時代集團控股有限公司
SITOY GROUP HOLDINGS LTD.

(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

Annual Report 2016 年報

OUR VALUES 我們的價值

Sitoy Group Holdings Limited (the "Company") and its subsidiaries (together, the "Group" or "Sitoy Group") are one of the world's leading manufacturers of branded high-end and luxury handbags, small leather goods and travel goods and brand distributor in Greater China. The Group is principally engaged in design, research, development, manufacturing, sale and retailing of handbags, small leather goods and travel goods, provision of advertising and marketing services, and property investment. Since 2011, the Group entered into the rapidly growing China handbag retailing market and to become a vertically integrated handbag and small leather goods company. Now the Group is also the exclusive licensee for two international renounced fashion brands, Kenneth Cole and Bruno Magli.

時代集團控股有限公司(「本公司」)及其附屬公司(統稱「本集團」或「時代集團」)為世界頂尖的高端品牌及奢侈手袋、小皮包及旅行用品製造商，也是大中華區品牌分銷商夥伴。本集團主要從事手袋、小皮包及旅行用品設計、研發、製造、銷售及零售，提供廣告及營銷服務，以及物業投資。由二零一一年起，本集團進軍增長迅速的中國手袋零售市場，成為垂直整合手袋及小皮包產品公司。目前本集團亦為兩個國際聞名的時尚品牌Kenneth Cole及Bruno Magli的獨家授權代理。

CONTENTS

ABOUT TUSCAN'S

The Italian city of Florence in Tuscany is the cradle of traditional Italian leather craftsmanship. The city has been home to some of the shiniest names in fashion for centuries. Embodying the romantic atmosphere of the terroir, TUSCAN'S lays claim to the rich leatherwork heritage of Florence.

In 1974, Mr Antonio Perrotti and Mr Giovanni Starnini co-founded TUSCAN'S in a bid to make a tasteful and stylish statement with premium leather. Their passion for tradition helped develop TUSCAN'S into a kingdom of leather goods which is now expanding into Far East, incorporating Italian attitude into Oriental style.

Italy – a cultural landmark that prides itself on master craftsmanship, classic design and romantic Latin heritage;

China – the world's new centre of fashion with a taste for creative daring.

TUSCAN'S will spark off a transformation in style that puts personality and classic design to the fore.

ABOUT FASHION & JOY

Fashion & Joy is a Hong Kong brand of travel luggage and business accessories, designed and expertly crafted for bold young trend-setters who aspire stylish sophistication.

Gearing to the needs of fashion-conscious consumers with a passion for travel, Fashion & Joy presents a collection of luggage and business accessories that juxtapose urban chic and functionality. We believe in travelling in style. Fashion & Joy offers trend lovers, particularly young fashionistas, a unique and pioneering travel experience.

Every Fashion & Joy product is a symbol of the brand's core values: uniqueness, functionality and superb quality. Blending excellent design, functional features and individual character, Fashion & Joy travel goods are your dazzling Generation X statement. Travel is now a stage for your fashionable image.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Yeung Michael Wah Keung *(Chairman)*
Mr. Yeung Wo Fai *(Chief Executive Officer)*
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 Michael Wah Keung
Mr. Yeung Wo Fai

COMPANY SECRETARY

Mr. Huen Po Wah

REGISTERED OFFICE

Up to 30 September 2016:
Floor 4, Willow House
Cricket Square PO Box 2804
Grand Cayman KY1-1112
Cayman Islands

On or after 1 October 2016:
Grand Pavilion, Hibiscus Way
802 West Bay Road, P.O. Box 31119
KY1-1205, 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

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

Remuneration Committee

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

Nomination Committee

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

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
PO Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301–04, 33/F.
Two Chinachem Exchange Square
338 King's Road, North Point
Hong Kong

AUDITORS

Ernst & Young

STOCK CODE

1023

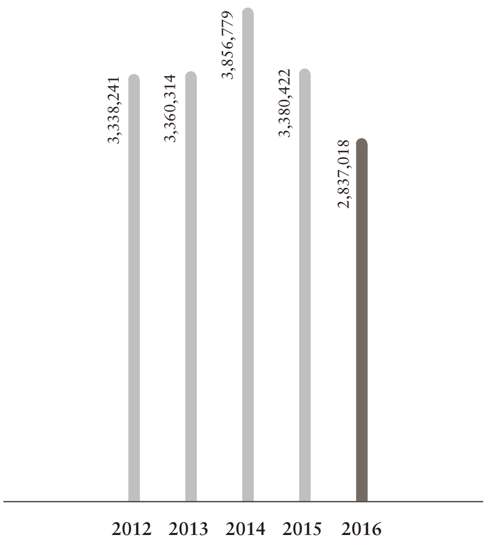
COMPANY WEBSITE

www.sitoy.com

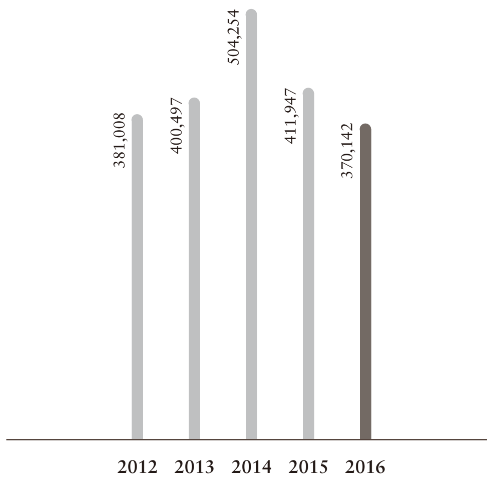

TUSCAN'S

FINANCIAL HIGHLIGHTS

REVENUE
HK$'000

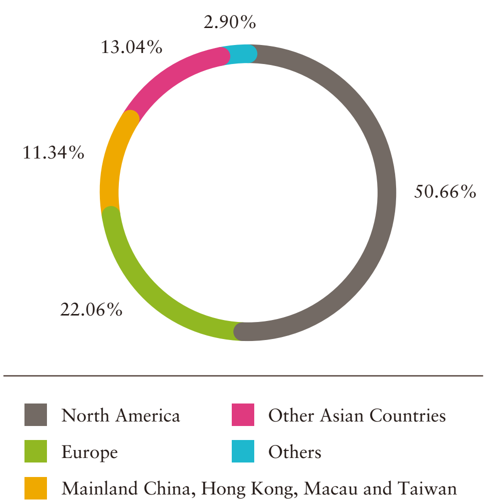


PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY
HK$'000

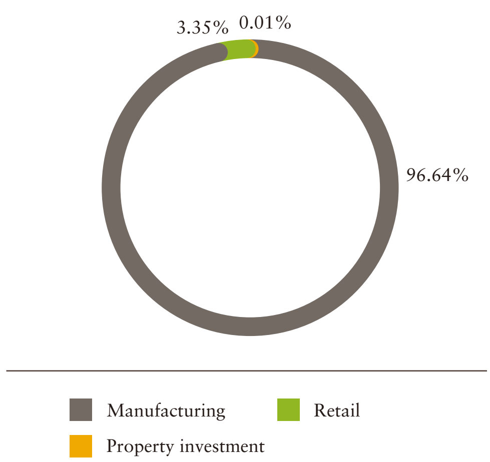


Consolidated revenue decreased 16.1% year-on-year to HK$2,837.0 million

2016 REVENUE BY GEOGRAPHICAL SEGMENT



2016 REVENUE BY OPERATING SEGMENT



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

Year ended 30 June	2016 HK$'000	2015 HK$'000
Revenue	**2,837,018**	3,380,422
Gross profit	**766,830**	882,591
Earnings before taxation	**445,341**	507,721
Profit attributable to owners of the Company	**370,142**	411,947
Net assets per share (note 1) (approximately)	**HK$2.18**	HK$2.12
Basic earnings per share (note 2) (approximately)	**HK$0.37**	HK$0.41
Dividends per share (note 3)	**HK38 cents**	HK23 cents
Total assets	**2,463,507**	2,679,501
Net assets	**2,179,562**	2,119,945
Current ratio	**5.06 times**	3.97 times
Quick ratio	**4.09 times**	3.19 times
Gearing ratio	**N/A**	N/A
Return on equity	**17.0%**	19.4%
Return on total assets	**15.0%**	15.4%

Notes:

1. The calculation of the net assets per share amount is based on the net assets as at 30 June 2016 to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,001,532,000 (30 June 2015: 1,001,532,000) in issue during the year.

2. The calculation of the basic earnings per share amount is based on the profit for the year ended 30 June 2016 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,001,532,000 (30 June 2015: 1,001,532,000) in issue during the year.

3. The Directors (as defined below) recommended the payment of a final dividend of HK13 cents per share (30 June 2015: HK13 cents) and a special dividend of HK15 cents per share (30 June 2015: nil) for the year ended 30 June 2016. Together with the interim dividend of HK10 cents per share for the period ended 31 December 2015 (31 December 2014: HK10 cents), the annual dividend will amount to HK38 cents per share for the year ended 30 June 2016 (30 June 2015: HK23 cents). For more details, please refer to note 11 to the consolidated financial statements.

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is my pleasure to present this annual results for the year ended 30 June 2016 of Sitoy Group Holdings Limited and its subsidiaries to you.

For the financial year of 2016, a number of economically developed countries around the globe were struggling in the face of various challenges. The recovery of the United States of America (the "US") economy fell short of expectations and low interest rate policy was maintained. Fluctuating performance of the European Economic Area was further complicated by the Brexit referendum at the end of June, which will cause volatility in the global economy in the future. There was a significant slowdown in China's economy growth and demands for luxury goods has been declining. The retail sentiment in China and Hong Kong is taking the brunt of it and the impact of which also dampened the sales of mid-to-high-end apparels and accessories.

Under such extremely difficult business environment, the Group's results of operations inevitably came under pressure. For the year ended 30 June 2016 (the "Year under Review"), the Group's revenue decreased by approximately 16.1% year-on-year to approximately HK$2,837.0 million. Gross profit dropped by approximately 13.1% year-on-year to approximately HK$766.8 million, while gross profit margin slightly increased to approximately 27.0% from approximately 26.1% in 2015. Profit attributable to shareholders reduced by approximately 10.1% to approximately HK$370.1 million. The board (the "Board") of directors (the "Directors") recommended payment of a final dividend of HK13 cents per share and a special dividend of HK15 cents per share.

For the retail business, the Group launched the Italian TUSCAN'S brand and the self-developed brand Fashion & Joy in China in 2011 and 2014 respectively, and has successfully established a solid reputation in China in years' operation. During the Year under Review, our operation results improved and revenue from retail business recorded a slight year-on-year growth of approximately 10.3% to approximately HK$119.6 million and contributed approximately 3.35% of the Group's total revenue, which was 14 basis points higher than that of the previous year. During the Year under Review, the Group further optimised the store network of TUSCAN'S and boosted the efficiency of store operation by further adjusting the proportions of shops in department stores to individual retail stores, so as to achieve higher cost-effectiveness. For the year ended 30 June 2016, the total number of retail stores for TUSCAN'S branded handbags was 51. During the Year under Review, the Group set up 9 new retail stores and successfully reached into major shopping malls with high traffic of shoppers in China, Hong Kong and Macau. Such fruitful initiatives enhanced both the reputation and image of the brand in China and Hong Kong. With expanding scale of sales network, the Group carried out various marketing activities to promote the brand of TUSCAN'S, in order to bolster the positive impression and affinity customers have towards TUSCAN'S. These efforts directly contributed to the sales of products.

In order to enrich its brand portfolio and establish a presence in prime retail locations that are frequented by customers with higher consumption power under a multi-brand strategy, in 2016, the Group successfully obtained two major Europe and the US brands' exclusive rights for distribution and operation in China and Hong Kong. They are Bruno Magli, a premium Italian male and female footwear and leather goods brand with long history, and Kenneth Cole, a US fashion apparel brand. In the future, the Group intends to set up exclusive retail outlets for Bruno Magli in prime shopping malls and department stores in Hong Kong and China. As a casual fashion brand, Kenneth Cole taps into China's retail market characterised by the emergence of the middle class. The Group believes that casual fashion and footwear products possess

CHAIRMAN'S STATEMENT

enormous potential for development. With the additions of Bruno Magli and Kenneth Cole to the Group's retail portfolio, the Group reached the goal of multi-brand development and expanded our range from handbags to male and female footwear and apparel products with diversified handbag collections. For self-owned brands, the Group will continue its efforts to enhance product design and promote the TUSCAN'S brand. Through flexible use of marketing channels, it will enhance the recognition and image of the TUSCAN'S brand in China and Hong Kong. Underpinned by the combination of the above strategies, the Group expects to drive the continuous development of the retail business and increase the contribution of retail business to overall turnover.

The Group's manufacturing segment aims at the customers of mid-to-high-end brands. During the Year under Review, in the backdrop of weak global consumer sentiment, various major brands not only tried to destock, but also adopted an increasingly conservative attitude in placing their orders for the coming season. As a result, the revenue of the manufacturing business decreased and overall revenue for the Year under Review dropped by approximately 15.4% to approximately HK$2,767.9 million. For the Year under Review, the Group strengthened existing customer relationships and eagerly looked for new customers to expand its customer base at the same time. In addition to European and US customers, the Group has proactively commenced cooperation with customers of designers' brands and China's brands during the Year under Review.

CHAIRMAN'S STATEMENT

With a view to enhancing its product mix, the Group has strived to tap into business-travel and leisure-travel goods business in recent years to diversify income source. It has thus become one of the few manufacturers with the diversified production capability. In view of the enormous potential of travel goods market, the Group achieved satisfactory growth in its business-travel and leisure-travel goods business for the Year under Review. In the future, the Group will actively forge a closer relationship with its customer brands and build up stable growth for its business-travel goods business.

