ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

24 November 2011

The Directors
Sitoy Group Holdings Limited
Merrill Lynch Far East Limited

Dear Sirs,

We set out below our report on the financial information of Sitoy Group Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for each of the years ended 30 June 2009, 2010 and 2011 (the "Relevant Periods"), and the combined statements of financial position of the Group and the statements of financial position of the Company as at 30 June 2009, 2010 and 2011, together with the notes thereto (the "Financial Information"), prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 24 November 2011 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 21 February 2008. Pursuant to a group reorganization (the "Reorganization") as set out in note 1 of Section II below, which was completed on 13 July 2011, the Company became the holding company of the other subsidiaries comprising the Group.

As at the date of this report, no statutory financial statements have been prepared for the Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the end of the Relevant Periods, the Company had direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. Except for the Company's subsidiaries established in the Mainland China which adopted 31 December as their financial year end date, the Company and its subsidiaries have adopted 30 June as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the "Directors") have prepared the combined financial statements of the Group (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"). The Underlying Financial Statements for each of the years ended 30 June 2009, 2010 and 2011 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

DIRECTORS' RESPONSIBILITY

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the HKICPA.

OPINION IN RESPECT OF THE FINANCIAL INFORMATION OF THE RELEVANT PERIODS

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group and the Company as at 30 June 2009, 2010 and 2011 and of the combined results and cash flows of the Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

Combined income statements

	Notes	Year ended 30 June 2009	2010	2011
		HK$'000	HK$'000	HK$'000
REVENUE	7	1,349,688	1,726,317	2,493,272
Cost of sales		(1,120,992)	(1,385,778)	(1,940,152)
Gross profit		228,696	340,539	553,120
Other income and gains	7	8,921	10,057	27,404
Selling and distribution costs		(39,614)	(43,413)	(55,924)
Administrative expenses		(96,672)	(106,233)	(157,513)
Other expenses		(2,558)	(3,743)	(414)
Finance costs	9	(2,971)	(4,063)	(3,817)
PROFIT BEFORE TAX	8	95,802	193,144	362,856
Income tax expense	12	(17,648)	(41,342)	(60,436)
PROFIT FOR THE YEAR		78,154	151,802	302,420
Attributable to:				
Owners of the parent	13	78,154	151,802	302,420

Details of the dividends for the Relevant Periods are disclosed in note 14 to the Financial Information.

Combined statements of comprehensive income

	Notes	Year ended 30 June 2009	2010	2011
		HK$'000	HK$'000	HK$'000
PROFIT FOR THE YEAR		78,154	151,802	302,420
OTHER COMPREHENSIVE INCOME				
Available-for-sale investment:				
Changes in fair value		–	–	(414)
Exchange differences on translation of foreign operations		(508)	4,394	14,129
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(508)	4,394	13,715
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		77,646	156,196	316,135
Attributable to:				
Owners of the parent	13	77,646	156,196	316,135

Combined statements of financial position

	Notes	As at 30 June 2009	2010	2011
		HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS				
Property, plant and equipment	16	103,584	183,411	284,003
Prepaid land lease payments	17	6,479	14,564	20,327
Deferred tax assets	18	10,103	11,335	10,360
Prepayments	22	24,609	14,210	3,176
Total non-current assets		144,775	223,520	317,866
CURRENT ASSETS				
Inventories	20	104,750	243,643	291,837
Trade receivables	21	145,496	160,978	239,860
Prepayments, deposits and other receivables	22	16,000	29,541	50,271
Amounts due from shareholders	25	6,147	–	–
Amount due from a related company	25	–	–	540
Available-for-sale investment	23	–	–	9,609
Pledged deposits	24	10,000	10,000	–
Cash and cash equivalents	24	31,745	50,146	80,390
Total current assets		314,138	494,308	672,507
CURRENT LIABILITIES				
Trade payables	26	106,330	155,379	197,972
Other payables and accruals	27	34,655	55,409	96,495
Interest-bearing bank borrowings	28	118,419	170,192	105,901
Tax payable		24,929	55,172	96,324
Amounts due to shareholders	25	–	59,192	–
Amount due to a related company	25	589	–	–
Total current liabilities		284,922	495,344	496,692
NET CURRENT ASSETS/(LIABILITIES)		29,216	(1,036)	175,815
TOTAL ASSETS LESS CURRENT LIABILITIES		173,991	222,484	493,681
NON-CURRENT LIABILITIES				
Deferred tax liabilities	18	2,885	5,182	244
Total non-current liabilities		2,885	5,182	244
Net assets		171,106	217,302	493,437
EQUITY				
Equity attributable to owners of the parent				
Issued capital	29	1	1	1
Reserves	30	171,105	217,301	493,436
Total equity		171,106	217,302	493,437

Combined statements of changes in equity

	Attributable to owners of the parent							
	Issued capital	Share premium account*	Merger reserve*	Statutory reserve fund*	Available-for-sale investment revaluation reserve*	Exchange fluctuation reserve*	Retained profits*	Total
	HK$'000 (note 29)	HK$'000 (note 30)	HK$'000 (note 30)	HK$'000 (note 30)	HK$'000	HK$'000	HK$'000	HK$'000
At 1 July 2008	1	–	4,030	–	–	958	118,471	123,460
Profit for the year	–	–	–	–	–	–	78,154	78,154
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	–	–	–	–	–	(508)	–	(508)
Total comprehensive income for the year	–	–	–	–	–	(508)	78,154	77,646
Final 2009 dividend declared (note 14)	–	–	–	–	–	–	(30,000)	(30,000)
At 30 June 2009 and 1 July 2009	1	–	4,030	–	–	450	166,625	171,106
Profit for the year	–	–	–	–	–	–	151,802	151,802
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	–	–	–	–	–	4,394	–	4,394
Total comprehensive income for the year	–	–	–	–	–	4,394	151,802	156,196
Final 2010 dividend declared (note 14)	–	–	–	–	–	–	(110,000)	(110,000)
At 30 June 2010 and 1 July 2010	1	–	4,030	–	–	4,844	208,427	217,302
Profit for the year	–	–	–	–	–	–	302,420	302,420
Other comprehensive income for the year:								
Changes in fair value of available-for-sale investment, net of tax	–	–	–	–	(414)	–	–	(414)
Exchange differences on translation of foreign operations	–	–	–	–	–	14,129	–	14,129

Combined statements of changes in equity *(continued)*

	Attributable to owners of the parent							
	Issued capital	Share premium account*	Merger reserve*	Statutory reserve fund*	Available-for-sale investment revaluation reserve*	Exchange fluctuation reserve*	Retained profits*	Total
	HK$'000 (note 29)	HK$'000 (note 30)	HK$'000 (note 30)	HK$'000 (note 30)	HK$'000	HK$'000	HK$'000	HK$'000
Total comprehensive income for the year	–	–	–	–	(414)	14,129	302,420	316,135
Interim 2011 dividend declared (note 14)	–	–	–	–	–	–	(40,000)	(40,000)
Special dividend declared (note 14)	–	–	–	–	–	–	(400,000)	(400,000)
Issue of shares	–	400,000	–	–	–	–	–	400,000
Transfer from retained profits	–	–	–	4,742	–	–	(4,742)	–
At 30 June 2011	1	400,000	4,030	4,742	(414)	18,973	66,105	493,437

* These reserve accounts comprise the combined reserves of HK$493,436,000 (2010: HK$217,301,000, 2009: HK$171,105,000) in the combined statements of financial position.

