meeting. Mr. Charles Chan, then non-executive Director; Mr. Peter Tan and Mr. Eric K K Lo, independent non-executive Directors did not attend relevant general meeting of the Company during the year ended 28 February 2021 due to business arrangement.

Apart from regular Board meetings, the Chairman also held meeting(s) with the independent non-executive Directors without the presence of other Directors during the year.

### Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive should be separated and should not be performed by the same individual. Mr. Philip Ma, being the then Chairman and chief executive officer of the Company during the year ended 28 February 2021, provided 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 was responsible for leading the management team to manage day-to-day operation and report to the Board the way the business ran. The Board believed 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

As disclosed under paragraph “Events After the Reporting Period” on page 13 of this annual report, on 11 June 2021, Dr. Lin and Madam Su have been appointed as the Chairman and the chief executive officer of the Company, respectively. Mr. Philip Ma has ceased to act as the Chairman and the chief executive officer of the Company and has been re-designated from an executive Director to a non-executive Director. Accordingly, the Company has complied with the code provision A.2.1 of the CG Code since then.

### **Independent Non-Executive Directors**

During the year ended 28 February 2021, 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 during the year ended 28 February 2021.

### **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 Directors and independent non-executive Directors 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.

# CORPORATE GOVERNANCE REPORT

## **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 Directors 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 to perform his responsibilities to the Company.

The Board reserves for its decision on 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

## Continuous Professional Development of Directors

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

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

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

During the year ended 28 February 2021, 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 the Directors according to the records provided by the Directors during the year is as follows:

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

# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES

During the year ended 28 February 2021, 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.

### Audit Committee

During the year ended 28 February 2021, the Audit Committee consisted of Mr. Charles Chan, the then non-executive Director and Mr. Eric K K Lo, Mr. King Wing Ma, Mr. Peter Tan and Mr. Anders W L Lau, independent non-executive Directors. Mr. Eric K K Lo was the chairman of the Audit Committee.

As at the date of this report, the Audit Committee consists of Mr. Eric K K Lo, Mr. King Wing Ma, Mr. Peter Tan, Mr. Anders W L Lau and Mr. Yu, independent non-executive Directors. 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.

During the year ended 28 February 2021, the Audit Committee held two meetings to review and discuss 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 during the year, is set out below:

<b>Audit Committee Members</b>	<b>Meetings attended/held</b>
Mr. Eric K K Lo	1/2
Mr. Charles M W Chan	1/2
Mr. King Wing Ma	2/2
Mr. Peter Tan	2/2
Mr. Anders W L Lau	2/2

The Group's audited financial statements for the year ended 28 February 2021 have been reviewed by the Audit Committee.

The Audit Committee also met with the external auditor twice during the year ended 28 February 2021.

# CORPORATE GOVERNANCE REPORT

## Remuneration Committee

During the year ended 28 February 2021, the Remuneration Committee consisted of Mr. Charles Chan, the then non-executive Director and Mr. Eric K K Lo, Mr. King Wing Ma, Mr. Peter Tan and Mr. Anders W L Lau, independent non-executive Directors. Mr. Peter Tan was the chairman of the Remuneration Committee.

As at the date of this report, the Remuneration Committee consists of Mr. Eric K K Lo, Mr. King Wing Ma, Mr. Peter Tan, Mr. Anders W L Lau, Mr. Yu, Mr. Yuan and Mr. Chung, independent non-executive Directors. Mr. Peter Tan and Mr. Yuan are the co-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 or any of his associates will participate in deciding his own remuneration.

During the year ended 28 February 2021, the Remuneration Committee held one meeting to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the executive Directors and other related matters, and the attendance record, on a named basis during the year, is set out below:

Remuneration Committee Members	Meeting attended/held
Mr. Peter Tan	1/1
Mr. Charles M W Chan	1/1
Mr. Eric K K Lo	0/1
Mr. King Wing Ma	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 band for the year ended 28 February 2021 is as follows:

	Number of employee(s)
Nil to HK\$1,500,000	4

Details of the remuneration of each Director for the year ended 28 February 2021 are set out in note 27 to the financial statements.

# CORPORATE GOVERNANCE REPORT

## Nomination Committee

During the year ended 28 February 2021, the Nomination Committee consisted of Mr. Charles Chan, non-executive Director and Mr. Eric K K Lo, Mr. King Wing Ma, Mr. Peter Tan and Mr. Anders W L Lau, independent non-executive Directors. Mr. King Wing Ma is the chairman of the Nomination Committee.

As at the date of this report, the Nomination Committee consists of Mr. Eric K K Lo, Mr. King Wing Ma, Mr. Peter Tan, Mr. Anders W L Lau, Mr. Yu, Mr. Yuan and Mr. Chung, independent non-executive Directors. Mr. King Wing Ma and Mr. Chung are the co-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.

During the year ended 28 February 2021, 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 re-election at the annual general meeting, and the attendance record, on a named basis during the year, is set out below:

Nomination Committee Members	Meeting attended/held
Mr. King Wing Ma	1/1
Mr. Charles M W Chan	1/1
Mr. Eric K K Lo	0/1
Mr. Peter Tan	1/1
Mr. Anders W L Lau	1/1

## Executive Committee

Subsequent to the year ended 28 February 2021, the Board has established the Executive Committee with effect from 11 June 2021. The Executive Committee is established for the purpose of effective and timely management of the day-to-day operations of the Group.

The Executive Committee shall comprise a minimum of three members. The Board has appointed Dr. Lin, Madam Su, Dr. Yu and Mr. Chan, all are executive Directors, as members of the Executive Committee. Dr. Lin has also been appointed as the chairman of the Executive Committee.

# CORPORATE GOVERNANCE REPORT

## Board Diversity Policy

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

In designing the Board Diversity Policy, the Company has 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.

## DIRECTORS’ RESPONSIBILITY IN RESPECT OF THE FINANCIAL STATEMENTS

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

The Directors 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 28 February 2021. 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 (i) the reasonably possible changes in the operational performance, (ii) the successful renewal and continuous availability of the bank and other borrowings facilities and (iii) the financial support from Realord, 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 61 to 67.

# CORPORATE GOVERNANCE REPORT

## AUDITOR'S REMUNERATION

During the year ended 28 February 2021, the fees payable to Ernst & Young, the Company's external auditor, for audit services totalled to approximately HK\$3,330,000. Ernst & Young has also provided the Group with non-audit service, including the provision of tax services and agreed-upon procedures, at fees amounted to approximately HK\$545,000.

## 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 ended 28 February 2021, 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.

During the year ended 28 February 2021, 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.

# CORPORATE GOVERNANCE REPORT

Based on the internal control review and risk assessment conducted during the year ended 28 February 2021, 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 shareholder meeting.

### Convening a General Meeting by Shareholders

General meetings may be convened by the Board on requisition of shareholder(s) holding not less than one-twentieth of the paid-up capital of the Company or by such shareholder(s) who made the requisition (the "Requisitionist(s)") (as the case may be) pursuant to the 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

## 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 Sincere Company, Limited (the “Company”) (collectively, the “Directors”) present their annual report and the audited financial statements of the Company and its subsidiaries (together, the “Group”) for the financial year ended 28 February 2021.

## 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’s Review of Operation” set out on pages 5 to 9 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 comprised of revenue; finance costs, loss attributable to equity holders and debt to equity ratio. Details of the key performance indicators are provided in the “Chairman’s Review of Operations” set out on pages 5 to 9 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 46 to 60 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 the senior management are delegated with continuing responsibility to monitor compliance with all significant legal and regulatory requirements. To the best knowledge of the board of Directors (“Board”) and management, save as disclosed in the financial statement, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year under review.

# REPORT OF THE DIRECTORS

## **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 service 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 service. A customer complaint handling mechanism is in place to receive, analysis 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. The Group has 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 financial year ended 28 February 2021 and the Group's financial position as at that date are set out in the audited financial statements on pages 68 to 186 of this annual report.

A summary of the published results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years is set out on pages 187 to 188 of this annual report.

# REPORT OF THE DIRECTORS

## 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, 6 August 2021, the register of members of the Company will be closed from Monday, 2 August 2021 to Friday, 6 August 2021, both days inclusive, during which period no transfer of shares will be registered. In order to be eligible to attend and vote at the AGM, all transfers accompanied by the relevant share certificates must be lodged with the Company’s registrar Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong no later than 4:30 p.m. on Friday, 30 July 2021.

## 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 24 and 25 to the financial statements, respectively.

## DIVIDEND

The Board does not recommend the payment of any dividend in respect of the financial year ended 28 February 2021.

## MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 28 February 2021, 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 Companies Ordinance (Chapter 622 of the Laws of Hong Kong)) 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 officer’s liability coverage for the directors and officers of the Group.

# REPORT OF THE DIRECTORS

## DIRECTORS

The Directors who served during the year ended 28 February 2021 were as follows:

### Executive Director:

Mr. Philip K H MA (*Then Chairman & Chief Executive Officer*)

### 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

The Directors who served as at the date of this report were as follows:

### Executive Directors:

Dr. LIN Xiaohui (*Chairman*) (appointed on 9 June 2021 and re-designated on 11 June 2021)

Madam SU Jiahua (*Chief Executive Officer*) (appointed on 9 June 2021 and re-designated on 11 June 2021)

Dr. YU Lai (appointed on 9 June 2021)

Mr. CHAN Chu Kin (appointed on 9 June 2021)

### Non-Executive Directors:

Dr. TAI Tak Fung (appointed on 9 June 2021)

Mr. Philip K H MA (re-designated on 11 June 2021 and had tendered his resignation with effect from 1 July 2021)

### Independent Non-Executive Directors:

Mr. King Wing MA (had tendered his resignation with effect from 1 July 2021)

Mr. Eric K K LO

Mr. Peter TAN

Mr. Anders W L LAU

Mr. YU Leung Fai (appointed on 9 June 2021)

Mr. YUAN Baoyu (appointed on 9 June 2021)

Mr. CHUNG Chun Hung Simon (appointed on 9 June 2021)

## REPORT OF THE DIRECTORS

During the year ended 28 February 2021, the Company has received, from each of the then 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 then independent non-executive Directors are independent.

During the year ended 28 February 2021, 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 Directors And Senior Executives” are set out on pages 41 to 45 of this annual report.

### DIRECTORS OF SUBSIDIARIES

During the year ended 28 February 2021, Mr. Philip K H Ma held directorship in some of the Company’s subsidiaries. Other directors of the Company’s subsidiaries include Mr. Ma Kin Kai John, Mr. Ma King Cheuk, Mr. Ma Francis, Mr. Yuen Chu Kau, Mr. Ma King Wong Steve, Mr. Ma Wai Tak Victor and Ms. Cheung Suet Ping.

As at the date of this report, in addition to the above-named directors, Dr. Lin Xiaohui and Madam Su Jiaohua also hold directorship in some of the Company’s subsidiaries.

# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS

As at 28 February 2021, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests in the Shares and underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of Securities and Futures Ordinance (the “SFO”) were as follow:

### Long position in the Shares and share options of the Company

Name	Capacity	Nature of interest	Number of Shares and share options	Approximate % of Shares in issue
The Sincere Life Assurance Company Limited	Beneficial owner/Interests of controlled corporations	Corporate	258,744,096 (Notes 1,4)	19.69
The Sincere Insurance & Investment Company, Limited	Beneficial owner	Corporate	75,608,064 (Notes 2,4)	5.75
The Company	Interested of controlled corporations	Corporate	260,443,200 (Notes 3,4)	19.82
Win Dynamic Limited	Beneficial owner/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

\* A “S.317 Agreement” is an agreement falling within S.317 of the SFO

#### Notes:

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

## REPORT OF THE DIRECTORS

As at the date of this annual report, so far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interest in the Shares and underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO were as follow:

### Long position in the Shares and share options of the Company

Name	Capacity	Nature of interest	Number of Shares and share options	Approximate % of Shares in issue
Manureen Holdings Limited	Interests of controlled corporation	Corporate	1,044,695,362 (Note 1)	79.51
Realord Group Holdings Limited	Beneficial owner	Corporate	1,044,695,362 (Note 1)	79.51

#### Note:

- (1) There is duplication of interests among Manureen Holdings Limited and Realord Group Holdings Limited.

Reference is made to (i) the joint announcement issued by Realord Group Holdings Limited (the "Offeror" or "Realord") and the Company dated 15 May 2020 ("Joint Announcement") in relation to the voluntary conditional cash offer to acquired all the Shares (collectively the "Offer"); and (ii) the announcement of the Offeror dated 3 June 2021 in relation to the close of the Offer (collectively, the "Announcements"). Capitalised terms used in this note shall have the same meanings as those defined in the Announcements. Win Dynamic had irrevocably undertaken to the Offeror to tender, or procure the tender of, all of the 662,525,276 Shares beneficially owned by it for acceptance under the Offer. Each of the Sincere Companies had irrevocably undertaken to the Offeror to tender, or procure the tender of, all of the Shares beneficially owned by it, being 183,136,032 Shares in the case of Sincere LA, 75,608,064 Shares in the case of Sincere II and 1,699,104 Shares in the case of Perfumery, for acceptance under the Offer. On 3 June 2021, being the latest date for acceptance of the Offer, the Offeror had received valid acceptances in respect of a total of 1,044,695,362 Shares under the Offer. As a result:

- The Offeror is interested in 1,044,695,362 Shares, representing 79.51% of the issued Shares of the Company; and
- Manureen Holdings Limited is deemed to be interested in 1,044,695,362 Shares, representing approximately 79.51% of the issued Shares of the Company, by virtue of its 74.62% interest in the Offeror.

# REPORT OF THE DIRECTORS

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

(I) As at 28 February 2021, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures 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 (the "Model Code"), were as follows:

### (a) Long position in the Shares

Name of Director	Capacity	Personal interests	Corporate interests	S.317	Total interests	Approximate % of shares in issue
				Agreement interests		
Mr. Philip K H Ma	Beneficial owner/Interests of controlled corporation/ Party to S. 317 Agreement*	5,120,000 (Note 2, 5)	662,525,276 (Notes 1, 2, 4)	102,400 (Notes 1, 2)	667,747,676 (Note 3)	50.82
Mr. King Wing Ma	Beneficial owner	1,240,928 (Note 5)	Nil	Nil	1,240,928	0.09
Mr. Eric K K Lo	Beneficial owner	2,200,400 (Note 5)	Nil	Nil	2,200,400	0.17
Mr. Charles M W Chan	Beneficial owner/Party to S. 317 Agreement*	102,400 (Note 1, 5)	Nil	667,645,276 (Notes 1, 2, 4)	667,747,676 (Note 3)	50.82
Mr. Peter Tan	Beneficial owner	40,000 (Note 5)	Nil	Nil	40,000	0.00

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

#### Notes:

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

## REPORT OF THE DIRECTORS

- (3) Mr. Philip K H Ma was deemed interested in the 667,747,676 Shares 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 a 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 by reason of being party to that S.317 Agreement. There is thus duplication of the interests of Mr. Philip K H Ma and Mr. Charles M W Chan.
- (4) Win Dynamic had tendered its 662,525,276 Shares for acceptance of the Offer.
- (5) Each of Mr. Philip Ma, Mr. King Wing Ma, Mr. Eric K K Lo, Mr. Charles Chan and Mr. Peter Tan had tendered 5,120,000 Shares, 1,240,928 Shares, 2,199,200 Shares, 102,400 Shares and 44,000 Shares, respectively, for acceptance of the Offer.

### (b) Associated corporations

As at 28 February 2021, 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, as at 28 February 2021, 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.

As at 28 February 2021, 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.