With regard to production costs, production of handbag, leather goods and travel goods requires broad expertise and crafting skills. The Group will reduce costs through research and development and upgrade of machinery and provide machinery support for simple processes to relieve labour pressure.

As a leading manufacturer of high-end and luxury brands and small leather goods in the world, the Group will continue to step up research and development of and increase the investment in its products and technologies. Meanwhile, the Group will increase the proportion of the development of retail business by actively growing the two major brands, Bruno Magli and Kenneth Cole in both China and Hong Kong. On the one hand, the Group will prudently seek ideal locations for opening stores; on the other hand, the Group will improve the sales of its existing stores. In response to market challenges in the future, the Group will endeavour to optimise its customer base and product portfolio and capture more business opportunities by acquiring suitable brands of leather goods and footwear in a timely manner.

Despite mounting challenges and the extremely difficult operation environment in the coming year, the Board is confident that it can weather the storm and grow further in concerted efforts with the staff.

Finally, I would like to take this opportunity to express heartfelt thanks to the shareholders, clients, suppliers, customers and other parties for their steadfast support for the Group, and to my fellow Board members, management team and all staff members for their hard work. Sitoy Group will aspire to higher achievements in order to bring greater returns to the shareholders.

Yeung Michael Wah Keung
Chairman
Hong Kong
19 September 2016

MANAGEMENT DISCUSSION & ANALYSIS

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

Manufacturing business

The Group mainly engages in the manufacture of handbags, small leather goods and travel goods for its high-end and luxury brands customers.

For the year ended 30 June 2016, the purchase orders the Group received had been decreased by approximately 15.4% to approximately HK$2,767.9 million, as compared to the previous financial year, mainly due to the decrease in demand for high-end and luxury brand products in the worldwide market. However, the Group has been actively developing businesses with certain high-end and luxury brand names in international and China markets. Orders received from those new customers have partly offset certain effects of lower demand from existing customers.

Although minimum wage level in mainland China has been on the rise in recent years, China's core competencies nowadays lie in a labour force of higher level of craftsmanship, well-developed supply chain and well-equipped logistics facilities, which are crucial to the Group in maintaining consistent quality and services to its brand customers, without compromising on product quality and maintaining smooth and efficient logistics to deliver products to both China and international markets in a timely manner.

Cost optimization is one of the Group's key strategies to maintain its considerable returns. Despite rising labour costs and keener competition, the Group continuously upgrades itself to meet the higher requirements of both existing and new customers. The Group has made its best endeavours to tap new opportunities under a challenging business environment.

Retail business

The Group currently has two brands under its retail business as at 30 June 2016. TUSCAN'S is a brand of high quality handbags originated from Italy, while Fashion & Joy, launched by the Group in September 2014, is a brand of travel luggage and business accessories, designed and expertly crafted for bold and young trend-setters who aspire stylish sophistication. Although there is a slowdown in the retail environment, retail business achieved stable growth during the year. Revenue generated from this segment reached approximately HK$119.6 million, up approximately 10.3% when compared with the previous financial year. Throughout the Year under Review, the Group continued to review and adjust the number of points of sales of TUSCAN'S and Fashion & Joy in mainland China and Hong Kong. Revenue from retail business recorded a growth, demonstrating enhanced operational efficiency of its retail network. Its retail stores spanned across Shanghai, Beijing, Hong Kong, Macau, Guangdong, Chongqing, Sichuan, Yunnan, Hubei and Jiangsu. The Group launched e-commerce business in the fourth quarter of fiscal year 2014. With the reinforcement by the Group's promotional and marketing campaigns across the on-line and off-line sales channels to build up the brand's image during the year, together with the implement of cost control policies, the retail business has improved gradually.

During the year 2016, the Group has obtained the exclusive license rights from two international brands, Kenneth Cole and Bruno Magli. Kenneth Cole is a long-standing fashion brand based in New York City, specializing in men's and women's footwear, clothing and accessories, with retail presence in more than seventy countries across five continents. While Bruno Magli, since its inception in 1936, has created refined, handcrafted footwear for those who appreciate elegant design and impeccable craftsmanship. Today, Bruno Magli continues to evolve its heritage by reinventing luxury essentials for a new generation. By obtaining the license rights, the Group has successfully diversified and enriched its retail brand portfolio.

The Group will put more efforts on e-commerce development and is currently liaising with certain well-known e-commerce platforms to expand its retail business online.

The retail business development was and is expected to be funded with the proceeds from the initial public offering (the "IPO").

MANAGEMENT DISCUSSION & ANALYSIS

Property investment

The Group expanded to the property investment segment during the year by acquiring a commercial building located in Hong Kong. During the Year under Review, the Group has generated approximately HK$0.3 million revenue with segment profit of approximately HK$65.6 million, which was mainly contributed from the gain on bargain purchase of HK$70.0 million.

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 help the Group to serve 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, it will strengthen its competitive edge in the industry, which in turn will attract and retain leading international and mainland China brands of high-end and luxury products as its customers. In the future, the Group shall source quality raw materials with competitive price, and continue to optimise and streamline production procedures to boost competitiveness of the Group and satisfy brand customers' demands.

THE USE OF PROCEEDS FROM IPO

The Group raised approximately HK$718.2 million from its listing in December 2011. The following table sets forth the status of use of proceeds from IPO:

	IPO proceeds		Used up to 30 June 2016	Unused balance
	approximate HK$' million	approximate percentage	approximate HK$' million	approximate HK$' million
Second phase of Yingde manufacturing facility	251.4	35%	154.0	97.4
Upgrading of machinery and tooling in existing manufacturing facilities	143.6	20%	58.2	85.4
Expansion of retail business	251.4	35%	228.1	23.3
Working capital	71.8	10%	71.8	–
	718.2	100%	512.1	206.1

FINANCIAL REVIEW

Revenue

Revenue of the Group represents proceeds from handbags, small leather goods and travel goods sold to high-end and luxury brand customers, as well as TUSCAN'S branded products sold through the retail stores in China, Hong Kong and Macau and rental income from the investment property.

The Group's revenue decreased by approximately 16.1% to approximately HK$2,837.0 million for the year ended 30 June 2016 from approximately HK$3,380.4 million for the year ended 30 June 2015. This decrease was primarily due to decrease in demand from high-end and luxury brand customers.

MANAGEMENT DISCUSSION & ANALYSIS

Cost of sales

Cost of sales of the Group decreased by approximately 17.1% to approximately HK$2,070.2 million for the year ended 30 June 2016 from approximately HK$2,497.8 million for the year ended 30 June 2015. Apart from the decrease in the sales orders received from the customers, the depreciation of Renminbi ("RMB") against Hong Kong dollars ("HK$") also contributed to the decrease in cost of sales to a certain extent.

Gross profit and gross profit margin

Gross profit decreased by approximately 13.1% to approximately HK$766.8 million for the year ended 30 June 2016 from approximately HK$882.6 million for the year ended 30 June 2015. The gross profit margin increased slightly to approximately 27.0% for the year ended 30 June 2016 compared with approximately 26.1% for the year ended 30 June 2015 due to tight control over the costs and depreciation of RMB against HK$.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately 5.4% to approximately HK$152.4 million for the year ended 30 June 2016 from approximately HK$161.1 million for the year ended 30 June 2015. The decrease was primarily attributable to tight cost control.

Administrative expenses

Administrative expenses slightly decreased by approximately 3.6% to approximately HK$255.8 million for the year ended 30 June 2016 from approximately HK$265.4 million for the year ended 30 June 2015.

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 years ended 30 June 2016 and 2015 on the estimated assessable profits arising in or derived from Hong Kong during the relevant year.

The People's Republic of China (the "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, which was approved and became effective on 1 January 2008.

Macau Complementary Income tax has not been provided for as the Group had no assessable profit arising in Macau during the year ended 30 June 2016 (2015: nil).

The effective tax rate of the Group was decreased to approximately 16.9% for the year ended 30 June 2016 (30 June 2015: 18.9%), which was due to the non-taxable income of gain on bargain purchase of HK$70.0 million.

Profit for the year

Profit for the year decreased by approximately HK$41.8 million to approximately HK$370.1 million for the year ended 30 June 2016 from approximately HK$411.9 million for the year ended 30 June 2015. As a percentage of revenue, profit increased to approximately 13.0% for the year ended 30 June 2016 from approximately 12.2% for the year ended 30 June 2015.

MANAGEMENT DISCUSSION & ANALYSIS

Investment property

As at 30 June 2016, the investment property with carrying amount of approximately HK$503.6 million (2015: nil) was acquired during the year, which is held under medium-term lease in Hong Kong. Details of the property have been set out in “material acquisition of subsidiaries” section below.

Capital expenditure

For the year ended 30 June 2016, the capital expenditure of the Group amounted to approximately HK$585.2 million, primarily due to the upgrading of existing manufacturing facilities in both Dongguan and Yingde, as well as the expansion of retail business and acquisition of the Property as defined below.

Material acquisition of subsidiaries

On 13 May 2016, Sitoy Property Investment Company Limited, a wholly-owned subsidiary of the Company, entered into an acquisition agreement to acquire the entire issued share capital of and the shareholder’s loan owing by Harbour Century Limited at the consideration of HK$560 million, subject to adjustments. Harbour Century Limited wholly owns Worldmax Enterprises Limited (collectively referred to as the “Property Group”), which in turn owns a 20-storey office building located at No. 164 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong (Kwun Tong inland lot No. of 316) (the “Property”). Completion of the acquisition took place on 17 June 2016, upon which each of Harbour Century Limited and Worldmax Enterprises Limited became a wholly-owned subsidiary of the Company. Details of above transaction are disclosed in the Company’s announcements dated 13 May 2016, 27 May 2016 and 17 June 2016.

The Property held by the Group is with a total gross floor area of approximately 70,000 square feet. The Property will be re-named as “Sitoy Tower” and used as the Group’s headquarter, showrooms for merchandise display and market week, and also for rental income or capital appreciation purpose.

Since completion of the acquisition, the Property Group contributed HK$301,000 to the Group revenue and HK$133,000 to the consolidated profit for the year ended 30 June 2016.

Except for the abovesaid acquisition, the Group had no other material acquisitions and disposals of subsidiaries and associated companies during the year ended 30 June 2016.

Liquidity and financial resources

The liquidity and financial resources position of the Group remains strong as it continues to adopt a prudent approach in managing its financial resources. The Group’s cash and cash equivalents as at 30 June 2016 amounted to approximately HK$830.6 million (30 June 2015: HK$1,322.6 million), which are mainly denominated in HK$, RMB and United States dollars. The Group has sufficient financial resources and a strong cash position to satisfy 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 Group had no outstanding bank and other borrowings as at 30 June 2016 and 2015, thus, no gearing ratio was presented.

Foreign exchange risk

The Group has had transactional currency exposures for the year ended 30 June 2016. Such exposures arose from sales or purchases by operating units in currencies other than the units’ functional currency. During the year ended 30 June 2016, 95.7% (30 June 2015: 96.6%) of the Group’s sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 56.1% (30 June 2015: 41.3%) of the costs were denominated in the units’ functional currency.

As at 30 June 2016 and 2015, the Group did not have any outstanding foreign exchange forward contract.

MANAGEMENT DISCUSSION & ANALYSIS

Pledge of assets

As at 30 June 2016, approximately HK$22.5 million of time deposits were pledged as security for banking facilities available to the Group (30 June 2015: HK$23.2 million).

Inventory turnover days

Inventory turnover days increased to 65 days for the year ended 30 June 2016 from 57 days for the year ended 30 June 2015. The increase in inventory turnover days was due to the decrease in cost of sales and increase in average level of inventories.

Trade receivables turnover days

Trade receivables turnover days increased to 40 days for the year ended 30 June 2016 compared with 32 days for the year ended 30 June 2015. The increase in turnover days was mainly due to lower turnover in fiscal year 2015/2016 compared with fiscal year 2014/2015. The Group did not experience any significant credit risks due to strict credit control policies.

Trade payables turnover days

Trade payables turnover days increased to 58 days for the year ended 30 June 2016 compared with 53 days for the year ended 30 June 2015, which was mainly due to decrease in purchasing materials during the year. Trade payables are non-interest bearing and are generally settled within 90 days.

Off-balance sheet commitments and arrangements and contingent liabilities

As at 30 June 2016, the Group did not have any material off-balance sheet commitments and arrangements and contingent liabilities.

EMPLOYEES

As at 30 June 2016, the Group had about 9,000 employees. In addition to the basic salaries, performance bonuses will be offered to those staff members with good performance. The PRC subsidiaries of the Company are subject to social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations. The Group also adheres to statutory employment standards and those requested by customers, such as minimum wage levels and maximum working hours. Moreover, the Group provides staff quarters for most employees and, in the case of certain senior employees, family quarters. The Group also provides various amenities and recreation facilities such as canteens, sports grounds, library and internet center for employees. The Group will continue to improve the working environment in the manufacturing facilities and the living qualities for its staff. The Directors believe that the remuneration 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 provides 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.

The Company also adopted a share option scheme approved on 15 November 2011 for the purpose of, among other things, recognition of employees' contribution. Details have been set out in the "Share Option Scheme" section.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Yeung Michael Wah Keung, aged 67, is an executive Director, the Chairman, a member of remuneration committee and the chairman of nomination committee of the Company. He was appointed as a Director on 21 February 2008. He 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.

