Sitoy Group Holdings Limited

Annual Report 2012 年報

Sitoy Group Holdings Limited
時代集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)

Stock Code 股份代號：1023

Our Values

Sitoy Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") are one of the world's leading manufacturer of branded high-end and luxury handbags, small leather goods and travel goods. The Group is principally engaged in designing, researching, developing and manufacturing handbags, small leather goods, and travel goods on behalf of leading international high-end and luxury brands. Since 2011, the Group entered into the rapidly growing China handbag retailing market and to become a vertically integrated handbag and small leather good company.

Contents

Corporate Information

Board of Directors

Executive Directors

Mr. Yeung Michael Wah Keung *(Chairman)*
Mr. Yeung Wo Fai *(Chief Executive Officer)*
Mr. Yu Chun Kau
Mr. Chan Ka Dig Adam
Mr. Yeung Andrew Kin

Independent Non-executive Directors

Mr. Yeung Chi Tat
Mr. Kwan Po Chuen, Vincent
Mr. Lung Hung Cheuk

Authorized Representatives

Mr. Yeung Wo Fai
Mr. Yu Chun Kau

Company Secretary

Mr. Yu Chun Kau

Registered Office

Scotia Centre, 4th Floor
P.O. Box 2804, George Town
Grand Cayman KY1-1112
Cayman Islands

Head Office and Principal Place of Business in Hong Kong

4–5th Floor, The Genplas Building
56 Hoi Yuen Road, Kwun Tong
Kowloon, Hong Kong

Principal Place of Business in the People's Republic of China

The Third Industrial District
Qiaotou Village, Houjie Town
Dongguan, Guangdong Province
The People's Republic of China

Board Committees

Audit Committee Members

Mr. Yeung Chi Tat *(Chairman)*
Mr. Kwan Po Chuen, Vincent
Mr. Lung Hung Cheuk

Remuneration Committee Members

Mr. Lung Hung Cheuk *(Chairman)*
Mr. Yeung Michael Wah Keung
Mr. Yeung Chi Tat

Nomination Committee Members

Mr. Yeung Michael Wah Keung *(Chairman)*
Mr. Kwan Po Chuen, Vincent
Mr. Lung Hung Cheuk

Legal Adviser as to Hong Kong Laws

Woo Kwan Lee & Lo

Compliance Adviser

Guangdong Securities Limited

Principal Bankers

The Hong Kong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

Corporate Information

Cayman Islands Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre, 183 Queen's Road East
Wanchai, Hong Kong

Auditors

Ernst & Young

Stock Code

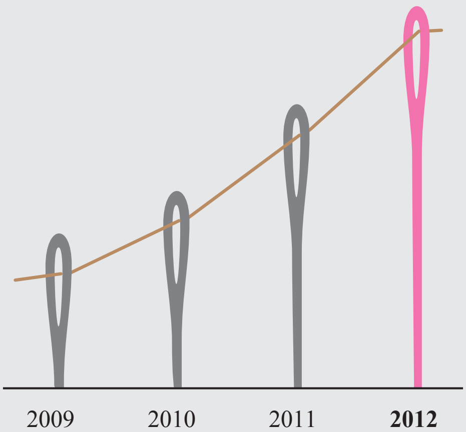
1023

Company Website

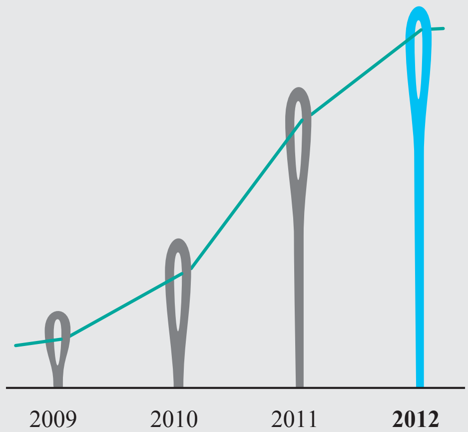
www.sitoy.com

Financial Highlights

Revenue
HK$'000

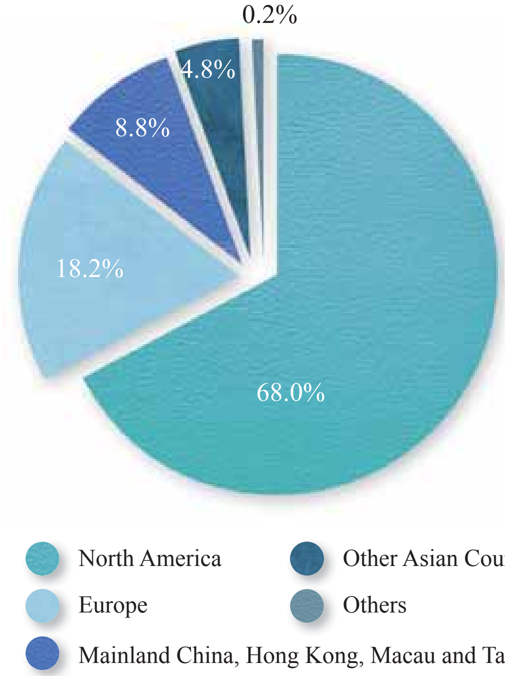


Profit attributable to Owners of the Company
HK$'000

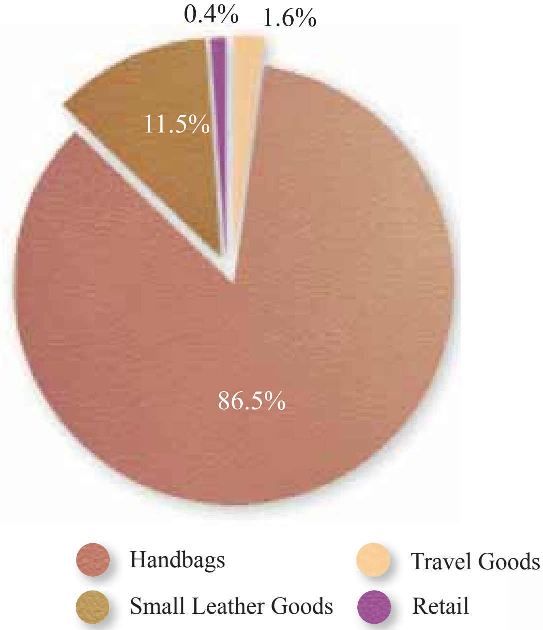


Consolidated revenue increased 33.9% year-on-year to HK$3,338.2 million

2012 Revenue by Geogaphical Segment



2012 Revenue by Operating Segment and Product Type



Geographically, North America and Europe continued to be our two largest markets

Financial Highlights

	Year ended 30 June	
	2012	2011
	HK$'000	HK$'000
Revenue	**3,338,241**	2,493,272
Gross profit	**741,383**	553,120
Earnings before interest and taxation	**464,712**	366,673
Profit attributable to owners of the Company	**381,008**	302,420
Net assets per share (Note 1)	**HK$1.77**	HK$0.66
Basic earnings per share (Note 2) (approximately)	**HK$0.43**	HK$0.40
Dividends per share (Note 3)	**HK$0.20**	–
Total assets	**1,917,889**	990,373
Net assets	**1,578,934**	493,437
Current ratio	**4.59**	1.35
Quick ratio	**3.47**	0.77
Gearing ratio (approximately)	**N/A**	4.9%
Return on equity	**24.1%**	61.3%
Return on total assets	**19.9%**	30.5%

Notes:

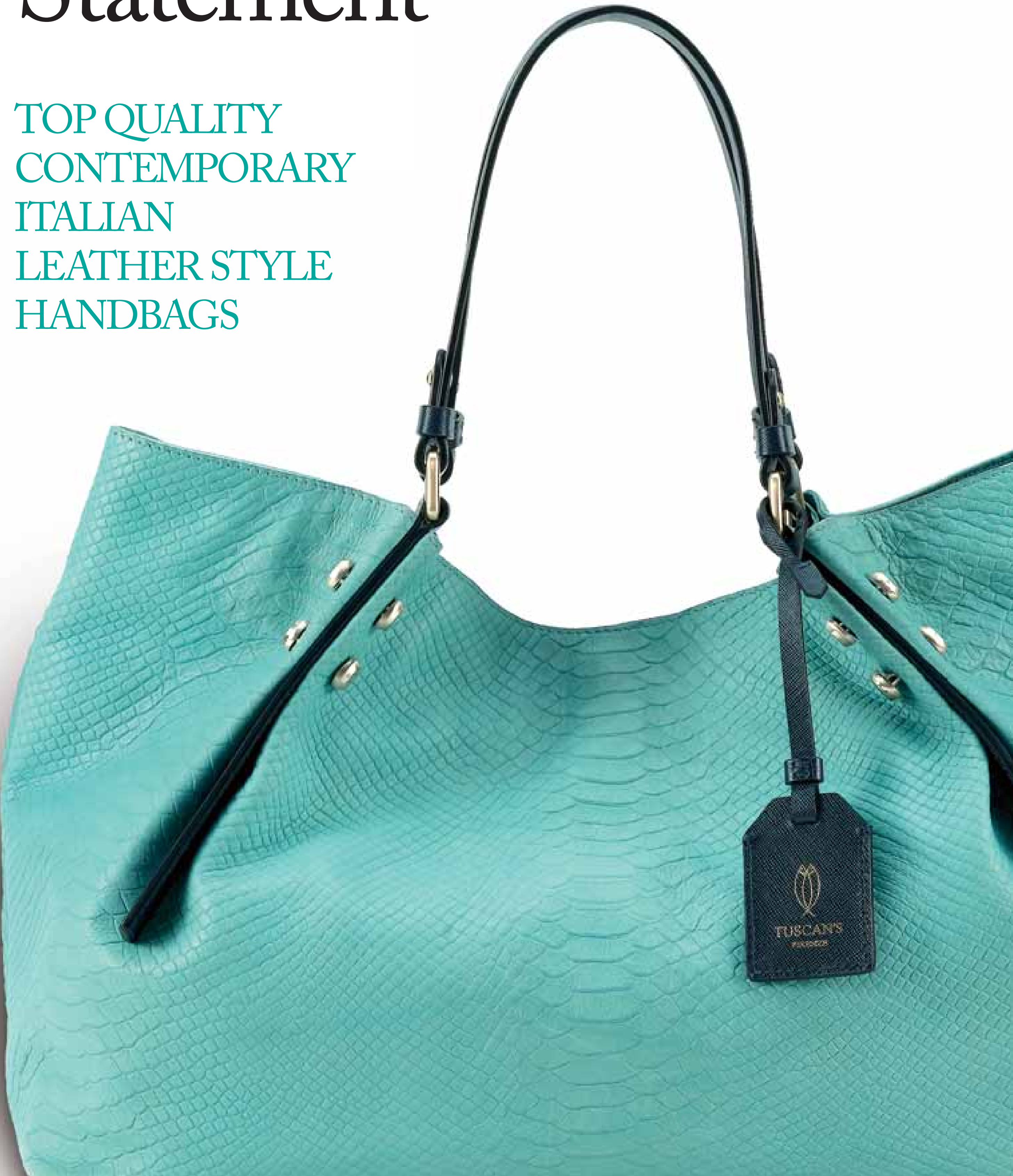
1. The calculation of the net assets per share amount is based on the net assets as at 30 June 2012 to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 892,223,738 (year ended 30 June 2011: 748,800,000) in issue during the year, as adjusted to reflect the share issuance during the year.

2. The calculation of the basic earnings per share amount is based on the profit for the year ended 30 June 2012 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 892,223,738 (year ended 30 June 2011: 748,800,000) in issue during the year, as adjusted to reflect the share issuance during the year.

3. The Directors recommended the payment of a final dividend of HK20 cents per share for the year ended 30 June 2012. No dividend has been declared by the Company for the year ended 30 June 2011. For more details, please refer to note 13 of the consolidated financial statements.

Chairman's Statement

TOP QUALITY
CONTEMPORARY
ITALIAN
LEATHER STYLE
HANDBAGS



Chairman's Statement

To the Shareholders,

I am pleased to present the first set of annual results of Sitoy Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group" or "Sitoy Group") after the Company's listing on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The financial year ended 30 June 2012 represented a remarkable year for Sitoy Group. Established 35 years ago, Sitoy Group has been expanding its business and is now a large-scale outsourced manufacturer of luxury handbags and small leather goods with extensive experience in the industry. During recent years, international high-end and luxury brands have been gradually outsourcing their manufacturing processes to PRC-based manufacturers and we are able to seize this opportunity to substantially boost our results. The Group was successfully listed on the Stock Exchange on 6 December 2011 (the "Listing Date"), proudly stepping into a new phase of development.

Despite the adverse impact on the PRC export market from the European debt crisis and the slowdown of U.S. economic recovery, the manufacturing business of Sitoy Group still benefited from the significant growth in sales volume of international high-end and luxury brands, which brought satisfactory growth to the Group.

Leveraging on the Group's strength on designing, researching and developing handbags and small leather goods, together with our expertise and craftsmanship on manufacturing, we successfully won orders from new customers in addition to our existing international customers. Our active development in male leather goods and travel goods also drove healthy growth in the results. For the year ended 30 June 2012, the revenue of the Group increased 33.9% to HK$3,338.2 million (year ended 30 June 2011: HK$2,493.3 million) and gross profit saw a year-on-year increase of 34.0% to HK$741.4 million (year ended 30 June 2011: HK$553.1 million). Gross profit margin remained stable at 22.2%. Profit attributable to shareholders increased 26.0% to HK$381.0 million (year ended 30 June 2011: HK$302.4 million). The board (the "Board") of directors (the "Directors") has resolved to recommend the payment of the first final dividend of HK20 cents per share after the listing.

During the year under review, our five largest customers accounted for 83.2% of our revenue. We were pleased to receive additional orders from existing customers and expand our customer base through winning several new customers of international middle- and high-end brands thanks to the Group's higher recognition and enhanced economies of scale after the listing. Moreover, we actively expanded our product portfolio, including the manufacturing of high value added products such as male leather goods, commercial and travel goods. The abovementioned factors drove revenue of the manufacturing business up 33.4% year-on-year to HK$3,323.9 million.

Chairman's Statement

During the year, we were facing a challenging business environment and increases in costs which adversely affected the manufacturing industry. Yet, the Group saw insignificant impact from the increases in costs as we benefited from our established long-term working relationships with our customers and the cost plus margins pricing policy adopted. Our years of experience, high-end craftsmanship and capabilities of on-time delivery successfully helped us with winning trust from our customers, and further expanding our market share. In addition, with the Group's strong design, research and development capabilities, we were able to rapidly respond to the ever- changing market demands and meet consumer preferences. This is our strength that other smaller manufacturers will find it impossible to compete with.

We have just started our retail business and its progress of development met our expectation. Following the launch of the TUSCAN'S branded handbag in 2011, we have constantly contemplated appropriate business strategies, during which we gained an in-depth understanding on retail market of leather goods in the PRC and successfully set up a retail business team and a comprehensive structure. As of the end of June 2012, the total retail stores of TUSCAN'S increased to 22, most of which are situated in the prime business locations such as Miramar Shopping Centre in Hong Kong, Yaohan (八佰伴) in Shanghai and Pacific Department Store (太平洋百貨) in Chongqing. With heavy visitor flow, these large-scale shopping malls and department stores attract a number of world-renowned brands, which not only provides us access to high-end customers, but also boosts the recognition of our brand. During the year under review, revenue from the retail business recorded a year-on-year increase of 1,873.7% to HK$14.4 million. Through the whole year's effort, our retail business team and our operations became more sophisticated, supporting the smooth expansion of the retail business. However, in view of the uncertainties of the external environment, we will adhere to a prudent approach for opening new stores in order to achieve a balance between the growth in number of stores and the efficiency of the retail network.

Sitoy Group successfully completed its initial public offering and was listed by the end of last year. Despite the financial turbulence during the initial public offering, the Group, as a leading large-scale outsourced manufacturer of luxury handbags and small leather goods, together with our brand's reputation in the industry and our experience and strength on business operation, gained the trust and recognition from investors and received favorable response to the international placement and the public offering in Hong Kong. The net proceeds of HK$718.2 million raised from the listing will provide sufficient funds for our future development. The listing of the Group will have great benefit to the enhancement of brand image, reinforcement of corporate governance and the optimization of our structure. Moreover, it will also help reinforce our relationship with customers, enhance their trust on us, expand our customer base and increase orders from existing customers, laying a solid foundation for our healthy development in the long run.

Chairman's Statement

Looking ahead, the deterioration of the European debt crisis and challenges ahead for the U.S. economic recovery will adversely affect the PRC economy, slowing down its growth momentum and increasing pressure on the consumer industry. As a long-term partner of international leading high-end and luxury brands, we will maintain a closer relationship with our customers, leverage on our existing competitive edges to effectively satisfy their needs, boost the growth of the manufacturing business and strengthen the development of our retail business in order to meet the challenges in the future. The Group is prudently optimistic about its future development prospects.

In the coming year, we will continue to enhance our manufacturing business, actively broaden our customer base and develop new product category. While attracting new customers, we will also increase orders from the existing customers. Meanwhile, the Group will improve its productivity for the enhancement of efficiency through adjusting the investment in response to the market environment and accelerating the expansion of production lines.