Combined statements of cash flows

	Notes	2009	2010	2011
		Year ended 30 June		
		HK$'000	HK$'000	HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		95,802	193,144	362,856
Adjustments for:				
Finance costs	9	2,971	4,063	3,817
Loss on disposal of items of property, plant and equipment	8	108	1,033	20
Depreciation	8	10,494	13,288	19,726
Amortization of prepaid land lease payments	8	99	201	371
Write-down of inventories to net realizable value	8	2,289	15,829	2,254
Write-off of long term lease payment		–	–	120
Exchange loss/(gain)		106	(1,103)	–
		111,869	226,455	389,164
Increase in trade receivables		(60,176)	(15,482)	(78,882)
Increase in prepayments, deposits and other receivables		(9,339)	(13,541)	(20,730)
Decrease/(increase) in inventories		45,748	(154,722)	(50,448)
(Increase)/decrease in amounts due from shareholders		(2,087)	6,147	–
Increase in amount due from a related company		–	–	(540)
(Decrease)/increase in trade payables		(2,727)	49,049	42,593
Increase in other payables and accruals		16,102	23,240	36,221
Increase/(decrease) in amount due to a related company		589	(589)	–
CASH GENERATED FROM OPERATIONS		99,979	120,557	317,378
Hong Kong profits tax paid		(7,508)	(8,364)	(9,041)
Mainland China tax paid		(1,346)	(1,670)	(13,724)
NET CASH FLOWS FROM OPERATING ACTIVITIES		91,125	110,523	294,613

Combined statements of cash flows *(continued)*

	Year ended 30 June		
	2009	**2010**	**2011**
	HK$'000	**HK$'000**	**HK$'000**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	(62,942)	(88,485)	(96,174)
Additions to prepaid land lease payments	–	(137)	–
Purchases of other intangible assets	–	–	(2,072)
Purchase of available-for-sale investment	–	–	(10,023)
Return of a prepayment in respect of prepaid land lease payments	1,818	–	–
Proceeds from disposal of items of property, plant and equipment	–	271	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(61,124)	(88,351)	(108,269)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank and other borrowings	37,023	73,765	20,000
Repayment of bank and other borrowings	(6,990)	(21,992)	(84,291)
(Increase)/decrease in pledged time deposits	(10,000)	–	10,000
Dividends paid	(34,171)	(50,808)	(99,192)
Interest paid	(2,971)	(4,063)	(3,817)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(17,109)	(3,098)	(157,300)
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,892	19,074	29,044
Cash and cash equivalents at beginning of year	19,427	31,745	50,146
Effect of foreign exchange rate changes, net	(574)	(673)	1,200
CASH AND CASH EQUIVALENTS AT END OF YEAR	31,745	50,146	80,390

Statements of financial position of the Company

	Notes	As at 30 June 2009	As at 30 June 2010	As at 30 June 2011
		HK$'000	HK$'000	HK$'000
CURRENT ASSETS				
Trade receivables	21	–	–	92
Prepayments	22	–	–	3,415
Amounts due from subsidiaries	25	–	–	397,551
Cash and cash equivalents	24	–	–	629
Total current asset		–	–	401,687
CURRENT LIABILITIES				
Other payables and accruals	27	–	–	11,326
Amount due to a subsidiary	25	60	86	–
Total current liabilities		60	86	11,326
NET CURRENT (LIABILITIES)/ASSETS		(60)	(86)	390,361
TOTAL ASSETS LESS CURRENT LIABILITIES		(60)	(86)	390,361
Net (liabilities)/assets		(60)	(86)	390,361
EQUITY				
Issued capital	29	1	1	1
Reserves	30	(61)	(87)	390,360
Total equity		(60)	(86)	390,361

II. NOTES TO FINANCIAL INFORMATION

1. CORPORATE INFORMATION

Sitoy Group Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 21 February 2008 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman, KY1-1112, Cayman Islands. In the opinion of the Directors, the Company's ultimate controlling shareholders are Mr. Yeung Michael Wah Keung and Mr. Yeung Wo Fai.

The principal activities of the Company and its subsidiaries (together, the "Group") are the manufacture and sale of handbags, small leather goods and travel goods.

The Company and its subsidiaries now comprising the Group underwent the Reorganization as set out in paragraph headed "Reorganization" in the section headed "Our History and Reorganization" to the Prospectus.

As at the date of this report, the Company had direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Name of company	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Subsidiaries					
Sitoy International Limited[(1)]	The British Virgin Islands ("BVI") 10 September 2010	United States dollar ("US$")1	100	–	Investment holding
Sitoy Handbag Factory Limited[(1)]	BVI 23 May 2011	US$100	100	–	Investment holding
Sitoy Investment International Limited[(1)]	BVI 23 May 2011	US$100	100	–	Investment holding
Sitoy (Hong Kong) Handbag Factory Limited[(2)] ("Sitoy Handbag")	Hong Kong 9 July 1982	HK$4,000,000	–	100	Manufacture and sale of handbags, small leather goods and travel goods
Sitoy Company Limited[(3)]	Hong Kong 29 July 1986	HK$30,000	–	100	Trading of handbags, small leather goods and travel goods

Name of company	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
			%	%	
Sitoy Retailing Limited[(4)]	Hong Kong 21 September 2010	HK$5,000,000	–	100	Investment holding and trading of handbags, small leather goods and travel goods
Sitoy (Yingde) Leather Products Co., Ltd.[(5)] ("Sitoy Yingde")	The People's Republic of China ("PRC")/ Mainland China 11 December 2006	HK$220,000,000	–	100	Manufacture and sale of handbags, small leather goods and travel goods
Dongguan Shidai Leather Products Factory Co., Ltd.[(5)]	PRC/Mainland China 13 July 1992	HK$60,000,000	–	100	Manufacture and sale of handbags, small leather goods and travel goods
Guangzhou Sitoy Leather Goods Company Limited*[(4)]	PRC/Mainland China 18 January 2011	HK$25,000,000	–	100	Retail of handbags, small leather goods and travel goods

Notes:

(1) No audited financial statements have been prepared for these entities for the years ended 30 June 2009, 2010 and 2011 (or since their respective dates of incorporation, where later than the beginning of the Relevant Periods), as the entities were not subject to any statutory audit requirements under the relevant rules and regulations in their jurisdictions of incorporation.

(2) The statutory financial statements of this entity for the year ended 30 June 2009 prepared under Hong Kong Financial Reporting Standards was audited by Armando Y.C. Chung & Co., Certified Public Accountants registered in Hong Kong. The statutory financial statements of this entity for the year ended 30 June 2010 prepared under Hong Kong Financial Reporting Standards were audited by us.

(3) The statutory financial statements of this entity for the years ended 30 June 2009 and 2010 prepared under Hong Kong Financial Reporting Standards were audited by us.

(4) No audited financial statements have been prepared for the entity since its date of incorporation.

(5) These entities are registered as wholly-foreign-owned enterprises under PRC Law. The financial year end of these entities is 31 December. The statutory financial statements for the years ended 31 December 2008, 2009 and 2010 prepared under PRC Generally Accepted Accounting Principles ("PRC GAAP") were audited by Daxin Certified Public Accountants Co., Ltd. Guangdong Branch (大信會計師事務有限公司廣東分所) (formerly known as "Dongguan Hualian Certified Public Accountants Co., Ltd." (東莞市華聯會計師事務所有限公司)), Certified Public Accountants registered in Mainland China.

The English names of the auditors registered in Mainland China represent the best efforts made by the Directors to translate the auditors' Chinese names as there are no official English names.

* The English name of the Company's subsidiary represents the translated name of the company as no English name has been registered.

2.1 BASIS OF PRESENTATION

Pursuant to the Reorganization as more fully explained in the paragraph headed "Reorganization" in the section headed "Our History and Reorganization" to the Prospectus, the Company became the holding company of all subsidiaries now comprising the Group subsequent to the end of the Relevant Periods on 13 July 2011. The companies now comprising the Group were under the common control of the controlling shareholders, Mr. Yeung Michael Wah Keung and Mr. Yeung Wo Fai, before and after the Reorganization. Accordingly, for the purpose of this report, the Financial Information has been prepared on a combined basis by applying the principles of merger accounting as if the Reorganization had been completed at the beginning of the Relevant Periods.

The combined income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the controlling shareholders, where this is a shorter period. The combined statements of financial position of the Group as at 30 June 2009, 2010 and 2011 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the controlling shareholders' perspective. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization.

Equity interests in subsidiaries and/or businesses held by parties other than the controlling shareholders, and changes therein, prior to the Reorganization are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on combination.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB. All IFRSs effective for the accounting periods commencing from 1 July 2010, together with the relevant transitional provisions, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention, except for available-for-sale investment which has been measured at fair value. The Financial Information is presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

3. ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the Financial Information:

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[2]
IFRS 9	*Financial Instruments*[5]
IFRS 10	*Consolidated Financial Statements*[5]
IFRS 11	*Joint Arrangements*[5]
IFRS 12	*Disclosure of Interests in Other Entities*[5]
IFRS 13	*Fair Value Measurement*[5]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[4]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets*[3]
IAS 19 (Revised)	*Employee Benefits*[5]
IAS 24 (Revised)	*Related Party Disclosures*[1]
IAS 27 (Revised)	*Separate Financial Statements*[5]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[5]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[1]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[5]

Apart from the above, IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2011
2 Effective for annual periods beginning on or after 1 July 2011
3 Effective for annual periods beginning on or after 1 January 2012
4 Effective for annual periods beginning on or after 1 July 2012
5 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that the new and revised IFRSs are unlikely to have any significant impact on the Group's results of operations and financial position.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of combination

This Financial Information incorporates the financial statements of the Company and its subsidiaries for the Relevant Periods. As explained in note 2.1 above, the acquisition of subsidiaries under common control has been accounted for using the merger method of accounting. The acquisition of all other subsidiaries during the Relevant Periods is accounted for using the acquisition method.

