University of Wales
Trinity Saint David

LEVEL 7 ASSESSMENT SPECIFICATION

Student name:	**Ho Choi Hei**	**Student ID number:**	**1921899**
Programme:	**MBA**		
Module:	**Finance for Business Managers**		
Module code:	**HKBM7008**	**Contribution to Overall Module Assessment (%):**	**100%**
Lecturer:	**Dr Katherine Mo**	**Internal Verifier:**	**Dr Arion Wong**
Assignment Title:	**Assignment 1**	**Word count (or equivalent):**	**5,000 words** **+/- 10%**
Submission deadline:	**17 August 2020**	**Return date of provisional marks & written feedback:**	**Within 10 days after submission**
Submission method:	All written assessments, where practical and possible, must be submitted via Turnitin unless otherwise instructed by the Lecturer. (Please DO NOT put this assessment specification into Turnitin or it will match many similarities with other students' submissions.) **Alternative submission method (if applicable):** **Late submission of the assessment will result in a late penalty mark.** Penalties for late submission: Up to one week late, maximum mark of 50%. Over one week late, 0%. Only the Extenuating Circumstances Panel may approve a change to submission dates.		
Academic honesty / referencing:	Academic honesty is required. In the main body of your submission you must give credit to authors on whose research and ideas your work is based. Append to your submission a reference list that indicates the books, articles, etc. that you have used, cited or quoted in order to complete this assessment.		

Financial Analysis of Sincere in 2017-2019 and Propose Investment Appraisal

Executive Summary

In this research we are going to have an in deep analysis of Sincere Department Store about the Financial Performance in the past 3 years and as well compare with another two company of Wing On Company Limited and SOGO (Lifestyle International Holding Ltd.). We will have a comparison of the three company financial performance in 2019.

After Financial analysis of the companies and past 3 years performance, we will propose an Investment project for Sincere of opening an Online Shopping Mall, with a low budget cost and rewardable return. We will together propose the Financial Management of the project.

After that we will have a Planning of Schedule for the Sincere in the coming year Four Quarters, we will base upon the current performance and have adjustment and as well how to work on the new investment project.

Table of Content

1. Company Background ……..……. P. 4 - 5

2. Sincere Financial Analysis
   2.1 Financial Analysis…….……..P. 6 - 7
   2.2 Financial Structure…….P. 7 - 8
   2.3 Paying Debt Ability Ratio……...……...P. 8 - 11
   2.4 Operational Expenses……..…..…P. 12
   2.5 Inventory Period……..……..……P. 12 - 13
   2.6 Profitability……..……P. 13 - 14
   2.7 Growth Ability…….……P. 15 - 16
   2.8 Stock Market Analysis……..……P. 16

3. Existing Corporate Governance…….……P. 17 - 18

4. Investment Appraisal…….....P. 19 - 21

5. Financing Management……P. 22

6. Recommendation Schedule in coming 4 Quarters……..P. 23 - 24

Reference……...P. 25 - 26

Appendix……...P. 27 - 48

1. Company Background

The Sincere Company Ltd. ("Sincere") is one of the oldest chain department store in Hong Kong. The business they operate is mainly retail business of various daily items. The department store was founded in 1900 by Mr. Ma Ying Piu, launched in Hong Kong during the British government times.(Sincere, 2020) The Department store is now own by the Ma's family. In which Sincere is well known as one of the "four greatest department store" in Shanghai in 1930-1940s.(Sincere, 2020)

In 1972, Sincere has become a main listed company on Hong Kong Stock Exchange, and up to company record of 2015, the company has recorded of net asset of $300 million Hong Kong Dollars with more than 350 employees. (Sincere, 2020)

In the year of 1989, Sincere has divide its HKD $125,000,000 capital into 250,000,000 shares of each share HKD $0.5 (HKEX, 2020)

Until Year 2020 May 31, the price of stock for Sincere is $ 0.385 Hong Kong dollar, with the issue share capital as 1,313,962,560 shares as at May 31 2020. (HKEX,2020)

Operating Business Overview

Sincere business model has been can be divide into two business model.
One is provide sales counter area for different company brands for selling their product. Such as cosmetics brands, clothing and housing appliances. The provide contract for licenses brand operation as rental area spaces for sales purpose.

The second business model is using department store operations with the direct retail for goods to customers through placing of product in their company department store counters. The products include cosmetics, clothes, housing appliances, electronic devices etc.

Currently in Hong Kong there are 5 branches of Sincere Store with their linked brand. The direct owner of the Sincere Company Limited in year 2020 is Mr. Philip Ma. (Sincere, 2019)

Today's Business Environment

The retail department store operational model is under competition with large scale shopping malls in Hong Kong. The growth rate of large scale shopping malls has been raising in these 20 years time, most of the brands include in retail department stores can be find in shopping malls, with more luxury and modern design of shopping area.

According to the statistics data from Hong Kong Census and Statistics Department at May 2020, analyze of the value of sales by various type of retail outlet in descending order of the provisional estimation, comparing the value in May 2020 and May 2019, the value of sales of commodities in department stores decreased by 37.8%. (HK Census & Statistics Dept, 2020)

Company Structure

Base upon the Annual Report of Sincere, the company has include 6 members in the Board of Directors, under the Board of Directors include the Audit Committee Members, Remuneration Committee Members and Nomination Committee. (Sincere, 2019)

Comparison Company Information

In this research we would use another two company as for research comparison. We consider Wing On Company International Limited (00289) and Lifestyle International Holdings (SOGO HK) (01212). The mentioned three companies are having similar business nature in Asian Pacific Region. With all are operating department store, shopping malls and supermarkets. Therefore we use them for comparison.

Table 1 : Company Background Information

Company Name	Sincere	Wing On	SOGO (HK)
(Stock Number)	(00244)	(00289)	(01212)
Business Nature	Department Store, Shopping Mall and Supermarket		
Market Value (HKD)	505.87 Million	5.1 Billion	9.29 Billion
PE	N/E	6.71x	4.92x
Market area	Hong Kong and Mainland	Hong Kong	Hong Kong and China, Japan
Number of Stores	5	4	2

Source : Hong Kong Stock Exchange

2. Sincere Financial Analysis

Through the analysis of the Annual Report, we have come up with the financial structure, along with the market capacity, profitable capacity and the market value etc. of the other two companies. On the following table we compare the financial ability of the company on the following session about the net current asset, total assets, retained earnings, EBIT, stock value, number of stock and total liabilities, along with the sales revenue.

2.1 Financial Analysis

Table 2 : Financial Analysis

Company Name	Sincere (HKD '000)			Wing On (HKD '000)	SOGO (HKD '000)
Year	2017/18	2018/19	2019/20	2019/20	2019/20
Net Current Asset	152,176	14,990	-111,951	3,482,878	6,466,150
Total Assets	459,587	399,189	625,915	21,019,218	24,501,539
Retained earnings	-208,904	-348,692	-327,363	507,104	3,833,794
EBIT	-88,910	-129,829	-130,031	966,715	2,531,414
Stock value (HKD)	0.31	0.27	0.28	22	8.94
Number of Stock ('000)	918,892	918,892	1,313,962	292,561	1,501,916
Total Liabilities	254,755	336,533	450,734	1,438,277	20,660,235
Sales	355,865	311,865	263,312	1,371,494	3,542,032

Source : Sincere Annual Report 2017, 2018, 2019, Wing On Annual Report 2019, Lifestyle International Holdings Limited Annual Report 2019

Z Score of the Three companies

The comparison of the Z-Score for the three companies will be

Z-Score : $Z=1.2A+1.4B+3.3C+0.6D+0.999E$

From the Z-Score Analysis, Sincere Z score is smaller than 1.23 in the past 3 years which indicate high probability of bankruptcy.

Table 3 : Z-Score Table

Company	Sincere			Wing On	SOGO
Year	2017	2018	2019	2019	2019
A	0.331	0.038	-0.179	0.166	0.264
B	-0.455	-0.874	-0.523	0.0241	0.156
C	-0.193	-0.325	-0.208	0.046	0.103
D	1.172	0.737	0.816	4.48	0.654
E	0.774	0.781	0.421	0.0652	0.145
Z	0.5997	-1.028	-0.7232	6.17	1.41

Source : Sincere Annual Report 2017, 2018, 2019, Wing On Annual Report 2019, Lifestyle International Holdings Limited Annual Report 2019

2.2 Financial Structure

Table 4 : Financial Structure

Company Name	Sincere			Wing On	SOGO
Year	2017	2018	2019	2019	2019
Fixed Asset to Long Term Liability Ratio	0.136	0.259	1.167	19.502	0.65
Current Liabilities to Net Asset Ratio	0.966	4.688	1.925	0.0303	0.87
Current Liabilities to Stock Ratio	2.856	4.391	5.088	5.9621	145.0891363

Source : Sincere Annual Report 2017, 2018, 2019, Wing On Annual Report 2019, Lifestyle International Holdings Limited Annual Report 2019

Fixed Asset to Long Term Liability Ratio

For the Fixed Asset to Long Term Liability Ratio, fixed asset are calculate as the company's long term finance resources. With the ratio in lower score, the less chance of company financial crisis. The Fixed Asset to Long Term Liability Ratio for Sincere in 2017 has 0.136, while in 2018 it increased 90.4% to 0.259 and in 2019 it raise to the highest level of 1.167 which raise 350% compare to previous years. (Table 4) With the 3 years average on 0.521, as fix asset increase from 2017 to 2019, the number of the ratio raise in a sudden in 2019. (Table 4)

Current Liabilities to Net Asset Ratio

Sincere Current Liability to Net Asset Ratio has increase sharply of 385.3% from 0.966 to 4.688 from 2017 to 2018, while it drops 58.93% to 1.925 in the year of 2019 (Table 4). Base upon fix asset increase, we can find out the main reason for the ratio raise sharply from 2017 to 2018.

Current Liabilities to Stock Ratio

The Current Liabilities of Sincere has increase in the year between 2017-2019. The Inventory of Sincere has been maintain in level of about HKD $60,000,000 in the years of 2017, 2018 and 2019. (Sincere, 2019) The ratio increase from 2.856 in 2017 to 4.391 in 2018 and then 5.088 in 2019. (Table 4) We can find out the value of current liabilities has been in increasing ratio in the past 3 years.

