sincere 先施

THE SINCERE COMPANY, LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0244)

ANNOUNCEMENT OF THE 2014 INTERIM RESULTS

The Board of Directors of The Sincere Company, Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 31 August 2014, together with the comparative amounts. The interim results of the Group are unaudited, but have been reviewed by the Audit Committee of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 August 2014

	Notes	**2014** ***HK$'000*** **(unaudited)**	2013 *HK$'000* (unaudited)
REVENUE	*3*	**166,809**	224,756
Cost of sales		**(71,138)**	(82,443)
Other income and gains, net		**19,574**	18,482
Net unrealised gain/(loss) on securities trading		**10,757**	(11,872)
Selling and distribution expenses		**(129,334)**	(115,622)
General and administrative expenses		**(63,722)**	(66,123)
Other operating expenses		**(372)**	(89)
Finance costs		**(3,494)**	(1,188)
Share of profits less losses of associates		**–**	118
LOSS BEFORE TAX	*4*	**(70,920)**	(33,981)
Income tax expense	*5*	**–**	(289)
LOSS FOR THE PERIOD		**(70,920)**	(34,270)

	Notes	2014 HK$'000 (unaudited)	2013 HK$'000 (unaudited)
ATTRIBUTABLE TO:			
Equity holders of the Company		**(69,082)**	(32,797)
Non-controlling interests		**(1,838)**	(1,473)
		(70,920)	(34,270)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	*6*		
Basic		**HK$(0.22)**	HK$(0.10)
Diluted		**HK$(0.22)**	HK$(0.10)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 31 August 2014

	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
LOSS FOR THE PERIOD	**(70,920)**	(34,270)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to the income statement in subsequent periods:		
Exchange differences arising on translation of foreign operations	**(890)**	4,587
Realisation of exchange fluctuation reserve upon deregistration/disposal of a subsidiary	**(1,067)**	325
Net other comprehensive income/(loss) to be reclassified to the income statement in subsequent periods	**(1,957)**	4,912
Other comprehensive income not to be reclassified to the income statement in subsequent periods:		
Actuarial gains on defined benefit plan	**–**	4,942
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(72,877)**	(24,416)
ATTRIBUTABLE TO:		
Equity holders of the Company	**(71,144)**	(22,712)
Non-controlling interests	**(1,733)**	(1,704)
	(72,877)	(24,416)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**31 August 2014 HK$'000 (unaudited)**	28 February 2014 HK$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**105,360**	116,471
Interests in associates		**–**	–
Interest in a joint venture		**–**	–
Financial instruments		**26,326**	26,326
Deposits and other receivables		**35,973**	35,932
Total non-current assets		**167,659**	178,729
CURRENT ASSETS			
Inventories		**57,842**	62,890
Loan to a joint venture		**22,890**	23,119
Due from a joint venture		**1,966**	1,053
Debtors	*8*	**453**	312
Reinsurance assets		**16**	16
Prepayments, deposits and other receivables		**32,011**	25,169
Financial assets at fair value through profit or loss		**303,204**	312,044
Pledged bank balances		**40,764**	30,571
Pledged deposits with banks		**392,223**	180,002
Cash and bank balances		**99,127**	233,857
Total current assets		**950,496**	869,033
CURRENT LIABILITIES			
Creditors	*9*	**44,620**	73,023
Insurance contract liabilities		**1,224**	1,224
Deposits, accrued expenses and other payables		**50,463**	60,204
Derivative financial instruments		**835**	439
Interest-bearing bank borrowings		**422,316**	237,874
Other loans		**1,920**	1,916
Tax payable		**14**	35
Total current liabilities		**521,392**	374,715
NET CURRENT ASSETS		**429,104**	494,318
TOTAL ASSETS LESS CURRENT LIABILITIES		**596,763**	673,047

	Notes	**31 August 2014** *HK$'000* **(unaudited)**	28 February 2014 *HK$'000* (audited)
NON-CURRENT LIABILITIES			
Accrued expenses and other payables		**40,562**	37,828
Interest-bearing bank borrowings		**14,435**	21,036
Other loans		**996**	986
Pension scheme liabilities		**8,820**	8,820
Total non-current liabilities		**64,813**	68,670
NET ASSETS		**531,950**	604,377
EQUITY			
Equity attributable to equity holders of the Company			
Issued share capital		**287,180**	287,154
Share premium account		**–**	26
Reserves		**183,623**	254,767
		470,803	541,947
Non-controlling interests		**61,147**	62,430
TOTAL EQUITY		**531,950**	604,377

