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**sincere先施**

**THE SINCERE COMPANY, LIMITED**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 0244)**

**ANNOUNCEMENT OF THE 2020 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 2020, 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 2020*

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b> <b>(unaudited)</b>	<b>2019</b> <b>HK\$'000</b> <b>(unaudited)</b> <b>(restated)</b>
<b>REVENUE</b>	<b>3</b>	<b>81,756</b>	138,100
Cost of sales		<b>(45,293)</b>	(61,826)
Other income and gains, net		<b>1,352</b>	7,845
Net unrealised loss on securities trading		<b>(1,187)</b>	(11,251)
Selling and distribution expenses		<b>(55,828)</b>	(89,310)
General and administrative expenses		<b>(33,834)</b>	(47,197)
Other operating expenses, net		<b>(8,660)</b>	(8,769)
Finance costs		<b>(10,604)</b>	(10,784)
<b>LOSS BEFORE TAX</b>	<b>4</b>	<b>(72,298)</b>	(83,192)
Income tax credit	<b>5</b>	—	1
<b>LOSS FOR THE PERIOD</b>		<b>(72,298)</b>	(83,191)

**CONDENSED CONSOLIDATED INCOME STATEMENT** *(continued)**For the six months ended 31 August 2020*

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b> <b>(unaudited)</b>	2019 HK\$'000 (unaudited) (restated)
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Company		<b>(71,885)</b>	(81,948)
Non-controlling interests		<b>(413)</b>	(1,243)
		<u><b>(72,298)</b></u>	<u>(83,191)</u>
<b>LOSS PER SHARE ATTRIBUTABLE TO</b>			
<b>EQUITY HOLDERS OF THE COMPANY</b>	<b>6</b>		
Basic		<u><b>HK\$(0.07)</b></u>	<u>HK\$(0.11)</u>
Diluted		<u><b>HK\$(0.07)</b></u>	<u>HK\$(0.11)</u>

# CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 August 2020

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

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 August 2020 HK\$'000 (unaudited)	29 February 2020 HK\$'000 (audited)
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	279,924	336,805
Equity instruments designated at fair value through other comprehensive income		23,622	22,573
Deposits and other receivables		31,922	26,540
Pension scheme assets		14,672	14,672
Total non-current assets		350,140	400,590
<b>CURRENT ASSETS</b>			
Inventories		53,489	66,289
Reinsurance assets		7	7
Prepayments, deposits and other receivables		17,693	12,863
Financial assets at fair value through profit or loss		12,177	13,364
Pledged bank balances		6,100	6,024
Pledged deposits with banks		114,648	113,017
Cash and bank balances		20,958	13,761
Total current assets		225,072	225,325
<b>CURRENT LIABILITIES</b>			
Creditors	9	29,076	43,479
Lease liabilities	10	104,086	102,454
Insurance contracts liabilities		1,214	1,214
Deposits, accrued expenses and other payables		26,320	28,387
Contract liabilities		1,848	2,887
Interest-bearing bank borrowings	11(a)	171,249	156,719
Other loans	11(b)	2,145	2,136
Total current liabilities		335,938	337,276
<b>NET CURRENT LIABILITIES</b>		<b>(110,866)</b>	<b>(111,951)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>239,274</b>	<b>288,639</b>

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(continued)

		31 August 2020 HK\$'000 (unaudited)	29 February 2020 HK\$'000 (audited)
	<i>Notes</i>		
<b>NON-CURRENT LIABILITIES</b>			
Deposits, accrued expenses and other payables		6,027	8,390
Other loans	11(b)	81,115	1,104
Lease liabilities	10	60,977	103,964
		<hr/>	<hr/>
Total non-current liabilities		148,119	113,458
		<hr/>	<hr/>
<b>NET ASSETS</b>		91,155	175,181
		<hr/>	<hr/>
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Share capital		469,977	469,977
Reserves		(410,692)	(327,363)
		<hr/>	<hr/>
		59,285	142,614
		<hr/>	<hr/>
Non-controlling interests		31,870	32,567
		<hr/>	<hr/>
<b>TOTAL EQUITY</b>		91,155	175,181
		<hr/>	<hr/>

## 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 2020 are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“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 29 February 2020.