Moreover, we will modify our development strategies for the retail business in response to the market conditions and accordingly adjust the pace for opening new stores. We will select locations for new retail stores in a more prudent manner to ensure that such locations match the brand positioning of TUSCAN'S and attract targeted customers. After more than a year of development, we have initially understood the operation mode of the retail business and nurtured an excellent sales team. Currently, we have reinforced our position in Southwest China and intended to expand to other strategic regions in Eastern China with our existing experience. TUSCAN'S brand will enter several famous shopping malls including Yansha Shopping City (燕莎) in Beijing and Far Eastern Department Store in Chongqing in August 2012, suggesting that our brand's image is recognized by high-end department stores and their customers.

Chairman's Statement

Branding is one of the long-term focuses of our development. The Group aims at establishing a diversified brand portfolio in all aspects in the long run. We will continue to identify opportunities for the cooperation with the brands of quality leather goods with growth potential and do not rule out the possibility of acquisition of suitable projects for future development. The long-term development strategy of the Group is to strengthen our position as a leading outsourced manufacturer of luxury handbags and small leather goods, and at the same time nurture our own brand name of leather goods and strive to expand the retail business so as to achieve the long-term goal for having our own production and sales capabilities.

The outstanding achievements so far are the result of the cooperation and commitment of our staff. I wish to thank our shareholders, customers, suppliers, consumers and the community for their support. I would also like to thank my fellow Board members, management and all staff members for their hard work throughout the year. In the fiscal year 2012 to 2013, all of us at Sitoy Group are well prepared and dedicated to grow the business together in order to bring rewarding returns to our shareholders.

Yeung Michael Wah Keung
Chairman

Hong Kong
17 September 2012

Management Discussion and Analysis

Management Discussion and Analysis

TOP QUALITY CONTEMPORARY ITALIAN LEATHER STYLE HANDBAGS

Business Review

Industry Review

From 2011 to early 2012, despite the continued worsening of the European debt crisis and the far-off recovery of U.S. economy, the consumer market in Asia, led by China, was still booming. A number of brands thus shifted their development focus to the Asian market. Driven by the robust business growth in Asia, a number of high-end and luxury international brands still recorded significant growth in their 2011 sales. These brands have sped up expansion of their business with optimistic view on future growth, this has also boosted the manufacturing business of Sitoy Group, allowing us to achieve satisfactory growth.

Manufacturing Business

For the year ended 30 June 2012, the Group manufactured and sold a total of 15.5 million units of handbags, small leather goods and travel goods to its high-end and luxury brand customers. Benefiting from the continued expansion in the retail business of the high-end and luxury brand customers, orders for our products have grown stably, among which the sales volume and sales revenue increased by 26.1% and 33.4% respectively.

Management Discussion and Analysis

The following table sets forth the sales volume and revenue attributed to each category of the principal products of the manufacturing business of the Group for the year:

	For the year ended 30 June				Percentage change	
	2012		2011			
	Sales Volume (Units'000)	**Revenue (HK$'000)**	Sales Volume (Units'000)	Revenue (HK$'000)	Sales Volume (%)	Revenue (%)
Handbags	**11,847.1**	**2,888,068**	9,934.9	2,242,933	19.2	28.8
Small leather goods	**3,513.4**	**381,679**	2,293.6	224,047	53.2	70.4
Travel goods	**120.3**	**54,106**	50.1	25,563	140.1	111.7
Total	**15,480.8**	**3,323,853**	12,278.6	2,492,543	26.1	33.4

During the year under review, amidst global economic uncertainty, our brand customers became more stringent when identifying suppliers and sourcing products. Leveraging on our quality services and long-term track record, as well as high level craftsmanship, production technology and timely delivery of goods, the Group continued to win the loyalty and trust from our customers, establishing an even closer cooperation relationship. Ushering in opportunities under a challenging business environment, the Group has achieved an increase in orders from existing customers as well as adding several new renowned international brand customers, opening up new sources of revenue.

With the fierce competition in the global luxury-branded handbags industry, luxury brands target different consumers' tastes and market trends and keep launching new products. The Group possesses a wealth of experience and craftsmanship in the production of high-end leather goods, which enable us to meet the higher requirements of our customers as they developed further. During the year, we produced a wider variety of products with enhancement, and shared with our customers the fruits of the global development of high-end luxury brands.

In recent years, the rising costs of labor and raw materials are the common challenges faced by manufacturers in China. The Group has a stronger bargaining power leveraging on its goodwill, rich experience, leading craftsmanship, production technology in the industry. We have been using the margins-plus-cost pricing model and have effectively shifted the rising costs burden to customers during the year. The gross profit margin of our manufacturing business remained stable

Management Discussion and Analysis

at 22.0%, representing a slight decrease of 0.2% over the previous year. In addition, the Group has actively controlled operation costs and operational efficiency by various strategies, which include improving the working environment of employees as well as focusing on retaining talents, in order to reduce cost incurred by staff turnover.

Retail business

With years of experience in the high-end luxury brand industry and the advantage of having our own production platform, we started selling TUSCAN'S branded handbag and small leather goods products through our own retail stores in the PRC and Hong Kong since 2011.

This fiscal year 2012 marked the start of our retail business, in which we have achieved encouraging results. For the year ended 30 June 2012, revenue generated from the retail business was HK$14.4 million; revenue from the second half was 174.1% more than the first half of the year. As at the end of the reporting period, the Group owned and operated 22 retail stores, among which 6 were stand-alone retail stores and 16 were department store concession counters. Our retail stores spanned across Beijing, Shanghai, Guangzhou, Shenzhen, Hong Kong, Chongqing, Chengdu, Wuhan and Yangzhou, with those in the Southwest regions recorded more remarkable performance.

As the Group's retail business is still in its ramp up period, we proactively conducted market study during the year to deepen our understanding on the market and consumers of fashion handbags and leather goods. We have also focused on building up a reliable sales team and structure as well as the selection and training of talents, in order to lay a solid foundation for the long-term development of TUSCAN'S brand.

During the year under review, we concentrated in establishing the retail network for TUSCAN'S brand in the second- and third-tier cities in the Southwest region. In order to achieve better cost effectiveness in a shorter period, department store concession counters were mainly opened up. We have also established a sales office in the Southwest region to develop a core team specifically for the market, in order to manage the local sales network in a more effective manner.

We adhered to the strategy of precise selection of retail points that match with the image and pricing of the TUSCAN'S brand. By successfully entering in a number of prestigious and large shopping malls and department stores last year, including Miramar Shopping Centre in Hong Kong, Yaohan in Shanghai and Pacific Department Store in Chongqing, we were able to enhance TUSCAN'S the brand image and reputation among consumers in these regions.

Through making good use of our own production platform and support from our strong Creative Center and Research and Development Center ("R&D Center"), we provide customers with fast moving product styles to increase the number of customers' visits and store traffic. Approximately 100 different designs and styles of handbags and small leather goods are generated each six-month season and four to six different designs and styles of handbags and small leather goods are introduced each month.

Given the growing demand for quality fashion handbags and small leather goods in the PRC and Hong Kong, the Group expects that the sales volume and revenue from the retail business will increase continuously.

Manufacturing facilities

For the year ended 30 June 2012, the Group's total production capacity was approximately 20.0 million units of handbags, small leather goods and travel goods, with a utilization rate of approximately 80% (for the year ended 30 June 2011: 16.1 million units and 76%). Compared with the previous fiscal year, the number of the Group's production lines increased from 191 to 215, which further improved the Group's production scale and efficiency and enabled us to better meet the ever-changing demands of our customers.

To cope with the increasing orders from our customers, the Group is now constructing the second expansion phase of the Yingde manufacturing facility. The construction of two buildings as part of the second expansion phase of the Yingde manufacturing facility was completed in November 2011. The Group is now in the process of planning and negotiating construction contracts with respect to the remaining buildings of the second expansion phase of the Yingde manufacturing facility. It is estimated that the total production capacity of the Group can be increased by 40% upon the completion of the construction in 2014. In addition, the Group upgraded its machinery and equipment during the year in order to enhance the operational efficiency.

Management Discussion and Analysis

These investments were partly funded by the proceeds of the initial public offering and partly from the internally generated funds of the Group.

Product Research, Development and Design

The in-house Creative Center and R&D Center of the Group offer customers one-stop design, research, development and manufacturing solutions, which helps the Group to service its customers in response to fast changing consumer preferences and fashion trends as well as to develop and manufacture products with complex designs.

By offering customers with value-added services and high level of craftsmanship, we will strengthen our competitive edge in the industry, which in turn will attract and retain leading international high-end and luxury brands as our customers.

The Use of Proceeds from Initial Public Offering

The Group raised HK$718.2 million from the listing in December 2011. For the year ended 30 June 2012, approximately HK$8.0 million was used to pay for part of the construction of the second phase expansion of the Yingde manufacturing facility, approximately HK$13.6 million was used for the purchase and upgrade of machinery and equipment, approximately HK$17.1 million was used for the expansion of the retail business of TUSCAN’S brand and approximately HK$71.8 million was used for general corporate purpose.

Prospect

Looking ahead, the Group expects that the spreading of the European debt crisis and the continued slowdown of the global economy will continuously weaken consumer confidence, and its impact on the luxury goods industry will gradually surface. As affected by the weakened export to Europe and the United States, China’s GDP saw a year-on-year increase of only 7.6% in the second quarter. Albeit a far better GDP growth than other countries, domestic consumption has already slowed down in China, signaling a mild economic growth of the full year. The Group expect that the coming year will be challenging, and the Group remains conservatively optimistic about the industry prospects.

Facing the challenging operating environment, the Group will consolidate its market leading position leveraging on our existing advantages in the luxury handbags and small leather goods industry. We will actively strengthen our relationship with the existing brand customers through enhancing various value-added services. Meanwhile, the Group will actively introduce more international high-end and luxury brand to our product portfolio, and increase the proportion production of high-end products. More efforts will also be made to expand the manufacturing business into new segments such as travel goods and luxury bags and small leather goods for men, so as to diversify our revenue streams. In view of the uncertainties in the future operating environment and with the objective to maximize production efficiency, the Group will make considerable adjustment on the investment for expansion of the production lines. In the coming year, the Group will reserve approximately HK$80 million for the second phase expansion of our manufacturing facility in Yingde, which will increase our total annual production capacity by about 10% to 22 million units by the end of 2013, approximately HK$25 million for the purchase of manufacturing facilities and upgrade of equipment and approximately HK$25 million for the expansion of the retail business in relation to TUSCAN’S brand.

Meanwhile, we have been taking steps to expand the footholds of our retail business. Through the expansion of sales network, TUSCAN’S brand has built a sound reputation in the Southwest markets. In addition to reinforcing the core management team in the Southwest region and increasing the point of sales, we also plan to set up more established TUSCAN’S brand image stores. As our retail business becomes mature, we will extend our footprints to new domestic markets based on our successful experience and operating model in the existing markets. Eastern China will be another key market of our retail business. The management is of the opinion that the higher consumption power in cities such as Nanjing and Hangzhou in Eastern China, and the chic and trendy style of the younger generation, are in line with the development of TUSCAN’S brand. We are actively studying an appropriate operating model and marketing strategies for the markets in the region, in order to extend the influence of TUSCAN’S brand in China’s market.

Management Discussion and Analysis

Despite the adverse impact from the slowdown of economic growth around the world and China in short term, we still aim at opening a total of 100 stores in three years though we will adjust the pace of the opening subject to the market condition. We will focus on the expansion of quality retail network instead of the growth of the number of stores, in a bid to maintain an up-to-standard quality operation. We will actively identify other outstanding leather goods brands with growth potential and accelerate our business development through mergers and acquisitions whenever appropriate. With years of experience in the luxury branded handbag and small leather goods manufacturing business, Sitoy Group possesses the craftsmanship and capabilities in the production of various luxury branded handbag and small leather goods. The long-term development strategy of the Group is to strengthen our position as a leading outsourced manufacturer of luxury handbags and small leather goods, develop our own leather goods brand and strive to expand the retail business with own production and sound sales strategy.

Financial Review

Revenue

Revenue of the Group represents proceeds from sale of handbags, small leather goods and travel goods to high-end and luxury brand customers and sale of the TUSCAN'S branded products through the retail stores in the PRC and Hong Kong. The following table sets forth, for the years indicated, the revenue by operating segment and product type.

	For the year ended 30 June				
	2012		2011		
Manufacturing	**HK$'000**	**Percentage**	HK$'000	Percentage	Percentage change
Handbags	**2,888,068**	**86.5%**	2,242,933	90.0%	28.8%
Small leather goods	**381,679**	**11.5%**	224,047	9.0%	70.4%
Travel goods	**54,106**	**1.6%**	25,563	1.0%	111.7%
Subtotal	**3,323,853**	**99.6%**	2,492,543	100.0%	33.4%
Retail	**14,388**	**0.4%**	729	0.0%	1,873.7%
Total	**3,338,241**	**100.0%**	2,493,272	100.0%	33.9%

The revenue increased by 33.9% to HK$3,338.2 million for the year ended 30 June 2012 from HK$2,493.3 million for the year ended 30 June 2011. This increase was primarily due to an increase in the sales volumes of products to 15.5 million units for the year ended 30 June 2012 from 12.3 million units for the year ended 30 June 2011 as a result of growing demand from the high-end and luxury brand customers, as well as the start of the retail business in February 2011.

Management Discussion and Analysis

Cost of sales

Cost of sales primarily consists of cost of raw materials, direct labor costs and manufacturing overheads (which includes primarily utility expenses, rental fees, amortization and depreciation and net value-added tax payables). The following table sets forth, the components of the cost of sales.

	For the year ended 30 June			
	2012		2011	
	HK'000	**Percentage of revenue**	HK'000	Percentage of revenue
Cost of raw materials	**1,991,996**	**59.7%**	1,513,944	60.7%
Direct labor costs	**538,666**	**16.1%**	382,406	15.3%
Manufacturing overheads	**66,196**	**2.0%**	43,802	1.8%
Total	**2,596,858**	**77.8%**	1,940,152	77.8%

Cost of sales of the Group increased by 33.8% to HK$2,596.9 million for the year ended 30 June 2012 from HK$1,940.2 million for the year ended 30 June 2011. This increase was primarily due to an increase in sales volume for the year ended 30 June 2012 compared to the year ended 30 June 2011. The decrease in the cost of raw materials to 59.7% for the year ended 30 June 2012 from 60.7% for the year ended 30 June 2011 as a percentage of revenue was primarily due to continued improvements in the product design and development capabilities. Direct labor costs increased to 16.1% for the year ended 30 June 2012 from 15.3% for the year ended 30 June 2011 as a percentage of revenue was primarily as a result of higher wages and an increase in head count in connection with the expansion of the manufacturing capabilities.

Gross profit and gross profit margin

Gross profit increased by 34.0% to HK$741.4 million for the year ended 30 June 2012 from HK$553.1 million for the year ended 30 June 2011, which was in line with the revenue growth during the same year. Gross profit margin remained stable at 22.2% for the year ended 30 June 2012 and 2011 respectively.

Other income and gains

Other income and gains decreased to HK$24.6 million for the year ended 30 June 2012 from HK$27.4 million for the year ended 30 June 2011. The decrease was primarily due to a HK$8.2 million decrease in net exchange gains, which partially offset by a HK$4.2 million increase in interest income.

Selling and distribution costs

Selling and distribution costs primarily consist of marketing and promotion expenses, sales and marketing staff remuneration and benefits, transportation costs for transporting finished goods to their port of shipment, customs clearance fees and other selling expenses.

Selling and distribution costs increased by 74.6% to HK$97.6 million for the year ended 30 June 2012 from HK$55.9 million for the year ended 30 June 2011. The start of the retail business in February 2011 resulted in a HK$21.2 million increase in selling and distribution costs in current year due to expansion of retail business. Besides, the increase in sales volumes resulted in a HK$14.0 million increase in sales and marketing staff remuneration and benefits for the manufacturing business, as well as a HK$5.4 million increase in transportation costs for transporting finished goods to their port of shipment.

Management Discussion and Analysis

Administrative expenses

Administrative expenses primarily consist of office and administrative expenses, administrative staff remuneration and benefits, directors' remuneration, initial public offering expenses, depreciation of office equipment and buildings, bank charges and other administrative expenses.

Administrative expenses increased by 27.3% to HK$200.6 million for the year ended 30 June 2012 from HK$157.5 million for the year ended 30 June 2011, primarily attributable to one-off initial public offering expenses incurred. Excluding initial public offering expenses of HK$16.1 million and HK$10.9 million for the year ended 30 June 2012 and 2011 respectively, administrative expenses increased by 25.8% during the year under review, which was in line with the revenue and gross profit growth of 33.9% and 34.0% respectively.

Other expenses

Other expenses increased to HK$3.0 million for the year ended 30 June 2012 from HK$0.4 million for the year ended 30 June 2011, primary attributable to an expense of HK$1.2 million incurred for obtaining the properties ownership certificates in Dongguan and a loss of HK$1.2 million on disposal of property, plant and equipment.