As at 28 February 2021, Mr. Philip K H Ma and Mr. King Wing Ma held 10 and 10 ordinary shares, respectively, in The Sincere Company (Perfumery Manufacturers), Limited.

In addition to the above, certain Directors have non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with minimum company membership requirements.

Save as disclosed herein, as at 28 February 2021, none of the Directors or chief executive of the Company had any interests or short position in any of the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded and kept in the register in accordance with Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## REPORT OF THE DIRECTORS

- (I) As at the date of this annual report, the interests and short positions 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 pursuant to the Model Code, were as follows:

### (a) Long position in Shares

Name of Director	Capacity	Personal interests	Corporate interests	S.317	Total interests	Approximate % of shares in issue
				Agreement interests		
Dr. Lin Xiaohui	Interest of controlled corporation	Nil	1,044,695,362 <i>(Note 1)</i>	Nil	1,044,695,362 <i>(Note 1)</i>	79.51
Madam Su Jiaohua	Spousal interest	Nil	1,044,695,362 <i>(Note 2)</i>	Nil	1,044,695,362 <i>(Note 1)</i>	79.51
Mr. Eric K K Lo	Beneficial owner	1,200	Nil	Nil	1,200	0.00

Notes:

- (1) As at the date of this annual report, Realord Group Holdings Limited was the legal and beneficial owner of 1,044,695,362 Shares. Manureen Holdings Limited was the legal and beneficial owner of approximately 74.62% of Realord Group Holdings Limited. Since Dr. Lin Xiaohui owned 70% of the issued share capital of Manureen Holdings Limited, he was deemed to be interested in 1,044,695,362 Shares.
- (2) Madam Su Jiaohua, the spouse of Dr. Lin Xiaohui, was deemed to be interested in 1,044,695,362 shares which Dr. Lin Xiaohui was deemed to be interested under the SFO as at the date of this annual report.

### (b) Associated corporations

Details of the Directors or chief executive of the Company or any of their associates' interests or short position in any of the shares, underlying shares or debentures of the associated corporations (within the meaning of Part XV of the SFO) as at the date of this annual report are the same as (I)(b) above.

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.

# 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 or any of its subsidiaries was a party during the financial year.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

On 15 May 2020, each of the Sincere Companies irrevocably undertook to Realord to tender, or procure the tender of, all of its shares of in the Company, being 183,136,032 shares of the Company in the case of Sincere LA, 75,608,064 shares of the Company in the case of Sincere II and 1,699,104 shares of the Company in the case of Perfumery (representing approximately 13.94%, 5.75% and 0.13% of the then issued shares of the Company, respectively), for acceptance under the Offer (collectively the "SC Irrevocable Undertakings"). As stated in the announcement of Realord dated 7 May 2021, the Sincere Companies had tendered their acceptance of the Offer pursuant to the SC Irrevocable Undertakings.

Save as disclosed above, there was no other purchase, sale or redemption of the Company's listed shares by the Company or any of its subsidiaries during the year ended 28 February 2021.

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year ended 28 February 2021, 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, immediately after the close of the Offer and as at the date of this report, 269,267,198 shares of the Company, representing approximately 20.49% of the existing issued share capital of the Company, are held by the public (as defined in the Listing Rules), which was less than the minimum public float requirement of 25% of the existing issued share capital of the Company as required under Rule 8.08(1)(a) of the Listing Rules. Accordingly, the minimum public float requirement was not satisfied. In order to restore the public float to 25%, Realord will have to dispose at least 59,223,442 shares of the Company (the "Relevant Shares") to public shareholders of the Company. Realord has subsequently informed the Company that it will either sell the Relevant Shares through the open market or place down the Relevant Shares through Realord Asia Pacific Securities Limited, a corporation licensed under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to carry out type 1 regulated activity and a non-wholly owned subsidiary of the Realord, to restore the public float by the end of July 2021, depending on the prevailing market conditions and taking into account the expected date of publication of the annual results of the Company for the year ended 28 February 2021 on 30 June 2021.

## REPORT OF THE DIRECTORS

In view of the above, the Company has applied to the Stock Exchange for a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules for a period from 3 June 2021 to 31 July 2021 (the “Waiver Period”). On 28 June 2021, the Stock Exchange has granted the Company a temporary waiver from strict compliance with Rule 8.08(1)(a) of the Listing Rules during the Waiver Period, subject to the issue of the announcement of the Company dated 29 June 2021. The Stock Exchange may withdraw or change the waiver if the Company’s situation changes.

Further announcement(s) will be made by the Company regarding the restoration of public float as and when appropriate.

For further details, please refer to the announcement of the Company dated 29 June 2021.

### DONATIONS

The Group has made donations of approximately HK\$120,000 during the year ended 28 February 2021.

### AUDIT COMMITTEE

As at the date of this report, the Audit Committee of the Company comprises five members, namely, Mr. Eric K K Lo (chairman of the Audit Committee), Mr. King Wing Ma, Mr. Peter Tan, Mr. Anders W L Lau and Mr. Yu Leung Fai, independent non-executive Directors of the Company. Regular meetings have been held by the Audit Committee since its establishment and the Audit Committee met two times during the year ended 28 February 2021. 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 for approval. The Group’s audited results for the year ended 28 February 2021 have been reviewed by the Audit Committee.

### AUDITOR

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

ON BEHALF OF THE BOARD

**Lin Xiaohui**  
*Chairman*

Hong Kong, 30 June 2021

# BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

## EXECUTIVE DIRECTORS

### Dr. Lin Xiaohui (林曉輝博士) (“Dr. Lin”)

Dr. Lin, aged 47, has been appointed as the chairman and an executive Director of the Company and the chairman of the Executive Committee. Dr. Lin is also currently the chairman and an executive director of Realord Group Holdings Limited, a company listed on the Main Board of the Stock Exchange (Stock Code: 1196) (“Realord”), the controlling shareholder of the Company.

Dr. Lin obtained a post-graduate diploma in business administration from the Society of Business Practitioners in December 2013, a Master degree of business administration from the City University (formerly known as the City University College of Science and Technology) in September 2014 and a Honorary Doctorate degree of Business Administration from the SABI University in August 2015. Since 2005, Dr. Lin has held management positions in a number of private companies in which he has shareholding interests, and these companies are mainly engaged in real estate, electronics, logistics and financial investment in Shenzhen. Dr. Lin is a member of the Committee of Shenzhen City of the Chinese People’s Political Consultative Conference and a member of the Committee of Futian District, Shenzhen City of the Chinese People’s Political Consultative Conference. Dr. Lin is the spouse of Madam Su Jiaohua (蘇嬌華女士) (“Madam Su”).

### Madam Su

Madam Su, aged 48, has been appointed as the chief executive officer and an executive Director of the Company and a member of the Executive Committee. Madam Su is also currently an executive director and the chief executive officer of Realord. Madam Su obtained the advanced diploma in business studies from Ashford College of Management & Technology Singapore (formerly known as AMGT Management School) in September 2012. Since 2005, Madam Su has held management positions in a number of private companies in which she has shareholding interests, and these companies are mainly engaged in real estate, electronics, logistics and financial investment in Shenzhen. Madam Su also served as a member of the People’s Congress of Futian District, Shenzhen City, and a member of The People’s Congress of Shenzhen City. Madam Su is the spouse of Dr. Lin.

### Mr. Chan Chu Kin (陳曙鍵先生) (“Mr. Chan”)

Mr. Chan, aged 42, has been appointed as an executive Director and the acting company secretary of the Company. Mr. Chan is also a member of the Executive Committee.

Mr. Chan is a member of the Certified Practising Accountant of Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan obtained a bachelor’s degree in commerce from the University of New South Wales in December 2001. Mr. Chan has over 18 years of experience in accounting and finance. Prior to joining Realord in 2017, Mr. Chan had been employed by three international firms in assurance. During the period from 2007 to 2008, he worked in Ernst & Young as senior accountant. During the period from 2008 to 2011, he worked in JBPB & Company (formerly known as Grant Thornton), which was subsequently merged with BDO Limited in 2011. Since then till 2012, Mr. Chan served in BDO Limited, with his last position held as audit manager. During the period from 2013 to 2016, he worked in Grant Thornton Hong Kong Limited, with his last position held as senior audit manager. He is currently the chief financial officer and company secretary of Realord.

## BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

### Dr. Yu Lai (禹來博士) (“Dr. Yu”)

Dr. Yu, aged 66, has been appointed as an executive Director of the Company and a member of the Executive Committee.

Dr. Yu obtained a master degree and a doctorate degree in business management from Sun Yat-sen Business School in July 1990 and June 2001, respectively. Dr. Yu is currently the chairman of Realord Commercial Group Limited\* (偉祿商業集團有限公司). Dr. Yu has over 18 years of experience in business management and has held management positions in a number of companies. From May 2003 to May 2006, Dr. Yu worked with Guangdong Investment Limited (“GIL”, a company listed on the main board of the Stock Exchange (stock code: 270)) in a number of positions within the GIL group, namely (i) the director and deputy general manager of GIL; and (ii) the chairman and director of Guangdong Teemall (holdings) Limited\*(廣東天河城(集團)股份有限公司). From June 2006 to December 2010, Dr. Yu worked in Shenzhen CITIC Commercial Management Co., Ltd\*(深圳市中信商業管理有限公司) and served in various position, including the chairman of Shenzhen CITIC City Plaza Investment Co., Ltd.\*(深圳市中信城市廣場投資有限公司) and the deputy general manager of Sino Hope (H.K.) Limited. From April 2007 to January 2008, Dr. Yu was the deputy general manager of CITIC Shenzhen (Group) Company\* (中信深圳(集團)公司) and from January 2008 to December 2010, Dr. Yu was appointed as the vice president of CITIC Real Estate Co., Ltd (中信房地產股份有限公司). Dr. Yu then worked with Horoy Holdings Limited (“HHL”) from January 2011 to August 2013, with his last position held as the president of HHL. In September 2013, Dr. Yu joined Guangdong JianJi Group (廣東堅基集團) (“GJG”) and served in a number of positions within the GJG group, namely (i) the president of the GJG group; (ii) the general manager of Guangdong JianJi Commercial Operation Management Company\* (廣東堅基商業運營管理公司); and (iii) the general manager of Heyuan JianJi Performing Arts Company Limited\* (河源市堅基演藝有限公司).

### NON-EXECUTIVE DIRECTORS

#### Dr. Tai Tak Fung (戴德豐博士) (“Dr. Tai”)

Dr. Tai, *GBM, GBS, SBS, JP, Phd (honoris causa)*, aged 73, has been appointed as a non-executive Director of the Company.

Dr. Tai is currently the founder, executive director and chairman of Four Seas Mercantile Holdings Limited (Stock Code: 374) and the non-executive director of Hong Kong Food Investment Holdings Limited (Stock Code: 60) both companies of which are listed on the Main Board of the Stock Exchange. Dr. Tai has been awarded the Grand Bauhinia Medal, Gold Bauhinia Star, Silver Bauhinia Star and Justice of the Peace by the Government of the Hong Kong Special Administrative Region. He also served as a member of the National Committee of the Chinese People’s Political Consultative Conference (“CPPCC”) from 2003 to 2018, during which he was a standing committee member of the CPPCC from 2008 to 2018. He is currently a standing committee member of the Guangdong Provincial Committee of the CPPCC. Dr. Tai was awarded the Order of the Rising Sun, Gold and Silver Rays by the Government of Japan in 2017 and, prior to receiving the said award, Dr. Tai was also awarded The Minister of Agriculture, Forestry and Fisheries Award in recognition of his contribution towards the promotion of Japanese food products. He is currently serving several public office, including the president of the Hong Kong Foodstuffs Association and special advisor to China National Food Industry Association. He had also received a number of awards including Industrialist of the Year Award conferred by Federation of Hong Kong Industries.

## **BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES**

### **Mr. Philip K H MA**

Mr. Philip K H MA, aged 65, is a non-executive Director 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 until 11 June 2021. He holds an MBA degree. He was in charge of all aspects of the Group's operations during the year ended 28 February 2021 and up to 11 June 2021 before being re-designated as non-executive director. He is a cousin of Mr. King Wing Ma, who is also a Director of the Company. He also holds directorships in Sincere LA, Sincere II, The Sincere Company (Perfumery Manufacturers), Limited, Win Dynamic and various other subsidiaries of the Company during the year and up to the date of this annual report. He had tendered his resignation as non-executive Director of the Company which will take effect on 1 July 2021.

### **INDEPENDENT NON-EXECUTIVE DIRECTORS**

#### **Mr. King Wing Ma**

Mr. King Wing MA, aged 89, has been appointed as an independent non-executive Director of the Company since 1980. He is also the co-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. He had tendered his resignation as independent non-executive Director of the Company which will take effect on 1 July 2021.

#### **Mr. Eric K K Lo**

Mr. Eric K K LO, aged 72, has been appointed as 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 (former stock code: 647).

#### **Mr. Peter Tan**

Mr. Peter TAN, aged 65, has been appointed as an independent non-executive Director of the Company since 2012. He is also the co-chairman of the Remuneration Committee and a member of each of the Audit Committee and Nomination Committee. He is 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.

## BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES

### Mr. Anders W L Lau

Mr. Anders W L LAU, aged 65, 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. On 20 December 2018, he was appointed as an independent non-executive director of Rizhao Port Jurong Co. Ltd (stock code: 6117), a company listed on the Main Board of Stock Exchange, and he has resigned such position on 18 September 2019. He has also resigned as an 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.

### Mr. Yu Leung Fai (余亮暉先生) (“Mr. Yu”)

Mr. Yu, aged 44, has been appointed as an independent non-executive director of the Company and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee.

Mr. Yu is a member of the American Institute of Certified Public Accountants, Certified Practising Accountants of Australia and the Hong Kong Institute of Certified Public Accountants. Mr. Yu obtained a bachelor’s degree in commerce from University of Toronto, Canada in June 2000 and a bachelor’s degree in law from University of London, United Kingdom in August 2005. Mr. Yu has over 19 years of experience in corporate services field. He first started his career as an auditor of Deloitte Touche Tohmatsu. Since 2001, Mr. Yu joined Fung, Yu & Co. CPA Limited and is currently the company’s managing partner. Mr. Yu has also been the company secretary of Beijing Media Corporation Limited (stock Code: 1000), Yuanda China Holdings Limited (stock Code: 2789) and Sany Heavy Equipment International Holdings Company Limited (stock Code: 631), and the independent non-executive director of Realord (stock Code: 1196) and Dowway Holdings Limited (stock Code: 8403), all of which are listed companies in Hong Kong, since 2010, 2012, 2017, 2014 and 2019, respectively

### Mr. Yuan Baoyu (袁寶玉先生) (“Mr. Yuan”)

Mr. Yuan, aged 71, has been appointed as an independent non-executive director of the Company, the co-chairman of the Remuneration Committee and a member of the Nomination Committee.

Mr. Yuan obtained a bachelor degree in administrative management from Guangdong Social Science University in December 1990. Mr. Yuan served in the Shenzhen Local Taxation Bureau and Shenzhen Municipal Office of the State Administration of Taxation (the “SMOSAT”) for 25 years. In May 1984, he first served as the deputy chief of the fourth branch of the Shenzhen Local Taxation Bureau. Mr. Yuan was subsequently transferred to the Shekou Branch of the Shenzhen Local Taxation Bureau\* (深圳市稅務局蛇口分局) and was appointed as the director of the second division of the Taxation Office in August 1985 and the chief of the second management section in March 1989. From September 1994 to September 1995, Mr. Yuan was appointed as the deputy director of the Shatoujiao Branch of the Shenzhen Local Taxation Bureau\* (深圳市稅務局沙頭角分局). Mr. Yuan then served as the deputy director and director of the Luohu Branch of the SMOSAT\* (深圳市國家稅務局羅湖分局) in September 1995. In March 2000, he was appointed as the director and the secretary of the party committee of the Bao’an Branch of the SMOSAT\* (深圳市寶安區國家稅務局). In December 2005 and September 2008, Mr. Yuan was further appointed as the director of the import and export tax management office of the SMOSAT\* (深圳市國稅局進出口稅收管理處) and the deputy inspector of the SMOSAT, respectively.

