



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
2017 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 a brand distributor in Greater China. The Group is principally engaged in design, research, development, manufacturing, sale, retailing and wholesales of handbags, small leather goods, travel goods and footwear products, provision of advertising and marketing services, and property investment. Since 2011, the Group has entered into the rapidly growing China handbag retailing market and become a vertically integrated handbag and small leather goods company. Now the Group is also the exclusive licensee for three international renowned fashion brands, Bruno Magli, Cole Haan and Kenneth Cole in Greater China and Hong Kong.

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、小皮具及旅行用品製造商之一，也是大中華區品牌分銷商。本集團主要從事手袋、小皮具、旅行用品及鞋履產品設計、研發、製造、銷售、零售及批發，提供廣告及營銷服務，以及物業投資。由二零一一年起，本集團已進駐增長迅速的中國手袋零售市場，成為垂直整合手袋及小型皮革產品公司。目前本集團亦為三個國際聞名的時尚品牌Bruno Magli、Cole Haan及Kenneth Cole的大中華及香港地區獨家授權代理。

CONTENTS

Corporate Information	7
Financial Highlights	8
Chairman's Statement	10
Management Discussion & Analysis	13
Directors' Profile	19
Corporate Governance Report	23
Environmental, Social and Governance Report	34
Directors' Report	42
Independent Auditor's Report	54
Consolidated Statement of Profit or Loss	59
Consolidated Statement of Comprehensive Income	60
Consolidated Statement of Financial Position	61
Consolidated Statement of Changes in Equity	62
Consolidated Statement of Cash Flows	64
Notes to Consolidated Financial Statements	65
Summary Financial Information	122

ABOUT BRUNO MAGLI



In 1936, after learning the art of shoemaking from their grandfather, Bruno Magli and his siblings, Marino and Maria, began crafting women's shoes in a small basement in Bologna, Italy. Bruno's imagination and creativity produced beautifully crafted shoes and original designs and in 1948, the family opened their first factory. With the start of the 1950's, Italian footwear became recognized throughout Europe and the rest of the world as an expression of refined taste. The Magli's were the first in Italy to understand the importance of their international appeal, and it was the beginning of a prosperous time that would lead Bruno Magli to become a symbol for quality Italian footwear around the world. Today, 80 years after the company was founded, Bruno Magli continues to be defined as a classic Italian luxury brand, priding itself on a dedication to quality and craftsmanship.

ABOUT COLE HAAN

Cole Haan, with its Global headquarters in Greenland, New Hampshire and Creative Center in New York City, is an iconic American lifestyle accessories brand and retailer of premium men's and women's footwear. Cole Haan stands for its commitment to craftsmanship, timeless style and design innovation.



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.

Fashion & Joy Fall Winter 2017



ABOUT KENNETH COLE



Kenneth Cole Fall Winter 2017

Kenneth Cole is an American designer, social activist, and visionary who believes business and philanthropy are interdependent. His global company, Kenneth Cole Productions, creates modern, functional, clothing, shoes, and accessories for inspirational urban lifestyles under the brand names Kenneth Cole New York, Kenneth Cole Reaction and Unlisted, A Kenneth Cole Production, as well as footwear under the name Gentle Souls. Over 30 years ago, Kenneth Cole leveraged his passion and unique brand platform to make a meaningful impact

on people's wardrobes, as well as communities in need. He did what others didn't and said what others wouldn't. Today, The Kenneth Cole Foundation remains committed to helping communities in need by supporting Collective Health, Civil Liberties, and Artistic Activism.

ABOUT TUSCAN'S

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.

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. Tuscan's entered China and Hong Kong market in 2011, with an aim to spark off a transformation in style that puts personality and classic design to the fore.

Tuscan's Fall Winter 2017



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Yeung Michael Wah Keung (*Chairman*)
Mr. Yeung Wo Fai (*Chief Executive Officer*)
Mr. Yeung Andrew Kin (*Deputy General Manager*)
Mr. Lau Kin Shing, Charles (*Chief Financial Officer*)

Independent Non-executive Directors

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

AUTHORIZED REPRESENTATIVES

Mr. Yeung Wo Fai
Mr. Lau Kin Shing, Charles

COMPANY SECRETARY

Mr. Lau Kin Shing, Charles

REGISTERED OFFICE

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

9th Floor, Sitoy Tower
164 Wai Yip Street, 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

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
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

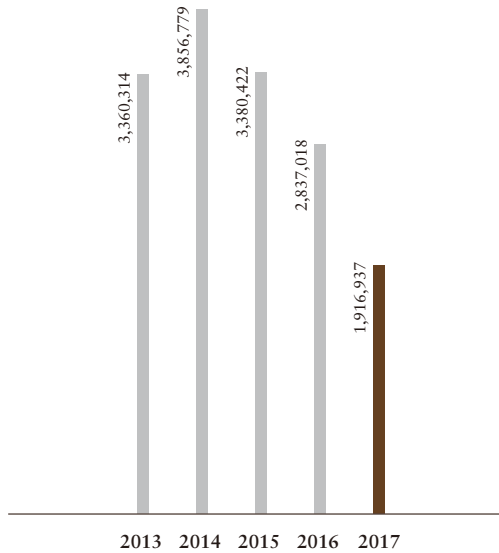
1023

COMPANY WEBSITE

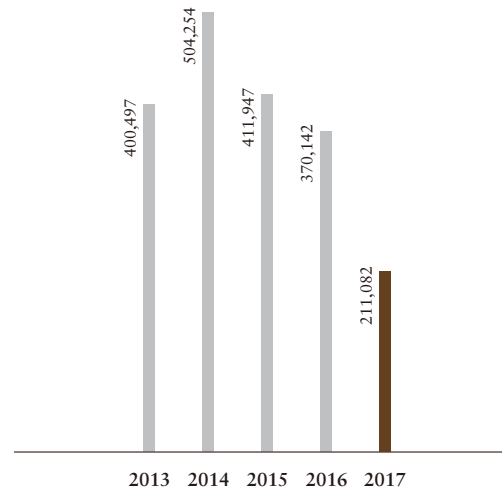
www.sitoy.com

FINANCIAL HIGHLIGHTS

REVENUE HK\$'000

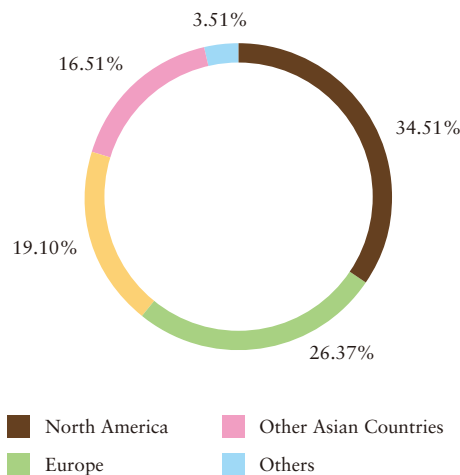


PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY HK\$'000

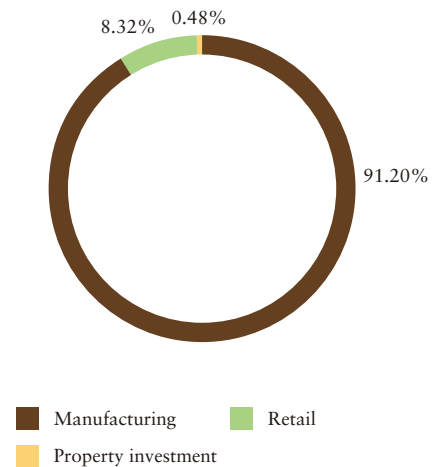


Consolidated revenue decreased 32.4% year-on-year to HK\$1,916.9 million

2017 REVENUE BY GEOGRAPHICAL SEGMENT



2017 REVENUE BY OPERATING SEGMENT



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

FINANCIAL HIGHLIGHTS

Year ended 30 June

	2017 HK\$'000	2016 HK\$'000
Revenue	1,916,937	2,837,018
Gross profit	518,134	766,830
Profit before tax	236,394	445,341
Profit attributable to owners of the Company	211,082	370,142
Net assets per share (note 1) (approximately)	HK\$2.06	HK\$2.18
Basic earnings per share (note 2) (approximately) (HK cents)	21.08	36.96
Dividends per share (note 3) (HK cents)	12	38
Total assets	2,334,570	2,463,507
Net assets	2,062,598	2,179,562
Current ratio	4.66 times	5.06 times
Quick ratio	3.78 times	4.09 times
Gearing ratio	N/A	N/A
Return on equity	10.2%	17.0%
Return on total assets	9.0%	15.0%

Notes:

1. The calculation of the net assets per share amount is based on the net assets as at 30 June 2017 to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,001,532,000 (30 June 2016: 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 2017 attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares of 1,001,532,000 (30 June 2016: 1,001,532,000) in issue during the year.
3. The Directors (as defined below) recommended the payment of a final dividend of HK6 cents per share for the year ended 30 June 2017 (30 June 2016: a final dividend of HK13 cents and a special dividend of HK15 cents per share). Together with the interim dividend of HK6 cents per share for the period ended 31 December 2016 (31 December 2015: HK10 cents), the annual dividend will amount to HK12 cents per share for the year ended 30 June 2017 (30 June 2016: HK38 cents). For more details, please refer to note 11 to the consolidated financial statements.

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is my pleasure to present the annual results for the year ended 30 June 2017 ("FY2017" or the "Year under Review") of Sitoy Group Holdings Limited (the "Company" or "Sitoy Group") and its subsidiaries (collectively referred to as the "Group") to you.

RETAIL BUSINESS

During the Year under Review, by adhering to the strategy of development towards both directions, the Group continued to push forward the development of retail business, which achieved an inspiring performance with segment revenue posted a year-on-year growth of approximately 33.3% to approximately HK\$159.5 million and contributed approximately 8.0% of the Group's total segment revenue, which was approximately 4.1 percentage points higher than previous year. During the Year under Review, the retail business also achieved a turnaround with a segment profit before tax of approximately HK\$3.7 million, representing an increase of approximately 171.7% over segment loss of approximately HK\$5.2 million last year.

The Group launched the Italian TUSCAN'S brand and the self-developed brand Fashion & Joy in People's Republic of China ("China" or "PRC") in 2011 and 2014 respectively. After years of operation, the Group has established a solid reputation in China. During the Year under Review, the TUSCAN'S brand continued to make satisfactory progress. During the Year under Review, the Group continued to review the efficiency of store operation and, in doing so, we had optimised our store portfolio and location by further adjusting the proportions of shops in department stores to individual retail stores.

In order to enrich our brand portfolio, the Group successfully obtained exclusive rights for distribution and operation of three major European brands and brands of the United States of America ("US") in Hong Kong and China in 2016. They are Bruno Magli, a premium Italian male and female footwear and leather goods brand with long history, and the US fashion apparel brands Kenneth Cole and Cole Haan. In China, our brand portfolio also includes A. Testoni and i29. In FY2017, we added retail outlets in Hong Kong and Mainland China under the Bruno Magli, Kenneth Cole and Cole Haan brands. During the Year under Review, we managed to open new stores in landmark retail areas in Hong Kong and Shanghai respectively, thereby enhancing the level of recognition and brand awareness in China and Hong Kong.

MANUFACTURING BUSINESS

Turning to manufacturing segment, during the Year under Review, segment revenue of the business declined by approximately 34.4% to approximately HK\$1,816.7 million. The Group strengthened existing customer relationships and eagerly explored new business opportunities with other brands in international market (in addition to those clients from the US and Europe) as well as in the China market, and we expect that the decrease in business will be stabilized. The Group has strived to tap into business-travel and leisure-travel goods business in recent years and has already derived respectable returns. The Group is of the view that there is enormous potential in the travel goods market, as evidenced by its remarkable growth in business-travel and leisure-travel goods business achieved during the Year under Review. The Group can meet various customer requirements with its extensive experience and outstanding crafting skills in the manufacture, design and research and development of handbags and leather goods. Furthermore, through research and development and upgrade of machinery and equipment, the Group reduces costs to maintain a reasonable margin for the manufacturing business.

CHAIRMAN'S STATEMENT

PROPERTY INVESTMENT BUSINESS

In respect of property investment, the Group acquired a commercial building in Kwun Tong, Hong Kong in 2016, which was renamed to "SITOUY Tower". A portion of floors was reserved for use as the Company's headquarters and product showroom, while the remaining floors were for rent. During the Year under Review, the leasing performance of the property was satisfactory with an occupancy rate of 90%. We believe that the property will generate stable rental income in the long run, with increasing contribution to the Group.

For the year ended 30 June 2017, the Group's annual revenue decreased by approximately 32.4% year-on-year to approximately HK\$1,916.9 million. Gross profit dropped by approximately 32.4% year-on-year to approximately HK\$518.1 million, while gross profit margin remained stable at approximately 27.0% under the Group's endeavour in cost control. Profit attributable to shareholders reduced by approximately 43.0% to approximately HK\$211.1 million. Earnings per share was HK21.08 cents. The board (the "Board") of directors (the "Directors") of the Company recommended payment of a final dividend of HK6 cents per share.

Looking forward, to complement the Group's strategy of achieving gradual increase in the proportion of retail sales, the Group is actively growing the brands under the Group in both China and Hong Kong and strategies for the coming year include seeking ideal locations for opening multi-brand stores to provide consumers with the best shopping experience.

The Group is ready to ride on the rapid development of e-commerce as the online sales channels of each of its brands are running in full swing. In the coming year, the Group will further strengthen the online sales for each brand and facilitate the development of a new retail model with integrated online to offline (O2O) sales, with a view to capturing the upcoming trend of market development.



Cole Haan Fall Winter 2017



Bruno Magli Fall Winter 2017

CHAIRMAN'S STATEMENT

By applying the above combination of strategies, the Group expects to further increase its sales contribution in the future. In recent years, the Group has been actively expanding its brand portfolio and has garnered fruitful results as it has successfully secured rights of distribution of several brands with worldwide recognition and set up additional outlets. In the future, the Group will strive to enhance its brand portfolio and capture more business opportunities by acquiring suitable brands of leather goods and footwear in a timely manner.

With regard to the manufacturing operation, the Group will capitalize on its inherent competitive edges. With its professional knowledge, leadership and coordination skills, the experienced management team will lead us to strengthen cooperation with existing customers and explore opportunities of cooperation with promising international and domestic brands.

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
18 September 2017

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

Retail business

The Group is currently operating four brands under its retail business as at 30 June 2017, namely TUSCAN'S, Fashion & Joy, Kenneth Cole and Bruno Magli. 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. 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, specialising 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.

The retail business has shown significant recovery for the year ended 30 June 2017. Revenue generated from this segment reached approximately HK\$159.5 million, up approximately 33.3% when compared with the same period in the previous year. The retail segment has also recorded a segment profit of approximately HK\$3.7 million for the year ended 30 June 2017 as opposed to a segment loss of approximately HK\$5.2 million in the same period in previous year. It is mainly due to 1) the Group's efforts in enhancing its retail channel structure and store efficiency; 2) the revenue contribution from its wholesale business; and 3) the implementation of cost control policies.

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

The retail business development has continually been funded with the proceeds from the initial public offering (the "IPO").

Manufacturing business

During the year ended 30 June 2017, the Group's purchase orders received from its segment customers have decreased by approximately 34.4% when compared with the same period in the previous year, which was mainly due to a decrease in demand for brand products in the worldwide market. However, the Group has been actively developing businesses with certain brands in the PRC and across the globe. The Group has maintained stable return with segment profit before tax to segment revenue ratio of approximately 11.0%. The manufacturing business has generated segment revenue of approximately HK\$1,816.7 million with segment profit before tax of approximately HK\$200.3 million.

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 optimisation is one of the Group's key strategies to maintain its considerable returns. Despite the rising labour cost and keener competition, the Group continuously upgrades itself to meet the higher requirements of both existing and new customers, this includes sourcing quality raw materials with competitive price, continuing to optimise and streamline production procedures to boost competitiveness of the Group and satisfying brand customers' demands. The Group has made its best endeavours to tap new opportunities under a challenging business environment.

MANAGEMENT DISCUSSION & ANALYSIS

Property investment business

In the view that the Hong Kong commercial office leasing market remained strong with tight supply and robust demand, the Group expanded to the property investment market in year 2016 by acquiring a commercial building located in East Kowloon of Hong Kong. This market is still driven by the financial industry with many enterprises occupying office space in Central, Causeway Bay, and nearby areas. Tenants from other industries, therefore, have been seeking prime offices in other areas, such as East Kowloon, mainly attributable to its convenient location, well-connected transportation options, and abundant lifestyle offerings such as shopping centers and entertainment facilities. In addition, the Company's offices located at 4-5th Floor, The Genplas Building, 56 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong ceased for own use during the year ended 30 June 2017 and were transferred to investment properties for rental income or capital appreciation purpose. The property investment segment is expected to generate stable returns for the Group. The property investment business has generated revenue of approximately HK\$9.1 million with segment profit before tax of approximately HK\$41.5 million during the year ended 30 June 2017 as a result of fair value gain on investment properties of approximately HK\$40.6 million.

PRODUCT RESEARCH, DEVELOPMENT AND DESIGN

The in-house Creative Centre and R&D Centre 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, the Group 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.

MANAGEMENT DISCUSSION & ANALYSIS

THE USE OF PROCEEDS FROM IPO

The Group raised HK\$718.2 million from the listing in December 2011. On 30 December 2016, the Board resolved to change the use of approximately HK\$170.8 million out of the remaining unutilised IPO proceeds (the “Proposed Change”), since the Company expected that the existing manufacturing capacity would be sufficient for fulfilling the future demand and potential growth, and the Board intended to put more effort in developing the Group’s retail business and to fulfill the working capital requirements. The Board considers that the Proposed Change is in the best interest of the Company and its shareholders as a whole. The Proposed Change would allow the Company to deploy its financial resources more effectively. For details of the Proposed Change, please refer to the announcement of the Company dated 30 December 2016. The following table sets forth the status of use of proceeds from IPO:

	Use of IPO proceeds prior to the Proposed Change		The Proposed Change	Use of IPO proceeds subsequent to the Proposed Change	Used up to 30 June 2017	Unused balance up to 30 June 2017
	HK\$'million	Percentage				
	approximately	approximately				
Second phase of Yingde manufacturing facility	251.4	35%	(96.4)	155.0	155.0	-
Upgrading of machinery and tooling in existing manufacturing facilities	143.6	20%	(74.4)	69.2	61.8	7.4
Expansion of retail business	251.4	35%	150.8	402.2	260.9	141.3
Working capital	71.8	10%	20	91.8	91.8	-
	718.2	100%	-	718.2	569.5	148.7

FINANCIAL REVIEW

Revenue

Revenue of the Group represents proceeds from handbags, small leather goods and travel goods sold to brand customers, as well as TUSCAN’S, Fashion & Joy, Kenneth Cole and Bruno Magli branded products sold through the retail stores in China, Hong Kong and Macau or from its wholesale customers and rental income from the investment properties.

The Group’s revenue decreased by approximately 32.4% to approximately HK\$1,916.9 million for the year ended 30 June 2017 from approximately HK\$2,837.0 million for the year ended 30 June 2016. This decrease was primarily due to the decrease in demand from brand customers.

MANAGEMENT DISCUSSION & ANALYSIS

Cost of sales

Cost of sales of the Group decreased by approximately 32.4% to approximately HK\$1,398.8 million for the year ended 30 June 2017 from approximately HK\$2,070.2 million for the year ended 30 June 2016. Cost of sales decreased in line with the decrease in revenue as a result of the decrease in the sales orders received from the customers.

Gross profit and gross profit margin

Gross profit decreased by approximately 32.4% to approximately HK\$518.1 million for the year ended 30 June 2017 from approximately HK\$766.8 million for the year ended 30 June 2016. The gross profit margin remained stable at approximately 27.0% for both of the years ended 30 June 2017 and 2016.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately 11.5% to approximately HK\$134.9 million for the year ended 30 June 2017 from approximately HK\$152.4 million for the year ended 30 June 2016. The decrease was primarily attributable to the tight cost control.

Administrative expenses

Administrative expenses decreased by approximately 19.0% to approximately HK\$207.1 million for the year ended 30 June 2017 from approximately HK\$255.8 million for the year ended 30 June 2016. The decrease was primarily attributable to the tight cost control.

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 2017 and 2016 on the estimated assessable profits arising in or derived from Hong Kong during the relevant year.

The PRC corporate income tax was based on a statutory rate of 25% (2016: 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 2017 (2016: nil).

The effective tax rate of the Group was decreased to approximately 10.7% for the year ended 30 June 2017 (30 June 2016: 16.9%), which was due to the aggregated result of (1) non-taxable income of fair value increase in investment properties of HK\$40.6 million; (2) utilisation of certain tax loss in relevant subsidiaries; and (3) adjustments of over provision in taxation in prior years of approximately HK\$3.4 million.

Profit for the year

Profit for the year decreased by approximately HK\$159.0 million to approximately HK\$211.1 million for the year ended 30 June 2017 from approximately HK\$370.1 million for the year ended 30 June 2016.

MANAGEMENT DISCUSSION & ANALYSIS

Investment properties

As at 30 June 2017, the investment properties with carrying amount of approximately HK\$571.6 million (2016: HK\$503.6 million) are held under medium-term lease in Hong Kong.

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, 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 1").

The Property 1 held by the Group is with a total gross floor area of approximately 70,000 square feet. The Property 1 was 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.

During the year ended 30 June 2017, the Company's offices located at 4-5th Floor, The Genplas Building, 56 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong (the "Property 2") ceased for own use and thus were transferred to investment properties. The Property 2 held by the Group has a total gross floor area of approximately 9,710 square feet and is held for rental income and capital appreciation purposes.

Capital expenditure

For the year ended 30 June 2017, the capital expenditure of the Group amounted to approximately HK\$21.7 million, primarily due to the upgrading of existing manufacturing facilities, as well as the expansion of retail business.

Significant investments

The Group had no significant investments held during the year ended 30 June 2017.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

The Group had no material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 30 June 2017.

Treasury policy

The Group adopts treasury policy that aims to better control its treasury operations and lower borrowing cost. As such, the Group endeavours to maintain an adequate level of cash and cash equivalents to address short term funding needs. The Board would also consider various funding sources depending on the Group's funding needs to ensure that the financial resources have been used in the most cost-effective and efficient way to meet the Group's financial obligations. The Board reviews and evaluates the Group's treasury policy from time to time to ensure its adequacy and effectiveness.

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 2017 amounted to approximately HK\$595.8 million (30 June 2016: HK\$830.6 million), which are mainly denominated in Hong Kong dollars, Renminbi 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 2017 and 2016, thus, no gearing ratio was presented.

MANAGEMENT DISCUSSION & ANALYSIS

Foreign exchange risk

The Group has had transactional currency exposures for the year ended 30 June 2017. Such exposures arose from sales or purchases by operating units in currencies other than the units' functional currency. During the year ended 30 June 2017, 89.4% (30 June 2016: 95.7%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 61.3% (30 June 2016: 56.1%) of the costs were denominated in the units' functional currency.

As at 30 June 2017 and 2016, the Group did not have any outstanding foreign exchange forward contract.

Pledge of assets

As at 30 June 2017, approximately HK\$22.8 million of time deposits were pledged as security for banking facilities available to the Group (30 June 2016: HK\$22.5 million).

Inventory turnover days

Inventory turnover days increased to 71 days for the year ended 30 June 2017 from 65 days for the year ended 30 June 2016. The increase in inventory turnover days was due to the decrease in cost of sales.

Trade receivables turnover days

Trade receivables turnover days increased to 55 days for the year ended 30 June 2017 compared with 40 days for the year ended 30 June 2016. The increase in turnover days was mainly due to lower turnover in fiscal year 2016/2017 compared with fiscal year 2015/2016. The Group did not experience any significant credit risks due to strict credit control policies.

Trade payables turnover days

Trade payables turnover days slightly decreased to 55 days for the year ended 30 June 2017 compared with 58 days for the year ended 30 June 2016. 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 2017, the Group did not have any material off-balance sheet commitments and arrangements and contingent liabilities.

EMPLOYEES

As at 30 June 2017, the Group had about 8,500 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.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Yeung Michael Wah Keung, aged 68, 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 46 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 15 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 and deputy general manager of the Group. 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 64, 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 39 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 12 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 and deputy general manager of the Group. He is also a substantial shareholder of the Company within the meaning of Part XV of the SFO.

Mr. Yeung Andrew Kin, aged 43, is an executive Director, head of retail of the Company and deputy general manager of the Group. 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.

He has over 18 years of experience in handbag and leather goods industry and has focused on strategic planning and business development for more than 11 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.

* English name for identification purposes only

DIRECTORS' PROFILE

Mr. Lau Kin Shing, Charles, aged 61, is an executive Director, the chief financial officer of the Group, company secretary and authorised representative of the Company. He was appointed as a Director on 1 June 2017. He is responsible for the Group's overall financial management and reporting, internal control, risk management, day-to-day financial administration, and for supporting the development of the Group's retail business and corporate governance. He holds a Doctorate degree in Business Administration from the Newcastle University of Australia, Master degree in Information System Management from the National University of Ireland, and a Bachelor degree in Accounting from the Curtin University of Technology, Australia. He is a Chartered Accountant (New Zealand), Certified Internal Auditor (US), and also a member of Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants and a fellow member of CPA Australia. He possesses about 30-year executive experiences in corporate control, financial management, risk management and internal control gained from international listed companies. Before joining the Group in 2015, he held key corporate executive position in various conglomerates, including: vice president of China Resources Beer (Holdings) Company Limited (Stock Code: 291, formerly known as China Resources Enterprise, Limited), deputy head of internal audit for Hutchison Whampoa Limited, and chief financial officer and company secretary of Miramar Hotel and Investment Company, Limited (Stock Code: 71).

Mr. Chan Ka Dig Adam, aged 48, was an executive Director and head of sales and marketing of the Company. He was 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 was responsible for the Group's sales and marketing, merchandising and customer relationship with the international high-end and luxury brand companies.

He has over 28 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 had 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.

He resigned as executive Director with effect from 27 July 2017 due to other business commitment.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yeung Chi Tat, aged 47, 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 was the president of the International Financial Management Association Hong Kong headquarters. He is a founding member and deputy president of the Hong Kong Independent Non-executive Director Association, 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 ANTA Sports Products Limited (stock code: 2020), Boer Power Holdings Limited (stock code: 1685) and Guodian Technology & Environment Group Corporation Limited (stock code: 1296), all of which 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 resigned as the independent non-executive director of Ta Yang Group Holdings Limited (stock code: 1991), a company listed on the Main Board of the Stock Exchange, with effect from 10 September 2017.

DIRECTORS' PROFILE

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 58, is an independent non-executive Director, a member of each 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.

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 the then Messrs. Gallant Y T Ho & Co (now known as Gallant). 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 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 and has recently served as a member of the market misconduct tribunal. 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 70, is an independent non-executive Director, the chairman of remuneration committee, a member of each 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.

DIRECTORS' PROFILE

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.

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. 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 2017.

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 2017.

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

As at 30 June 2017, the Board comprises eight Directors, consisting of five executive Directors and three independent non-executive Directors.

Biographical information of the Directors and the details of the composition of the Board are set out below and in the Corporate Information, Directors’ 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, four 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 2016;
- considered and discussed the quarter results of the Group for three months ended 30 September 2016;
- considered and approved the interim results and report of the Group for the six months ended 31 December 2016; and
- considered and discussed the quarter results of the Group for nine months ended 31 March 2017.

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 held on 14 November 2016 are set out in the table below:

Name of Directors	Attendance	
	Board Meetings	Annual General Meeting
Executive Directors		
Yeung Michael Wah Keung	4/4	✓
Yeung Wo Fai	4/4	✓
Chan Ka Dig Adam (resigned with effect from 27 July 2017)	3/4	✓
Yeung Andrew Kin	4/4	✓
Lau Kin Shing, Charles (appointed on 1 June 2017)	1/1	N/A
Independent Non-executive Directors		
Yeung Chi Tat	4/4	✓
Kwan Po Chuen, Vincent	4/4	✓
Lung Hung Cheuk	4/4	✓

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 confirmations 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 19 to 22 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.

Name of Directors	Areas of Training		
	Essential guide to Directors' dealing in securities	An analysis of successful M&A cases	Risk management
Executive Directors			
Yeung Michael Wah Keung	✓	✓	✓
Yeung Wo Fai	✓	✓	✓
Chan Ka Dig Adam (resigned with effect from 27 July 2017)	✓	✓	✓
Yeung Andrew Kin	✓	✓	✓
Lau Kin Shing, Charles (appointed on 1 June 2017)	✓	✓	✓
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, risk management over the financial reporting system and internal control systems 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 2017.

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 (<i>chairman</i>)	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 2016;
- reviewed and commented on the interim results and report of the Group for the six months ended 31 December 2016;
- 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 risk management and internal control systems;
- 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 (<i>chairman</i>)	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;
- reviewed and made recommendation to the Board on re-election of retiring Directors; and
- reviewed and made recommendation to the Board on the appointment of a new Director.

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 one physical meeting. The respective attendance of the members of remuneration committee is presented as follows:

Members	Attendance
Lung Hung Cheuk (<i>chairman</i>)	1/1
Yeung Michael Wah Keung	1/1
Yeung Chi Tat	1/1

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 remuneration package to a newly appointed Director.

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 2017 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 18 September 2017, the Board reviewed the Company's compliance with the CG Code for the year and disclosure in this Corporate Governance Report.

AUDITOR'S REMUNERATION

The remunerations in respect of audit and non-audit services for the year ended 30 June 2017 provided by the Company's auditors, Ernst & Young, are as follows:

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

ACKNOWLEDGEMENT 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 Auditor's Report from pages 54 to 58 of this report.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

During the year, the Group has complied with Principle C.2 of the CG Code by establishing appropriate and effective risk management and internal control systems. The Board is responsible for the design, implementation and monitoring of such systems, while the Board oversees management in performing its duties on an ongoing basis. Main features of the risk management and internal control systems are described in the sections below:

Risk Management System

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- *Identification:* Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- *Evaluation:* Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- *Management:* Consider the risk responses, ensure effective communication to the Board and on-going monitor the residual risks.

Based on the risk assessments conducted during the year, no significant risk was identified.

Internal Control System

The Group has in place an internal control system which is compatible with the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) 2013 framework. The framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The components of the framework are shown as follow:

- *Control Environment:* A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.
- *Risk Assessment:* A dynamic and iterative process for identifying and analyzing risks to achieve the Group’s objectives, forming a basis for determining how risks should be managed.
- *Control Activities:* Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
- *Information and Communication:* Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.
- *Monitoring:* Ongoing and separate evaluations to ascertain whether each components of internal control is present and functioning.

CORPORATE GOVERNANCE REPORT

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.
- Confidentiality agreements are in place when the Group enters into significant negotiations.
- The executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

Based on the internal control reviews conducted during the year, no significant control deficiency was identified.

Effectiveness of the Risk Management and Internal Control Systems

The Board is responsible for the risk management and internal control systems of the Group and reviewing their effectiveness and ensuring review of the effectiveness of these systems has been conducted semi-annually. Several areas have been considered during the Board's review, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems.

During the year ended 30 June 2017, the Board has conducted semi-annual reviews of the effectiveness of the risk management and internal control systems of the Group. The Board, through its reviews and the reviews made by audit committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

Internal Audit Function

The Company does not have an internal audit department. The Board has reviewed the need for an internal audit function and is of the view that in light of the size, nature and complexity of the business of the Group, as opposed to diverting resources to establish a separate internal audit department, it would be more cost effective to appoint external independent professionals to perform independent review of the adequacy and effectiveness of the risk management and internal control systems of the Group. Nevertheless, the Board will continue to review at least annually the need for an internal audit department.

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.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Mr. Lau Kin Shing, Charles (“Mr. Lau”) was appointed as the Company Secretary of the Company. According to Rule 3.29 of the Listing Rules, Mr. Lau took no less than 15 hours of relevant professional training for the year ended 30 June 2017.

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 9th Floor, Sitoy Tower, 164 Wai Yip Street, 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).

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 proceed 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.

CORPORATE GOVERNANCE REPORT

(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 9th Floor, Sitoy Tower, 164 Wai Yip Street, 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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT ESG REPORT

The Environmental, Social and Governance Report (the “ESG Report”) elaborates on the various work of Sitoy Group Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) to fully implement the concept of sustainable development and perform its corporate social responsibilities, and its performance of social governance from 1 July 2016 to 30 June 2017 (the “Year”).

Scope of the Report

The ESG Report focuses on the environmental and social performance of the core business of the Group in mainland China, Hong Kong and Macau during the Year. For the information on corporate governance, please refer to the “Corporate Governance Report” in this Annual Report.

Reporting Framework

The ESG Report was prepared in accordance with the “Environmental, Social and Governance Reporting Guide” under Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Stakeholder Engagement

The preparation of the ESG Report, which was supported by employees across various departments of the Group, enables the Group to have a better understanding of its current environmental and social development. The information gathered for ESG Report not only serves as a summary of the environmental and social initiatives carried out by the Group during the Year, but also forms the basis for the Group to map out short-term and long-term strategies for sustainable development.

Information and Feedbacks

For detailed information about the environmental and corporate governance, please refer to the official website (www.sitoy.com) and the Annual Report. Your opinions will be highly valued by the Group. If you have any advice, please contact the Group at: sitoy@sitoy.com.

ENVIRONMENTAL PROTECTION

Emission Management

The Group is principally engaged in the design, research, development, manufacturing, sale, retailing and wholesales of handbags, small leather goods, travel goods, footwear products, provision of advertising and marketing services and property investment. The Group is committed to conducting its business in an environmentally sustainable manner and has obtained the ISO 14001 Environmental Management System certification.

The Group’s manufacturing process does not involve wastewater discharge or air pollutant emission. Scraps produced from cutting and trimming of leather, fabric and other raw materials or components account for the majority of the emission, the majority of which belong to non-hazardous solid waste. The Group has formulated an environmental management policy covering the optimization of manufacturing procedures and the training of employees to minimize the production of waste. On grounds of the policy, the waste materials are segregated, reused and recycled where practicable with the last remaining scraps delivered to qualified companies for disposal after declaration to customs. And employees making useful suggestions on material conservation are rewarded.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The emission of the Group's retail stores, office premises and living quarters mainly includes domestic sewage and solid waste. In terms of sewage discharge, the Group abides by all the requirements on discharge permission and limits issued by local authorities. Hazardous waste, such as obsolete computers, used batteries and waste cartridges, is delivered to qualified recycling companies. Non-hazardous waste is transferred by municipal sanitation department for further disposal while printed paper without confidential information is sent to waste paper recycling companies.

Sustainable Operation

Apart from emission management, the Group has also recognized the importance of sustainability in its daily operation and thereby implemented various measures to promote energy conservation and reduce the consumption of resources, including

- Utilizing light-emitting diode (LED) lights instead of traditional lights and dividing the indoor areas into different light areas with independent switches;
- Reminding employees to switch off lights and electric devices when leaving workplaces;
- Maintaining air-conditioning system regularly to improve its work efficiencies and setting temperature above 25.5 degree Celsius;
- Encouraging employees to reuse paper and print on both sides;
- Carrying out regular statistics of paper consumption to make improvement;
- Posting water saving labels in toilets;
- Collecting rainwater and reusing it for greening and fish ponds;
- Reusing stationeries and sorting solid waste into metals, plastics and paper for recycling;
- Maintaining vehicles regularly to reduce fuel consumption and air pollutant emission;
- Advocating green commuting among employees;
- Replacing unnecessary business trip with video conferences;
- Minimizing product packaging across the manufacturing lines; and
- Optimizing transportation route.

During the Year, the Group strictly complied with the Environmental Protection Law of the PRC, the Law of the PRC on Prevention and Control of Pollution from Environmental Noise, the Waste Disposal Ordinance of Hong Kong, and other laws and regulations on environmental protection and pollution control in the areas where it operates. Non-compliance with applicable provisions was not observed during its operation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYMENT AND LABOUR PRACTICES

Employment Policies

With employees' welfare and development being the dominant concern, the Group is committed to providing employees with a fair and open working environment as well as strengthening their sense of belonging. The Group not only formulates its employment policies in accordance with all the laws and regulations regarding employment and labour practice, such as the Labour Law of the PRC, the Employment Ordinance of Hong Kong and the Labour Relations Act of Macau, but also adheres to employment standards requested by its Original Equipment Manufacturer (OEM) customers.

In terms of employee recruitment, the Group gives priority to filling vacancies with internal employees so as to support employees' career development. In line with the principles of fairness and consistency, employee recruitment is based on a comprehensive assessment of an applicants' ability and experience as well as job requirements. To prevent the use of child labour, applicants' identification documents are carefully checked to ensure they are legally employable. The Group embraces diverse workforce and prohibits any form of discrimination. Employees, regardless of their race, gender, age, marital status or religion, have equal access to the opportunities within the Group. For departing employees, an exit interview is conducted by the human resource personnel to understand the reason of leaving and make improvement to avoid future employee turnover.

In order to retain top talents in the industry, the Group provides competitive remuneration for employees and offers reward and incentive payments to the best performers. An employee's remuneration package is determined on grounds of his or her qualification, position and seniority and is reviewed every year. Performance evaluation is conducted regularly, the results of which are used as the basis for assessing the training demands and making other human resources policies such as promotion, position transfer and remuneration determination. The Group usually enhances the growth of its management team internally through promotion programs. For example, employees from the manufacturing lines have a chance to be promoted to the research and development (R&D) center.

The working hour varies with an employee's job nature and location, which is expressly stated in labour contract. The Group has implemented attendance management system for employees in all the workplaces, which, on the other hand, rigorously prohibits the use of forced labour. Employees are entitled to public holidays and other holidays as prescribed in applicable laws, such as sick leave, maternity leave, marriage leave, paternity leave and compassionate leave.

In accordance with the Social Insurance Law of the PRC, the Mandatory Provident Fund (MPF) Schemes Ordinance of Hong Kong, the Macau Social Security System and the other relevant laws and regulations, the Group pays social insurance and housing provident fund for employees in mainland China, MPF Schemes, medical insurance and labour insurance for employees in Hong Kong and mandatory social security funds and contributions for employees in Macau. Various amenities, medical facilities and recreation facilities such as canteen, clinic, sports site, library and internet center are opened up and activities like singing competition and variety show are organized from time to time to help employees balance work and life. Meanwhile, additional benefits are accessible to employees, which include employee dormitory, shopping discount in the Group's retail stores, long service award, share option scheme, and so on.

During the Year, the Group complied with all the applicable labour laws and regulations in the areas where it operates and did not face any disciplinary action with respect to the labour protection issues.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Development and Training

The Group has established an employee training center to provide pre-job training programs to its new recruits before they are assigned to work on the manufacturing lines. From time to time, different levels of on-the-job training are also provided for employees to broaden their skills and enhance their productivity. For example,

- Orientation on the knowledge of occupational health and safety, fire fighting, use of chemicals, business ethics and other aspects is provided for new recruits;
- Training on safety awareness of supply chain is provided for the management of different departments;
- Training on information safety management and disposal is provided for employees using computers and working in the office premises;
- Trainings on custom and shipping and the latest relevant laws, regulations and policies are provided for employees of custom department, finance department, and human resources department;
- Security work training is provided for security guard;
- Training on oblique opening of cutting bed is provided for leaders of oblique opening in workshops;
- Gluing process training is provided for gluing employees in workshops;
- Training on introduction of manufacturing requirements and the origin of customer's brand is provided for workshop leaders and management; and
- Warehouse management training is provided for employees in warehouse.

For employees working in office and retail stores, internal training courses are also provided to improve their work performance.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Occupational Health and Safety

The Group pays high attention to employees' health and safety. The Group not only adheres to the provisions of the Law of the PRC on the Prevention and Control of Occupational Diseases, the Occupational Safety and Health Ordinance of Hong Kong and other relevant laws and regulations, but also complies with all the guidelines relating to occupational health and safety that are imposed by customers.

Upon recruitment, the Group notifies new recruits of the basic information such as job contents, occupational hazards and safety production status in verbal or written form. Employees are required to attend entrance training and pass examination before taking the post. In order to minimize work-related risks and injuries, the Group has formulated safety guidelines and operating manuals for all the manufacturing processes and posted them on the walls or tables of employees' working areas. The Group also provides employees with training programs on work safety and conducts regular inspections and maintenance checks on equipment in accordance with the applicable national or industrial standards.

OPERATION MANAGEMENT

Supply Chain Management

The raw materials used to produce handbags, small leather goods and travel goods primarily consist of leather, fabric, straw, polyurethane, polyvinyl chloride and so on. Besides, there are also auxiliary materials used during manufacturing process, such as thread, lining, reinforcement material, edge paint and various packaging materials.

Many of the raw material suppliers are designated and have been acknowledged by the Group's customers in terms of their performances in environmental management and social governance. When receiving an order in which the suppliers are designated by the customer, the Group strictly adheres to the requirements set forth in the order to purchase raw materials with specific quantity, type and quality. When suppliers are not designated, the Group's procurement team selects suppliers based on its own criteria, including quality, price, experience, service and payment terms. In order to maintain an efficient and stable supply chain, the procurement team also visits both designated and non-designated suppliers regularly to ensure that the raw materials are of high quality and can be delivered on a timely basis.

The Group performs strict inspections of the quality of raw materials at a laboratory near its raw material warehouse to ensure the quality of raw materials meets required standards. Raw materials that fail the Group's tests would be returned to the relevant suppliers. If the supplier fails to comply with the Group's requirements repeatedly, it would be removed from the list of certified suppliers and the procurement would be terminated.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Quality Control

Product quality and safety is the foundation of the Group's product commitment and has been embedded in its manufacturing process. The Group has obtained the ISO 9001 Quality Management System certification. Through its long-term cooperation with international brands, the Group has accumulated in-depth expertise and know-how with respect to every key step of the manufacturing process of its products, especially the high-end and luxury handbags and small leather goods.

The Group has employed Electronic Tracking System (ETS) and Enterprise Resources Planning (ERP) system to evaluate manufacturing performance, identify manufacturing bottlenecks, improve operating efficiency and further strengthen manufacturing capabilities. By virtue of the systems, it is effortless to manage manufacturing process on a real-time basis and track the status of raw materials and finished products as well as evaluate employees' work efficiencies. After inspection, each batch of leather and fabric, known as the main raw materials, is assigned a barcode by ERP system and taken to warehouses equipped with air-conditioning system, humidity control and specially-made racks for storage before delivered to manufacturing lines.

On the manufacturing lines, employees are well trained and have the necessary experience and skills. In the manufacturing process, each employee is assigned one specific step. To increase work efficiency, a daily target number of components to be finished by each employee is indicated by ETS in each workshop and a team leader is assigned to take charge of supervising and monitoring the quality of a particular step on each production line.

To ensure the quality of finished products meets relevant requirements as well as identify defective products at an early stage, the Group performs various quality inspections and testing procedures, including random sample testing at different stages in the manufacturing process. Meanwhile, on-site quality control personnel are also arranged by customers to inspect the quality of finished products. In case nonconformity products are reported by customers, the Group will recall them based on the procedures requested by customers and carry out corresponding measures of redress to minimize the impacts and customers' loss.

The Group has also established a chemical custody team to carry out various quality management measures, such as engaging third parties to carry out chemical testing of finished products for compliance with US, EU and international product safety standards required by customers and the laws and regulations on restricted and hazardous materials in the areas where the products are imported and sold.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Customer Service

The Group sells handbags, small leather goods, travel goods and footwear products of brands TUSCAN'S, Fashion & Joy, Kenneth Cole, Bruno Magli and Cole Haan through its retail stores in Hong Kong, mainland China and Macau. Committed to providing customers with high-quality products and service, the Group not only executes strict quality control initiatives in manufacturing process, but also engages professional organizations like National Leather Products Quality Supervision and Examination Center to conduct quality examination of each new product so as to guarantee that only qualified products are launched in its retail stores.

The Group has formulated a guideline to regularize the behaviors of employees in retail stores. Employees shall serve customers with enthusiasm and sincerity, have a good command of product knowledge and promote sales based on customers' demands. Upon receiving customers' complaints, response and follow-up measures shall be taken in a polite and timely manner. The Group offers a three-month warranty for all the products in retail stores. In case a product is found defective, employees shall confirm customer's maintenance requirements and fill out the maintenance slip carefully. The Group also focuses on improving its service level and perfecting product development by collecting and preserving customers' opinions and suggestions.

Advertisement and Promotion

The Group promotes the products of its retail stores through online activities and offline activities. Online activities mainly involve interaction on social media (such as WeChat and Weibo) and promotion on official website and other online media. Offline activities include road shows, fashion shows, opening activities of new stores, in-store display and promotion, advertisement on magazines and so on. It is the Group's commitment that all the advertising and promotional activities are carried out in conformity to the laws and regulations on advertisement and promotion in the areas where it operates. And the product information published has been strictly reviewed and does not contain any false advertising that harm consumers' rights and interests.

Privacy and Intellectual Property Protection

The Group attaches great importance to the protection of privacy. All the new recruits are requested to sign the confidentiality agreement. According to the confidentiality provisions and non-competition restrictions formulated by the Group, employees are not only prohibited from divulging any technical information (such as the manufacturing methods, experiment data, drawings, and operation manuals), business information (such as customer list, marketing plans, procurement documents, and cooperation agreements) and customers' information, but also required to keep and use documents in strict compliance with the Group's regulations.

Apart from manufacturing customers' products, the Group has already developed its own brand. The Group has established internal policies to eliminate the risk of infringing customers' and third parties' intellectual property in its design, research, development and manufacturing processes as well as to protect its own rights. Employees working on customers' products are not allowed to participate in manufacturing the Group's own products. The Group's design and development team shall ensure their designs are not identical and do not bear a close resemblance to the products of any other customer or those in public market. In addition, measures like using password-protected computers to store products' information, encrypting files in the process of transmission and prohibiting employees from taking out product prototypes and samples without authority have also been adopted to facilitate the management and protection of intellectual property.

During the Year, non-compliance with the laws and regulations on privacy and intellectual property did not occur within the Group.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Anti-corruption

It is the Group's consistent belief that honesty and integrity are among the most important moral conducts. The Group has been adhering to all the laws and regulations on anti-corruption, such as the Criminal Law of the PRC and the Prevention of Bribery Ordinance of Hong Kong, and strictly forbids any form of bribery and corruption during its operation.

Employees are obliged to avoid conflict of interests while dealing with suppliers, customers and other third parties in cooperation with the Group. Employees on important positions are required to sign the anti-commercial bribery commitment with the Group. The Group encourages employees to disclose illegal behaviors and keeps the whistleblower's privacy strictly confidential. With regard to procurement process, the Group has set up an internal monitoring group to assess suppliers' performance on a monthly basis for the identification and prevention of any illegal activities.

During the Year, there was no violation of relevant laws and regulations within the Group.

COMMUNITY INVESTMENT

While focusing on its development and growth, the Group also actively fulfills its social responsibilities by making donations to the afflicted areas of Wenchuan earthquake, the Education Fund in Donghua Town and the Yingde Courageous Fund, and participating in public welfare activities like the poverty alleviation activity in Houde Town and the poverty alleviation plan in Guangdong Province.

During the Year, the Group continued to contribute to the community and help those in need by donating to relevant charity organizations.

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 2017.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the principal activities of the Group are design, research, development, manufacturing, sales, retailing and wholesales of handbags, small leather goods, travel goods and footwear products, 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 2017.

RESULTS AND PROPOSED FINAL DIVIDEND

The results of the Group for the year ended 30 June 2017 are set out in the consolidated statement of profit or loss on page 59.

An interim dividend of HK6 cents per share was paid on 13 April 2017. The Directors recommended the payment of a final dividend of HK6 cents per share for the year ended 30 June 2017 (30 June 2016: a final dividend of HK13 cents and a special dividend of HK15 cents) to the shareholders whose names appear on the register of members of the Company on Tuesday, 21 November 2017. The final dividend, subject to approval by the shareholders at the annual general meeting to be held on Monday, 13 November 2017 (the "2017 AGM"), will be paid on or before Friday, 8 December 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Tuesday, 21 November 2017 and Wednesday, 22 November 2017, during which period no share transfer will be registered. In order to qualify for the proposed final dividend, all completed transfer documents, accompanied by relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited (the "Hong Kong Branch Share 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 Monday, 20 November 2017.

The register of members of the Company will be closed from Monday, 6 November 2017 to Monday, 13 November 2017 (both days inclusive), during which period no share transfer will be registered. The record date for determining shareholders of the Company who will be entitled to attend the 2017 AGM will be at the close of business on Monday, 6 November 2017. In order to be eligible to attend and vote at the 2017 AGM, all completed transfer documents, accompanied by relevant share certificates, must be lodged with the Hong Kong Branch Share Registrar at the address stated above, for registration not later than 4:00 p.m. on Friday, 3 November 2017.

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 122 of the annual report. This summary does not form part of the audited consolidated 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 2017 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 2017.

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 2017 are set out on page 62 in the consolidated statement of changes in equity and note 34 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 PROPERTIES AND PREPAID LAND LEASE PAYMENTS

Details of movements during the year in property, plant and equipment, investment properties 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 51.4% for the year ended 30 June 2017. The percentage of revenue attributable to the Group's largest customer to the total revenue of the Group was 15.8% for the year ended 30 June 2017.

The percentage of purchases attributable to the Group's five largest suppliers to the total purchases of the Group was 14.6% for the year ended 30 June 2017. The percentage of purchases attributable to the Group's largest supplier to the total purchases of the Group was 4.3% for the year ended 30 June 2017.

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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company or its subsidiaries, which are not contracts of service with any director of the company or any person engaged in the full-time employment of the company, were entered into or existed during the year.

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. Yeung Andrew Kin (*Deputy General Manager*)

Mr. Lau Kin Shing, Charles (*Chief Financial Officer*) (appointed on 1 June 2017)

Mr. Chan Ka Dig Adam (resigned with effect from 27 July 2017)*

Independent Non-executive Directors:

Mr. Yeung Chi Tat

Mr. Kwan Po Chuen, Vincent

Mr. Lung Hung Cheuk

* Mr. Chan Ka Dig Adam resigned as executive Director due to other business commitment.

DIRECTORS' REPORT

In accordance with article 16.18(B) of the Company's articles of association, Mr. Yeung Chi Tat and Mr. Kwan Po Chuen, Vincent retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

In accordance with article 16.2 of the Company's articles of association and Code Provision A.4.2 of Appendix 14 to the Listing Rules, Mr. Lau Kin Shing, Charles will hold office only until the forthcoming annual general meeting of the Company and, being eligible, offer himself for re-election.

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

DIRECTORS' SERVICE CONTRACTS

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

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

As at 30 June 2017, 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 as set out in Appendix 10 to 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	445,220,000	–	44.45%
Mr. Yeung Wo Fai	Beneficial owner/ personal interest	238,580,000	–	23.82%
Mr. Chan Ka Dig Adam (resigned with effect from 27 July 2017)	Beneficial owner/ personal interest	–	1,799,000	0.18%
Mr. Lau Kin Shing, Charles (appointed on 1 June 2017)	Beneficial owner/ personal interest	50,000	1,544,000	0.15%

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

DIRECTORS' REPORT

(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.

Save as disclosed above, as at 30 June 2017, 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 2017, 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 2017, 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 2017.

PERMITTED INDEMNITY PROVISION

Pursuant to the articles of association of the Company, 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 Andrew Kin has been appointed as the deputy general manager of the Group on 4 September 2017.

Mr. Yeung Chi Tat has been appointed as an independent non-executive director of Guodian Technology & Environment Group Corporation Limited, a company whose shares are listed on the Main Board of the Stock Exchange, on 8 August 2017.

Mr. Yeung Chi Tat resigned as the independent non-executive director of Ta Yang Group Holdings Limited, a company whose shares are listed on the Main Board of the Stock Exchange with effect from 10 September 2017.

DIRECTORS' REPORT

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.

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, the total number of shares available for issue under the Share Option Scheme is 96,731,000 (representing approximately 9.66% of the existing issued shares of the Company) 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.

DIRECTORS' REPORT

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.

During the year ended 30 June 2017, no share options were conditionally or unconditionally (as the case may be) granted and share options granted to subscribe for a total of 768,000 ordinary shares of HK\$0.10 each of the Company were lapsed under the Share Option Scheme. Accordingly, share options to subscribe for 6,299,000 ordinary shares of HK\$0.10 each of the Company were outstanding as at 30 June 2017.

As at 30 June 2017, 2,103,000 share options have been vested and 2,103,000 shares are 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 2017 are as follows:

Grantees	Date of Grant	Exercise Price	Exercise Period	Number of Share Options					Balance as at 30 June 2017
				Balance as at 1 July 2016	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	
<i>Directors:</i>									
Mr. Lau Kin Shing, Charles (appointed on 1 June 2017)	21 September 2015	HK\$3.84	21 September 2016 to 20 September 2025 (ii)	1,544,000	-	-	-	-	1,544,000
Mr. Chan Ka Dig Adam (resigned with effect from 27 July 2017)	21 September 2015	HK\$3.84	21 September 2016 to 20 September 2025 (ii)	1,799,000	-	-	-	-	1,799,000
Sub-total:				3,343,000	-	-	-	-	3,343,000
Eligible employees (i)	21 September 2015	HK\$3.84	21 September 2016 to 20 September 2025 (ii)	3,724,000	-	-	-	(768,000)	2,956,000
Grand Total:				7,067,000	-	-	-	(768,000)	6,299,000

DIRECTORS' REPORT

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 of the Share Option Scheme with share options not exceeding the respective individual limits.
- (ii) 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

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 2017.

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 2017 are set out in note 30 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 2017, 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. 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 2017 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 Sitoy HK as executive quarters of the Group.

The annual cap for the year ended 30 June 2017 in respect of the aggregate rent payable by Sitoy HK to Maxon and Golden Palace is HK\$4,800,000.

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

DIRECTORS' REPORT

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.

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 33 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 2017 and the material factors underlying its results and financial position can be found in the Chairman's Statement on pages 10 to 12 and the Management Discussion and Analysis on pages 13 to 18 of this annual report. An analysis using financial key performance indicators can be found in the Financial Highlights on pages 8 to 9 of this annual report. These discussions and financial highlights form part of this Directors' Report.

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. A discussion and analysis of the Group's environmental policy can be found in the Environmental, Social and Governance Report on pages 34 to 41 of this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

The Company complies 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 2017, 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 retail business, the manufacturing business as well as property investment business. The principal types of risk faced by each business are listed below.

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.
- 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.

DIRECTORS' REPORT

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 property investment business, 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, 18 September 2017

INDEPENDENT AUDITOR'S REPORT



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

OPINION

We have audited the consolidated financial statements of Sitoy Group Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 59 to 121, which comprise the consolidated statement of financial position as at 30 June 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSA”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA’s *Code of Ethics for Professional Accountants* (the “Code”), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of investment properties</i></p> <p>As at 30 June 2017, investment properties amounted to approximately HK\$571,556,000, and represented approximately 24% of the total consolidated assets of the Group, which was material to the financial statements. To support management's assessment of the fair value of the properties, it was the Group's policy that property valuations are performed by an external appraiser at least once a year. The valuation of the properties involved significant judgement, was highly dependent on estimates and was based on a number of assumptions, such as market rent, market yield and term yield.</p> <p>The accounting policies and disclosures of the valuation of investment properties are included in notes 2.4, 3(ii) and 14 to the consolidated financial statements.</p>	<p>We considered the objectivity, independence and expertise of the external appraiser. We assessed the valuation approach and the key assumptions used, which included market rent, market yield and term yield which were used in developing the valuation through the income approach or market approach. Our internal valuation specialists were involved to assist us in evaluating the techniques and key assumptions used in the calculation against valuation guidelines and industry practice.</p>
<p><i>Inventory provisioning</i></p> <p>As at 30 June 2017, the Group had inventories of approximately HK\$239,023,000. Because of the fast changing market conditions, significant judgement and estimates made by management are involved in identifying inventories with net realizable values that are lower than their costs, and obsolescence with reference to the selling prices and salability of inventories, and the prevailing sales trend.</p> <p>The related judgement, estimates and disclosure of inventory provisioning are disclosed in notes 2.4, 3(v) and 18 to the consolidated financial statements.</p>	<p>Our procedures included, among others, selecting samples of inventories and reviewing their net realizable values with reference to their selling prices subsequent to the end of the reporting period and the Group's pricing strategy. We evaluated management's assessment of obsolescence of inventories with reference to their ageing, the condition of inventories, and the historical and prevailing sales trend. We also evaluated sales forecasts prepared by management through benchmarking against market data and historical sales trend of the Group.</p>

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Leung Wai Lap, Philip.

Ernst & Young
Certified Public Accountants
Hong Kong

18 September 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 30 June 2017

	Notes	Year ended 30 June	
		2017 HK\$'000	2016 HK\$'000
REVENUE	6	1,916,937	2,837,018
Cost of sales		(1,398,803)	(2,070,188)
Gross profit		518,134	766,830
Other income and gains	6	62,148	93,772
Selling and distribution expenses		(134,885)	(152,370)
Administrative expenses		(207,129)	(255,777)
Other expenses		(1,874)	(7,114)
PROFIT BEFORE TAX	7	236,394	445,341
Income tax expense	10	(25,312)	(75,199)
PROFIT FOR THE YEAR		211,082	370,142
Attributable to:			
Owners of the Company		211,082	370,142
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (HK cents)	12	21.08	36.96

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 30 June 2017

	Notes	Year ended 30 June	
		2017 HK\$'000	2016 HK\$'000
PROFIT FOR THE YEAR		211,082	370,142
OTHER COMPREHENSIVE (EXPENSE)/INCOME			
Exchange differences on translation of foreign operations		(14,586)	(83,953)
Gain on property revaluation	14	24,688	–
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE YEAR, NET OF TAX		10,102	(83,953)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		221,184	286,189
Attributable to:			
Owners of the Company		221,184	286,189

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2017

	Notes	As at 30 June 2017 HK\$'000	As at 30 June 2016 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	462,572	497,597
Investment properties	14	571,556	503,556
Prepaid land lease payments	15	16,966	17,653
Intangible asset	16	5,734	5,559
Deferred tax assets	17	20,613	15,270
Prepayments	20	364	146
Total non-current assets		1,077,805	1,039,781
CURRENT ASSETS			
Inventories	18	239,023	274,605
Trade receivables	19	322,516	251,967
Prepayments, deposits and other receivables	20	42,043	44,087
Pledged deposits	21	22,798	22,495
Time deposit with original maturity of more than three months	21	34,565	–
Cash and cash equivalents	21	595,820	830,572
Total current assets		1,256,765	1,423,726
CURRENT LIABILITIES			
Trade payables	22	156,044	131,300
Other payables and accruals	23	97,949	103,889
Tax payable		15,476	46,076
Total current liabilities		269,469	281,265
NET CURRENT ASSETS		987,296	1,142,461
TOTAL ASSETS LESS CURRENT LIABILITIES		2,065,101	2,182,242
NON-CURRENT LIABILITIES			
Deferred tax liabilities	17	2,503	2,680
Total non-current liabilities		2,503	2,680
Net assets		2,062,598	2,179,562
EQUITY			
Equity attributable to owners of the Company			
Share capital	24	100,153	100,153
Reserves	26	1,962,445	2,079,409
Total equity		2,062,598	2,179,562

Yeung Michael Wah Keung
Director

Yeung Wo Fai
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2017

	Attributable to owners of the Company								
	Share capital	Share premium account*	Share option reserve*	Merger reserve*	Statutory reserve fund*	Asset revaluation reserve**	Exchange fluctuation reserve*	Retained profits*	Total
	HK\$'000 (note 24)	HK\$'000 (note 26)	HK\$'000 (note 25)	HK\$'000 (note 26)	HK\$'000 (note 26)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2016	100,153	1,010,081	3,538	4,030	57,158	-	(45,600)	1,050,202	2,179,562
Profit for the year	-	-	-	-	-	-	-	211,082	211,082
Other comprehensive income for the year:									
Exchange differences on translation of foreign operations	-	-	-	-	-	-	(14,586)	-	(14,586)
Gain on property revaluation (note 14)	-	-	-	-	-	24,688	-	-	24,688
Total comprehensive income for the year	-	-	-	-	-	24,688	(14,586)	211,082	221,184
2016 final dividend declared	-	-	-	-	-	-	-	(130,199)	(130,199)
2016 special dividend declared	-	-	-	-	-	-	-	(150,230)	(150,230)
2017 interim dividend declared	-	-	-	-	-	-	-	(60,092)	(60,092)
Equity-settled share option arrangement	-	-	2,373	-	-	-	-	-	2,373
Transfer of share option reserve upon the lapse of share options	-	-	(432)	-	-	-	-	432	-
Transfer from retained profits	-	-	-	-	2,138	-	-	(2,138)	-
At 30 June 2017	100,153	1,010,081	5,479	4,030	59,296	24,688	(60,186)	919,057	2,062,598

The asset revaluation reserve arose from a change in use from an owner-occupied property to an investment property carried at fair value on transfer date.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2017

	Attributable to owners of the Company							
	Share capital	Share premium account*	Share option reserve*	Merger reserve*	Statutory reserve fund*	Exchange fluctuation reserve*	Retained profits*	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(note 24)	(note 26)	(note 25)	(note 26)	(note 26)	(note 26)	(note 26)	(note 26)
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

* These reserve accounts comprise the consolidated reserves of HK\$1,962,445,000 (30 June 2016: HK\$2,079,409,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June 2017

	Notes	Year ended 30 June	
		2017 HK\$'000	2016 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		236,394	445,341
Adjustments for:			
Loss on disposal of items of property, plant and equipment	7	1,794	1,027
Depreciation	7	46,155	50,705
Amortization of prepaid land lease payments	7	414	442
Gain on bargain purchase	7	–	(70,000)
Fair value gain on investment properties	7	(40,609)	–
Equity-settled share option expense	25	2,373	3,780
Write-down of inventories to net realizable value	7	5,358	5,997
		251,879	437,292
(Increase)/decrease in trade receivables		(70,549)	111,713
Decrease in prepayments, deposits and other receivables		2,044	21,015
Decrease in inventories		30,224	154,009
Increase/(decrease) in trade payables		24,744	(192,096)
Decrease in other payables and accruals		(12,979)	(27,135)
Cash generated from operations		225,363	504,798
Hong Kong profits tax paid		(55,595)	(101,966)
Mainland China income tax paid		(5,813)	(37,507)
NET CASH FLOWS FROM OPERATING ACTIVITIES		163,955	365,325
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property, plant and equipment		(23,785)	(25,460)
Purchases of intangible asset		(175)	(1,419)
Acquisition of a subsidiary		–	(557,801)
Proceeds from disposal of items of property, plant and equipment		123	77
Increase in time deposit with original maturity of more than three months		(34,565)	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(58,402)	(584,603)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(340,521)	(230,352)
Decrease/(increase) in pledged deposits		(303)	738
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(340,824)	(229,614)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		830,572	1,322,589
Effect of foreign exchange rate changes, net		519	(43,125)
Cash and cash equivalents at end of year		595,820	830,572
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	489,404	475,811
Non-pledged deposits with original maturity of less than three months when acquired		106,416	354,761
Cash and cash equivalents as stated in the consolidated statement of financial position and in the consolidated statement of cash flows	21	595,820	830,572

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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, retailing and wholesale of handbags, small leather goods, travel goods and footwear products, 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”) and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, which have 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 Company and entities controlled by the Company (i.e. its subsidiaries) for the year ended 30 June 2017. 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 2017

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 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 Group has adopted the following new and revised standards IFRSs for the first time for the current year's consolidated financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11 IFRS 14	<i>Accounting for Acquisitions of Interests in Joint Operations Regulatory Deferral Accounts</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortization</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	Amendments to a number of IFRSs

The adoption of the new and revised IFRSs has had no significant financial effect on these consolidated financial statements and there have been no significant changes to the accounting policies applied in these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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.

IFRS 9	<i>Financial Instruments</i> ²
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> ²
Amendments to IFRS 4	<i>Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts</i> ²
Amendments to IFRS 10 and IAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁵
IFRS 15	<i>Revenue from Contracts with Customers</i> ²
IFRS 16	<i>Leases</i> ³
IFRS 17	<i>Insurance Contracts</i> ⁴
Amendments to IAS 7	<i>Disclosure Initiative</i> ¹
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ¹
Amendments to IFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to IAS 40	<i>Transfers of Investment Property</i> ²
IFRIC 22	<i>Foreign Currency Transactions and Advance Consideration</i> ²
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i> ³
Amendments to IFRS 12 included in <i>Annual Improvements 2014-2016 Cycle</i>	<i>Disclosure of Interests in Other Entities</i> ¹
Amendments to IFRS 1 included in <i>Annual Improvements 2014-2016 Cycle</i>	<i>First-time Adoption of International Financial Reporting Standards</i> ²
Amendments to IAS 28 included in <i>Annual Improvements 2014-2016 Cycle</i>	<i>Investments in Associates or Joint Ventures</i> ²

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

⁴ Effective for annual periods beginning on or after 1 January 2021

⁵ No mandatory effective date yet determined but available for adoption

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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. During 2016, the Group performed a high-level assessment of the impact of the adoption of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Group in the future. The expected impacts arising from the adoption of IFRS 9 are summarized as follows:

(a) Classification and measurement

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognized.

(b) Impairment

IFRS 9 requires an impairment on debt instruments recorded at amortized cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under IFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group expects to apply the simplified approach and record lifetime expected losses that are estimated based on the present value of all cash shortfalls over the remaining life of all of its trade and other receivables. The Group will perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements, for estimation of expected credit losses on its trade and other receivables upon the adoption of IFRS 9.

The Group does not expect that the adoption of IFRS 9 will have a significant impact on the Group's financial performance and financial position, including the measurement of financial assets and disclosures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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

IFRS 15 establishes a new five-step model that will apply to 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 judgements and estimates. The standard will supersede all current revenue recognition requirements under IFRSs. In April 2016, the IASB issued amendments to IFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt IFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt IFRS 15 on 1 July 2018.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer. More prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The Group has performed a preliminary assessment of the potential impact of the adoption of IFRS 15 on the Group. Based on the preliminary assessment, the Group anticipates that the adoption of IFRS 15 in the future is unlikely to have significant impact on the revenue recognition from the sales of products and provision of rental services.

IFRS 16 replaces IAS 17 Leases. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt IFRS 16 on 1 July 2019.

As set out in note 28, total operating lease commitments of the Group as at 30 June 2017 amounted to HK\$28,758,000. The Directors do not expect the adoption of IFRS 16 as compared with the current accounting policy would result in a significant impact on the Group’s results but it is expected that certain portion of these lease commitments will be required to be recognized in the consolidated statement of financial position as right-of-use assets and lease liabilities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2017

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the statement of profit or loss. Any subsequent revaluation surplus is credited to the statement of profit or loss to the extent of the deficit previously charged. An annual transfer from the asset revaluation reserve to retained profits is made for the difference between the depreciation based on the revalued carrying amount of an asset and the depreciation based on the asset's original cost. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realized in respect of previous valuations is transferred to retained profits as a movement in reserves.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests 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 properties are included in the consolidated statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of profit or loss in the year of the retirement or disposal.

If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property, plant and equipment and depreciation” above.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 and loans and receivables, 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:

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2017

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 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 2017

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.

Income tax

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income 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 2017

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 2017

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 benefits 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

The functional currency of the Company and non-Mainland China incorporated subsidiaries is HK\$. The functional currency of the subsidiaries incorporated in Mainland China is Renminbi (“RMB”). The 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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.

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 uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainties 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimation uncertainties (continued)

(i) *Impairment of non-financial assets (other than goodwill)*

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

(ii) *Estimation of fair value of investment properties*

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 2017 was HK\$571,556,000 (2016: HK\$503,556,000). Further details, including the key assumptions used for fair value measurement are included in note 14 to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimation uncertainties (continued)

(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.

(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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

4. PARTICULARS OF COMPANIES COMPRISING THE GROUP

Particulars of the companies comprising the Group at 30 June 2017 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		Principal activities
			Direct %	Indirect %	
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
Sitoy Retailing Limited	Hong Kong 21 September 2010	HK\$5,000,000	–	100	Investment holding, trading, retail and wholesale 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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		Principal activities
			Direct %	Indirect %	
Sitoy K Retailing Company Limited (formerly known as Sitoy KC Retailing Company Limited)	Hong Kong 18 May 2016	HK\$10,000	–	100	Trading, retail and wholesale of fashion products
Sitoy BM Retailing Company Limited	Hong Kong 28 April 2016	HK\$10,000	–	100	Trading, retail and wholesale 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
Sitoy CH Retailing Company Limited	Hong Kong 20 June 2017	HK\$10,000	–	100	Trading and retail of footwear products
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, retail and wholesale 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 2017

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) Retail: manufactures, retails and wholesales handbags, small leather goods, travel goods and footwear products for the brands owned or licensed by the Group, and provision of handbag and accessories design, advertising and marketing services;
- (b) Manufacturing: produces handbags, small leather goods and travel goods for branding and resale by others; and
- (c) Property investment: invests in office spaces 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 2017

5. OPERATING SEGMENT INFORMATION (continued)

	Year ended 30 June 2017			
	Retail HK\$'000	Manufacturing HK\$'000	Property investment HK\$'000	Total HK\$'000
Segment revenue:				
Sales to external customers	159,501	1,748,287	9,149	1,916,937
Intersegment sales	–	68,390	–	68,390
	159,501	1,816,677	9,149	1,985,327
<i>Reconciliation:</i>				
Elimination of intersegment sales	–	(68,390)	–	(68,390)
Total revenue				1,916,937
Segment results	3,729	200,330	41,509	245,568
<i>Reconciliation:</i>				
Corporate and other unallocated expenses, net				(9,174)
Profit before tax				236,394
Segment assets	158,708	2,113,220	550,150	2,822,078
<i>Reconciliation:</i>				
Elimination of intersegment receivables				(681,597)
Corporate and other unallocated assets				194,089
Total assets				2,334,570
Segment liabilities	127,439	258,734	566,822	952,995
<i>Reconciliation:</i>				
Elimination of intersegment payables				(681,597)
Corporate and other unallocated liabilities				574
Total liabilities				271,972
Other segment information:				
Depreciation of items of property, plant and equipment	5,942	37,684	–	43,626
Unallocated depreciation of items of property, plant and equipment				2,529
				46,155
Amortization of prepaid land lease payments	–	414	–	414
Write-down of inventories to net realizable value	3,474	1,884	–	5,358
Operating lease rentals	29,077	4,903	–	33,980
Capital expenditure*	3,388	16,908	1,391	21,687

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

5. OPERATING SEGMENT INFORMATION (continued)

	Year ended 30 June 2016			
	Retail HK\$'000	Manufacturing HK\$'000	Property investment HK\$'000	Total HK\$'000
Segment revenue:				
Sales to external customers	95,084	2,741,633	301	2,837,018
Intersegment sales	24,533	26,221	–	50,754
	119,617	2,767,854	301	2,887,772
<i>Reconciliation:</i>				
Elimination of intersegment sales	(24,533)	(26,221)	–	(50,754)
Total revenue				2,837,018
Segment results	(5,204)	410,071	65,645	470,512
<i>Reconciliation:</i>				
Corporate and other unallocated expenses, net				(25,171)
Profit before tax				445,341
Segment assets	123,805	2,121,187	505,521	2,750,513
<i>Reconciliation:</i>				
Elimination of intersegment receivables				(651,696)
Corporate and other unallocated assets				364,690
Total assets				2,463,507
Segment liabilities	95,171	273,508	566,320	934,999
<i>Reconciliation:</i>				
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	8,585	42,030	–	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	990	5,007	–	5,997
Operating lease rentals	37,242	6,347	–	43,589
Capital expenditure*	10,820	14,410	447,605	472,835
Unallocated capital expenditure*				112,395
				585,230

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

5. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	Year ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Revenue		
North America	661,532	1,437,276
Europe	505,598	625,891
Mainland China, Hong Kong, Macau and Taiwan	366,105	321,646
Other Asian countries	316,475	370,050
Others	67,227	82,155
	1,916,937	2,837,018

The revenue information above is based on the location of the customers.

(b) Non-current assets

	As at	As at
	30 June	30 June
	2017	2016
	HK\$'000	HK\$'000
Mainland China, Hong Kong and Macau	1,057,192	1,024,511

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 2017, revenue derived from sales by the manufacturing segment to two major customers amounting to HK\$302,827,000 and HK\$251,471,000 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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 properties during the year.

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

	Year ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Revenue		
Sale of goods	1,907,788	2,836,717
Gross rental income	9,149	301
	1,916,937	2,837,018
Other income and gains		
Fair value gain on investment properties	40,609	–
Gain on bargain purchase	–	70,000
Net sample and material income	6,245	5,324
Exchange gain, net	5,324	–
Interest income	4,257	13,932
Investment income	2,702	3,846
Government grants	2,326	281
Others	685	389
	62,148	93,772

7. PROFIT BEFORE TAX

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

	Year ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Cost of inventories sold	1,398,803	2,070,188
Employee benefit expense (including Directors' and chief executive's remuneration as set out in note 8)		
– Wages and salaries	536,577	731,496
– Equity-settled share option expense	2,373	3,780
– Pension scheme contributions	22,091	26,776
	561,041	762,052

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

7. PROFIT BEFORE TAX (continued)

	Year ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Depreciation of items of property, plant and equipment (note 13)	46,155	50,705
Amortization of prepaid land lease payments (note 15)	414	442
Operating lease rentals	33,980	43,589
Gain on bargain purchase	–	(70,000)
Fair value gain on investment properties (note 14)	(40,609)	–
Write-down of inventories to net realizable value	5,358	5,997
Loss on disposal of items of property, plant and equipment	1,794	1,027
Auditors' remuneration	2,000	2,100
Exchange (gain)/loss, net	(5,324)	5,631

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	
	2017	2016
	HK\$'000	HK\$'000
Fees	864	860
Other emoluments:		
Salaries, allowances and benefits in kind	10,546	10,344
Discretionary bonuses	4,368	5,030
Equity-settled share option expense	712	901
Pension scheme contributions	291	323
	15,917	16,598
	16,781	17,458

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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

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	
	2017 HK\$'000	2016 HK\$'000
Mr. Yeung Chi Tat	220	220
Mr. Kwan Po Chuen, Vincent	220	220
Mr. Lung Hung Cheuk	220	220
	660	660

As at 30 June 2017, there were no other emoluments payable to the independent non-executive Directors (30 June 2016: 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 2017						
Mr. Yeung Michael Wah Keung	50	3,980	902	-	-	4,932
Mr. Yeung Wo Fai	50	3,582	812	-	18	4,462
Mr. Chan Ka Dig Adam*	50	1,390	479	664	93	2,676
Mr. Yeung Andrew Kin	50	1,391	2,175	-	178	3,794
Mr. Lau Kin Shing, Charles**	4	203	-	48	2	257
	204	10,546	4,368	712	291	16,121
Year ended 30 June 2016						
Mr. Yeung Michael Wah Keung	50	3,980	902	-	-	4,932
Mr. Yeung Wo Fai	50	3,582	812	-	18	4,462
Mr. Chan Ka Dig Adam	50	1,391	410	901	90	2,842
Mr. Yeung Andrew Kin	50	1,391	2,906	-	215	4,562
	200	10,344	5,030	901	323	16,798

* Mr. Chan Ka Dig Adam resigned as executive director of the Company in July 2017.

** Mr. Lau Kin Shing, Charles was appointed as executive director of the Company in June 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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 2016: nil).

As at 30 June 2017, there was no remuneration payable to the Directors (30 June 2016: nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four Directors (2016: 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 (2016: one) highest paid employee who is neither a Director nor chief executive of the Company for the year ended 30 June 2017 are as follows:

	Year ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Salaries, allowances and benefits in kind	2,440	2,065
Discretionary bonuses	406	–
Pension scheme contributions	18	17
Equity-settled share-option expenses	570	773
	3,434	2,855

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

	Number of employees Year ended 30 June	
	2017	2016
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	1	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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 2017 (2016: 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 (2016: nil).

The provision for PRC corporate income tax is based on a statutory rate of 25% for the year ended 30 June 2017 (2016: 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/(credit) are as follows:

	Year ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Current – Hong Kong		
Charge for the year	28,470	50,418
Adjustments in respect of current income tax of previous years	(141)	(1,753)
Current – Mainland China		
Charge for the year	5,922	25,467
Adjustments in respect of current income tax of previous years	(3,288)	–
Deferred tax (note 17)	(5,651)	1,067
Total tax charge for the year	25,312	75,199

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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 2017

	Hong Kong HK\$'000	Macau HK\$'000	Mainland China HK\$'000	Cayman Islands* HK\$'000	Total HK\$'000
Profit/(loss) before tax	199,882	(2,228)	43,114	(4,374)	236,394
Tax at the statutory tax rate	32,981	(279)	10,779	(722)	42,759
Adjustments in respect of current tax of previous years	(141)	–	(3,288)	–	(3,429)
Income not subject to tax	(6,899)	–	–	(225)	(7,124)
Expenses not deductible for tax	–	–	815	943	1,758
Deductible temporary differences not recognized, net	144	–	(120)	–	24
Additional deductible allowance	–	–	(3,575)	–	(3,575)
Tax losses not recognized in the current year	2,043	279	–	–	2,322
Tax losses utilized from previous years	(479)	–	(6,944)	–	(7,423)
Tax charge/(credit) at the Group's effective rate	27,649	–	(2,333)	(4)	25,312

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	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/(credit) at the Group's effective rate	45,354	–	30,392	(547)	75,199

* 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 2017

11. DIVIDENDS

	Year ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Interim – 2017: HK6 cents per ordinary share (2016: HK10 cents per ordinary share)	60,092	100,153
Proposed final – 2017: HK6 cents per ordinary share (2016: HK13 cents per ordinary share) (i)	60,092	130,199
Proposed special – 2017: nil (2016: HK15 cents per ordinary share)	–	150,230
	120,184	380,582

Note:

- (i) On 18 September 2017, the Board of Directors of the Company resolved to propose a final dividend for the year ended 30 June 2017 of HK6 cents (year ended 30 June 2016: a final dividend of HK13 cents and a special dividend of HK15 cents) per ordinary share out of the consolidated retained profits of the Group as at 30 June 2017 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 years ended 30 June 2017 and 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 2016: 1,001,532,000) in issue during the year.

The calculation of basic earnings per share is based on:

	Year ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	211,082	370,142

	Year ended 30 June	
	2017 HK\$'000	2016 HK\$'000
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 2017, 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 2016: nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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 2017							
Cost							
At 30 June 2016 and at 1 July 2016	430,963	71,721	165,313	61,147	8,297	1,856	739,297
Additions	-	13,175	1,949	4,101	677	1,610	21,512
Transfers	-	-	-	16	-	(16)	-
Disposals	-	(5,610)	(1,797)	(4,962)	(712)	-	(13,081)
Transferred to investment properties (note 14) *	(3,129)	-	-	-	-	(1,391)	(4,520)
Exchange realignment	(4,603)	(962)	(2,375)	(585)	(59)	(25)	(8,609)
At 30 June 2017	423,231	78,324	163,090	59,717	8,203	2,034	734,599
Accumulated depreciation							
At 30 June 2016 and at 1 July 2016	65,229	55,826	80,047	34,547	6,051	-	241,700
Depreciation provided during the year	16,149	10,615	12,826	5,899	666	-	46,155
Disposals	-	(5,058)	(1,038)	(4,372)	(696)	-	(11,164)
Transferred to investment properties (note 14)	(1,817)	-	-	-	-	-	(1,817)
Exchange realignment	(851)	(681)	(948)	(326)	(41)	-	(2,847)
At 30 June 2017	78,710	60,702	90,887	35,748	5,980	-	272,027
Net book value							
At 30 June 2017	344,521	17,622	72,203	23,969	2,223	2,034	462,572
At 30 June 2016	365,734	15,895	85,266	26,600	2,246	1,856	497,597

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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 2016							
Cost							
At 30 June 2015 and at 1 July 2015	329,766	71,902	173,613	57,225	8,139	1,943	642,588
Additions	-	10,822	5,033	6,881	899	176	23,811
Transfers	-	-	48	62	-	(110)	-
Transferred from investment property (note 14)	126,444	-	-	-	-	-	126,444
Disposals	-	(6,017)	(462)	(46)	(392)	-	(6,917)
Exchange realignment	(25,247)	(4,986)	(12,919)	(2,975)	(349)	(153)	(46,629)
At 30 June 2016	430,963	71,721	165,313	61,147	8,297	1,856	739,297
Accumulated depreciation							
At 30 June 2015 and at 1 July 2015	55,332	48,706	71,933	30,162	6,102	-	212,235
Depreciation provided during the year	14,600	15,860	13,581	6,133	531	-	50,705
Disposals	-	(5,209)	(243)	(8)	(353)	-	(5,813)
Exchange realignment	(4,703)	(3,531)	(5,224)	(1,740)	(229)	-	(15,427)
At 30 June 2016	65,229	55,826	80,047	34,547	6,051	-	241,700
Net book value							
At 30 June 2016	365,734	15,895	85,266	26,600	2,246	1,856	497,597
At 30 June 2015	274,434	23,196	101,680	27,063	2,037	1,943	430,353

- * On 28 February 2017, an office building occupied by the Group as an owner-occupied property became an investment property. The building was revalued at the transfer date by Colliers International (Hong Kong) Limited, an independent professional qualified valuer, at an open market value of HK\$26,000,000. A revaluation surplus of HK\$24,688,000 (note 14), resulting from the above valuation, has been credited to other comprehensive income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

14. INVESTMENT PROPERTIES

	As at 30 June 2017 HK\$'000	As at 30 June 2016 HK\$'000
Carrying amount at beginning of the year	503,556	–
Additions through acquisition of a subsidiary	–	630,000
Transfer from construction in progress (note 13)	1,391	–
Transfer from owner-occupied property (note 13)	1,312	–
Gain on property revaluation upon transfer from owner-occupied property (note 13)	24,688	–
Fair value gain on investment properties (note 7)	40,609	–
Transfer to owner-occupied property (note 13)	–	(126,444)
Carrying amount at end of the year	571,556	503,556

The Group's investment properties consist of two commercial properties in Hong Kong. The Directors of the Company have determined that the investment properties are commercial based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 30 June 2017, based on valuations performed by Colliers International (Hong Kong) Limited, an independent professionally qualified valuer, at aggregated amount of HK\$571,556,000. Each year, the Directors decide to appoint an external valuer to be responsible for the valuations of the Group's investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Directors 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 properties are leased to third parties under operating leases, further summary details of which are included in note 28 to the consolidated financial statements.

Fair value hierarchy

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

	Fair value measurement as at 30 June 2017 using			Total HK\$'000
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000	
Recurring fair value measurement for:				
Commercial properties	–	–	571,556	571,556

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

	Fair value measurement as at 30 June 2016 using				Total HK\$'000	
	Quoted prices in active markets (Level 1) HK\$'000	Significant observable inputs (Level 2) HK\$'000	Significant unobservable inputs (Level 3) HK\$'000			
	Recurring fair value measurement for:					
	Commercial property	–	–	630,000		630,000
Property held for own use	–	–	(126,444)	(126,444)		
	–	–	503,556	503,556		

During the year, there were no transfers into or out of Level 3 (2016: nil).

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

	Commercial property HK\$'000
Carrying amount at 1 July 2015	–
Additions through acquisition of a subsidiary	630,000
Transfer to an owner-occupied property	(126,444)
Carrying amount at 30 June 2016 and 1 July 2016	503,556
Transfer from construction in progress (note 13)	1,391
Transfer from owner-occupied property (note 13)	1,312
Gain on property revaluation upon transfer from owner-occupied property (note 13)	24,688
Fair value gain on investment properties	40,609
Carrying amount at 30 June 2017	571,556

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

14. INVESTMENT PROPERTIES (continued)

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

	Valuation technique	Significant unobservable inputs	Range or weighted average
Commercial property 1	Income approach – Term and Reversion Analysis	Estimated rental value (per square foot and per month)	HK\$27 to HK\$30
		Estimated price (per square foot)	HK\$7,757 to HK\$15,845
		Market yield	2.9% to 3.1%
		Term yield	2.4%
Commercial property 2	Market approach	Estimated price (per square foot)	HK\$2,861 to HK\$3,478

For commercial property 1, a significant increase/(decrease) in the estimated market rent would result in a significant increase/(decrease) in the fair value of the investment properties. 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 properties.

The Term and Reversion Analysis estimates the value of the properties 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.

For commercial property 2, this valuation method provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. By analysis such sales, which qualify as ‘arms-length’ transactions, between willing buyers and sellers, adjustments are made for size, location, time, amenities and other relevant factors when comparing such sales prices to assess the value of the subject asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

15. PREPAID LAND LEASE PAYMENTS

	As at 30 June 2017 HK\$'000	As at 30 June 2016 HK\$'000
Carrying amount at beginning of the year	17,653	19,594
Charge for the year	(414)	(442)
Exchange realignment	(273)	(1,499)
Carrying amount at end of the year	16,966	17,653

16. INTANGIBLE ASSET

	Trademark HK\$'000
30 June 2017	
Cost and net carrying amount at 1 July 2016	5,559
Additions	175
Cost and net carrying amount at 30 June 2017	5,734
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

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

The Directors estimated the recoverable amount of the trademark by comparing the higher of the fair value less costs to sell and the value in use of the trademark based on the discounted cash flow prepared by management. The estimate of the recoverable amount of the trademark as at 30 June 2017 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 2017

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	Operating loss HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At 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)
Gross deferred tax assets at 30 June 2016 and 1 July 2016	2,102	-	7,054	3,164	2,326	-	624	15,270
Deferred tax credited/(charged) to the consolidated statement of profit or loss during the year (note 10)	187	-	(163)	748	470	3,857	391	5,490
Exchange realignment	-	-	(109)	(41)	(31)	34	-	(147)
At 30 June 2017	2,289	-	6,782	3,871	2,765	3,891	1,015	20,613

The amount of unrecognized tax losses as at 30 June 2017 was HK\$151,706,000 (30 June 2016: HK\$152,341,000).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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 2015	1,991	1,193	3,184
Deferred tax (credited)/charged to the consolidated statement of profit or loss during the year (note 10)	(1,991)	1,523	(468)
Exchange realignment	–	(36)	(36)
Gross deferred tax liabilities at 30 June 2016 and 1 July 2016	–	2,680	2,680
Deferred tax credited to the consolidated statement of profit or loss during the year (note 10)	–	(161)	(161)
Exchange realignment	–	(16)	(16)
At 30 June 2017	–	2,503	2,503

At 30 June 2017, no deferred tax liabilities 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 approximately HK\$539,417,000 (30 June 2016: HK\$524,151,000).

18. INVENTORIES

	As at 30 June 2017 HK\$'000	As at 30 June 2016 HK\$'000
Raw materials	71,894	81,610
Work in progress	115,756	123,787
Finished goods	67,375	79,970
	255,025	285,367
Less: provision against inventories	(16,002)	(10,762)
	239,023	274,605

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

19. TRADE RECEIVABLES

	As at 30 June 2017 HK\$'000	As at 30 June 2016 HK\$'000
Trade receivables	323,020	252,471
Impairment	(504)	(504)
	322,516	251,967

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 2017 HK\$'000	As at 30 June 2016 HK\$'000
Within 90 days	294,804	245,025
91 to 180 days	22,740	5,093
Over 180 days	4,972	1,849
	322,516	251,967

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

	As at 30 June 2017 HK\$'000	As at 30 June 2016 HK\$'000
At beginning and end of year	504	504

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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 (2016: HK\$504,000) with a carrying amount before provision of HK\$561,000 (2016: HK\$662,000).

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 2017 HK\$'000	As at 30 June 2016 HK\$'000
Neither past due nor impaired	204,989	168,462
Past due but not impaired:		
Less than 90 days	106,427	81,365
91 to 180 days	10,484	1,951
Over 180 days	559	31
	322,459	251,809

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 2017 HK\$'000	As at 30 June 2016 HK\$'000
Non-current portion:		
Prepayments for items of property, plant and equipment	364	146
Current portion:		
Prepayments	8,817	6,107
Deposits and other receivables	18,040	18,799
Value-added tax	15,186	19,181
	42,043	44,087
Total	42,407	44,233

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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, PLEDGED AND TIME DEPOSITS

	As at 30 June 2017 HK\$'000	As at 30 June 2016 HK\$'000
Cash and bank balances	489,404	475,811
Time deposits	163,779	377,256
	653,183	853,067
Less: Time deposit with original maturity of more than three months	(34,565)	–
Time deposits pledged as security for banking facilities	(22,798)	(22,495)
Cash and cash equivalents	595,820	830,572

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

	As at 30 June 2017 HK\$'000	As at 30 June 2016 HK\$'000
Denominated in RMB	296,744	220,092

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 and time deposits approximate to their fair values.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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 2017 HK\$'000	As at 30 June 2016 HK\$'000
Within 90 days	143,122	124,746
91 to 180 days	9,479	3,264
181 to 365 days	479	2,632
Over 365 days	2,964	658
	156,044	131,300

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 2017 HK\$'000	As at 30 June 2016 HK\$'000
Payroll payable	50,801	53,327
Advances from customers	6,870	5,294
Accruals	5,003	5,439
Other payables	35,275	39,829
	97,949	103,889

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 2017 HK\$'000	As at 30 June 2016 HK\$'000
Issued and fully paid:		
1,001,532,000 (2016: 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 2017 and 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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 93,854,200 shares (representing approximately 9.37% 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 2017

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:

	2017 weighted average exercise price HK\$ per share	Number of options '000
At 1 July 2016	3.84	7,067
Granted during the year	3.84	–
Lapsed during the year	3.84	(768)
At 30 June 2017	3.84	6,299

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:

2017 Number of options '000	Exercise price* HK\$ per share	Exercise period
2,100	3.84	2016/9/21 to 2025/9/20
2,100	3.84	2017/9/21 to 2025/9/20
2,099	3.84	2018/9/21 to 2025/9/20
6,299		

* 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 2017

25. SHARE OPTION SCHEME (continued)

There was no share options granted during the year (2016: 7,609,000 shares with fair value of HK\$7,983,000). The Group recognized a share option expense of HK\$2,373,000 (2016: HK\$3,780,000) during the year ended 30 June 2017.

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.

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% of the registered capital.

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

27. PLEDGE OF ASSETS

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

28. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14) under operating lease arrangements, with leases negotiated for terms ranging from one to four 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 2017 HK\$'000	As at 30 June 2016 HK\$'000
Within one year	9,307	9,076
In the second to fifth years, inclusive	6,838	11,186
	16,145	20,262

(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 six 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 2017 HK\$'000	As at 30 June 2016 HK\$'000
Within one year	20,591	34,017
In the second to fifth years, inclusive	8,167	19,615
	28,758	53,632

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28 above, the Group had the following capital commitments at the end of the reporting period:

	As at 30 June 2017 HK\$'000	As at 30 June 2016 HK\$'000
Contracted, but not provided for:		
Property, plant and equipment	168	837
Intangible asset	–	181
	168	1,018

30. 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	
	2017 HK\$'000	2016 HK\$'000
Property lease from a company of which a Director of the Company is a controlling shareholder		
Golden Palace Corporation Limited	2,400	600
Maxon Properties Limited	2,400	600
	4,800	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	
	2017 HK\$'000	2016 HK\$'000
Short term employee benefits	15,118	15,574
Post-employment benefits	291	323
Equity-settled share option expense	712	901
Total compensation paid to key management personnel	16,121	16,798

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 2017

31. 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 2017	As at 30 June 2016
	Loans and receivables HK\$'000	Loans and receivables HK\$'000
Trade receivables	322,516	251,967
Financial assets included in deposits and other receivables	18,040	18,799
Pledged deposits	22,798	22,495
Time deposit with original maturity of more than three months	34,565	–
Cash and cash equivalents	595,820	830,572
	993,739	1,123,833

Financial liabilities

	As at 30 June 2017	As at 30 June 2016
	Financial liabilities at amortized cost HK\$'000	Financial liabilities at amortized cost HK\$'000
Trade payables	156,044	131,300
Financial liabilities included in other payables and accruals	91,079	98,595
	247,123	229,895

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

32. 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 2017, 89.4% (year ended 30 June 2016: 95.7%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 61.3% (year ended 30 June 2016: 56.1%) 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\$, EURO ("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 2017		
If HK\$ weakens against US\$	5	7,865
If HK\$ strengthens against US\$	(5)	(7,865)
If HK\$ weakens against EUR	5	(218)
If HK\$ strengthens against EUR	(5)	218
If HK\$ weakens against RMB	5	228
If HK\$ strengthens against RMB	(5)	(228)
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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

32. 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 2017, the Group had certain concentrations of credit risk as 45.0% (30 June 2016: 56.0%) 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 2017	On demand HK\$'000	Less than 3 months HK\$'000	3 to 12 months HK\$'000	Total HK\$'000
Trade payables	36,051	115,920	4,073	156,044
Other payables and accruals	91,079	–	–	91,079
	127,130	115,920	4,073	247,123

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

32. 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 2017 and 2016, the Group had no interest-bearing bank borrowings. As such, no gearing ratio as at 30 June 2017 and 2016 is presented.

33. EVENTS AFTER THE REPORTING PERIOD

There was no significant event 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 2017

34. 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:

	Note	As at 30 June 2017 HK\$'000	As at 30 June 2016 HK\$'000
NON-CURRENT ASSETS			
Deferred tax assets		1,015	624
Investments in subsidiaries		430,001	430,001
Total non-current assets		431,016	430,625
CURRENT ASSETS			
Deposits and other receivables		420	584
Amounts due from subsidiaries		651,216	485,299
Pledged deposit		12,728	12,486
Cash and cash equivalents		56,101	224,552
Total current assets		720,465	722,921
CURRENT LIABILITIES			
Tax payable		280	31
Other payables and accruals		294	611
Total current liabilities		574	642
NET CURRENT ASSETS		719,891	722,279
TOTAL ASSETS LESS CURRENT LIABILITIES		1,150,907	1,152,904
Net assets		1,150,907	1,152,904
EQUITY			
Share capital	24	100,153	100,153
Reserves (note)		1,050,754	1,052,751
Total equity		1,150,907	1,152,904

Yeung Michael Wah Keung
Director

Yeung Wo Fai
Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2017

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

Note:

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

	Share premium account HK\$'000 (Note 26)	Share option reserve HK\$'000 (Note 25)	Retained profits HK\$'000	Total HK\$'000
At 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	–
30 June 2016 and 1 July 2016	1,050,081	3,538	(868)	1,052,751
Profit for the year	–	–	336,151	336,151
2016 final dividend declared	–	–	(130,199)	(130,199)
2016 special dividend declared	–	–	(150,230)	(150,230)
2017 interim dividend declared	–	–	(60,092)	(60,092)
Equity-settled share option arrangement	–	2,373	–	2,373
Transfer of share option reserve upon the lapse of share options	–	(432)	432	–
At 30 June 2017	1,050,081	5,479	(4,806)	1,050,754

35. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issue by the Board of Directors on 18 September 2017.

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				
	2017	2016	2015	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	1,916,937	2,837,018	3,380,422	3,856,779	3,360,314
Profit before tax	236,394	445,341	507,721	620,254	489,155
Income tax expense	(25,312)	(75,199)	(95,774)	(116,000)	(88,658)
Profit for the year and attributable to:					
Owners of the Company	211,082	370,142	411,947	504,254	400,497

ASSETS AND LIABILITIES:

	As at 30 June				
	2017	2016	2015	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	2,334,570	2,463,507	2,679,501	2,450,709	2,109,872
Total liabilities	(271,972)	(283,945)	(559,556)	(470,229)	(369,118)
Net assets	2,062,598	2,179,562	2,119,945	1,980,480	1,740,754

Note:

The consolidated results of the Group for the five years ended 30 June 2013, 2014, 2015, 2016 and 2017 and the consolidated assets and liabilities of the Group as at 30 June 2013, 2014, 2015, 2016 and 2017 have been extracted from the published audited consolidated financial statements.

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