Finance costs

Finance costs decreased to HK$2.0 million for the year ended 30 June 2012 from HK$3.8 million for the year ended 30 June 2011. This decrease was primarily due to a decrease in bank borrowings in fiscal year 2012 as a result of the Group's strategy to reduce its bank borrowings to the extent conducive to the business.

Income tax expense

Under the current laws of the Cayman Islands and the British Virgin Islands, the Group is not subject to tax on its income or capital gains. In addition, any payments of dividends are not subject to withholding tax in the Cayman Islands or the British Virgin Islands.

Hong Kong profits tax as applicable to the Group was 16.5% for the year ended 30 June 2012 and 2011 on the estimated assessable profits arising in Hong Kong during the relevant year.

PRC corporate income tax was based on a statutory rate of 25% of the assessable profit of all the subsidiaries incorporated in the PRC 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. Certain foreign invested enterprises ("FIE") that were established prior to the promulgation of the New Corporate Income Tax Law and enjoyed lower tax rates according to the provisions of the previous tax laws and regulations are exempt from paying income tax for a period of two years starting from the year when the FIEs begin to make a profit or 1 January 2008, whichever is earlier, and thereafter enjoy a 50% reduced tax rate for the following three years. An indirect wholly-owned subsidiary of the Company, Sitoy (Yingde) Leather Products Co., Ltd., is an FIE that qualifies for this 50% reduced tax rate until 31 December 2012.

The effective tax rate of the Group was 17.6% for the year ended 30 June 2012 (year ended 30 June 2011: 16.7%).

Profit for the year

Profit for the year increased by HK$78.6 million to HK$381.0 million for the year ended 30 June 2012 from HK$302.4 million for the year ended 30 June 2011. As a percentage of revenue, profit decreased to 11.4% for the year ended 30 June 2012 from 12.1% for the year ended 30 June 2011, primarily due to operating loss situation of the retail business and one-off initial public offering expenses incurred.

Capital expenditure

For the year ended 30 June 2012, the capital expenditure of the Group amounted to HK$64.0 million, primarily related to the expansion of the manufacturing capabilities through the construction of the new manufacturing facilities in Dongguan and Yingde and acquisition of new machineries.

Material acquisitions and disposals of subsidiaries and associated companies

Save for the reorganization of the Group for preparation of the listing, the Group had no material acquisitions and disposals of subsidiaries and associated companies during the year ended 30 June 2012.

Management Discussion and Analysis

Liquidity and financial resources

The liquidity and financial resources position remains strong as the Group continues to adopt a prudent approach in managing its financial resources. The Group's cash and cash equivalents as at 30 June 2012 amounted to HK$746.8 million. The Group has sufficient financial resources and a strong cash position for satisfying working capital requirements for business development, operations and capital expenditure. New investment opportunities, if any, would be funded by the Group's internal resources.

The outstanding bank and other borrowings decreased to nil as at 30 June 2012 compared with HK$105.9 million as at 30 June 2011. The decrease in outstanding bank and other borrowings was primarily due to the Group's strategy to reduce bank and other borrowings to the extent conducive to the business. No gearing ratio (calculated as net debt divided by total capital plus net debt) as at 30 June 2012 is presented because the Group's cash and cash equivalents exceeded the interest-bearing bank borrowings. As at 30 June 2011, the gearing ratio was 5%.

Foreign exchange 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 2012, 99.56% (year ended 30 June 2011: 99.94%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 39% (year ended 30 June 2011: 38%) of costs were denominated in the units' functional currency.

As at 30 June 2012, the Group had five foreign exchange forward contracts to purchase US$397,200, US$1,574,400, US$131,100, US$766,200 and US$74,700, respectively, using Euro and no other financial derivatives outstanding. The contracted exchange rates of the foreign exchange forward contracts were US$1.324, US$1.312, US$1.311, US$1.277 and US$1.245, respectively, to one Euro, and the expiration dates of these contracts are 20 July 2012, 6 August 2012, 17 September 2012, 22 October 2012 and 5 November 2012, respectively.

Pledge of Assets

As at 30 June 2012, no property, plant and equipment, and available-for-sale investment were pledged as security for banking facilities available to the Group (30 June 2011: HK$11.3 million).

Inventory turnover days

Inventory turnover days decreased to 48 days for the year ended 30 June 2012 (calculated as the average of the beginning and ending inventory balances for the year before provisions against inventories, divided by the cost of sales for the year and multiplied by 366 days) from 52 days for the year ended 30 June 2011 (calculated as the average of the beginning and ending inventory balances for the year before provisions against inventories, divided by the cost of sales for the year and multiplied by 365 days). The decrease in inventory turnover days was due to that the Group's has closely monitored the stock level.

Trade receivables turnover days

Trade receivables turnover days remained stable at 30 days for the year ended 30 June 2012 (calculated as the average of the beginning and ending trade receivables balances for the year, divided by revenue for the year and multiplied by 366 days) compared with 29 days for the year ended 30 June 2011 (calculated as the average of the beginning and ending trade receivables balances for the year, divided by revenue for the year and multiplied by 365 days). The Group did not experience any significant credit risk due to strict credit control policies.

Based on past experience, no provision for impairment is necessary as at 30 June 2012 as there has not been a significant change in credit quality and all of the balances are considered fully recoverable.

Trade payables turnover days

Trade payables turnover days decreased to 35 days for the year ended 30 June 2012 (calculated as the average of the beginning and ending trade payables balances for the year, divided by the cost of raw materials for the year and multiplied by 366 days) compared with 43 days for the year ended 30 June 2011 (calculated as the average of the beginning and

Management Discussion and Analysis

ending trade payables balances for the year, divided by the cost of raw materials for the year and multiplied by 365 days). The decrease in trade payables turnover days was mainly due to that the Group has strong cash position after initial public offer which leaded to prompt settlement of trade payables. Trade payables are non-interest bearing and are generally settled within 90 days.

Off-balance sheet commitments and arrangements

As at 30 June 2012, the Group did not have any material off-balance sheet commitments and arrangements or contingencies.

Employees

As at 30 June 2012, the Group had over 15,000 employees. In addition to the basic salaries, performance bonuses will be offered to those staff members with outstanding performance. The PRC subsidiaries of the Group are subject to social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations and adhere to both statutory employment standards and those requested by our customers, such as minimum wage levels and maximum working hours. In addition, the Group provides staff quarters for most of our employees and, in case of certain senior employees, family quarters. The Group also provides various amenities and recreation facilities such as canteen, clinic, sports site, library and internet center for the employees. The Group will continue to improve the working environment in the manufacturing facilities and the living facilities for the employees. The Directors believe that the compensation packages and fringe benefits offered by the Group to its staff members are competitive in comparison with market standards and practices.

Since human resource management is an important factor in maintaining and further enhancing the Group's strong expertise and know-how in the craftsmanship of handbags, small leather goods and travel goods, the in-house employee training center will provide pre-job training programs to the new recruits before they are assigned to work at the manufacturing facilities of the Group. From time to time, different levels of on-the-job training will be provided to the employees to broaden their skills and enhance their productivity.

Directors and Senior Management Profile

Executive Directors

Mr. Yeung Michael Wah Keung, aged 63, is the Chairman, an executive Director, a member of remuneration committee and the chairman of nomination committee of the Company. He was appointed as a Director on 21 February 2008. Mr. Yeung has been with the Group since its establishment in the 1970's and is one of the founders. He is responsible for the Group's overall business development, strategic planning and corporate management.

Mr. Yeung has over 40 years of experience in the handbag and leather goods industry, and has focused on manufacturing luxury branded handbags and small leather goods for more than 10 years. Mr. Yeung is currently a director of each subsidiary of the Group. Mr. Yeung is the brother of Mr. Yeung Wo Fai, the chief executive officer and an executive Director of the Company. Mr. Yeung is also the father of Mr. Yeung Andrew Kin, an executive Director of the Company. He is also a substantial shareholder of the Company within the meaning of part XV of the Securities and Futures Ordinance.

Mr. Yeung Wo Fai, aged 59, is the chief executive officer and an executive Director of the Company. He was appointed as a Director on 21 February 2008 and is also one of the founders. Mr. Yeung has been with the Group since 1974. He is responsible for the overall daily operations of the Group's business. He is also responsible for product development, marketing and administration of the Group.

Mr. Yeung has over 35 years of experience in the handbag and leather goods industry, and has focused on manufacturing luxury branded handbags and small leather goods for more than 10 years. Mr. Yeung is currently a director of each subsidiary of the Group. Mr. Yeung is the brother of Mr. Yeung Michael Wah Keung, the Chairman and an executive Director of the Company. Mr. Yeung is also the uncle of Mr. Yeung Andrew Kin, an executive Director of the Company. He is also a substantial shareholder of the Company within the meaning of part XV of the Securities and Futures Ordinance.

Mr. Yu Chun Kau, aged 39, is an executive Director, the chief financial officer and the company secretary of the Company. Mr. Yu joined the Group in June 2010 and was appointed as a Director on 23 May 2011. He is primarily responsible for the Group's overall financial management and reporting, internal control and compliance, corporate finance, company secretarial matters and other day-to-day financial administration. Mr. Yu graduated from the Chinese University of Hong Kong with a first class honors bachelor's degree of business administration in 1994, and obtained a master's degree in corporate governance from the Open University of Hong Kong in 2005. Mr. Yu has more than 18 years of experience in financial management. Prior to joining the Group, Mr. Yu assumed various senior positions in a number of listed and multinational companies.

Mr. Yu is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, an associate member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. Mr. Yu has been registered as a practicing certified public accountant with the Hong Kong Institute of Certified Public Accountants since October 2002 and he was admitted as a senior international finance manager with the International Financial Management Association in March 2007.

Mr. Chan Ka Dig Adam, aged 43, is an executive Director of the Company. Mr. Chan is in charge of the sales and marketing division of the Group. He joined the Group in May 1989 and was appointed as a Director on 23 May 2011. He is responsible for the Group's sales and marketing, merchandising and customer relationship with the international high-end and luxury brand companies.

Mr. Chan has over 23 years of experience in the handbag and leather goods industry, and has experience in sales and marketing with luxury brand companies for more than 10 years. He has held various positions in the Group in relation to sales and marketing and merchandising prior to becoming the head of sales and marketing in 2004.

Directors and Senior Management Profile

Mr. Yeung Andrew Kin, aged 38, is an executive Director of the Company. Mr. Yeung is in charge of the retail business of the Group. He joined the Group in September 1999 and was appointed as a Director on 23 May 2011. He is responsible for the Group's overall operations and strategic planning of the retail business. He is also responsible for the corporate management and business development of the retail business of the Group. Mr. Yeung graduated from Simon Fraser University, British Columbia, Canada with a bachelor's degree of science in 1999.

Mr. Yeung has over 13 years of experience in handbag and leather goods industry and has focused on strategic planning and business development for more than 8 years. Before Mr. Yeung started focusing on the development of the retail business, he had held various positions in the Group in relation to sales and marketing and merchandising. Mr.Yeung is currently a director of 東莞時代皮具製品廠有限公司 (Dongguan Shidai Leather Products Factory Co., Ltd.) ("Sitoy Dongguan"), 時代(英德)皮具製品有限公司 (Sitoy (Yingde) Leather Products Co., Ltd.) ("Sitoy Yingde") and 廣州美樂時皮具有限公司 (Guangzhou Sitoy Leather Goods Co., Ltd.), all of which are subsidiaries of the Company. Mr. Yeung is the son of Mr. Yeung Michael Wah Keung, the Chairman, an executive Director and the substantial shareholder of the Company. Mr. Yeung is also the nephew of Mr. Yeung Wo Fai, the chief executive officer, an executive Director and the substantial shareholder of the Company.

Independent Non-Executive Directors

Mr. Yeung Chi Tat, aged 42, is an independent non-executive Director, the chairman of audit committee and a member of remuneration committee of the Company. Mr. Yeung was appointed as an independent non-executive Director on 15 November 2011. Mr. Yeung graduated from the University of Hong Kong with a bachelor's degree of business administration in 1993 and obtained a master's degree in professional accounting with distinction from Hong Kong Polytechnic University in 2004.

Mr. Yeung possesses extensive experience in auditing, corporate restructuring and corporate finance. He worked for KPMG from 1993 to 2004 and is currently the financial controller and company secretary of Dynasty Fine Wines Group Limited (Stock Code: 828), a company listed on the Main Board of the Stock Exchange. Mr. Yeung is also an independent non-executive director of Ta Yang Group Holdings Limited (Stock Code: 1991), ANTA Sports Products Limited (Stock Code: 2020), Boer Power Holdings Limited (Stock Code: 1685) and Billion Industrial Holdings Limited (Stock Code: 2299), all of these companies are listed on the Main Board of the Stock Exchange. Mr. Yeung was an independent non-executive director of China Eco-Farming Limited (Stock Code: 8166), a company listed on the GEM Board of the Stock Exchange, from 30 September 2008 to 12 May 2010.

Mr. Yeung is the president of the International Financial Management Association Hong Kong headquarters and the vice president of Hong Kong Wine Merchants' Chamber of Commerce. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and an associate member of the Institute of Chartered Accountants in England and Wales. Mr. Yeung has been registered as a practicing certified public accountant with the Hong Kong Institute of Certified Public Accountants since April 2006 and admitted as a senior international finance manager with the International Financial Management Association in January 2006.

Directors and Senior Management Profile

Mr. Kwan Po Chuen, Vincent, aged 53, is an independent non-executive Director, a member of audit committee and nomination committee of the Company. Mr. Kwan was appointed as an independent non-executive Director on 15 November 2011. Mr. Kwan graduated from the University of Hong Kong with a bachelor's degree in social sciences in 1983, from the University of London with a bachelor's degree in laws in 1987, from the University of Hong Kong with a master's degree in laws in 1992, from the University of London with a master's degree of science in financial management in 1998 and from the University of South Australia with a master's degree in advanced business practice in 2006.

Mr. Kwan has over 25 years of experience in the legal and accounting profession with extensive experience in real estate, corporate finance and compliance matters. From 1983 to 1987, he worked as an accounting officer and later auditor of the Treasury and Audit departments of the Hong Kong government and from 1988 to 1993, he worked as trainee solicitor and associate of Deacons. From 1993 to 1996, he was an executive director of Chuang's Consortium International Limited (Stock Code: 367), a company listed on the Main Board of the Stock Exchange. From 1997 to January 2012, Mr. Kwan was the general manager (legal and secretarial) of Sino Land Company Limited (Stock Code: 83), a company listed on the Main Board of the Stock Exchange. He is currently a consultant of Messrs. Gallant Y T Ho & Co, principally focusing on corporate, corporate finance and tax-related matters.

Mr. Kwan is a solicitor qualified in Hong Kong since September 1990. He is also qualified to practise laws in England and Australia since 1991. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Institute of Chartered Accountants in England and Wales. He has also served as a member of the board of review (Inland Revenue Ordinance) from 2003 to 2011 and as a member of the then insider dealing tribunal from 2005 to 2009 and as a member of the advisory group on company formation, registration, re-registration and company meeting and administration provisions of the rewrite of Companies Ordinance from 2006 to 2009. He is also a member of both the company law committee and revenue law committee of the Law Society of Hong Kong.

Mr. Lung Hung Cheuk, aged 65, is an independent non-executive Director, the chairman of remuneration committee, a member of audit committee and nomination committee of the Company. Mr. Lung was appointed as an independent non-executive Director on 15 November 2011. Mr. Lung is a retired chief superintendent of the Hong Kong Police Force. He joined the Hong Kong Police Force in 1966 as a probationary inspector at the age of 19. He was promoted to the rank of chief inspector in 1980, superintendent in 1986, senior superintendent in 1993 and chief superintendent in 1997. He had served in various police posts, namely Special Branch, Police Tactical Unit, Police Public Relations Branch and in a number of police divisions at management level. Prior to his retirement in April 2002, he was the commander of Sham Shui Po Police District.

Mr. Lung was also the secretary of the Superintendents' Association of the Hong Kong Police Force from 1993 and later the chairman from 1998 to 2001. The membership of the Superintendents' Association comprises the top management of the Hong Kong Police Force from superintendents to chief superintendents of the Hong Kong Police Force. He was awarded the Police Meritorious Service Medal by the Chief Executive of Hong Kong in 2000.

Mr. Lung is currently an independent non-executive director of Richfield Group Holdings Limited (Stock Code: 183) and iOne Holdings Limited (Stock Code: 982), both of these companies are listed on the Main Board of the Stock Exchange. He was an independent non-executive director of Yunbo Digital Synergy Group Limited (formerly known as FlexSystem Holdings Limited) (Stock Code: 8050) and Global Energy Resources International Group Limited (formerly known as UURG Corporation Limited) (Stock Code: 8192), the companies listed on the GEM Board of the Stock Exchange, from 7 May 2011 to 17 February 2012 and from 19 September 2007 to 12 January 2010 respectively.

Directors and Senior Management Profile

Senior Management

Mr. Liu Liekui, aged 47, is the general manager of manufacturing of the Group. Mr. Liu joined the Group in March 1988. He has held various positions in relation to our production at the management level, including the positions of senior manager of manufacturing from 2002 to 2009 and vice general manager of manufacturing from 2009 to 2011. He has been participating in the management of our overall production for over 9 years. He is primarily responsible for our Group's production strategies, supervision, quality control, administration and management. He has over 24 years of experience in the handbag and leather goods industry.