## **BIOGRAPHIES OF DIRECTORS AND SENIOR EXECUTIVES**

### **Mr. Chung Chun Hung Simon (鍾振雄先生) (“Mr. Chung”)**

Mr. Chung, aged 50, has been appointed as an independent non-executive director of the Company, the chairman of the Nomination Committee and a member of the Remuneration Committee.

Mr. Chung obtained a bachelor degree in mathematics from the University of Waterloo, Canada in May 1993 and a master degree of science in investment management from The Hong Kong University of Science and Technology in November 2001. Mr. Chung was a licensed person registered with the SFC to carry out type 1 (dealing in securities) and type 2 (dealing in futures contracts) regulated activities under the SFO from July 2005 to May 2017 and has over 15 years of securities brokerage and dealing experience in the financial services industry. He worked in Core Pacific-Yamaichi International (H.K.) Limited from February 2000 to June 2005, with his last position held as assistant sales director, primarily responsible for dealing in securities and futures contracts. From June 2005 to May 2017, Mr. Chung was the investment representative of KGI Hong Kong Limited (a company principally engaged in the provision of investment products and services, wealth management and person investment services), primarily responsible for dealing in securities and future contracts. In June 2012, he cofounded Speedy Finance Limited, a company principally engaged in money lending business in Hong Kong and has been its director since then. Mr. Chung has also been the honorary treasurer of Hong Kong General Chamber of Property Finance (formerly known as the Hong Kong Property Finance Association) since January 2016 and has been the honorary president of the CityU Industrial and Business Leaders Circle.

### **SENIOR EXECUTIVE**

Mr. Kelvin K H LEE, aged 36, first joined the Company as Financial Controller in February 2019 and left one year later. He subsequently rejoined the Company in August 2020 as the Finance Director. He has over 15 years of experience in auditing, financial accounting, corporate investment and financing, as well as management. He is a member of the Hong Kong Institute of Certified Public Accountants and Institute of Chartered Accountants in England and Wales.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Sincere Company, Limited (the “Company”) and its subsidiaries (collectively the “Group”) strive continuously to incorporate sustainability initiatives into their daily operations and management. While sharing the vision of becoming the preferred choice of our stakeholders, the Company is committed to improving its Environmental, Social and Governance (“ESG”) performance by upholding good corporate governance standards, protecting the 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 “Stock Exchange”) (collectively the “Listing Rules”). The reporting period is from 1 March 2020 to 28 February 2021. The reporting boundary is limited to retail and office operation in Hong Kong unless other specified. Disclosed content of the report has been reviewed by the board of directors of the Company (the “Board”). The Company values your feedback regarding the review and its overall sustainability practices. The Company endeavours to provide a balanced, honest and transparent account of its performance.

## REPORTING PRINCIPLES

The Company have taken the following reporting principles into account in development of this ESG report:

### Materiality

The Company regularly engages its stakeholders to better understand their concerns relating to sustainability issues that affect them. The Company also makes regular reference to our peers and both local and regional sustainability criteria when we review our sustainability context, materiality and disclosures in order to keep our sustainability priorities and strategy relevant. The Board and the management regularly review the sustainability issues that are most significant to our business and operations, and consider the issues discussed in this report to be material to the Group.

### Quantitative

For the quantitative information, the Company reports on, and it provides explanation on how it collects and analyse relevant data in appropriate circumstances. The environmental key performance indicators include the disclosure of comparative data to allow stakeholders to make analysis based on its performance.

### Balance

The Company aims to keep its report balanced and make fair disclosures on critical aspects of its performance, both in terms of progress made and continuing challenges that it is dealing with.

### Consistency

The Company has reported in accordance with the ESG Reporting Guide of the Stock Exchange, which allows for year-to-year comparison with our pervious performance.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## MATERIALITY ASSESSMENT

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 the Company identify issues of importance to the Company from a sustainability perspective and to prioritise 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

## BOARD INVOLVEMENT AND GOVERNANCE

The Board is responsible for overseeing long-term sustainable development for all operating companies under the Group. Information and management on sustainability risks and performance is reported to the Board.

The Group has developed its own corporate governance code (the “CG Code”) according to the principles as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules. The CG code sets out the corporate governance principles applied by the Group and is constantly reviewed to ensure transparency, accountability and independence. For details, please refer to the “Corporate Governance Report” section.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## STAKEHOLDER ENGAGEMENT

As a responsible business, we have the responsibility to build a thriving future where we can create long-term value for our stakeholders. The stakeholders of the Company include shareholders, investors, customers, employees, business partners, suppliers, regulators, industry practitioners, charity groups and non-governmental parties etc.

To determine the direction of the Group's long-term development and maintain close relationships with stakeholders, the Company through constructive communications with them including meetings, interviews, direct phone calls, mails and staff performance appraisal interviews.

### 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 have not identified any material non-compliance with relevant laws and regulations regarding environmental issues, including the Product Eco-responsibility Ordinance (Chapter 603 of the Laws of Hong Kong), during the year. During the year ended 28 February 2021, 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. The Company reckons that every company should take its responsibility to tackle this problem. To mitigate air pollution, the Company has 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.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 109 g of sulphur oxides (SO<sub>x</sub>) (2020: 139 g), 51,742 g of nitrogen oxides (NO<sub>x</sub>) (2020: 69,111 g), and 5,092 g of particulate matter (PM) (2020: 6,780 g) during the year ended 28 February 2021, which mainly came from emissions from its own fleet.

## *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.

The Company advocates 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, the Company has implemented various waste reduction measures as follows:

- Affix reminder at collection point(s) and prominent area(s) in the office to encourage waste recycling
- Affix reminders in printers and photocopiers to remind staff of saving paper
- Apply electronic functions to reduce photocopying and printing publications
- Buy electrical & electronic equipment and batteries only when necessary
- Double-sided printing
- Electrical & electronic products and batteries were well maintained to prolong life span
- Print only when necessary and print in black & white

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- Reduce box files consumption by reusing old box files or applying electronic means for filing
- Reduce paper towel consumption by use of hand dryers
- Reduce the frequency of replacing rubbish bags
- Repair broken items to avoid waste disposal as far as possible
- Reuse furniture when moving or renovation
- Reuse materials for decorating festive events (e.g. Christmas and Chinese New Year, etc.)
- Reuse old envelopes
- Reuse single-sided printed paper
- Reuse stationeries, e.g. paper clips, folders, binders, envelopes
- Use refillable containers for cleaning products
- Use re-useable containers, dishes, cups and coffee filters in the pantry wherever possible

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

Waste collected for recycling	Unit	2021	2020
Paper Recycling	kg	240.00	700.00
Toner Recycling	kg	190.51	192.78

### iii. *Greenhouse Gas Emissions*

The Company is committed to managing our environmental footprint responsibly and it leverages its resources and engage our people to make a difference along our operations. To cut down the Company's greenhouse gas ("GHG") emissions, the Company has implemented energy and saving measures resources (see "A2 Use of Resources – Energy Conservation" below).

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## 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 the Company conserve resources and tackle climate change.

### *Electricity Management*

The Company promotes green lighting in the workplace to reduce usage of electricity. This involves installing energy-saving lights and using energy-saving light bulbs in its office and stores facilities. The Company also encourages the Company's employees to switch off the lights in the areas of the workplace that are not being used.

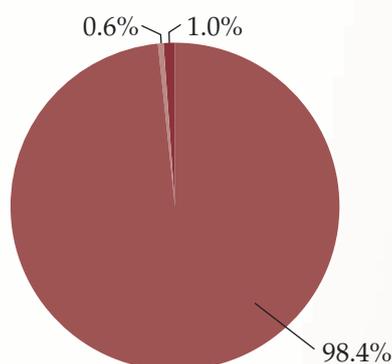
Energy consumption accounts for a major part of its GHG emissions. To reduce our carbon footprint, the Company has implemented the following measures:

- 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

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the year ended 28 February 2021, the Company consumed 2,773,507 kWh (2020: 2,867,256 kWh) of electricity. The following table shows our GHG emissions and energy consumption in this year.

## GHG Emissions



■ Total Scope 1 Emissions      ■ Total Scope 2 Emissions  
■ Total Scope 3 Emissions

GHG Emissions	Unit	2021	2020
Total Scope 1 Emissions	tCO <sup>2e</sup>	18.99	24.06
Total Scope 2 Emissions	tCO <sup>2e</sup>	1,941.45	2,007.08
Total Scope 3 Emissions	tCO <sup>2e</sup>	11.88	16.50
Total GHG Emissions	tCO <sup>2e</sup>	1,972.32	2,047.64
Total GHG Emissions/Floor Area	tCO <sup>2e</sup> /square metre	0.10	0.11

Energy Consumption	Unit	2021	2020
Diesel Consumption	L	3,435.39	4,947.30
Petrol Consumption	L	3,662.84	4,061.26
Electricity Consumption	kWh	2,773,507.00	2,867,256.00
Electricity Consumption/Floor Area	kWh/square metre	145.01	149.91

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## A3. The Environmental and Natural Resources

While benefiting from the natural environment and resources, the Company 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. As a retail business, the Company promotes eco-friendly shopping to the Company's customers. The Company strictly follows the Product Eco-responsibility Ordinance (Chapter 603 of the Laws of Hong Kong) and charge HK\$1 for each shopping bag provided to consumers.

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. The Company measures 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	2021	2020
Paper Consumption	kg	2,475.00	3,462.50
Toner Consumption	kg	190.51	192.78
Plastic Bag Consumption	pieces	117,400	197,610

# 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. Save as disclosed in this annual report, the Company has not identified any other 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 ended 28 February 2021.

### B1. Employment and Labour Practices

#### *Employment*

As key enablers in achieving its economic, environmental and social objectives, the Company's staff is among our most valuable assets. In the Company, the Company believes that creating a workplace that offers a strong sense of belonging may inspire our employees to champion our core values. The Company 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, the Company aims to create a harmonious working environment for its employees through competitive remuneration packages that are structured to be commensurate with individual responsibilities, qualification, experience and performance. The Company believes in equal opportunities and diversity in terms of age, sex, nationality, disability and religion. Any discrimination on race, gender, religion, national origin, physical or mental disability, age, sexual orientation, and gender identity are strictly prohibited during the employment process and workplace. 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.

The Company has not identified any material non-compliance to employment laws and regulations during the year ended 28 February 2021.

The Group employs 222 staff in total as of 28 February 2021.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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

	2021	2020
Hong Kong and Mainland China	222	266
(a) Breakdown by gender		
Employees – Female	157	185
Employees – Male	65	81
(b) Breakdown by age group		
Employees Age < 30	22	42
Employees Age 30 – 50	92	110
Employees Age > 50	108	114
(c) Breakdown by employment type		
Employees – Part-time	19	32
Employees – Full-time	203	234

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## B2. Health and Safety

The Company values the safety and well-being of staff. The Company strives to provide its employees with a safe working environment under the requirement of Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong). The Company's 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.

To provide a safe working environment for all, the Company has implemented the following measures:

- Conduct regular inspections of all parts of the Company's premises
- Conduct annual fire drills for employees to practice evacuation procedures of department stores and offices in the event of a fire or other emergencies

The Company has not identified any work-related fatality and material non-compliance case of health and safety laws and regulations during the year ended 28 February 2021.

In view of the COVID-19 pandemic happening across 2020 and 2021, the Group has implemented certain workplace health and safety measures to prevent our staff members and customers infected. To comply with the Prevention and Control of Disease Ordinance (Chapter 599 of the Laws of Hong Kong), the Company has requested its staff members to wear masks in workplace and retail outlets. Policies on flexible working hours and work-from-home were adopted for office operations to safeguard the health and safety of its employees. Personal protective equipment was offered to staff to avoid infection. Non-essential business travel is prohibited. As the COVID-19 pandemic is gradually under control, operations were resumed in an orderly manner in accordance to government regulations.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## B3. Development and Training

To enable the Company's 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. The Company provides 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 19.5 (2020: 334.5). The drop in the training hours was due to the social distancing policies imposed as a result of the COVID-19 pandemic during the year ended 28 February 2021.

Statistic of training by gender and employment category:

### Percentage of employees trained by gender and employment category

	Unit	2021
<b>Percentage trained by gender</b>		
Female	%	9.55
Male	%	1.54
<b>Percentage trained by employment category</b>		
Senior	%	16.67
Middle level	%	–
Supervisory level	%	7.41
General	%	7.59

### Average training hours completed per employee by gender and employment category

	Unit	2021
<b>Average training hours per employee by gender</b>		
Female	Hours	–
Male	Hours	0.12

### Average training hours per employee by employment category

	Unit	2021
Senior	Hours	1.92
Middle level	Hours	–
Supervisory level	Hours	0.04
General	Hours	0.04

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## **B4. Labour Standards**

The Company strictly complies with the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) and 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 is needed during hiring process to ensure the employee reaches legal minimum age for working. Saved as disclosed in this annual report, the Group has not identified any other material non-compliance in relation to child or forced labour-related laws and regulations.

The Group has zero-tolerance to employment of child labour and forced labour within the Company's supply chain. The Group has not identified any non-compliance in relation to child or forced labour-related laws and regulations. If suppliers are found to have any employment of child labour and forced labour, immediate cessation of business would be conducted.

## **B5. Supply Chain Management**

The Company is aware of the social and environmental risks of our supply chain. To foster long term business benefits, the Company maintains sound relationships with its key suppliers to meet business challenges and regulatory requirements. With long-standing relationships with a number of suppliers, the Company also shares the its commitment to quality and business ethics to them.

The Company's business partners are expected to strive for efficiency and full compliance within their operations in terms of environmental and social risks. These policies come up to an open, equitable and ethical purchasing process for all parties by offering equal opportunities to the Company's suppliers and contractors from various geographical locations.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## B6. Product Responsibility

As a responsible company, the Company is 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 (Chapter 486 of the Laws of Hong Kong), the Company requires in our terms of employment strict adherence to the Company's data privacy and confidentiality policies.

The Company aims to ensure high quality standards for products we offer. The Company constantly communicates with its customers to ensure our products are up to standards. Communication and feedback channels are created for quality assurance and recall procedures.

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.

The Company has not identified any material non-compliance of product and service quality laws and regulations during the year ended 28 February 2021.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## **B7. Anti-corruption**

The Company is committed to adhering to the regulatory requirements and highest ethical standards, maintaining a corporate culture of integrity and justice for preventing, detecting and reporting all types of fraud, including corruption. This includes but not limited to the Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong). The Company's 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 during the year ended 28 February 2021.

## **B8. Community Investment**

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

### *Supporting the Community*

To contribute towards the promotion of harmony and stability of the society, the Company communicates with non-government entities and charities to understand the needs of the community, participate in community events and make donations to causes that help those who are in need. In addition, the Company has a total donations of approximately HK\$120,000.

In the future, the Company 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 68 to 186, which comprise the consolidated statement of financial position as at 28 February 2021, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 28 February 2021, 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 ("HKSA") 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\$145,697,000 during the year ended 28 February 2021, and the Group had net current liabilities of HK\$243,678,000. The Company also recorded net current liabilities of HK\$264,730,000 and net liabilities of HK\$48,218,000. 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 28 February 2021, the Group had net inventory balances of HK\$42,927,000. 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.