The merger method of accounting involves incorporating the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party. No amount is recognized in respect of goodwill or the excess of the acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over the cost of investment at the time of common control combination. The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

All income, expenses and unrealized gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on combination.

Non-controlling interest represents the equity in a subsidiary not attributable, directly or indirectly, to a parent. Losses are attributed to the non-controlling interest even if that results in a deficit balance.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Impairment of non-financial assets

When an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the combined income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortization) had no impairment loss been recognized for the asset in prior years. A reversal of such an impairment loss is credited to the combined income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly, or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the combined income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciation.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 to 50 years
Leasehold improvements	The shorter of the lease terms and their useful lives
Plant and machinery	3 to 10 years
Office equipment	4 to 10 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the combined income statement in the year the asset is derecognized is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery under construction or installation and testing which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction or installation and testing and capitalized borrowing costs on related borrowed funds during the period of construction or installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Research and development costs

All research costs are charged to the combined income statement as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the combined income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor are charged to the combined income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognized on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognized on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, pledged deposits, trade and other receivables, amounts due from shareholders, amount due from a related company and available-for-sale investment.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance income in the combined income statement. The loss arising from impairment is recognized in the combined income statement in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealized gains or losses recognized as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognized or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognized in other income and gains in the combined income statement and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognized in the combined income statement as "Other income and gains" in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial investments to assess whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the combined income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the impairment loss is recognized in the combined income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the combined income statement.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the combined income statement, is removed from other comprehensive income and recognized in the combined income statement.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgment. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the combined income statement — is removed from other comprehensive income and recognized in the combined income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the combined income statement. Increases in their fair value after impairment are recognized directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, interest-bearing bank borrowings, amounts due to a related company and amounts due to shareholders.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognized in the combined income statement when the liabilities are derecognized as well as through the effective interest rate method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in the combined income statement.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognized in the combined income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the combined statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the combined income statement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognized outside profit or loss is recognized outside profit or loss, either in other comprehensive income or directly in equity.

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

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognized 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 recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its Hong Kong employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 10% to 14% of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

Foreign currencies

The functional currency of the Company and non-Mainland China incorporated subsidiaries is HK$. The functional currency of the subsidiaries incorporated in Mainland China is Renminbi ("RMB"). The Financial Information is presented in HK$, which is the Group's presentation currency.

Foreign currency transactions recorded by the entities within the Group are initially recorded using their respective functional currency rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to the combined income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the Company's subsidiaries incorporated in Mainland China is RMB. As at the end of the reporting period, the assets and liabilities of this entity are translated into HK$ at the exchange rates ruling at the end of the reporting period and its income statement is translated into HK$ at the weighted average exchange rates for the year. The resulting exchange differences are recognized in other comprehensive income and accumulated in a separate component of equity. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the combined income statement.

For the purpose of the combined statement of cash flows, the cash flows of these entities are translated into HK$ at the exchange rates ruling at the dates of the cash flows. Frequent recurring cash flows of these entities which arise throughout the year are translated into HK$ at the weighted average exchange rates for the reporting period.

5. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's Financial Information requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Impairment of property, plant and equipment

Items of property, plant and equipment are tested for impairment if there is any indication that the carrying value of these assets may not be recoverable and the assets are subject to an impairment loss. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value-in-use calculation requires the Group to estimate the future cash flows expected to arise from the relevant cash-generating unit and a suitable discount rate is used in order to calculate the present value.

(ii) Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations, or competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(iii) Deferred tax assets

Deferred tax assets are recognized for all deductible temporary differences, and carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

(iv) Net realizable value of inventories

Net realizable value of an inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of a similar nature which could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at the end of the reporting period.

(v) Income tax

The Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgements based on currently enacted tax laws, regulations and other related policies are required in determining the provision of corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the differences are realized. Further details are contained in note 12 to the Financial Information.

6. SEGMENT INFORMATION

For management purposes, the Group is organized into business units based on their products and services and has two reportable operating segments as follows:

(a) Manufacturing: produces handbags, small leather goods and travel goods for branding and resale by others; and

(b) Retail: manufactures and retails handbags, small leather goods and travel goods for the brand owned by the Group.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except corporate and unallocated expenses are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

	Year ended 30 June 2009		
	Manufacturing	Retail	Total
	HK$'000	HK$'000	HK$'000
Segment revenue:			
Sales to external customers	1,349,688	–	1,349,688
Segment results	95,820	–	95,820
Reconciliation:			
Corporate and other unallocated expenses			(18)
Profit before tax			95,802
Segment assets	458,913	–	458,913
Segment liabilities	287,807	–	287,807
Other segment information:			
Depreciation of items of property, plant and equipment	10,494	–	10,494
Amortization of prepaid land lease payments	99	–	99
Write-down of inventories to net realizable value	2,289	–	2,289
Loss on disposal of items of property, plant and equipment	108	–	108
Operating lease rentals	5,825	–	5,825
Capital expenditure*	69,825	–	69,825

	Year ended 30 June 2010		
	Manufacturing	Retail	Total
	HK$'000	HK$'000	HK$'000
Segment revenue:			
Sales to external customers	1,726,317	–	1,726,317
Segment results	193,170	–	193,170
Reconciliation:			
Corporate and other unallocated expenses			(26)
Profit before tax			193,144
Segment assets	717,828	–	717,828
Segment liabilities	500,526	–	500,526
Other segment information:			
Depreciation of items of property, plant and equipment	13,288	–	13,288
Amortization of prepaid land lease payments	201	–	201
Write-down of inventories to net realizable value	15,829	–	15,829
Loss on disposal of items of property, plant and equipment	1,033	–	1,033
Operating lease rentals	5,054	–	5,054
Capital expenditure*	101,217	–	101,217

	Year ended 30 June 2011		
	Manufacturing	Retail	Total
	HK$'000	HK$'000	HK$'000
Segment revenue:			
Sales to external customers	2,492,543	729	2,493,272
Intersegment sales	834	–	834
	2,493,377	729	2,494,106
Reconciliation:			
Elimination of intersegment sales			(834)
Total revenue			2,493,272
Segment results	377,766	(5,253)	372,513
Reconciliation:			
Corporate and other unallocated expenses			(9,657)
Profit before tax			362,856
Segment assets	978,846	14,594	993,440
Reconciliation:			
Elimination of intersegment receivables			(7,203)
Corporate and other unallocated assets			4,136
Total assets			990,373
Segment liabilities	483,887	8,926	492,813
Reconciliation:			
Elimination of intersegment payables			(7,203)
Corporate and other unallocated liabilities			11,326
Total liabilities			496,936
Other segment information:			
Depreciation of items of property, plant and equipment	19,474	252	19,726
Amortization of prepaid land lease payments	371	–	371
Write-down of inventories to net realizable value	2,254	–	2,254
Operating lease rentals	5,663	2,645	8,308
Capital expenditure*	111,804	2,801	114,605

* Capital expenditure consists of additions to property, plant and equipment and prepaid land lease payments during the year.

Geographical information

(a) Revenue from external customers

	Year ended 30 June		
	2009	**2010**	**2011**
	HK$'000	**HK$'000**	**HK$'000**
North America	960,166	1,255,661	1,694,261
Europe	286,750	323,133	424,505
Mainland China, Hong Kong, Macau and Taiwan	22,749	39,953	219,756
Other Asian countries	74,908	106,818	151,695
Others	5,115	752	3,055
	1,349,688	1,726,317	2,493,272

The revenue information above is based on the region of the customers' distribution centers to which the products were shipped.

(b) Non-current assets

	30 June		
	2009	**2010**	**2011**
	HK$'000	**HK$'000**	**HK$'000**
Mainland China, Hong Kong, Macau and Taiwan	134,672	212,185	307,506

The non-current asset information above is based on the location of assets and excludes financial instruments and deferred tax assets.