Mr. Ip Wai Sum, aged 54, is the general manager of the retail business of the Group. Mr. Ip joined the Group in October 2010. He has over 20 years of experience in retail chain management in the PRC. He is primarily responsible for the overall daily operations, business development, management and administration of the retail business of the Group, in particular overseeing operations of the "TUSCAN'S" brand. Mr. Ip holds a bachelor's degree of commerce from Concordia University, Montreal, Canada.

Mr. Chung Wai Ming, aged 54, is the financial controller of the Group. Mr. Chung joined the Group in May 1992. He has over 33 years of experience in accounting and financial management. He is primarily responsible for the financial and accounting management of our PRC operating subsidiaries.

Mr. Chen Feihong, aged 40, is the general manager of Sitoy Yingde. Mr. Chen joined the Group in September 1999. He has held various positions in relation to our production at the management level, including the positions of manager of manufacturing from 2002 to 2009 and senior manager of Sitoy Yingde in 2010. He is primarily responsible for the overall daily operations, planning, general management and administration of Sitoy Yingde. He has over 12 years of experience in the handbag and leather goods industry.

Mr. Luo Yufu, aged 38, is the general manager of Sitoy Dongguan. Mr. Luo joined the Group in May 1994. He has held various positions in relation to our production at the management level, including the positions of workshop manager from 2002 to 2010 and senior manager of Sitoy Dongguan in 2010. He is primarily responsible for the overall daily operations, planning, general management and administration of Sitoy Dongguan. He has over 18 years of experience in the handbag and leather goods industry.

Mr. Lin Yuanbin, aged 40, is the head of the creative center of the Group. Mr. Lin joined the Group in March 1988 and he has been working in the creative center of our Group since then. He held the positions of manager of creative center from 2004 to 2010. He is primarily responsible for the daily operations, general management and administration of our creative center. He has over 24 years of experience in the handbag and leather goods industry.

Ms. Huang Xiaoli, aged 39, is the head of the corporate planning department of the Group. Ms. Huang joined the Group in September 1995 and she has been working in the corporate planning department of our Group since then. She held the positions of manager of planning department from 2002 to 2011. She is primarily responsible for our Group's production, material control and procurement. Ms. Huang studied at the foreign language department of South China University of Technology (華南理工大學), majoring in Technological English. She has over 17 years of experience in handbag and leather goods industry.

Directors' Report

The Directors of the Company is pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 30 June 2012.

Principal Activities

The Company is an investment holding company and the principal activities of the Group are design, research, development, manufacturing, sales and retailing of handbags, small leather goods and travel goods. Particulars of the principal activities of the Company's subsidiaries are set out in note 4 to the consolidated financial statements of the Group for the year ended 30 June 2012.

Results and Dividend and Record Date

The results of the Group for the year ended 30 June 2012 are set out in the consolidated statement of comprehensive income on page 43.

The Directors recommended the payment of a final dividend of HK20 cents (2011: nil) per share for the year ended 30 June 2012 to the shareholders whose names appeared on the register of members of the Company after the close of business on 22 November 2012. In order to qualify for the proposed final dividend, all completed transfer documents, accompanied by relevant share certificates, must be lodged with the Company's Hong Kong share registrar and transfer office, Computershare Hong Kong Investor Services Limited (the "Hong Kong Branch Registrar"), at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 22 November 2012. The final dividend, subject to approval by the shareholders at the annual general meeting to be held on 16 November 2012 (the "2012 AGM") will be paid on or before 7 December 2012.

Record Date for 2012 AGM

The record date for determining shareholders of the Company who will be entitled to attend the 2012 AGM will be after the close of business on 13 November 2012. In order to be eligible to attend and vote at the 2012 AGM, all completed transfer documents, accompanied by relevant share certificates, must be lodged with the Hong Kong Branch Registrar at the address stated above, for registration not later than 4:30 p.m. on 13 November 2012.

Share Capital and Purchase, Redemption or Sale of Listed Securities of the Company

Details of the share capital of the Company for the year ended 30 June 2012 are set out in note 29 to the consolidated financial statements.

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

Reserves and Distributable Reserves

Details of the movements in reserves of the Group and the Company during the year and distributable reserves of the Company as at 30 June 2012 are set out on page 45 to the consolidated statement of changes in equity and note 30 to the consolidated financial statements respectively.

Pre-Emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association and the Companies Law of Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Property, Plant and Equipment and Prepaid Land Lease Payments

Details of movements during the year in property, plant and equipment and prepaid land lease payments of the Group are set out in notes 15 and 16 to the consolidated financial statements respectively.

Major Customers and Suppliers

The percentage of revenue attributable to the Group's five largest customers to the total revenue of the Group was 83.2% for the year ended 30 June 2012. The percentage of revenue attributable to the Group's largest customer to the total revenue of the Group was 48.2% for the year ended 30 June 2012.

The percentage of purchases attributable to the Group's five largest suppliers to the total purchases of the Group was 14.7% for the year ended 30 June 2012. The percentage of purchases attributable to the Group's largest supplier to the total purchases of the Group was 3.6% for the year ended 30 June 2012.

Directors' Report

To the best of the Directors' knowledge, none of the Directors, their associates or any shareholder who owns more than 5% of the Company's share capital had an interest in any of the major customers or suppliers above.

Directors

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors:

Mr. Yeung Michael Wah Keung (Chairman)
Mr. Yeung Wo Fai
Mr. Yu Chun Kau
Mr. Chan Ka Dig Adam
Mr. Yeung Andrew Kin

Independent non-executive Directors:

Mr. Yeung Chi Tat (appointed on 15 November 2011)
Mr. Kwan Po Chuen, Vincent (appointed on 15 November 2011)
Mr. Lung Hung Cheuk (appointed on 15 November 2011)

In accordance with article 16.18 of the Company's articles of association, Mr. Yeung Michael Wah Keung and Mr. Yeung Wo Fai will retire by rotation at the 2012 AGM and, being eligible, offer themselves for re-election.

In addition, according to article 16.2 of the Company's articles of association, Mr. Yu Chun Kau, Mr. Chan Ka Dig Adam, Mr. Yeung Andrew Kin, Mr. Yeung Chi Tat, Mr. Kwan Po Chuen, Vincent and Mr. Lung Hung Cheuk shall hold office only until the 2012 AGM and, being eligible, offer themselves for re-election.

The Company has received annual confirmation from each of the independent non-executive Directors of the Company as regards their independence to the Company and considers that each of the independent non-executive Directors of the Company is independent to the Company.

Directors' Service Contracts

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory obligation.

Change of Directors' Information

Pursuant to Rule 13.51(B) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the change in information of Directors of the Company subsequent to the date of the 2012 interim report of the Company is set out below:

Name of Director	Details of Changes
Lung Hung Cheuk	Resigned as an independent non-executive director of Yunbo Digital Synergy Group Limited (formerly known as FlexSystem Holdings Limited), a company whose shares are listed on GEM Board of the Stock Exchange, on 17 February 2012

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures

As at 30 June 2012, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities

Directors' Report

Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Long positions

Name of Director	Capacity/Nature of interest	Number of ordinary shares interested	Percentage of the Company's issued share capital
Mr. Yeung Michael Wah Keung	Beneficial owner/personal interest	486,720,000	48.60%
Mr. Yeung Wo Fai	Beneficial owner/personal interest	262,080,000	26.17%

Save as disclosed above, as at 30 June 2012, none of the Directors or chief executive of the Company had registered an interest or a short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or recorded in the register required to be maintained by the Company under Section 352 of the SFO, or as otherwise notifiable to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 30 June 2012, so far as the Directors were aware, the following persons (other than the Directors or chief executive of the Company as disclosed above) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Long positions

Name of shareholder	Capacity/Nature of interest	Number of ordinary shares interested	Approximate percentage of the Company's issued share capital
Keen Achieve Limited	Beneficial owner[(1)]/Beneficial interest	64,912,000	6.48%
IDG-Accel China Capital L.P.	Interest in a controlled corporation[(1)]/ Corporate interest	64,912,000	6.48%
IDG-Accel China Capital Associates L.P.	Interest in a controlled corporation[(1)]/ Corporate interest	64,912,000	6.48%
IDG-Accel China Capital GP Associates Ltd.	Interest in a controlled corporation[(1)]/ Corporate interest	64,912,000	6.48%
Ho Chi Sing	Interest in a controlled corporation[(1)]/ Corporate interest	64,912,000	6.48%
Zhou Quan	Interest in a controlled corporation[(1)]/ Corporate interest	64,912,000	6.48%

Directors' Report

Note:

(1) 95.59% of the issued share capital of Keen Achieve Limited was owned by IDG-Accel China Capital L.P., a limited partnership established in the Cayman Islands controlled by IDG-Accel China Capital Associates L.P. IDG-Accel China Capital Associates L.P. was controlled by IDG-Accel China Capital GP Associates Ltd., which was in turn controlled 35% by Mr. Ho Chi Sing and Mr. Zhou Quan respectively.

IDG-Accel China Capital L.P., IDG-Accel China Capital Associates L.P., IDG-Accel China Capital GP Associates Ltd., Mr. Ho Chi Sing and Mr. Zhou Quan were deemed to be interested in the 64,912,000 shares of the Company which were beneficially owned by Keen Achieve Limited.

Save as disclosed above, as at 30 June 2012, so far as the Directors were aware, no person (other than the Directors or chief executive of the Company) had registered an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Directors' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct governing securities transactions by the Directors.

Specific enquiry has been made to all Directors and all Directors have confirmed that they had fully complied with the required standard set out in the Model Code for the period from the Listing Date to the year ended 30 June 2012.

Directors' Interests in Competing Business

As at 30 June 2012, none of the Directors had any interest in any business which competes or may compete with the business of the Group.

Directors' Interests in Contracts

Save as disclosed under the section headed "Continuing Connected Transactions" below, no contracts of significance to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest directly or indirectly, subsisted at the end of the year or at any time during the year.

Continuing Connected Transactions

Related party transactions as disclosed in note 35 to the consolidated financial statements also constituted continuing connected transactions within the meaning of the Listing Rules. The Company confirms that it had complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the continuing connected transactions. Details of such transactions are summarized below:

Connected persons

Trandy Leather Goods Handbag Factory Limited ("Trandy Leather") is a company incorporated in Hong Kong primarily engaged in processing raw materials for the manufacturing of handbags. The total issued share capital of Trandy Leather is owned by Mr. Yeung Hok Yin as to 60% and by Mr. Yeung Hok Chung as to 40%, both of them are nephews of Mr. Yeung Michael Wah Keung and Mr. Yeung Wo Fai and cousins of Mr. Yeung Andrew Kin. Trandy Leather is the sole investor of 東莞厚街鋒榮皮具廠 (Dongguan Houjie Fengrong Leather Products Factory) ("Houjie Fengrong"), a processing factory located in Dongguan, Guangdong Province. Houjie Fengrong is not a separate legal entity and it has been operated in the form of "three types of processing plus compensation trades" in the PRC since its establishment on 20 May 2009. Trandy Leather is therefore an associate of Mr. Yeung Michael Wah Keung, Mr. Yeung Wo Fai and Mr. Yeung Andrew Kin and a connected person of the Company under Rule 14A.11 of the Listing Rule.

Connected transactions

Since 2003, Trandy Leather has by itself and through Houjie Fengrong provided processing services in respect of raw materials used by the Group in the manufacture of handbags. The Group has engaged Trandy Leather to provide such services due to its specialty in certain steps for processing raw materials.

On 27 October 2011, the Group entered into a processing agreement (the "Processing Agreement") with Trandy Leather for the provision of processing services in respect of the raw materials used by the Group in the manufacture of handbags. The transactions contemplated under the Processing Agreement constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.

Directors' Report

The processing fee was arrived at after arm's length negotiations between the parties and with reference to the prevailing market rate. The processing fee paid by the Group for the year ended 30 June 2012 amounted to approximately HK$8,946,000, which did not exceed the aggregate annual cap of HK$12,000,000 for the year ended 30 June 2012.

Trandy Leather ceased to provide processing services to the Group due to the cessation of operation of business of Houjie Fengrong in April 2012.

Confirmation from the Directors

The Directors (including independent non-executive Directors) have reviewed the continuing connected transactions entered into during the year, and are of the view that the continuing connected transactions have been entered into on normal commercial terms and in the ordinary and usual course of business of the Group. In addition, the Directors (including independent non-executive Directors) confirm that the continuing connected transactions have been entered into in accordance with the Processing Agreement and consider the terms of the Processing Agreement are fair and reasonable and in the interests of the Company and the shareholders as a whole.

Report of the auditors on certain procedures in respect of the continuing connected transactions of the Group to the Board pursuant to Listing Rule

The Company's auditors were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditors have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in this report in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange. The auditors of the Company have confirmed that the continuing connected transactions have received the approval of the Board, have been entered into in accordance with the Processing Agreement and have not exceeded the annual caps.

Share Option Scheme

A share option scheme was approved and adopted on 15 November 2011 (the "Share Option Scheme") to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants of the scheme. No share options were granted, exercised or cancelled by the Company under the Share Option Scheme during the period from the date of its adoption to 30 June 2012. There were no outstanding share options under the Share Option Scheme as at 30 June 2012.

The Board may, at its discretion, invite any Directors (excluding independent non-executive Directors), any senior managers or any employees (whether full-time or part-time) of each member of the Group provided that the Board shall have absolute discretion to determine whether or not one falls within the above categories; (together, the "Participants" and each a "Participant"), to take up options to subscribe for Shares at a price determined. In determining the basis of eligibility of each Participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

The total number of shares, which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of our Company shall not in aggregate exceed 10% of the total number of shares in issue immediately following completion of the Global Offering and the Capitalization Issue (as defined in the prospectus issued by the Company on 24 November 2011), unless the Company obtains a prior approval from its shareholders. The options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating such 10% limit.

The limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of total number of the shares in issue from time to time. No options may be granted under the Share Option Scheme and any other share option schemes of the Company (or its subsidiary) if this will result in such limit being exceeded.

Directors' Report

As at the date of this report, a total of 99,840,000 shares (representing approximately 9.97% of the existing issued share capital of the Company) may be issued upon exercise of all options which may granted under the Share Option Scheme.

Unless approved by shareholders of the Company in general meeting in the manner stipulated in the Listing Rules, the maximum entitlement for any one Participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

Where the Board proposes to grant any option to a Participant who is a substantial shareholder or if appropriate an independent non-executive Director of the Company, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) to him in the 12-month period up to and including the proposed offer date of such grant (the "Relevant Date"): (a) representing in aggregate more than 0.1% of the total number of shares in issue on the Relevant Date; and (b) having an aggregate value, based on the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the Relevant Date in excess of HK$5,000,000, such proposed grant of options must be approved by the shareholders of the Company in general meeting.

The period under which an option must be exercised shall be such period as the Board may in its absolute discretion determine at the time of grant, save that such period shall not be longer than ten years from the date on which an offer is made to the Participant pursuant to the Share Option Scheme. The minimum period for which an option must be held before it can be exercised is determined by the Board upon the grant of an option. The amount payable upon acceptance of an offer of the grant of an option is HK$1.00. The full amount of the exercise price for the subscription of shares must be paid upon exercise of an option.

The subscription price in respect of each share issued pursuant to the exercise of the options granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a Participant and shall be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the offer date; (b) a price being the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the offer date; and (c) the nominal value of a share.

The Share Option Scheme shall be valid and effective for a period of 10 years commencing on 15 November 2011.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float of not less than 25% of its shares in the hands of the public throughout the financial year under review and up to the date of this report.

Events After the End of the Reporting Period

Details of the significant events after the end of the reporting period of the Group are set out in note 39 to the consolidated financial statements.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report of this report.

Auditors

A resolution will be proposed at the forthcoming annual general meeting to re-appoint Ernst & Young as auditors of the Company to hold office until the conclusion of the next annual general meeting.

On behalf of the Board
Sitoy Group Holdings Limited

Yeung Michael Wah Keung
Chairman

Hong Kong, 17 September 2012

Corporate Governance Report

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the shareholders of the Company. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all shareholders of the Company to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for the shareholders of the Company. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for the shareholders of the Company.

Adoption and Compliance of Corporate Governance Practices

The Board adopted a set of corporate governance practices ("CG Practices") which aligns with or is more restrictive than the requirements set out in the Code on Corporate Governance Practices ("CGP Code") and Corporate Governance Code (the "New CG Code") set out in Appendix 14 of the Listing Rules. The CG Practices were updated by the Board on 26 March 2012 to reflect the amendments to the CGP Code which became effective from 1 April 2012. The Board is of the view that the Company has complied with the code provisions set out in the CGP Code for the period from the Listing Date to 31 March 2012 and the New CG Code for the period from 1 April 2012 to 30 June 2012.

Directors' and Relevant Employees' Securities Transactions

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct governing securities transactions by the Directors.

Specific enquiry has been made to all Directors and all Directors have confirmed that they had fully complied with the required standard set out in the Model Code for the period from the Listing Date to the year ended 30 June 2012.

Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with written guidelines on no less exacting terms than those in the Model Code.

No incident of non-compliance with these guidelines by the relevant employees was noted by the Company.

Board of Directors

The Board comprises eight Directors, consisting of five executive Directors and three independent non-executive Directors. Biographical information of the Directors and the details of the composition of the Board are set out below and in the Corporate Information, Directors and Senior Management Profile and Directors' Report respectively of this report.

Corporate Governance Report

The Board delegates day-to-day operations of the Group to the management. Both the Board and the management have clearly defined authorities and responsibilities under various internal control and check-and-balance mechanisms.

The Board monitors the development and financial performance and sets strategic directions of the Group's business. Matters including material investment decisions, approving financial statements, declaration of dividend, are reserved to the Board. The management implements the Board's decisions, makes business proposals and reports to the Board on the overall performance of the Group. Daily operations and administration of the business are delegated to the executive Directors and the senior management of the Company.

During the year, four Board meetings were held and four set of unanimous written resolutions of the Directors were made. Out of the four Board meetings, one of them was held to discuss and/or approve the interim financial performance/results of the Group and one of them was held to discuss and/or approve the allotment of shares under the over-allotment option. The remaining meetings were held to discuss, among other things, various projects contemplated and the legal matters of the Group.

At least 14 days' notice of a regular Board meeting is given to all Directors to provide them with an opportunity to attend and all Directors are given an opportunity to include matters in the agenda for a regular meeting. Board papers are dispatched to the Directors at least three days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting.

The Chairman conducts the proceedings of the Board at all Board meetings. He ensure that sufficient time is allocated for discussion and consideration of each item on the agenda and that equal opportunities are given to the Directors to speak and express their views and share their concerns. All Directors have access to the Company Secretary, who is responsible for ensuring that the Board procedures are complied with and for advising the Board on compliance matters.

During the year, the respective attendances of the Directors at the above Directors' meetings are presented as follows:

Director	**Capacity**	**Attendance**
Yeung Michael Wah Keung	Chairman and executive Director	4/4
Yeung Wo Fai	Chief Executive Officer and executive Director	4/4
Yu Chun Kau	Executive Director	4/4
Chan Ka Dig Adam	Executive Director	4/4
Yeung Andrew Kin	Executive Director	4/4
Yeung Chi Tat	Independent non-executive Director	4/4
Kwan Po Chuen, Vincent	Independent non-executive Director	4/4
Lung Hung Cheuk	Independent non-executive Director	4/4

No annual general meeting or extraordinary general meeting had been held during the period from the Listing Date to the year ended 30 June 2012.

The Company has received confirmations of independence from all independent non-executive Directors pursuant to rule 3.13 of the Listing Rules. All of them meet the independence criteria set out in rule 3.13 of the Listing Rules. Thus, the Board considers that they are independence.

Except for the family relationship between Mr. Yeung Michael Wah Keung, Mr. Yeung Wo Fai and Mr. Yeung Andrew Kin as disclosed in Directors and Senior Management Profile on pages 23 to 26 of this report, there is no financial, business, family or other material/relevant relationship between Board members.

From 1 April 2012 to the year ended 30 June 2012, all Directors participated in continuous professional development to develop and refresh their knowledge and skills by attending in-house briefings, by giving talks, by attending training, by reading material relevant to the directors duties and responsibilities. Such Directors had provided to the Company their records of training received during the year.

Corporate Governance Report

Chairman and Chief Executive Officer

From the Listing Date to the year ended 30 June 2012, the roles of Chairman and the Chief Executive Officer were held separately by Mr. Yeung Michael Wah Keung and Mr. Yeung Wo Fai. The Chairman is responsible in leading the Board for the overall development strategy of the Group. The Chief Executive Officer is delegated with the authorities to manage the day-to-day operation of the Company.

Non-Executive Directors

Each of the independent non-executive Directors has entered into an appointment letter with the Company pursuant to which each of them is appointed for service with the Company for a term of three years commencing on the Listing Date. Their terms of appointment shall be subject to the rotational retirement provision of the articles of association of the Company.

Board Committees

To assist the Board in the execution of its duties and to facilitate effective management, certain functions of the Board have been delegated by the Board to various Board committees, which review and make recommendations to the Board on specific areas. The Board has established a total of three Board committees, details of which are set out below.

Each committee consists of Directors and has its terms of reference. The terms of reference of the Board committees setting out their roles and the authority delegated to them by the Board have been posted on the designated website of the Stock Exchange at www.hkexnews.hk and the Company's website at www.sitoy.com.

Audit Committee

The Company established an audit committee on 15 November 2011 with written terms of reference in compliance with the CGP Code and New CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises Mr. Yeung Chi Tat (chairman of the audit committee), Mr. Kwan Po Chuen, Vincent and Mr. Lung Hung Cheuk, all of whom are independent non-executive Directors. The audit committee has reviewed and discussed the annual report of the Group for the year ended 30 June 2012.

During the year, the audit committee had held 2 physical meetings. Interim results and/or appointment of the external auditors of the Group were discussed during the meetings.

The respective attendances of the members of audit committee are presented as follows:

Member	**Attendance**
Mr. Yeung Chi Tat (chairman of the audit committee)	2/2
Mr. Kwan Po Chuen, Vincent	2/2
Mr. Lung Hung Cheuk	2/2

During the year, the audit committee had performed the following duties:

– reviewed and commented on the half-yearly financial report of the Group for the six months ended 31 December 2011 before submission to the Board for adoption and publication;

– met with the auditors to discuss the financial matters of the Group and reviewed their findings, recommendations and representations; and

– reviewed and approved the terms of engagement and scope of services of the auditors and independent internal control reviewer.

Corporate Governance Report

Nomination Committee

The Company established a nomination committee on 15 November 2011 with written terms of reference in compliance with the CGP Code and New CG Code. The primary duties of the nomination committee are to make recommendations to the Board on the appointment of Directors. A member of the nomination committee shall abstain from voting and shall not be counted in the quorum of a meeting in respect of the resolution where he or any of his associates has any material interest, including the recommendation on appointment of such person as a Director. The nomination committee comprises Mr. Yeung Michael Wah Keung, the Chairman and an executive Director (chairman of the nomination committee) and the independent non-executive Directors, Mr. Kwan Po Chuen, Vincent and Mr. Lung Hung Cheuk.

During the year, no nomination committee meeting had been held. There is no change in the directorship during the period from the Listing Date to the year ended 30 June 2012.

During the year and before the establishment of the nomination committee, one Directors' meeting was held to approve the appointment of Mr. Yeung Chi Tat, Mr. Kwan Po Chuen, Vincent and Mr. Lung Hung Cheuk as independent non-executive Directors of the Company with the presence of Messrs. Yeung Michael Wah Keung, Mr. Yeung Wo Fai, Mr. Yu Chun Kau, Mr. Chan Ka Dig Adam and Mr. Yeung Andrew Kin.

The Board has the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board in accordance with the articles of association of the Company. In assessing nomination of new Directors, the Board has taken into consideration of the candidate's qualification, ability and potential contributions to the Company.

Remuneration Committee

The Company established a remuneration committee on 15 November 2011 with written terms of reference in compliance with the CGP Code and New CG Code. The primary duties of the remuneration committee are to make recommendations to the Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies. A member of the remuneration committee shall abstain from voting and shall not be counted in the quorum of a meeting in respect of the resolution regarding the remuneration payable to him. The remuneration committee comprises Mr. Yeung Michael Wah Keung, the Chairman and an executive Director and the independent non-executive Directors, Mr. Yeung Chi Tat and Mr. Lung Hung Cheuk (chairman of the remuneration committee).

The remuneration committee, with delegated responsibility, determines the remuneration package of individual executive Directors and senior management of the Group and makes recommendations on the remuneration of non-executive Directors.

The Board retains its power to determine the remuneration of non-executive Directors (including independent non-executive Directors).

During the year, the remuneration committee had held 2 physical meetings for the purpose of considering the remuneration and bonus of the Directors and senior management.

The respective attendances of the members of remuneration committee are presented as follows:

Member	**Attendance**
Mr. Lung Hung Cheuk (chairman of the remuneration committee)	2/2
Mr. Yeung Michael Wah Keung	2/2
Mr. Yeung Chi Tat	2/2

During the year, the remuneration committee had performed the following duties:

– reviewed and approved year end and special bonus to the executive Directors and senior management; and

– reviewed and approved salary increment to the executive Directors and senior management

Corporate Governance Report

Corporate Governance Function

The Board is entrusted with the overall responsibility of developing and maintaining sound and effective corporate governance within the Group and is committed to ensuring that an effective governance structure is put in place to continuously review and improve the corporate governance practices within the Group in light of the evolving operating environment and regularity requirements.

The Board has undertaken the day-to-day responsibility for all corporate governance function of the Group. All members of the Board are responsible for performing the corporate governance duties set out in the written terms of reference adopted by the Board on 26 March 2012.

On 26 March 2012, the Company adopted the New CG Code and review the Company's policy and practices on compliance with legal and regulatory requirements as well as the code of conduct and compliance manual (if any) applicable to employees and Directors, etc.

On 17 September 2012, the Board had reviewed the Company's compliance with the CGP Code and the New CG Code and disclosure in this Corporate Governance Report.

Auditors' remuneration

The remunerations in respect of audit and non-audit services for the year ended 30 June 2012 provided by the Company's auditors, Ernst & Young, are as follows:

	HK$'000
Audit services	2,500
Non-audit services – tax representative services fee	146
Total	2,646

Acknowledge of Responsibility for Financial Statements

The Directors acknowledged their responsibilities for preparing the financial statements of the Group. In preparing the financial statements for the financial year under review, the Directors have:

– based on a going concern basis;

– selected suitable accounting policies and applied them consistently; and

– made judgments and estimates that were prudent, fair and reasonable.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report from pages 40 to 41 of this report.

Remuneration policy

The remuneration of the employees and the holding of offices of the Group were based on internal equity factors and external market conditions and will be reviewed from time to time.

The remuneration of the employees including executive Directors generally consists of:

– fixed salary/allowance – which is set according to the duties, responsibilities, skills, experiences and market influences;

– pension – which is based on the Mandatory Provident Fund Contribution Scheme or the local statutory pension scheme;

– short-term variable incentive – which may include commission, discretionary cash bonus depending on the achievement of short-term corporate objectives and/or personal targets;

– long-term variable incentive – which may include share options designed to encourage long-term commitment; and

Corporate Governance Report

– other benefits in kind – which may include accommodation, company car and related services.

The remuneration of independent non-executive Directors was at a fixed quarterly payment.

Internal Control

The Board is responsible for establishing, maintaining and reviewing an effective system of internal control and safeguarding the assets and the interests of the Group and the shareholders of the Company as well.

The Group has established policies and procedures for approval and control of expenditures. Pursuant to a risk-based methodology, the Board plans its internal control review with resources being focused on higher risk areas. Internal control review has been conducted on ongoing basis to ensure that the policies and procedures in place are adequate. Any findings and recommendations would be discussed by the management and followed up properly and timely.

The Directors had engaged SHINEWING Risk Services Limited to perform an independent review on the internal control systems of the Group. The review report showed that the Group maintained an adequate and effective internal control system and no major control deficiency had been identified. The scope and findings of the review had been reported to and reviewed by the audit committee.

Communication with Shareholders

The Board recognizes the importance of maintaining effective communication with the shareholders of the Company. The Company establishes various communication tools to ensure the shareholders of the Company are kept well informed of timely information of the Company. These include the annual general meeting, extraordinary general meetings, the annual and interim reports, announcements, circulars, notices. Such documents are accessible on the Company's website at http://www.sitoy.com.

Company Secretary

Mr. Yu Chun Kau, the chief financial officer and executive Director, is the Company Secretary of the Company and responsible directly to the Board. The Company Secretary also reports to the Chairman and/or the Chief Executive Officer. All Directors have access to the Company Secretary who is responsible for ensuring the Board procedures are followed and that applicable laws and regulations are complied with. The Company Secretary is also responsible for providing advice to the Board in relation to the Director's obligation as regards disclosure of interest in securities and disclosure requirements in respect of notifiable transactions, connected transactions and price-sensitive information under the Listing Rules or other applicable laws.

The appointment and removal of the Company Secretary is subject to the Board approval in accordance with the articles of association of the Company. Specified enquiry has been made to the Company Secretary and the Company Secretary confirmed that he has complied with all the proposed qualifications, experience and training requirements under the Listing Rules.

Shareholders' Rights

(a) Procedures for convening of an extraordinary general meeting and putting forward proposals at shareholders' meeting

Shareholders are encouraged to attend all general meetings of the Company. Pursuant to the articles of association of the Company, (i) two or more shareholders who hold in aggregate not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company or (ii) any one shareholder which is a recognised clearing house (or its nominee(s)) and holds not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company, may deposit a written request (the "Written Requisition") at the head office and principal place of business in Hong Kong of the Company (at 4-5th Floor, The Genplas Building, 56 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong) for attention of the Company Secretary to request the Board to convene an extraordinary general meeting of the Company. The Written Requisition should state the

Corporate Governance Report

full name of the requisitionist(s), the matter(s) and the proposed resolution(s) to be considered at the general meeting of the Company, and must be signed by all the requisitionist(s).

The Board shall consider the Written Requisition and, if thought fit, shall within 21 days from the date of deposit of the Written Requisition proceed to convene a general meeting to be held within such number of days in accordance with the articles of association of the Company and in compliance with the requirements of the Listing Rules. Pursuant to the articles of association of the Company, an annual general meeting of the Company and an extraordinary general meeting of the Company called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting of the Company shall be called by not less than 14 days' notice in writing. Pursuant to the New CG Code, written notice of an annual general meeting of the Company and written notice of an extraordinary general meeting of the Company shall be sent by the Company to all Shareholders at least 20 clear business days and 10 clear business days respectively before the meeting. Business day under the Listing Rules means any day on which the Stock Exchange is open for business of dealing in securities.

If the Board does not within 21 days from the date of deposit of the Written Requisition to convene a general meeting to be held within such number of days in accordance with the articles of association of the Company and in compliance with the Listing Rules, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them, may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Board provided that any meeting so convened shall not be held after the expiration of three months from the date of deposit of the Written Requisition, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board to convene a general meeting shall be reimbursed to them by the Company.

(b) Procedures for directing enquires to the Company

To direct enquiries to the Board, the shareholders of the Company should submit his/her/its enquires in writing with contact details (including, your registered name, address and telephone number, etc.) to the Company Secretary at the following:

By post to the head office and principal place of business in Hong Kong at 4-5th Floor, The Genplas Building, 56 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong.
Tel: (852) 2345 0295
Fax: (852) 2343 2808

(c) Matters relating to share registration

For share registration related matters, such as share transfer and registration, change of name and address of shareholders of the Company, loss of share certificates or dividend warrants, the shareholders of the Company can contact the Hong Kong share registrar and transfer office at the following:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre, 183 Queen's Road East,
Wanchai, Hong Kong.
Tel: (852) 2862 8555
Fax: (852) 2529 6087

Investor Relations

For the purpose of proposed listing of shares of the Company on the Stock Exchange, the Company adopted new provisions of memorandum and articles of association by special resolution passed on 15 November 2011. From the Listing Date to the year ended 30 June 2012, there is no change to the amended and restated memorandum and articles of association. The said amended and restated memorandum and articles of association of the Company is published on the designated website of the Stock Exchange and the Company's website.

Independent Auditors' Report

To the shareholders of Sitoy Group Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Sitoy Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 42 to 101, which comprise the consolidated and company statements of financial position as at 30 June 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2012, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
22nd Floor
CITIC Tower
1 Tim Mei Avenue, Central
Hong Kong

17 September 2012

Consolidated Income Statement

Year ended 30 June 2012

	Notes	Year ended 30 June 2012 HK$'000	2011 HK$'000
REVENUE	6	**3,338,241**	2,493,272
Cost of sales		**(2,596,858)**	(1,940,152)
Gross profit		**741,383**	553,120
Other income and gains	6	**24,554**	27,404
Selling and distribution costs		**(97,632)**	(55,924)
Administrative expenses		**(200,576)**	(157,513)
Other expenses		**(3,017)**	(414)
Finance costs	8	**(2,046)**	(3,817)
PROFIT BEFORE TAX	7	**462,666**	362,856
Income tax expense	11	**(81,658)**	(60,436)
PROFIT FOR THE YEAR		**381,008**	302,420
Attributable to:			
Owners of the Company	12	**381,008**	302,420
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (HK cents)	14	**42.70**	40.39

Details of the dividends for the reporting period are disclosed in note 13 to the financial statements.