He 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. He is currently a director of each subsidiary of the Group. He is the brother of Mr. Yeung Wo Fai, an executive Director, the chief executive officer and a substantial shareholder of the Company. He 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 (the "SFO").

Mr. Yeung Wo Fai, aged 63, is an executive Director and the chief executive officer of the Company. He was appointed as a Director on 21 February 2008 and is also one of the founders. He 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.

He has over 38 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 11 years. He is currently a director of each subsidiary of the Group. He is the brother of Mr. Yeung Michael Wah Keung, an executive Director, the Chairman and a controlling shareholder of the Company. He 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 SFO.

Mr. Chan Ka Dig Adam, aged 47, is an executive Director and head of sales and marketing of the Company. He 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.

He has over 27 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.

Mr. Yeung Andrew Kin, aged 42, is an executive Director and head of retail of the Company. He 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. He graduated from Simon Fraser University, British Columbia, Canada with a bachelor's degree of science in 1999.

DIRECTORS' PROFILE

He has over 17 years of experience in handbag and leather goods industry and has focused on strategic planning and business development for more than 10 years. Before he 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. He 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.), 時代(英德)皮具製品有限公司 (Sitoy (Yingde) Leather Products Co., Ltd.), 時代(英德)箱包製品有限公司 (Sitoy (Yingde) Luggage Co., Ltd.) and 廣州美樂時皮具有限公司 (Guangzhou Sitoy Leather Goods Company Limited*), all of which are subsidiaries of the Company. He is the son of Mr. Yeung Michael Wah Keung, an executive Director, the Chairman and the controlling shareholder of the Company. He is also the nephew of Mr. Yeung Wo Fai, an executive Director, the chief executive officer and the substantial shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yeung Chi Tat, aged 46, is an independent non-executive Director, the chairman of audit committee and a member of remuneration committee of the Company. He was appointed as an independent non-executive Director on 15 November 2011. He graduated from the University of Hong Kong with a bachelor's degree of business administration and obtained a master's degree in professional accounting with distinction from Hong Kong Polytechnic University.

He possesses extensive experience in auditing, corporate restructuring and corporate finance. He worked at a major international accounting firm for over 10 years. He is a founding member and deputy president of the Hong Kong Independent Non-executive Director Association and is currently the president of the International Financial Management Association Hong Kong headquarters, the Greater China Development Working Committee member of The Association of Hong Kong Accountants and 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 of Hong Kong Limited (the "Stock Exchange"). He is also an independent non-executive director of Ta Yang Group Holdings Limited (stock code: 1991), ANTA Sports Products Limited (stock code: 2020) and Boer Power Holdings Limited (stock code: 1685), all of these companies are listed on the Main Board of the Stock Exchange. He was an independent non-executive director of KFM Kingdom Holdings Limited (stock code: 3816), a company listed on the Main Board of the Stock Exchange, from 7 September 2015 to 3 February 2016.

He 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, a Certified Public Accountant practicing in Hong Kong, a senior international finance manager of the International Financial Management Association and the vice president of Hong Kong General Chamber of Wine & Spirits.

Mr. Kwan Po Chuen, Vincent, aged 57, is an independent non-executive Director, a member of audit committee and nomination committee of the Company. He was appointed as an independent non-executive Director on 15 November 2011. He 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.

* *English name for identification purposes only*

DIRECTORS' PROFILE

He has more than 30 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 2012, he 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. From 2012 to 2015, he was the consultant of Messrs. Gallant Y T Ho & Co. He is currently a consultant of Messrs. LCP Lawyers.

He 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 a 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. In 2014, he was appointed as the Chairman of the Financial and Regulatory Affairs Committee of the Chamber of Hong Kong Listed Companies. He has also written many articles that were published in Momentum, the official magazine of the Chamber of Hong Kong Listed Companies. He is also a regular speaker on corporate finance and compliance matters. Mr. Kwan is also a council member of the Hong Kong Independent Non-executive Director Association and the chairman of its Regulatory Committee.

Mr. Lung Hung Cheuk, aged 69, is an independent non-executive Director, the chairman of remuneration committee, a member of audit committee and nomination committee of the Company. He was appointed as an independent non-executive Director on 15 November 2011. He 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.

He 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.

He is currently an independent non-executive director of Winfull Group Holdings Limited (formerly known as Richfield Group Holdings Limited, stock code: 183), a company listed on the Main Board of the Stock Exchange. He was an independent non-executive director of Ascent International Holdings Limited (formerly known as Chanco International Group Limited, stock code: 264), a company listed on the Main Board of the Stock Exchange, from 21 September 2015 to 23 December 2015. He was an independent non-executive director of iOne Holdings Limited (stock code: 982), a company listed on the Main Board of the Stock Exchange, from 18 September 2009 to 21 July 2014. He was also an independent non-executive director of Yunbo Digital Synergy Group Limited (formerly known as FlexSystem Holdings Limited, stock code: 8050), a company listed on the GEM Board of the Stock Exchange, from 7 May 2011 to 17 February 2012.

DIRECTORS' REPORT

The Directors of the Company are pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 30 June 2016.

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, provision of advertising and marketing services and property investment. 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 2016.

RESULTS, DIVIDENDS, RECORD DATE AND PAYMENT DATE

The results of the Group for the year ended 30 June 2016 are set out in the consolidated statement of profit or loss on page 44.

An interim dividend of HK10 cents was paid on 15 April 2016. The Directors recommended the payment of a final dividend of HK13 cents (30 June 2015: HK13 cents) and a special dividend of HK15 cents (30 June 2015: nil) per share for the year ended 30 June 2016 to the shareholders whose names appear on the register of members of the Company on 23 November 2016. The final and special dividends, subject to approval by the shareholders at the annual general meeting to be held on 14 November 2016 (the "2016 AGM"), will be paid on or before 9 December 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 22 November 2016 and 23 November 2016, during which no share transfer will be registered. In order to qualify for the proposed final and special dividends, all completed transfer documents, accompanied by relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited (the "Hong Kong Branch Registrar"), at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on 21 November 2016.

RECORD DATE FOR 2016 AGM

The record date for determining shareholders of the Company who will be entitled to attend the 2016 AGM will be at the close of business on 9 November 2016. In order to be eligible to attend and vote at the 2016 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 4:00 p.m. on 9 November 2016.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out on page 104 of the annual report. This summary does not form part of the audited financial statements.

SHARE CAPITAL AND PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Details of the share capital of the Company for the year ended 30 June 2016 are set out in note 24 to the consolidated financial statements.

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year ended 30 June 2016.

DIRECTORS' REPORT

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 2016 are set out on page 47 in the consolidated statement of changes in equity and note 35 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 the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTY AND PREPAID LAND LEASE PAYMENTS

Details of movements during the year in property, plant and equipment, investment property and prepaid land lease payments of the Group are set out in notes 13, 14 and 15 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 73.8% for the year ended 30 June 2016. The percentage of revenue attributable to the Group's largest customer to the total revenue of the Group was 40.1% for the year ended 30 June 2016.

The percentage of purchases attributable to the Group's five largest suppliers to the total purchases of the Group was 25.7% for the year ended 30 June 2016. The percentage of purchases attributable to the Group's largest supplier to the total purchases of the Group was 8.6% for the year ended 30 June 2016.

To the best of the Directors' knowledge, none of the Directors, their close 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 *(Chief Executive Officer)*
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

In accordance with article 16.18(B) of the Company's articles of association, Mr. Yeung Wo Fai, Mr. Yeung Andrew Kin and Mr. Lung Hung Cheuk retire by rotation at the forthcoming annual general meeting of the Company 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' REPORT

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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, 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 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 Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(a) Long positions

Name of Director	Capacity/ Nature of interest	Number of ordinary shares of the Company interested	Number of underlying ordinary shares of the Company interested pursuant to share options	Approximate percentage of the Company's issued shares
Mr. Yeung Michael Wah Keung	Beneficial owner/ personal interest	434,720,000	–	43.41%
Mr. Yeung Wo Fai	Beneficial owner/ personal interest	234,080,000	–	23.37%
Mr. Chan Ka Dig Adam	Beneficial owner/ personal interest	–	1,799,000	0.18%

Details of the Directors' interests in share options granted by the Company are set out below under the heading "Share Option Scheme".

(b) Rights to acquire shares of the Company

Save as disclosed in the section headed "Share Option Scheme" below, at no time during the year, the Directors or chief executive of the Company (including their spouse and children under 18 years of age) had any interest in, or had been granted, or had exercised, any rights to subscribe for shares (warrants or debentures, if applicable) of the Company or any of its associated corporation required to be disclosed pursuant to the SFO.

Other than as disclosed herein, at no time during the year was the Company, its subsidiaries or holding companies or fellow subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' REPORT

Save as disclosed above, as at 30 June 2016, 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 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2016, so far as the Directors were aware, no person (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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 30 June 2016, none of the Directors had any interest in any business which competes or may compete with the business of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director or his connected entity has or had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries, fellow subsidiaries or its parent company was a party subsisting during or at the end of the year ended 30 June 2016.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities (to the fullest extent permitted by the Companies Laws of the Cayman Islands) which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. The Company has also arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the information of the Directors of the Company since the date of the last Interim Report are set out below:

Mr. Yeung Chi Tat is no longer the council member of Hong Kong Wine Chamber of Commerce since 30 June 2016.

Mr. Lung Hung Cheuk resigned as an independent non-executive director of Ascent International Holdings Limited (formerly known as Chanco International Group Limited, stock code: 264) on 23 December 2015.

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.

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.

DIRECTORS' REPORT

The total number of shares, which may be issued upon exercise of all options granted or to be granted under the Share Option Scheme and any other share option scheme of the 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.

As at the date of this report, a total of 93,541,000 shares (representing approximately 9.34% of the existing issued shares of the Company) may be issued upon exercise of all options that may be granted under the Share Option Scheme and a total of 6,299,000 shares (representing approximately 0.63% of the existing issued shares of the Company) may be issued upon exercise of all options that have been granted but not yet lapsed or exercised 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 of the Company, or any of his/her/its 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/her/it 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.

DIRECTORS' REPORT

During the year ended 30 June 2016, share options to subscribe for a total of 9,408,000 ordinary shares of HK$0.10 each of the Company were conditionally or unconditionally (as the case may be) granted and share options granted to subscribe for a total of 2,341,000 ordinary shares of HK$0.10 each of the Company were lapsed under the Share Option Scheme. Accordingly, share options to subscribe for 7,067,000 ordinary shares of HK$0.10 each of the Company were outstanding as at 30 June 2016.

As at 30 June 2016, no share option has been vested and no share is issuable for the outstanding share options granted under the Share Option Scheme.

Details of the movements of the share options under the Share Option Scheme during the year ended 30 June 2016 are as follows:

				Number of Share Options					
Grantees	Date of Grant	Exercise Price	Exercise Period	Balance as at 1 July 2015	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 30 June 2016
Directors:									
Mr. Yeung Andrew Kin	21 September 2015	HK$3.84 (ii)	21 September 2016 to 20 September 2025 (iii)	–	1,799,000	–	–	(1,799,000) (v)	–
Mr. Chan Ka Dig Adam	21 September 2015	HK$3.84 (ii)	21 September 2016 to 20 September 2025 (iii)	–	1,799,000	–	–	–	1,799,000
Sub-total:				–	3,598,000	–	–	(1,799,000)	1,799,000
Eligible employees (i)	21 September 2015	HK$3.84 (ii)	21 September 2016 to 20 September 2025 (iii)	–	5,810,000		–	(542,000)	5,268,000
Grand Total:				–	9,408,000	–	–	(2,341,000)	7,067,000

Notes:

(i) Share options were granted to certain eligible employees, all working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance and are participants with share options not exceeding the respective individual limits.

(ii) The closing price of the shares of the Company immediately before the date of grant (i.e. as of 18 September 2015) was HK$3.84.

DIRECTORS' REPORT

(iii) The share options granted to the above Director(s) and eligible employees shall be vested in three equal tranches subject to the certain vesting conditions as set out in their respective offer letters, including, among others, financial targets of the Group. The vesting periods of the share options are between the date of grant and the dates of commencement of exercise periods. The vesting and exercise periods of the share options are as follows:

Share options	Vesting period	Exercise period
One-third of share options (rounded up to the nearest 1,000 share options)	21.09.2015 to 20.09.2016	21.09.2016 to 20.09.2025
One-third of share options (rounded up to the nearest 1,000 share options)	21.09.2015 to 20.09.2017	21.09.2017 to 20.09.2025
Remaining share options	21.09.2015 to 20.09.2018	21.09.2018 to 20.09.2025

(iv) The values of share options are subject to (i) subjectivity and uncertainty relating to the assumptions to which such values are subject; and (ii) limitation of the model used to estimate such values. The fair value of share options as at the date of grant, its calculation and the model and assumptions used to estimate the fair value of share options are set out in note 25 to the consolidated financial statements.

(v) 1,799,000 share options conditionally granted to Mr. Yeung Andrew Kin had lapsed as such grant of share options was conditional upon approval by independent shareholders of the Company by way of ordinary resolution and such condition was not fulfilled at the extraordinary general meeting held on 16 November 2015.

Except as disclosed above, no share option lapsed or was granted, exercised or cancelled under the Share Option Scheme during the year ended 30 June 2016.

EQUITY-LINKED AGREEMENTS

Save as disclosed above, no equity-linked agreements were entered into during the year or subsisted at the end of the year.

CONNECTED TRANSACTIONS

The related party transactions of the Company for the year ended 30 June 2016 are set out in note 31 to the consolidated financial statements. Other than disclosed below, the related party transactions of the Company did not constitute connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent Shareholders' approval requirements under the Listing Rules.

