Sitoy

2019 INTERIM REPORT

時代集團控股有限公司
SITOY GROUP HOLDINGS LTD.

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1023

Contents

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

Authorised 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

Corporate Information

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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
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch 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

Management Discussion and Analysis

The board (the "Board") of directors (the "Directors") of Sitoy Group Holdings Limited (the "Company") is pleased to present this interim report, including the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 31 December 2018 (the "Period").

BUSINESS REVIEW

Retail business

The Group's attributable profit for the six months ended 31 December 2018 has continued to increase owing to the Group's retail business. Revenue generated from this segment soared by approximately 46.4% period to period to approximately HK$224.2 million for the six months ended 31 December 2018. The profit before tax of the retail segment was approximately HK$13.3 million for the six months ended 31 December 2018, representing a growth of approximately 4.1% when compared with the same period in the previous year. The improvement in profit was mainly attributable to the increased contribution to revenue from licensed brands, but being and diluted by the legal and professional fees incurred on a one-off basis to acquire the A. Testoni brand (approximately HK$7.2 million). Revenue from the wholesale business and improved operating leverage also contributed to the improvement of the financial results.

With a vision to diversify its business and tap high demand for affordable quality handbags and leather goods in the Greater China's market, the Group made inroads into retail business in 2011 with the introduction of TUSCAN'S and subsequently the launch of Fashion & Joy. In view of the growing demand for fashion goods, the Group took a bold move and started to enrich its brand portfolio by obtaining exclusive rights for distribution and operation of global brands in mainland China and Hong Kong in 2016.

The strategy was proved highly effective as the Group now has a more diversified range of products catering for demands of different customer groups. The Group operated seven brands as at 31 December 2018. TUSCAN'S and Fashion & Joy are self-owned brands of the Group. TUSCAN'S is a brand of high quality handbags originated in Italy, while Fashion & Joy is a self-developed brand focusing on stylish travel luggage and

Management Discussion and Analysis


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business accessories designed and expertly crafted for bold and young trend-setters.

During the Period, the Group acquired A. Testoni S.p.A. and its subsidiaries, which owns the century-old Italian luxury leader label a. testoni and its diffusion line i29. The acquisition further enhanced the Group's retail network covering Hong Kong, mainland China, Taiwan, Southeast Asia, Japan and Europe. The other three brands, namely Kenneth Cole, Cole Haan and Jockey*, are exclusive licensed brands, each with its own brand history and characters targeting different customer groups. The licensed brands not only enlarged its stream of revenue for the Group's retail business but also expanded its product range from handbags to male and female footwear.

The Group also made good use of its product design and development resources. For example, we have set up design teams dedicated to supporting the development of handbags for Kenneth Cole, TUSCAN'S and Fashion & Joy and expanding the footwear offerings for Kenneth Cole respectively. The Group is pleased to see that the new product designs are improving and have quickly gained a good reputation. The Group's marketing campaigns have also successfully increased brand awareness and increased store traffic, which contributed to the growth in demand.

* *the PRC only*

Management Discussion and Analysis

As regards retail mode, the Group opened its first Fashion & Joy integrated flagship store in second half of 2017, which will provide products with multiple brands, catering for the demand from the younger generation.

On the digital front, the Group continued to strengthen its e-commerce development with most of its brands already available on Tmall and JD.com or their own brand sites. The Group is currently liaising with other well-known e-commerce platforms to expand its online retail business.

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

Manufacturing business

During the Period, the Group's purchase orders received from its external customers have slightly increased by approximately 5.1% when compared with the corresponding period last year, which was mainly due to an increase in demand for brand products in the worldwide market and the result of successfully establishing business relationship with certain brands in mainland China and across the globe. The Group has maintained stable return with segment result of profit before tax to segment revenue ratio of approximately 10.9%. The manufacturing business has generated segment revenue from external customers of approximately HK$1,053.1 million with segment result of profit before tax of approximately HK$114.4 million.

In response to the impact of the Sino-US trade dispute on exports to the North American market, the following strategies were adopted by the Group:

(1) Market Diversification: more than two years ago, we began to decentralize the market. Currently, our market share in North America decreased to 25.3% from 29.3% in the same period last year, which was offset by the increase in the shares of Asian and European markets;

(2) Maintaining Our Core Competitiveness: with higher level of craftsmanship and reliable supply chain management, we provide top quality products and credibility to our customers.

Cost optimisation is one of the Group's key strategies to maintain considerable returns. Despite rising labour cost and keener competition, the Group continuously upgrades itself to meet the higher requirements of both existing and new customers, which include sourcing quality raw materials with competitive prices, upgrading production facilities, 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.

Property investment business

In the view that the Hong Kong commercial office leasing market remained robust with tight supply and robust demand, the Group expanded to the property investment market in 2016 by acquiring a commercial building located in East Kowloon of Hong Kong located at 164 Wai Yip Street, Kwun Tong with Kwun Tong Inland lot number 316. Prime office locations such as Central, Causeway Bay and nearby areas are occupied by enterprises and companies of the financial industry. Tenants from other industries, therefore, have to seek prime offices in other areas, such as East Kowloon, which are getting popular because of convenient locations, well-connected transportation options, and abundant lifestyle offerings such as shopping centres and entertainment facilities. In addition, the Company's office premise located at 4-5th Floor, The Genplas Building, 56 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong ceased for own use and was transferred to investment properties for rental income or capital appreciation purpose in early 2017. The property investment segment is expected to generate stable returns for the Group. The property investment business has generated revenue of approximately HK$6.0 million with segment result of profit before tax of approximately HK$28.0 million during the Period as a result of fair value gain on investment properties of approximately HK$25.7 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 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 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 Chinese brands of high-end and luxury products as its customers. In the future, the Group shall source quality raw materials at competitive prices, and continue to optimise and streamline production procedures to boost competitiveness of the Group and satisfy brand customers' demands.

THE USE OF PROCEEDS FROM IPO

The Group raised 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 considered that the Proposed Change was 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 HK$'million approximately	Percentage approximately	The Proposed Change HK$'million approximately	Use of IPO proceeds subsequent to the Proposed Change HK$'million approximately	Used up to 31 December 2018 HK$'million approximately	Unused balance up to 31 December 2018 HK$'million approximately	Expected timeline for unused IPO proceeds year ending
Second phase of Yingde manufacturing facility	251.4	35%	(96.4)	155.0	155.0	–	N/A
Upgrading of machinery and tooling in existing manufacturing facilities	143.6	20%	(74.4)	69.2	69.2	–	N/A
Expansion of retail business	251.4	35%	150.8	402.2	402.2	–	N/A
Working capital	71.8	10%	20.0	91.8	91.8	–	N/A
	718.2	100%	–	718.2	718.2	–	

Management Discussion and Analysis

PROSPECT

Retail business

Riding on improving consumer confidence alongside a sustaining economic recovery, the Group will continue to expand its retail business in the second half of the financial year. The Group will continue to expand its presence by opening new stores in Hong Kong and mainland China. In addition to adding mono-brand stores, the Group will also open multi-brand stores in landmark retail areas to target the younger generation.

After the acquisition of A. Testoni S.p.A. the Group had successfully broadened its in-house brands. The Group will continue to look for potential acquisition opportunity which the Group considers attractive.

The development of the e-commerce business is running to take online orders from customers. The Group will further strengthen online sales 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 the market development by presenting its products to its customers through different platforms.