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and other relevant HKASs, Interpretations and Hong Kong Financial Reporting Standards (collectively, the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). They have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss and derivative financial instruments, which have been measured at fair value. Save for those new and revised HKFRSs adopted during the period as set out in note 2, the accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial statements are the same as those used in the annual financial statements for the year ended 28 February 2014.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has applied, for the first time, the following new and revised HKFRSs issued by HKICPA which are effective for the Group's financial year beginning on 1 March 2014.

HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – *Investment Entities*
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*

The adoption of the new and revised HKFRSs had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

3. SEGMENT INFORMATION

(a) Operating segments

The following table presents revenue and profit/(loss) for the Group's operating segments for the six months ended 31 August 2014 and 31 August 2013.

	Department store operations		Securities trading		Others		Eliminations		Total	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
Segment revenue:										
Sales to external customers	**162,422**	209,195	**1,647**	(144)	**2,740**	15,705	**–**	–	**166,809**	224,756
Intersegment sales	**–**	–	**–**	–	**17,229**	17,963	**(17,229)**	(17,963)	**–**	–
Other revenue	**72**	27	**15,289**	10,617	**808**	4,711	**–**	–	**16,169**	15,355
Total	**162,494**	209,222	**16,936**	10,473	**20,777**	38,379	**(17,229)**	(17,963)	**182,978**	240,111
Segment results	**(76,276)**	(17,357)	**20,438**	(7,616)	**(14,993)**	(11,065)	**–**	–	**(70,831)**	(36,038)
Interest income and unallocated revenue									**3,405**	3,127
Finance costs									**(3,494)**	(1,188)
Share of profits less losses of associates									**–**	118
Loss before tax									**(70,920)**	(33,981)
Income tax expense									**–**	(289)
Loss for the period									**(70,920)**	(34,270)

(b) Geographical information

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

	Hong Kong		Mainland China		United Kingdom		Others		Consolidated	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)	**(unaudited)**	(unaudited)
Segment revenue:										
Sales to external customers	**166,390**	211,416	**–**	13,573	**133**	202	**286**	(435)	**166,809**	224,756

4. LOSS BEFORE TAX

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

	For the six months ended 31 August	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Depreciation	**11,493**	7,166
Gain on disposal of available-for-sale investments#	**(696)**	(4,182)
Impairment/(write-back of impairment) on inventories^	**12,760**	(2,835)
Impairment on interests in an associate*	**4**	27
Loss on disposal of items of property, plant and equipment*	**368**	–
Gain on deregistration of a subsidiary#	**(1,067)**	–
Loss on disposal of a subsidiary#	**–**	423

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

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

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

5. INCOME TAX

	For the six months ended 31 August	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Current – Hong Kong	**–**	–
Current – Elsewhere		
Charge for the period	**–**	289
Total tax charge for the period	**–**	289

No provision for Hong Kong profits tax has been made as there were no assessable profits arising in Hong Kong during the period (2013: Nil). During the period ended 31 August 2013, taxes on profits assessable elsewhere had been calculated at the rate of taxes prevailing in the locations in which the Group operates.

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

The calculation of basic loss per share is based on the loss for the period attributable to equity holders of the Company of HK$69,082,000 (2013: HK$32,797,000) and the 313,864,800 ordinary shares (2013: 313,864,800) in issue throughout the period, as adjusted to reflect the number of treasury shares of 260,443,200 (2013: 260,443,200) held by the Company's subsidiaries.

No adjustments have been made to the basic loss per share for the current and prior periods as the share options in issue have no dilutive effect during the periods ended 31 August 2014 and 31 August 2013.

7. DIVIDEND

	For the six months ended 31 August	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Dividend paid during the period		
Final dividend in respect of the financial year ended 28 February 2014 – Nil (2013: final dividend in respect of the financial year ended 28 February 2013 – HK1.5 cents per ordinary share)	**–**	8,615

The board of directors of the Company has decided not to declare an interim dividend for the six months ended 31 August 2014 (2013: Nil).

8. DEBTORS

The Group's trading terms with its customers are mainly on credit, except for department store operations, where payment is normally made on a cash basis. The credit period is generally one month. The Group seeks to maintain strict control over its outstanding receivables by the sales department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its debtor balances. Trade receivables are non-interest-bearing.

An aged analysis of the debtors as at the end of the reporting period, based on the payment due date, is as follows:

	31 August 2014	28 February 2014
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Within 3 months not past due	**453**	305
Over 3 months past due	**45**	52
Total debtors	**498**	357
Impairment	**(45)**	(45)
Total	**453**	312

Debtors that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default. Debtors that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

9. CREDITORS

An aged analysis of the creditors as at the end of the reporting period is as follows:

	31 August 2014 *HK$'000* **(unaudited)**	28 February 2014 *HK$'000* (audited)
Current – 3 months	**41,634**	68,830
4 – 6 months	**1,693**	1,556
7 – 12 months	**112**	1,723
Over 1 year	**1,181**	914
	44,620	73,023

INTERIM RESULTS

The first half of the financial year 2014/15 was a period of change and development for the Group. Revenue of the department store operations was impaired by the closures of the two major stores, namely the Central store at Nan Fung Tower which was the number one store before the lease expired in August 2013 and, the Grand Century Place store at Mongkok East Station which was the number two store where the lease expired in April 2014. The three new strategic stores being opened at late 2013 to early 2014 were still on their learning curves and yet to match with the revenue that was previously generated by the two closed stores. With the slow down on the visiting PRC tourists, there were pressure on the retail industry and posed aggressive markdowns by competitors. Faced with the above combined challenges, the Group's unaudited consolidated revenue for the six months ended 31 August 2014 decreased by 26% to HK$167 million and the loss attributable to shareholders increased to HK$69 million, approximately double of last period.

BUSINESS REVIEW AND FUTURE PROSPECTS

Revenue of the department store operations was HK$162 million, reduced by 22%. As mentioned above, it was mainly affected by the learning curve of the three new stores which could only achieve approximately 60% of the revenue previously contributed by the two significant stores that were closed and impairment on inventories of HK$13 million has been made. With the high operating costs in particular on rental and depreciation, the retail segment recorded a loss of HK$76 million, increased by HK$59 million over the last corresponding period. The management have been putting enormous efforts to rectify the situation, including stores layout and merchandise make up have been reorganised in anticipation of better sell-through. Focus group meetings are taken place to better understand customers and non-customers' needs and perception. Different marketing and public campaigns are put in to bring in more store traffic and awareness.

On the comparable stores performance, revenue for both Shamshuipo and Tsuen Wan Citywalk stores are relatively stable. The revenue of SU-PA-DE-PA store at Yau Tong Domain shopping centre dropped by over 10% as certain consignment counters have moved out. The revenue of 22nd Avenue store recorded a decline, this store will be closed upon the lease expiry in November 2014.

On the new stores, it is going through a transitional store development phase. Sincere MK store has been operated for one year as of the reporting date, as planned, this store on one hand is to secure the customers from the closed Grand Century Place store and on the other hand, is to expand the younger customer segment in light of the location. A number of actions were taken included the fine tuning of product mix with clear zoning of European and Korean apparels, expanded the travel and household sections on the basement level and, eliminated the non-profit making concession counters. It was pleased to note that there were gradual improvements. Sincere CWB store has been operated for about six months since its grand opening in April 2014. This store targeted for the middle to upper middle market in Causeway Bay. In the earlier stage, the designated promotional offers successfully attracted customers to this new store, though in the past few months along with the keen competitions in the vicinity, the sales had slow down. We have taken appropriate measures to identify the right customers and increase the traffic flow, included the re-blending of the product mix, launched targeting promotions, and enhanced the appearance by adopting prominent signage. We will continue reviewing the situation and strive for a better performance. The Central Li Po Chun store had the best start of the three new stores and benefited from the previous Central store at Nan Fung Tower, loyal customers have returned to us and there were new customers patronized hence the sales was satisfactory.

Revenue of the Roadshow has gone down by 26% as lesser number of events was held. The rental for certain venues have increased significantly to an unaffordable level, as a result, there were only thirty-one Roadshows being held as compared to thirty-eight in last period. However, the overall performances on both the average daily sales and average sales per ticket have improved.

On the securities trading, as compared with end of February 2014, the market has improved. With one-third of the investment portfolio being Hong Kong listed, an unrealised gain of HK$11 million was recorded as compared to an unrealised loss of HK$12 million in last period. Dividend from securities investments and bond interest income amounted to HK$15 million, gone up by 47% from last period.

On the other investments, the segment result recorded a loss of HK$15 million, increased by HK$4 million or 35% from last period. It was mainly attributable to the income from available-for-sale investment reduced by over HK$3 million while the insurance business remained inactive. The advertising business has placed more focus on serving new clients in China and getting into the content planning and editorial business for in-flight magazine. The travel franchise business remained dormant.

In London UK, the joint venture property project at Lancaster Gate is now on the market. Several potential buyers were approached and it is expected that the project would be finalised in the second half of 2014.

Looking ahead to the second half of 2014, the core Hong Kong retail operation is expected to be continuously challenging. Management is well prepared to meet the challenges and opportunities ahead.

Late this year, we will also launch a new way of shopping through the latest on-line TV channel, customers shall be able to order on-line and prompt delivery will be provided.

On the securities trading, strategies will remain conservative. The advertising operation will focus on the in-flight magazine project and expand into other clienteles. The joint venture property project at Lancaster Gate will be kept offering to the market while the management is exploring a new venture in the North of London. Lastly, though the operating environment is tough, the management is working hard to reposition Sincere for better performance for the future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 August 2014, the Group had cash and bank balance of total HK$532 million (28 February 2014: HK$444 million) of which HK$433 million (28 February 2014: HK$211 million) were pledged. The Group's gearing increased by 45.0% to 92.8% in total interest-bearing bank borrowings to the shareholders' equity as compared to that of 28 February 2014. The increase of borrowings mainly used to facilitate the department store operations.

The maturity of all bank borrowings ranged from less than one year to five years. The bank borrowings were mainly in HK dollars with interest rates ranging from 0.9% to 5.0%. The interest expense charged to the condensed consolidated income statement for the period was HK$3.5 million (2013: HK$1.2 million).

The current ratio decreased by 0.5 from 2.3 to 1.8 as compared to that of 28 February 2014. The Group currently has a foreign currency hedging policy on Euro for the purchase of inventories, which hedges half of the anticipated total value of the European inventory purchase for re-sale at the department stores. In addition to the internal generated cash flows, the Group also made use of short term borrowings to finance its operation during the period. All borrowings were secured against the securities investments, a property and bank deposits.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 August 2014, the Group had 437 employees (28 February 2014: 571) (including part time staff). The Group operates different remuneration schemes for sales and non-sales employees to motivate front-line and back office staff towards higher sales achievement and operating efficiencies. Apart from basic salary and discretionary year-end bonuses based on individual merit, sales personnel are further remunerated on the basis of goal-oriented packages comprising several scheme of sales commission. The Group provides employee benefits such as staff purchase discounts, subsidised medical care and training courses.

INTERIM DIVIDEND

The Board of Directors of the Company has decided not to declare an interim dividend for the six months ended 31 August 2014.

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

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

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting including the review of the unaudited condensed consolidated interim financial statements for the six months ended 31 August 2014.

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

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

CORPORATE GOVERNANCE

The Company has complied throughout the period ended 31 August 2014 with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, except the Code provision A.4.1 that the Non-Executive Directors were not appointed for a specific term, but are subject to retirement by rotation and re-election at the Company's Annual General Meetings in accordance with the Company's Articles of Association.

DIRECTORS

As at the date of this announcement, the Executive Directors of the Company are Mr Philip K H Ma and Mr John Y C Fu and the Independent Non-Executive Directors of the Company are Mr King Wing Ma, Mr Eric K K Lo, Mr Charles M W Chan and Mr Peter Tan.

By order of the Board
Philip K H MA
Chairman & CEO

Hong Kong, 23 October 2014