Non-exempt Continuing Connected Transactions

During the year ended 30 June 2016, the Group has entered into the following transactions, which constituted non-exempt continuing connected transactions for the Company subject to announcement, annual review and reporting requirements but exempt from the independent Shareholders' approval requirement under Chapter 14A of the Listing Rules, particulars of which were previously disclosed in the announcement of the Company dated 1 April 2016. The Company shall comply with the annual review and reporting requirements for all of the following non-exempt continuing connected transactions under Chapter 14A of the Listing Rules.

DIRECTORS' REPORT

Leasing of Properties

Pursuant to Chapter 14A of the Listing Rules, details of the non-exempt continuing connected transactions for the year ended 30 June 2016 required to be disclosed in the annual report are as follows:

On 1 April 2016, Sitoy (Hong Kong) Handbag Factory Limited ("Sitoy HK"), an indirectly wholly-owned subsidiary of the Company, entered into a tenancy agreement with each of Maxon Properties Limited ("Maxon") and Golden Palace Corporation Limited ("Golden Palace"), each for a term commencing from 1 April 2016 to 30 June 2018 (both days inclusive).

As (i) Maxon is directly wholly-owned by Mr. Yeung Michael Wah Keung, a controlling shareholder, the chairman and an executive Director of the Company, and (ii) Golden Palace is directly wholly-owned by Mr. Yeung Wo Fai, a substantial shareholder, the chief executive officer and an executive Director of the Company, each of Maxon and Golden Palace, being an associate of Mr. Yeung Michael Wah Keung and Mr. Yeung Wo Fai respectively, is therefore a connected person of the Company. Accordingly, the transactions contemplated under the following tenancy agreements constitute non-exempt continuing connected transactions of the Company:

	Parties	Lease premises	Rent
Tenancy agreement A	Sitoy HK and Maxon	a residential unit situated at Kadoorie Avenue, Kowloon, Hong Kong	HK$200,000, payable in cash by Sitoy HK on monthly basis
Tenancy agreement B	Sitoy HK and Golden Palace	a residential unit situated at Celestial Heights Phase 2, 80 Sheung Shing Street, Ho Man Tin, Kowloon, Hong Kong	HK$200,000, payable in cash by Sitoy HK on monthly basis

Nature of the transactions

Leasing of premises in Hong Kong from Maxon and Golden Palace to the Sitoy HK as executive quarters of the Group.

The annual cap for the year ended 30 June 2016 in respect of the aggregate rent payable by Sitoy HK to Maxon and Golden Palace is HK$1,200,000.

Details of the above non-exempt continuing connected transactions were disclosed in the announcement of the Company dated 1 April 2016.

In respect of the connected transactions and continuing connected transactions, the Company has complied with the disclosure requirements under the Listing Rules in force from time to time.

Confirmation of Independent Non-executive Directors

The independent non-executive Directors has reviewed the above non-exempt continuing connected transactions and confirmed that the transactions have been entered into: (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

DIRECTORS' REPORT

Confirmation from Auditors of the Company

The Board of Directors has received an unqualified letter issued by Ernst & Young, the auditors of the Company in accordance with Hong Kong Standard on Assurance Engagement 3000 and Practice Note 740 issued by the Hong Kong Institute of Certified Public Accountants confirming that:

a. nothing has come to their attention that causes them to believe that the above non-exempt continuing connected transaction has not been approved by the Board;

b. nothing has come to their attention that causes them to believe that the transaction was not entered into, in all material respects, in accordance with the relevant agreements governing such transaction; and

c. nothing has come to their attention that causes them to believe that the disclosed continuing connected transaction has exceeded the annual cap set by the Company.

A copy of the letter has been provided by the Company to the Stock Exchange.

In relation to the related party transactions which also constituted connected transactions or continuing connected transactions of the Company under the Listing Rules, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules, the details of which required to be disclosed in the annual report have been set out above.

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 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 34 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.

BUSINESS REVIEW

A fair review of the business and outlook of the Company as well as a discussion and analysis of the Group's performance during the year ended 30 June 2016 and the material factors underlying its results and financial position can be found in the Chairman's Statement on pages 8 to 11 and the Management Discussion and Analysis on pages 12 to 17 of this annual report. An analysis using financial key performance indicators can be found in the Financial Highlights on pages 6 to 7 of this annual report. These discussions and financial highlights form part of this Directors' Report.

ENVIRONMENTAL POLICY

The Group is committed to achieve the development of sustainability of communities. An environmental policy has been adopted by the Group for implementation of environmentally friendly measures and practices in the operation of the Group's businesses. The Group adheres to the principle of Recycling and Reducing and implements green office practices, e.g. using recycled paper, setting up recycling bins, and double-sided printing and copying.

The Group will review the environmental policy from time to time and will consider implementing further environmentally friendly measures and practices in the operation of the Group's businesses.

DIRECTORS' REPORT

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Company compiles with the requirements under the Companies Law of the Cayman Islands, the Listing Rules and the SFO for, among other things, the disclosure of information and corporate governance.

During the year ended 30 June 2016, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that have a significant impact on the Group's business.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's activities involve the manufacturing business, the retail business as well as property investment. The principal types of risk faced by each business are listed below.

For the manufacturing business, the risks and uncertainties include:

- The Group faces risks and challenges associated with managing different production line staff.
- The Group faces risks associated with the reliance on/potential loss of key management personnel.
- Changes in government policy that may create adversity for the manufacturing industry.
- Fluctuations in commodities and other production inputs could impact the profitability of the Group.
- Impact on sales, costs, profit and cash:
    - Economic conditions
    - the rising cost of wages and salaries, rents, services and utilities
    - Change in market trends
    - Competitor activity
- Failure or unavailability of operational and/or IT infrastructure.

For the retail business, the risks and uncertainties include:

- Falling consumer spending leading to excess inventory in the retail channels and the need for aggressive discounting activity, and/or inventory obsolescence and discounting due to rapid changes in fashion trends.
- Changes in government policy that reduce customers' desire to buy fashion products.
- The Group faces risks associated with the reliance on/potential loss of key management personnel.

DIRECTORS' REPORT

- Impact on sales, costs, profit and cash:
  - Economic conditions in China
  - Change in market trends
  - Cost of wages and salaries, rents, services and utilities
  - Competitor activity
- The Group with substantial operations and interests in the PRC is subject to the risk of adverse movements in foreign currency exchange rates as the HK$ is used as the reporting currency.
- Failure or unavailability of operational and/or IT infrastructure.

For property investment, the risks and uncertainties include:

- The Group faces risks and challenges associated with locating potential tenants with acceptable price and other terms.
- Changes in government policy that may create adversity for the real estate market.
- The Group faces risks associated with the reliance on/potential loss of key management personnel.
- Impact on sales, costs, profit and cash:
  - Global market fluctuation and economic conditions in Hong Kong
  - Macroeconomic environment of Hong Kong
  - Interest rate of Hong Kong
  - Real estate market environment in Hong Kong
  - Cost of agency fee
- The Group faces the risk of fair value downturn of the investment properties in the future.
- Possibility of realization of the assumption used in valuation of the properties.

DIRECTORS' REPORT

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

As a manufacturer, the Group has always paid great attention to and maintained a good working relationship with the upstream suppliers, and has been providing quality professional and customer-oriented services for its downstream customers. The aforementioned suppliers and customers are good working partners creating value for the Group. The Group also values the knowledge and skills of its employees, and continues to provide favourable career development opportunities for its employees.

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, 19 September 2016

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 to adhere 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 which aligns with or is more restrictive than the requirements set out in the Corporate Governance Code (the "CG Code"), contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Board is of the view that the Company has complied with the code provisions set out in the CG Code for the year ended 30 June 2016.

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 year ended 30 June 2016.

Relevant employees who are likely to be in possession of inside 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 during the Year under Review.

BOARD OF DIRECTORS

The Board comprises seven Directors, consisting of four 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' Profile and Directors' Report respectively of this annual 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 management of the Company.

CORPORATE GOVERNANCE REPORT

During the year, six physical Board meetings (including 4 regular Board meetings) were held. Among others, the following key issues were discussed in the Board meetings:

– considered and approved the annual results and report of the Group for the year ended 30 June 2015;

– considered and discussed the quarter results of the Group for three months ended 30 September 2015;

– considered and approved the grant of share options to eligible participants and proposed amendments to share option scheme;

– considered and approved the interim results and report of the Group for the six months ended 31 December 2015;

– considered and approved the provision of housing allowance to certain executive Directors; and

– considered and discussed the quarter results of the Group for nine months ended 31 March 2016.

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 ensures 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 Board meetings and the annual general meeting and extraordinary general meeting both held on 16 November 2015 are set out in the table below:

	Attendance		
Name of Directors	Board Meetings	Annual General Meeting	Extraordinary General Meeting
Executive Directors			
Yeung Michael Wah Keung	6/6	✓	✓
Yeung Wo Fai	6/6	✓	✓
Chan Ka Dig Adam	5/6	✓	✓
Yeung Andrew Kin	6/6	✓	✓
Independent Non-executive Directors			
Yeung Chi Tat	6/6	✓	✓
Kwan Po Chuen, Vincent	6/6	✓	✓
Lung Hung Cheuk	6/6	✓	✓

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 independent.

CORPORATE GOVERNANCE REPORT

The Company has also received confirmation from all Directors that they have given sufficient time and attention to the affairs of the Company for the year. Directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organizations and other significant commitments, with the identity of the public companies or organizations and an indication of the time involved.

Except for the family relationship between Mr. Yeung Michael Wah Keung, Mr. Yeung Wo Fai and Mr. Yeung Andrew Kin as disclosed in Directors' Profile on pages 18 to 20 of this report, there is no financial, business, family or other material or relevant relationship between Board members.

DIRECTORS' TRAINING

During the year, all Directors participated in continuous professional development to develop and refresh their knowledge and skills by attending in-house briefings, attending training, giving talks and reading materials on topics relevant to the business of the Company and the director duties and responsibilities, etc. The Directors had provided to the Company their records of training received. The areas of training received by each Director are set out in the table below.

	Areas of Training				
Name of Directors	Corporate strategy and business	Law and regulatory compliance	Directors' duties/ governance practices	Risk management	Management/ human resources
Executive Directors					
Yeung Michael Wah Keung		✓	✓	✓	
Yeung Wo Fai		✓	✓	✓	
Chan Ka Dig Adam		✓	✓	✓	
Yeung Andrew Kin		✓	✓	✓	
Independent Non-executive Directors					
Yeung Chi Tat	✓	✓	✓	✓	✓
Kwan Po Chuen, Vincent	✓	✓	✓		✓
Lung Hung Cheuk		✓	✓		

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and the Chief Executive Officer are 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 6 December 2014. 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, and details of which are set out below.

CORPORATE GOVERNANCE REPORT

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 with written terms of reference in compliance with the 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), 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 2016.

During the year, the audit committee had held two physical meetings. The respective attendances of the members of audit committee are presented as follows:

Members	Attendance
Yeung Chi Tat *(chairman)*	2/2
Kwan Po Chuen, Vincent	2/2
Lung Hung Cheuk	2/2

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

– reviewed and commented on the annual results and report of the Group for the year ended 30 June 2015;

– reviewed and commented on the interim results and report of the Group for the six months ended 31 December 2015;

– discussed with the external auditors about the financial matters of the Group, and reviewed their findings, recommendations and representations and the effectiveness of the Group's internal control system;

– discussed with the independent internal control reviewer about the internal control matters of the Group and reviewed the independent internal control reviewer's findings and recommendations;

– reviewed and recommended the reappointment of the external auditors; and

– reviewed the arrangement for employees of the Group to raise concerns about possible impropriety in financial reporting, internal control and other matters.

NOMINATION COMMITTEE

The Company established a nomination committee with written terms of reference in compliance with the 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 nomination for appointment of such person as a Director. The nomination committee comprises the executive Director, Mr. Yeung Michael Wah Keung (chairman) and the independent non-executive Directors, Mr. Kwan Po Chuen, Vincent and Mr. Lung Hung Cheuk.

CORPORATE GOVERNANCE REPORT

During the year, the nomination committee had held one physical meeting. The respective attendance of the members of nomination committee is presented as follows:

Members	Attendance
Yeung Michael Wah Keung *(chairman)*	1/1
Kwan Po Chuen, Vincent	1/1
Lung Hung Cheuk	1/1

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

– reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board and the board diversity policy, and made recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

– assessed the independence of independent non-executive Directors; and

– reviewed and made recommendation to the Board on re-election of retiring Directors.

BOARD DIVERSITY POLICY

The Board adopted a board diversity policy (the "Board Diversity Policy") on 3 June 2013.

Below is the summary of the Board Diversity Policy:

The Company recognizes and embraces the benefits of having a diverse Board, and sees increasing diversity at Board level as an essential element in maintaining a competitive advantage. A truly diverse Board will include and make good use of differences in the skills, regional, industry experience, background, race, gender, culture, personality, work-style and other qualities of Directors. These differences will be considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires to be effective.

The nomination committee discusses annually the measurable objectives for achieving diversity on the Board taking into account the Company's business model and specific needs. During the year, the nomination committee reviewed the existing composition of the Board and highlighted the importance of maintaining an appropriate balance around the Board table through a diverse mix of skills, experience, knowledge and background to complement the Company's corporate strategy. Gender diversity is a significant element of this. The Board is committed to ensuring that women have an equal chance with men of developing their careers with the Company.