As a brand operator, the Group will continue to invest in the enhancement of product design and development. The Group will also continue to launch different marketing activities to raise brand awareness and increase sales.

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Manufacturing business

The Group's manufacturing business gradually recovered from the global downturn of leather goods, with an additional 5.1% sales orders from its manufacturing customers. It was mainly due to the Group's ability to meet customers' diversified requirements, thanks to its extensive experience and outstanding craftsmanship in the manufacturing, design, research and development of handbags, leather goods and business and travel goods.

The Group has successfully diversified customer mix and product mix – a trend which is expected to continue in the coming six months. Certain European and Asian countries and areas, including Hong Kong and China, are expected to be the major markets of the Group, which is consistent with the Group's strategies to mitigate the concentration risk and reduce the reliance on the North American market.

Property investment business

The properties held by the Group are expected to continue to generate stable rental income for the Group in the coming six months.

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Financial Review

Revenue

The revenue increased by approximately 10.6% to approximately HK$1,283.3 million for the six months ended 31 December 2018 from approximately HK$1,160.2 million for the six months ended 31 December 2017. This increase was primarily due to the increase in demand from the brand customers and recovery of the retail business.

Cost of sales

Cost of sales of the Group increased by approximately 10.0% to approximately HK$923.8 million for the six months ended 31 December 2018 from approximately HK$839.7 million for the six months ended 31 December 2017. The increase in cost of sales was in line with the increase in revenue.

Gross profit and gross profit margin

Gross profit increased by approximately 12.2% to approximately HK$359.4 million for the six months ended 31 December 2018 from approximately HK$320.5 million for the six months ended 31 December 2017. Gross profit margin slightly increased to approximately 28.0% for the six months ended 31 December 2018 when compared with approximately 27.6% for the six months ended 31 December 2017.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 18.5% to approximately HK$109.0 million for the six months ended 31 December 2018 from approximately HK$92.0 million for the six months ended 31 December 2017. The increase was primarily attributable to the expansion of the retail business.

Administrative expenses

Administrative expenses increased by approximately 41.1% to approximately HK$150.2 million for the six months ended 31 December 2018 from approximately HK$106.4 million for the six months ended 31 December 2017. The increase was mainly due to the legal and professional fees incurred on a one-off basis to acquire the subsidiaries and more management staff are recruited to manage the retail business.

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Cole Haan Spring Summer 2019

Income tax expense

Under the current laws of the Cayman Islands and the British Virgin Islands (the "BVI"), 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 BVI.

Hong Kong Profits Tax as applicable to the Group was 16.5% for the six months ended 31 December 2018 and 2017 on the assessable profits arising in Hong Kong during the relevant periods.

Macau Complementary Income Tax has not been provided for as the Group has no assessable profit arising in Macau during the six months ended 31 December 2018 (six months ended 31 December 2017: nil).

Italy, Korea, Taiwan and Japan Income Tax has not been provided for as the Group has no assessable profit arising in those countries during the six months ended 31 December 2018.

The PRC Corporate Income Tax was based on a statutory rate of 25% of the assessable profit of all the subsidiaries incorporated in the PRC as determined in accordance with the PRC Corporate Income Tax Law.

The effective tax rate of the Group was 24.1% for the six months ended 31 December 2018 (six months ended 31 December 2017: 9.0%). The increase was due to the fully utilised tax losses of certain mainland China subsidiaries.

Profit for the Period

Profit for the Period decreased by approximately HK$34.3 million to approximately HK$109.0 million for the six months ended 31 December 2018 from approximately HK$143.3 million for the six months ended 31 December 2017. As a percentage of revenue, profit margin ratio achieved approximately 8.5% for the six months ended 31 December 2018 (six months ended 31 December 2017: 12.4%). The decrease was mainly due to the increase in selling and distribution expenses and administrative expenses.

Investment properties

Details of investment properties of the Group with carrying amounts of approximately HK$503.6 million, HK$571.6 million, HK$635.6 million and HK$661.6 million as at 30 June 2016, 30 June 2017, 30 June 2018 and 31 December 2018 respectively are as follows:

As at 30 June 2016 (audited)

Property	Address	Use	Lease term
Ground to 6th and 11th to 20th Floor, Sitoy Tower	Ground to 6th and 11th to 20th Floor, Sitoy Tower, No. 164 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong (Kwun Tong Inland lot number 316)	Commercial (for rental income and capital appreciation purposes)	Medium term lease

As at 30 June 2017 (audited), 30 June 2018 (audited) and 31 December 2018 (unaudited)

Property	Address	Use	Lease term
Ground to 6th and 11th to 20th Floor, Sitoy Tower	Ground to 6th and 11th to 20th Floor, Sitoy Tower, No. 164 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong (Kwun Tong Inland lot number 316)	Commercial (for rental income and capital appreciation purposes)	Medium term lease
4th to 5th Floor, The Genplas Building	4th to 5th Floor, The Genplas Building, 56 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong (Kwun Tong Inland lot number 58)	Industrial (for rental income and capital appreciation purposes)	Medium term lease

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", 7-10th Floor are for the Group's own use as the Group's headquarter, showrooms for merchandise display and market week, and classified as "Property, Plant and Equipment" instead of investment properties in the financial statements of the Group. The Property 1 is also for rental income or capital appreciation purposes.

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 six months ended 31 December 2018, the capital expenditure of the Group amounted to approximately HK$10.5 million, primarily related to the expansion of retail business and upgrade of manufacturing facilities.

Significant investments

The Group had no significant investments held during the Period.

Discloseable Transaction in relation to the Acquisition of 95.35% Equity Interest in the Target Company

On 12 April 2018, the corporate and individual registered shareholders of 4,785,286 shares in A. Testoni S.p.A. (the "Target Company"), representing approximately 95.35% of the entire issued share capital thereof (the "Sale Shares"), namely (1) Quadrifoglio S.r.l., a company incorporated under the laws of Italy, holding 4,080,801 shares of the Target Company; (2) Mr. Enzo Fini, holding 233,261 shares of the Target Company; (3) Mrs. Laura Fini, holding 233,256 shares of the Target Company; (4) Mrs. Paola Fini, holding 233,256 shares of the Target Company; and (5) Mr. Bruno Fantechi and his wife Mrs. Sandra Tapinassi Fantechi, holding 4,712 shares of the Target Company (the "Sellers") and Oasis Giant Pte. Ltd. (a company wholly-owned by a director of a subsidiary of the Company) ("Oasis Giant") entered into a memorandum of understandings (as amended in writing on 4 July 2018) (the "MOU"). Pursuant to the MOU, subject to the terms and conditions thereunder and a formal sale and purchase agreement, the Sellers agreed to sell, and Oasis Giant agreed to purchase the Sale Shares at the consideration of Euro 9,535,210 (equivalent to approximately HK$86,975,418).

On 7 September 2018, Sitoy International Limited (a wholly-owned subsidiary of the Company) ("Sitoy International"), the Sellers and Oasis Giant entered into an assignment (the "Assignment"), pursuant to which Oasis Giant assigned, transferred and set over to Sitoy International, and Sitoy International assumed, all of Oasis Giant's right, title, interest, powers, privileges, remedies, duties, liabilities and obligations under the MOU, effective as of the date of the Assignment, for nil consideration.

On 20 November 2018, Sitoy AT Holdings Company Limited (a wholly-owned subsidiary of the Company nominated by Sitoy International to be the buyer (the "Buyer")) and the Sellers entered into a sale and purchase agreement (the "SPA"). Subject to the terms and conditions of the SPA, (i) the Sellers has agreed to sell and the Buyer has agreed to purchase the Sale Shares at the initial consideration of Euro 9,535,210 (equivalent to approximately HK$85,515,577), while the final consideration of Euro 7,334,000 (approximately HK$65,163,000) was paid on the acquisition date; and (ii) Mr. Enzo Fini has agreed to assign and the Buyer has agreed to take an assignment of the amount owing to Mr. Enzo Fini by the Target Company as at the completion date of the Acquisition (defined as below), which will be no more than Euro 5,000,000 at the initial total consideration of Euro 5,000,000 (equivalent to approximately HK$44,842,000), while the final consideration of Euro 5,000,000 (approximately HK$44,426,000) was paid on the acquisition date (the "Acquisition").

As one or more of the applicable percentage ratios in respect of the Acquisition is 5% or more but less than 25%, the Acquisition constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Details of the Acquisition have been set out in the announcements of the Company dated 7 September 2018 and 22 November 2018.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

Save as disclosed above, the Group had no material acquisitions or disposals of subsidiaries, associates or joint ventures during the Period.

Treasury policy

The Group adopts a 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 are 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 Group continues to adopt a prudent approach in managing its financial resources. The Group's cash and cash equivalents as at 31 December 2018 amounted to approximately HK$286.0 million (30 June 2018: approximately HK$447.6 million) which are mainly denominated in Hong Kong dollars, Renminbi, Euro and United States dollars. The decrease was mainly due to the Acquisition, shares buyback and purchase of the Company's shares for adoption of share award scheme. The gearing ratio of the Group as at 31 December 2018 was approximately 3.8% (30 June 2018: nil).

Foreign exchange risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. During the six months ended 31 December 2018, 81.0% (30 June 2018: 85.1%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the transaction, whilst approximately 67.4% (30 June 2018: 65.4%) of costs were denominated in the units' functional currency. As at 31 December 2018, the Group had no foreign exchange forward contracts and other financial derivatives outstanding (30 June 2018: nil).

Pledge of Assets

As at 31 December 2018, approximately HK$23.3 million time deposits were pledged as securities for banking facilities granted to the Group (30 June 2018: approximately HK$23.7 million).

As at 31 December 2018, secured bank borrowings of approximately HK$20,000,000 were secured by property, plant and equipment with carrying amount of HK$61,000,000 (30 June 2018: nil).

Inventory turnover days

Inventory turnover days increased to 89 days for the six months ended 31 December 2018 from 65 days for the year ended 30 June 2018. The increase in inventory turnover days was mainly due to the increase in cost of sales as a result of recovery of both retail business and manufacturing business.

Trade receivables turnover days

Trade receivables turnover days increased to 74 days for the six months ended 31 December 2018 compared with 66 days for the year ended 30 June 2018. The increase in trade receivables turnover days was mainly due to the increase in average trade receivables as a result of increase in manufacturing business. The Group did not experience any significant credit risk due to strict credit control policies.

Trade payables turnover days

Trade payables turnover days increased to 68 days for the six months ended 31 December 2018 compared with 58 days for the year ended 30 June 2018. The increase in trade payables turnover days was mainly due to the higher average trade payables as a result of more raw materials purchased at the end of the reporting period in order to fulfill the manufacturing orders from customers.

Off-balance sheet commitments and arrangements and contingent liabilities

As at 31 December 2018, the Group did not have any material off-balance sheet commitments and arrangements. The Group did not have any contingent liabilities as at 31 December 2018.

Employees

As at 31 December 2018, the Group had about 8,100 employees. In addition to the basic salaries, performance bonuses will be offered to those staff members with good performance. The PRC subsidiaries of the Group are subject to social insurance, provident housing fund and certain other employee benefits in accordance with the PRC laws and regulations and adhere to both 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 case of certain senior employees, family quarters. The Group also provides various amenities and recreation facilities such as canteen, sports site, library and internet centre for the employees. The Group will continue to improve the working environment in the manufacturing facilities and the living facilities for the employees. The Directors believe that the 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 centre 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 and a share award scheme approved on 12 July 2018 for the purpose of recognising employees' contribution. Details have been set out in the section headed "Share Option Scheme" and "Share Award Scheme" below.

Dividend, Record and Payment Dates

The Directors have declared an interim dividend of HK6 cents (six months ended 31 December 2017: HK6 cents) per share to the shareholders for the six months ended 31 December 2018 in recognition of their continuous support. The interim dividend will be paid to shareholders whose names appear on the register of members of the Company on Thursday, 28 March 2019. It is expected that the interim dividend will be paid on or before Thursday, 18 April 2019.

Closure of Register of Members

The register of members of the Company will be closed on Wednesday, 27 March 2019 and Thursday, 28 March 2019, during which period no transfer of shares will be registered. In order to qualify for the interim 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, 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 Tuesday, 26 March 2019.

Kenneth Cole Spring Summer 2019

Corporate Governance and Other Information

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

As at 31 December 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the 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 shares of the Company interested pursuant to share options	Aggregate number of shares of the Company interested	Approximate percentage of the Company's issued shares
Mr. Yeung Michael Wah Keung	Beneficial owner/ personal interest	437,720,000	–	437,720,000	45.34%
Mr. Yeung Wo Fai	Beneficial owner/ personal interest	236,070,000	–	236,070,000	24.45%
Mr. Yeung Andrew Kin	Beneficial owner/ personal interest	10,500,000	–	10,500,000	1.09%
Mr. Lau Kin Shing, Charles	Beneficial owner/ personal interest	50,000	1,544,000	4,240,000	0.44%
	Beneficiary of a trust	2,646,000 (Note)	–		

Note: 2,646,000 award shares were granted to Mr. Lau Kin Shing, Charles on 12 July 2018 (the "Grant Date"). Subject to the condition that Mr. Lau remains in employment with the Group, (i) 823,000 award shares will be vested on the date falling on the first anniversary of the Grant Date; (ii) 882,000 award shares will be vested on the date falling on the second anniversary of the Grant Date; and (iii) 941,000 award shares will be vested on the date falling on the third anniversary of the Grant Date.

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

(b) Rights to acquire shares of the Company

Save as disclosed in the section headed "Share Option Scheme" and "Share Award Scheme" below, at no time during the Period did the Directors or chief executive of the Company (including their spouse and children under 18 years of age) have 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 Period was the Company, its subsidiaries or holding companies 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 31 December 2018, 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 31 December 2018, so far as the Directors were aware, the persons or corporations (other than the Directors or chief executive of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of substantial shareholders of the Company	Capacity/Nature of interest	Number of ordinary shares of the Company interested	Approximate percentage of the Company's issued shares
Citigroup Inc.	Held by controlled corporation	900	
	Approved lending agent	50,953,939	5.28%

Save as disclosed above, as at 31 December 2018, the Directors are not aware of any other person or corporation (other than Directors or chief executive of the Company) having an interest or short position in the shares and underlying shares which would require to be recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' and relevant employees' securities transactions

The Company has adopted the Model Code as its code of conduct governing securities transactions by the Directors.

Specific enquiry has been made with all Directors and all Directors have confirmed that they had fully complied with the required standard set out in the Model Code for the six months ended 31 December 2018.

Relevant employees who are likely to be in possession of inside information of the Group are also subject to 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 for the six months ended 31 December 2018 was noted by the Company.

Change in Director’s information

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the information of the Director since the date of the last annual report is set out below:

Mr. Yeung Chi Tat is an independent director of New Hope Dairy Co., Ltd. (stock code: 2946), a company whose shares are listed on the Shenzhen Stock Exchange with effect from 25 January 2019.

Corporate Governance

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organisation which is open and accountable to its shareholders. 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 risk management and 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 optimise return for the shareholders of the Company.

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”) set out in Appendix 14 to the Listing Rules. The Board is of the view that the Company has complied with the code provisions set out in the CG Code for the six months ended 31 December 2018.

Audit Committee

The Company established an audit committee with written terms of reference in compliance with the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process and risk management over 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 interim condensed consolidated financial statements for the six months ended 31 December 2018 have not been audited, but the audit committee has discussed with the management of the Company and the external auditors, Ernst & Young, on the appropriateness and consistency of the accounting policies that have been adopted by the Company. In addition, Ernst & Young has performed certain agreed upon procedures in accordance with the request of the audit committee regarding the interim results and the interim report for the six months ended 31 December 2018 and reported to the audit committee accordingly. The audit committee has reviewed the interim results and the interim report of the Group for the six months ended 31 December 2018.

Purchase, sale or redemption of the Company's listed securities

During the six months ended 31 December 2018, 36,102,000 ordinary shares were repurchased and the repurchased ordinary shares were cancelled on 16 November 2018.

Save as disclosed above, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 31 December 2018.

Share Option Scheme

A share option scheme was approved and adopted by shareholders of the Company 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. During the six months ended 31 December 2018, share options to subscribe for 4,500,000 ordinary shares of HK$0.10 each of the Company were outstanding as at 31 December 2018.

As at 31 December 2018, share options to subscribe for 4,500,000 ordinary shares of HK$0.10 each of the Company have been vested and 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 six months ended 31 December 2018 are as follows:

				Number of Share Options					
Grantees	Date of Grant	Exercise Price	Exercise Period	Balance as at 1 July 2018	Granted during the Period	Exercised during the Period	Cancelled during the Period	Lapsed during the Period	Balance as at 31 December 2018
Directors:									
Mr. Lau Kin Shing, Charles	21 September 2015	HK$3.84	21 September 2016 to 20 September 2025 (ii)	1,544,000	–	–	–	–	1,544,000
Sub–total:				1,544,000	–	–	–	–	1,544,000
Eligible employees (i)	21 September 2015	HK$3.84	21 September 2016 to 20 September 2025 (ii)	2,956,000	–	–	–	–	2,956,000
Grand Total:				4,500,000	–	–	–	–	4,500,000

Notes:

(i) Share options were granted to certain eligible employees, all working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) and are participants of the Share Option Scheme with share options not exceeding the respective individual limits.

Corporate Governance and Other Information

(ii) The share options granted to the above Director and eligible employees shall be vested in three equal tranches subject to 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 September 2015 to 20 September 2016	21 September 2016 to 20 September 2025
One-third of share options (rounded up to the nearest 1,000 share options)	21 September 2015 to 20 September 2017	21 September 2017 to 20 September 2025
Remaining share options	21 September 2015 to 20 September 2018	21 September 2018 to 20 September 2025

(iii) The values of share options are subject to (i) subjectivity and uncertainty relating to the assumptions to which such values are subject; and (ii) limitation of the model used to estimate such values.

Except as disclosed above, no share option lapsed or was granted, exercised or cancelled under the Share Option Scheme during the six months ended 31 December 2018.

Share Award Scheme

On 12 July 2018, the Board adopted a share award scheme (the "Share Award Scheme") to provide the Company with a flexible means of giving incentives to the participants of the scheme in order to retain them for continual operation and development of the Group and to attract suitable personnel for further development of the Group.

The Board may, at its discretion, determine from time to time the vesting criteria and conditions or periods for the award shares to be vested.

The total number of shares to be granted under the Share Award Scheme shall not exceed 10% of the total number of issued shares of the Company from time to time. The maximum number of award shares which may be granted to a selected participant but unvested under the Share Award Scheme shall not exceed 1% of the total number of issued shares of the Company from time to time.

During the six months ended 31 December 2018, 9,000,000 award shares had been granted on 12 July 2018 to certain selected participants of the Group. Among the 9,000,000 Award Shares granted, a total of 2,646,000 award shares were granted to Mr. Lau Kin Shing, Charles ("Mr. Lau"), being the executive Director, chief financial officer, authorised representative and company secretary of the Company. As Mr. Lau is an executive Director, he is a connected person of the Company and accordingly, the granting of the award shares to Mr. Lau constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Mr. Lau is not required to pay any consideration for the acceptance of the award shares. Based on the closing price of HK$2.00 per share as quoted on the Stock Exchange on 12 July 2018 (being the grant date of the 9,000,000 award shares), the market value of the award shares granted to Mr. Lau amounts to HK$5,292,000.

Further details of the Share Award Scheme are disclosed in note 16 to the interim condensed consolidated financial statements.

Board of Directors

As at the date of this report, the executive Directors are Mr. Yeung Michael Wah Keung, Mr. Yeung Wo Fai, Mr. Yeung Andrew Kin and Mr. Lau Kin Shing, Charles; and the independent non-executive Directors are Mr. Yeung Chi Tat, Mr. Kwan Po Chuen, Vincent and Mr. Lung Hung Cheuk.

By order of the Board
Sitoy Group Holdings Limited

Yeung Michael Wah Keung
Chairman

Hong Kong, 25 February 2019

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 31 December 2018

		For the six months ended 31 December	
	Notes	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
REVENUE	4	1,283,282	1,160,170
Cost of sales		(923,847)	(839,692)
Gross profit		359,435	320,478
Other income and gains	4	45,645	51,012
Selling and distribution expenses		(109,045)	(92,001)
Administrative expenses		(150,150)	(106,403)
Other expenses		(1,079)	(15,613)
Financial costs		(1,186)	–
PROFIT BEFORE TAX	5	143,620	157,473
Income tax expense	6	(34,652)	(14,158)
PROFIT FOR THE PERIOD		108,968	143,315
Attributable to:			
Owners of the Company		114,819	144,699
Non-controlling interests		(5,851)	(1,384)
		108,968	143,315
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic			
– For profit for the period (HK cents)	8	11.73	14.45
Diluted			
– For profit for the period (HK cents)	8	11.70	14.45

Details of the dividends for the reporting period are disclosed in note 7 to the interim condensed consolidated financial statements.

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2018

	For the six months ended 31 December	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
PROFIT FOR THE PERIOD	108,968	143,315
OTHER COMPREHENSIVE (EXPENSE)/INCOME		
Exchange differences on translation of foreign operations	(35,537)	41,922
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD, NET OF TAX	(35,537)	41,922
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	73,431	185,237
Attributable to:		
Owners of the Company	79,282	186,621
Non-controlling interests	(5,851)	(1,384)
	73,431	185,237

Interim Condensed Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	As at 31 December 2018 HK$'000 (Unaudited)	As at 30 June 2018 HK$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	503,189	444,021
Investment properties	10	661,556	635,556
Prepaid land lease payments		16,184	17,035
Intangible assets		26,806	8,481
Deferred tax assets		31,270	24,537
Goodwill	17	2,346	–
Financial assets measured at amortized cost		12,324	–
Other non-current assets		13,199	983
Total non-current assets		1,266,874	1,130,613
CURRENT ASSETS			
Inventories		459,112	328,551
Trade receivables	11	516,126	515,500
Prepayments, other receivables and other assets		81,276	74,591
Pledged deposits		23,262	23,699
Time deposit with original maturity of more than three months		34,239	35,583
Cash and cash equivalents		286,016	447,552
Total current assets		1,400,031	1,425,476
CURRENT LIABILITIES			
Interest-bearing bank borrowings	12	80,237	–
Trade payables	13	281,832	216,170
Other payables and accruals		153,852	120,706
Tax payable		23,037	11,264
Total current liabilities		538,958	348,140
NET CURRENT ASSETS		861,073	1,077,336
TOTAL ASSETS LESS CURRENT LIABILITIES		2,127,947	2,207,949

Interim Condensed Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	As at 31 December 2018 HK$'000 (Unaudited)	As at 30 June 2018 HK$'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		2,785	2,363
Deferred income		3,408	3,610
Total non-current liabilities		6,193	5,973
Net assets		2,121,754	2,201,976
EQUITY			
Share capital	14	96,543	100,153
Treasury shares	14	(19,910)	–
Reserves		2,043,404	2,102,127
Equity attributable to owners of the Company		2,120,037	2,202,280
Non-controlling interests		1,717	(304)
Total equity		2,121,754	2,201,976

Yeung Wo Fai
Director

Lau Kin Shing, Charles
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2018

	Attributable to owners of the Company											
	Share capital HK$'000	Treasury Share HK$'000	Shares premium account* HK$'000	Shares option/ award reserve* HK$'000	Merger reserve* HK$'000	Statutory reserve fund* HK$'000	Asset revaluation reserve* HK$'000	Exchange fluctuation reserve* HK$'000	Retained profits* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 July 2018	100,153	–	1,010,081	4,606	4,030	60,980	24,688	(57,756)	1,055,498	2,202,280	(304)	2,201,976
Profit/(loss) for the period	–	–	–	–	–	–	–	–	114,819	114,819	(5,851)	108,968
Other comprehensive income for the period:												
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(35,537)	–	(35,537)	–	(35,537)
Total comprehensive (expenses)/income for the period	–	–	–	–	–	–	–	(35,537)	114,819	79,282	(5,851)	73,431
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	7,872	7,872
Equity-settled share award arrangement	–	–	–	5,362	–	–	–	–	–	5,362	–	5,362
Equity-settled share option arrangement	–	–	–	115	–	–	–	–	–	115	–	115
Repurchase of shares	(3,610)	(19,910)	(86,067)	–	–	–	–	–	–	(109,587)	–	(109,587)
Dividends	–	–	–	–	–	–	–	–	(57,415)	(57,415)	–	(57,415)
Transfer from retained profits	–	–	–	–	–	96	–	–	(96)	–	–	–
At 31 December 2018 (unaudited)	96,543	(19,910)	924,014	10,083	4,030	61,076	24,688	(93,293)	1,112,806	2,120,037	1,717	2,121,754

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2018

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium account* HK$'000	Share option reserve* HK$'000	Merger reserve* HK$'000	Statutory reserve fund* HK$'000	Asset revaluation reserve* HK$'000	Exchange fluctuation reserve* HK$'000	Retained profits* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 July 2017	100,153	1,010,081	5,479	4,030	59,296	24,688	(60,186)	919,057	2,062,598	–	2,062,598
Profit/(loss) for the period	–	–	–	–	–	–	–	144,699	144,699	(1,384)	143,315
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	41,922	–	41,922	–	41,922
Total comprehensive income/(expenses) for the period	–	–	–	–	–	–	41,922	144,699	186,621	(1,384)	185,237
Capital contribution from a non-controlling shareholder	–	–	–	–	–	–	–	–	–	5,000	5,000
Dividends	–	–	–	–	–	–	–	(60,092)	(60,092)	–	(60,092)
Equity-settled share option arrangement	–	–	415	–	–	–	–	–	415	–	415
Transfer of share option reserve upon the lapse of share options	–	–	(1,634)	–	–	–	–	1,634	–	–	–
Transfer from retained profits	–	–	–	–	930	–	–	(930)	–	–	–
At 31 December 2017 (unaudited)	100,153	1,010,081	4,260	4,030	60,226	24,688	(18,264)	1,004,368	2,189,542	3,616	2,193,158

* These reserve accounts comprise the consolidated reserves of HK$2,023,494,000 (31 December 2017: HK$2,089,389,000) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2018

	Note	For the six months ended 31 December 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		143,620	157,473
Total adjustments		9,240	(13,272)
Total working capital adjustments		(6,223)	(113,678)
Cash generated from operations		146,637	30,523
Profits tax paid		(15,476)	(33,157)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		131,161	(2,634)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		285	790
Decrease in time deposit with original maturity of more than three months		1,344	–
Purchase of items of property, plant and equipment		(9,880)	(11,906)
Purchases of intangible assets		(3,139)	–
Cash paid for acquisition of subsidiaries	17	(52,706)	–

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2018

	For the six months ended 31 December	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of interest-bearing bank borrowings	(7,770)	–
Dividends paid	(57,415)	(60,092)
Interest paid	(1,186)	–
Repurchase of shares	(109,587)	–
Repayment of loans due to the former shareholder of a newly acquired subsidiary	(44,426)	–
Decrease/(increase) in pledged deposits	437	(505)
Capital contribution from a non-controlling shareholder	–	5,000
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(219,947)	(55,597)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(152,882)	(69,347)
Cash and cash equivalents at beginning of the period	447,552	595,820
Effect of foreign exchange rate changes, net	(8,654)	11,334
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	286,016	537,807

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2018

1. Corporate Information

Sitoy Group Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 21 February 2008 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office address of the Company is Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 31119, KY1-1205, Cayman Islands. In the opinion of the Directors, the controlling shareholders of the Company 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, footwear and fashion 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 on 6 December 2011.

2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 31 December 2018 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2018.

2.2 Significant Accounting Policies

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 30 June 2018, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") as noted below.

The Group has adopted the following revised IFRSs for the first time for the current period's interim condensed consolidated financial statements:

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	*Amendments to IFRS 1 and IAS 28*

Other than as explained below regarding the impact of IFRS 9, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group adopted IFRS 9 for the annual periods beginning on 1 July 2018. With the exception of hedge accounting, which the Group has applied prospectively, the Group has not recognized the transition adjustments against the applicable opening balances in equity at 1 July 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Notes to Interim Condensed Consolidated Financial Statements
For the six months ended 31 December 2018

2.2 Significant Accounting Policies (continued)

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the condensed consolidated statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 July 2018 is as follows:

		IAS 39 measurement			IFRS 9 measurement	
	Note	Category	Amount	ECLs	Amount	Category
			HK$'000	HK$'000	HK$'000	
Financial assets						
Trade receivables	(i)	L&R[1]	515,960	(460)	515,500	AC[2]
Financial assets included in prepayments, other receivables and other assets		L&R[1]	26,531	–	26,531	AC[2]
			542,491	(460)	542,031	

[1]L&R: Loans and receivables
[2]AC: Financial assets at amortized cost

Note:

(i) The gross carrying amounts of the trade receivables under the column "IAS 39 measurement – Amount" represent the amounts after adjustments for the adoption of IFRS 15 but before the measurement of ECLs.

3. 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, footwear and fashion 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 space for its rental income or capital appreciation purpose.

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

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

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

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

Notes to Interim Condensed Consolidated Financial Statements
For the six months ended 31 December 2018

3. Operating Segment Information (continued)

For the six months ended 31 December 2018 (unaudited)

	Retail HK$'000	Manufacturing HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue:				
Sales to external customers	224,212	1,053,116	5,954	1,283,282
Intersegment sales	–	92,029	1,536	93,565
	224,212	1,145,145	7,490	1,376,847
Reconciliation:				
Elimination of intersegment sales	–	(92,029)	(1,536)	(93,565)
Total revenue				1,283,282
Segment results	13,327	114,395	27,976	155,698
Reconciliation:				
Corporate and other unallocated expenses, net				(12,078)
Profit before tax				143,620
Other segment information:				
Depreciation of items of property, plant and equipment	3,690	17,497	–	21,187
Unallocated depreciation of items of property, plant and equipment	–	–	–	1,274
				22,461
Amortization of prepaid land lease payments	–	211	–	211
Amortization of intangible assets	374	–	–	374
Write-down of inventories to net realizable value	3,499	1,816	–	5,315
Operating lease rentals	24,136	2,423	–	26,559
Capital expenditure*	5,639	4,564	340	10,543

Notes to Interim Condensed Consolidated Financial Statements
For the six months ended 31 December 2018

3. Operating Segment Information (continued)

For the six months ended 31 December 2017 (unaudited)

	Retail HK$'000	Manufacturing HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue:				
Sales to external customers	153,128	1,001,605	5,437	1,160,170
Intersegment sales	–	61,471	1,536	63,007
	153,128	1,063,076	6,973	1,223,177
Reconciliation:				
Elimination of intersegment sales	–	(61,471)	(1,536)	(63,007)
Total revenue				1,160,170
Segment results	12,800	106,074	40,372	159,246
Reconciliation:				
Corporate and other unallocated expenses, net				(1,773)
Profit before tax				157,473
Other segment information:				
Depreciation of items of property, plant and equipment	3,066	19,083	–	22,149
Unallocated depreciation of items of property, plant and equipment	–	–	–	1,275
				23,424
Amortization of prepaid land lease payments	–	213	–	213
Write-down of inventories to net realizable value	200	4,096	–	4,296
Operating lease rentals	22,672	2,329	–	25,001
Capital expenditure*	4,582	6,137	–	10,719

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

Notes to Interim Condensed Consolidated Financial Statements
For the six months ended 31 December 2018

3. Operating Segment Information (continued)

The following table compares the total segment assets and liabilities as at 31 December 2018 and as at the date of the last annual financial statements (30 June 2018).

As at 31 December 2018 (unaudited)

	Retail HK$'000	Manufacturing HK$'000	Property investment HK$'000	Total HK$'000
Segment assets	573,986	2,203,046	685,331	3,462,363
Reconciliation:				
Elimination of intersegment receivables				(947,572)
Corporate and other unallocated assets				152,114
Total assets				2,666,905
Segment liabilities	621,865	303,528	567,082	1,492,475
Reconciliation:				
Elimination of intersegment payables				(947,572)
Corporate and other unallocated liabilities				248
Total liabilities				545,151

Notes to Interim Condensed Consolidated Financial Statements
For the six months ended 31 December 2018

3. Operating Segment Information (continued)

As at 30 June 2018 (audited)

	Retail HK$'000	Manufacturing HK$'000	Property investment HK$'000	Total HK$'000
Segment assets	306,731	2,321,339	657,081	3,285,151
Reconciliation:				
Elimination of intersegment receivables				(880,189)
Corporate and other unallocated assets				151,127
Total assets				2,556,089
Segment liabilities	362,529	304,607	566,883	1,234,019
Reconciliation:				
Elimination of intersegment payables				(880,189)
Corporate and other unallocated liabilities				283
Total liabilities				354,113

Geographical information

(a) *Revenue from external customers*

	For the six months ended 31 December	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Revenue		
North America	324,147	340,191
Europe	288,533	268,982
Mainland China, Hong Kong, Macau and Taiwan	433,237	308,774
Other Asian countries	207,760	188,823
Others	29,605	53,400
	1,283,282	1,160,170

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

3. Operating Segment Information (continued)

Geographical information (continued)

(b) Non-current assets

	As at 31 December 2018 HK$'000 (Unaudited)	As at 30 June 2018 HK$'000 (Audited)
Mainland China, Hong Kong, Macau and Taiwan	1,185,789	1,106,076
Europe	38,145	–
Other Asian countries	11,670	–
	1,235,604	1,106,076

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

Information about major customers

For the six months ended 31 December 2018, revenue derived from sales by the manufacturing segment to one major customer amounting to HK$190,550,000 (unaudited) 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 six months ended 31 December 2017, revenue derived from sales by the manufacturing segment to one major customer amounting to HK$224,084,000 (unaudited) 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 Interim Condensed Consolidated Financial Statements
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4. Revenue, Other Income and Gains

An analysis of revenue is as follows:

	For the six months ended 31 December	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Revenue from contracts with customers		
Sale of goods	1,277,328	1,154,733
Revenue from other sources		
Gross rental income	5,954	5,437
	1,283,282	1,160,170

Revenue from contracts with customers

(i) Disaggregated revenue information

The segment information for revenue from contracts with customers represented the revenue from retail and manufacturing business, which was disclosed in note 3 above.

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities which were included in "Other payables and accruals" in the condensed consolidated statement of financial position at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	For the six months ended 31 December 2018 HK$'000 (Unaudited)
Revenue recognised that was included in contract liabilities at the beginning of the reporting period	
Sale of goods	6,784

4. Revenue, Other Income and Gains (continued)

Revenue from contracts with customers (continued)

(ii) *Performance obligations*

Information about the Group's performance obligations is summarized below:

Retail

The performance obligation is satisfied upon delivery of the goods.

Manufacturing

The performance obligation is satisfied upon delivery of the goods and payment is generally due within 14 to 105 days from delivery, except for new customers, where payment in advance is normally required.

Other income and gains

	For the six months ended 31 December	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Fair value gain on investment properties	25,660	37,259
Net sample and material income, net	3,647	4,338
Interest income	3,439	4,057
Exchange gain, net	11,227	–
Government grants	323	3,927
Others	1,349	1,431
	45,645	51,012

5. Profit Before Tax

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

	For the six months ended 31 December	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Cost of inventories sold	923,847	839,692
Employee benefit expense including Directors' remuneration		
– Wages and salaries	325,263	312,357
– Pension scheme contributions	9,057	11,421
– Equity-settled share award expense	5,361	–
– Equity-settled share option expense	115	415
	339,796	324,193
Depreciation of items of property, plant and equipment	22,461	23,424
Amortization of prepaid land lease payments	211	213
Amortization of intangible assets	374	–
Operating lease rentals	26,559	25,001
Write-down of inventories to net realizable value	5,315	4,296
Auditors' remuneration	950	800
Exchange (gain)/loss, net	(11,227)	12,753

6. 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 the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and the BVI.

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 31 December 2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the reporting period.

Macau Complementary Income Tax has not been provided for as the Group has no assessable profit arising in Macau during the six months ended 31 December 2018 (six months ended 31 December 2017: nil).

Italy, Korea, Taiwan and Japan Income Tax has not been provided for as the Group has no assessable profit arising in those countries during the six months ended 31 December 2018.

The provision for PRC corporate income tax is based on a statutory rate of 25% (six months ended 31 December 2017: 25%) of the assessable profit of the subsidiaries in Mainland China as determined in accordance with the PRC Corporate Income Tax Law for the six months ended 31 December 2018.

6. Income Tax Expense (continued)

The major components of income tax expense/(credit) are as follows:

	For the six months ended 31 December	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Current – Hong Kong		
Charge for the period	5,554	10,460
Current – Mainland China		
Charge for the period	21,802	6,924
Deferred tax	7,296	(3,226)
Total tax charged for the period	34,652	14,158

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7. Dividends

	For the six months ended 31 December	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Dividends on ordinary shares declared and paid during the six-month period: Final dividend for the year ended 30 June 2018: HK6 cents per ordinary share (year ended 30 June 2017: HK6 cents)	57,415	60,092
Dividends on ordinary shares declared (not recognized as a liability as at 31 December): Interim dividend – HK6 cents per ordinary share (six months ended 31 December 2017: HK6 cents)	57,926	60,092

On 25 February 2019, the Board of Directors of the Company resolved to propose an interim dividend for the six months ended 31 December 2018 of HK6 cents (six months ended 31 December 2017: HK6 cents) per ordinary share out of the consolidated retained profits of the Group as at 31 December 2018.

8. Earnings Per Share

The calculation of the basic earnings per share amount is based on the profit for the six months ended 31 December 2018 attributable to ordinary equity holders of the Company excluding cash dividend attributable to the awarded shares expected to be vested in the future as of the ending of the reporting period and the weighted average number of ordinary shares of 978,603,306 (six months ended 31 December 2017: 1,001,532,000) in issue excluding awarded shares during the six months ended 31 December 2018.

The calculation of the diluted earnings per share amount is based on the profit for the six months ended 31 December 2018 attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the six months ended 31 December 2018, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

For the six months ended 31 December 2018, 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 (six months ended 31 December 2017: nil).

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8. Earnings Per Share (continued)

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 31 December	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculation	114,819	144,699
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	978,603,306	1,001,532,000
Effect of dilution – weighted average number of ordinary shares:	2,970,744	–
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	981,574,050	1,001,532,000
Basic earnings per share (HK cents)	11.73	14.45
Diluted earnings per share (HK cents)	11.70	14.45

9. Property, Plant and Equipment

During the six months ended 31 December 2018, the Group acquired property, plant and equipment with a cost of approximately HK$10,203,000 (six months ended 31 December 2017: HK$10,719,000) and approximately HK$82,791,000 through acquisition of subsidiaries as disclosed in note 17.

During the six months ended 31 December 2018, depreciation for property, plant and equipment was HK$22,461,000 (six months ended 31 December 2017: HK$23,424,000).

During the six months ended 31 December 2018, property, plant and equipment with a net book value of HK$229,000 (six months ended 31 December 2017: HK$1,280,000) were disposed, resulting in a net gain on disposal of HK$56,000 (six months ended 31 December 2017: loss of HK$490,000).

10. Investment Properties

	Six months ended 31 December 2018 HK$'000 (Unaudited)	Year ended 30 June 2018 HK$'000 (Audited)
Carrying amount at beginning of the period/year	635,556	571,556
Transfer from construction in progress	340	1,006
Fair value gain on investment properties	25,660	62,994
Carrying amount at end of the period/year	661,556	635,556

10. Investment Properties (continued)

The Group's investment properties consist of two commercial properties in Hong Kong. Below is certain information about these two commercial properties:

Property	Address	Existing use	Lease term
Ground to 6th and 11th to 20th Floor, Sitoy Tower	Ground to 6th and 11th to 20th Floor, Sitoy Tower, No. 164 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong (Kwun Tong Inland lot number 316)	Commercial (for rental income and capital appreciation purposes)	Medium term lease
4th to 5th Floor, The Genplas Building	4th to 5th Floor, The Genplas Building, 56 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong (Kwun Tong Inland lot number 58)	Industrial (for rental income and capital appreciation purposes)	Medium term lease

11. Trade Receivables

	As at 31 December 2018 HK$'000 (Unaudited)	As at 30 June 2018 HK$'000 (Audited)
Trade receivables	516,760	515,960
Impairment	(634)	(460)
	516,126	515,500

11. Trade Receivables (continued)

The Group's trading terms with its customers are mainly on credit. The Group grants different credit periods to customers. The credit terms range from telegraphic transfers before shipment, 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 ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	As at 31 December 2018 HK$'000 (Unaudited)	As at 30 June 2018 HK$'000 (Audited)
Within 90 days	473,588	495,231
91 to 180 days	26,502	10,643
Over 180 days	16,036	9,626
	516,126	515,500

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11. Trade Receivables (continued)

The movements in the loss allowance for impairment of trade receivables are as follows:

	Six months ended 31 December 2018 HK$'000 (Unaudited)	Year ended 30 June 2018 HK$'000 (Audited)
At beginning and ending of period/year	460	504
Impairment losses recognized/(reversed), net	174	(44)
At the end of period/year	634	460

Impairment under IFRS 9 for the six months ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

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11. Trade Receivables (continued)

Impairment under IFRS 9 for the six months ended 31 December 2018 (continued)

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018		Past due			
	Current	1 month	1 to 3 months	Over 3 months	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Expected credit loss rate	0.04%	0.10%	1.16%	3.98%	0.12%
Gross carrying amount (HK$'000)	389,143	109,641	13,156	4,820	516,760
Expected credit loss (HK$'000)	174	115	153	192	634

Impairment under IAS 39 for the year ended 30 June 2018

As at 30 June 2018, included in the above provision for impairment of trade receivables, which was measured based on incurred credit losses under IAS 39, was a provision for an individually impaired trade receivable of HK$460,000 with a carrying amount before provision of HK$460,000.

The individually impaired trade receivable as at 30 June 2018 related 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.

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11. Trade Receivables (continued)

Impairment under IAS 39 for the year ended 30 June 2018 (continued)

The ageing analysis of the trade receivables as at 30 June 2018 that were not individually nor collectively considered to be impaired under IAS 39 is as follows:

	As at 30 June 2018 HK$'000 (Audited)
Neither past due nor impaired	401,782
Past due but not impaired:	
Less than 90 days	104,159
91 to 180 days	8,819
Over 180 days	740
	515,500

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

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

Based on past experience, the Directors of the Company are of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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12. Interest-Bearing Bank Borrowings

	As at 31 December 2018 (Unaudited)			As at 30 June 2018 (Audited)		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Bank loans – secured	4.15%-4.20%	On demand	20,000	–	–	–
Bank loans – unsecured	0.499%-2.6%	On demand	60,237	–	–	–
			80,237			–

As at 31 December 2018, secured bank borrowings were secured by property, plant and equipment with carrying amount of HK$61,000,000 (30 June 2018: nil).

The bank loans agreements contain clauses which the banks have the right at their sole discretion to demand immediate repayment at any time irrespective of whether the Group has met the scheduled repayment obligations. The aggregate carrying amounts of long-term bank loans that contain a repayment on demand clause, which have been reclassified as current liabilities, are as follows:

	As at 31 December 2018 HK$'000 (Unaudited)	As at 30 June 2018 HK$'000 (Audited)
Aggregate carrying amount	22,401	–

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12. Interest-Bearing Bank Borrowings (continued)

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

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

	As at 31 December 2018 (Unaudited)		As at 30 June 2018 (Audited)	
	Maturity	HK$'000	Maturity	HK$'000
Bank loans – secured	2019	20,000	–	–
Bank loans – unsecured	2019-2020	60,237	–	–
		80,237		–
Analyzed into:				
Bank loans repayable:				
Within one year or on demand		57,836		–
In the second year		22,401		–
		80,237		–

13. Trade Payables

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

	As at 31 December 2018 HK$'000 (Unaudited)	As at 30 June 2018 HK$'000 (Audited)
Within 90 days	261,237	197,150
91 to 180 days	11,072	8,563
181 to 365 days	2,446	7,421
Over 365 days	7,077	3,036
	281,832	216,170

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.

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14. Share Capital and Treasury Shares

A summary of the Company's share capital and treasury shares is as follows:

Shares:

	As at 31 December 2018 HK$'000 (Unaudited)	As at 30 June 2018 HK$'000 (Audited)
Issued and fully paid:		
956,910,000 (30 June 2018: 1,001,532,000) ordinary shares	95,691	100,153
Treasury shares:		
8,520,000 (30 June 2018: nil) ordinary shares (note i)	852	–
	96,543	100,153

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

	Number of shares in issue	Issued share capital HK$'000
At 30 June 2018 (audited)	1,001,532,000	100,153
Repurchase and cancellation of shares (note i)	(36,102,000)	(3,610)
At 31 December 2018 (unaudited)	965,430,000	96,543

Note:

(i) During the six months ended 31 December 2018, the Group repurchased 44,622,000 shares on the Hong Kong Stock Exchange for a total consideration of HK$109,587,000 in accordance with section 257 of the Hong Kong Companies Ordinance, among which 36,102,000 shares were cancelled and 8,520,000 shares are treasury shares held for share award scheme.

15. Contingent Liabilities

The Group had no significant contingent liabilities as at 31 December 2018 (30 June 2018: nil).

16. Share Award Scheme

In July 2018, 9,000,000 treasury shares were promised to be conditionally granted to nine grantees including an executive director and other senior managers under a share award scheme. Vesting of the shares is conditional upon the fulfilment of certain vesting conditions. The fair value of each awarded share at the grant date was HK$2.00 which was equal to the market price of the shares on the date of grant.

The fair value of the share awards granted during the period was HK$18,000,000, of which the Group recognized an expense of approximately HK$5,361,000 for the six months ended 31 December 2018.

At the date of approval of these interim condensed consolidated financial statements, the Company had 8,520,000 treasury shares held under the share award scheme, which represented approximately 0.86% of the Company's shares in issue as at that date.

17. Business Combination

On 22 November 2018, the Group acquired approximately 95.35% of the total issued shares of A. Testoni S.p.A., the remaining approximately 4.65% of the issued shares was owned by A. Testoni S.p.A. itself as permitted by the laws of Italy. Therefore, A. Testoni S.p.A. and its subsidiaries ("A. Testoni Group") is effectively wholly owned by the Group. A. Testoni Group is principally engaged in manufacturing and retail of leatherware, fashion garments and apparel. The acquisition was made as part of the Group's strategy to broaden its income base and strengthen the Group's retail brand portfolio. The consideration for the acquisition was in the form of cash, in an aggregate of Euro 7,334,000 (approximately HK$65,163,000) paid on the acquisition date.

The Group has elected to measure the non-controlling interest in a subsidiary of A. Testoni Group at the non-controlling interests' proportionate share of the subsidiary's identifiable net assets.

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17. Business Combination (continued)

The fair values of the identifiable assets and liabilities of A. Testoni Group as at the date of acquisition were as follows:

	Fair value recognized on acquisition HK$'000
Plant, property and equipment	82,791
Intangible assets	18,560
Deferred tax assets	16,553
Financial assets measured at amortized cost	12,102
Other non-current assets	12,723
Inventories	96,857
Trade receivables	16,793
Prepayments, deposits and other receivables	6,690
Cash and cash equivalents	12,457
Trade payables	(33,452)
Other payables and accruals	(81,254)
Interest-bearing bank borrowings	(88,007)
Deferred tax liabilities	(2,124)
Total identifiable net assets at fair value	70,689
Non-controlling interest	(7,872)
Goodwill on acquisition	2,346
Satisfied by cash	65,163

17. Business Combination (continued)

The fair values of the trade receivables and prepayments, deposits and other receivables as at the date of acquisition amounted to HK$16,793,000 and HK$6,690,000 respectively. The gross contractual amounts of trade receivables and prepayments, deposits and other receivables were HK$20,347,000 and HK$7,081,000, respectively, of which trade receivables of HK$3,554,000 and other receivables of HK$391,000 are expected to be uncollectible.

The Group incurred transaction costs of HK$7,170,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the condensed consolidated statement of profit or loss.

An analysis of the cash flows in respect of the acquisition of A. Testoni Group is as follows:

	HK$'000
Cash consideration	(65,163)
Cash and bank balances acquired	12,457
Net outflow of cash and cash equivalents included in cash flows from investing activities	(52,706)
Transaction costs of the acquisition included in cash flows from operating activities	(7,170)
	(59,876)

Since the acquisition, A. Testoni Group contributed HK$10,464,000 to the Group's revenue and incurred loss of HK$4,298,000 to the consolidated profit for the six months ended 31 December 2018.

Had the combination taken place at the beginning of the reporting period, the revenue and the net profit of the Group for the six months ended 31 December 2018 would have been approximately HK$1,375,310,000 and approximately HK$37,225,000, respectively.

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18. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties 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 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 31 December 2018 HK$'000 (Unaudited)	As at 30 June 2018 HK$'000 (Audited)
Within one year	6,537	4,508
In the second to fifth years, inclusive	8,751	4,916
	15,288	9,424

18. Operating Lease Arrangements (continued)

(b) As lessee

The Group leases certain of its office properties and retail outlets under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to 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 31 December 2018 HK$'000 (Unaudited)	As at 30 June 2018 HK$'000 (Audited)
Within one year	53,344	28,470
In the second to fifth years, inclusive	75,329	28,690
Over the fifth years	17,581	–
	146,254	57,160

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

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19. Related Party Transactions

(a) In addition to the transactions detailed elsewhere in these interim condensed consolidated financial statements, the Group had the following transactions with related parties during the six months ended 31 December 2018:

	For the six months ended 31 December	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Property lease from a company of which a Director of the Company is a controlling shareholder		
Golden Palace Corporation Limited	1,200	1,200
Maxon Properties Limited	1,200	1,200
	2,400	2,400

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.

On 31 December 2018, the tenancy agreement entered between the Group and Golden Palace Corporation Limited had been terminated with effect from 31 December 2018, details had been set up in the announcement of the Company dated 31 December 2018.

19. Related Party Transactions (continued)

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

	For the six months ended 31 December	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Short term employee benefits	5,888	5,794
Post-employment benefits	47	53
Equity-settled share award expense	1,576	–
Equity-settled share option expense	40	188
Total compensation paid to key management personnel	7,551	6,035

20. Events After the Reporting Period

Save as disclosed elsewhere in this report, there was no significant event that took place after the reporting period and up to the date of the interim condensed consolidated financial statements.

21. Approval of the Interim Condensed Consolidated Financial Statements

The interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on 25 February 2019.