Information about major customers

For the year ended 30 June 2009, revenue derived from sales by the manufacturing activities segment to two major customers amounting to HK$562,002,000 and HK$224,810,000 had accounted for over 10% of the Group's revenue, including sales to a group of entities which are known to be under common control of these customers. For the year ended 30 June 2010, revenue derived from sales by the manufacturing activities segment to three major customers amounting to HK$908,376,000, HK$181,573,000 and HK$173,723,000 had accounted for over 10% of the Group's revenue, including sales to a group of entities which are known to be under common control of these customers. For the year ended 30 June 2011, revenue derived from sales by the manufacturing activities segment to two major customers amounting to HK$1,327,559,000 and HK$300,707,000 had accounted for over 10% of the Group's revenue, including sales to a group of entities which are known to be under common control of these customers.

7. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold after allowances for returns, trade discounts and various types of government surcharges, where applicable.

An analysis of revenue, other income and gains is as follows:

	Year ended 30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Revenue			
Sale of goods	1,349,688	1,726,317	2,493,272
Other income and gains			
Exchange gains, net	–	–	11,645
Compensations from customers and suppliers	8,252	8,956	9,818
Government grants	–	993	5,259
Interest income	220	34	194
Others	449	74	488
	8,921	10,057	27,404

8. PROFIT BEFORE TAX

The Group's profit for the Relevant Periods is arrived at after charging/(crediting):

	Year ended 30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Cost of inventories sold	1,120,992	1,385,778	1,940,152
Employee benefit expense (including Directors' remuneration as set out in note 10)			
Wages and salaries	220,448	290,688	468,230
Pension scheme contributions	6,655	8,017	10,974
	227,103	298,705	479,204
Depreciation of items of property, plant and equipment (note 16)	10,494	13,288	19,726
Amortization of prepaid land lease payments (note 17)	99	201	371
Operating lease rentals	5,825	5,054	8,308
Write-down of inventories to net realizable value	2,289	15,829	2,254
Loss on disposal of items of property, plant and equipment	108	1,033	20
Auditors' remuneration	341	862	999
Exchange losses/(gains), net	2,415	2,456	(11,645)

9. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 30 June		
	2009	**2010**	**2011**
	HK$'000	**HK$'000**	**HK$'000**
Interest on bank borrowings wholly repayable within five years	2,971	4,063	3,817

10. DIRECTORS' REMUNERATION

Directors' remuneration during the Relevant Periods, disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 30 June		
	2009	**2010**	**2011**
	HK$'000	**HK$'000**	**HK$'000**
Fees	–	–	–
Salaries, allowances and benefits in kind	2,291	2,777	3,298
Pension scheme contributions	20	18	38
	2,311	2,795	3,336

Executive Directors

The remuneration paid to each of the executive Directors were as follows:

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 30 June 2009				
Yeung Michael Wah Keung	–	1,584	10	1,594
Yeung Wo Fai	–	707	10	717
	–	2,291	20	2,311
Year ended 30 June 2010				
Yeung Michael Wah Keung	–	1,714	9	1,723
Yeung Wo Fai	–	1,063	9	1,072
	–	2,777	18	2,795
Year ended 30 June 2011				
Yeung Michael Wah Keung	–	1,819	9	1,828
Yeung Wo Fai	–	1,063	9	1,072
Yu Chun Kau (i)	–	169	8	177
Chan Ka Dig Adam (i)	–	127	6	133
Yeung Andrew Kin (i)	–	120	6	126
	–	3,298	38	3,336

(i) Mr. Yu Chun Kau, Mr. Chan Ka Dig Adam and Mr. Yeung Andrew Kin were appointed as executive Directors of the Company on 23 May 2011.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the Relevant Periods.

As at 30 June 2011, the remuneration payable of the executive Directors amounted to HK$247,000 (30 June 2009: HK$16,000, 30 June 2010: HK$16,000) was recorded as payroll payable in other payables and accruals.

11. FIVE HIGHEST PAID EMPLOYEES

An analysis of the five highest paid employees within the Group during the Relevant Periods is as follows:

	Number of employees		
	Year ended 30 June		
	2009	2010	2011
Directors	1	2	4
Non-Directors	4	3	1
	5	5	5*

* Three of the five highest paid employees were appointed as executive Directors ("Newly Appointed Directors") of the Company on 23 May 2011.

Details of Directors' remuneration are set out in note 10 above.

Details of the remuneration of the above non-Director, highest paid employees are as follows:

	Year ended 30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Salaries, allowances and benefits in kind	3,908	3,184	6,278
Pension scheme contributions	184	159	313
	4,092	3,343	6,591

For the year ended 30 June 2011, the remuneration above includes the remuneration paid to the Newly Appointed Directors before their appointment as executive Directors. Except for the Newly Appointed Directors, salaries, allowances and benefits in kind and pension scheme contributions paid to a non-Director, who is the highest paid employee were amounted to HK$1,184,000 and HK$59,000, respectively.

The number of non-Director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees		
	Year ended 30 June		
	2009	2010	2011
Nil to HK$1,000,000	2	–	–
HK$1,000,001 to HK$1,500,000	2	3	1
	4	3	1

During the Relevant Periods, no Directors or highest paid individuals waived or agreed to waive any emoluments and no emoluments were paid by the Group to the non-Director and highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

12. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group is not subject to any income tax in the Cayman Islands and BVI.

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%, 2009: 16.5%) on the estimated assessable profits arising in Hong Kong during the Relevant Periods.

The provision for PRC corporate income tax ("CIT") is based on a statutory rate of 25% (2010: 25%, 2009: 25%) of the assessable profit of the subsidiaries in Mainland China as determined in accordance with the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") which was approved and became effective on 1 January 2008.

In accordance with the relevant income tax laws and regulations of the PRC for manufacturing enterprises, Sitoy Yingde was entitled to a 50% reduction in the CIT for the three years from 1 January 2010 to 31 December 2012. According to the New Corporate Income Tax Law, Foreign Investment Enterprise (the "FIE") that was set up prior to 16 March 2007 may continue to enjoy preferential tax treatments for up to five years starting from 1 January 2008. Therefore, the applicable income tax rate of Sitoy Yingde is 12.5% from 1 January 2010 to 31 December 2012.

Sitoy Handbag, a subsidiary of the Group incorporated in Hong Kong, performs manufacturing activities under contract processing arrangement with a contract processing factory in the Mainland China. According, there is a concessionary tax treatment that only 50% of the profit derived from the contract processing arrangement is subject to Hong Kong profits tax, provided that various criteria as set out in the Departmental Interpretation and Practice Notes No. 21 (revised) issued by the Hong Kong Inland Revenue Department are fulfilled. In addition, the contract processing factory is subject to CIT at a rate of 25% on the deemed profit generated in Mainland China. The deemed profit is calculated at a rate of 7% in the Relevant Periods, on the total deemed revenue which is determined by applying 7% gross up on the total processing costs incurred by the contract processing factory.

The major components of income tax expense are as follows:

	Year ended 30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Group:			
Current – Hong Kong			
Charge for the year	10,452	36,047	51,501
Overprovision in prior years	–	(6)	–
Current – Mainland China			
Charge for the year	14,108	4,152	18,152
Overprovision in prior years	–	–	(5,736)
Deferred tax (note 18)	(6,912)	1,149	(3,481)
Total tax charge for the year	17,648	41,342	60,436

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and the subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	Year ended 30 June 2009			
	Hong Kong	Mainland China	Cayman Islands	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Profit/(loss) before tax	115,942	(20,122)	(18)	95,802
Tax/(tax credit) at the statutory tax rate	19,130	(5,031)	–	14,099
Adjustments in respect of current tax of previous periods	–	213	–	213
CIT levied on a Hong Kong entity	–	4,463	–	4,463
Income not subject to tax	(6,166)	–	–	(6,166)
Expenses not deductible for tax	–	331	–	331
Additional provision for transfer pricing	–	1,069	–	1,069
Tax losses not recognized in current year	40	3,599	–	3,639
Tax charge at the Group's effective rate	13,004	4,644	–	17,648

	Year ended 30 June 2010			
	Hong Kong	Mainland China	Cayman Islands	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Profit/(loss) before tax	239,102	(45,932)	(26)	193,144
Tax/(tax credit) at the statutory tax rate	39,452	(11,483)	–	27,969
Adjustments in respect of current tax of previous periods	(6)	–	–	(6)
CIT levied on a Hong Kong entity	–	2,293	–	2,293
Income not subject to tax	(1,971)	–	–	(1,971)
Expenses not deductible for tax	289	377	–	666
Additional provision for transfer pricing	–	1,515	–	1,515
Deductible temporary differences not recognized, net	277	–	–	277
Tax losses not recognized in current year	32	6,643	–	6,675
Lower tax rate enacted by local authority	–	3,924	–	3,924
Tax charge at the Group's effective rate	38,073	3,269	–	41,342

	year ended 30 June 2011			
	Hong Kong	Mainland China	Cayman Islands	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Profit/(loss) before tax	276,954	95,455	(9,553)	362,856
Tax at the statutory tax rate	45,697	23,864	–	69,561
Adjustments in respect of current tax of previous periods	–	(5,736)	–	(5,736)
CIT levied on a Hong Kong entity	–	146	–	146
Income not subject to tax	(576)	–	–	(576)
Expenses not deductible for tax	792	662	–	1,454
Tax losses from previous periods utilized	(364)	(3,069)	–	(3,433)
Deductible temporary differences not recognized, net	630	–	–	630
Tax losses not recognized in current year	126	1,123	–	1,249
Lower tax rate enacted by local authority	–	(2,859)	–	(2,859)
Tax charge at the Group's effective rate	46,305	14,131	–	60,436

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The combined profit attributable to owners of the parent included the following amount, which has been dealt with in the Financial Information of the Company.