# INDEPENDENT AUDITOR'S REPORT

## 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 28 February 2021, the net book value of the Group's buildings under right-of-use assets ("ROU assets") amounted to HK\$58,425,000.

Management has conducted an assessment of impairment for such 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\$22,312,000 was recognised.

The significant judgements and estimates and disclosures of impairment 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 28 February 2021, the Group has leasehold land of HK\$151,826,000 under right-of-use assets, and buildings of HK\$20,703,000 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 valuer. The management determined the deferred tax impact based on the expected manner of recovery of the Properties.

The significant judgements and estimates and disclosures of fair value of the Properties 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 HKSAAs 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 HKSAAs, 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.

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.

## INDEPENDENT AUDITOR'S REPORT

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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, actions taken to eliminate threats or safeguards applied.

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*  
27/F, One Taikoo Place  
979 King's Road  
Quarry Bay, Hong Kong

30 June 2021

# CONSOLIDATED INCOME STATEMENT

Year ended 28 February 2021

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
REVENUE	5	177,472	263,312
Cost of sales		<b>(91,744)</b>	(130,513)
Other income and gains, net	5	2,038	10,800
Net unrealised loss on securities trading		<b>(726)</b>	(6,690)
Selling and distribution expenses		<b>(111,153)</b>	(165,849)
General and administrative expenses		<b>(78,698)</b>	(86,806)
Other operating expenses, net		<b>(22,614)</b>	(14,285)
Finance costs	6	<b>(20,257)</b>	(19,209)
LOSS BEFORE TAX	7	<b>(145,682)</b>	(149,240)
Income tax expense	8	<b>(15)</b>	(13)
LOSS FOR THE YEAR		<b>(145,697)</b>	(149,253)
ATTRIBUTABLE TO:			
Equity holders of the Company		<b>(145,017)</b>	(147,364)
Non-controlling interests		<b>(680)</b>	(1,889)
		<b>(145,697)</b>	(149,253)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	10		
Basic		<b>HK\$(0.14)</b>	HK\$(0.17)
Diluted		<b>HK\$(0.14)</b>	HK\$(0.17)

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 28 February 2021

	2021 HK\$'000	2020 HK\$'000
LOSS FOR THE YEAR	<b>(145,697)</b>	(149,253)
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	<b>83</b>	(61)
Net other comprehensive income/(loss) that may be reclassified to the income statement in subsequent periods	<b>83</b>	(61)
<i>Other comprehensive income/(loss) that will not be reclassified to the income statement in subsequent periods:</i>		
Actuarial gains on a defined benefit plan	<b>6,194</b>	1,257
Revaluation of leasehold land and owned buildings (note 11)	<b>(9,020)</b>	168,141
Changes in fair value of equity investments designated at fair value through other comprehensive income	<b>1,664</b>	(300)
Net other comprehensive income/(loss) that will not be reclassified to the income statement in subsequent periods	<b>(1,162)</b>	169,098
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR</b>	<b>(146,776)</b>	19,784
ATTRIBUTABLE TO:		
Equity holders of the Company	<b>(145,591)</b>	21,329
Non-controlling interests	<b>(1,185)</b>	(1,545)
	<b>(146,776)</b>	19,784

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

28 February 2021

	<i>Notes</i>	<b>2021</b> <b>HK\$'000</b>	2020 HK\$'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	<b>231,049</b>	336,805
Equity investments designated at fair value through other comprehensive income	13	<b>24,237</b>	22,573
Deposits, other receivables and other assets	14	<b>22,702</b>	26,540
Pension scheme assets	23	<b>19,585</b>	14,672
<b>Total non-current assets</b>		<b>297,573</b>	400,590
<b>CURRENT ASSETS</b>			
Inventories		<b>42,927</b>	66,289
Reinsurance assets	17	–	7
Prepayments, deposits, other receivables and other assets	14	<b>29,056</b>	12,863
Financial assets at fair value through profit or loss	15	<b>10,677</b>	13,364
Pledged bank balances	18(a)	<b>1,854</b>	6,024
Pledged deposits with banks	18(a)	<b>101,865</b>	113,017
Cash and bank balances	16	<b>87,949</b>	13,761
<b>Total current assets</b>		<b>274,328</b>	225,325
<b>CURRENT LIABILITIES</b>			
Creditors	19	<b>44,681</b>	43,479
Lease liabilities	20	<b>93,718</b>	102,454
Insurance contracts liabilities	21	<b>1,206</b>	1,214
Deposits, accrued expenses and other payables		<b>62,825</b>	28,387
Contract liabilities		<b>730</b>	2,887
Interest-bearing bank borrowings	18(a)	<b>162,679</b>	156,719
Other loans	18(b)	<b>152,167</b>	2,136
<b>Total current liabilities</b>		<b>518,006</b>	337,276
<b>NET CURRENT LIABILITIES</b>		<b>(243,678)</b>	(111,951)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>53,895</b>	288,639

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

28 February 2021

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
<b>NON-CURRENT LIABILITIES</b>			
Deposits, accrued expenses and other payables		3,934	8,390
Other loans	18(b)	1,126	1,104
Lease liabilities	20	20,430	103,964
<b>Total non-current liabilities</b>		<b>25,490</b>	<b>113,458</b>
<b>NET ASSETS</b>		<b>28,405</b>	<b>175,181</b>
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Share capital	24	469,977	469,977
Deficits	26	(472,954)	(327,363)
		(2,977)	142,614
Non-controlling interests		31,382	32,567
<b>TOTAL EQUITY</b>		<b>28,405</b>	<b>175,181</b>

**Lin Xiaohui**  
*Director*

**Chan Chu Kin**  
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 28 February 2021

	Attributable to equity holders of the Company									
	Share capital	Treasury shares	General and other reserves <sup>†</sup>	Share option reserve	Reserves			Total reserves	Non-controlling interests	Total
					Asset revaluation reserve	Investment revaluation reserve	Accumulated losses			
HK\$'000	HK\$'000	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 23)	-	-	-	-	-	-	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 24)	102,718	-	-	-	-	-	-	-	-	102,718
Share issue expenses (note 24)	(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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 28 February 2021

	Attributable to equity holders of the Company								Total HK\$'000
	Share capital HK\$'000	Treasury shares HK\$'000 (note 24)	Reserves				Total reserves/ (deficits) HK\$'000	Non- controlling interests HK\$'000	
			General and other reserves <sup>#</sup> HK\$'000	Asset revaluation reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000			
As at 1 March 2020	469,977	(130,221)	227,496	168,141	(3,753)	(589,026)	(327,363)	32,567	175,181
Loss for the year	-	-	-	-	-	(145,017)	(145,017)	(680)	(145,697)
Other comprehensive income/(loss) for the year:									
Changes in fair value of equity investments designated at fair value through other comprehensive income	-	-	-	-	1,664	-	1,664	-	1,664
Exchange differences related to foreign operations	-	-	720	-	-	-	720	(637)	83
Actuarial gains on a defined benefit plan (note 23)	-	-	-	-	-	6,062	6,062	132	6,194
Revaluation of leasehold land and owned buildings (note 11)	-	-	-	(9,020)	-	-	(9,020)	-	(9,020)
Total comprehensive income/(loss) for the year	-	-	720	(9,020)	1,664	(138,955)	(145,591)	(1,185)	(146,776)
At 28 February 2021	469,977	(130,221)	228,216	159,121	(2,089)	(727,981)	(472,954)	31,382	28,405

# Included in the general and other reserves at 28 February 2021 was a debit amount of HK\$10,595,000 (2020: HK\$11,315,000) attributable to the exchange fluctuation reserve.

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 28 February 2021

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before tax		<b>(145,682)</b>	(149,240)
Adjustments for:			
Interest expense	6	20,257	19,209
Bank interest income	7	(431)	(1,039)
Other interest income from financial assets at fair value through profit or loss	7	(85)	(278)
Depreciation	7	80,997	95,572
Impairment of items of property, plant and equipment	7	22,342	14,213
Impairment of an interest in an associate	7	5	9
Impairment of other assets	7	267	–
Provision/(reversal of provision) for inventories	7	1,103	(543)
Gain on disposal of items of property, plant and equipment	7	–	(213)
Write-back of other payables	7	–	(489)
Bad debts written off	7	4,320	1,295
Covid-19-related rent concessions from lessors	7	(11,477)	–
Exchange realignment		83	(61)
		<b>(28,301)</b>	(21,565)
Decrease in inventories		22,259	1,150
Decrease in reinsurance assets		7	17
Decrease/(increase) in prepayments, deposits, and other receivables		(16,942)	4,120
Decrease in financial assets at fair value through profit or loss		2,687	98,575
Increase/(decrease) in creditors		1,202	(9,295)
Decrease in insurance contracts liabilities		(8)	(18)
Increase/(decrease) in deposits, accrued expenses and other payables		29,982	(2,148)
Increase/(decrease) in contract liabilities		(2,157)	1,634
Movement in pension scheme assets		1,281	1,255
Cash generated from operations		<b>10,010</b>	73,725
Interest paid		(20,257)	(19,209)
Interest received		516	1,317
Overseas taxes paid		(15)	(14)
<b>Net cash flows from/(used in) operating activities</b>		<b>(9,746)</b>	55,819

# CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 28 February 2021

	<i>Notes</i>	<b>2021</b> <b>HK\$'000</b>	2020 HK\$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions of owned assets in property, plant and equipment		<b>(30)</b>	(1,561)
Proceeds from disposal of items of property, plant and equipment		–	213
Decrease in pledged bank balances		<b>4,170</b>	805
Decrease/(increase) in pledged deposits with banks		<b>11,152</b>	(41,456)
Movements in amount due from an associate		<b>(5)</b>	(9)
<b>Net cash flows from/(used in) investing activities</b>		<b>15,287</b>	(42,008)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayments of bank loans		<b>(200,819)</b>	(485,220)
New bank loans		<b>206,779</b>	451,894
New other loans		<b>150,053</b>	73
Principal portion of lease payments		<b>(87,366)</b>	(91,856)
Proceeds from issue of shares	24	–	102,718
Expenses on issue of shares	24	–	(9,977)
<b>Net cash flows from/(used in) financing activities</b>		<b>68,647</b>	(32,368)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>74,188</b>	(18,557)
Cash and cash equivalents at beginning of year		<b>13,761</b>	32,318
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>87,949</b>	13,761
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash on hand and at banks and cash and cash equivalents as stated in consolidated statement of cash flows	16	<b>87,949</b>	13,761

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 1. CORPORATE AND GROUP INFORMATION

The Sincere Company, Limited (the “Company”) is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 24th Floor, Leighton Centre, 77 Leighton Road, Hong Kong. The principal activities of the Company and its subsidiaries (collectively referred to as the “Group”) have not changed during the 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, at 28 February 2021, the then holding company and ultimate holding company of the Company was Win Dynamic Limited (“Win Dynamic”), a company incorporated in Hong Kong with limited liability. Subsequent to 28 February 2021, Realord Group Holdings Limited (“Realord”), a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), has become the holding company of the Company following the close of the voluntary conditional cash offer to acquire all the issued shares of the Company. As disclosed in the disclosure of interest dated 17 May 2021 submitted by Manureen Holdings Limited (“Manureen”), the holding company of Realord is Manureen, a company incorporated in the British Virgin Islands (“BVI”) with limited liability.

### 2.1 BASIS OF PRESENTATION

During the year ended 28 February 2021, the Group recorded a net loss for the year of HK\$145,697,000 (2020: HK\$149,253,000). The Group’s operations are financed by both bank and other borrowings and internal resources. As at 28 February 2021, the Group had net current liabilities of HK\$243,678,000 (2020: HK\$111,951,000) and a deficit attributable to the equity holders of the Company of HK\$2,977,000 (2020: equity attributable to the equity holders of the Company of HK\$142,614,000). The Company also had net current liabilities of HK\$264,730,000 (2020: HK\$151,588,000) and net liabilities of HK\$48,218,000 (2020: net assets of HK\$75,624,000). The Group’s cash and bank balances amounted to HK\$87,949,000 (2020: HK\$13,761,000) as at 28 February 2021.

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 reduce 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 the opportunity in realisation of certain assets of the Group. Management believes that these measures will further improve the Group’s operating profitability and the resulting cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.1 BASIS OF PRESENTATION (Continued)

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 28 February 2021, the Group had unutilised trade financing banking facilities of HK\$28,793,000. 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 28 February 2021, on 10 May 2021, the Group has obtained a new loan of HK\$152,000,000 ("Realord Loan") from Realord Finance Limited ("Realord Finance"), a wholly-owned subsidiary of Realord. The Realord Loan was used for the repayment of the Group's other loan of HK\$150 million at 28 February 2021 as detailed in note 37 to the financial statements. The Realord Loan bears interest at 10% per annum, is repayable 12 months after drawdown and is subject to Realord Finance's right to demand for early repayment.

On 11 June 2021, the Group has obtained a transitional loan facility from Realord up to a limit of HK\$40,000,000 for additional working capital ("Transitional Loan"). The Transitional Loan bears interest at Hong Kong Interbank Offered Rate plus 1.5% per annum, is unsecured and is repayable 2 months after drawdown.

On 29 June 2021, Realord has undertaken to provide continuous financial support to the Group to meet its liabilities and obligations as and when they fall due for at least next eighteen months from 30 June 2021. Realord further confirms that they will not demand for repayment of such amount of financial support unless the Group has sufficient working capital after repayment of their financial support for at least the next eighteen months from 30 June 2021.

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 28 February 2021. 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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.1 BASIS OF PRESENTATION (Continued)

The directors, after making due enquiries and considering the basis of management's projections described above and after taking into account (i) the reasonably possible changes in the operational performance, (ii) the successful renewal and continuous availability of the bank and other borrowings facilities and (iii) the financial support from Realord, 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 28 February 2021. 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 THE FINANCIAL STATEMENTS

28 February 2021

## 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 equity holders of the Company 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 deficits in the income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to the income statement or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

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 the impact of Amendment of HKFRS 16 as explained below, the revised standards are not relevant to the preparation of the Group's consolidated financial statements. The nature and impact of Amendment to HKFRS 16 are described below:

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 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 for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.

During the year ended 28 February 2021, certain monthly lease payments for the leases of the Group's stores have been reduced or waived by the lessors as a result of the 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 pandemic during the year ended 28 February 2021. Accordingly, a reduction in the lease payments arising from the rent concessions of HK\$11,477,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to the income statement for the year ended 28 February 2021.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> <sup>3</sup>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform - Phase 2</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>5</sup>
HKFRS 17	<i>Insurance Contracts</i> <sup>4</sup>
Amendments to HKFRS 16	<i>Covid-19-Related Rent Concessions beyond 30 June 2021</i> <sup>2</sup>
Amendments to HKFRS 17	<i>Insurance Contracts</i> <sup>4, 7</sup>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> <sup>4, 6</sup>
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> <sup>4</sup>
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> <sup>4</sup>
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> <sup>4</sup>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> <sup>3</sup>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> <sup>3</sup>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>2</sup> Effective for annual periods beginning on or after 1 April 2021

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2022

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2023

<sup>5</sup> No mandatory effective date yet determined but available for adoption

<sup>6</sup> As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

<sup>7</sup> As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 March 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is 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, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate (“RFR”). The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity’s financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

The Group had certain interest-bearing bank borrowings denominated in Hong Kong dollars based on the Hong Kong Interbank Offered Rate as at 28 February 2021. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the “economically equivalent” criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

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 income statement 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 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity’s right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in income statement. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.4 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

*Annual Improvements to HKFRSs 2018-2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments in associates (Continued)

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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **Impairment of non-financial assets (Continued)**

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.