Consolidated Statement of Comprehensive Income

Year ended 30 June 2012

	Year ended 30 June	
	2012	2011
	HK$'000	HK$'000
PROFIT FOR THE YEAR	**381,008**	302,420
OTHER COMPREHENSIVE INCOME		
Available-for-sale investment:		
Changes in fair value	**(33)**	(414)
Exchange differences on translation of foreign operations	**(5,711)**	14,129
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(5,744)**	13,715
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**375,264**	316,135
Attributable to:		
Owners of the Company	**375,264**	316,135

Consolidated Statement of Financial Position

30 June 2012

	Notes	**As at 30 June 2012 HK$'000**	As at 30 June 2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**320,473**	284,003
Prepaid land lease payments	16	**20,290**	20,327
Intangible asset	17	**4,140**	–
Deferred tax assets	18	**15,751**	10,360
Prepayments	22	**350**	3,176
Total non-current assets		**361,004**	317,866
CURRENT ASSETS			
Inventories	20	**380,609**	291,837
Trade receivables	21	**304,627**	239,860
Prepayments, deposits and other receivables	22	**55,275**	50,271
Amount due from a related company	25	**–**	540
Available-for-sale investment	23	**9,576**	9,609
Time deposit with original maturity of more than three months	24	**60,000**	–
Cash and cash equivalents	24	**746,798**	80,390
Total current assets		**1,556,885**	672,507
CURRENT LIABILITIES			
Trade payables	26	**182,586**	197,972
Other payables and accruals	27	**82,272**	96,495
Interest-bearing bank borrowings	28	**–**	105,901
Tax payable		**74,097**	96,324
Total current liabilities		**338,955**	496,692
NET CURRENT ASSETS		**1,217,930**	175,815
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,578,934**	493,681
NON-CURRENT LIABILITIES			
Deferred tax liabilities	18	**–**	244
Total non-current liabilities		**–**	244
Net assets		**1,578,934**	493,437
EQUITY			
Equity attributable to owners of the Company			
Issued capital	29	**100,153**	1
Reserves	30	**1,478,781**	493,436
Total equity		**1,578,934**	493,437

Yeung Michael Wah Keung
Director

Yu Chun Kau
Director

Consolidated Statement of Changes in Equity

Year ended 30 June 2012

	Attributable to owners of the Company							
	Issued capital HK$'000 (note 29)	**Share premium account*** HK$'000 (note 30)	**Merger reserve*** HK$'000 (note 30)	**Statutory reserve fund*** HK$'000 (note 30)	**Available-for-sale investment revaluation reserve*** HK$'000	**Exchange fluctuation reserve*** HK$'000	**Retained profits*** HK$'000	**Total** HK$'000
At 1 July 2011	**1**	**400,000**	**4,030**	**4,742**	**(414)**	**18,973**	**66,105**	**493,437**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**381,008**	**381,008**
Other comprehensive income for the year:								
Changes in fair value of an available-for-sale investment, net of tax	**–**	**–**	**–**	**–**	**(33)**	**–**	**–**	**(33)**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**(5,711)**	**–**	**(5,711)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(33)**	**(5,711)**	**381,008**	**375,264**
Capitalization issue of shares	**74,879**	**(74,879)**	**–**	**–**	**–**	**–**	**–**	**–**
Issue of shares from initial public offering	**24,960**	**711,360**	**–**	**–**	**–**	**–**	**–**	**736,320**
Issue of shares from partial exercise of an over-allotment option	**313**	**8,926**	**–**	**–**	**–**	**–**	**–**	**9,239**
Share issue expenses	**–**	**(35,326)**	**–**	**–**	**–**	**–**	**–**	**(35,326)**
Transfer from retained profits	**–**	**–**	**–**	**18,724**	**–**	**–**	**(18,724)**	**–**
At 30 June 2012	**100,153**	**1,010,081**	**4,030**	**23,466**	**(447)**	**13,262**	**428,389**	**1,578,934**
At 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
Total comprehensive income for the year	–	–	–	–	(414)	14,129	302,420	316,135
Interim dividend declared (note 13)	–	–	–	–	–	–	(40,000)	(40,000)
Special dividend declared (note 13)	–	–	–	–	–	–	(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 consolidated reserves of HK$1,478,781,000 (30 June 2011: HK$493,436,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 30 June 2012

	Notes	Year ended 30 June 2012 HK$'000	 2011 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**462,666**	362,856
Adjustments for:			
Finance costs	8	**2,046**	3,817
Loss on disposal of items of property, plant and equipment	7	**1,247**	20
Depreciation	7	**27,859**	19,726
Amortization of prepaid land lease payments	7	**441**	371
Write-down of inventories to net realizable value	7	**7,625**	2,254
Write-off of a long term lease payment		**–**	120
		501,884	389,164
Increase in trade receivables		**(64,767)**	(78,882)
Increase in prepayments, deposits and other receivables		**(8,359)**	(20,730)
Decrease/(increase) in an amount due from a related company		**540**	(540)
Increase in inventories		**(96,397)**	(50,448)
(Decrease)/increase in trade payables		**(15,386)**	42,593
(Decrease)/increase in other payables and accruals		**(13,204)**	36,221
CASH GENERATED FROM OPERATIONS		**304,311**	317,378
Hong Kong profits tax paid		**(68,716)**	(9,041)
Mainland China income tax paid		**(40,975)**	(13,724)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**194,620**	294,613

Consolidated Statement of Cash Flows

Year ended 30 June 2012

	Year ended 30 June	
	2012	2011
	HK$'000	HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of items of property, plant and equipment	**(69,709)**	(96,174)
Proceeds from disposal of items of property, plant and equipment	**363**	–
Purchase of intangible asset	**(2,068)**	(2,072)
Purchase of an available-for-sale investment	**–**	(10,023)
Increase in time deposit with original maturity of more than three months	**(60,000)**	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES	**(131,414)**	(108,269)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	**745,559**	–
Share issue expenses	**(34,767)**	–
New bank and other borrowings	**–**	20,000
Repayment of bank and other borrowings	**(105,901)**	(84,291)
Decrease in pledged time deposits	**–**	10,000
Dividend paid	**–**	(99,192)
Interest paid	**(2,046)**	(3,817)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES	**602,845**	(157,300)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**666,051**	29,044
Cash and cash equivalents at beginning of year	**80,390**	50,146
Effect of foreign exchange rate changes, net	**357**	1,200
CASH AND CASH EQUIVALENTS AT END OF YEAR	**746,798**	80,390

Statement of Financial Position

30 June 2012

	Notes	**As at 30 June 2012 HK$'000**	As at 30 June 2011 HK$'000
NON-CURRENT ASSETS			
Deferred tax assets	18	**847**	–
Investments in subsidiaries	19	**430,000**	–
Total non-current assets		**430,847**	–
CURRENT ASSETS			
Trade receivables	21	**–**	92
Prepayments, deposits and other receivables	22	**963**	3,415
Amounts due from subsidiaries	25	**174,026**	397,551
Time deposit with original maturity of more than three months	24	**60,000**	–
Cash and cash equivalents	24	**469,680**	629
Total current assets		**704,669**	401,687
CURRENT LIABILITIES			
Other payables and accruals	27	**1,220**	11,326
Total current liabilities		**1,220**	11,326
NET CURRENT ASSETS		**703,449**	390,361
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,134,296**	390,361
Net assets		**1,134,296**	390,361
EQUITY			
Issued capital	29	**100,153**	1
Reserves	30	**1,034,143**	390,360
Total equity		**1,134,296**	390,361

Notes to Financial Statements

Year ended 30 June 2012

1. Corporate Information

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 Scotia Centre, 4th Floor, P.O. Box 2804, George Town, Grand Cayman KY1-1112, Cayman Islands.

The principal activities of the Group are the manufacture and sale of handbags, small leather goods and travel goods.

Pursuant to a group reorganization (the "Reorganization") which was completed on 13 July 2011, the Company became the holding company of the other subsidiaries comprising the Group.

The Company's shares were listed on the Stock Exchange on 6 December 2011.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention, except for an available-for-sale investment, which has been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 30 June 2012. For the preparation of the consolidated financial statements, the Group adopted 30 June as the Group's financial year end. The financial statements of the subsidiaries are prepared using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognizes (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognizes (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognized in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Notes to Financial Statements

Year ended 30 June 2012

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 24 (Revised)	*Related Party Disclosures*
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

Other than as further explained below regarding the impact of IAS 24 (Revised), and the amendment to IAS 1 included in *Improvements to IFRSs 2010*, the adoption of the revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these IFRSs are as follows:

(a) IAS 24 (Revised) *Related Party Disclosures*

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group.

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendment most applicable to the Group are as follows:

- IAS 1 *Presentation of Financial Statements:* The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

Notes to Financial Statements

Year ended 30 June 2012

2.3 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 these financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Government Loans*[3]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[3]
IFRS 9	*Financial Instruments*[5]
IFRS 10	*Consolidated Financial Statements*[3]
IFRS 11	*Joint Arrangements*[3]
IFRS 12	*Disclosure of Interests in Other Entities*[3]
IFRS 13	*Fair Value Measurement*[3]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12: *Transition Guidance*[3]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[2]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[3]
IAS 27 (Revised)	*Separate Financial Statements*[3]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[3]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[4]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[3]
Annual Improvements Projects	*Annual Improvements to IFRSs 2009–2011*[3]

1 Effective for annual periods beginning on or after 1 January 2012
2 Effective for annual periods beginning on or after 1 July 2012
3 Effective for annual periods beginning on or after 1 January 2013
4 Effective for annual periods beginning on or after 1 January 2014
5 Effective for annual periods beginning on or after 1 January 2015

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 these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

Notes to Financial Statements

Year ended 30 June 2012

2.4 Summary of Significant Accounting Policies

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 investments 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 consolidated 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 consolidated 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 is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group.

or

Notes to Financial Statements

Year ended 30 June 2012

2.4 Summary of Significant Accounting Policies (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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 consolidated 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 depreciates them accordingly.

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.

Notes to Financial Statements

Year ended 30 June 2012

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

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 consolidated 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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

All research costs are charged to the consolidated 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 consolidated 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 consolidated 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.

Notes to Financial Statements

Year ended 30 June 2012

2.4 Summary of Significant Accounting Policies (continued)

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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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 cash equivalents, time deposit with original maturity of more than three months, trade and other receivables, an amount due from a related company and an 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 consolidated income statement. The loss arising from impairment is recognized in the income statement in finance costs for loans and in other expenses for receivables.

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 revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in the income statement in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the consolidated income statement in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognized in the income statement as other income 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.

Notes to Financial Statements

Year ended 30 June 2012

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

Subsequent measurement (continued)

Available-for-sale financial investments (continued)

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 consolidated 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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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.

Notes to Financial Statements

Year ended 30 June 2012

2.4 Summary of Significant Accounting Policies (continued)

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 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 the 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 loss is recognized in the consolidated 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 other expenses in the consolidated 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.

Notes to Financial Statements

Year ended 30 June 2012

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

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 consolidated income statement, is removed from other comprehensive income and recognized in the consolidated 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 consolidated income statement – is removed from other comprehensive income and recognized in the consolidated income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the consolidated 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 plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade payables, other payables and accruals, and interest-bearing bank borrowings.

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 consolidated 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 consolidated income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognized initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognized less, when appropriate, cumulative amortization.

Notes to Financial Statements

Year ended 30 June 2012

2.4 Summary of Significant Accounting Policies (continued)

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 consolidated 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 consolidated 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 consolidated income statement.

Notes to Financial Statements

Year ended 30 June 2012

2.4 Summary of Significant Accounting Policies (continued)

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.

Notes to Financial Statements

Year ended 30 June 2012

2.4 Summary of Significant Accounting Policies (continued)

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 13% 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 distribution to the Company's shareholders is recognized as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

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.

Notes to Financial Statements

Year ended 30 June 2012

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies

The functional currency of the Company and non-Mainland China incorporated subsidiaries is HK$. The functional currency of the subsidiaries incorporated in Mainland China is Renminbi (“RMB”). The financial statements are presented in HK$, 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 consolidated 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.

As at the end of the reporting period, the assets and liabilities of the subsidiaries incorporated in Mainland China are translated into HK$ at the exchange rates ruling at the end of the reporting period and their income statements are translated into HK$ at the weighted average exchange rates for the period. 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 consolidated income statement.

For the purpose of the consolidated 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.

3. Significant Accounting Judgments and Estimates

The preparation of the Group’s financial statements 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.

Judgments

In the process of applying the Group’s accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognized in the financial statements:

Withholding taxes arising from the distributions of dividends

The Group’s determination as to whether to accrue for withholding taxes from the distribution of dividends from subsidiaries in Mainland China according to the relevant tax jurisdictions is subject to judgment on the timing of the payment of the dividends. The Group considered that if it is probable that the profits of the subsidiaries in Mainland China will not be distributed in the foreseeable future, then no withholding taxes should be provided.

Notes to Financial Statements

Year ended 30 June 2012

3. Significant Accounting Judgments and Estimates (continued)

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 non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

(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 judgments 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 11 to the financial statements.

Notes to Financial Statements

Year ended 30 June 2012

4. Particulars of Companies Comprising the Group

Particulars of the companies comprising the Group at 30 June 2012 are set out below:

Name of company	Place and date of incorporation/ registration and place of operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Subsidiaries					
Sitoy International Limited	The British Virgin Islands ("BVI") 10 September 2010	United States dollar ("US$") 1	100	–	Investment holding
Sitoy Handbag Factory Limited ("Sitoy Factory")	BVI 23 May 2011	US$300	100	–	Investment holding
Sitoy Investment International Limited ("Sitoy Investment")	BVI 23 May 2011	US$300	100	–	Investment holding
Sitoy (Hong Kong) Handbag Factory Limited ("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	Hong Kong 29 July 1986	HK$30,000	–	100	Trading of handbags, small leather goods and travel goods
Sitoy Retailing Limited	Hong Kong 21 September 2010	HK$5,000,000	–	100	Investment holding, trading and retail of handbags, small leather goods and travel goods
Dongguan Shidai Leather Products Factory Co., Ltd.@	The People's Republic of China ("PRC")/ Mainland China 13 July 1992	HK$60,000,000	–	100	Manufacture and sale of handbags, small leather goods and travel goods
Sitoy (Yingde) Leather Products Co., Ltd. ("Sitoy Yingde")@	PRC/ Mainland China 11 December 2006	HK$220,000,000	–	100	Manufacture and sale of handbags, small leather goods and travel goods
Guangzhou Sitoy Leather Goods Company Limited*@	PRC/ Mainland China 18 January 2011	HK$25,000,000	–	100	Retail of handbags, small leather goods and travel goods
Dongguan Sitoy Leather Products Company Limited*@	PRC/ Mainland China 17 January 2012	RMB2,000,000	–	100	Manufacture of handbags, small leather goods and travel goods

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

@ These subsidiaries are registered as companies with limited liability under PRC law.

Notes to Financial Statements

Year ended 30 June 2012

5. Operating 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.

Notes to Financial Statements

Year ended 30 June 2012

5. Operating Segment Information (continued)

Year ended 30 June 2012

	Manufacturing HK$'000	Retail HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	**3,323,853**	**14,388**	**3,338,241**
Intersegment sales	**4,533**	**–**	**4,533**
	3,328,386	**14,388**	**3,342,774**
Reconciliation:			
Elimination of intersegment sales			**(4,533)**
Total revenue			**3,338,241**
Segment results	**496,434**	**(21,804)**	**474,630**
Reconciliation:			
Corporate and other unallocated expenses			**(11,964)**
Profit before tax			**462,666**
Segment assets	**1,373,562**	**36,051**	**1,409,613**
Reconciliation:			
Elimination of intersegment receivables			**(23,214)**
Corporate and other unallocated assets			**531,490**
Total assets			**1,917,889**
Segment liabilities	**334,969**	**25,980**	**360,949**
Reconciliation:			
Elimination of intersegment payables			**(23,214)**
Corporate and other unallocated liabilities			**1,220**
Total liabilities			**338,955**
Other segment information:			
Depreciation of items of property, plant and equipment	**25,190**	**2,669**	**27,859**
Amortization of prepaid land lease payments	**441**	**–**	**441**
Write-down of inventories to net realizable value	**7,625**	**–**	**7,625**
Operating lease rentals	**5,890**	**11,784**	**17,674**
Capital expenditure*	**53,244**	**10,767**	**64,011**

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

Notes to Financial Statements

Year ended 30 June 2012

5. Operating Segment Information (continued)

Year ended 30 June 2011

	Manufacturing HK$'000	Retail HK$'000	Total 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.

Notes to Financial Statements

Year ended 30 June 2012

5. Operating Segment Information (continued)

Geographical information

(a) Revenue from external customers

	Year ended 30 June	
	2012	2011
	HK$'000	HK$'000
Revenue		
North America	**2,270,278**	1,694,261
Europe	**608,570**	424,505
Mainland China, Hong Kong, Macau and Taiwan	**293,697**	219,756
Other Asian countries	**158,097**	151,695
Others	**7,599**	3,055
	3,338,241	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

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Mainland China and Hong Kong	**345,253**	307,506

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

Information about major customers

For the year ended 30 June 2012, revenue derived from sales by the manufacturing segment to two major customers amounting to HK$1,610,303,000 and HK$514,798,000 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 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.