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

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

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

#### 1.1 Basis of Presentation

During the period ended 31 August 2020, the Group recorded a net loss for the period of HK\$72,298,000. The Group’s operations are financed by both bank and other borrowings and internal resources. As at 31 August 2020, the Group has net current liabilities of HK\$110,866,000 (29 February 2020: HK\$111,951,000). In addition, the Group’s cash and bank balances amounted to HK\$20,958,000 (29 February 2020: HK\$13,761,000) as at 31 August 2020.

The management closely monitors the Group's financial performance and liquidity position to assess the Group's ability to continue as a going concern. In view of these circumstances and the impact of COVID-19 pandemic, the management has been continuously implementing measures to improve profitability, control operating costs and contain capital expenditures in order to improve the Group's operating performance and alleviate its liquidity risk. These measures include (i) continuously remapping its marketing strategies and pricing policies, (ii) continuing its measures to control capital and operating expenditures, (iii) negotiating with its landlords for rental reductions with successful cases during the period and subsequent to 31 August 2020, and (iv) identifying opportunity in realisation of certain of the Group's assets. The management believes that these measures will further improve the Group's operating profitability and the resulting cash flows.

With respect to the Group's bank financing, the Group maintains continuous communications with its banks and has successfully renewed the banking facilities with its principal banks during the period. As at 31 August 2020, the Group had unutilised banking facilities of HK\$37,300,000 which included unutilised trade financing facilities of HK\$29,300,000 and unutilised term loan and overdraft facilities of HK\$8,000,000. Based on the latest communications with the banks, the directors of the Company are not aware of any intention of the principal banks to withdraw their banking facilities or require early repayment of the borrowings, and the directors believe that the existing banking facilities will be renewed when their current terms expire given the good track record and relationships the Group has with the banks. In addition, the Group has obtained a term loan of HK\$80,000,000 ("**Loan**") and a loan facility of up to HK\$70,000,000 ("**Facility**") from Realord Finance Limited, a wholly owned subsidiary of Realord Group Holdings Limited ("**Realord**") during the period. The Loan is unsecured, interest bearing at 10% per annum and repayable within 18 months from the date of withdrawal. The Facility is unsecured, interest bearing at 13% per annum and repayable within 12 months from the date of first withdrawal. As at 31 August 2020 and up to date of this announcement, the Group had unutilised amount of HK\$70,000,000 under the Facility.

The Company's directors have reviewed the Group's cash flow projections prepared by the management. The cash flow projections cover a period of not less than twelve months from 31 August 2020. Management's projections make key assumptions with regard to the anticipated cash flows from the Group's operations, capital expenditures, the continuous availability of bank and other borrowings facilities, the impact of the COVID-19 pandemic and the completion of voluntary cash offer by Realord. The Group's ability to achieve the projected cash flows depends on management's ability to successfully implement the aforementioned improvement measures on profitability and liquidity and the continuous availability of bank and other borrowings facilities. The directors, after making due enquiries and considering the basis of management's projections described above and after taking into account the reasonably possible changes in the operational performance and the successful renewal and continuous availability of the bank and other borrowings facilities, believe that the Group will have sufficient financial resources to operate as a going concern.

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

## 2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

### **Amendment to HKFRS 16**

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



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

### Government grants

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

## 3. SEGMENT INFORMATION

### (a) Operating segments

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

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

**(b) Geographical information**

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

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

**4. LOSS BEFORE TAX**

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

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

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

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

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

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

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

## 5. INCOME TAX

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

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

## 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\$71,885,000 (2019 (restated): HK\$81,948,000) and the weighted average number of ordinary shares of 1,053,519,360 (2019: 731,451,621) in issue throughout the period, as adjusted to reflect the number of treasury shares of 260,443,200 (2019: 260,443,200) held by the Company's subsidiaries.

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

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

## 7. DIVIDEND

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

## 8. PROPERTY, PLANT AND EQUIPMENT

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

## 9. CREDITORS

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

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

## 10. LEASES

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

The carrying amounts of the Group's right-of-use assets and the movements during the period are disclosed in note 8.

### (b) *Lease liabilities*

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

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

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

### (a) Interest-bearing bank borrowings

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

(b) Other loans

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

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

12. EVENT AFTER THE REPORTING PERIOD

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

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

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

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

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

### **13. COMPARATIVE AMOUNTS**

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



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **INTERIM RESULTS**

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

### **BUSINESS REVIEW AND FUTURE PROSPECTS**

#### **DEPARTMENT STORE OPERATIONS**

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

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

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

## SECURITIES TRADING

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

## PROSPECTS

Looking forward, with the confirmed cases for the COVID-19 maintained at a relatively low level and the ease of the social distancing polices implemented by the government previously, the foot traffic for our stores had gradually recovered. The management is of the view that the department store operations would be challenging with the new norm that COVID-19 would not die out in short run, but is still cautiously optimistic about our core department stores performance in the coming year. The Group will take a cautious approach in its business planning to weather the current unfavourable environment.

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

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

## LIQUIDITY AND FINANCIAL RESOURCES

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

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

As of 31 August 2020, the interest-bearing bank borrowings of the Group were HK\$171.2 million (29 February 2020: HK\$156.7 million), which were repayable within one year or on demand. As of 31 August 2020, the other loans of the Group were HK\$83.2 million (29 February 2020: HK\$3.2 million) of which HK\$2.1 million (29 February 2020: HK\$2.1 million) were repayable within one year or on demand and HK\$81.1 million (29 February 2020: HK\$1.1 million) were repayable in the second year. As of 31 August 2020, lease liabilities of the Group were HK\$165.1 million (29 February 2020: HK\$206.4 million), of which HK\$104.1 million (29 February 2020: HK\$102.5 million) were repayable within one year. The Group's gearing increased from 112% to 429% in interest-bearing bank borrowings and other loans to the shareholders' fund in comparison to last year. The increase in bank borrowings and other loans was used to finance the Group's operations during the period.

As at 31 August 2020, the Group has net current liabilities of HK\$110.9 million (29 February 2020: HK\$112.0 million). This liquidity shortfall was mainly attributable to the adoption of HKFRS 16 *Leases* resulting in recognition of current lease liabilities of HK\$104.1 million (29 February 2020: HK\$102.5 million) as at 31 August 2020.

The management closely monitors the Group's financial performance and liquidity position to assess the Group's ability to continue as a going concern. In view of these circumstances and the impact of COVID-19 pandemic, the management has been continuously implementing measures to improve profitability, control operating costs and contain capital expenditures in order to improve the Group's operating performance and alleviate its liquidity risk. These measures include (i) continuously remapping its marketing strategies and pricing policies, (ii) continuing its measures to control capital and operating expenditures, (iii) negotiating with its landlords for rental reductions with successful cases during the period and subsequent to 31 August 2020, and (iv) identifying opportunity in realisation of certain of the Group's assets. The management believes that these measures will further improve the Group's operating profitability and the resulting cash flows.

The Group currently employs a foreign currency hedging policy on the Euro for the purchase of inventories, which hedges up to fifty percent of the European inventory purchase for resale at department stores. In addition to internally generated cash flows, the Group also made use of both long-term and short-term borrowings to finance its operation during the period. All interest-bearing bank borrowings were secured against the securities investment, leasehold land and owned buildings and bank deposits.

## **EMPLOYEES AND REMUNERATION POLICIES**

At 31 August 2020, the Group had 251 employees (29 February 2020: 266) including part-time staff. The Group operates various remuneration schemes for sales and non-sales employees to motivate front-line and back-office staff towards achieving higher sales and operating efficiencies. Besides, basic salary and discretionary bonuses based on individual merit, sales personnel are further remunerated on the basis of goal-oriented packages, comprising several sales commission schemes. The Group provides employee benefits such as employee stock options, staff purchase discounts, subsidised medical care and training courses.

## **INTERIM DIVIDEND**

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

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

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

## **AUDIT COMMITTEE**

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

## **ADOPTION OF THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS (“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 2020 with the Code on Corporate Governance Practices (“**CG Code**”) as set out in Appendix 14 to the Listing Rules, save and except for code provision A.2.1, A.4.1 and A.6.7.

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

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

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

## **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, 29 October 2020