	Year ended 30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Loss (note 30)	(18)	(26)	(9,553)

14. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation.

The dividends declared by the Company's subsidiary to its then shareholders during the Relevant Periods were as follows:

	Year ended 30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Declared final dividend	30,000	110,000	–
Declared interim dividend	–	–	40,000
Declared special dividend	–	–	400,000
	30,000	110,000	440,000

The final dividend for the year ended 30 June 2009 of HK$30,000,000 proposed by the Board of Directors of Sitoy Handbag to its then shareholders was approved on 30 June 2009. The final dividend for the year ended 30 June 2010 of HK$110,000,000 proposed by the Board of Directors of Sitoy Handbag to its then shareholders was approved on 30 June 2010.

The interim dividend of HK$40,000,000 proposed by the Board of Directors of Sitoy Handbag to its then shareholders was approved on 31 December 2010. As part of the Reorganization, a special dividend of HK$400,000,000 proposed by the Board of Directors of Sitoy Handbag to its then shareholders was approved on 28 May 2011. Further details of the special dividend are set out in the paragraph headed "Dividends and dividend policy" in the section headed "Summary" to the Prospectus.

15. EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganization.

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:							
At 1 July 2008	3,129	11,231	34,722	24,289	5,626	20,279	99,276
Additions	–	905	3,726	3,822	2,402	52,393	63,248
Transfers	43,062	–	–	391	–	(43,453)	–
Disposals	–	–	(291)	(93)	(957)	–	(1,341)
Exchange realignment	(97)	(8)	(35)	(4)	(2)	(109)	(255)
At 30 June 2009 and 1 July 2009	46,094	12,128	38,122	28,405	7,069	29,110	160,928
Additions	–	597	9,924	4,916	3,642	73,961	93,040
Transfers	77,411	–	24,510	1,230	–	(103,151)	–
Disposals	–	(2,244)	(6,899)	(14,193)	(5,086)	–	(28,422)
Exchange realignment	855	45	359	64	13	152	1,488
At 30 June 2010 and 1 July 2010	124,360	10,526	66,016	20,422	5,638	72	227,034
Additions	29,867	9,235	26,745	4,072	709	38,678	109,306
Transfers	23,930	–	4,012	71	–	(28,013)	–
Disposals	–	(190)	(202)	(2,297)	–	–	(2,689)
Exchange realignment	7,336	525	3,423	557	110	191	12,142
At 30 June 2011	185,493	20,096	99,994	22,825	6,457	10,928	345,793
Accumulated depreciation:							
At 1 July 2008	1,299	4,511	21,515	16,098	4,673	–	48,096
Charge for the year	711	1,680	4,735	2,913	455	–	10,494
Disposals	–	–	(223)	(83)	(927)	–	(1,233)
Exchange realignment	(1)	(1)	(9)	(1)	(1)	–	(13)
At 30 June 2009 and 1 July 2009	2,009	6,190	26,018	18,927	4,200	–	57,344
Charge for the year	2,243	1,706	3,586	4,401	1,352	–	13,288
Disposals	–	(2,244)	(6,802)	(14,174)	(3,898)	–	(27,118)
Exchange realignment	19	13	66	10	1	–	109
At 30 June 2010 and 1 July 2010	4,271	5,665	22,868	9,164	1,655	–	43,623
Charge for the year	6,352	2,225	6,275	3,662	1,212	–	19,726
Disposals	–	(190)	(202)	(2,277)	–	–	(2,669)
Exchange realignment	294	125	549	118	24	–	1,110
At 30 June 2011	10,917	7,825	29,490	10,667	2,891	–	61,790
Net carrying amount:							
At 30 June 2009	44,085	5,938	12,104	9,478	2,869	29,110	103,584
At 30 June 2010	120,089	4,861	43,148	11,258	3,983	72	183,411
At 30 June 2011	174,576	12,271	70,504	12,158	3,566	10,928	284,003

The Group's land included in property, plant and equipment is situated in Hong Kong and is held under a medium term lease.

The net carrying amount of property, plant and equipment pledged as security for interest-bearing bank borrowings granted to the Group is as follows:

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Buildings (note 28)	1,772	1,714	1,656

As at 30 June 2011, the Group has not obtained certificates of real estate ownership from the relevant PRC government authorities for certain buildings with a net carrying amount of HK$30,026,000. Until the receipt of the certificates, the Group has no right to assign or pledge these buildings. The Group is in the process of obtaining the certificates.

17. PREPAID LAND LEASE PAYMENTS

Group

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Cost:			
At beginning of year	–	6,578	14,866
Additions	6,577	8,177	5,299
Exchange realignment	1	111	860
At end of year	6,578	14,866	21,025
Accumulated amortization:			
At beginning of year	–	99	302
Charge for the year	99	201	371
Exchange realignment	–	2	25
At end of year	99	302	698
Net carrying amount:			
At end of year	6,479	14,564	20,327

The leasehold lands are held under long term leases and are situated in Mainland China.

18. DEFERRED TAX

The movements in deferred tax assets and liabilities during the Relevant Periods are as follows:

Deferred tax assets

Group

	Losses available for offsetting against future taxable profit	Accruals and provisions	Accelerated tax depreciation	Provision against inventories	Temporary differences on prepaid land lease payments	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 July 2008	–	133	203	–	–	336
Deferred tax credited to the income statement during the year (note 12)	1,329	121	344	–	7,973	9,767
Gross deferred tax assets at 30 June 2009 and 1 July 2009	1,329	254	547	–	7,973	10,103
Deferred tax credited/(charged) to the income statement during the year (note 12)	(1,329)	50	265	2,327	(165)	1,148
Exchange realignment	–	–	–	–	84	84
Gross deferred tax assets at 30 June 2010 and 1 July 2010	–	304	812	2,327	7,892	11,335
Deferred tax credited/(charged) to the income statement during the year (note 12)	–	455	(104)	(1,636)	(172)	(1,457)
Exchange realignment	–	21	–	74	387	482
At 30 June 2011	–	780	708	765	8,107	10,360

The amount of unrecognized tax losses was HK$6,777,000, HK$39,877,000 and HK$34,275,000 as at 30 June 2009, 2010 and 2011, respectively.

Deferred tax liabilities

Group

	Unrealized loss arising from intra-group transactions
	HK$'000
At 1 July 2008	30
Deferred tax charged to the income statement during the year (note 12)	2,855
Gross deferred tax liabilities at 30 June 2009 and 1 July 2009	2,885
Deferred tax charged to the income statement during the year (note 12)	2,297
Gross deferred tax liabilities at 30 June 2010 and 1 July 2010	5,182
Deferred tax credited to the income statement during the year (note 12)	(4,938)
Gross deferred tax liabilities at 30 June 2011	244

19. INVESTMENT IN A SUBSIDIARY

Company

	30 June		
	2009	2010	2011
	HK$	HK$	HK$
Unlisted investment, at cost	–	–	8

Investment in a subsidiary represented the cost of the investment in Sitoy International Limited.

20. INVENTORIES

Group

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Raw materials	41,678	75,841	96,441
Work in progress	55,524	137,520	150,170
Finished goods	9,837	46,111	48,962
	107,039	259,472	295,573
Less: Provision against inventories	(2,289)	(15,829)	(3,736)
	104,750	243,643	291,837

21. TRADE RECEIVABLES

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Group			
Trade receivables	145,496	160,978	239,860
Impairment	–	–	–
	145,496	160,978	239,860
Company			
Trade receivables	–	–	92
Impairment	–	–	–
	–	–	92

The Group's trading terms with its customers are mainly on credit. The Group grants different credit periods to customers. The credit period of individual customers is considered on a case-by-case basis. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimize credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade receivables approximate to their fair values.