2.3 Paying Debt Ability Ratio

Table 5 : Paying Debt Ability

Company Name	Sincere			Wing On	SOGO
Year	2017	2018	2019	2019	2019
Current Ratio	1.769	1.051	0.668	6.870	2.15
Quick Ratio	1.419	0.823	0.472	6.702	2.15
Stock Credit Index	-1.196	0.776	2.689	-33.995	-166.45
Cash Ratio	0.182	0.11	0.041	5.068	1.27
Total Debt Ratio	0.554	0.843	0.72	0.0684	0.84
Debt / Equity Ratio	0.278	0.683	0.648	0.043	0.70
Long Term Debt Ratio	0.217	0.406	0.393	0.041	0.77
Total Debt / Fixed Asset Ratio	7.154	12.345	1.67	0.087	1.87
Time Interest cover ratio	-22.497	-26.50	-6.769	222.08	6.93

Source : Sincere Annual Report 2017, 2018, 2019, Wing On Annual Report 2019, Lifestyle International Holdings Limited Annual Report 2019

Current Ratio

The Current Ratio measures the short-term debt-paying ability of the company, with the higher current ratio will indicates a stronger liquidity position. The current ratio is maintain at level of 0.668 to 1.769 ratio (Table 5), compare with the other two competitors, the short-term debt paying ability of Sincere is relatively week. As the short term loans is smaller than 1 in 2019, ability to pay short term loans is low in 2019 (Table 5)

Quick Ratio

Wile for the Quick Ratio is alike current ratio but exclusion of current assets that may be difficult to quickly convert into cash. With the exclusion of current assets, the value of quick ratio remains at 0.472 – 1.419 level (Table 5), which is lower than the current ratio, and compare with other two company, the ratio is low. In 2019 as the quick ratio equals to 0.472 which is less than 1, indicate the short term debt paying ability of company exclude current asset is also low. (Table 5)

Stock Credit Index

The stock credit index is about the current liability and current asset relationship with Inventory. The stock credit index was -1.196 in 2017, as asset is larger than liability the value is in negative value. While in 2018 the index is 0.776 and 2019 is 2.689, as liability increase and is larger than asset, thus the value turns to positive value. Thus the stock credit index raise from -1.196 to +2.689 index. (Table 5)

Cash Ratio

Cash Ratio is a payment liabilities of the foundation, which are usually present as the cash holdings by the management of use of corporate assets effect a negative position. Which indicate the ratio should not be too large. The value of Sincere remains at 0.04 – 0.2, which maintain at a low level of index. As the value is less than 1, means the company has relative less Cash on hand. (Table 5)

Equity and Debt Ratio

Equity and Debt Ratio is Long Term Liability over Equity ratio. The Long Term Liability include deposit, accrued expenses, other loans and lease liability. With the Total Equity is maintain at positive value. The equity and debt ratio is maintain at level of 0.2 – 0.6. The debt has increase in level from 2017 – 2019. (Table 5)

Total Debt/ Fixed Asset Ratio

The total debt / fixed asset ratio is the total liability over fixed asset ratio. The value of the debt to fixed asset ratio is maintain at positive value, with the value of fixed asset ratio maintain at around HKD $30,000,000 in 2017 and 2018 (Sincere, 2017;2018), which raised to HKD $336,000,000 in 2019 (Sincere, 2019), by the value of debt/fixed asset ratio at 7.154 and 12.345 in value, has indicate the total debt is maintain at a high level in 2017 and 2018, and the value goes down in 2019 as fix asset increase. (Table 5)

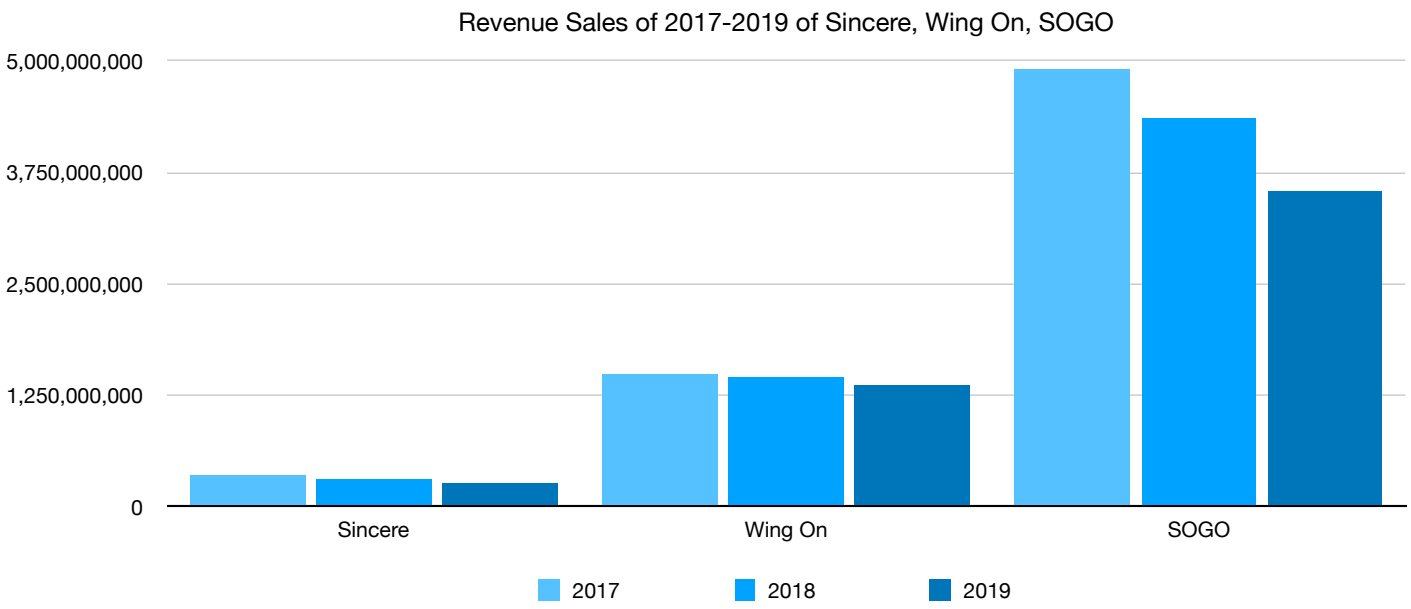
Time Interest Cover Ratio

Time interest cover ratio is a measure of the ability of the corporate income to pay the interest expense. With the EBIT over Interest rate, as the EBIT of Sincere is negative value, thus for the Time Interest Cover Ratio is also in negative value, interpret the ability of the corporate income to pay interest expense is low. Indicator of a net loss in Sincere, which cannot recover Interest expenses as negative ratio. (Table 5)

Paying Debt Ability

Sincere in the measurement of the above paying debt ability is comparatively low with the other two company. The current ratio decrease from level of 1.769 at 2017 to 0.668 at 2019 in value, indicate ability to pay short term loans is low. While the cash ratio is decreasing from 0.182 at 2017 to 0.041 in 2019. Which indicate the company cash holding by the management has been in decreasing from 2017 to 2019. (Table 5)

Sales Revenue



Sales of 2017-2019

	2017	2018	2019	
Sincere	355,865,000	311,865,000	263,312,000	
Wing On	1,489,425,000	1,462,829,000	1,371,494,000	
SOGO	4,898,605,000	4,358,010,000	3,542,032,000	

Source : Sincere Annual Report 2017-19, Wing On Annual Report 2017-19 Lifestyle Annual Report 2017-19

Fig 1 : Revenue Sales of 2017-2019 of Sincere, Wing On and SOGO

For Sincere the revenue of 2017 was HK$355,865,000, while for 2018 was drop by 12.36% to HK$311,865,000, in 2019 the revenue has drop by 15.6% to HK$263,312,000. (Sincere, 2017-19) From the annual report, the loss of revenue is mainly due to decline of sales in department store and the raise of impairment loss in sustained operation.

Wing On sales revenue is better in comparison. The revenue sales in 2017 is HK$1,489,425,000, while for 2018 the value has drop 1.78% to HK$1,462,829,000. In year 2019 has drop 6.24% to HK$1,371,494,000. (Wing On, 2017-19)

For SOGO, the sales revenue was the greatest among the three department store. In 2017 they got HK$4,898,605,000 revenue, and in 2018 they decrease to HK$4,358,010,000. In 2019 the revenue drop 18.7% to HK$3,542,032,000 (Lifestyle , 2017-19)

2.4 Operational Expenses

Table 6 : Sincere Operation Expenses

Company	Sincere			Wing On	SOGO
Year	2017	2018	2019	2019	2019
Employee Costs	N/A	N/A	N/A	30.97%	6.54%
Depreciation and amortization	2.18%	1.65%	36.30%	6.51%	7.66%
Rental expenses	41.91%	47.63%	N/A	No Rental Exp	N/A
Other operating expenses	1.46%	4.17%	5.43%	28.85%	N/A

Source : Sincere Annual Report 2017, 2018, 2019, Wing On Annual Report 2019, Lifestyle International Holdings Limited Annual Report 2019

The expenses of operational including employee cost, depreciation, rental expenses and other operation cost. With the comparison of the three companies, Rental expenses are the highest proportion of operation expenses. For Sincere, the Rental expenses takes up of about 40%-50% of operational expenses. (Table 6) While for the depreciation and amortization value it remains at 1.5%-2.18% at 2017-2018 but greatly appreciate to 36.3% in 2019. (Table 6)

2.5 Inventory Period

Table 7 : Inventory Data

Company	Sincere (‘000)			Wing On ('000)	SOGO
Year	2017	2018	2019	2019	2019
Total Assets Turnover	77.40%	78.10%	42.10%	6.61%	32.0
Average Collection Period (days)	N/A	N/A	N/A	23.01545978	51
Day's Sales in Inventory (days)	164.2928	171.8142605	180.8163478	92.81335039	16
Payment period (days)	157.5704699	135.5436167	121.595818	330.4121077	339
Net Profit	-92,880	-134,743	-149,253	766,813	1,890,676

Source : Sincere Annual Report 2017, 2018, 2019, Wing On Annual Report 2019, Lifestyle Annual Report 2019

Total Asset Turnover

Sincere total asset turnover has maintain in 77%-78% in year of 2017 and 2018, while the value drops into 42.1% in 2019. The main reason can be trace back to the number of asset for Sincere increase in 2019, thus the total asset turnover ratio decrease in 2019. (Table 7)

Inventory Turnover days

Sincere Inventory turnover days are on the trending of raising. From 164.29 day's sales in inventory in 2017 raise 4.58% to 171.8142605 day's sales in inventory. In 2019 the inventory turnover days raise 5.23% to 180.81634 days. (Table 7) This can trace back to the reason of import product from oversea has become more difficult base on political reason and the reason of COVID-19 in the late 2019 to 2020.