Notes to Financial Statements

Year ended 30 June 2012

6. 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	
	2012	2011
	HK$'000	HK$'000
Revenue		
Sale of goods	**3,338,241**	2,493,272
Other income and gains		
Net sample income and compensations from customers and suppliers	**11,303**	9,818
Government grants	**4,941**	5,259
Interest income	**4,421**	194
Exchange gains, net	**3,402**	11,645
Others	**487**	488
	24,554	27,404

7. Profit Before Tax

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

	Year ended 30 June	
	2012	2011
	HK$'000	HK$'000
Cost of inventories sold	**2,596,858**	1,940,152
Employee benefit expense (including Directors' remuneration as set out in note 9)		
– Wages and salaries	**665,908**	468,230
– Pension scheme contributions	**16,621**	10,974
	682,529	479,204

	Year ended 30 June	
	2012	2011
	HK$'000	HK$'000
Depreciation of items of property, plant and equipment (note 15)	**27,859**	19,726
Amortization of prepaid land lease payments (note 16)	**441**	371
Operating lease rentals	**17,674**	8,308
Write-down of inventories to net realizable value	**7,625**	2,254
Loss on disposal of items of property, plant and equipment	**1,247**	20
Initial public offering costs	**16,117**	10,855
Auditors' remuneration	**2,850**	999
Exchange gains, net	**(3,402)**	(11,645)

Notes to Financial Statements

Year ended 30 June 2012

8. Finance Costs

An analysis of finance costs is as follows:

	Year ended 30 June	
	2012	2011
	HK$'000	HK$'000
Interest on bank borrowings wholly repayable within five years	**2,046**	3,817

9. Directors' Remuneration

Directors' remuneration during the reporting period, 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	
	2012	2011
	HK$'000	HK$'000
Fees	**482**	–
Salaries, allowances and benefits in kind	**15,380**	3,298
Pension scheme contributions	**416**	38
	16,278	3,336

Independent non-executive Directors

The remuneration paid to each of the independent non-executive Directors is 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 2012				
Yeung Chi Tat	**114**	–	–	**114**
Kwan Po Chuen, Vincent	**114**	–	–	**114**
Lung Hung Cheuk	**114**	–	–	**114**
	342	–	–	**342**

On 15 November 2011, Mr. Yeung Chi Tat, Mr. Kwan Po Chuen, Vincent and Mr. Lung Hung Cheuk were appointed as independent non-executive Directors of the Company. No remuneration was paid to these Directors prior to their appointment.

There were no other emoluments payable to the independent non-executive Directors during the reporting period (year ended 30 June 2011: nil).

Notes to Financial Statements

Year ended 30 June 2012

9. Directors' Remuneration (continued)

Executive Directors

The remuneration paid to each of the executive Directors is 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 2012				
Yeung Michael Wah Keung	**28**	**3,787**	**12**	**3,827**
Yeung Wo Fai	**28**	**3,749**	**12**	**3,789**
Yu Chun Kau	**28**	**2,356**	**118**	**2,502**
Chan Ka Dig Adam	**28**	**2,909**	**145**	**3,082**
Yeung Andrew Kin	**28**	**2,579**	**129**	**2,736**
	140	**15,380**	**416**	**15,936**
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 reporting period (year ended 30 June 2011: nil).

As at 30 June 2012, the remuneration payable of the Directors amounting to HK$442,000 (30 June 2011: HK$247,000) was recorded as payroll payable in other payables and accruals.

Notes to Financial Statements

Year ended 30 June 2012

10. Five Highest Paid Employees

An analysis of the five highest paid employees within the Group during the reporting period is as follows:

	Number of employees Year ended 30 June	
	2012	2011
Directors	**5**	4
Non-Director employees	**–**	1
	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 9 above.

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

	Year ended 30 June	
	2012 HK$'000	2011 HK$'000
Salaries, allowances and benefits in kind	**–**	6,278
Pension scheme contributions	**–**	313
	–	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, 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	
	2012	2011
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	1
	–	1

During the year, 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.

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Year ended 30 June 2012

11. 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% (year ended 30 June 2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the reporting period.

The provision for PRC corporate income tax ("CIT") is based on a statutory rate of 25% (year ended 30 June 2011: 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 CIT for the three years from 1 January 2010 to 31 December 2012. According to the New Corporate Income Tax Law, foreign investment enterprises that were 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.

For the year ended 30 June 2011, Sitoy Handbag, a subsidiary of the Group incorporated in Hong Kong, performs manufacturing activities under a contract processing arrangement with a contract processing factory in Mainland China. Accordingly, 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 reporting period on the total deemed revenue which is determined by applying a 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	
	2012 **HK$'000**	2011 HK$'000
Group:		
Current – Hong Kong		
Charge for the year	**37,141**	51,501
Current – Mainland China		
Charge for the year	**48,589**	18,152
Adjustments in respect of current income tax of previous years	**1,339**	(5,736)
Deferred tax (note 18)	**(5,411)**	(3,481)
Total tax charge for the year	**81,658**	60,436

Notes to Financial Statements

Year ended 30 June 2012

11. Income Tax Expense (continued)

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 2012

	Hong Kong HK$'000	Mainland China HK$'000	Cayman Islands HK$'000	Total HK$'000
Profit/(loss) before tax	**213,399**	**256,412**	**(7,145)**	**462,666**
Tax at the statutory tax rate (note)	**35,211**	**64,103**	**(1,179)**	**98,135**
Adjustments in respect of current tax of previous years	**–**	**1,339**	**–**	**1,339**
Income not subject to tax	**–**	**–**	**(638)**	**(638)**
Expenses not deductible for tax	**–**	**1,664**	**1,453**	**3,117**
Tax losses from previous years utilized	**(124)**	**(3,153)**	**–**	**(3,277)**
Deductible temporary differences not recognized, net	**45**	**(3,382)**	**–**	**(3,337)**
Deductible temporary differences recognized	**–**	**(3,195)**	**–**	**(3,195)**
Tax losses not recognized in the current year	**–**	**5,242**	**–**	**5,242**
Tax losses recognized in the current year	**–**	**–**	**(483)**	**(483)**
Lower tax rate enacted by the local authority	**–**	**(15,245)**	**–**	**(15,245)**
Tax charge at the Group's effective rate	**35,132**	**47,373**	**(847)**	**81,658**

Note:

During the year, the Company generates revenue arising in Hong Kong and therefore subject to Hong Kong profits tax. However, no provision for Hong Kong profits tax was made as the Company has no assessable profit during the year.

Year ended 30 June 2011

	Hong Kong HK$'000	Mainland China HK$'000	Cayman Islands HK$'000	Total HK$'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 years	–	(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 years utilized	(364)	(3,069)	–	(3,433)
Deductible temporary differences not recognized, net	630	–	–	630
Tax losses not recognized in the current year	126	1,123	–	1,249
Lower tax rate enacted by the local authority	–	(2,859)	–	(2,859)
Tax charge at the Group's effective rate	46,305	14,131	–	60,436

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Year ended 30 June 2012

12. Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company included the following amount, which has been dealt with in the financial statements of the Company.

	Year ended 30 June	
	2012	2011
	HK$'000	HK$'000
Loss (note 30)	**(6,298)**	(9,553)

13. Dividends

(a) Dividends attributable to the current year

	Year ended 30 June	
	2012	2011
	HK$'000	HK$'000
Proposed final – HK20 cents per ordinary share	**200,306**	–

On 17 September 2012, the Board of Directors of the Company resolved to propose a final dividend for the year ended 30 June 2012 of HK20 cents per ordinary share out of the consolidated retained profits of the Group as at 30 June 2012, subject to the approval by the shareholders at the forthcoming annual general meeting of the Company.

(b) Dividend attributable to the prior year

The dividends declared by the Company's subsidiary to its then shareholders during the reporting period are as follows:

		Year ended 30 June	
		2012	2011
	Notes	**HK$'000**	HK$'000
Declared interim dividend	(i)	–	40,000
Declared special dividend	(ii)	–	400,000
		–	440,000

Notes:

(i) 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, which was fully paid in the year ended 30 June 2011.

(ii) In connection with the initial public offering, 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.

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Year ended 30 June 2012

14. Earnings Per Share

The calculation of the basic earnings per share amount is based on the profit for the year ended 30 June 2012 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 892,223,738 (year ended 30 June 2011: 748,800,000) in issue during the year, as adjusted to reflect the rights issue during the year.

The weighted average number of ordinary shares used to calculate the basic earnings per share for the year includes the 249,600,000 ordinary shares issued in connection with the listing of the Company's ordinary shares on the Stock Exchange on 6 December 2011 and 3,132,000 ordinary shares issued in connection with the partially exercised over-allotment option on 30 December 2011.

The calculation of basic earnings per share is based on:

	Year ended 30 June	
	2012	2011
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**381,008**	302,420

	Year ended 30 June	
	2012	2011
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation*	**892,223,738**	748,800,000

* Arrived at on the assumption that the capitalization issue of 748,789,600 shares (note 29) had been effective since 1 July 2010.

No adjustment has been made to the basic earnings per share presented for the years ended 30 June 2012 and 2011 as the Group had no potentially dilutive ordinary shares in issue during those years.

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Year ended 30 June 2012

15. 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 2011	185,493	20,096	99,994	22,825	6,457	10,928	345,793
Additions	–	17,095	22,589	3,959	899	15,329	59,871
Transfers	24,628	–	406	–	–	(25,034)	–
Disposals	–	(1,774)	(409)	–	–	–	(2,183)
Exchange realignment	3,842	500	2,048	324	64	200	6,978
At 30 June 2012	213,963	35,917	124,628	27,108	7,420	1,423	410,459
Accumulated depreciation:							
At 1 July 2011	10,917	7,825	29,490	10,667	2,891	–	61,790
Charge for the year	8,864	7,008	8,130	2,794	1,063	–	27,859
Disposals	–	(528)	(45)	–	–	–	(573)
Exchange realignment	279	129	387	95	20	–	910
At 30 June 2012	20,060	14,434	37,962	13,556	3,974	–	89,986
Net carrying amount:							
At 30 June 2012	193,903	21,483	86,666	13,552	3,446	1,423	320,473
At 30 June 2011	174,576	12,271	70,504	12,158	3,566	10,928	284,003

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Year ended 30 June 2012

15. Property, Plant and Equipment (continued)

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:							
At 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 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 2011	174,576	12,271	70,504	12,158	3,566	10,928	284,003
At 30 June 2010	120,089	4,861	43,148	11,258	3,983	72	183,411

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:

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Buildings (note 28)	–	1,656

The Group's property interests, including land use rights accounted for as prepaid land lease payments, were valued at HK$293,277,000 as at 31 August 2011 in the prospectus issued on 24 November 2011 in connection with the listing of the Company's shares on 6 December 2011. Had the Group's property interests been included in these financial statements at such valuation amount throughout the year ended 30 June 2012, an additional depreciation and amortization charge of HK$2,686,000 would have been recognized in the consolidated income statement for the year ended 30 June 2012.

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Year ended 30 June 2012

16. Prepaid Land Lease Payments

Group

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Cost:		
At beginning of the year	**21,025**	14,866
Additions	**–**	5,299
Exchange realignment	**421**	860
At end of the year	**21,446**	21,025
Accumulated amortization:		
At beginning of the year	**698**	302
Charge for the year	**441**	371
Exchange realignment	**17**	25
At end of the year	**1,156**	698
Net carrying amount:		
At end of the year	**20,290**	20,327

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

17. Intangible Asset

Group

	Trademark HK$'000
At 30 June 2012	
Cost	**4,140**
Accumulated impairment	**–**
Net carrying amount	**4,140**

Indefinite useful life

The Group classified the acquired "TUSCAN'S" trademark as an intangible asset with an indefinite life in the Mainland China, Taiwan, Hong Kong, Macau and some other countries in accordance with IAS 38 *Intangible Assets*. This is supported by the fact that the "TUSCAN'S" trademark is a well known and long established fashion brand, its legal rights are capable of being renewed indefinitely at insignificant cost and therefore are perpetual in duration, and based on future financial performance of the Group, they are expected to generate positive cash flows indefinitely.

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Year ended 30 June 2012

17. Intangible Asset (continued)

Impairment testing

During the year ended 30 June 2012, the retail business incurred a loss before tax of HK$21,804,000. The Directors considered that the existence of the above condition indicated that the intangible assets of the Group might be impaired. In view of this, the Directors estimated the recoverable amount of the cash-generating units by comparing the higher of the fair value less costs to sell and the value in use of the cash-generating unit base on the discounted cash flow prepared by the management. The estimates of the recoverable amount of the cash-generating unit as at 30 June 2012 were determined based on a value in use calculation using cash flow projections based on the three-year financial forecast approved by the executive Directors.

Key assumption used for the value in use calculation:

Discount rate: 19%

The Directors determine the above financial forecast based on the expectation of future market development, the strategic retail expansion plan going forward and believe that there is no impairment in the "TUSCAN'S" trademark. The Directors believe that any reasonably foreseeable change in any of the above key assumptions would not cause the aggregate carrying amount of the trademark to exceed the aggregate recoverable amount.

18. Deferred Tax

The movements in deferred tax assets and liabilities during the reporting period are as follows:

Deferred tax assets

Group

	Unrealized gain arising from intra-group transactions HK$'000	Deductible losses HK$'000	Temporary differences on prepaid land lease payments HK$'000	Accruals and provisions HK$'000	Accelerated tax depreciation HK$'000	Provision against inventories HK$'000	Other temporary differences HK$'000	Total HK$'000
At 1 July 2010	–	–	7,892	304	812	2,327	–	11,335
Deferred tax credited/(charged) to the income statement during the year (note 11)	–	–	(172)	455	(104)	(1,636)	–	(1,457)
Exchange realignment	–	–	387	21	–	74	–	482
Gross deferred tax assets at 30 June 2011 and 1 July 2011	–	–	8,107	780	708	765	–	10,360
Deferred tax credited/(charged) to the income statement during the year (note 11)	1,159	847	(173)	(696)	–	1,230	2,800	5,167
Exchange realignment	–	–	161	8	–	27	28	224
At 30 June 2012	1,159	847	8,095	92	708	2,022	2,828	15,751

The amount of unrecognized tax losses as at 30 June 2012 was HK$23,534,000 (30 June 2011: HK$34,275,000).

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Year ended 30 June 2012

18. Deferred Tax (continued)

Deferred tax assets (continued)

Company

	Deductible losses HK$'000
At 1 July 2011	–
Deferred tax credited to the income statement during the year	847
Gross deferred tax assets at 30 June 2012	847

Deferred tax liabilities

Group

	Unrealized loss arising from intra-group transactions HK$'000
At 1 July 2010	5,182
Deferred tax credited to the income statement during the year (note 11)	(4,938)
Gross deferred tax liabilities at 30 June 2011 and 1 July 2011	244
Deferred tax credited to the income statement during the year (note 11)	(244)
At 30 June 2012	–

At 30 June 2012, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognized totaled approximately HK$205,844,000 (30 June 2011: HK$42,833,000).

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19. Investments in Subsidiaries

Company

	As at 30 June 2012 HK$	As at 30 June 2011 HK$
Unlisted investments, at cost	**430,000,008**	8

Investment in a subsidiary as at 30 June 2011 represented the cost of the investment in Sitoy International Limited. Investments in subsidiaries as at 30 June 2012 represented the cost of the entire interests in Sitoy International Limited, Sitoy Handbag Factory Limited and Sitoy Investment International Limited.

20. Inventories

Group

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Raw materials	**126,610**	96,441
Work in progress	**148,956**	150,170
Finished goods	**113,134**	48,962
	388,700	295,573
Less: Provision against inventories	**(8,091)**	(3,736)
	380,609	291,837

21. Trade Receivables

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Group		
Trade receivables	**304,627**	239,860
Impairment	**–**	–
	304,627	239,860
Company		
Trade receivables	**–**	92
Impairment	**–**	–
	–	92

Notes to Financial Statements

Year ended 30 June 2012

21. Trade Receivables (continued)

The Group's trading terms with its customers are mainly on credit. The Group grants different credit periods to customers. The credit terms range from telegraphic transfers before shipment and letters of credit at sight to letters of credit and telegraphic transfers within 10 to 90 days. 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 the reporting period, based on the invoice date and net of provisions, is as follows:

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Group		
Within 90 days	**281,728**	239,761
91 to 180 days	**22,899**	99
	304,627	239,860
Company		
Within 90 days	**–**	92

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

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Group		
Neither past due nor impaired	**270,879**	214,497
Past due but not impaired:		
Less than 90 days	**33,748**	25,363
	304,627	239,860
Company		
Neither past due nor impaired	**–**	92

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

Notes to Financial Statements

Year ended 30 June 2012

21. Trade Receivables (continued)

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. The Directors believe that no impairment allowance is necessary in respect of these balances as almost 100% of these past due debts was subsequently collected as of the date of this report. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

22. Prepayments, Deposits and Other Receivables

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Group		
Non-current portion:		
Prepayments for prepaid land lease payments and property, plant and equipment	**350**	1,104
Prepayment for intangible asset	**–**	2,072
	350	3,176
Current portion:		
Prepayments	**14,045**	10,220
Deposits and other receivables	**24,956**	15,084
Value-added tax	**16,274**	24,967
	55,275	50,271
Total	**55,625**	53,447
Company		
Current portion:		
Prepayments	**–**	3,415
Deposits and other receivables	**963**	–
	963	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.

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Year ended 30 June 2012

23. Available-for-sale Investment

Group

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Unlisted debt investment, at fair value	**9,576**	9,609

During the year ended 30 June 2012, the loss in respect of the Group's available-for-sale investment recognized in other comprehensive income amounted to HK$33,000 (year ended 30 June 2011: loss of HK$414,000).