### **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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets (Continued)

#### *Initial recognition and measurement (Continued)*

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.

#### *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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Investments and other financial assets (Continued)

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

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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of financial assets (Continued)

#### *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 THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of financial assets (Continued)

#### *Simplified approach*

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### **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.

### **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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property, plant and equipment and depreciation (Continued)

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/accumulated losses 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 $\frac{2}{3}$ %-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 THE FINANCIAL STATEMENTS

28 February 2021

## 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**

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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### *Group as a lessee (Continued)*

#### *Right-of-use assets (Continued)*

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.

#### *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 lease. 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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Leases (Continued)

#### *Group as a lessee (Continued)*

##### *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.

#### *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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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.

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 THE FINANCIAL STATEMENTS

28 February 2021

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Employee benefits (Continued)

#### *Retirement benefits (Continued)*

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

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

#### *Termination benefits*

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

### Product classification - Insurance contracts

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

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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Insurance contracts liabilities

#### *General insurance contracts liabilities*

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

#### *Outstanding claims*

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

#### *Unearned premiums*

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

#### *Liability adequacy test*

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

#### *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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Insurance contracts liabilities (Continued)

#### *Life reserve*

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

#### **Reinsurance**

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

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

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

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

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

#### **Income tax**

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

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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Income tax (Continued)

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, and 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 THE FINANCIAL STATEMENTS

28 February 2021

## 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.

### 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, for which it is intended to compensate, are expensed.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

#### *Revenue from contracts with customers (Continued)*

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.

#### (a) *Sale of goods*

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

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

#### (b) *Income from counter and consignment sale*

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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition (Continued)

#### *Revenue from other sources*

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

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

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

#### *Other income*

Interest income is recognised on an accrual basis using the effective interest 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.

#### *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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign currencies (Continued)

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 THE FINANCIAL STATEMENTS

28 February 2021

## 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 THE FINANCIAL STATEMENTS

28 February 2021

## 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.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Estimation uncertainty (Continued)

#### *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 28 February 2021 was HK\$42,927,000 (2020: HK\$66,289,000).

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Estimation uncertainty (Continued)

#### *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.

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 28 February 2021 were HK\$151,826,000 (2020: HK\$165,807,000) and HK\$20,703,000 (2020: 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 28 February 2021 (2020: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

### Estimation uncertainty (Continued)

#### *Pension and other retirement benefits*

The determination of the Group's obligation, fair value of plan assets and cost for defined benefits is performed by independent actuaries engaged by the Group and is dependent on the selection of certain assumptions used by them in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets, rates of salary and pension increase and the average remaining working life of employees. In accordance with the Group's accounting policy for pension obligations, actual results that differ from the Group's assumptions are recognised immediately in other comprehensive income as and when they occur. While the Group believes that the actuaries' assumptions are reasonable and appropriate, significant differences in the Group's actual experience or significant changes in the Group's assumptions may materially affect its pension and other retirement obligations. The carrying value of pension scheme assets as at 28 February 2021 was HK\$19,585,000 (2020: HK\$14,672,000).

#### *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 28 February 2021 was HK\$24,237,000 (2020: HK\$22,573,000). Further details are included in note 13 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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 and other loans 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.

Certain amounts in the segment information for the year ended 29 February 2020 have been reclassified to conform with current year presentation.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 4. SEGMENT INFORMATION (Continued)

### (a) Operating segments

The following tables present revenue, loss and certain assets, liabilities and expenditure information for the Group's operating segments for the years ended 28 February 2021 and 29 February 2020.

	Department store operations		Securities trading		Others		Eliminations		Total	
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Segment revenue:										
Sales to external customers	176,694	263,110	6	(3,543)	772	3,745	-	-	177,472	263,312
Intersegment sales	-	-	-	-	33,037	31,818	(33,037)	(31,818)	-	-
Other revenue	564	2,230	1,086	7,523	11	34	-	-	1,661	9,787
<b>Total</b>	<b>177,258</b>	<b>265,340</b>	<b>1,092</b>	<b>3,980</b>	<b>33,820</b>	<b>35,597</b>	<b>(33,037)</b>	<b>(31,818)</b>	<b>179,133</b>	<b>273,099</b>
Segment results	(108,490)	(109,997)	(8,923)	(12,028)	(16,767)	(22,450)	-	-	(134,180)	(144,475)
Interest income and unallocated revenue, net									377	1,013
Finance costs (other than interest on lease liabilities)									(11,879)	(5,778)
Loss before tax									(145,682)	(149,240)
Income tax expense									(15)	(13)
<b>Loss for the year</b>									<b>(145,697)</b>	<b>(149,253)</b>
Segment assets	186,981	281,654	15,073	18,956	211,216	224,321	(33,037)	(31,818)	380,233	493,113
Unallocated assets									191,668	132,802
<b>Total assets</b>									<b>571,901</b>	<b>625,915</b>
Segment liabilities	235,154	311,720	4,612	303	20,795	10,570	(33,037)	(31,818)	227,524	290,775
Unallocated liabilities									315,972	159,959
<b>Total liabilities</b>									<b>543,496</b>	<b>450,734</b>

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 4. SEGMENT INFORMATION (Continued)

### (a) Operating segments (Continued)

	Department store operations		Securities trading		Others		Eliminations		Total	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other segment information:										
Depreciation	74,102	83,683	-	-	6,895	11,889	-	-	80,997	95,572
Impairment of items of property, plant and equipment	16,339	10,816	-	-	6,003	3,397	-	-	22,342	14,213
Impairment of other assets	-	-	-	-	267	-	-	-	267	-
Capital expenditure of property, plant and equipment	30	1,561	-	-	-	60	-	-	30	1,621
Gain on disposal of items of property, plant and equipment	-	(213)	-	-	-	-	-	-	-	(213)
Provision/(reversal of provision) for inventories	1,103	(543)	-	-	-	-	-	-	1,103	(543)
Impairment of an interest in an associate	-	-	-	-	5	9	-	-	5	9
Bad debts written off	4,320	1,262	-	-	-	33	-	-	4,320	1,295
Write-back of other payables	-	-	-	-	-	(489)	-	-	-	(489)

### (b) Geographical information

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

	Hong Kong		Mainland China		United Kingdom		Others		Eliminations		Consolidated	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	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
Segment revenue:												
Sales to external customers	177,261	262,819	-	-	206	203	5	290	-	-	177,472	263,312
Non-current assets	253,751	363,345	-	-	-	-	-	-	-	-	253,751	363,345

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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 4. SEGMENT INFORMATION (Continued)

### (c) Information about major customers

For the years ended 28 February 2021 and 29 February 2020, 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

	2021 HK\$'000	2020 HK\$'000
<i>Revenue from contracts with customers</i>		
Sale of goods – own goods	133,575	204,754
Income from counter and consignment sale	43,119	58,356
<i>Revenue from other sources</i>		
Net realised gains/(losses) on securities trading	6	(3,543)
Rental income	770	3,738
Gross insurance contracts premium revenue	2	7
	<b>177,472</b>	<b>263,312</b>

### *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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 5. REVENUE, OTHER INCOME AND GAINS, NET (Continued)

### (a) Revenue (continued)

#### Revenue from contracts with customers (continued)

##### (ii) Performance obligations (continued)

###### 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\$730,000 was allocated to the remaining performance obligations as at 28 February 2021 (2020: HK\$2,887,000) which are expected to be recognised as revenue within one year. The contract liabilities decreased during the year ended 28 February 2021 because more loyalty points were utilised or expired.

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:

	2021 HK\$'000	2020 HK\$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Loyalty points programme	2,887	1,253

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 5. REVENUE, OTHER INCOME AND GAINS, NET (Continued)

### (b) Other income and gains, net

	2021 HK\$'000	2020 HK\$'000
Bank interest income	431	1,039
Other interest income from financial assets at fair value through profit or loss	85	278
Dividends from financial assets at fair value through profit or loss	999	7,239
Gain on disposal of items of property, plant and equipment	–	213
Write-back of other payables	–	489
Foreign exchange gain/(loss), net	(54)	103
Government grants*	420	–
Others	157	1,439
	<b>2,038</b>	<b>10,800</b>

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

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 HK\$'000	2020 HK\$'000
Interest on bank borrowings	4,309	5,712
Interest on lease liabilities	8,378	13,431
Interest on other loans	7,570	66
	<b>20,257</b>	<b>19,209</b>

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 7. LOSS BEFORE TAX

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

	2021 HK\$'000	2020 HK\$'000
Cost of inventories sold	90,640	131,054
Provision/(reversal of provision) for inventories	1,103	(543)
Reinsurers' share portion and commission, net of gross change in unearned premiums	1	2
<hr/>		
Cost of sales	91,744	130,513
<hr/>		
Depreciation	80,997	95,572
Auditor's remuneration	3,330	2,930
Employee benefit expense, excluding directors' and chief executive's remuneration ( <i>note 27</i> ):		
Wages and salaries	35,832	66,420
Pension contributions, including a pension cost for a defined benefit plan of HK\$1,296,000 (2020: HK\$1,304,000)	2,962	3,812
Less: Government grants ( <i>note</i> )	(11,660)	–
<hr/>		
	27,134	70,232
<hr/>		

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 7. LOSS BEFORE TAX (Continued)

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

	2021 HK\$'000	2020 HK\$'000
Impairment of an interest in an associate*	5	9
Bad debts written off	4,320	1,295
Other charges in respect of rental premises	25,136	20,796
Lease payments not included in the measurement of lease liabilities ( <i>note 20(c)</i> )	364	7,740
Impairment of items of property, plant and equipment** <sup>Δ</sup>	22,342	14,213
Impairment of other assets	267	–
Gain on disposal of items of property, plant and equipment**	–	(213)
Net realised loss/(gain) on securities trading	(6)	3,543
Underwriting profit	(1)	(5)
Bank interest income**	(431)	(1,039)
Other interest income from financial assets at fair value through profit or loss**	(85)	(278)
Dividends from financial assets at fair value through profit or loss**	(999)	(7,239)
Foreign exchange loss/(gain), net**	54	(103)
Write-back of other payables**	–	(489)
Covid-19-related rent concessions from lessors ( <i>note 20(b)</i> )	(11,477)	–

\* 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.

Δ Amounts included an impairment of right-of-use assets of HK\$22,312,000 (2020: HK\$12,789,000).

*Note:*

Government grants from Hong Kong government's employment support scheme of HK\$8,220,000 (2020: Nil) and HK\$3,440,000 (2020: Nil) were included in "Selling and distribution expenses" and "General and administrative expenses", respectively, on the face of the consolidated income statement. There are no unfulfilled conditions or contingencies relating to these grants.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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.

	2021 HK\$'000	2020 HK\$'000
Current – Hong Kong	–	–
Current – Elsewhere		
Charge for the year	15	13
<b>Total tax charge for the year</b>	<b>15</b>	<b>13</b>

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:

	2021 HK\$'000	2020 HK\$'000
Loss before tax	(145,682)	(149,240)
Tax at the statutory tax rates	(24,348)	(25,070)
Income not subject to tax	(300)	(895)
Expenses not deductible for tax	6,511	2,255
Deferred tax not recognised	(98)	(94)
Tax losses not recognised	18,250	23,817
<b>Tax charge at the Group's effective rate</b>	<b>15</b>	<b>13</b>

The Group has tax losses arising in Hong Kong of approximately HK\$1,904,532,000 (2020: HK\$1,795,651,000) 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 THE FINANCIAL STATEMENTS

28 February 2021

## 9. DIVIDENDS

The board of directors of the Company (the “Board”) did not recommend the payment of any dividend for the years ended 28 February 2021 and 29 February 2020.

## 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\$145,017,000 (2020: HK\$147,364,000) attributable to equity holders of the Company and the weighted average number of ordinary shares of 1,053,519,360 (2020: 891,605,524). The weighted average number of ordinary shares in issue used in the basic loss per share calculation for the year ended 28 February 2021 has been adjusted to reflect the number of treasury shares of 260,443,200 (2020: 260,443,200) held by the Company’s subsidiaries.

The Group had no potentially dilutive ordinary shares in issue during the year ended 28 February 2021.

No adjustment had been made to the basic loss per share amounts presented for the year 29 February 2020 in respect of a dilution as the impact of the share options outstanding during the year had an anti-dilutive effect on the basic loss per share amounts presented.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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
<b>28 February 2021</b>								
Cost or valuation:								
At 1 March 2020	22,388	19,293	73,060	114,741	165,807	249,627	415,434	530,175
Additions	-	30	-	30	-	-	-	30
Modification of leases	-	-	-	-	-	6,573	6,573	6,573
Write off	-	(727)	(54)	(781)	-	-	-	(781)
Revaluation adjustment	(888)	-	-	(888)	(8,132)	-	(8,132)	(9,020)
Reversal upon revaluation	(797)	-	-	(797)	(5,849)	-	(5,849)	(6,646)
At 28 February 2021	20,703	18,596	73,006	112,305	151,826	256,200	408,026	520,331
Accumulated depreciation and impairment:								
At 1 March 2020	-	19,293	72,944	92,237	-	101,133	101,133	193,370
Provided during the year	797	-	21	818	5,849	74,330	80,179	80,997
Impairment	-	30	-	30	-	22,312	22,312	22,342
Write off	-	(727)	(54)	(781)	-	-	-	(781)
Reversal upon revaluation	(797)	-	-	(797)	(5,849)	-	(5,849)	(6,646)
At 28 February 2021	-	18,596	72,911	91,507	-	197,775	197,775	289,282
Net book value:								
At 28 February 2021	20,703	-	95	20,798	151,826	58,425	210,251	231,049

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 11. PROPERTY, PLANT AND EQUIPMENT (Continued)

	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 1 March 2019	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 1 March 2019	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

As at 28 February 2021, the Group's leasehold land and owned buildings with an aggregate carrying value of HK\$172,529,000 (2020: HK\$188,195,000) were pledged as security for the bank loans granted (note 18(a)).

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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\$30,000 (2020: HK\$1,424,000) during the year. As at 28 February 2021, the aggregate recoverable amount of these owned assets was nil (2020: Nil). The estimate of the recoverable amount of each cash-generating unit was determined by applying a discount rate of 11.1% (2020: 9%) 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\$22,312,000 (2020: 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
<b>28 February 2021</b>		
Discounted cash flow method	Estimated rental value (per sq.ft. and per month)	HK\$26 to HK\$90
	Discount rate	9.5%
<b>29 February 2020</b>		
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\$172,529,000 on 28 February 2021 (2020: HK\$188,195,000). 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\$9,020,000 resulting from the above revaluation was recognised in other comprehensive income during the year ended 28 February 2021 (2020: surplus of HK\$168,141,000).

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 11. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes: (continued)

### (b) Revaluation of leasehold land and owned buildings (Continued)

Had such leasehold land and owned buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK\$22,033,000 and HK\$3,004,000 (2020: HK\$22,967,000 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 28 February 2021 and 29 February 2020 were estimated by using significant unobservable inputs and the fair value measurement was categorised under Level 3.