Payment Period

For Sincere the payment period has maintain in 120 – 160 days for completion of total payment. Compare with the other two companies, Wing On and SOGO are in average of 330 and 339 days respectively. (Table 7)

2.6 Profitability

Table 8 : Profitability

Company	Sincere ('000)			Wing On ('000)	SOGO ('000)
Year	2017	2018	2019	2019	2019
Net Profit	-92,880	-134,743	-149,253	766,813	1,890,676
Net Profit growth	N/A	-45.1%	-10.8%	-54.9%	11.9%
Gross profit margin	96.27%	96.22%	50.43%	47.002%	74.91%
Net Profit margin	-26.10%	-43.20%	-56.68%	55.911%	53.38%

Source : Sincere Annual Report 2017, 2018, 2019, Wing On Annual Report 2019, Lifestyle Annual Report 2019

Gross Profit Margin

Sincere business is reselling product from different brands, therefore the gross profit margin maintain in above 90% in 2017 – 2018. While in 2019 the value was 50.43%. In comparison with Wing On and SOGO the Gross profit margin is comparatively high in 2017 and 2018. (Table 8)

Net Profit Margin

The Net Profit Margin of Sincere remains in negative number from 2017 -2019. The Net Profit Margin has gradually decrease the value from -26.1% in 2017 to -43.2% in 2018. The value in 2019 is the worse of the three years to -56.68%. Compare with Wing On and SOGO, both companies are in positive value of about +50% for the Net Profit Margin. (Table 8)

Net Profit Growth

The Net Profit Growth for Sincere has been in negative growth compare the 3 years revenue sales. From 2017 to 2018 the company has negative growth of -45.1% while in 2018-2019 the negative growth rate has depreciate to -10.8%. Compare with Wing On and SOGO, they have -54.9% and 11.9% growth rate respectively. (Table 8)

Table 9 : Leverage Ratio

Company	Sincere			Wing On	SOGO
Year	2017	2018	2019	2019	2019
Leverage ratio*1	2.24	6.37	3.57	7.35%	190.00%
Return on Equity (after tax) (%)	-45.30%	-215.10%	-85.20%	3.92%	14.30%

Leverage Ratio : Total assets/Equity

Source : Sincere Annual Report 2017, 2018, 2019, Wing On Annual Report 2019, Lifestyle Annual Report 2019

Leverage Ratio

The Leverage ratio of Sincere has been increase from 2.24 at 2017 to 6.37 at 2018 then from 2018 drop to 3.57 at 2019. (Table 9)

Return on Equity (after tax)

Sincere Return on Equity has remain in negative value from 2017 to 2019. The return on Equity has been -45.3% in 2017 to -215.1% in 2018. Then return to -85.2% in 2019. Compare with Wing On and SOGO the value are in positive value in around +3% to +15% respectively. (Table 9)

2.7 Growth Ability

Table 10 : Growth Ability

Company	Sincere			Wing On	SOGO
Year	2017	2018	2019	2019	2019
Retained yield (times)	2.25	2.588	2.193	0.661	2.0
Self-sustainable Growth Ratio (%)	-102%	-556.52%	-186.87%	2.59%	29.00%
Market Capitalization	298,639,900	248,100,840	367,909,360	6,436,342,000	13,427,129.04
Market-to-book ratio	1.458	3.96	2.1	0.33	0.55
Enterprise Value (EV)	358,826,900	407,927,840	513,003,360	N/A	29,978,716.04
EBITDA	-81,169,000	-124,697,000	-34,459,000	1,056,055,000	2,802,798.00
EV Multiple= EV / EBITDA	-4.4207	-3.2714	-14.8874	N/A	11.45

Source : Sincere Annual Report 2017, 2018, 2019, Wing On Annual Report 2019, Lifestyle International Holdings Limited Annual Report 2019

Retained Yield

Retain Yield is the retain earning divide by earning after tax. For Sincere the Retained Yield remains at level of 2.1 to 2.6. (Table 10) As the Retain Earning of Sincere from 2017 – 2019 are negative numbers range from HKD $ -200,000,000 to HKD $ -350,000,000. (Sincere 2017-19) The earning after tax has been also negative number as the revenue was smaller than the cost of operation and sales from 2017 – 2019. Which reflect Sincere company financial situation has been in loss of profit for quite a period of time, the company has used up the profit from past and also cannot make earning in recent years.

Self-Sustaining growth

The Self-Sustaining growth of Sincere has been in negative number from -102% to -556%. Which indicate the company was not operating in a healthy condition business. Compare with the other two company Wing On has 2.59% growth of business while SOGO has 29% of growth rate. (Table 10)

Market Capitalization

The market capital of Sincere in 2017 – 2019 has been calculate in range of HKD$248,000,000 to HKD$367,000,000 compare with Wing On and SOGO in value of 6,436,342,000 and 13,427,129,000.04 respectively. (Table 10)

Enterprise Value (EV)

The EV value of Sincere has been in trend of increasing from 2017 – 2019. At the year of 2017 was in 358,826,900 in number and it growth 13.6% in 2018 to 407,927,840. The value growth 25.7% from 2018 to 2019 to 513,003,360. From the Annual Report we can find the reason can be trace back to the increase in Interest bearing bank borrowings and other loans by the company (Table 10)

EBITDA

EBITDA = EBIT + Depreciation and amortization of the company.
From the previous value we can find the EBIT of Sincere has been in negative number from 2017 – 2019 and in each year the EBIT negative value has increase. In 2017 Sincere EBIT was -88,910,000 while in 2018 was -129,829,000 and in 2019 EBIT was -130,031,000. (Table 2) Which further interpret the EBITDA value in 2017 was -81,169,000, 2018 in -124,697,000 and 2019 in -34,459,000 (Table 10)

2.8 Stock Market Analysis

Table 11 : Stock Market Analysis

Company	Sincere			Wing On	SOGO
Year	2017	2018	2019	2019	2019
Earning per share (HK$)	-0.101	-0.147	-0.114	1.907	1.26
Price-earning Ratio (Times)	-3.218	-1.837	-2.456	11.54	7.10
Dividen yield (%) payout ratio	-11.8%	-5.4%	-4.9%	4.68%	53.224%

Source : Sincere Annual Report 2017, 2018, 2019, Wing On Annual Report 2019, Lifestyle International Holdings Limited Annual Report 2019

For the stock Market Analysis, we can find out Sincere has been using stock as earning from the public as from earning per share to the price earning ratio they are negative number, which means they are issuing as debt paying function to use as capital to pay their costing for operation and running business. From the dividend yield payout ratio we can see the value has raise slowly from 2017 to 2019 (Table 11)

3. Existing Corporate Governance

Table 12 : ROA & ROE

Company	Sincere			Wing On	SOGO
Year	2017	2018	2019	2019	2019
ROA (after tax) (%)	-20.20%	-33.75%	-23.80%	3.648%	10.33%
ROE (after tax) (%)	-45.34%	-215.05%	-85.20%	3.916%	65.90%

Source : Sincere Annual Report 2017, 2018, 2019, Wing On Annual Report 2019, Lifestyle International Holdings Limited Annual Report 2019

ROA – The Return on Asset for Sincere is in negative number since 2017 in value of -20.20%. the situation has get worse in 2018 and drop to -33.75% in year 2018. Then the company gets better in 2019 and ROA turns to -23.8% compare with 2018. (Table 12)

For the ROA, as the overall number are in negative, they reflect the company has a negative percentage in the period of 2017-2019 to use the company asset and loans to make profit. The negative percentage can be trace back to the loss of the year from annual report of Sincere in 2017- 2019.

Compare with Wing On and SOGO, the ROA of Wing On is on average number of positive 3.648% for gain of profit from the assets they hold, while SOGO has 10.33% on ROA for the gain of profit from assets, higher than average (Table 12)

ROE – The Sincere ROE has been negative number from 2017. The value has been -45.34% in 2017 and get worse in 2018 to -215.05%, in 2017-2018 Sincere was issuing capital 918,892,000 on stock market, the company has then issue more stock to 1,313,962,000 on the market on 2019, the ROE value gets to -85.2%. (Table 12)

For ROE we can see the company has been rely on share holder to pay for their debt and operation costing. In contrast, Wing On and SOGO the ROE value has been positive, for Wing On the ROE is 3.916% for the use of profit and shareholder benefit, which is on average. For SOGO the percentage is 65.9%, which means the profit gain are mainly from loans or shareholder stock value. The number is higher than average. (Table 12)

For the Corporate Governance of the Company Structure are as Follow :

Board of Directors

BOARD OF DIRECTORS *(continued)*

The Board held four board meetings and two general meetings in year 2019/20. The following table shows the attendance of Directors at meetings during the year:

Directors	General Meetings attended/held	Board Meetings attended/held
Executive Director		
Mr. Philip K H Ma *(Chairman & CEO)*	2/2	4/4
Non-Executive Director		
Mr. Charles M W Chan	0/2+	3/4
Independent Non-Executive Directors		
Mr. King Wing Ma	2/2	4/4
Mr. Eric K K Lo	1/2+	4/4
Mr. Peter Tan	0/2+	1/4
Mr. Anders W L Lau	1/2+	3/4

+ Pursuant to code provision A.6.7of the CG Code that Independent Non-Executive Directors and other Non-Executive Directors should also attend general meeting. Mr. Charles M W Chan, Non-Executive Director of the Company; Mr. Peter Tan, Mr. Eric K K Lo and Mr. Anders W L Lau, Independent Non-Executive Directors of the Company did not attend relevant general meetings of the Company due to business arrangement.

Source : Sincere Annual Report 2019

Fig 2 : Board of Directors for Sincere

4. Investment Appraisals

Investment Appraisal

The implementation of Sincere Online Shopping Mall cost about HKD $2,631,100 (Calculate from Sincere Annual sales 2019 x 1%), while for the decoration year will takes about 0.5 year and the whole project will takes around one to three years to launch the whole project.

Table 13a : Project item basic information

Project Cost	Remarks
Online Shopping Mall Installation Price	HKD $429,000 (US WebFX ,2020)
Equipment Implementation & Maintenance	HKD $468,000 (US WebFX ,2020)
IT Design Decoration	HKD $780,000 (US WebFX ,2020)
Total Cost	HKD $1,677,000
Remaining basic information	Remarks
Sincere Online Mall depreciation years	5 (Patriot, 2020)
Decoration year	0.5 (Expected Value)
Inflation rate	3% (Focus Economics, 2020)
Ultimate growth rate	3% (Focus Economics, 2020)
EBITDA (%)*	77% (Wing On, 2019) Smaller
Operating Period (days)	77.062 (Wing On, 2019)

*Use Similar Enterprise as data for reference

Table 13b : The First Year Calculation of Sales

Project items	Remarks
Sales to external customer	HKD$2,631,100 (Sincere, 2019)
Counter and consignment sales	22% (Sincere, 2019)
Direct Sales Ratio	78% (Sincere, 2019)
Total Sales	100%
Sales	HKD$2,631,100(Sincere, 2019)

Table 13c : Computing Tax Cost

Items	1 Year ('000)	2 Year ('000)	3 Year ('000)	4 Year ('000)	5 Year ('000)
Sales = Last Year Sales x (1+Inflation Rate)	2631.1	2710.03	2791.33	2875.07	2961.33
EBITDA (Sales x EBITDA %)	2025.94	2086.72	2149.33	2213.81	2280.22
Depreciation	1739	1739	1739	1739	1739
EBIT	286.94	347.72541	410.33	474.81	541.22
Tax Cost (Tax rate 16.5%)	47.35	57.37	67.7	78.34	89.3
Profit	239.6	290.35	342.62	396.46	451.92

Depreciation = (429,000+468,000)/5 + 780,000/0.5 = 1,739,000

Table 13d : Cashflow calculation

Items	Initial cost (HKD) ('000)	1 Year ('000)	2 Year ('000)	3 Year ('000)	4 Year ('000)	5 Year ('000)
EBITDA		2025.947	2086.73	2149.33	2213.81	2,280.22
Expenditure 1		432.94	445.93	459.31	473.09	487.28
Expenditure 2		1560	1560	1560	1560	1560
Tax expense		47.346	57.375	67.703	78.343	89.301
Cash Flow	1677	-14.34	23.42	62.32	102.38	143.64

Expenditure 1 = Direct Sales x Operation Period/365 = 2631100x78%x77/365

Expenditure 2 = Design Decoration / Decoration year = 780000/0.5

Table 13e : ARR and NPV calculation

ARR	('000)
Initial cost (B)	1677
ARR (A/B)	29%

Table 13 f : Cash Flow and NPV

Year	Cashflow ('000)	PV ('000)
Initial cost	1677	
1 Year	-14.34	-10.51
2 Year	23.42	12.57
3 Year	62.32	24.51
4 Year	102.37	29.51
5 Year	143.64	30.33
6 Year	186.14	28.80
7 Year	229.91	26.07
8 Year	275.00	22.84
9 Year	321.45	19.57
10 Year	369.28	16.47
NPV		1,299.14

R=3.648% (Wing On ROA, 2019)

Table 13 g : Payback Period and IRR

Payback Period	
IRR	0.174%
Payback Period	9 Years 11.3 Months

Investment Returns- The investment return of this project is relatively grow steadily with each year increment of 3% for the sales, with profit calculate in the 10th year will be HK$755,175.

ARR – 29%. The estimation gain of about HKD $239,601 in the first year, deducting depreciation, while it has a increasing trend in each year and gradually increase to HKD $ 755,175 in the 10th year.

NPV – Using the ROA from Wing On as R=3.648%, the NPV is calculate as Hong Kong Dollar $1,299,140 in ten years time.

IRR – 0.174%, The NPV of the project can also be calculate base upon the IRR and the net cash flow in the period.

5. Financing Management

Table 13 h : Financial Management

Company	Sincere ('000)			Wing On	SOGO
Year	2017	2018	2019	2019	2019
Cash and Equivalents	36,078	32,318	13,761	2,993,692	7,112,561
Bank loans	94,324	190,045	156,719	103,290	4,070,966
Cash Ratio	18.2%	11%	4.1%	506.8%	22695%
Net debt ratio	28.43%	251.7%	81.6%	-14.8%	-79.2%

Net debt ratio = (bank loans – cash)/Equity

Source : Sincere Annual Report 2017-2019

Using of current Cash payment

Using of current cash on hand as the payment for the project can be one of the possible method, as the project initial cost require HK$1,677,000, (Table 13a) by which the current cash on hand has HK$13,761,000, which can totally cover the expenses for the project. (Sincere, 2019)

Bank Loan Financing

For Sincere Financing as the company has total loss for about 3 years and the reservation for the equity is in negative value, therefore the possible method include bank loan for having capital for running the project. With the estimate interest value of businessman loan by local bank is about 10.34%. (MoneyHero, 2020)

Commercial Cooperation

To cooperate with business partners for having raise of money for HKD $1,677,000 for running a new project can be another possible solution. For the commercial cooperation with interest business partners can form cooperate partnership for long term in order to have business dealings with the company.

Issue Capital Fund Raising

The company can issue more capital fund for public on the fund raising of capital. The public can raise

Conclusion : Sincere can have 2 methods to complete the project

1) Sincere can use Current cash payment for the project as the cash and equivalents in 2019 can cover the whole project expenses
2) Sincere can Cooperate with other interest company for the raise of initial cost for the whole project, especially IT company

6. Recommendation Schedule in coming 4 Quarters

Base Upon the above analysis and project planning, we will provide an annual operational plan base on the company situation starting from the 4th Quarter of 2020 (October 2020 – December 2020) to the 3rd Quarter of 2021 (July 2021- Sept 2021)

1st Quarter 2021 (Jan 2021 – March 2021)

Base upon the situation of the COVID-19 virus cause loss of interest on store purchasing and depreciation of economy in global in the year of 2020. In 1st Quarter Sincere can give up one local store with the least revenue to save the costing of rental and employee cost. As the rental fee contribute to about 41.9% - 47.6% of the total cost expenses, this measure can save part of regular expenses.

In the 1st quarter of 2021 I suggest can transform product catalogue from providing clothing and electronics to provide daily fresh food supermarket and daily use items. The reason is the product import price can be lower than the original clothing and electronics and second is these types of product were the best seller in 2020 first half year. Besides they have the continuity needs of purchasing these items. Adding variety can attract more customers on the purchase of goods.

2nd Quarter 2021 (April 2021 – June 2021)

In the 2st quarter of 2021 can begin planning on transformation of business to online through development of Online Shopping Mall. As online purchasing becomes trend from the start of the COVID-19 virus. As the budget is low with a high rate of return, this can be a very rewardable market. I suggest can use cash on hand for the initial cost of the online mall project. With outsource of project to professional IT company.

Besides on the second quarter, I suggest can offer discount for customers in purchasing items. Such as Big Sale in the festival season and as well big discount provide for every customer in 65% - 80%. This can effectively boost the sales in short term effect.

3rd Quarter (July 2021 – Sept 2021)

In the 2nd Quarter of 2021 can continue on the planning of Online Shopping mall. Sincere will need to cooperate with the IT company to offer a list of items to be place on the online shopping mall. With the planning of website design and information to be include in the project. The operation mode can take sample from other big online shopping mall.

The Sincere company can review what are the most popular items from the previous sales record, and identify the least popular item from the sales, then eliminate those product with lowest sales record, increase the amount of the most popular product.

4th Quarter (Oct 2021 – Dec 2021)

On the 4th Quarter of 2021 can be the implementation of the Online shopping mall. With the final adjustment of the online mall website. The new online shopping mall can be promote with advertising Ads for the public to know the launch of new Online shopping website and use the new website for purchase of their favorite items. Expect the return of revenue can be raise by the new online shopping mall.

Besides base on the Christmas festival in December we suggest can use the Festival Season to provide the Seasonal Sales in order to boost the sales. We can provide more Promotion on the seasonal sales and attract customer to come. With the use of Social media platform Ads and advertising on metro store.

Reference

Sincere (2020) Company Profile, Available at : https://www.sincere.com.hk/department/ (Accessed : 13th August 2020)

HKEX (2020) Sincere, Available at : https://www.hkex.com.hk/Market-Data/Securities-Prices/Equities/Equities-Quote?sym=244&sc_lang=en (Accessed : 13th August 2020)

Gov Statistics of Department (2020) Report on Monthly Survey on Retail Sales, Available at : https://www.statistics.gov.hk/pub/B10800032020MM05B0100.pdf (Accessed : 13th August, 2020)

SCMP Shopping Malls (2018) HK mall operators report. Available at : https://www.scmp.com/business/article/2180037/hong-kong-mall-operators-report-solid-visitor-numbers-and-sales-growth (Accessed : 13th August, 2020)

HKEX (2020) Wing On Company International Ltd., Available at : https://www.hkex.com.hk/Market-Data/Securities-Prices/Equities/Equities-Quote?sym=289&sc_lang=en (Accessed : 13th August, 2020)

HKEX (2020) Lifestyle International Holdings Ltd., Available at : https://www.hkex.com.hk/Market-Data/Securities-Prices/Equities/Equities-Quote?sym=1212&sc_lang=en (Accessed : 13th August, 2020)

Sincere (2018) Sincere Annual Report 2017-18, Available at : https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0621/ltn20180621235.pdf (Accessed : 13th August, 2020)

Sincere (2019) Sincere Annual Report 2018-19, Available at ; https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0619/ltn20190619410.pdf (Accessed : 13th August, 2020)

Sincere (2020) Sincere Annual Report 2019-20, Available at : https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0616/2020061600471.pdf (Accessed : 13th August, 2020)

Wing On (2020) Annual Report 2019, Available at :
https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0429/2020042900505.pdf
(Accessed : 13th August, 2020)

Lifestyle International Holdings Ltd (2020) Annual Report 2019, Available at :
https://media.lifestylehk.com.hk/20200326184802218920456 5_en.pdf
(Accessed : 13th August, 2020)

WebFX (2020) How Much should a Website Cost in 2020, Available at :
https://www.webfx.com/How-much-should-web-site-cost.html
(Accessed : 13th August, 2020)

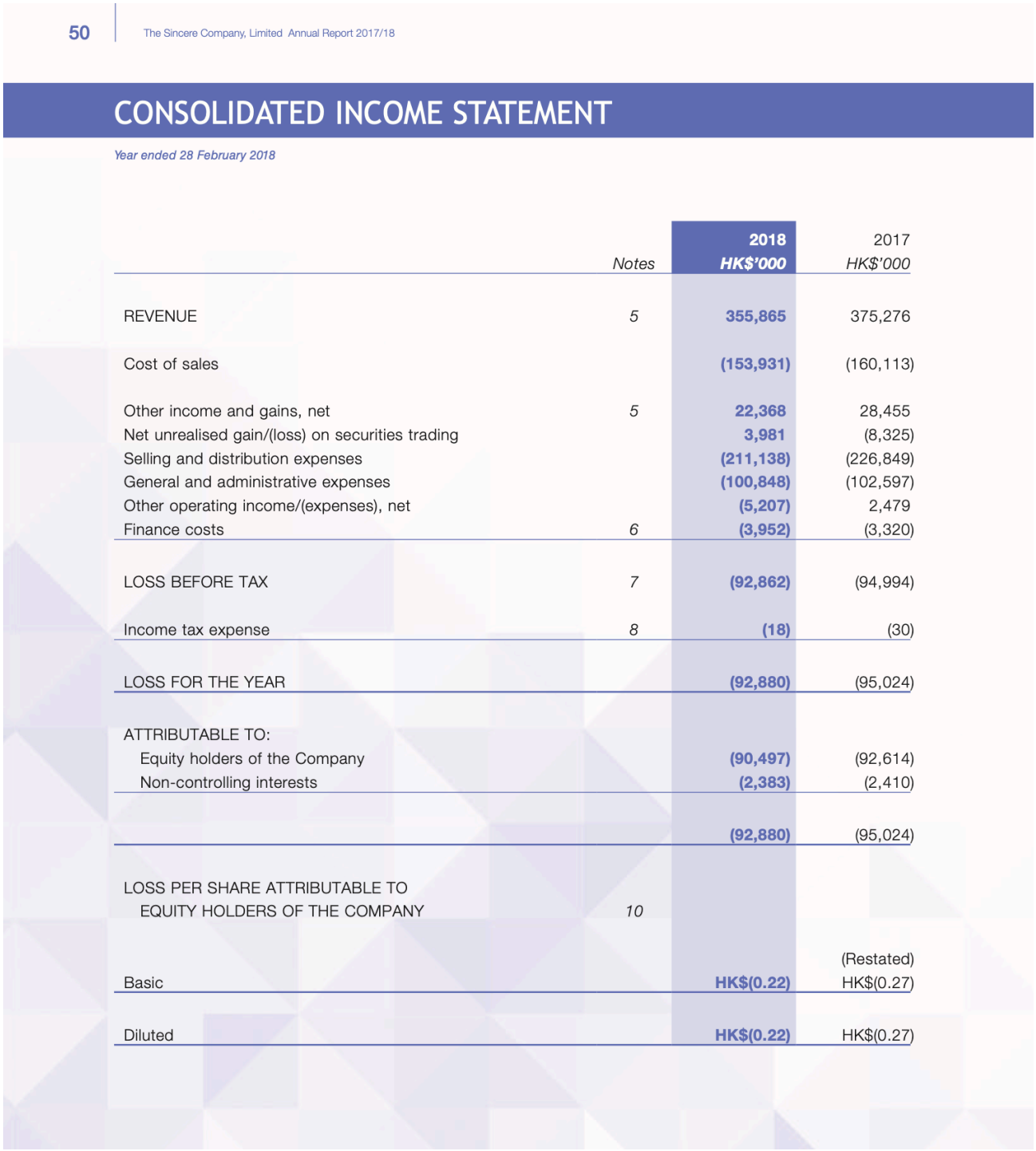
Focus Economics (2020) Hong Kong – Inflation, Available at :
https://www.focus-economics.com/country-indicator/hong-kong/inflation
(Accessed : 13th August, 2020)

MoneyHero (2020) Businessman Loan, Available at :
https://www.moneyhero.com.hk/en/personal-loan/commercial-lending
(Accessed : 13th August, 2020)

Sincere (2017) Interim Report, Available at :
https://www1.hkexnews.hk/listedco/listconews/sehk/2017/0621/ltn20170621370.pdf
(Accessed : 13th August, 2020)

Appendix

2017/18 Sincere Annual Report



50 The Sincere Company, Limited Annual Report 2017/18

CONSOLIDATED INCOME STATEMENT

Year ended 28 February 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	355,865	375,276
Cost of sales		(153,931)	(160,113)
Other income and gains, net	5	22,368	28,455
Net unrealised gain/(loss) on securities trading		3,981	(8,325)
Selling and distribution expenses		(211,138)	(226,849)
General and administrative expenses		(100,848)	(102,597)
Other operating income/(expenses), net		(5,207)	2,479
Finance costs	6	(3,952)	(3,320)
LOSS BEFORE TAX	7	(92,862)	(94,994)
Income tax expense	8	(18)	(30)
LOSS FOR THE YEAR		(92,880)	(95,024)
ATTRIBUTABLE TO:			
Equity holders of the Company		(90,497)	(92,614)
Non-controlling interests		(2,383)	(2,410)
		(92,880)	(95,024)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	10		
			(Restated)
Basic		HK$(0.22)	HK$(0.27)
Diluted		HK$(0.22)	HK$(0.27)

Fig. 2 Sincere 2017/18 Annual Report

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 28 February 2018

	2018 HK$'000	2017 HK$'000
LOSS FOR THE YEAR	(92,880)	(95,024)
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	699	(1,210)
Realisation of exchange fluctuation reserve upon deregistration of subsidiaries	9,678	(234)
Net other comprehensive income/(loss) to be reclassified to the income statement in subsequent periods	10,377	(1,444)
Other comprehensive income not to be reclassified to the income statement in subsequent periods:		
Actuarial gains on a defined benefit plan	7,882	11,828
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	(74,621)	(84,640)
ATTRIBUTABLE TO:		
Equity holders of the Company	(71,463)	(83,257)
Non-controlling interests	(3,158)	(1,383)
	(74,621)	(84,640)

Fig. 3 Sincere 2017/18 Annual Report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

28 February 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	35,607	47,211
Interests in associates	12	–	–
Financial instruments	13	26,326	26,326
Deposits and other receivables		30,236	32,309
Pension scheme assets	21	17,352	11,149
Total non-current assets		109,521	116,995
CURRENT ASSETS			
Inventories		69,287	76,178
Reinsurance assets	16	14	19
Prepayments, deposits and other receivables		15,961	17,067
Financial assets at fair value through profit or loss	14	153,406	154,597
Pledged bank balances	17(a)	4,447	39,845
Pledged deposits with banks	17(a)	70,873	75,221
Cash and bank balances	15	36,078	30,962
Total current assets		350,066	393,889
CURRENT LIABILITIES			
Creditors	18	66,452	63,294
Insurance contracts liabilities	19	1,221	1,227
Deposits, accrued expenses and other payables		33,951	31,615
Interest-bearing bank borrowings	17(a)	94,324	139,544
Other loans	17(b)	1,941	1,932
Tax payable		1	1
Total current liabilities		197,890	237,613
NET CURRENT ASSETS		152,176	156,276
TOTAL ASSETS LESS CURRENT LIABILITIES		261,697	273,271

Fig. 4 Sincere 2017/18 Annual Report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

28 February 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Accrued expenses and other payables		55,819	61,887
Interest-bearing bank borrowings	17(a)	–	2,828
Other loans	17(b)	1,046	1,026
Total non-current liabilities		56,865	65,741
NET ASSETS		204,832	207,530
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	22	377,236	287,180
Reserves	24	(208,904)	(137,441)
		168,332	149,739
Non-controlling interests		36,500	57,791
TOTAL EQUITY		204,832	207,530

Philip K H Ma
Director

Charles M W Chan
Director

Fig. 5 Sincere 2017/18 Annual Report

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 28 February 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(92,862)	(94,994)
Adjustments for:			
Interest expense	6	3,952	3,320
Interest income	7	(1,588)	(3,261)
Depreciation	7	7,741	16,140
Impairment of items of property, plant and equipment	7	5,366	–
Impairment/(reversal of impairment) of an interest in an associate	7	(9)	18
Reversal of provision for inventories	7	(6,387)	–
Gain on disposal of items of property, plant and equipment	7	(185)	(7,500)
Gain on deregistration of subsidiaries	7	(9,021)	(234)
Write-back of other payables	7	(59)	(2,444)
Write-back of impairment of a deposit	7	–	(2,500)
Bad debts written off	7	54	182
Exchange realignment		687	(1,196)
		(92,311)	(92,469)
Decrease/(increase) in inventories		13,278	(27,820)
Decrease in reinsurance assets		5	2
Decrease in prepayments, deposits and other receivables		3,125	18,238
Decrease in financial assets at fair value through profit or loss		1,191	48,185
Increase/(decrease) in creditors		3,158	(19,653)
Decrease in insurance contracts liabilities		(6)	(2)
Decrease in deposits, accrued expenses and other payables		(3,107)	(9,434)
Movement in pension scheme assets		1,679	451
Cash used in operations		(72,988)	(82,502)
Interest paid		(3,952)	(3,320)
Interest received		1,588	3,261
Overseas taxes paid		(18)	(30)
Net cash flows used in operating activities		(75,370)	(82,591)

Fig. 6 Sincere 2017/18 Annual Report

NOTES TO FINANCIAL STATEMENTS

28 February 2018

22. SHARE CAPITAL

	2018 HK$'000	2017 HK$'000
Issued and fully paid:		
918,892,800 (2017: 574,308,000) ordinary shares	377,236	287,180

As at 28 February 2018 and 28 February 2017, The Sincere Life Assurance Company Limited ("Sincere Life"), The Sincere Insurance & Investment Company, Limited ("Sincere I&I") and Sincere Perfumery, subsidiaries of the Company, held 183,136,032, 75,608,064 and 1,699,104 ordinary shares in the Company, respectively. Accordingly, 260,443,200 ordinary shares of the Company held by the Company's subsidiaries were recognised in the Group's consolidated financial statements as treasury shares through deduction from equity by HK$130,221,000.

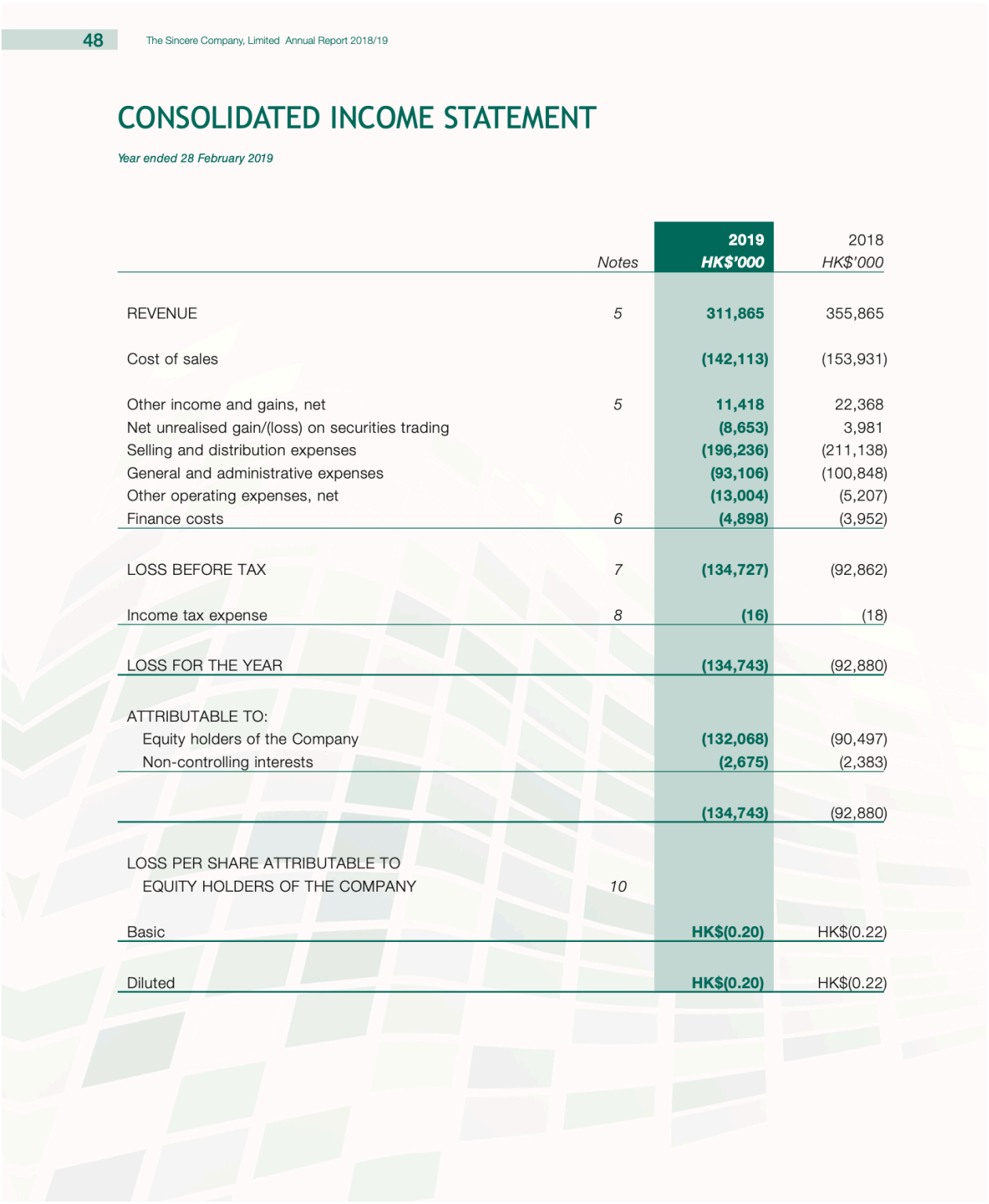
A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	Share capital HK$'000
At 1 March 2016, 28 February 2017 and 1 March 2017	574,308,000	287,180
Issue of shares	344,584,800	93,038
Share issue expenses	–	(2,982)
At 28 February 2018	918,892,800	377,236

Note:

Pursuant to the Company's announcement dated 26 October 2017 and the prospectus of the Company dated 27 November 2017, the Company proposed a rights issue on the basis of three rights shares for every five existing shares at the subscription price of HK$0.27 per rights share ("Rights Issue"). A total of 344,584,800 shares were issued under the Rights Issue on 20 December 2017. The gross proceeds from the Rights Issue are approximately HK$93,038,000. The net proceeds after deducting related expenses of approximately HK$2,982,000 were approximately HK$90,056,000.

Fig. 7 Sincere 2017/18 Annual Report



CONSOLIDATED INCOME STATEMENT

Year ended 28 February 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	5	**311,865**	355,865
Cost of sales		**(142,113)**	(153,931)
Other income and gains, net	5	**11,418**	22,368
Net unrealised gain/(loss) on securities trading		**(8,653)**	3,981
Selling and distribution expenses		**(196,236)**	(211,138)
General and administrative expenses		**(93,106)**	(100,848)
Other operating expenses, net		**(13,004)**	(5,207)
Finance costs	6	**(4,898)**	(3,952)
LOSS BEFORE TAX	7	**(134,727)**	(92,862)
Income tax expense	8	**(16)**	(18)
LOSS FOR THE YEAR		**(134,743)**	(92,880)
ATTRIBUTABLE TO:			
Equity holders of the Company		**(132,068)**	(90,497)
Non-controlling interests		**(2,675)**	(2,383)
		(134,743)	(92,880)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	10		
Basic		**HK$(0.20)**	HK$(0.22)
Diluted		**HK$(0.20)**	HK$(0.22)

Fig. 8 Sincere 2018/19 Annual Report

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 28 February 2019

	2019 HK$'000	2018 HK$'000
LOSS FOR THE YEAR	**(134,743)**	(92,880)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to the income statement in subsequent periods:		
Exchange differences arising on translation of foreign operations	**(425)**	699
Realisation of exchange fluctuation reserve upon deregistration of subsidiaries	**(2,036)**	9,678
Net other comprehensive income/(loss) that may be reclassified to the income statement in subsequent periods	**(2,461)**	10,377
Other comprehensive income/(loss) that will not be reclassified to the income statement in subsequent periods:		
Actuarial gains/(losses) on a defined benefit plan	**(1,519)**	7,882
Changes in fair value of equity investments designated at fair value through other comprehensive income	**(11,002)**	–
Net other comprehensive income/(loss) that will not be reclassified to the income statement in subsequent periods	**(12,521)**	7,882
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(149,725)**	(74,621)
ATTRIBUTABLE TO:		
Equity holders of the Company	**(147,337)**	(71,463)
Non-controlling interests	**(2,388)**	(3,158)
	(149,725)	(74,621)

Fig. 9 Sincere 2018/19 Annual Report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

28 February 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	27,261	35,607
Interests in associates	12	–	–
Equity investments designated at fair value through other comprehensive income	13	22,873	–
Financial instruments	13	–	26,326
Deposits and other receivables		25,654	30,236
Pension scheme assets	21	14,670	17,352
Total non-current assets		90,458	109,521
CURRENT ASSETS			
Inventories		66,896	69,287
Reinsurance assets	16, 19	24	14
Prepayments, deposits and other receivables		19,164	15,961
Financial assets at fair value through profit or loss	14	111,939	153,406
Pledged bank balances	17(a)	6,829	4,447
Pledged deposits with banks	17(a)	71,561	70,873
Cash and bank balances	15	32,318	36,078
Total current assets		308,731	350,066
CURRENT LIABILITIES			
Creditors	18	52,774	66,452
Insurance contracts liabilities	19	1,232	1,221
Deposits, accrued expenses and other payables		46,336	33,951
Contract liabilities		1,253	–
Interest-bearing bank borrowings	17(a)	190,045	94,324
Other loans	17(b)	2,100	1,941
Tax payable		1	1
Total current liabilities		293,741	197,890
NET CURRENT ASSETS		14,990	152,176
TOTAL ASSETS LESS CURRENT LIABILITIES		105,448	261,697

Fig. 10 Sincere 2018/19 Annual Report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

28 February 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Accrued expenses and other payables		**41,725**	55,819
Other loans	*17(b)*	**1,067**	1,046
Total non-current liabilities		**42,792**	56,865
NET ASSETS		**62,656**	204,832
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	*22*	**377,236**	377,236
Reserves	*24*	**(348,692)**	(208,904)
		28,544	168,332
Non-controlling interests		**34,112**	36,500
TOTAL EQUITY		**62,656**	204,832

Philip K H Ma
Director

Charles M W Chan
Director

Fig. 11 Sincere 2018/19 Annual Report

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 28 February 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(134,727)	(92,862)
Adjustments for:			
Interest expense	6	4,898	3,952
Bank interest income	7	(853)	(416)
Other interest income from financial assets at fair value through profit or loss	7	(727)	(1,172)
Depreciation	7	5,132	7,741
Impairment of items of property, plant and equipment	7	9,612	5,366
Impairment/(reversal of impairment) of an interest in an associate	7	4	(9)
Provision for an onerous contract	7	3,152	–
Reversal of provision for inventories	7	(9,384)	(6,387)
Gain on disposal of items of property, plant and equipment	7	(158)	(185)
Gain on deregistration of subsidiaries	7	(2,036)	(9,021)
Write-back of other payables	7	–	(59)
Bad debts written off	7	–	54
Exchange realignment		(414)	687
		(125,501)	(92,311)
Decrease in inventories		11,775	13,278
Decrease/(increase) in reinsurance assets		(10)	5
Decrease in prepayments, deposits and other receivables		1,379	3,125
Decrease in financial assets at fair value through profit or loss		41,467	1,191
Increase/(decrease) in creditors		(13,678)	3,158
Increase/(decrease) in insurance contracts liabilities		11	(6)
Decrease in deposits, accrued expenses and other payables		(4,861)	(3,107)
Increase in contract liabilities		1,253	–
Movement in pension scheme assets		1,163	1,679
Cash used in operations		(87,002)	(72,988)
Interest paid		(4,898)	(3,952)
Interest received		1,580	1,588
Overseas taxes paid		(16)	(18)
Net cash flows used in operating activities		(90,336)	(75,370)

Fig. 12 Sincere 2018/19 Annual Report

NOTES TO FINANCIAL STATEMENTS

28 February 2019

22. SHARE CAPITAL

	2019 HK$'000	2018 HK$'000
Issued and fully paid:		
918,892,800 (2018: 918,892,800) ordinary shares	**377,236**	377,236

As at 28 February 2019 and 28 February 2018, Sincere LA, Sincere II and Perfumery, subsidiaries of the Company, held 183,136,032, 75,608,064 and 1,699,104 ordinary shares in the Company, respectively. Accordingly, 260,443,200 ordinary shares of the Company held by the Company's subsidiaries were recognised in the Group's consolidated financial statements as treasury shares through deduction from equity by HK$130,221,000.

A summary of movements in the Company's share capital is as follows:

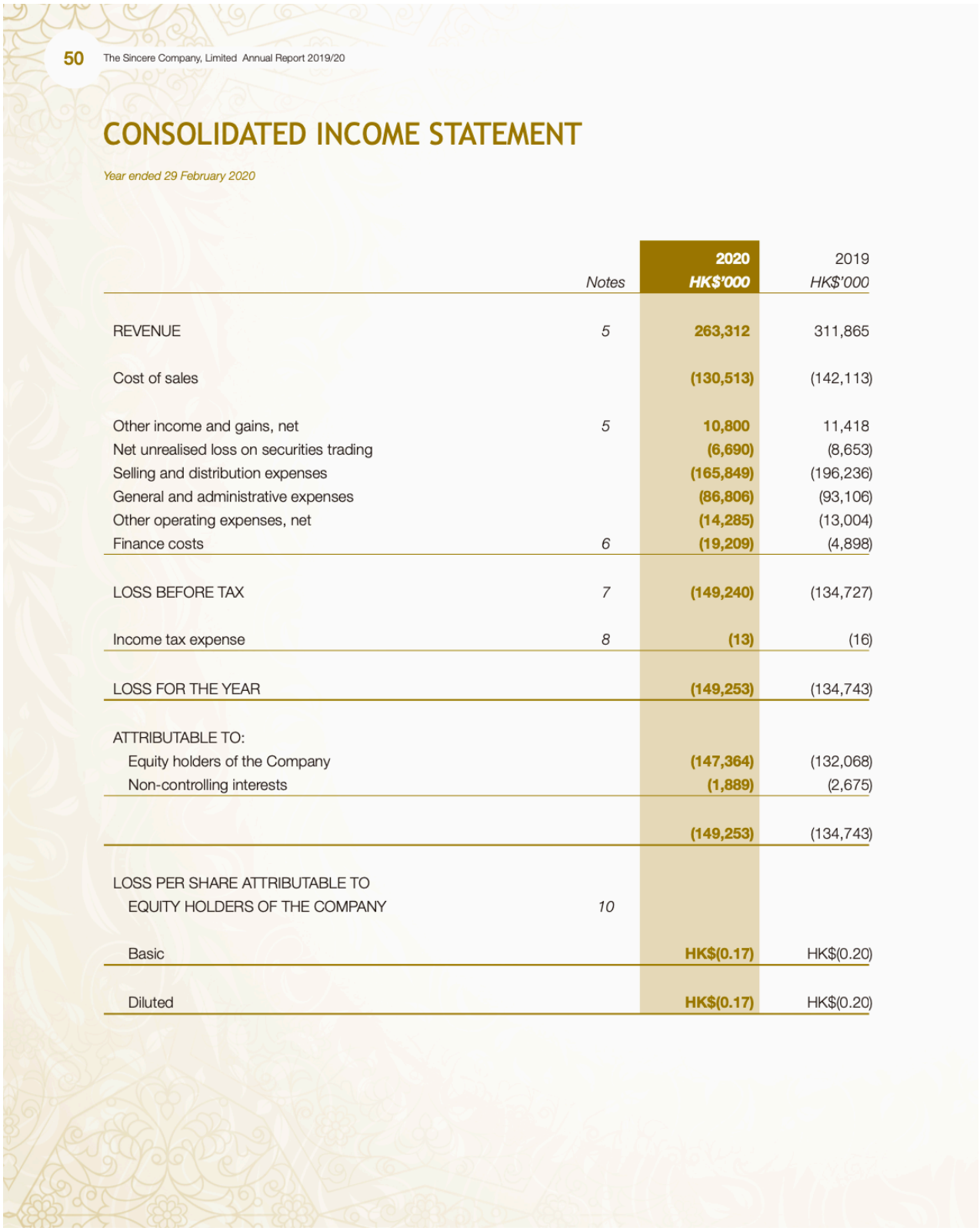
	Number of shares in issue	Share capital HK$'000
At 1 March 2017	574,308,000	287,180
Issue of shares	344,584,800	93,038
Share issue expenses	–	(2,982)
At 28 February 2018, 1 March 2018 and 28 February 2019	**918,892,800**	**377,236**

Note:

Pursuant to the Company's announcement dated 26 October 2017 and the prospectus of the Company dated 27 November 2017, the Company proposed a rights issue on the basis of three rights shares for every five existing shares at the subscription price of HK$0.27 per rights share ("Rights Issue"). A total of 344,584,800 shares were issued under the Rights Issue on 20 December 2017. The gross proceeds from the Rights Issue were approximately HK$93,038,000. The net proceeds after deducting related expenses of approximately HK$2,982,000 were approximately HK$90,056,000.

Fig. 13 Sincere 2018/19 Annual Report

2019/20 Sincere Annual Report



50 The Sincere Company, Limited Annual Report 2019/20

CONSOLIDATED INCOME STATEMENT

Year ended 29 February 2020

	Notes	2020 HK$'000	2019 HK$'000
REVENUE	5	263,312	311,865
Cost of sales		(130,513)	(142,113)
Other income and gains, net	5	10,800	11,418
Net unrealised loss on securities trading		(6,690)	(8,653)
Selling and distribution expenses		(165,849)	(196,236)
General and administrative expenses		(86,806)	(93,106)
Other operating expenses, net		(14,285)	(13,004)
Finance costs	6	(19,209)	(4,898)
LOSS BEFORE TAX	7	(149,240)	(134,727)
Income tax expense	8	(13)	(16)
LOSS FOR THE YEAR		(149,253)	(134,743)
ATTRIBUTABLE TO:			
Equity holders of the Company		(147,364)	(132,068)
Non-controlling interests		(1,889)	(2,675)
		(149,253)	(134,743)
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	10		
Basic		HK$(0.17)	HK$(0.20)
Diluted		HK$(0.17)	HK$(0.20)

Fig. 14 Sincere 2019/20 Annual Report

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 29 February 2020

	2020 HK$'000	2019 HK$'000
LOSS FOR THE YEAR	(149,253)	(134,743)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive loss that may be reclassified to the income statement in subsequent periods:		
Exchange differences arising on translation of foreign operations	(61)	(425)
Realisation of exchange fluctuation reserve upon deregistration of subsidiaries	–	(2,036)
Net other comprehensive loss that may be reclassified to the income statement in subsequent periods	(61)	(2,461)
Other comprehensive income/(loss) that will not be reclassified to the income statement in subsequent periods:		
Actuarial gains/(losses) on a defined benefit plan	1,257	(1,519)
Revaluation of leasehold land and owned buildings *(note 11)*	168,141	–
Changes in fair value of equity investments designated at fair value through other comprehensive income	(300)	(11,002)
Net other comprehensive income/(loss) that will not be reclassified to the income statement in subsequent periods	169,098	(12,521)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	19,784	(149,725)
ATTRIBUTABLE TO:		
Equity holders of the Company	21,329	(147,337)
Non-controlling interests	(1,545)	(2,388)
	19,784	(149,725)

Fig. 15 Sincere 2019/20 Annual Report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

29 February 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	336,805	27,261
Interests in associates	12	–	–
Equity investments designated at fair value through other comprehensive income	13	22,573	22,873
Deposits and other receivables		26,540	25,654
Pension scheme assets	22	14,672	14,670
Total non-current assets		400,590	90,458
CURRENT ASSETS			
Inventories		66,289	66,896
Reinsurance assets	16	7	24
Prepayments, deposits and other receivables		12,863	19,164
Financial assets at fair value through profit or loss	14	13,364	111,939
Pledged bank balances	17(a)	6,024	6,829
Pledged deposits with banks	17(a)	113,017	71,561
Cash and bank balances	15	13,761	32,318
Total current assets		225,325	308,731
CURRENT LIABILITIES			
Creditors	18	43,479	52,774
Lease liabilities	19	102,454	–
Insurance contracts liabilities	20	1,214	1,232
Deposits, accrued expenses and other payables		28,387	46,336
Contract liabilities		2,887	1,253
Interest-bearing bank borrowings	17(a)	156,719	190,045
Other loans	17(b)	2,136	2,100
Tax payable		–	1
Total current liabilities		337,276	293,741
NET CURRENT ASSETS/(LIABILITIES)		(111,951)	14,990
TOTAL ASSETS LESS CURRENT LIABILITIES		288,639	105,448

Fig. 16 Sincere 2019/20 Annual Report

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

29 February 2020

	Notes	2020 HK$'000	2019 HK$'000
NON-CURRENT LIABILITIES			
Deposits, accrued expenses and other payables		8,390	41,725
Other loans	17(b)	1,104	1,067
Lease liabilities	19	103,964	–
Total non-current liabilities		113,458	42,792
NET ASSETS		175,181	62,656
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	23	469,977	377,236
Reserves	25	(327,363)	(348,692)
		142,614	28,544
Non-controlling interests		32,567	34,112
TOTAL EQUITY		175,181	62,656

Philip K H Ma
Director

Charles M W Chan
Director

Fig. 17 Sincere 2019/20 Annual Report

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 29 February 2020

	Notes	2020 HK$'000	2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(149,240)	(134,727)
Adjustments for:			
Interest expense	6	19,209	4,898
Bank interest income	7	(1,039)	(853)
Other interest income from financial assets at fair value through profit or loss	7	(278)	(727)
Depreciation	7	95,572	5,132
Impairment of items of property, plant and equipment	7	14,213	9,612
Impairment of an interest in an associate	7	9	4
Provision for an onerous contract	7	–	3,152
Reversal of provision for inventories	7	(543)	(9,384)
Gain on disposal of items of property, plant and equipment	7	(213)	(158)
Gain on deregistration of subsidiaries	7	–	(2,036)
Write-back of other payables	7	(489)	–
Bad debts written off	7	1,295	–
Exchange realignment		(61)	(414)
		(21,565)	(125,501)
Decrease in inventories		1,150	11,775
Decrease/(increase) in reinsurance assets		17	(10)
Decrease in prepayments, deposits and other receivables		4,120	1,379
Decrease in financial assets at fair value through profit or loss		98,575	41,467
Decrease in creditors		(9,295)	(13,678)
Increase/(decrease) in insurance contracts liabilities		(18)	11
Decrease in deposits, accrued expenses and other payables		(2,148)	(4,861)
Increase in contract liabilities		1,634	1,253
Movement in pension scheme assets		1,255	1,163
Cash generated from/(used in) operations		73,725	(87,002)
Interest paid		(19,209)	(4,898)
Interest received		1,317	1,580
Overseas taxes paid		(14)	(16)
Net cash flows from/(used in) operating activities		55,819	(90,336)

Fig. 18 Sincere 2019/20 Annual Report

NOTES TO FINANCIAL STATEMENTS

29 February 2020

23. SHARE CAPITAL

	2020 *HK$'000*	2019 *HK$'000*
Issued and fully paid:		
1,313,962,560 (2019: 918,892,800) ordinary shares	**469,977**	377,236

As at 29 February 2020 and 28 February 2019, Sincere LA, Sincere II and Perfumery, subsidiaries of the Company, held 183,136,032, 75,608,064 and 1,699,104 ordinary shares in the Company, respectively. Accordingly, 260,443,200 ordinary shares of the Company held by the Company's subsidiaries were recognised in the Group's consolidated financial statements as treasury shares through deduction from equity by HK$130,221,000.

A summary of movements in the Company's share capital is as follows:

	Number of shares in issue	**Share capital** HK$'000
At 1 March 2018, 28 February 2019, and 1 March 2019	918,892,800	377,236
Issue of shares	395,069,760	102,718
Share issue expenses	–	(9,977)
At 29 February 2020	**1,313,962,560**	**469,977**

Note:

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

Fig. 19 Sincere 2019/20 Annual Report

Stock Value 2018-20

時段: 2020年2月28日 - 2020年2月29日　顯示: 過往股價　頻率: 每天　套用

貨幣為 HKD　下載

日期	開市	最高	最低	收市*	經調整收市價**	成交量
2020年2月28日	0.280	0.290	0.280	0.280	0.280	274,000

*收市價已按拆股調整。　**經調整收市價已按股息和拆股調整。

Fig. 20 Sincere Feb 2020 Stock Value



Fig. 21 Sincere Feb 2019 Stock Value



Fig. 22 Sincere Feb 2018 Stock Value

Sincere Market Capital / PE Ratio

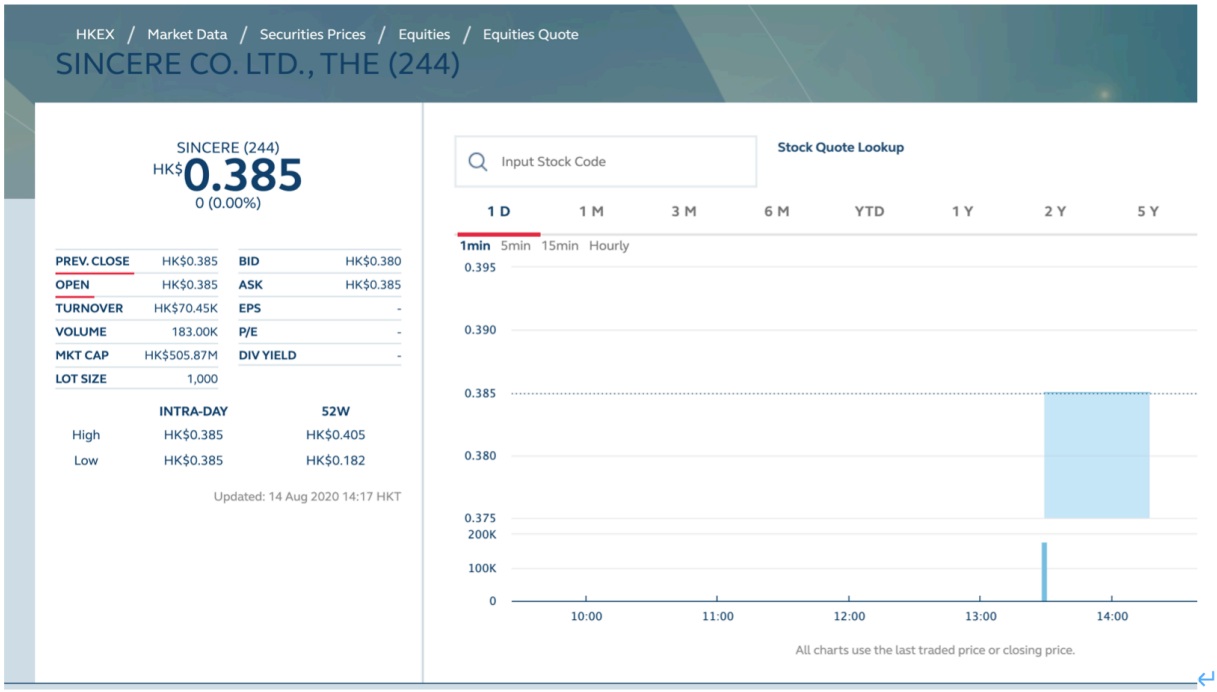


Fig. 23 Sincere Market Capital / PE Ratio

Wing On Market Capital / PE Ratio

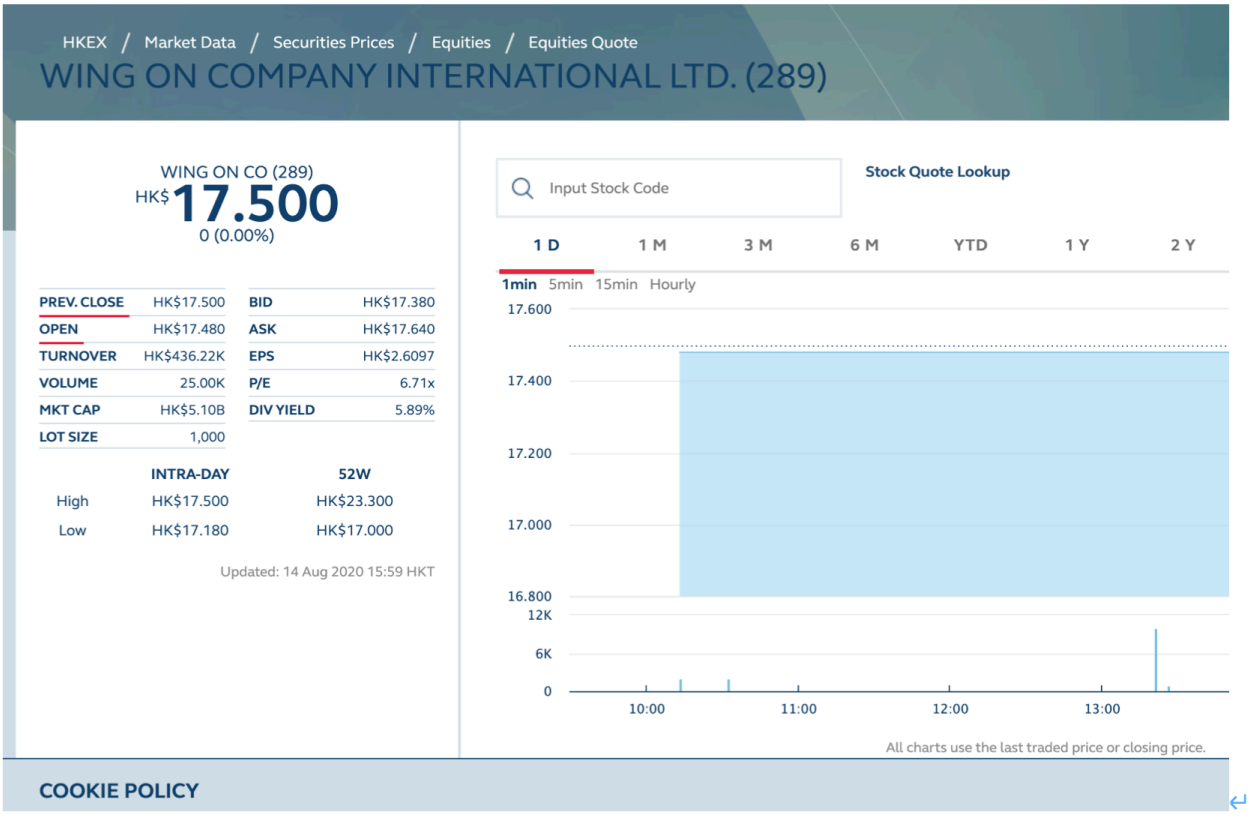


Fig. 24 Wing on Market Capital / PE Ratio

Lifestyle International Holdings Ltd. Market Capital / PE Ratio

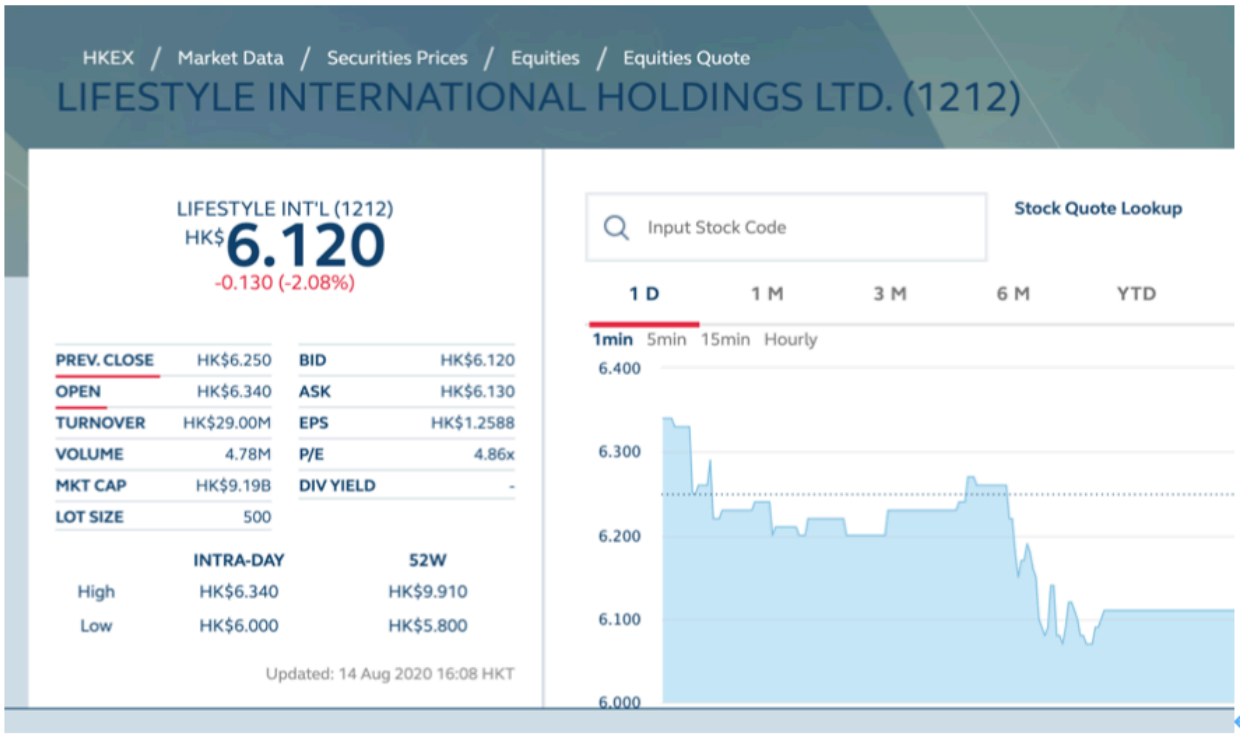


Fig. 25 Lifestyle International Holdings Ltd. Market Capital / PE Ratio

Project (USD)

	WEB DESIGN, WEB MAINTENANCE, AND WEB MARKETING COST
Web Design	$12,000 to $150,000 / design
Website Maintenance	$400 to $60,000 / year
Website Marketing	$2,500 to $12,000 / month
Website Design Services (Agency, Freelancer, or Website Builder)	$0 to $100,000
Website Maintenance Services (Agency, Freelancer, or Website Builder)	$0 to $5,500 / year

Fig. 26 Investment Project Budget Reference

Depreciation

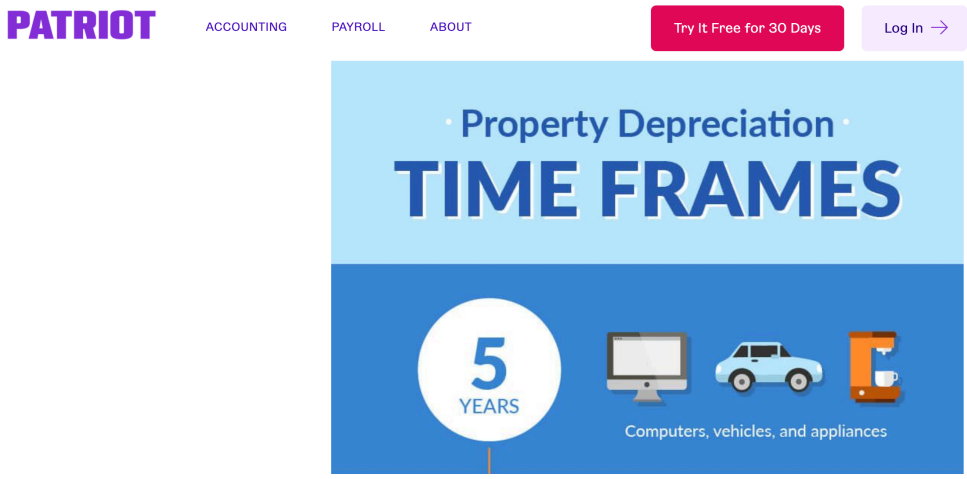


Fig. 27 Investment Project Depreciation Time Frame Reference