As at 30 June 2011, 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 Time Deposit with Original Maturity of More Than Three Months

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Group		
Cash and bank balances	**295,503**	79,190
Time deposits	**511,295**	1,200
	806,798	80,390
Less: Time deposit with original maturity of more than three months	**(60,000)**	–
Cash and cash equivalents	**746,798**	80,390
Company		
Cash and bank balances	**18,385**	629
Time deposits	**511,295**	–
	529,680	629
Less: Time deposit with original maturity of more than three months	**(60,000)**	–
Cash and cash equivalents	**469,680**	629

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Year ended 30 June 2012

24. Cash and Cash Equivalents and Time Deposit with Original Maturity of More Than Three Months (continued)

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

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Group		
Denominated in RMB	**71,744**	11,728
Company		
Denominated in RMB	**12,308**	–

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 are deposited with creditworthy banks with no recent history of default.

The carrying amounts of the cash and cash equivalents and time deposit with original maturity of more than three months approximate to their fair values.

25. Balances with a Related Company and Subsidiaries

	Notes	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Group			
Amount due from a related company:			
Trandy Leather Goods Handbag Factory Limited	(i)	–	540
Company			
Amounts due from subsidiaries	(ii)	**174,026**	397,551

Notes:

(i) The balance due from a related company is trade in nature. The balance is unsecured, interest-free and repayable on demand.

(ii) The balances due from subsidiaries are non-trade in nature. The balances are unsecured, interest-free and repayable on demand.

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

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26. Trade Payables

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Group		
Trade payables	**182,586**	197,972

An aged analysis of the outstanding trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Group		
Within 90 days	**179,830**	191,417
91 to 180 days	**2,161**	3,441
181 to 365 days	**595**	3,114
	182,586	197,972

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

27. Other Payables and Accruals

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Group		
Payroll payable	**57,542**	48,332
Advances from customers	**735**	490
Accruals	**3,303**	15,544
Other payables	**20,692**	32,129
	82,272	96,495
Company		
Payroll payable	**300**	127
Accruals	**897**	11,185
Other payables	**23**	14
	1,220	11,326

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

Notes to Financial Statements

Year ended 30 June 2012

28. Interest-bearing Bank Borrowings

Group

	As at 30 June 2012		As at 30 June 2011	
	Maturity	**HK$'000**	Maturity	HK$'000
Current				
Bank loans – secured	–	–	On demand	57,086
Current portion of long term bank loans – secured	–	–	On demand	48,815
		–		105,901
The bank loans bear interest at rates per annum in the range of		–		BLR-2% to BLR-1% or HIBOR+1.5% to HIBOR+2.25%

BLR represents the Best Lending Rate of the banks; HIBOR represents the 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 the reporting period, the Group's bank loans were denominated in the following currencies:

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
HK$	–	50,873
US$	–	55,028
	–	105,901

Certain banking facilities of the Group are subject to the fulfillment of covenants. In the opinion of the Directors, the Group had met all the financial covenants as stated therein as at 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 amount of long term bank loans that contain a repayment on demand clause, which has been reclassified as current liabilities, are as follows:

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Aggregate carrying amount	–	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.

Notes to Financial Statements

Year ended 30 June 2012

28. Interest-bearing Bank Borrowings (continued)

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

	As at 30 June 2012		As at 30 June 2011	
	Maturity	**HK$'000**	Maturity	HK$'000
Current				
Bank loans – secured	–	–	2011	57,086
Current portion of long term bank loans – secured	–	–	2011-2012	17,290
		–		74,376
Non-current				
Long term bank loans – secured	–	–	2012-2014	31,525
		–		105,901
Analyzed into:				
Bank loans repayable:				
Within one year or on demand		–		74,376
In the second year		–		17,290
In the third to fifth years, inclusive		–		14,235
		–		105,901

The Group regularly monitors its compliance with these covenants and does not consider it probable that the banks will exercise their 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.

As at 30 June 2011, the above bank loans were secured by:

(i) A registered security over the Group's available-for-sale investment of HK$9,609,000 (note 23);

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

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

(iv) A fixed amount first legal charge for HK$4,600,000 over certain buildings of the Group with a net carrying amount of HK$1,656,000 (note 15).

Notes to Financial Statements

Year ended 30 June 2012

29. Share Capital

The movements in the authorized and issued share capital of the Company in the year ended 30 June 2011 are as follows:

	Notes	Number of ordinary shares	Nominal value HK$
Authorized:			
Ordinary shares of US$1 each as at 1 July 2010	(i)	50,000	390,000
Authorized share capital re-denominated to HK$0.10 each	(ii)	3,880,000	388,000
As at 30 June 2011		3,880,000	388,000
Issued and fully paid:			
Ordinary shares of US$1 each as at 1 July 2010		100	780
Issue of shares of HK$0.10 each	(iii)	10,000	1,000
Repurchase of shares of US$1 each	(iii)	(100)	(780)
Issue of shares of HK$0.10 each	(iv)	200	20
As at 30 June 2011		10,200	1,020

(i) 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) 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.

(iii) 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.

(iv) Pursuant to the Board resolution dated 28 May 2011, Mr. Yeung Michael Wah Keung and Mr. Yeung Wo Fai assigned their respective portions of dividends declared by Sitoy Handbag to the Company. 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 fully 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.

Notes to Financial Statements

Year ended 30 June 2012

29. Share Capital (continued)

The movements in the authorized and issued share capital of the Company in the year ended 30 June 2012 are as follows:

	Notes	Number of ordinary shares	Nominal value HK$
Authorized ordinary shares of HK$0.10 each:			
As at 1 July 2011		3,880,000	388,000
Increase in authorized share capital on 15 November 2011	(i)	2,996,120,000	299,612,000
As at 30 June 2012		3,000,000,000	300,000,000
Issued and fully paid ordinary shares of HK$0.10 each:			
As at 1 July 2011		10,200	1,020
Issue of shares on 13 July 2011	(ii)	200	20
Capitalization issue of shares	(iii)	748,789,600	74,878,960
Issue of shares from initial public offering	(iv)	249,600,000	24,960,000
Issue of shares from partial exercise of an over-allotment option	(v)	3,132,000	313,200
As at 30 June 2012		1,001,532,000	100,153,200

(i) Pursuant to the written resolution of the shareholders of the Company passed 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 of HK$0.10 each.

(ii) Pursuant to the Board resolution dated 13 July 2011, the Company issued and allotted 130 shares and 70 shares of HK$0.10 each, all credited as fully paid, to Mr. Yeung Michael Wah Keung and Mr. Yeung Wo Fai, respectively, in consideration of Mr. Yeung Michael Wah Keung and Mr. Yeung Wo Fai transferring their 100% equity interests in Sitoy Investment and Sitoy Factory to the Company.

(iii) Pursuant to the written resolution of shareholders of the Company passed on 15 November 2011, conditional on the share premium account of the Company being credited pursuant to the listing of the Company's shares, the Company capitalized HK$74,878,960 standing to the credit of the share premium account of the Company to pay up in full 748,789,600 new ordinary shares of HK$0.10 each for allotment and issue to Mr. Yeung Michael Wah Keung and Mr. Yeung Wo Fai.

(iv) In connection with the Company's initial public offering, 249,600,000 new shares of HK$0.10 each were issued at a price of HK$2.95 per share for a total cash consideration, before expenses, of approximately HK$736,320,000 on 6 December 2011.

(v) In connection with the partially exercised over-allotment option, 3,132,000 new shares of HK$0.10 each were issued at a price of HK$2.95 per share for a total cash consideration, before expenses, of approximately HK$9,239,400 on 30 December 2011.

Notes to Financial Statements

Year ended 30 June 2012

30. Reserves

Group

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statements of changes in equity of the financial statements.

Share premium

The application of the share premium account of the Company is governed by the Companies Law (Revised) of the Cayman Islands. Under the constitutional documents and the Companies Law (Revised) of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

Merger reserve

The merger reserve represents the difference between the nominal value of shares of the subsidiaries acquired 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 a 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 HK$'000	**Accumulated losses** HK$'000	**Total** HK$'000
As at 1 July 2010	–	(87)	(87)
Total comprehensive income for the year	–	(9,553)	(9,553)
Issue of shares	400,000	–	400,000
As at 30 June 2011 and 1 July 2011	400,000	(9,640)	390,360
Total comprehensive income for the year	–	(6,298)	(6,298)
Issue of shares in the Reorganization	40,000	–	40,000
Capitalization issue of shares	(74,879)	–	(74,879)
Issue of shares from initial public offering	711,360	–	711,360
Issue of shares from partial exercise of an over-allotment option	8,926	–	8,926
Share issue expenses	(35,326)	–	(35,326)
As at 30 June 2012	1,050,081	(15,938)	1,034,143

Notes to Financial Statements

Year ended 30 June 2012

31. Contingent Liabilities

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

Company

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Guarantees given to banks in connection with facilities granted to:		
Subsidiary	**340,000**	328,815

As at 30 June 2012, the banking facilities granted to a subsidiary subject to guarantees given to banks by the Company were not utilized (30 June 2011: utilized to the extent of HK$105,901,000).

32. Pledge of Assets

Details of the Group's bank loans which are secured by the assets of the Group are included in notes 15, 23 and 28 to the financial statements.

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 the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Group		
Within one year	**18,114**	10,874
In the second to fifth years, inclusive	**30,559**	25,606
After five years	**2,361**	1,543
	51,034	38,023

Notes to Financial Statements

Year ended 30 June 2012

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 the reporting period:

	As at 30 June 2012 HK$'000	As at 30 June 2011 HK$'000
Group		
Contracted, but not provided for:		
Property, plant and equipment	**945**	4,308
Intangible asset	**1,931**	4,503
	2,876	8,811

35. Related Party Transactions

(a) The Group had the following transactions with a related party during the year:

	Year ended 30 June	
	2012 HK$'000	2011 HK$'000
Processing fee:		
Trandy Leather Goods Handbag Factory Limited	**8,946**	10,185

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

(b) Outstanding balance with a related company:

Details of the Group's balance with its related company at the end of the reporting period are disclosed in note 25 to the financial statements.

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

	Year ended 30 June	
	2012 HK$'000	2011 HK$'000
Short term employee benefits	**15,520**	8,392
Post-employment benefits	**416**	292
Total compensation paid to key management personnel	**15,936**	8,684

Further details of Directors' emoluments are included in note 9 to the financial statements.

Notes to Financial Statements

Year ended 30 June 2012

36. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

	As at 30 June 2012			As at 30 June 2011		
	Loans and receivables HK$'000	**Available-for-sale financial assets HK$'000**	**Total HK$'000**	Loans and receivables HK$'000	Available-for-sale financial assets HK$'000	Total HK$'000
Trade receivables	**304,627**	**–**	**304,627**	239,860	–	239,860
Financial assets included in prepayments, deposits and other receivables	**24,956**	**–**	**24,956**	15,084	–	15,084
Amount due from a related company	**–**	**–**	**–**	540	–	540
Available-for-sale investment	**–**	**9,576**	**9,576**	–	9,609	9,609
Time deposit with original maturity of more than three months	**60,000**	**–**	**60,000**	–	–	–
Cash and cash equivalents	**746,798**	**–**	**746,798**	80,390	–	80,390
	1,136,381	**9,576**	**1,145,957**	335,874	9,609	345,483

Financial liabilities

	As at 30 June 2012 Financial liabilities at amortized cost HK$'000	As at 30 June 2011 Financial liabilities at amortized cost HK$'000
Trade payables	**182,586**	197,972
Financial liabilities included in other payables and accruals	**81,537**	96,005
Interest-bearing bank borrowings	**–**	105,901
	264,123	399,878

Notes to Financial Statements

Year ended 30 June 2012

36. Financial Instruments by Category (continued)

Company

Financial assets

	As at 30 June 2012 Loans and receivables HK$'000	As at 30 June 2011 Loans and receivables HK$'000
Trade receivables	**–**	92
Financial assets included in prepayments, deposits and other receivables	**963**	–
Amounts due from subsidiaries	**174,026**	397,551
Time deposit with original maturity of more than three months	**60,000**	–
Cash and cash equivalents	**469,680**	629
	704,669	398,272

Financial liabilities

	As at 30 June 2012 Financial liabilities at amortized cost HK$'000	As at 30 June 2011 Financial liabilities at amortized cost HK$'000
Financial liabilities included in other payables and accruals	**1,220**	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 any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Notes to Financial Statements

Year ended 30 June 2012

37. Fair Value Hierarchy (continued)

Assets measured at fair value:

Group

As at 30 June 2012

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'000
Available-for-sale investment:				
Debt investment	**9,576**	**–**	**–**	**9,576**

As at 30 June 2011

	Level 1 HK$'000	**Level 2** HK$'000	**Level 3** HK$'000	**Total** HK$'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 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 2.4 to the financial statements.

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

Notes to Financial Statements

Year ended 30 June 2012

38. Financial Risk Management Objectives and Policies (continued)

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. In the reporting period, 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
Year ended 30 June 2012	**100**	**(424)**
	(100)	**424**
Year ended 30 June 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 2012, 99.56% (year ended 30 June 2011: 99.94%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 39% (year ended 30 June 2011: 38%) of costs were denominated in the units' functional currency.

As at 30 June 2012, the total notional amount of outstanding forward foreign exchange contracts that the Group has committed to was EUR2,260,000 (30 June 2011: EUR1,700,000), and their fair values are estimated to be nil (30 June 2011: nil). The contracts mainly related to the buying of US$ with maturities in the first half year subsequent to 30 June 2012.

Notes to Financial Statements

Year ended 30 June 2012

38. Financial Risk Management Objectives and Policies (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity at the end of the reporting period 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
Year ended 30 June 2012		
If HK$ weakens against US$	**5**	**19,144**
If HK$ strengthens against US$	**(5)**	**(19,144)**
If HK$ weakens against EUR	**5**	**1,010**
If HK$ strengthens against EUR	**(5)**	**(1,010)**
If HK$ weakens against RMB	**5**	**3,733**
If HK$ strengthens against RMB	**(5)**	**(3,733)**
Year ended 30 June 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, an available-for-sale investment, an 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 2012, the Group had certain concentrations of credit risk as 16% (30 June 2011: 21%) and 65% (30 June 2011: 57%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Notes to Financial Statements

Year ended 30 June 2012

38. Financial Risk Management Objectives and Policies (continued)

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 the reporting period is as follows:

As at 30 June 2012	**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	**64,556**	**118,030**	**–**	**–**	**182,586**
Other payables and accruals	**81,537**	**–**	**–**	**–**	**81,537**
	146,093	**118,030**	**–**	**–**	**264,123**

As at 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 as at 30 June 2011 is as follows:

As at 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

Notes to Financial Statements

Year ended 30 June 2012

38. Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

Company

As at 30 June 2012	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Total HK$'000
Other payables and accruals	**1,220**	–	–	–	**1,220**

As at 30 June 2011	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Total 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 year.

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 less cash and cash equivalents. Capital includes total equity.

At the end of the reporting period, the Group's strategy was to maintain the net borrowings to equity ratio at a healthy capital level in order to support its business. 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.

As at 30 June 2012, the Group had no interest-bearing bank borrowings. As such, no gearing ratio as at 30 June 2012 is presented. As at 30 June 2011, the gearing ratio was 5%.

39. Events After the Reporting Period

There were no significant events that took place after the reporting period and up to the date of the financial statements.

40. Approval of the Financial Statements

The financial statements were approved and authorized for issue by the Board of Directors on 17 September 2012.

Summary Financial Information

The following is a summary of the published results and assets and liabilities of the Group for the last four financial years prepared on the basis set out in the notes below.

RESULTS:

	Year ended 30 June			
	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**3,338,241**	2,493,272	1,726,317	1,349,688
Profit before tax	**462,666**	362,856	193,144	95,802
Income tax expenses	**(81,658)**	(60,436)	(41,342)	(17,648)
Profit for the year	**381,008**	302,420	151,802	78,154
Profit attributable to:				
Owners of the Company	**381,008**	302,420	151,802	78,154

ASSETS AND LIABILITIES

	As at 30 June			
	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**1,917,889**	990,373	717,828	458,913
Total liabilities	**(338,955)**	(496,936)	(500,526)	(287,807)
Net assets	**1,578,934**	493,437	217,302	171,106

Notes:

(i) The summary of the consolidated results of the Group for each of the three years ended 30 June 2009, 2010 and 2011 and of the assets and liabilities as at 30 June 2009, 2010 and 2011 have been extracted from the Prospectus. Such summary is presented on the basis as set out in the Prospectus.

(ii) The consolidated results of the Group for the year ended 30 June 2012 and the consolidated assets and liabilities of the Group as at 30 June 2012 are those set out on pages 42 to 44 of this annual report. Such summary was prepared as if the current structure of the Group had been in existence throughout this financial year.

The financial information for the year ended 30 June 2008 was not disclosed as consolidated financial statements for the Group have not been prepared for that year.

The summary above does not form part of the audited financial statements.

時代集團控股有限公司
SITOY GROUP HOLDINGS LIMITED