An aged analysis of the trade receivables as at the end of each of the Relevant Periods based on the invoice date and net of provisions, is as follows:

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Group			
Within 90 days	145,225	156,317	239,761
91 to 180 days	271	4,661	99
	145,496	160,978	239,860
Company			
Within 90 days	–	–	92
91 to 180 days	–	–	–
	–	–	92

An aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Group			
Neither past due nor impaired	114,623	149,980	214,497
Past due but not impaired			
Less than 90 days	30,873	10,998	25,363
	145,496	160,978	239,860
Company			
Neither past due nor impaired	–	–	92
Past due but not impaired			
Less than 90 days	–	–	–
	–	–	92

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the Directors believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Group			
Non-current portion:			
Prepayments for prepaid land lease payments and property, plant and equipment	24,609	14,090	1,104
Prepayment for other intangible asset	–	–	2,072
Long term lease payment	–	120	–
	24,609	14,210	3,176
Current portion:			
Prepayments	2,469	6,041	10,220
Deposits and other receivables	7,549	11,342	15,084
Value added tax	5,982	12,158	24,967
	16,000	29,541	50,271
Total	40,609	43,751	53,447
Company			
Current portion:			
Prepayments	–	–	3,415

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The carrying amounts of other receivables approximate to their fair values.

23. AVAILABLE-FOR-SALE INVESTMENT

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Unlisted debt investment, at fair value	–	–	9,609

During the year ended 30 June 2011, the loss in respect of the Group's available-for-sale investment recognized in other comprehensive income amounted to HK$414,000.

The available-for-sale investment was pledged as security for interest-bearing bank borrowings granted to the Group (note 28).

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Group			
Cash and bank balances	31,745	50,146	79,190
Time deposits	10,000	10,000	1,200
	41,745	60,146	80,390
Less: Pledged time deposits:			
Pledged for bank loans (note 28)	(10,000)	(10,000)	–
Cash and cash equivalents	31,745	50,146	80,390
Company			
Cash and bank balances	–	–	629
Time deposits	–	–	–
Cash and cash equivalents	–	–	629

The cash and bank balances of the Group denominated in RMB is as follows:

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Group			
Denominated in RMB	9,422	11,012	11,728
Company			
Denominated in RMB	–	–	–

The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents and pledged time deposits approximate to their fair values.

25. BALANCES WITH RELATED PARTIES AND SUBSIDIARIES

	Notes	30 June 2009	30 June 2010	30 June 2011
		HK$'000	HK$'000	HK$'000
Group				
Amounts due from shareholders	(i)	6,147	–	–
Amounts due to shareholders	(ii)	–	59,192	–
Amount due from a related company: Trandy Leather Goods Handbag Factory Limited	(iii)	–	–	540
Amount due to a related company: Trandy Leather Goods Handbag Factory Limited	(iii)	589	–	–
Company				
Amounts due from subsidiaries	(i)	–	–	397,551
Amount due to a subsidiary	(i)	60	86	–

Notes:

(i) The balances due from shareholders and due from subsidiaries/due to a subsidiary are non-trade in nature. The balances are unsecured, interest-free and repayable on demand.

The balances due from shareholders, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, is as follows:

	Year ended 30 June 2009	Year ended 30 June 2010	Year ended 30 June 2011
	HK$'000	HK$'000	HK$'000
Maximum amount outstanding during the year	24,915	40,524	–

The Directors confirmed that the amounts due from subsidiaries will be settled prior to the listing of the Company's shares on the Stock Exchange.

(ii) The balances due to shareholders are dividend payables, which are unsecured, interest-free and repayable on demand.

(iii) The balances due from/to a related company are trade in nature. The balances are unsecured, interest-free and repayable on demand.

The carrying amounts of the balances with related parties and subsidiaries approximate to their fair values.

26. TRADE PAYABLES

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Group			
Trade payables	106,330	155,379	197,972

An aged analysis of the outstanding trade payables as at the end of each of the Relevant Periods based on the invoice date, is as follows:

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Group			
Within 90 days	100,178	148,791	191,417
91 to 180 days	4,694	4,034	3,441
181 to 365 days	126	1,924	3,114
1 to 2 years	1,332	630	–
	106,330	155,379	197,972

The trade payables are non-interest-bearing and are normally settled within 90 days' terms. The carrying amounts of the trade payables approximate to their fair values.

27. OTHER PAYABLES AND ACCRUALS

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Group			
Payroll payable	23,439	37,245	48,332
Advances from customers	441	291	490
Accruals	1,553	2,423	15,544
Other payables	9,222	15,450	32,129
	34,655	55,409	96,495
Company			
Payroll payable	–	–	127
Accruals	–	–	11,185
Other payables	–	–	14
	–	–	11,326

The carrying amounts of other payables and accruals approximate to their fair values.

28. INTEREST-BEARING BANK BORROWINGS

Group

	30 June 2009		30 June 2010		30 June 2011	
	Maturity	HK$'000	Maturity	HK$'000	Maturity	HK$'000
Current						
Bank loans – secured	On demand	99,619	On demand	102,837	On demand	57,086
Current portion of long term bank loans – secured	On demand	18,800	On demand	67,355	On demand	48,815
		118,419		170,192		105,901
The bank loans bear interest at rates per annum in the range of	BLR-1.5% to BLR		BLR-2% to BLR or HIBOR+1.5% to HIBOR+2.25%		BLR-2% to BLR-1% or HIBOR+1.5% to HIBOR+2.25%	

* BLR represents Best Lending Rate of the banks; HIBOR represents 3-month Hong Kong Interbank Offered Rate.

The carrying amounts of the Group's bank loans approximate to their fair values.

At the end of each of the Relevant Periods, the Group's bank loans were denominated in the following currencies:

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
HK$	31,136	77,482	50,873
US$	65,535	68,555	55,028
Euro ("EUR")	21,748	24,155	–
	118,419	170,192	105,901

Certain banking facilities of the Group are subject to the fulfilment of covenants. As at 30 June 2009 and 2010, such covenants include:

(i) maintain tangible net worth of not less than HK$100 million;

(ii) amounts due from related companies for not more than HK$75 million;

(iii) provide to the bank a certified copy of its annual audited financial statements within 180 days after the end of each financial year.

As at 30 June 2009 and 2010, Sitoy Handbag breached certain financial covenants in the loan agreements. According to the loan agreements, the loans became immediately due and payable, and/or all or parts of the loans are repayable on demand in the case of breach.

As a result, the following long term bank loans are reclassified as current liabilities:

	30 June		
	2009	**2010**	**2011**
	HK$'000	**HK$'000**	**HK$'000**
Aggregate carrying amount	18,800	55,355	–

In 2011, the Directors renegotiated the loan covenants with the banks under the new banking facilities. In the opinion of the Directors, Sitoy Handbag has met all the financial covenants as stated therein as of 30 June 2011.

In addition, certain of the term loan agreements contain clauses which give the banks the right at their sole discretion to demand immediate repayment at any time irrespective of whether Sitoy Handbag has complied with the covenants and met the scheduled repayment obligations. The aggregate carrying amounts of long term bank loans that contain a repayment on demand clause, which have been reclassified as current liabilities, are as follows:

	30 June		
	2009	**2010**	**2011**
	HK$'000	**HK$'000**	**HK$'000**
Aggregate carrying amount	18,800	67,355	48,815

The Directors are of the opinion that the reclassification of the bank borrowings from non-current liabilities to current liabilities will not adversely affect the Group's financial and working capital position.

Without considering the breach of covenants and the banks' sole discretion to demand immediate repayment, the repayment schedule of the interest-bearing bank borrowings, based on the loan agreements, is as follows:

Group

	30 June 2009		30 June 2010		30 June 2011	
	Maturity	HK$'000	Maturity	HK$'000	Maturity	HK$'000
Current						
Bank loans – secured	2009	99,619	2010	102,837	2011	57,086
Current portion of long term bank loans – secured	2009-2013	18,800	2010-2014	67,355	2011-2014	48,815
		118,419		170,192		105,901
Analyzed into:						
Bank loans repayable:						
Within one year or on demand		107,414		123,341		74,376
In the second year		7,880		16,354		17,290
In the third to fifth years, inclusive		3,125		30,497		14,235
		118,419		170,192		105,901

The Group regularly monitors its compliance with these covenants and does not consider it probable that the bank will exercise its discretion to demand repayment for so long as the Group continues to meet these requirements. Further details of the Group's management of liquidity risk are set out in note 38.