#### 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 and 1 March 2020	22,388	165,807	188,195
Depreciation for the year	(797)	(5,849)	(6,646)
Level 3 revaluation deficit on revaluation at 28 February 2021	(888)	(8,132)	(9,020)
Carrying amount and fair value at 28 February 2021	20,703	151,826	172,529

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 11. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes: (continued)

### (b) Revaluation of leasehold land and owned buildings (Continued)

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

Class of properties	Valuation techniques	Unobservable input (i.e. average market unit rate)
<b>28 February 2021</b>		
Hong Kong – Warehouse	Market approach	<b>HK\$4,091/square feet</b>
<b>29 February 2020</b>		
Hong Kong – Warehouse	Market approach	HK\$4,471/square feet

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

## 12. INTERESTS IN AN ASSOCIATE

	2021 HK\$'000	2020 HK\$'000
Share of net assets other than goodwill	–	–
Due from an associate	9,926	9,921
Provision for impairment#	(9,926)	(9,921)
	–	–

# As at 28 February 2021, an aggregate impairment of HK\$9,926,000 (2020: HK\$9,921,000) was recognised for an amount due from an associate with a gross carrying amount of HK\$9,926,000 (2020: HK\$9,921,000) (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.

## NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

### 12. INTERESTS IN AN ASSOCIATE (Continued)

Particulars of the associate are as follows:

Company	Business structure	Place of incorporation	Particulars of issued shares held	Percentage of ownership interest attributable to the Group	Principal activities
CPE Investments Limited	Corporate	British Virgin Islands	Ordinary shares of US\$1 each	50.00	Investment holding

The following table illustrates the summarised financial information of the Group's associate extracted from its management account:

	2021 HK\$'000	2020 HK\$'000
Total assets	–	–
Total liabilities	(17,172)	(15,800)
Loss before tax	(5)	(9)

The Group has discontinued the recognition of its share of losses of the associate because the share of losses of the associate exceeded the Group's interests in the associate and the Group has no obligation to take up further losses. The amount of the Group's unrecognised share of loss of the associate for the current year and the amount of the Group's unrecognised share of losses cumulatively were HK\$3,000 (2020: share of losses of HK\$5,000) and HK\$9,641,000 (2020: HK\$9,638,000), respectively.

## NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

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

Equity investments designated at fair value through other comprehensive income

	2021 HK\$'000	2020 HK\$'000
Unlisted investments, at fair value:		
The Wing Sang Co. Ltd	840	810
Oriental Finance (HK) Limited and Yestock Car Rental Company Limited	2,900	3,815
The Sincere Department Store Limited	20,497	17,948
	<b>24,237</b>	<b>22,573</b>

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.

### 14. PREPAYMENTS, DEPOSITS, OTHER RECEIVABLES AND OTHER ASSETS

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
Prepayments, deposits and other receivables	<i>(a)</i>	47,337	34,715
Other assets	<i>(b)</i>	4,421	4,688
		<b>51,758</b>	<b>39,403</b>
Less: Amounts classified as current portion		<b>(29,056)</b>	<b>(12,863)</b>
Amounts classified as non-current portion		<b>22,702</b>	<b>26,540</b>

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 14. PREPAYMENTS, DEPOSITS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

Notes:

### (a) Prepayments, deposits and other receivables

Included in prepayments, deposits and other receivables are rental deposits of HK\$36,876,000 (2020: HK\$28,442,000) and amounts due from credit card companies related to sales settled by customers using credit cards of HK\$2,124,000 (2020: HK\$1,286,000).

The aging of the amounts due from credit card companies at the end of the reporting period, based on the invoice date, is within one month.

Where applicable, an impairment analysis is performed at each reporting date by considering the probability of default of comparable companies with published credit ratings. In the situation where no comparable companies with credit ratings can be identified, expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. As at 28 February 2021, the Group estimated the loss rate of the other receivables to be minimal and no impairment (2020: Nil) was made.

### (b) Other assets

Other assets represented investments in club debentures which were classified as intangible assets of HK\$2,421,000 (2020: HK\$2,688,000) and financial assets at fair value through profit or loss of HK\$2,000,000 (2020: HK\$2,000,000). The intangible assets are regarded as having indefinite useful lives and are stated at cost less any impairment losses. During the year ended 28 February 2021, an impairment loss of HK\$267,000 (2020: Nil) is recognised as the carrying amount of the investment in a club debenture exceeds its fair value less cost of disposal.

Certain club debentures were classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest. The fair value of these club debentures is based on the quoted market price from the respective club.

## 15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2021 HK\$'000	2020 HK\$'000
Listed investments, at fair value	4,912	6,572
Other investments, at quoted price	5,765	6,792
	<b>10,677</b>	<b>13,364</b>

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

The above investments at 28 February 2021 and 29 February 2020 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 fair value of approximately HK\$4,912,000 (2020: HK\$6,572,000) were pledged to banks to secure certain banking facilities granted to the Group (note 18(a)).

## 16. CASH AND BANK BALANCES

	2021 HK\$'000	2020 HK\$'000
Cash on hand and at banks	87,949	13,761

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$910,000 (2020: HK\$1,221,000). 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.

## 17. REINSURANCE ASSETS

	2021 HK\$'000	2020 HK\$'000
Reinsurers' share of insurance contracts liabilities (note 21)	-	7

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 18. INTEREST-BEARING BANK BORROWINGS AND OTHER LOANS

### (a) Interest-bearing bank borrowings

	2021			2020		
	Effective interest rate %	Maturity	HK\$'000	Effective interest rate %	Maturity	HK\$'000
Current						
Bank loans, secured	Hong Kong Interbank Offered Rate ("HIBOR")+ 1.5	2021	162,679	HIBOR+ 1.75 to 1.5	2020	150,973
Bank loan, secured	-	-	-	3.25	2020	5,746
			162,679			156,719
Analysed into:				2021		2020
Within one year or on demand				HK\$'000		HK\$'000
				162,679		156,719

The interest-bearing bank borrowings are 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\$1,854,000 (2020: HK\$6,024,000) and time deposits amounting to HK\$101,865,000 (2020: HK\$113,017,000);
- (ii) the pledge of certain of the Group's marketable securities with an aggregate fair value of approximately HK\$4,912,000 (2020: HK\$6,572,000) (note 15); 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\$172,529,000 (2020: HK\$188,195,000) (note 11).

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 18. INTEREST-BEARING BANK BORROWINGS AND OTHER LOANS (Continued)

### (b) Other loans

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
Other loans	<i>i</i>	3,293	3,240
Loan from the Lender (as defined below)	<i>ii</i>	150,000	–
		<b>153,293</b>	3,240
Less: Amount repayable within one year or on demand and classified as current portion		<b>(152,167)</b>	(2,136)
Amount classified as non-current portion		<b>1,126</b>	1,104
		<b>2021 HK\$'000</b>	<b>2020 HK\$'000</b>
Analysed into:			
Within one year or on demand		152,167	2,136
In the second year		1,126	1,104
		<b>153,293</b>	3,240

#### Notes:

- (i) The other loans were unsecured, bore interest at 2% (2020: 2%) per annum and repayable on demand, except for an amount of HK\$1,126,000 (2020: HK\$1,104,000) which was not repayable in the next twelve months after the end of the reporting period. The balances were denominated in Hong Kong dollars.
- (ii) On 18 February 2021, the Group executed a loan of HK\$150,000,000 in a loan facility agreement with a financial institution that is independent of the Group and of its connected persons ("Lender") (collectively the "Facility"). As one of the conditions of the Facility, the Company has executed a debenture which gives (i) a first fixed charge over the fixed property and assets of the Company; and (ii) a first floating charge over the undertaking and all other property assets and rights of the Company, in favour of the Lender. The loan under the Facility was denominated in Hong Kong dollars and fully drawn down during the year ended 28 February 2021. The loan bore interest at 16% per annum, repayable in 18 months from the draw down date, or on demand. Subsequent to the end of the reporting period, on 12 May 2021, the loan was fully settled. Further details are disclosed in note 37 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 19. CREDITORS

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

	2021 HK\$'000	2020 HK\$'000
Current - 3 months	40,173	37,246
4 - 6 months	1,551	4,775
7 - 12 months	1,027	147
Over 1 year	1,930	1,311
	<b>44,681</b>	<b>43,479</b>

## 20. LEASES

### The Group as a lessee

The Group has lease contracts for warehouse, 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 THE FINANCIAL STATEMENTS

28 February 2021

## 20. 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:

	2021 HK\$'000	2020 HK\$'000
Carrying amount as beginning of the year	206,418	340,730
Addition	–	60
Accretion of interest recognised during the year (note 6)	8,378	13,431
Payments	(95,744)	(105,287)
Modification of leases	6,573	(42,516)
Covid-19-related rent concessions from lessors	(11,477)	–
	<hr/>	<hr/>
Carrying amount as at end of the year	114,148	206,418
	<hr/>	<hr/>
Analysed into payable:		
Within one year	93,718	102,454
In the second year	20,430	86,600
In the third to fifth years, inclusive	–	17,364
	<hr/>	<hr/>
Carrying amount as at end of the year	114,148	206,418
Less: current portion	(93,718)	(102,454)
	<hr/>	<hr/>
Non-current portion	20,430	103,964
	<hr/>	<hr/>

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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 20. LEASES (Continued)

### The Group as a lessee (Continued)

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

	2021 HK\$'000	2020 HK\$'000
Interest on lease liabilities	8,378	13,431
Depreciation charge of right-of-use assets	80,179	94,596
Impairment charge of right-of-use assets	22,312	12,789
Expense relating to short-term leases	56	–
Expense relating to 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)	308	651
Covid-19-related rent concession from lessors	(11,477)	–
<b>Total amount recognised in profit or loss</b>	<b>99,756</b>	<b>128,556</b>

(d) The total cash outflow for leases are disclosed in note 28(b) to the financial statements.

### The Group as a lessor

The Group subleases certain area of certain premises under operating lease arrangements. Rental income recognised by the Group during the year was HK\$770,000 (2020: HK\$3,738,000), details of which are included in note 5 to the financial statements. One of the contractual arrangement of the operating lease expired at the end of the last year. At 28 February 2021, the undiscounted sub-lease payments of HK\$450,000 receivable by the Group in the future periods under non-cancellable operating lease with the tenant are within one year.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 21. INSURANCE CONTRACTS LIABILITIES

	Notes	2021			2020		
		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
<b>Total insurance contracts liabilities</b>		<b>1,206</b>	<b>-</b>	<b>1,206</b>	<b>1,214</b>	<b>(7)</b>	<b>1,207</b>
				(Note 17)		(Note 17)	

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

	Notes	2021			2020		
		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
		<b>1,206</b>	<b>-</b>	<b>1,206</b>	<b>1,206</b>	<b>-</b>	<b>1,206</b>

(i) Life reserve is analysed as follows:

	2021 HK\$'000	2020 HK\$'000
At beginning of year	1,078	1,078
Increase in the year	-	-
<b>At end of year</b>	<b>1,078</b>	<b>1,078</b>

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 21. INSURANCE CONTRACTS LIABILITIES (Continued)

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

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

	2021			2020		
	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	128	-	128	128	-	128
Claims incurred during the year	-	-	-	-	-	-
Claims paid during the year	-	-	-	-	-	-
At end of year	128	-	128	128	-	128

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

	Notes	2021			2020		
		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")	22(d)	-	-	-	-	-	-
Provision for unearned premiums	(i)	-	-	-	8	(7)	1
Total insurance contracts liabilities		-	-	-	8	(7)	1

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 21. INSURANCE CONTRACTS LIABILITIES (Continued)

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

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

	2021			2020		
	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	8	(7)	1	26	(24)	2
Premiums written in the year	2	(2)	-	20	(18)	2
Premiums earned during the year	(10)	9	(1)	(38)	35	(3)
At end of year	-	-	-	8	(7)	1

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

### Life insurance

#### (a) Terms and conditions

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 22. INSURANCE CONTRACTS LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES (Continued)

### Life insurance (Continued)

#### (b) Key assumptions

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

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

#### *Mortality rates*

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

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

#### *Discount rates*

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

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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 22. INSURANCE CONTRACTS LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES (Continued)

### General insurance

#### (a) *Terms and conditions*

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 22. 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 THE FINANCIAL STATEMENTS

28 February 2021

## 22. INSURANCE CONTRACTS LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES (Continued)

### General insurance (Continued)

#### (d) Loss development triangle (Continued)

##### Gross insurance claims

	2012 and before 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	2021 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 21(b))

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 22. INSURANCE CONTRACTS LIABILITIES AND REINSURANCE ASSETS – TERMS, ASSUMPTIONS AND SENSITIVITIES (Continued)

### General insurance (Continued)

#### (d) Loss development triangle (Continued)

##### Net insurance claims

	2012 and before 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	2021 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 21(b))

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 23. 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 equals 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 one (2020: two) trustee. The trustee is 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 35% in equity and 65% in debt instruments (2020: a mix of 28% in equity and 72% in debt instruments).

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

The most recent actuarial valuations of the present value of the defined benefit obligations were carried out on 28 February 2021 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:

	2021	2020
Discount rate	0.7%	0.9%
Expected rate of salary increase	2.0%	2.0%

The actuarial valuation showed that the market value of plan assets was HK\$57,680,000 (2020: HK\$52,553,000) and that the actuarial value of these assets represented 151% (2020: 139%) of the benefits that had been accrued to qualifying employees.

## NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

### 23. PENSION SCHEME ASSETS (Continued)

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

	Increase/ (decrease) in net defined benefit obligations	Increase/ (decrease) in net defined benefit obligations	Increase/ (decrease) in net defined benefit obligations	Increase/ (decrease) in net defined benefit obligations
	Increase in rate %	Decrease in rate %	Increase in rate %	Decrease in rate %
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>2021</b>				
Discount rate	0.25	(446)	0.25	460
Long-term salary increase rate	0.25	507	0.25	(495)
<b>2020</b>				
Discount rate	0.25	(510)	0.25	527
Long-term salary increase rate	0.25	525	0.25	(513)

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 THE FINANCIAL STATEMENTS

28 February 2021

## 23. PENSION SCHEME ASSETS (Continued)

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

	2021 HK\$'000	2020 HK\$'000
Current service cost	1,435	1,576
Net interest income	(133)	(236)
Net benefit expenses	1,302	1,340

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:

	2021 HK\$'000	2020 HK\$'000
At beginning of year	37,881	39,770
Current service cost	1,435	1,576
Interest cost	337	630
Actuarial gains	(57)	(1,829)
Benefit paid	(1,501)	(2,266)
At end of year	38,095	37,881

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 23. PENSION SCHEME ASSETS (Continued)

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

2021

	Pension cost credited/(charged) to the income statement				Remeasurement income/(losses) in other comprehensive loss							At 28 February 2021 HK\$'000
	At 1 March 2020 HK\$'000	Service cost HK\$'000	Net interest income/ (expense) HK\$'000	Sub-total included in the income statement HK\$'000	Benefit paid HK\$'000	Return on plan assets (excluding amounts included in net interest expense) HK\$'000	Actuarial changes arising from changes in demographic assumptions HK\$'000	Actuarial changes arising from changes in financial assumptions HK\$'000	Experience adjustments HK\$'000	Sub-total included in other comprehensive income HK\$'000	Contribution by employer HK\$'000	
Defined benefit obligations	(37,881)	(1,435)	(337)	(1,772)	1,501	-	2	(395)	450	57	-	(38,095)
Fair value of plan assets	52,553	-	470	470	(1,501)	6,137	-	-	-	6,137	21	57,680
Benefit assets/(liabilities)	14,672	(1,435)	133	(1,302)	-	6,137	2	(395)	450	6,194	21	19,585

2020

	Pension cost credited/(charged) to the income statement				Remeasurement income/(losses) in other comprehensive loss							At 29 February 2020 HK\$'000
	At 1 March 2019 HK\$'000	Service cost HK\$'000	Net interest income/ (expense) HK\$'000	Sub-total included in the income statement HK\$'000	Benefit paid HK\$'000	Return on plan assets (excluding amounts included in net interest expense) HK\$'000	Actuarial changes arising from changes in demographic assumptions HK\$'000	Actuarial changes arising from changes in financial assumptions HK\$'000	Experience adjustments HK\$'000	Sub-total included in other comprehensive income/(loss) HK\$'000	Contribution by employer 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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 23. PENSION SCHEME ASSETS (Continued)

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

	2021	2020
Equity instruments, quoted in an active market	35%	28%
Debt instruments, at quoted prices	65%	72%
Total	100%	100%

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

	2021 HK\$'000	2020 HK\$'000
Within the next 12 months	–	85

The average duration of the defined benefit obligations at the end of the reporting period was 4.8 years (2020: 5.2 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 (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 2020. The market value of the assets was HK\$52,553,000 while the levels of funding were 147% and 268%, respectively. Based on the accrued funding status, the Scheme is fully funded. An interest rate of 2.00% per annum and a salary increase rate of 2.00% 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, which was included in "Deposits, accrued expenses and other payables" on the face of the consolidated statement of financial position.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 24. SHARE CAPITAL

	2021 HK\$'000	2020 HK\$'000
Issued and fully paid:		
1,313,962,560 (2020: 1,313,962,560) ordinary shares	469,977	469,977

As at 28 February 2021 and 29 February 2020, 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 2019	918,892,800	377,236
Issue of shares	395,069,760	102,718
Share issue expenses	–	(9,977)
At 29 February 2020, 1 March 2020 and 28 February 2021	<b>1,313,962,560</b>	<b>469,977</b>

*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 THE FINANCIAL STATEMENTS

28 February 2021

## 25. SHARE OPTION SCHEME

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

### 1. Purpose

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

### 2. Participants

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

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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 25. SHARE OPTION SCHEME (Continued)

### 3. Total number of shares available for issue

- (a) The total number of shares which may be issued upon exercise of all options to be granted under the Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares in issue as at the date of approval of the Option Scheme. Options 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 a general meeting for refreshing the 10% limit under the Option Scheme, save that the total number of shares which may be issued upon exercise of all options to be granted under the Option Scheme and any other share option schemes of the Company under the limit as “refreshed” shall not exceed 10% of the total number of shares in issue as at the date of approval of the limit as “refreshed”. Options previously granted under the Option Scheme or any other share option schemes of the Company (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Option Scheme or any other share option schemes of the Company) will not be counted for the purpose of calculating the limit as “refreshed”.
- (c) The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares in issue from time to time.
- (d) The total number of the Company’s shares in issue as of 28 February 2021 was 1,313,962,560 (2020: 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 a general meeting.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 25. SHARE OPTION SCHEME (Continued)

### 4. Maximum entitlement of each participant (Continued)

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

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

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

### 5. Period within which the shares must be taken up

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

### 6. Basis of determining the subscription price

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

### 7. Remaining life of the Option Scheme

The Option Scheme expired 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 THE FINANCIAL STATEMENTS

28 February 2021

## 25. 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	Number of share options					Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$ per share
	At 1 March 2019	Granted during the year	Cancelled or lapsed during the year	Exercised during the year	At 29 February 2020			
<b>Executive director</b>								
Mr. Philip K H Ma	6,139,871	-	(6,139,871)	-	-	29 February 2016	29 February 2016 to 28 February 2021	0.332
<b>Non-executive director</b>								
Mr. Charles M W Chan	613,987	-	(613,987)	-	-	29 February 2016	29 February 2016 to 28 February 2021	0.332
<b>Independent non-executive directors</b>								
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
<b>Other grantees</b>								
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 THE FINANCIAL STATEMENTS

28 February 2021

## 25. SHARE OPTION SCHEME (Continued)

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

	2021		2020	
	Weighted average exercise price HK\$ per share	Number of options	Weighted average exercise price HK\$ per share	Number of options
At beginning of year	N/A	–	0.332	15,963,665
Lapsed during the year before the Open Offer	N/A	–	0.332	(15,963,665)
At end of year	N/A	–	N/A	–

All share options lapsed during the year ended 29 February 2020. There were no share options in issue under the Share Option Scheme during the year ended 28 February 2021. At the date of approval of these financial statements, no share option was outstanding under the Option Scheme.

## 26. DEFICITS

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

## NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

### 27. 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:

	2021 HK\$'000	2020 HK\$'000
Fees	2,414	2,426
Other emoluments:		
Salaries, allowances and other benefits	10,434	12,495
Pension contributions including pension cost for a defined benefit plan of HK\$6,000 (2020: HK\$36,000)	6	36
	<b>12,854</b>	<b>14,957</b>

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 25 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 27. 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
<b>2021</b>				
<b>Executive director</b>				
Mr. Philip K H Ma# (note 40)	1,864	10,184	6	12,054
<b>Non-executive director</b>				
Mr. Charles M W Chan	110	50	–	160
<b>Independent non-executive directors</b>				
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
	2,414	10,434	6	12,854
<b>2020</b>				
<b>Executive director</b>				
Mr. Philip K H Ma#	1,876	12,245	36	14,157
<b>Non-executive director</b>				
Mr. Charles M W Chan	110	50	–	160
<b>Independent non-executive directors</b>				
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

There were no other emoluments payable to the independent non-executive directors during the year (2020: Nil).

# Mr. Philip K H Ma was also the then chief executive of the Company.

## NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

### 27. 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 (2020: 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 (2020: four) highest paid individuals, analysed by nature thereof and designated band, is set out below:

	2021 HK\$'000	2020 HK\$'000
Salaries and allowances	3,766	5,358
Pension contributions	29	39
	<b>3,795</b>	<b>5,397</b>

	Number of individuals	
	2021	2020
Nil - HK\$1,500,000	4	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

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 25 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 28. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

### (a) Changes in liabilities arising from financing activities

	Lease liabilities HK\$'000	Other loans HK\$'000	Interest- bearing bank borrowings HK\$'000
At 1 March 2019	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 and 1 March 2020	<b>206,418</b>	<b>3,240</b>	<b>156,719</b>
Changes from financing cash flows	<b>(87,366)</b>	<b>150,053</b>	<b>5,960</b>
Modification of leases	6,573	–	–
Interest expense	8,378	–	–
Interest paid classified as operating cash flows	<b>(8,378)</b>	–	–
Covid-19-related rent concession from lessors	<b>(11,477)</b>	–	–
At 28 February 2021	<b>114,148</b>	<b>153,293</b>	<b>162,679</b>

### (b) Total cash outflow for leases

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

	2021 HK\$'000	2020 HK\$'000
Within operating activities	8,742	21,171
Within financing activities	87,366	91,856
	<b>96,108</b>	113,027

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 29. OUTSTANDING COMMITMENTS AND CONTINGENT LIABILITIES

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

	2021 HK\$'000	2020 HK\$'000
Irrevocable letters of credit	16,832	17,548
Bank guarantees given in lieu of property rental deposits and to a supplier	19,654	26,692

- (b) Certain non-compliance matters regarding the Group's insurance business are brought to the attention of the Company. No provision has been made as at 28 February 2021 (2020: Nil). 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:

	2021 HK\$'000	2020 HK\$'000
Management service fee to a related company	939	946

The management service fee to Rise Legend International Limited is for the provision of key management personnel service to the Group.

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

	2021 HK\$'000	2020 HK\$'000
Short term employee benefits	16,173	18,193
Post-employment benefits, including pension cost for a defined benefit plan of HK\$7,000 (2020: HK\$42,000)	49	85
Total compensation of key management personnel	16,222	18,278

Further details of directors' and the chief executive's emoluments are included in note 27 to the financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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

	2021 HK\$'000	2020 HK\$'000
<i>Financial assets at amortised cost</i>		
<i>Financial assets included in prepayments, deposits, other receivables and other assets</i>	45,520	30,011
Pledged bank balances	1,854	6,024
Pledged deposits with banks	101,865	113,017
Cash and bank balances	87,949	13,761
	<b>237,188</b>	<b>162,813</b>

	2021 HK\$'000	2020 HK\$'000
<i>Financial assets at fair value through profit or loss mandatorily designated as such</i>		
Financial assets at fair value through profit or loss	10,677	13,364
Other assets	2,000	2,000
	<b>12,677</b>	<b>15,364</b>

	2021 HK\$'000	2020 HK\$'000
<i>Financial assets at fair value through other comprehensive income</i>		
Equity investments designated at fair value through other comprehensive income	24,237	22,573

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 31. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

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

### Financial liabilities

	2021 HK\$'000	2020 HK\$'000
<i>Financial liabilities at amortised cost</i>		
Creditors	44,681	43,479
Provision for claims of life insurance	128	128
Financial liabilities included in deposits, accrued expenses and other payables	64,900	34,879
Interest-bearing bank borrowings	162,679	156,719
Other loans	153,293	3,240
Lease liabilities	114,148	206,418
	<b>539,829</b>	<b>444,863</b>

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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:

2021

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Equity investments designated at fair value through other comprehensive income	–	–	24,237	24,237
Financial assets at fair value through profit or loss	4,912	5,765	–	10,677
Other assets	–	2,000	–	2,000
	4,912	7,765	24,237	36,914

2020

	Fair value measurement using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) 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
Other assets	–	2,000	–	2,000
	6,572	8,792	22,573	37,937

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 32. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

### Assets measured at fair value: (Continued)

During the years ended 28 February 2021 and 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 28 February 2021 and 29 February 2020. As at 28 February 2021 and 29 February 2020, management used the following valuation technique 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.

### Information about Level 3 fair value measurements

	Valuation technique	Significant unobservable input
<b>2021</b>		
Equity investments designated at fair value through other comprehensive income	Market approach	Discount for lack of marketability of 34.1%
<b>2020</b>		
Equity investments designated at fair value through other comprehensive income	Market approach	Discount for lack of marketability of 35.6%

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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 32. FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

### Information about Level 3 fair value measurements (Continued)

At 28 February 2021 and 29 February 2020, 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
<b>2021</b>		
Discount for lack of marketability	3	(770)
	(3)	784
<b>2020</b>		
Discount for lack of marketability	3	(720)
	(3)	732

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

	2021 HK\$'000	2020 HK\$'000
Unlisted equity securities:		
At the beginning of the year	22,573	22,873
Net gains/(losses) recognised in other comprehensive income	1,664	(300)
At the end of the year	24,237	22,573

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise interest-bearing bank borrowings, other loans, 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:

	2021 HK\$'000	2020 HK\$'000
Increase/decrease in interest expense	1,627	1,567

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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.

	<b>Increase/ (decrease) in exchange rate %</b>	<b>Increase/ (decrease) in loss before tax HK\$'000</b>
<b>2021</b>		
Investments denominated in:		
Euro	5	(13)
	(5)	13
<b>2020</b>		
Investments denominated in:		
Euro	5	(77)
	(5)	77

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Credit risk

#### Maximum exposure and year-end staging as at 28 February 2021 and 29 February 2020

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 28 February 2021 and 29 February 2020. The amounts presented are gross carrying amounts for financial assets.

	2021				Total HK\$'000
	12-month ECLs	Lifetime ECLs			
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Simplified	
				approach HK\$'000	
Financial assets included in prepayments, deposits, other receivables and other assets					
– Normal*	45,520	–	–	–	45,520
– Doubtful*	–	–	–	–	–
Pledged bank balances					
– Not yet past due	1,854	–	–	–	1,854
Pledged deposits with banks					
– Not yet past due	101,865	–	–	–	101,865
Cash and bank balances					
– Not yet past due	87,949	–	–	–	87,949
	<b>237,188</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>237,188</b>

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Credit risk (Continued)

Maximum exposure and year-end staging as at 28 February 2021 and 29 February 2020  
(Continued)

	2020					
	12-month	Lifetime ECLs				
	ECLs				Simplified	Total
	Stage 1	Stage 2	Stage 3	approach		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Financial assets included in						
prepayments, deposits, other						
receivables and other assets						
– 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	

\* The credit quality of the financial assets included in prepayments, deposits, other receivables and other assets 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 THE FINANCIAL STATEMENTS

28 February 2021

## 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:

2021

	On demand or within 1 year HK\$'000	More than 1 year HK\$'000	Total HK\$'000
Creditors	44,681	–	44,681
Provision for claims of life insurance	128	–	128
Deposits, accrued expenses and other payables	60,966	3,934	64,900
Interest-bearing bank borrowings	165,257	–	165,257
Other loans	153,328	1,149	154,477
Lease liabilities	97,198	20,693	117,891
	<b>521,558</b>	<b>25,776</b>	<b>547,334</b>

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
	<b>338,551</b>	<b>120,499</b>	<b>459,050</b>

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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 15).

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.

	2021 HK\$'000	2020 HK\$'000
Increase/decrease in loss before tax	1,068	1,336

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

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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:

	2021 HK\$'000	2020 HK\$'000
Interest-bearing bank borrowings	162,679	156,719
Other loans	153,293	3,240
Lease liabilities	114,148	206,418
<b>Subtotal</b>	<b>430,120</b>	<b>366,377</b>
Net assets	28,405	175,181
<b>Gearing ratio</b>	<b>1,514%</b>	<b>209%</b>

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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:

	2021 HK\$'000	2020 HK\$'000
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	45,021	110,732
Interests in subsidiaries	136,660	147,720
Equity investments designated at fair value through other comprehensive income	21,296	18,719
Deposits, other receivables and other assets	21,242	26,533
Pension scheme assets	16,657	12,792
<b>Total non-current assets</b>	<b>240,876</b>	<b>316,496</b>
<b>CURRENT ASSETS</b>		
Inventories	42,927	66,289
Prepayments, deposits and other receivables	26,832	8,882
Pledged deposits with banks	65,079	64,350
Cash and bank balances	72,017	7,420
<b>Total current assets</b>	<b>206,855</b>	<b>146,941</b>
<b>CURRENT LIABILITIES</b>		
Creditors	44,677	43,467
Lease liabilities	68,526	77,638
Deposits, accrued expenses and other payables	44,973	22,508
Contract liabilities	730	2,887
Interest-bearing bank borrowings	162,679	152,029
Other loan	150,000	–
<b>Total current liabilities</b>	<b>471,585</b>	<b>298,529</b>
<b>NET CURRENT LIABILITIES</b>	<b>(264,730)</b>	<b>(151,588)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>(23,854)</b>	<b>164,908</b>

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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)

	2021 HK\$'000	2020 HK\$'000
NON-CURRENT LIABILITIES		
Deposits, accrued expenses and other payables	3,934	8,390
Lease liabilities	20,430	80,894
Total non-current liabilities	24,364	89,284
NET ASSETS/(LIABILITIES)	(48,218)	75,624
EQUITY		
Share capital	469,977	469,977
Deficits ( <i>note</i> )	(518,195)	(394,353)
TOTAL EQUITY/(DEFICITS)	(48,218)	75,624

**Lin Xiaohui**  
*Director*

**Chan Chu Kin**  
*Director*

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note:

A summary of the Company's reserves/(deficits) is as follows:

	General reserve HK\$'000	Share option reserve HK\$'000	Investment revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 March 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 fair value through other comprehensive income	-	-	1,366	-	1,366
Actuarial gains on a defined benefit plan	-	-	-	1,260	1,260
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>1,366</b>	<b>(78,548)</b>	<b>(77,182)</b>
Transfer of share option reserve upon the forfeiture of share options	-	(1,538)	-	1,538	-
At 29 February 2020 and 1 March 2020	46,613	-	8,667	(449,633)	(394,353)
Loss for the year	-	-	-	(132,305)	(132,305)
Other comprehensive income for the year:					
Change in fair value of equity instruments at fair value through other comprehensive income	-	-	2,577	-	2,577
Actuarial gains on a defined benefit plan	-	-	-	5,886	5,886
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>-</b>	<b>2,577</b>	<b>(126,419)</b>	<b>(123,842)</b>
At 28 February 2021	46,613	-	11,244	(576,052)	(518,195)

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 THE FINANCIAL STATEMENTS

28 February 2021

## 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		Principal activities
				Directly	Indirectly	
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 <sup>#</sup>	17.31 <sup>#</sup>	General insurance and investment
Sincere LA	Hong Kong	HK\$10,000,000	Ordinary	48.09 <sup>#</sup>	8.87 <sup>#</sup>	Life insurance and investment
Perfumery	Hong Kong	HK\$1,300,000	Ordinary	37.15 <sup>#</sup>	25.22 <sup>#</sup>	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 THE FINANCIAL STATEMENTS

28 February 2021

## 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

	2021	2020
Percentage of effective equity interest held by non-controlling interests	43.04	43.04

	2021 HK\$'000	2020 HK\$'000
Loss for the year allocated to non-controlling interests	(332)	(1,139)
Accumulated balances of non-controlling interests at the reporting dates	41,795	41,780

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

	2021 HK\$'000	2020 HK\$'000
Loss for the year	(1,882)	(1,016)
Total comprehensive income/(loss) for the year	(2,951)	55,894
Current assets	54,477	5,006
Non-current assets	18,653	69,737
Current liabilities	(7,092)	(5,754)
Net cash flows from/(used in) operating activities	1,219	(91)
Net cash flows from/(used in) investing activities	(160)	103
Net cash flows from/(used in) financing activities	(1,022)	320
Net increase in cash and cash equivalents	37	332

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 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 ("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 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 ("Mr. Philip Ma") each became a new "controller" within the meaning of section 9(1)(a)(iii)(B) of the Insurance Ordinance (Chapter 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 make a notification filing for the Change to the IA within one month thereof. For Sincere LA, it is required under the IO to make a notification filing for the Change to the IA within one month thereof.

As a result of the non-compliance matter, Sincere LA and Sincere II may be subject to the potential liability and disciplinary 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 make a notification filing for 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.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 36. CONTINGENT LIABILITIES (Continued)

Based on the available information, development during the year ended 28 February 2021 (including but not limited to a letter from IA to Sincere LA in November 2020 reiterating that the default in compliance is an offence which may rise to prosecution against Sincere LA if non-compliance is ever repeated, a letter from IA to Sincere II in November 2020 giving consent for Sincere II to acquire Mr. Philip Ma as a controller within the meaning of section 9(1)(a)(iii)(B) of the IO as a result of the Rights Issue Completion, no objections from the IA for the action plans submitted by Sincere LA and Sincere II and the consent given by the IA for Sincere II to acquire Realord and others as controllers within the meaning of section 9(1)(a)(iii)(B) of the IO for the purpose of the pre-conditional voluntary cash offer made by Realord) and opinion given by the legal counsel of Sincere LA and Sincere II, the board of directors of the Company, Sincere LA and Sincere II are of the view that the possibility of the IA taking further enforcement actions as a result of the Incident should be low, provided that Sincere LA and Sincere II shall continue to implement the action plan and comply with the relevant applicable regulatory requirements under the IO. Nothing has come to the attention that the Board, Sincere LA and Sincere II have committed material non-compliance with the requirements under the action plan or the regulatory requirements under the IO up to the date of approval of the financial statements.

Hence, no provision has been made as at 28 February 2021 (2020: Nil). Sincere LA and Sincere II would continue to discuss with the IA and monitor the progress in relation thereof.

## 37. STATUS OF THE FACILITY AND REALORD LOAN

To repay the loan of HK\$80,000,000 advanced to the Company by Realord Finance, and to finance the working capital of the Group, the Company executed the Facility with the Lender on 18 February 2021. The Facility was entered into in the ordinary course of business of the Company.

As one of the conditions of the Facility, the Company has executed a debenture which gives (i) a first fixed charge over the fixed property and assets of the Company; and (ii) a first floating charge over the undertaking and all other property assets and rights of the Company, in favour of the Lender.

On 19 February 2021, the Company repaid all the outstanding principal and interest of the loan demanded by Realord Finance (with further interest to be repaid on demand), and planned to use the balance of the Facility for working capital.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 37. STATUS OF THE FACILITY AND REALORD LOAN (Continued)

Subsequent to the end of the reporting period, on 3 May 2021, the Company was informed by the legal adviser of the Lender in a letter that, among others, the Lender demanded the Company, as the borrower, to make a repayment of the Facility, including the outstanding principal and the interest accrued on the outstanding principal for the period up to 5 May 2021 totalling HK\$151,117,808, on 6 May 2021 before 5:00 p.m.

On 7 May 2021, the Company received a letter from the legal adviser of the Lender stating, among others, that non-payment of the outstanding amount under the Facility by the Company has constituted an event of default under the loan agreement and debenture of the Facility. As a result, among others, the related clauses in the loan agreement and debenture of the Facility had been triggered.

On 10 May 2021, Realord Finance entered into a loan facility agreement with the Company, pursuant to which Realord Finance had agreed to provide a loan up to HK\$152,000,000, which bears interest at 10% per annum, is repayable 12 months after drawdown and is subject to Realord Finance's right to demand for early repayment.

For the Realord Loan, the Company has executed a debenture ("Realord Debenture") on 10 May 2021 in favour of Realord Finance, which gives (i) a first fixed charge over the fixed property and assets of the Company; and (ii) a first floating charge over the undertaking and all other property assets and rights of the Company, subject to the debenture under the Facility to the extent that they have not been discharged and/or released by the Lender.

As stated in the Realord Loan and Realord Debenture, once Realord becomes entitled to exercise, or control the exercise of, more than 50% of the voting power at any general meeting of the Company, and have appointed the majority of the members of the Board, Realord Finance shall release and/or discharge all of its rights, benefits, title and interests under the Realord Debenture (the "Release Clause").

On 12 May 2021, the Company arranged for the repayment of the Facility, together with interest accrued thereon and all amounts payable thereunder as full and final settlement. Such repayment was funded by the provision of the Realord Loan and for the amount in excess of HK\$152,000,000, by the Company's internal resources.

As at the time of entering into the Realord Loan, Realord is not yet entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of the Company, and therefore, it is not yet a substantial shareholder and hence, a connected person of the Company. As such, the Realord Loan is not a connected transaction as at the date of the Realord Loan under Chapter 14A of the Listing Rules.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 37. STATUS OF THE FACILITY AND REALORD LOAN (Continued)

As Realord becomes entitled to exercise, or control the exercise of, more than 50% of the voting power at any general meeting of the Company, and have appointed the majority of the members of the Board on 9 June 2021, Realord released all of its rights, benefits, title and interests under the Realord Debenture on 18 June 2021.

Further details are disclosed in the announcements of the Company dated 25 February 2021, 31 March 2021, 16 April 2021, 4 May 2021, 13 May 2021 and 10 June 2021.

## 38. VOLUNTARY CONDITIONAL CASH OFFER

On 15 May 2020, Realord and the Company jointly announced a voluntary conditional cash offer (subject to the satisfaction or waiver (as the case may be) of certain pre-conditions) to acquire all of the issued shares of the Company (the "Offer"). The then controlling shareholder of the Company, Win Dynamic, had executed an irrevocable undertaking to Realord that Win Dynamic would tender, or procure the tender of, all of its shares in the Company to accept the Offer. In addition, subsidiaries of the Company, including Sincere II, Sincere LA and Perfumery (collectively the "Sincere Companies") had also executed irrevocable undertakings to accept the Offer (collectively "Irrevocable Undertakings").

On 28 April 2021, Realord announced the pre-conditions of the Offer have been satisfied or waived (as the case may be).

As disclosed in the offer document of Realord dated 5 May 2021 (the "Offer Document"), the final offer price is HK\$0.3935 per share. In addition, the Offer was then conditional only on valid acceptances of the Offer which would result in Realord holding more than 50% of the voting rights of the Company.

On 7 May 2021, Realord announced the Offer had become unconditional in all respects.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 38. VOLUNTARY CONDITIONAL CASH OFFER (Continued)

As disclosed in the announcement of Realord dated 3 June 2021, the Offer closed on 3 June 2021. Realord received valid acceptances in respect of a total of 1,044,695,362 shares of the Company under the Offer, representing approximately 79.51% of the then entire issued share capital of the Company. Accordingly, Realord has become the controlling company of the Company.

Further details are disclosed in the joint announcement of Realord and the Company dated 15 May 2021, the Offer Document and the response document of the Company dated 20 May 2021 (“Response Document”).

## 39. DEED AND PURPORTED CANCELLATION

On 29 October 2020, Win Dynamic, the then controlling shareholder of the Company, executed a deed in favour of the Company at no consideration (“Deed”). Pursuant to the Deed, Win Dynamic has irrevocably undertaken to the Company to give to the Company the sum falling to be paid by Realord to Win Dynamic upon its acceptance of the 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). As disclosed in the announcement of the Company dated 29 October 2020, the Company at that time intended that this gift from Win Dynamic, when received, would be applied as working capital of the Group.

On 4 February 2021, the Company announced that the Board had received a letter from Win Dynamic dated 3 February 2021 stating that the Deed is null and void and cancelled with immediate effect, for the reason that it was executed by Win Dynamic under undue influence and duress, given without separate legal representation or proper advice, and is an undervalue transaction pursuant to section 265D of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) (“Purported Cancellation”).

As stated in the Company’s announcement dated 4 February 2021, the Board (with Mr. Philip Ma and Mr. Charles M W Chan (collectively “Dissenting Directors”) disagreeing) does not admit the Deed is null or void or has been cancelled. For the interest of the Company and its shareholders as a whole, the Board had resolved to include the review of the implication of the Purported Cancellation to the term of reference of the independent committee of the Board comprising independent non-executive directors, namely Mr. King Wing Ma, Mr. Eric K K Lo, Mr. Peter Tan and Mr. Anders W L Lau (collectively “IBC”). The IBC had thereafter sought separate legal advice in respect of the Purported Cancellation.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 39. DEED AND PURPORTED CANCELLATION (Continued)

In response to a letter from the legal adviser of the IBC to Win Dynamic requesting for evidence to support its reason for the Purported Cancellation, Win Dynamic responded in its reply letter that its professional advisers have advised it not to provide to the Company any information relating to the Deed.

Realord was informed, amongst other things, that the Board (except for the Dissenting Directors) (i.e., the IBC) did not admit that the Purported Cancellation is valid or effective. In response to an email from the legal adviser of the IBC to the legal adviser of Realord requiring the proceeds received by Win Dynamic from its sale of shares of the Company to Realord to be paid to the Company and not Win Dynamic, the legal adviser of Realord responded amongst other things that Realord would conduct the Offer, including but not limited to the settlement of the cash consideration for the valid acceptances of the Offer, in accordance with the terms and conditions of the Offer and in compliance with the Code on Takeovers and Mergers.

Further details are disclosed in the announcements of the Company dated 29 October 2020 and 4 February 2021, the Offer Document and the Response Document.

## 40. EVENT AFTER THE REPORTING PERIOD

On 11 June 2021, the Board announced that the Company had received from the legal adviser acting on behalf of Mr. Philip Ma, the former chairman and chief executive officer and a director of the Company, a statutory demand (the "Statutory Demand") dated Friday, 4 June 2021. By the Statutory Demand, Mr. Philip Ma demanded from the Company payment in the sum of HK\$8,244,000, allegedly being outstanding remuneration under an employment contract for the period from 1 March 2020 to 28 February 2021, within 21 days from the date of service of the Statutory Demand, failing which he might present a winding-up petition against the Company. It is the position of the entire Board, other than Mr. Philip Ma, that the Company makes no admission to the allegation or demand by Mr. Philip Ma, and Mr. Philip Ma disagrees with such position of the Board.

# NOTES TO THE FINANCIAL STATEMENTS

28 February 2021

## 40. EVENT AFTER THE REPORTING PERIOD (Continued)

The Board further announced on 23 June 2021 that the Company has sought legal advice in respect of the Statutory Demand and was advised that the Statutory Demand is a nullity for the reasons that (i) the Statutory Demand is fundamentally defective as it was not issued in the prescribed form as required under section 178(1)(a)(i)(A) of the Companies (Winding Up Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong); and (ii) pursuant to the Labour Tribunal Ordinance (Chapter 25 of the Laws of Hong Kong), Mr. Philip Ma's claim for the alleged outstanding remuneration falls within the exclusive jurisdiction of the Labour Tribunal. The Company was also advised that it has a *bona fide* dispute to the sum demanded by Mr. Philip Ma as all the salaries and director's fees owed by the Company for the period from 1 March 2020 to 28 February 2021 have already been duly paid to Mr. Philip Ma.

In light of the above, the Company had, through its legal advisers, requested Mr. Philip Ma to (i) withdraw the Statutory Demand; and (ii) undertake not to issue any winding-up petition against the Company in reliance on the Statutory Demand. The Company had further instructed its legal advisers to prepare for an injunction application to restrain Mr. Philip Ma from presenting any winding-up petition against the Company.

Subsequent to its request, the Company received on 21 June 2021 a Form of Claim dated 17 June 2021 filed by Mr. Philip Ma with the Labour Tribunal (the "LBTC Claim"). According to the said Form of Claim, Mr. Philip Ma claims against the Company for unpaid director's fees and management fees in the total sum of HK\$8,244,000, which is the same amount as that demanded by him in the Statutory Demand. The Company also received a letter from Mr. Philip Ma's legal advisers on 21 June 2021 stating that Mr. Philip Ma will not present a winding-up petition against the Company in respect of the alleged outstanding remuneration pending the determination of the Labour Tribunal. The Company is currently seeking legal advice in respect of the LBTC Claim.

Further details are disclosed in the announcements of the Company dated 11 June 2021 and 23 June 2021.

## 41. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 30 June 2021.

## FIVE-YEAR FINANCIAL SUMMARY

28 February 2021

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

	Years ended 28/29 February				
	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
<b>RESULTS</b>					
<b>CONTINUING OPERATIONS</b>					
REVENUE	<b>177,472</b>	263,312	311,865	355,865	375,276
LOSS BEFORE TAX	<b>(145,682)</b>	(149,240)	(134,727)	(92,862)	(94,994)
INCOME TAX EXPENSE	<b>(15)</b>	(13)	(16)	(18)	(30)
LOSS FOR THE YEAR	<b>(145,697)</b>	(149,253)	(134,743)	(92,880)	(95,024)
Attributable to:					
Equity holders of the Company	<b>(145,017)</b>	(147,364)	(132,068)	(90,497)	(92,614)
Non-controlling interests	<b>(680)</b>	(1,889)	(2,675)	(2,383)	(2,410)
	<b>(145,697)</b>	(149,253)	(134,743)	(92,880)	(95,024)

## FIVE-YEAR FINANCIAL SUMMARY

28 February 2021

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

	Years ended 28/29 February				
	2021 HK\$'000	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000
<b>ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS</b>					
PROPERTY, PLANT AND EQUIPMENT	<b>231,049</b>	336,805	27,261	35,607	47,211
OTHER NON-CURRENT ASSETS	<b>66,524</b>	63,785	63,197	73,914	69,784
NET CURRENT ASSETS/(LIABILITIES)	<b>(243,678)</b>	(111,951)	14,990	152,176	156,276
NON-CURRENT LIABILITIES	<b>(25,490)</b>	(113,458)	(42,792)	(56,865)	(65,741)
NON-CONTROLLING INTERESTS	<b>(31,382)</b>	(32,567)	(34,112)	(36,500)	(57,791)
<b>EQUITY/(DEFICITS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>	<b>(2,977)</b>	142,614	28,544	168,332	149,739