REMUNERATION COMMITTEE

The Company established a remuneration committee with written terms of reference in compliance with the CG Code.

The remuneration committee, with delegated responsibility, determines the remuneration package of individual executive Director 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).

CORPORATE GOVERNANCE REPORT

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 in respect of the resolution regarding the remuneration payable to him. The remuneration committee comprises the independent non-executive Directors, Mr. Lung Hung Cheuk (chairman) and Mr. Yeung Chi Tat, and the executive Director, Mr. Yeung Michael Wah Keung.

During the year, the remuneration committee had held three physical meetings. The respective attendance of the members of remuneration committee is presented as follows:

Members	Attendance
Lung Hung Cheuk *(chairman)*	3/3
Yeung Michael Wah Keung	3/3
Yeung Chi Tat	3/3

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

– reviewed and recommended the grant of share options to eligible participants and proposed amendments to the share option scheme;

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

– reviewed and approved the housing allowance to certain executive Directors.

REMUNERATION POLICY

The remuneration of the employees and the Directors holding 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

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

The remuneration of independent non-executive Directors was fixed, payable on quarterly basis.

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.

During the year, the Board reviewed the Company's policy and practices on compliance with legal and regulatory requirements, the compliance with the CG Code for the year ended 30 June 2016 and disclosure of this corporate governance report, as well as the code of conduct and compliance manual (if any) applicable to employees and Directors.

On 19 September 2016, the Board reviewed the Company's compliance with the CG Code for the year 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 2016 provided by the Company's auditors, Ernst & Young, are as follows:

	HK$'000
Audit services	2,100
Non-audit services	–

ACKNOWLEDGE OF RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the consolidated financial statements of the Group. In preparing the consolidated financial statements for the 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 report of the auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditors' Report from pages 42 to 43 of this report.

CORPORATE GOVERNANCE REPORT

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 and notices. Such documents are accessible on the Company's website at www.sitoy.com.

COMPANY SECRETARY

The Company has engaged and appointed Mr. Huen Po Wah, a representative from an external company secretarial services provider, as the Company Secretary of the Company. The primary contact person with the Company Secretary of the Company is Mr. Yeung Wo Fai, Chief Executive Officer. Mr. Huen has confirmed that he has taken no less than 15 hours of relevant training.

CONSTITUTIONAL DOCUMENTS

The Company has published its amended and restated memorandum and articles of association on the designated website of the Stock Exchange and the Company's website. During the year, there was no alteration on the constitutional documents of the Company.

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 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).

CORPORATE GOVERNANCE REPORT

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 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 members to propose a person for election as a director of the Company

The procedures for the shareholders of the Company to propose a person for election as a director of the Company are available and accessible on the Company's website at www.sitoy.com.

(c) 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.
Fax: (852) 2343 2808

(d) 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:

Union Registrars Limited
Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong
Tel: (852) 2849 3399
Fax: (852) 2849 3319

INDEPENDENT AUDITORS' REPORT

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道 1 號
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ey.com

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 set out on pages 44 to 103 which comprise the consolidated statement of financial position as at 30 June 2016, and the consolidated statement of profit or loss, 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 financial position of the Company and its subsidiaries as at 30 June 2016, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

19 September 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 30 June 2016

	Notes	2016 HK$'000	2015 HK$'000
		Year ended 30 June	
REVENUE	6	2,837,018	3,380,422
Cost of sales		(2,070,188)	(2,497,831)
Gross profit		766,830	882,591
Other income and gains	6	93,772	53,539
Selling and distribution expenses		(152,370)	(161,117)
Administrative expenses		(255,777)	(265,364)
Other expenses		(7,114)	(1,928)
PROFIT BEFORE TAX	7	445,341	507,721
Income tax expense	10	(75,199)	(95,774)
PROFIT FOR THE YEAR		370,142	411,947
Attributable to:			
Owners of the Company		370,142	411,947
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (HK cents)	12	36.96	41.13

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 30 June 2016

	Year ended 30 June	
	2016 HK$'000	2015 HK$'000
PROFIT FOR THE YEAR	**370,142**	411,947
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	(83,953)	7,947
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(83,953)	7,947
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**286,189**	419,894
Attributable to:		
Owners of the Company	**286,189**	419,894

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

	Notes	As at 30 June 2016 HK$'000	As at 30 June 2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	497,597	430,353
Investment property	14	503,556	–
Prepaid land lease payments	15	17,653	19,594
Intangible asset	16	5,559	4,140
Deferred tax assets	17	15,270	18,023
Prepayments	20	146	346
Total non-current assets		1,039,781	472,456
CURRENT ASSETS			
Inventories	18	274,605	434,611
Trade receivables	19	251,967	363,640
Prepayments, deposits and other receivables	20	44,087	62,972
Pledged deposits	21	22,495	23,233
Cash and cash equivalents	21	830,572	1,322,589
Total current assets		1,423,726	2,207,045
CURRENT LIABILITIES			
Trade payables	22	131,300	323,321
Other payables and accruals	23	103,889	120,413
Tax payable		46,076	112,638
Total current liabilities		281,265	556,372
NET CURRENT ASSETS		1,142,461	1,650,673
TOTAL ASSETS LESS CURRENT LIABILITIES		2,182,242	2,123,129
NON-CURRENT LIABILITIES			
Deferred tax liabilities	17	2,680	3,184
Total non-current liabilities		2,680	3,184
Net assets		2,179,562	2,119,945
EQUITY			
Equity attributable to owners of the Company			
Share capital	24	100,153	100,153
Reserves	26	2,079,409	2,019,792
Total equity		2,179,562	2,119,945

Yeung Michael Wah Keung
Director

Yeung Wo Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2016

	Attributable to owners of the Company							
	Share capital HK$'000 (note 24)	Share premium account* HK$'000 (note 26)	Share option reserve* HK$'000 (note 25)	Merger reserve* HK$'000 (note 26)	Statutory reserve fund* HK$'000 (note 26)	Exchange fluctuation reserve* HK$'000	Retained profits#* HK$'000	Total HK$'000
At 1 July 2015	100,153	1,010,081	–	4,030	50,718	38,353	916,610	2,119,945
Profit for the year	–	–	–	–	–	–	370,142	370,142
Other comprehensive income for the year:								
Exchange differences on translation of foreign operations	–	–	–	–	–	(83,953)	–	(83,953)
Total comprehensive income for the year	–	–	–	–	–	(83,953)	370,142	286,189
2015 final dividend declared	–	–	–	–	–	–	(130,199)	(130,199)
2016 interim dividend declared	–	–	–	–	–	–	(100,153)	(100,153)
Equity-settled share option arrangement	–	–	3,780	–	–	–	–	3,780
Transfer of share option reserve upon the lapse of share options	–	–	(242)	–	–	–	242	–
Transfer from retained profits	–	–	–	–	6,440	–	(6,440)	–
At 30 June 2016	100,153	1,010,081	3,538	4,030	57,158	(45,600)	1,050,202	2,179,562

\# Retained profits have been adjusted for the proposed final 2015 dividend in accordance with the current year's presentation, which is described in note 2.4 to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2016

	Attributable to owners of the Company						
	Share capital HK$'000 (note 24)	Share premium account* HK$'000 (note 26)	Merger reserve* HK$'000 (note 26)	Statutory reserve fund* HK$'000 (note 26)	Exchange fluctuation reserve* HK$'000	Retained profits* HK$'000	Total HK$'000
At 1 July 2014	100,153	1,010,081	4,030	42,492	30,406	793,318	1,980,480
Profit for the year	–	–	–	–	–	411,947	411,947
Other comprehensive income for the year:							
Exchange differences on translation of foreign operations	–	–	–	–	7,947	–	7,947
Total comprehensive income for the year	–	–	–	–	7,947	411,947	419,894
2014 final dividend declared	–	–	–	–	–	(180,276)	(180,276)
2015 interim dividend declared	–	–	–	–	–	(100,153)	(100,153)
Transfer from retained profits	–	–	–	8,226	–	(8,226)	–
At 30 June 2015	100,153	1,010,081	4,030	50,718	38,353	916,610	2,119,945

* These reserve accounts comprise the consolidated reserves of HK$2,079,409,000 (30 June 2015: HK$2,019,792,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June 2016

		Year ended 30 June	
	Notes	2016 HK$'000	2015 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		445,341	507,721
Adjustments for:			
Loss on disposal of items of property, plant and equipment	7	1,027	994
Depreciation	7	50,705	50,493
Amortization of prepaid land lease payments	7	442	459
Gain on bargain purchase	7	(70,000)	–
Equity-settled share option expense	25	3,780	–
Impairment of trade receivables	7	–	504
Write-down of inventories to net realizable value	7	5,997	8,883
		437,292	569,054
Decrease/(increase) in trade receivables		111,713	(134,837)
Decrease in prepayments, deposits and other receivables		21,015	4,022
Decrease/(increase) in inventories		154,009	(144,470)
(Decrease)/increase in trade payables		(192,096)	120,660
(Decrease)/increase in other payables and accruals		(27,135)	916
Cash generated from operations		504,798	415,345
Hong Kong profits tax paid		(101,966)	(86,987)
Mainland China income tax paid		(37,507)	(41,303)
NET CASH FLOWS FROM OPERATING ACTIVITIES		365,325	287,055
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(25,460)	(50,203)
Purchases of intangible asset		(1,419)	–
Acquisition of a subsidiary	28	(557,801)	–
Proceeds from disposal of items of property, plant and equipment		77	45
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(584,603)	(50,158)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(230,352)	(280,429)
Decrease/(increase) in pledged deposits		738	(304)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(229,614)	(280,733)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(448,892)	(43,836)
Cash and cash equivalents at beginning of year		1,322,589	1,362,362
Effect of foreign exchange rate changes, net		(43,125)	4,063
CASH AND CASH EQUIVALENTS AT END OF YEAR		830,572	1,322,589
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	475,811	597,119
Non-pledged deposits with original maturity of less than three months when acquired		354,761	725,470
Cash and cash equivalents as stated in the consolidated statement of financial position and in the consolidated statement of cash flows	21	830,572	1,322,589

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

1. CORPORATE AND GROUP INFORMATION

Sitoy Group Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 21 February 2008 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office address of the Company, up to 30 September 2016 is Floor 4, Willow House, Cricket Square, P.O. Box 2804, Grand Cayman KY1-1112, Cayman Islands, on or after 1 October 2016, is Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, KY1-1205, Cayman Islands. In the opinion of the Directors, the Company's controlling shareholders are Mr. Yeung Michael Wah Keung and Mr. Yeung Wo Fai.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are the design, research, development, manufacturing, sale and retailing of handbags, small leather goods and travel goods, provision of advertising and marketing services, and property investment.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Exchange") on 6 December 2011.

2.1 BASIS OF PREPARATION

These consolidated 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 ("IASB"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an investment property, which has been measured at fair value. The consolidated 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 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date, on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Company has adopted the Rules Governing the Listing of Securities on the Hong Kong Exchange (the "Listing Rules") issued by the Hong Kong Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the consolidated financial statements is on the presentation and disclosure of certain information in the consolidated financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these consolidated financial statements.

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*[3]
IFRS 9	*Financial Instruments*[3]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or its Associate or Joint Venture*
Amendments to IFRS 10, IFRS 12 and IAS 28	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
IFRS 14	*Regulatory Deferral Accounts*[4]
IFRS 15	*Revenue from Contracts with Customers*[3]
IFRS 16	*Leases*[5]
Amendments to IFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 7	*Disclosure Initiative*[2]
Amendments to IAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[2]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortization*[1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
Amendments to IAS 27	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs[1]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2017
3 Effective for annual periods beginning on or after 1 January 2018
4 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group
5 Effective for annual periods beginning on or after 1 January 2019

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

In July 2014, the IASB issued the final version of IFRS 9, bringing together all phases of the financial instruments project to replace IAS 39 and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt IFRS 9 from 1 July 2018. The Group expects that the adoption of IFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to IFRS 10 and IAS 28 address an inconsistency between the requirements in IFRS 10 and in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognized in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 July 2016.

The amendments to IFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in IFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 July 2016.

IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognizing revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgments and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In September 2015, the IASB issued an amendment to IFRS 15 regarding a one-year deferral of the mandatory effective date of IFRS 15 to 1 January 2018. The Group expects to adopt IFRS 15 on 1 January 2018 and is currently assessing the impact of IFRS 15 upon adoption.

Amendments to IAS 1 include narrow-focus improvements in respect of the presentation and disclosure in consolidated financial statements in five areas, including materiality, disaggregation and subtotals, notes structure, disclosure of accounting policies and presentation of items of other comprehensive income arising from equity accounted investments. The amendments further encourage entities to apply professional judgment in determining what information to disclose and how to structure the disclosure in the consolidated financial statements. The Group expects to adopt the amendments from 1 July 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

Amendments to IAS 16 and IAS 38 clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 July 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are expensed as incurred.

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

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

Fair value measurement

The Group measures its financial instruments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an 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 statement of profit or loss 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(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);

(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); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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 statement of profit or loss 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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 principal annual rates used for this purpose are as follows:

Buildings	2% to 5%
Leasehold improvements	Over the shorter of the lease terms and estimated useful lives
Plant and machinery	10% to 33⅓%
Office equipment	10% to 25%
Motor vehicles	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including 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 statement of profit or loss 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 equipment under installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs and capitalized borrowing costs on related borrowed funds. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment property

Investment property is interest in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment property are included in the consolidated statement of profit or loss in the year in which they arise.

For a transfer from investment property to owner-occupied property or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 statement of profit or loss as 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 statement of profit or loss 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 statement of profit or loss on the straight-line basis over the lease terms.

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

Investments and other financial assets

Initial recognition and measurement

Financial assets 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 assets. 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.

Subsequent measurement

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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 other income and gains in the consolidated statement of profit or loss. The loss arising from impairment is recognized in the consolidated statement of profit or loss in finance costs for loans and in other expenses for receivables.

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 Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether impairment exists individually 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.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

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 statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount 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 write-off is later recovered, the recovery is credited to other expenses in the consolidated statement of profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified,at initial recognition, as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate.

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

The Group's financial liabilities include trade payables,other payables and accruals.

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 statement of profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 work in progress and 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 consolidated 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 statement of profit or loss.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 when 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.

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

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

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

Government grants

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

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;

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

(c) rental income, on a time proportion basis over the lease terms.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 25 to the consolidated financial statements.

The cost of equity-settled transactions is recognized in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated statement of profit or loss for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognized. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognized as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognized for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 consolidated statement of profit or loss 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.

Employees employed by the Group's operations in the Macau Special Administrative Region ("Macau") are members of government-managed retirement benefit scheme operated by the Macau government. The Macau operations are required to pay a monthly fixed contribution to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes operated by the Macau government is to make the required contributions under the 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 consolidated statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the consolidated financial statements.

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

Foreign currencies

The functional currency of the Company and non-Mainland China incorporated subsidiaries is HK$. The functional currency of the subsidiaries incorporated in Mainland China is Renminbi ("RMB"). The consolidated financial statements are presented in HK$, 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 prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or transaction of monetary items are recognized in the consolidated statement of profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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 measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively)

The functional currencies of subsidiaries in Mainland China and Macau are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognized in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognized in the consolidated statement of profit or loss.

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 year.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompany disclosures and the disclosure of contingent liabilities. 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 consolidated financial statements:

Operating lease arrangements – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Judgments (continued)

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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 considers 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(ii) Estimation of fair value of investment property

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties as at 30 June 2016 was HK$503,556,000 (2015: nil). Further details, including the key assumptions used for fair value measurement are given in note 14 to the consolidated financial statements.

(iii) 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.

(iv) Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the 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.

(v) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(vi) 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 10 to the consolidated financial statements.

4. PARTICULARS OF COMPANIES COMPRISING THE GROUP

Particulars of the companies comprising the Group at 30 June 2016 are set out below:

Name of company	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Percentage of equity attributable to the Company Indirect %	Principal activities
Subsidiaries					
Sitoy International Limited	The British Virgin Islands ("BVI") 10 September 2010	US$1	100	–	Investment holding
Sitoy Handbag Factory Limited	BVI 23 May 2011	US$300	100	–	Investment holding
Sitoy Investment International Limited	BVI 23 May 2011	US$300	100	–	Investment holding
Sitoy Property Investment (BVI) Limited	BVI 4 May 2016	US$100	100	–	Investment holding
Harbour Century Limited	BVI 28 August 2013	US$1	–	100	Investment holding
Sitoy (Hong Kong) Handbag Factory Limited	Hong Kong 9 July 1982	HK$4,000,000	–	100	Investment holding, trading of handbags, small leather goods and travel goods
Sitoy Company Limited	Hong Kong 29 July 1986	HK$30,000	–	100	Investment holding, trading of handbags, small leather goods and travel goods

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

4. PARTICULARS OF COMPANIES COMPRISING THE GROUP (continued)

Name of company	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Sitoy Retailing Limited	Hong Kong 21 September 2010	HK$5,000,000	–	100	Investment holding, trading and retail of handbags, small leather goods and travel goods
Sitoy Retailing (Macau) Limited	Macau 9 October 2015	Macau Pataca ("MOP$") MOP$25,000	–	100	Trading and retail of handbags, small leather goods and travel goods
Sitoy K Retailing Company Limited (formerly known as Sitoy KC Retailing Company Limited)	Hong Kong 18 May 2016	HK$10,000	–	100	Trading of fashion products
Sitoy BM Retailing Company Limited	Hong Kong 28 April 2016	HK$10,000	–	100	Trading of footwear products
Sitoy Property Investment Company Limited	Hong Kong 18 March 2016	HK$10,000	–	100	Investment holding
Worldmax Enterprises Limited	Hong Kong 30 November 2010	HK$10,000	–	100	Property investment
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. @	PRC/Mainland China 11 December 2006	HK$270,000,000	–	100	Manufacture and sale of handbags, small leather goods and travel goods
Sitoy (Yingde) Luggage Co., Ltd. @	PRC/Mainland China 30 May 2013	HK$70,000,000	–	100	Manufacture and sale of luggage and travel goods
Guangzhou Sitoy Leather Goods Company Limited* @	PRC/Mainland China 18 January 2011	HK$100,000,000	–	100	Design and retail of handbags, small leather goods and travel goods, and provision of advertising and marketing service

* 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 CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

5. OPERATING SEGMENT INFORMATION

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

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

(b) Retail: manufactures and retails handbags, small leather goods and travel goods for the brands owned by the Group, and provision of handbag and accessories design and wholesale, advertising and marketing services; and

(c) Property investment: invests in office space for its rental income or capital appreciation purpose.

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/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except corporate and unallocated expenses are excluded from this 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 CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

5. OPERATING SEGMENT INFORMATION (continued)

	Year ended 30 June 2016			
	Manufacturing HK$'000	Retail HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue:				
Sales to external customers	2,741,633	95,084	301	2,837,018
Intersegment sales	26,221	24,533	–	50,754
	2,767,854	119,617	301	2,887,772
Reconciliation:				
Elimination of intersegment sales	(26,221)	(24,533)	–	(50,754)
Total revenue				2,837,018
Segment results	410,071	(5,204)	65,645	470,512
Reconciliation:				
Corporate and other unallocated expenses, net				(25,171)
Profit before tax				445,341
Segment assets	2,121,187	123,805	505,521	2,750,513
Reconciliation:				
Elimination of intersegment receivables				(651,696)
Corporate and other unallocated assets				364,690
Total assets				2,463,507
Segment liabilities	273,508	95,171	566,320	934,999
Reconciliation:				
Elimination of intersegment payables				(651,696)
Corporate and other unallocated liabilities				642
Total liabilities				283,945
Other segment information:				
Depreciation of items of property, plant and equipment	42,030	8,585	–	50,615
Unallocated depreciation of items of property, plant and equipment				90
				50,705
Amortization of prepaid land lease payments	442	–	–	442
Write-down of inventories to net realizable value	5,007	990	–	5,997
Operating lease rentals	6,347	37,242	–	43,589
Capital expenditure*	14,410	10,820	447,605	472,835
Unallocated capital expenditure*				112,395
				585,230

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

5. OPERATING SEGMENT INFORMATION (continued)

	Year ended 30 June 2015		
	Manufacturing HK$'000	Retail HK$'000	Total HK$'000
Segment revenue:			
Sales to external customers	3,271,960	108,462	3,380,422
Intersegment sales	1,467	–	1,467
	3,273,427	108,462	3,381,889
Reconciliation:			
Elimination of intersegment sales			(1,467)
Total revenue			3,380,422
Segment results	515,859	(15,032)	500,827
Reconciliation:			
Corporate and other unallocated income, net			6,894
Profit before tax			507,721
Segment assets	2,088,280	158,333	2,246,613
Reconciliation:			
Elimination of intersegment receivables			(88,608)
Corporate and other unallocated assets			521,496
Total assets			2,679,501
Segment liabilities	530,336	117,004	647,340
Reconciliation:			
Elimination of intersegment payables			(88,608)
Corporate and other unallocated liabilities			824
Total liabilities			559,556
Other segment information:			
Depreciation of items of property, plant and equipment	42,949	7,544	50,493
Amortization of prepaid land lease payments	459	–	459
Write-down of inventories to net realizable value	8,357	526	8,883
Operating lease rentals	8,743	36,895	45,638
Capital expenditure*	35,500	14,808	50,308

* Capital expenditure consists of additions to property, plant and equipment, intangible asset, and investment property during the year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

5. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	Year ended 30 June	
	2016 HK$'000	2015 HK$'000
Revenue		
North America	1,437,276	1,866,555
Europe	625,891	877,871
Mainland China, Hong Kong, Macau and Taiwan	321,646	272,244
Other Asian countries	370,050	295,951
Others	82,155	67,801
	2,837,018	3,380,422

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 2016 HK$'000	As at 30 June 2015 HK$'000
Mainland China, Hong Kong and Macau	1,024,511	454,433

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 2016, revenue derived from sales by the manufacturing segment to two major customers amounting to HK$1,137,451,000 and HK$378,352,000 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 2015, revenue derived from sales by the manufacturing segment to a major customer amounting to HK$1,803,618,000 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 this customer.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

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; and gross rental income received and receivable from investment property during the year.

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

	Year ended 30 June	
	2016 HK$'000	2015 HK$'000
Revenue		
Sale of goods	2,836,717	3,380,422
Gross rental income	301	–
	2,837,018	3,380,422
Net sample and material income	5,324	14,720
Interest income	13,932	18,583
Investment income	3,846	7,461
Exchange gain	–	12,119
Government grants	281	74
Others	389	582
	23,772	53,539
Gains		
Gain on bargain purchase (note 28)	70,000	–
	93,772	53,539

7. PROFIT BEFORE TAX

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

	Year ended 30 June	
	2016 HK$'000	2015 HK$'000
Cost of inventories sold	2,070,188	2,497,831
Employee benefit expense (including Directors' remuneration as set out in note 8)		
– Wages and salaries	731,496	806,930
– Equity-settled share option expense	3,780	–
– Pension scheme contributions	26,776	25,515
	762,052	832,445

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

7. PROFIT BEFORE TAX (continued)

	Year ended 30 June	
	2016 HK$'000	2015 HK$'000
Depreciation of items of property, plant and equipment (note 13)	50,705	50,493
Amortization of prepaid land lease payments (note 15)	442	459
Operating lease rentals	43,589	45,638
Impairment of trade receivables (note 19)	–	504
Gain on bargain purchase (note 28)	(70,000)	–
Write-down of inventories to net realizable value	5,997	8,883
Loss on disposal of items of property, plant and equipment	1,027	994
Auditors' remuneration	2,100	2,862
Exchange loss/(gain), net	5,631	(12,119)

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation, is as follows:

	Year ended 30 June	
	2016 HK$'000	2015 HK$'000
Fees	860	815
Other emoluments:		
Salaries, allowances and benefits in kind	10,344	10,117
Discretionary bonuses	5,030	6,353
Equity-settled share option expense	901	–
Pension scheme contributions	323	386
	16,598	16,856
	17,458	17,671

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 25 to the consolidated financial statements. The fair value of such options, which has been recognized in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

Independent non-executive Directors

The fees paid to independent non-executive Directors were as follows:

	Year ended 30 June	
	2016 HK$'000	2015 HK$'000
Yeung Chi Tat	220	205
Kwan Po Chuen, Vincent	220	205
Lung Hung Cheuk	220	205
	660	615

There were no other emoluments payable to the independent non-executive Directors during the year (year ended 30 June 2015: nil).

Executive directors and the chief executive

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expenses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 30 June 2016						
Yeung Michael Wah Keung	50	3,980	902	–	–	4,932
Yeung Wo Fai	50	3,582	812	–	18	4,462
Chan Ka Dig Adam	50	1,391	410	901	90	2,842
Yeung Andrew Kin	50	1,391	2,906	–	215	4,562
	200	10,344	5,030	901	323	16,798
Year ended 30 June 2015						
Yeung Michael Wah Keung	50	3,893	902	–	–	4,845
Yeung Wo Fai	50	3,504	812	–	18	4,384
Chan Ka Dig Adam	50	1,360	2,120	–	174	3,704
Yeung Andrew Kin	50	1,360	2,519	–	194	4,123
	200	10,117	6,353	–	386	17,056

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

Mr. Yeung Wo Fai is also the chief executive of the Group and his remuneration disclosed above includes the remuneration for services rendered by him as the chief executive.

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year (year ended 30 June 2015: nil).

As at 30 June 2016, there was no remuneration payable to the Directors (as at 30 June 2015: HK$1,027,000 was recorded as payroll payable in other payables and accruals).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four Directors, including the chief executive (2015: four Directors, including the chief executive), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining one (2015: one) highest paid employee who is neither a Director nor chief executive of the Company are as follows:

	Year ended 30 June	
	2016 HK$'000	2015 HK$'000
Salaries, allowances and benefits in kind	2,065	760
Discretionary bonuses	–	857
Pension scheme contributions	17	81
Equity-settled share-option expenses	773	–
	2,855	1,698

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

	Number of employees Year ended 30 June	
	2016	2015
HK$1,500,001 to HK$2,000,000	–	1
HK$2,500,001 to HK$3,000,000	1	–
	1	1

During the year, share options were granted to a non-director and non-chief executive highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 25 to the consolidated financial statements. The fair value of such options, which has been recognized in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

10. 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% for the year ended 30 June 2016 (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Macau Complementary Income tax has not been provided for as the Group had no assessable profit arising in Macau during the year (2015: nil).

The provision for PRC corporate income tax is based on a statutory rate of 25% for the year ended 30 June 2016 (2015: 25%) of the assessable profit of the subsidiaries in Mainland China as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

The major components of income tax expense are as follows:

	Year ended 30 June	
	2016 HK$'000	2015 HK$'000
Current – Hong Kong		
Charge for the year	50,418	69,391
Adjustments in respect of current income tax of previous years	(1,753)	(515)
Current – Mainland China		
Charge for the year	25,467	24,561
Deferred tax (note 17)	1,067	2,337
Total tax charge for the year	75,199	95,774

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

10. 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 majority of 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 2016

	Hong Kong HK$'000	Macau HK$'000	Mainland China HK$'000	Cayman Islands HK$'000	Total HK$'000
Profit/(loss) before tax	346,277	(1,147)	120,582	(20,371)	445,341
Tax at the statutory tax rate (i)	57,136	(143)	30,146	(3,361)	83,778
Adjustments in respect of current tax of previous years	(1,753)	–	–	–	(1,753)
Income not subject to tax	(12,502)	–	–	(1,158)	(13,660)
Expenses not deductible for tax	159	–	625	4,239	5,023
Deductible temporary differences not recognized, net	(102)	–	(237)	–	(339)
Tax losses not recognized in the current year	2,509	143	1,461	–	4,113
Tax losses utilized from previous years	(93)	–	(1,603)	(267)	(1,963)
Tax charge at the Group's effective rate	45,354	–	30,392	(547)	75,199

Year ended 30 June 2015

	Hong Kong HK$'000	Mainland China HK$'000	Cayman Islands HK$'000	Total HK$'000
Profit before tax	429,719	66,308	11,694	507,721
Tax at the statutory tax rate (i)	70,904	16,577	1,930	89,411
Adjustments in respect of current tax of previous years	(515)	–	–	(515)
Income not subject to tax	–	–	(1,204)	(1,204)
Expenses not deductible for tax	–	678	–	678
Deductible temporary differences not recognized, net	9	231	–	240
Tax losses not recognized in the current year	1,127	6,037	–	7,164
Tax charge at the Group's effective rate	71,525	23,523	726	95,774

(i) During the year, the Company generated revenue in Hong Kong and was therefore subject to Hong Kong profits tax.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

11. DIVIDENDS

	Year ended 30 June	
	2016 HK$'000	2015 HK$'000
Interim – 2016: HK10 cents per ordinary share (2015: HK10 cents per ordinary share)	100,153	100,153
Proposed final – 2016: HK13 cents per ordinary share (2015: HK13 cents per ordinary share) (note)	130,199	130,199
Proposed special – 2016: HK15 cents per ordinary share (2015: nil) (note)	150,230	–
	380,582	230,352

Note:

On 19 September 2016, the Board of Directors of the Company resolved to propose a final dividend for the year ended 30 June 2016 of HK13 cents (year ended 30 June 2015: HK13 cents) and a special dividend of HK15 cents (2015: nil) per ordinary share out of the consolidated retained profits of the Group as at 30 June 2016 subject to the approval by the shareholders at the forthcoming annual general meeting of the Company.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share amount is based on the profit for the year ended 30 June 2016 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,001,532,000 (year ended 30 June 2015: 1,001,532,000) in issue during the year.

The calculation of basic earnings per share is based on:

	Year ended 30 June	
	2016 HK$'000	2015 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	370,142	411,947

	Year ended 30 June	
	2016	2015
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	1,001,532,000	1,001,532,000

For the year ended 30 June 2016, the calculation of diluted earnings per share did not assume the exercise of the Company's outstanding share options as the exercise price of those options was higher than the average market price of the shares of the Company (year ended 30 June 2015: nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

13. PROPERTY, PLANT AND EQUIPMENT

	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
30 June 2016							
At 30 June 2015 and at 1 July 2015							
Cost	329,766	71,902	173,613	57,225	8,139	1,943	642,588
Accumulated depreciation	(55,332)	(48,706)	(71,933)	(30,162)	(6,102)	–	(212,235)
Net carrying amount	274,434	23,196	101,680	27,063	2,037	1,943	430,353
At 1 July 2015, net of accumulated depreciation	274,434	23,196	101,680	27,063	2,037	1,943	430,353
Additions	–	10,822	5,033	6,881	899	176	23,811
Transferred from investment property (note 14)	126,444	–	–	–	–	–	126,444
Disposals	–	(808)	(219)	(38)	(39)	–	(1,104)
Depreciation provided during the year	(14,600)	(15,860)	(13,581)	(6,133)	(531)	–	(50,705)
Transfers	–	–	48	62	–	(110)	–
Exchange realignment	(20,544)	(1,455)	(7,695)	(1,235)	(120)	(153)	(31,202)
At 30 June 2016, net of accumulated depreciation	365,734	15,895	85,266	26,600	2,246	1,856	497,597
At 30 June 2016:							
Cost	430,963	71,721	165,313	61,147	8,297	1,856	739,297
Accumulated depreciation	(65,229)	(55,826)	(80,047)	(34,547)	(6,051)	–	(241,700)
Net carrying amount	365,734	15,895	85,266	26,600	2,246	1,856	497,597

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	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
30 June 2015							
At 1 July 2014							
Cost	285,463	60,863	160,560	50,769	7,692	29,041	594,388
Accumulated depreciation	(41,777)	(35,343)	(59,472)	(23,223)	(5,736)	–	(165,551)
Net carrying amount	243,686	25,520	101,088	27,546	1,956	29,041	428,837
At 1 July 2014, net of accumulated depreciation	243,686	25,520	101,088	27,546	1,956	29,041	428,837
Additions	1,404	15,023	12,957	6,295	819	13,810	50,308
Disposals	–	(379)	(546)	(6)	(108)	–	(1,039)
Depreciation provided during the year	(13,253)	(17,141)	(12,548)	(6,911)	(640)	–	(50,493)
Transfers	40,918	–	81	9	–	(41,008)	–
Exchange realignment	1,679	173	648	130	10	100	2,740
At 30 June 2015, net of accumulated depreciation	274,434	23,196	101,680	27,063	2,037	1,943	430,353
At 30 June 2015:							
Cost	329,766	71,902	173,613	57,225	8,139	1,943	642,588
Accumulated depreciation	(55,332)	(48,706)	(71,933)	(30,162)	(6,102)	–	(212,235)
Net carrying amount	274,434	23,196	101,680	27,063	2,037	1,943	430,353

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

14. INVESTMENT PROPERTY

	As at 30 June 2016 HK$'000
Carrying amount at beginning of the year	–
Additions through acquisition of a subsidiary	630,000
Transfer to owner-occupied property (note 13)	(126,444)
Carrying amount at end of the year	503,556

The Group's investment property consists of a commercial property in Hong Kong. The Directors of the Company have determined that the investment property is commercial based on the nature, characteristics and risks of the properties. The Group's investment property was revalued on 17 June 2016 upon acquisition, and 30 June 2016, based on valuations performed by Colliers International (Hong Kong) Limited, an independent professionally qualified valuer, at HK$630,000,000. Each year, the Directors decide to appoint an external valuer to be responsible for the external valuations of the Group's investment property. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Directors will have discussions with the valuer on the valuation assumptions and valuation results every year when the valuation is performed for annual financial reporting.

The investment property is leased to third parties under operating leases, further summary details of which are included in note 29 to the consolidated financial statements.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment property:

	Significant unobservable inputs (Level 3) HK$'000
Recurring fair value measurement for:	
Commercial property	630,000
Property held for own use	(126,444)
	503,556

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

14. INVESTMENT PROPERTY (continued)

Reconciliation of fair value measurements categorized within Level 3 of the fair value hierarchy:

	Commercial property HK$'000
Carrying amount at 1 July 2015	–
Addition through acquisition of a subsidiary	630,000
Transfer to an owner-occupied property (note 13)	(126,444)
Carrying amount at 30 June 2016	503,556

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment property:

	Valuation technique	Significant unobservable inputs	2016 range or weighted average
Commercial property	Income approach – Term and Reversion Analysis	Estimated rental value (per square foot and per month)	HK$28 to HK$31
		Estimated price (per square foot)	HK$7,757 to HK$12,725
		Market yield	3.0% to 3.5%
		Term yield	2.7%

A significant increase/(decrease) in the estimated market rent would result in a significant increase/(decrease) in the fair value of the investment property. A significant increase/(decrease) in the term yield and market yield in isolation would result in a significant decrease/(increase) in the fair value of the investment property.

The Term and Reversion Analysis estimates the value of the property on an open market basis by capitalizing the rental income on a fully leased basis having regard to the current passing rental income from the existing tenancies and the potential future reversionary rental income in the market. No allowances have been made for vacancy or capital deductions of any nature.

In this valuation method, the total rental income is divided into current passing rental income over the existing lease term (the term income) and potential future reversionary rental income after the expiry of the existing lease term (the reversionary income). The term "value" is derived by the capitalization of the term "income" over the existing lease term, while the reversionary value is derived by the capitalization of the reversionary income on a fully leased basis, which is then discounted back to the valuation date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

15. PREPAID LAND LEASE PAYMENTS

	As at 30 June 2016 HK$'000	As at 30 June 2015 HK$'000
Carrying amount at beginning of the year	19,594	19,924
Charge for the year	(442)	(459)
Exchange realignment	(1,499)	129
Carrying amount at end of the year	17,653	19,594

16. INTANGIBLE ASSET

	Trademark HK$'000
30 June 2016	
Cost and net carrying amount at 1 July 2015	4,140
Additions	1,419
Cost and net carrying amount at 30 June 2016	5,559
30 June 2015	
Cost and net carrying amount at 1 July 2014 and 30 June 2015	4,140

Indefinite useful life

The Group classified the acquired "TUSCAN'S" trademark as an intangible asset with an indefinite life in 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, it is expected to generate positive cash flows indefinitely.

Impairment testing

During the year ended 30 June 2016, the retail business incurred a loss before tax of HK$5,204,000. The Directors considered that the existence of the above condition indicated that the intangible asset of the Group might be impaired. In view of this, the Directors estimated the recoverable amount of the cash-generating unit by comparing the higher of the fair value less costs to sell and the value in use of the cash-generating unit based on the discounted cash flow prepared by management. The estimate of the recoverable amount of the cash-generating unit as at 30 June 2016 was determined based on a value in use calculation using cash flow projections based on the three-year financial forecast approved by the executive Directors.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

16. INTANGIBLE ASSET (continued)

Impairment testing (continued)

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 the above key assumption would not cause the aggregate carrying amount of the trademark to exceed the aggregate recoverable amount.

17. DEFERRED TAX

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

Deferred tax assets

	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	Provision against inventories HK$'000	Other temporary differences HK$'000	Total HK$'000
At 1 July 2014	531	772	7,955	92	7,511	223	17,084
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 10)	(531)	4,294	(180)	1,972	(4,501)	(224)	830
Exchange realignment	–	16	51	6	35	1	109
Gross deferred tax assets at 30 June 2015 and 1 July 2015	–	5,082	7,826	2,070	3,045	–	18,023
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 10)	2,102	(4,880)	(174)	1,297	(504)	624	(1,535)
Exchange realignment	–	(202)	(598)	(203)	(215)	–	(1,218)
At 30 June 2016	2,102	–	7,054	3,164	2,326	624	15,270

The amount of unrecognized tax losses as at 30 June 2016 was HK$152,341,000 (30 June 2015: HK$98,810,000).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

17. DEFERRED TAX (continued)

Deferred tax liabilities

	Unrealized loss arising from intra-group transactions HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 1 July 2014	–	17	17
Deferred tax charged to the consolidated statement of profit or loss during the year (note 10)	1,991	1,176	3,167
Gross deferred tax liabilities at 30 June 2015 and 1 July 2015	1,991	1,193	3,184
Deferred tax charged/(credit) to the consolidated statement of profit or loss during the year (note 10)	(1,991)	1,523	(468)
Exchange realignment	–	(36)	(36)
At 30 June 2016	–	2,680	2,680

At 30 June 2016, no deferred tax had 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 totalled approximately HK$524,151,000 (30 June 2015: HK$441,586,000).

18. INVENTORIES

	As at 30 June 2016 HK$'000	As at 30 June 2015 HK$'000
Raw materials	81,610	163,121
Work in progress	123,787	211,880
Finished goods	79,970	72,486
	285,367	447,487
Less: provision against inventories	(10,762)	(12,876)
	274,605	434,611

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

19. TRADE RECEIVABLES

	As at 30 June 2016 HK$'000	As at 30 June 2015 HK$'000
Trade receivables	252,471	364,144
Impairment	(504)	(504)
	251,967	363,640

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, letters of credit at sight to 90 days and telegraphic transfers within 14 to 105 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 2016 HK$'000	As at 30 June 2015 HK$'000
Within 90 days	245,025	361,125
91 to 180 days	5,093	1,684
Over 180 days	1,849	831
	251,967	363,640

The movements in provision for impairment of trade receivables are as follows:

	As at 30 June 2016 HK$'000	As at 30 June 2015 HK$'000
At beginning of year	504	–
Impairment losses recognized (note 7)	–	504
	504	504

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

19. TRADE RECEIVABLES (continued)

Included in the above provision for impairment of trade receivables is a provision for an individually impaired trade receivable of HK$504,000 (2015: HK$504,000) with a carrying amount before provision of HK$662,000 (2015: HK$840,000).

The individually impaired trade receivable relates to a customer that was in financial difficulty or was in default in principal payment and only a portion of the receivable is expected to be recovered.

An aged analysis of the trade receivables, regardless of whether they are past due or not,that are not individually nor collectively considered to be impaired is as follows:

	As at 30 June 2016 HK$'000	As at 30 June 2015 HK$'000
Neither past due nor impaired	**168,462**	330,775
Past due but not impaired:		
Less than 90 days	**81,365**	31,663
91 to 180 days	**1,951**	758
Over 180 days	**31**	108
	251,809	363,304

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

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. The Group does not hold any collateral or other credit enhancements over its trade receivable balances.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2016 HK$'000	As at 30 June 2015 HK$'000
Non-current portion:		
Prepayments for items of property, plant and equipment	**146**	346
Current portion:		
Prepayments	**6,107**	12,121
Deposits and other receivables	**18,799**	19,663
Value-added tax	**19,181**	31,188
	44,087	62,972
Total	**44,233**	63,318

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

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 deposits and other receivables approximate to their fair values.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	As at 30 June 2016 HK$'000	As at 30 June 2015 HK$'000
Cash and bank balances	475,811	597,119
Time deposits	377,256	748,703
	853,067	1,345,822
Less: time deposits with original maturity of more than three months when acquired, pledged as security for banking facilities	(22,495)	(23,233)
Cash and cash equivalents	830,572	1,322,589

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

	As at 30 June 2016 HK$'000	As at 30 June 2015 HK$'000
Denominated in RMB	220,092	920,313

The RMB is not freely convertible into other currencies in Mainland China, 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 pledged time deposits approximate to their fair values.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

22. TRADE PAYABLES

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 2016 HK$'000	As at 30 June 2015 HK$'000
Within 90 days	124,746	313,345
91 to 180 days	3,264	8,950
181 to 365 days	2,632	482
Over 365 days	658	544
	131,300	323,321

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.

23. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2016 HK$'000	As at 30 June 2015 HK$'000
Payroll payable	53,327	80,827
Advances from customers	5,294	2,985
Accruals	5,439	5,363
Other payables	39,829	31,238
	103,889	120,413

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

24. SHARE CAPITAL

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

Shares:

	As at 30 June 2016 HK$'000	As at 30 June 2015 HK$'000
Issued and fully paid:		
1,001,532,000 (2015: 1,001,532,000) ordinary shares	100,153	100,153

There was no movement of the Company's share capital during the years ended 30 June 2016 and 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

24. SHARE CAPITAL (continued)

Share options

Details of the Company's share option scheme and the share options granted under the scheme are included in note 25 to the consolidated financial statements.

25. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors (excluding the independent non-executive directors of the Company) , senior managers and other employees of the Group. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on 15 November 2011.

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 that may be granted and have been granted but not yet lapsed or exercised under the Share Option Scheme.

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.

The maximum number of unexercised share options currently permitted to be granted under the Share Option Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at the date of adoption of the Share Option Scheme. The maximum number of shares issuable under share options to each eligible participant in the Share Option Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Where the Board proposes to grant any option to a participant who is a substantial shareholder of the Company, or any of his/her/its 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/her/it 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 Hong Kong 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

25. SHARE OPTION SCHEME (continued)

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 Hong Kong 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 Hong Kong Exchange's daily quotation sheets for the 5 business days immediately preceding the offer date; and (c) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Share Option Scheme during the year:

	2016 weighted average exercise price HK$ per share	Number of options '000
At 1 July 2015	–	–
Granted during the year	3.84	7,609
Lapsed during the year	3.84	(542)
At 30 June 2016	3.84	7,067

As at the end of the reporting period, no share options were exercised or cancelled.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2016 Number of options '000	Exercise price* HK$ per share	Exercise period
2,356	3.84	2016/9/21 to 2025/9/20
2,356	3.84	2017/9/21 to 2025/9/20
2,355	3.84	2018/9/21 to 2025/9/20
7,067		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

25. SHARE OPTION SCHEME (continued)

The fair value of the share options granted during the year was HK$7,983,000 (HK$1.05 each), of which the Group recognized a share option expense of HK$3,780,000 during the year ended 30 June 2016 (2015: nil).

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2016
Dividend yield (%)	5.99
Expected volatility (%)	38.84
Risk-free interest rate (%)	1.619
Expected life of options (year)	10
Weighted average share price (HK$ per share)	3.70

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the date of approval of these consolidated financial statements, the Company had 6,299,000 share options outstanding under the Share Option Scheme, which represented approximately 0.63% of the Company's shares in issue as at that date.

26. RESERVES

The amounts of the Group's reserves and the movements therein for the reporting period are presented in the consolidated statement of changes in equity in 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 a 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 and the nominal value of the Company's shares issued in exchange therefor.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

26. RESERVES (continued)

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 boards of directors, of their profit after tax in accordance with PRC GAAP to the statutory reserve fund (the "SRF") until this reserve reaches 50% in 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.

27. PLEDGE OF ASSETS

Details of the pledged assets for banking facilities of the Group are included in note 21 to the financial statements.

28. BUSINESS COMBINATION

On 17 June 2016, the Group acquired the 100% equity interest in Harbour Century Limited and its 100% owned subsidiary, Worldmax Enterprises Limited. Harbour Century Limited is engaged in investment holding and Worldmax Enterprises Limited is engaged in property investment. The acquisition was made as part of the Group's strategy to broaden its income base and strengthen the Group's property portfolio. The purchase consideration for the acquisition was in the form of cash, with aggregated HK$561,207,000 paid upon the acquisition date and the remaining HK$230,000 had been settled in August 2016.

The fair values of the identifiable assets and liabilities of Harbour Century Limited and Worldmax Enterprises Limited as at the date of acquisition were as follows:

	Fair value recognized on acquisition HK$'000
Investment property	630,000
Cash and cash equivalents	3,406
Trade receivables	40
Prepayments, deposits and other receivables	2,130
Trade and bills payables	(75)
Other payables and accruals	(4,064)
Total identifiable net assets at fair value	631,437
Gain on bargain purchase recognized in other income and gains in the consolidated statement of profit or loss (note 6)	(70,000)
Satisfied by cash	561,437

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to HK$40,000 and HK$2,130,000 respectively. The gross contractual amounts of trade receivables and other receivables were HK$40,000 and HK$2,130,000, respectively, none of which are expected to be uncollectible.

The Group incurred transaction costs of HK$4,488,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statement of profit or loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

28. BUSINESS COMBINATION (continued)

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	HK$'000
Cash consideration	(561,437)
Cash consideration to be paid	230
Cash consideration paid	(561,207)
Cash and bank balances acquired	3,406
Net outflow of cash and cash equivalents included in cash flows from investing activities	(557,801)
Transaction costs of the acquisition included in cash flows from operating activities	(4,488)
	(562,289)

Since the acquisition, Worldmax Enterprises Limited contributed HK$301,000 to the Group revenue and HK$133,000 to the consolidated profit for the year ended 30 June 2016.

29. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 14 to the consolidated financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to five years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the end of the reporting period, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	As at 30 June 2016 HK$'000
Within one year	9,076
In the second to fifth years, inclusive	11,186
	20,262

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

29. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

The Group leases certain of its office properties and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to seven 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 2016 HK$'000	As at 30 June 2015 HK$'000
Within one year	34,017	29,151
In the second to fifth years, inclusive	19,615	30,689
	53,632	59,840

The operating leases of certain retail outlets also called for contingent rentals, which would be based on a certain percentage of turnover of the operations being undertaken therein pursuant to the terms and conditions as stipulated in the respective rental agreements. As the future turnover of these outlets could not be accurately determined as at the end of the reporting period, the relevant contingent rentals have not been included.

30. COMMITMENTS

In addition to the operating lease commitments detailed in note 29 above, the Group had the following capital commitments at the end of the reporting period:

	As at 30 June 2016 HK$'000	As at 30 June 2015 HK$'000
Contracted, but not provided for:		
Property, plant and equipment	837	965
Intangible asset	181	1,612
	1,018	2,577

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

31. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the year:

	Year ended 30 June	
	2016 HK$'000	2015 HK$'000
Property lease from a company of which a Director of the Company is a controlling shareholder		
Golden Palace Corporation Limited	600	–
Maxon Properties Limited	600	–
	1,200	–

In the opinion of the Directors, the above related party transactions were on normal commercial terms or better and in the ordinary and usual course of business of the Group.

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

	Year ended 30 June	
	2016 HK$'000	2015 HK$'000
Short term employee benefits	15,574	16,670
Post-employment benefits	323	386
Equity-settled share option expense	901	–
Total compensation paid to key management personnel	16,798	17,056

Further details of the Directors' emoluments are included in note 8 to the consolidated financial statements.

The related party transactions in respect of the items above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

32. 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:

Financial assets

	As at 30 June 2016 Loans and receivables HK$'000	As at 30 June 2015 Loans and receivables HK$'000
Trade receivables	**251,967**	363,640
Financial assets included in deposits and other receivables	**18,799**	19,663
Pledged deposits	**22,495**	23,233
Cash and cash equivalents	**830,572**	1,322,589
	1,123,833	1,729,125

Financial liabilities

	As at 30 June 2016 Financial liabilities at amortized cost HK$'000	As at 30 June 2015 Financial liabilities at amortized cost HK$'000
Trade payables	**131,300**	323,321
Financial liabilities included in other payables and accruals	**98,595**	117,428
	229,895	440,749

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise 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 consolidated financial statements.

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

The main risks arising from the Group's financial instruments are 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:

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. During the year ended 30 June 2016, 95.7% (year ended 30 June 2015: 96.6%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 56.1% (year ended 30 June 2015: 41.3%) of costs were denominated in the units' functional currency.

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).

	Increase/ (decrease) in US$/EUR/RMB %	Increase/ (decrease) in profit before tax HK$'000
Year ended 30 June 2016		
If HK$ weakens against US$	5	21,153
If HK$ strengthens against US$	(5)	(21,153)
If HK$ weakens against EUR	5	(152)
If HK$ strengthens against EUR	(5)	152
If HK$ weakens against RMB	5	(7,374)
If HK$ strengthens against RMB	(5)	7,374
Year ended 30 June 2015		
If HK$ weakens against US$	5	37,847
If HK$ strengthens against US$	(5)	(37,847)
If HK$ weakens against EUR	5	(212)
If HK$ strengthens against EUR	(5)	212
If HK$ weakens against RMB	5	29,628
If HK$ strengthens against RMB	(5)	(29,628)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, pledged time deposits 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 2016, the Group had certain concentrations of credit risk as 56.0% (30 June 2015: 73.0%) of the Group's trade receivables were due from the Group's five largest customers.

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 2016	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	Total HK$'000
Trade payables	29,097	100,808	1,395	131,300
Other payables and accruals	98,595	–	–	98,595
	127,692	**100,808**	**1,395**	**229,895**

As at 30 June 2015	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	Total HK$'000
Trade payables	64,776	258,545	–	323,321
Other payables and accruals	117,428	–	–	117,428
	182,204	258,545	–	440,749

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2016 and 2015, the Group had no interest-bearing bank borrowings. As such, no gearing ratio as at 30 June 2016 and 2015 is presented.

34. EVENTS AFTER THE REPORTING PERIOD

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	As at 30 June 2016 HK$'000	As at 30 June 2015 HK$'000
NON-CURRENT ASSETS		
Deferred tax assets	624	46
Investments in subsidiaries	430,001	430,000
Total non-current assets	430,625	430,046
CURRENT ASSETS		
Deposits and other receivables	584	1,428
Amounts due from subsidiaries	485,299	218,475
Pledged deposit	12,486	12,934
Cash and cash equivalents	224,552	507,088
Total current assets	722,921	739,925
CURRENT LIABILITIES		
Tax payable	31	–
Other payables and accruals	611	824
Total current liabilities	642	824
NET CURRENT ASSETS	722,279	739,101
TOTAL ASSETS LESS CURRENT LIABILITIES	1,152,904	1,169,147
Net assets	1,152,904	1,169,147
EQUITY		
Share capital	100,153	100,153
Reserves (note)	1,052,751	1,068,994
Total equity	1,152,904	1,169,147

Yeung Michael Wah Keung
Director

Yeung Wo Fai
Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2016

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account HK$'000	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 July 2014	1,050,081	–	8,374	1,058,455
Profit for the year	–	–	290,968	290,968
2014 final dividend declared	–	–	(180,276)	(180,276)
2015 interim dividend declared	–	–	(100,153)	(100,153)
30 June 2015 and 1 July 2015	1,050,081	–	18,913	1,068,994
Profit for the year	–	–	210,329	210,329
2015 final dividend declared	–	–	(130,199)	(130,199)
2016 interim dividend declared	–	–	(100,153)	(100,153)
Equity-settled share option arrangement	–	3,780	–	3,780
Transfer of share option reserve upon the lapse of share options	–	(242)	242	–
At 30 June 2016	1,050,081	3,538	(868)	1,052,751

36. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issue by the Board of Directors on 19 September 2016.

SUMMARY FINANCIAL INFORMATION

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

RESULTS:

	Year ended 30 June				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**2,837,018**	3,380,422	3,856,779	3,360,314	3,338,241
Profit before tax	**445,341**	507,721	620,254	489,155	462,666
Income tax expense	**(75,199)**	(95,774)	(116,000)	(88,658)	(81,658)
Profit for the year and attributable to:					
Owners of the Company	**370,142**	411,947	504,254	400,497	381,008

ASSETS AND LIABILITIES:

	As at 30 June				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**2,463,507**	2,679,501	2,450,709	2,109,872	1,917,889
Total liabilities	**(283,945)**	(559,556)	(470,229)	(369,118)	(338,955)
Net assets	**2,179,562**	2,119,945	1,980,480	1,740,754	1,578,934

Note:

The consolidated results of the Group for the five years ended 30 June 2012, 2013, 2014, 2015 and 2016 and the consolidated assets and liabilities of the Group as at 30 June 2012, 2013, 2014, 2015 and 2016 have been extracted from the published audited financial statements. Such summary for the year ended 30 June 2012 was prepared as if the current structure of the Group had been in existence throughout that financial 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 LTD.