Certain of the bank loans are secured by:

(i) A registered security over available-for-sale investment of HK$9,609,000 (2010 and 2009: registered security over deposits of HK$10,000,000);

(ii) A letter of undertaking from Sitoy Handbag not to create any debenture in favor of other banks without the bank's prior consent;

(iii) Various counter indemnities from Sitoy Handbag for issuance of a standby documentary credit;

(iv) A fixed amount first legal charge for HK$4,600,000 over certain buildings of the Group with net carrying amount of HK$1,772,000, HK$1,714,000 and HK$1,656,000 as at 30 June 2009, 2010 and 2011, respectively (note 16); and

(v) The Company's shareholder, Mr. Yeung Michael Wah Keung, has provided an unlimited guarantee of the bank loans amounting to HK$118,419,000, HK$170,192,000 and HK$105,901,000 as at 30 June 2009, 2010 and 2011, respectively. The Company's shareholder, Mr. Yeung Wo Fai, has provided a limited guarantee up to HK$12,000,000 (2009 and 2011: nil) of the bank loans amounting to HK$12,000,000 (2009 and 2011: nil) as at 30 June 2010, which was fully repaid by 30 June 2011 (note 35(b)).

Pursuant to the agreements reached by Sitoy Handbag and the banks on 30 June 2011 and 19 August 2011, respectively, the unlimited guarantee provided by Mr. Yeung Michael Wah Keung for the loans will be released with immediate effect upon successful listing of the shares of the Company on the Stock Exchange.

29. SHARE CAPITAL

Group and Company

(i) Prior to the Reorganization

Shares

	Nominal value of ordinary shares	Equivalent nominal value of ordinary shares
	US$	**HK$**
Authorized:		
50,000 ordinary shares of US$1 each as at 30 June 2009 and 2010	50,000	390,000
Issued and fully paid:		
100 ordinary shares of US$1 each issued and allotted upon incorporation on 21 February 2008	100	780
As at 30 June 2009 and 2010	100	780

The Company was incorporated in the Cayman Islands on 21 February 2008 with an authorized share capital of US$50,000 (equivalent to HK$390,000) divided into 50,000 ordinary shares of US$1 each.

(ii) Reorganization

Shares

Authorized:

Pursuant to the Board resolution dated 28 May 2011, the Company re-denominated its existing authorized share capital of US$50,000 divided into 50,000 shares of US$1 each to HK$388,000 divided into 3,880,000 shares of HK$0.10 each.

Issued and fully paid:

Pursuant to the Board resolution dated 28 May 2011, the Company allotted and issued 10,000 new shares to its then shareholders of HK$0.10 each for cash at par value to repurchase the 100 issued shares of US$1 at par value held by its then shareholders. Upon completion of the transaction, the issued and fully paid share capital of the Company was HK$1,000 divided into 10,000 shares of HK$0.10 each.

Pursuant to the Board resolution dated 28 May 2011, Mr. Yeung Michael Wah Keung and Mr. Yeung Wo Fai assigned their respective portion of dividends declared by Sitoy Handbag to the Company, respectively. In consideration of such assignments, the Company allotted and issued 200 new shares of HK$0.10 each of which 130 shares were issued to Mr. Yeung Michael Wah Keung for his portion of the special dividend declared by Sitoy Handbag amounting to HK$260,000,000 and 70 shares were issued to Mr. Yeung Wo Fai for his portion of the special dividends declared by Sitoy Handbag amounting to HK$140,000,000, all credited as full paid. The share premium arising from the 200 newly issued shares amounted to HK$399,999,980. These transactions were accounted for as major non-cash transactions during the year ended 30 June 2011.

A summary of the Company's authorized and issued share capital as at 30 June 2011 is as follows:

Shares

	Equivalent nominal value of ordinary shares
	HK$
Authorized:	
3,880,000 ordinary shares of HK$0.10 each	388,000
Issued and fully paid:	
10,200 ordinary shares of HK$0.10 each issued and allotted as at 30 June 2011	1,020

30. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the Relevant Periods are presented in the combined statements of changes in equity of the Financial Information.

Share premium

A share premium of HK$399,999,980 was recorded arising from the increase of the issued shares on 28 May 2011.

Merger reserve

The merger reserve represents the difference between the nominal value of shares of the subsidiaries acquired pursuant to the Reorganization, over the nominal value of the Company's shares issued in exchange therefor.

Statutory reserve fund

In accordance with the relevant PRC regulations applicable to wholly-foreign-owned companies, certain entities within the Group are required to allocate certain portion (not less than 10%), as determined by their Board of Directors, of their profit after tax in accordance with PRC GAAP to the statutory reserve fund (the "SRF") until such reserve reaches 50% of the registered capital.

The SRF is non-distributable other than in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalized as issued capital.

Company

	Share premium account	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000
At 1 July 2008	–	(43)	(43)
Total comprehensive income for the year	–	(18)	(18)
At 30 June 2009 and 1 July 2009	–	(61)	(61)
Total comprehensive income for the year	–	(26)	(26)
At 30 June 2010 and 1 July 2010	–	(87)	(87)
Total comprehensive income for the year	–	(9,553)	(9,553)
Issue of shares	400,000	–	400,000
At 30 June 2011	400,000	(9,640)	390,360

31. CONTINGENT LIABILITIES

At the end of each of the Relevant Periods, contingent liabilities not provided for in the financial statements were as follows:

Company

	30 June		
	2009	2010	2011
	HK$'000	HK$'000	HK$'000
Guarantee given to a bank in connection with facilities granted to:			
Subsidiary	–	–	328,815

As at 30 June 2011, the banking facilities granted to a subsidiary subject to guarantees given to banks by the Company were utilized to the extent of HK$105,901,000 (2010: nil, 2009: nil).

32. PLEDGE OF ASSETS

Details of the Group's bank loans which are secured by the assets of the Group are included in notes 16, 23, 24 and 28 to the Financial Information.

33. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years.

At the end of each of the Relevant Periods, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June		
	2009	**2010**	**2011**
	HK$'000	**HK$'000**	**HK$'000**
Group			
Within one year	4,615	5,981	10,874
In the second to fifth years, inclusive	13,352	18,480	25,606
After five years	5,908	2,815	1,543
	23,875	27,276	38,023

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the end of each of the Relevant Periods:

	30 June		
	2009	**2010**	**2011**
	HK$'000	**HK$'000**	**HK$'000**
Group			
Contracted, but not provided for:			
Properties and prepaid land lease payments	59,563	24,653	4,308
Other intangible asset	–	–	4,503
	59,563	24,653	8,811

35. RELATED PARTY TRANSACTIONS

(a) The Group had the following transactions with related parties during the Relevant Periods:

	Year ended 30 June		
	2009	**2010**	**2011**
	HK$'000	**HK$'000**	**HK$'000**
Processing fee:			
Trandy Leather Goods Handbag Factory Limited	19,304	10,845	10,185

In the opinion of the Directors, the above related party transactions were carried out in the ordinary course of business and on normal commercial terms mutually agreed by the respective parties.

The above transactions will continue after the listing of the Company's shares on the Stock Exchange.

(b) Other transactions with related parties:

The Company's shareholder, Mr. Yeung Michael Wah Keung, has provided an unlimited guarantee of the bank loans amounting to HK$118,419,000, HK$170,192,000 and HK$105,901,000 as at 30 June 2009, 2010 and 2011, respectively. The Company's shareholder, Mr. Yeung Wo Fai, has provided a limited guarantee up to HK$12,000,000 (2009 and 2011: nil) of the bank loans amounting to HK$12,000,000 (2009 and 2011: nil) as at 30 June 2010, which was fully repaid by 30 June 2011. Details of the bank loans are set out in note 28 to the Financial Information.

In the opinion of the Directors, the related party transactions were conducted on normal commercial terms and in the ordinary course of the Group's business.

Pursuant to the agreements reached by Sitoy Handbag and the banks on 30 June 2011, the unlimited guarantee provided by Mr. Yeung Michael Wah Keung for the loans will be released with immediate effect upon the successful listing of the shares of the Company on the Stock Exchange.

(c) Outstanding balances with related parties:

Details of the Group's balances with its related parties at the end of each of the Relevant Periods are disclosed in note 25 to the Financial Information.

