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THE SINCERE COMPANY, LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0244)

ANNOUNCEMENT OF THE 2019 INTERIM RESULTS

The Board of Directors (the “Board”) 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 2019, 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 2019

	<i>Notes</i>	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
REVENUE	3	138,100	146,082
Cost of sales		(61,826)	(68,409)
Other income and gains, net		7,845	3,740
Net unrealised loss on securities trading		(11,251)	(8,215)
Selling and distribution expenses		(86,289)	(96,215)
General and administrative expenses		(47,197)	(44,845)
Other operating expenses, net		(8,769)	(7)
Finance costs		(10,784)	(1,803)
LOSS BEFORE TAX	4	(80,171)	(69,672)
Income tax credit/(expense)	5	1	(10)
LOSS FOR THE PERIOD		(80,170)	(69,682)

CONDENSED CONSOLIDATED INCOME STATEMENT *(continued)**For the six months ended 31 August 2019*

	<i>Notes</i>	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
ATTRIBUTABLE TO:			
Equity holders of the Company		(78,927)	(68,364)
Non-controlling interests		(1,243)	(1,318)
		<u>(80,170)</u>	<u>(69,682)</u>
LOSS PER SHARE ATTRIBUTABLE TO			
EQUITY HOLDERS OF THE COMPANY	6		
Basic		<u>HK\$(0.11)</u>	<u>HK\$(0.10)</u>
Diluted		<u>HK\$(0.11)</u>	<u>HK\$(0.10)</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 August 2019

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 August 2019	28 February 2019
	Notes	HK\$'000 (unaudited)	HK\$'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		26,795	27,261
Right-of-use assets		201,591	—
Interests in associates		—	—
Equity instruments designated at fair value through other comprehensive income		20,504	22,873
Deposits and other receivables		27,847	25,654
Pension scheme assets		14,670	14,670
Total non-current assets		291,407	90,458
CURRENT ASSETS			
Inventories		77,537	66,896
Reinsurance assets		24	24
Prepayments, deposits and other receivables		15,356	19,164
Financial assets at fair value through profit or loss		39,819	111,939
Pledged bank balances		18,595	6,829
Pledged deposits with banks		72,125	71,561
Cash and bank balances		31,740	32,318
Total current assets		255,196	308,731
CURRENT LIABILITIES			
Creditors	8	43,168	52,774
Insurance contracts liabilities		1,232	1,232
Deposits, accrued expenses and other payables		24,276	46,336
Contract liabilities		2,210	1,253
Interest-bearing bank borrowings	9	132,616	190,045
Other loans		2,107	2,100
Tax payable		—	1
Lease liabilities		101,824	—
Total current liabilities		307,433	293,741
NET CURRENT ASSETS/(LIABILITIES)		(52,237)	14,990
TOTAL ASSETS LESS CURRENT LIABILITIES			
		239,170	105,448

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

		31 August 2019 HK\$'000 (unaudited)	28 February 2019 HK\$'000 (audited)
	Notes		
NON-CURRENT LIABILITIES			
Accrued expenses and other payables		9,067	41,725
Other loans		1,078	1,067
Lease liabilities		156,269	—
Total non-current liabilities		166,414	42,792
NET ASSETS		72,756	62,656
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	10	469,977	377,236
Reserves		(430,751)	(348,692)
		39,226	28,544
Non-controlling interests		33,530	34,112
TOTAL EQUITY		72,756	62,656

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

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

1.1 Going Concern Basis

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

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements</i> <i>2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

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

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases — Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

New definition of a lease

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

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

As a lessee – Leases previously classified as operating leases *(continued)*

Impacts on transition

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

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the condensed consolidated statement of financial position immediately before 1 March 2019. All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the condensed consolidated statement of financial position.

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

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

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

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

3. SEGMENT INFORMATION

(a) Operating segments

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

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

(b) Geographical information

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

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

4. LOSS BEFORE TAX

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

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

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

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

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

5. INCOME TAX

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

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

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

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

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

7. DIVIDEND

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

8. CREDITORS

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

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

9. INTEREST-BEARING BANK BORROWINGS

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

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

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

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

10. SHARE CAPITAL

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

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM RESULTS

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

BUSINESS REVIEW AND FUTURE PROSPECTS

DEPARTMENT STORE OPERATIONS

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

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

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

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

SECURITIES TRADING

Both local and global financial markets were volatile throughout the period. The social instability issue and the intensification of China-US trade war significantly affected the financial markets. Despite the continuous release of money liquidity from the Chinese Central Government, Hang Seng Index was dropped by more than 10% during the period under review. Hence, a segment loss of HK\$9.0 million (2018: HK\$9.5 million) was resulted. In order to reduce the exposure to market risk the Group was facing, the total amount of securities investment held for trading was reduced from HK\$112 million to HK\$40 million during the period.

PROSPECTS

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

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

OTHER INFORMATION

USE OF NET PROCEEDS FROM LISTING

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

These net proceeds were applied up to 31 August 2019 in accordance with the proposed applications set out in the section headed “Reasons for the open offer and use of proceeds” in the Company’s prospectus dated 5 July 2019 as follows:

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

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

SIGNIFICANT INVESTMENTS HELD

As at 31 August 2019, the Group has held for trading investments with fair value of HK\$40 million (28 February 2019: HK\$112 million). During the period, the Group recorded realised gain of HK\$0.7 million (2018: HK\$0.6 million) and unrealised loss on fair value of HK\$11 million (2018: HK\$8 million). Information in relation to the 10 largest investments as at 31 August 2019 are set out as follows:

Name	Nature of investment	Principal businesses	No. of shares/units/amount of bonds held	Cost of acquisition HK\$'000	Dividends received for the year HK\$'000	Realised gain/(loss) for the period HK\$'000	Unrealised gain/(loss) on fair value change for the period HK\$'000	Fair value as at 31 August 2019 HK\$'000	% of total assets
1. HSBC Holdings plc (Stock Code: 0005)	Equity	Banks	208,000	20,297	503	–	(1,633)	11,710	2.14%
2. China Mobile Ltd (Stock Code: 0941)	Equity	Telecommunication services	110,000	5,737	137	–	(1,941)	7,145	1.31%
3. C432 PA Offshore Feeder Fund L.P.CLS A USD	Fund	Real Estate	914,005	8,554	3,258	–	(3,294)	3,664	0.67%
4. CK Hutchison Holdings Ltd (Stock Code: 0001)	Equity	Conglomerates	53,208	4,700	76	(2)	(811)	3,634	0.66%
5. CK Asset Holdings Ltd (Stock Code: 1113)	Equity	Property development	53,208	–	122	3	(633)	2,833	0.52%
6. CIFI Holdings Group 5.5% 230123 N SUB (RES US)	Bond	Property development	265,000	2,067	–	–	87	2,023	0.37%
7. Lenovo Group Limited (Stock Code: 992)	Equity	Technology products and services	260,000	1,742	56	–	(497)	1,342	0.25%
8. Chong Hing Bank 6% 041120 M/N	Bond	Banks	150,000	1,170	–	–	4	1,211	0.22%
9. HLP Finance Ltd 4.75% 250622 J/D	Bond	Financial	100,000	769	–	–	16	821	0.15%
10. ING Group N.V. -CVA (EUR)	Equity	Banks	10,263	1,872	51	–	(291)	769	0.14%

During the period, the Group received dividends of approximately HK\$6 million (2018: HK\$3 million) from the securities held. The above table lists the investments which principally formed a significant portion of the total assets of the Group. The Group holds these investments for trading. The Group would review and refine its investment portfolio regularly based on market conditions and its capital needs.

EMPLOYEES AND REMUNERATION POLICIES

At 31 August 2019, the Group had 289 employees (28 February 2019: 328) including part-time staff. The Group operates various remuneration schemes for sales and non-sales employees to motivate front-line and back-office staff towards achieving higher sales and operating efficiencies. In addition to basic salary and discretionary bonuses based on individual merit, sales personnel are further remunerated on the basis of goal-oriented packages, comprising several schemes of sales commission. The Group provides employee benefits such as employee stock options, staff purchase discounts, subsidised medical care and training courses.

INTERIM DIVIDEND

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

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

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

AUDIT COMMITTEE

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

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

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

CORPORATE GOVERNANCE

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

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

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

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

DIRECTORS

As at the date of this announcement, the executive director of the Company is Mr Philip K H Ma; the non-executive director of the Company is Mr Charles M W Chan; and the independent non-executive directors of the Company are Mr King Wing Ma, Mr Eric K K Lo, Mr Peter Tan and Mr Anders W L Lau.

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

Hong Kong, 25 October 2019