(d) Compensation of key management personnel of the Group:

	30 June		
	2009	**2010**	**2011**
	HK$'000	**HK$'000**	**HK$'000**
Short term employee benefits	4,403	4,915	8,392
Post-employment benefits	113	125	292
Total compensation paid to key management personnel	4,516	5,040	8,684

Further details of Directors' emoluments are included in note 10 to the Financial Information.

36. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Group

Financial assets

	30 June				
	2009	2010	2011		
	Loans and receivables	Loans and receivables	Loans and receivables	Available-for-sale financial assets	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade receivables	145,496	160,978	239,860	–	239,860
Financial assets included in prepayments, deposits and other receivables	7,549	11,342	15,084	–	15,084
Amounts due from shareholders	6,147	–	–	–	–
Amount due from a related company	–	–	540	–	540
Available-for-sale investment	–	–	–	9,609	9,609
Pledged deposits	10,000	10,000	–	–	–
Cash and cash equivalents	31,745	50,146	80,390	–	80,390
	200,937	232,466	335,874	9,609	345,483

Financial liabilities

	30 June		
	2009	2010	2011
	Financial liabilities at amortized cost	Financial liabilities at amortized cost	Financial liabilities at amortized cost
	HK$'000	HK$'000	HK$'000
Trade payables	106,330	155,379	197,972
Financial liabilities included in other payables and accruals	34,214	55,118	96,005
Interest-bearing bank borrowings	118,419	170,192	105,901
Amounts due to shareholders	–	59,192	–
Amount due to a related company	589	–	–
	259,552	439,881	399,878

Company

Financial asset

	30 June		
	2009	2010	2011
	Loans and receivables	Loans and receivables	Loans and receivables
	HK$'000	HK$'000	HK$'000
Trade receivables	–	–	92
Amount due from subsidiaries	–	–	397,551
Cash and cash equivalents	–	–	629
	–	–	398,272

Financial liabilities

	30 June		
	2009	2010	2011
	Financial liabilities at amortized cost	Financial liabilities at amortized cost	Financial liabilities at amortized cost
	HK$'000	HK$'000	HK$'000
Financial liabilities included in other payables and accruals	–	–	11,326
Amount due to a subsidiary	60	86	–
	60	86	11,326

37. FAIR VALUE HIERARCHY

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value:

Group

	As at 30 June 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Available-for-sale investment:				
Debt investment	9,609	–	–	9,609

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, amounts due to shareholders and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and other receivables, which arise directly from its operations. The particular recognition methods adopted are disclosed in the accounting policy associated with each item in note 4 to the Financial Information.

It is, and has been during the Relevant Periods, the Group's policy that no trading in financial instruments should be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of the risks which are summarized below:

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using variable rate debts. At the end of each of the Relevant Periods, 100% of the Group's interest-bearing borrowings bore interest at floating rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variable held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

Group:

	Increase/(decrease) in basis points	Increase/(decrease) in profit before tax
		HK$'000
2009	100	(97)
	(100)	97
2010	100	(493)
	(100)	493
2011	100	(550)
	(100)	550

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. During the year ended 30 June 2011, 99.94% (2010: 99.97%, 2009: 99.92%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 38% (2010: 26%, 2009: 7%) of costs were denominated in the units' functional currency.

As at 30 June 2011, total notional amount of outstanding forward foreign exchange contracts that the Group has committed are EUR1,700,000 (2010: nil, 2009: nil), and their fair values are estimated to be nil (2010: nil, 2009: nil). The contracts mainly related to buying of US$ with maturities in first half year subsequent to 30 June 2011.

The following table demonstrates the sensitivity at the end of each of the Relevant Periods to a reasonably possible change in the US$, EUR and RMB exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

Group:

	Increase/(decrease) in US$/EUR/RMB	Increase/(decrease) in profit before tax
	%	HK$'000
2009		
If HK$ weakens against US$	5	1,443
If HK$ strengthens against US$	(5)	(1,443)
If HK$ weakens against EUR	5	202
If HK$ strengthens against EUR	(5)	(202)
If HK$ weakens against RMB	5	1,664
If HK$ strengthens against RMB	(5)	(1,664)
2010		
If HK$ weakens against US$	5	615
If HK$ strengthens against US$	(5)	(615)
If HK$ weakens against EUR	5	1,030
If HK$ strengthens against EUR	(5)	(1,030)
If HK$ weakens against RMB	5	8,080
If HK$ strengthens against RMB	(5)	(8,080)
2011		
If HK$ weakens against US$	5	8,445
If HK$ strengthens against US$	(5)	(8,445)
If HK$ weakens against EUR	5	365
If HK$ strengthens against EUR	(5)	(365)
If HK$ weakens against RMB	5	7,795
If HK$ strengthens against RMB	(5)	(7,795)

Credit risk

The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, and therefore, the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged deposits, available-for-sale investment, amounts due from shareholders, amount due from a related company and other receivables, arises from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

As at 30 June 2011, the Group had certain concentrations of credit risk as 21% (2010: 41%, 2009: 14%) and 57% (2010: 75%, 2009: 56%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank and other borrowings. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of the Group's financial liabilities as at the end of each of the Relevant Periods is as follows:

Group

30 June 2009	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	28,505	77,825	–	–	106,330
Other payables and accruals	34,214	–	–	–	34,214
Interest-bearing bank borrowings (note)	118,419	–	–	–	118,419
Amount due to a related company	589	–	–	–	589
	181,727	77,825	–	–	259,552

30 June 2010	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	67,950	87,429	–	–	155,379
Other payables and accruals	55,118	–	–	–	55,118
Interest-bearing bank borrowings (note)	170,192	–	–	–	170,192
Amounts due to shareholders	59,192	–	–	–	59,192
	352,452	87,429	–	–	439,881

30 June 2011	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Trade payables	56,527	141,445	–	–	197,972
Other payables and accruals	96,005	–	–	–	96,005
Interest-bearing bank borrowings (note)	105,901	–	–	–	105,901
	258,433	141,445	–	–	399,878

Note: The related loan agreements contain repayment on demand clauses which give the banks at their sole discretion to demand immediate repayment at any time, and therefore, for the purpose of the above maturity profile, the total amounts are classified as "on demand". Based on the original repayment schedule, the maturity profile of the contractual undiscounted payments of the Group's interest-bearing bank borrowings at the end of each of the Relevant Periods are as follows:

30 June 2009	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Interest-bearing bank borrowings subject to repayment on demand clauses: scheduled repayments	–	97,899	10,178	11,410	119,487

30 June 2010	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Interest-bearing bank borrowings subject to repayment on demand clauses: scheduled repayments	–	104,639	20,593	49,081	174,313

30 June 2011	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Interest-bearing bank borrowings subject to repayment on demand clauses: scheduled repayments	–	61,719	13,721	32,318	107,758

Company

30 June 2009	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Amount due to a subsidiary	60	–	–	–	60

30 June 2010	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Amount due to a subsidiary	86	–	–	–	86

30 June 2011	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Other payables and accruals	11,326	–	–	–	11,326

Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and a healthy capital ratio in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's net debt consists of interest-bearing bank borrowings, amounts due to shareholders less cash and cash equivalents. Capital includes total equity.

At the end of each of the Relevant Periods, the Group's strategy was to maintain the net borrowings to equity ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The gearing ratio at the end of each of the Relevant Periods are as follows:

Group

	30 June		
	2009	**2010**	**2011**
	HK$'000	**HK$'000**	**HK$'000**
Interest-bearing bank borrowings	118,419	170,192	105,901
Amounts due to shareholders	–	59,192	–
Less: Cash and cash equivalents	(31,745)	(50,146)	(80,390)
Net debt	86,674	179,238	25,511
Total equity	171,106	217,302	493,437
Capital and net debt	257,780	396,540	518,948
Gearing ratio	34%	45%	5%

39. EVENTS AFTER THE REPORTING PERIOD

On 13 July 2011, the Reorganization as more fully explained in the paragraph headed "Reorganization" in the section headed "Our History and Reorganization" to the Prospectus was completed and the Company became the holding company of all subsidiaries now comprising the Group.

Pursuant to the agreement reached by Sitoy Handbag and one of the banks on 19 August 2011, the unlimited guarantee provided by Mr. Yeung Michael Wah Keung for the loans of the bank will be released with immediate effect upon successful listing of the shares of the Company on the Stock Exchange.

On 15 November 2011, the Company increased its authorized share capital from HK$388,000 divided into 3,880,000 shares to HK$300,000,000 divided into 3,000,000,000 shares.

III. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 30 June 2011.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong