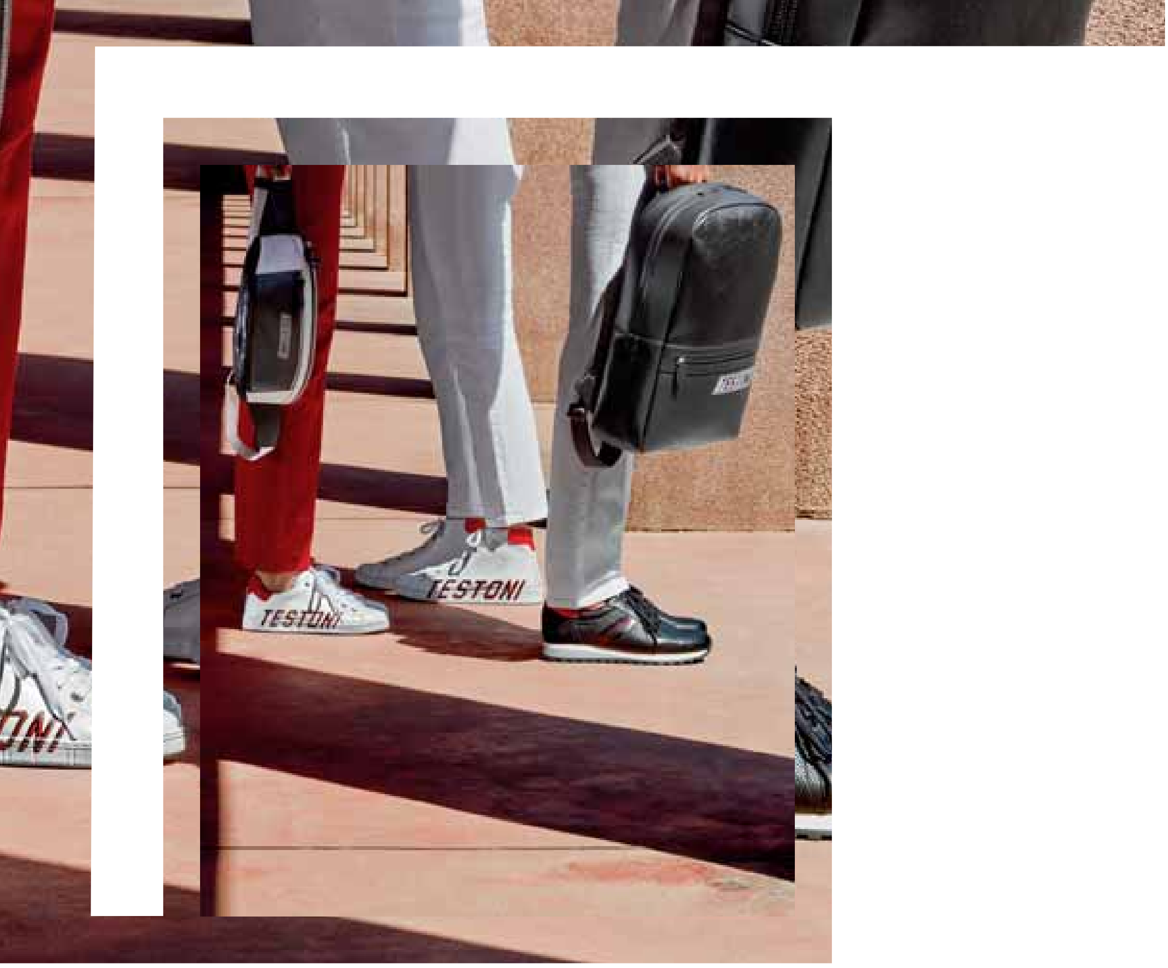
2019年報

ANNUAL REPORT

SITOY GROUP HOLDINGS LIMITED

時代集團控股有限公司
SITOY GROUP HOLDINGS LTD.

(Incorporated in the Cayman Islands with limited liability)
(於開曼群島註冊成立的有限公司)
Stock Code 股份代號：1023



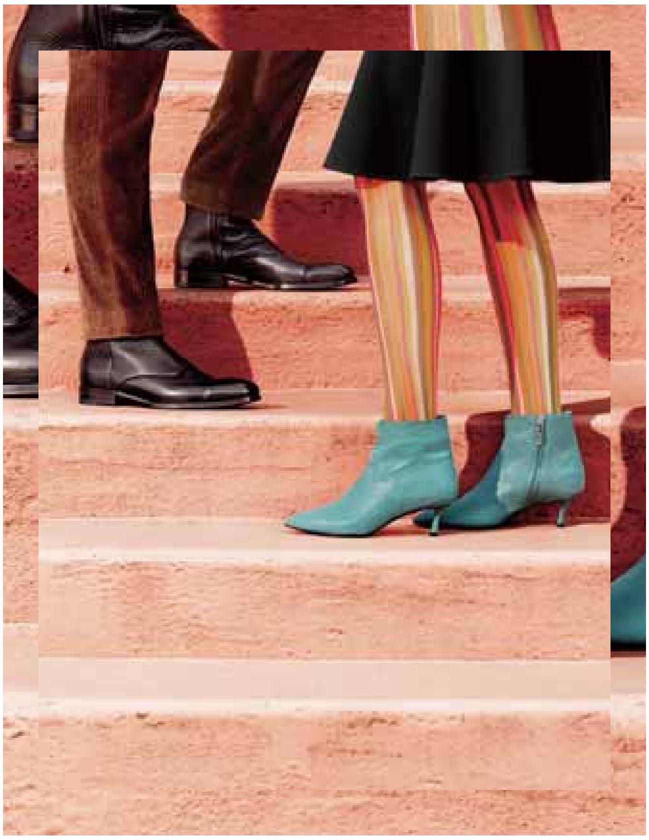
我們的價值 OUR VALUES

Sitoy Group Holdings Limited (the "Company" or "Sitoy Group") and its subsidiaries (together, the "Group") are one of the world's leading manufacturers of branded high-end and luxury handbags, small leather goods and travel goods and a brand distributor in Greater China. The Group is principally engaged in design, research, development, manufacturing, sales, retailing and wholesales of handbags, small leather goods, travel goods and footwear products, provision of advertising and marketing services, and property investment. Since 2011, the Group has entered the rapidly growing China handbag retailing market and become a vertically integrated handbag and small leather goods company. The Group currently owns four self-owned brands in total, namely Tuscan's, Fashion & Joy as well as a.testoni, which was acquired during the year, and its diffusion line i29. In addition, the Group owns the exclusive rights for distribution and operation in Hong Kong and mainland China of two major international brands, Cole Haan and Kenneth Cole, and the exclusive rights for distribution and operation in mainland China of Jockey.

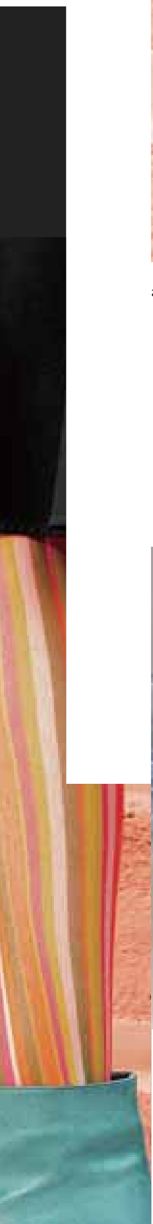
時代集團控股有限公司(「本公司」或「時代集團」)及其附屬公司(統稱「本集團」)為世界頂尖的高端品牌及奢侈手袋、小皮具及旅行用品製造商之一，也是大中華區品牌分銷商。本集團主要從事手袋、小皮具、旅行用品及鞋履產品設計、研發、製造、銷售、零售及批發，提供廣告及營銷服務，以及物業投資。由二零一一年起，本集團已進駐增長迅速的中國手袋零售市場，成為垂直整合手袋及小型皮革產品公司。集團目前擁有總共四個自家品牌，即Tuscan's, Fashion & Joy，以及本年度收購的a.testoni；及其副線品牌i29。除此之外，本集團擁有兩大國際品牌Cole Haan及Kenneth Cole於香港及中國內地的獨家分銷及經營權，和Jockey在中國內地的獨家分銷及經營權。

CONTENTS

ABOUT A.TESTONI



a.testoni Fall Winter 2019 Campaign



Young Amedeo Testoni opened his first workshop in 1929, after having learnt the secrets of the most important Bolognese craftsmen. In the 1950's, he improved on the traditional Bolognese production to fulfil his dream of creating the most beautiful shoes in the world.

Old methodologies and unique competencies formed the basis for this company, which still takes pride in selecting only the finest materials and achieving the highest quality – without compromise. The brand's philosophy aims for original technical and aesthetic solutions, and its history contains the prerequisites for continuous innovation and development, to affirm the future of artisan craftsmanship and ensure international recognition of modern Italian style in the world.

ABOUT TUSCAN'S

Tuscan's Fall Winter 2019 Campaign

In 1974, Mr Antonio Perrotti and Mr Giovanni Starnini co-founded TUSCAN'S in a bid to set the trend with premium leather.

The Italian city of Florence in Tuscany is the cradle of traditional Italian leather craftsmanship. The city has been home to some of the shiniest names in fashion for centuries. Embodying the romantic atmosphere of the terroir, TUSCAN'S lays claim to the rich leatherwork heritage of Florence. Tuscan's entered the mainland China and Hong Kong market in 2011, with an aim to spark off a transformation in style that blends Italian style with Eastern fashion and puts personality and classic design to the fore.

ABOUT FASHION & JOY

Fashion & Joy Fall Winter 2019 Campaign

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

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

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

ABOUT I29

a.testoni, a luxury brand from Bologna which crafts footwear and leather fashions, has launched a new brand – I29 a.testoni, through its groundbreaking creative ideas.

The launching of I29 is inspired by way of life and daily necessities, for instance, music, travel and sports in Italy. 'I' represents a strong sense of self-recognition, and '29' refers to the founding year of a.testoni, it also implies a sense of eternity.

By applying the colours originated from Bologna, i.e. red, blue and metallic gold, this is the trademark for I29. Each of the series under the brand is inspired by different genre in music and names as follows: rock, pop, punk and hip-hop.

The iconic design for I29 – '6 stars' adopts 6 studs which have a star shape in the making. It entitles the fashion trend and sense of avant-grade to footwear and accessories under I29. The major material used for I29 is kipskin. Further to this, we adopt a variety of other material such as tweed and fur fabric for innovative production.

I29 Fall Winter 2019 Campaign

ABOUT COLE HAAN

Cole Haan Fall Winter 2019 Campaign

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

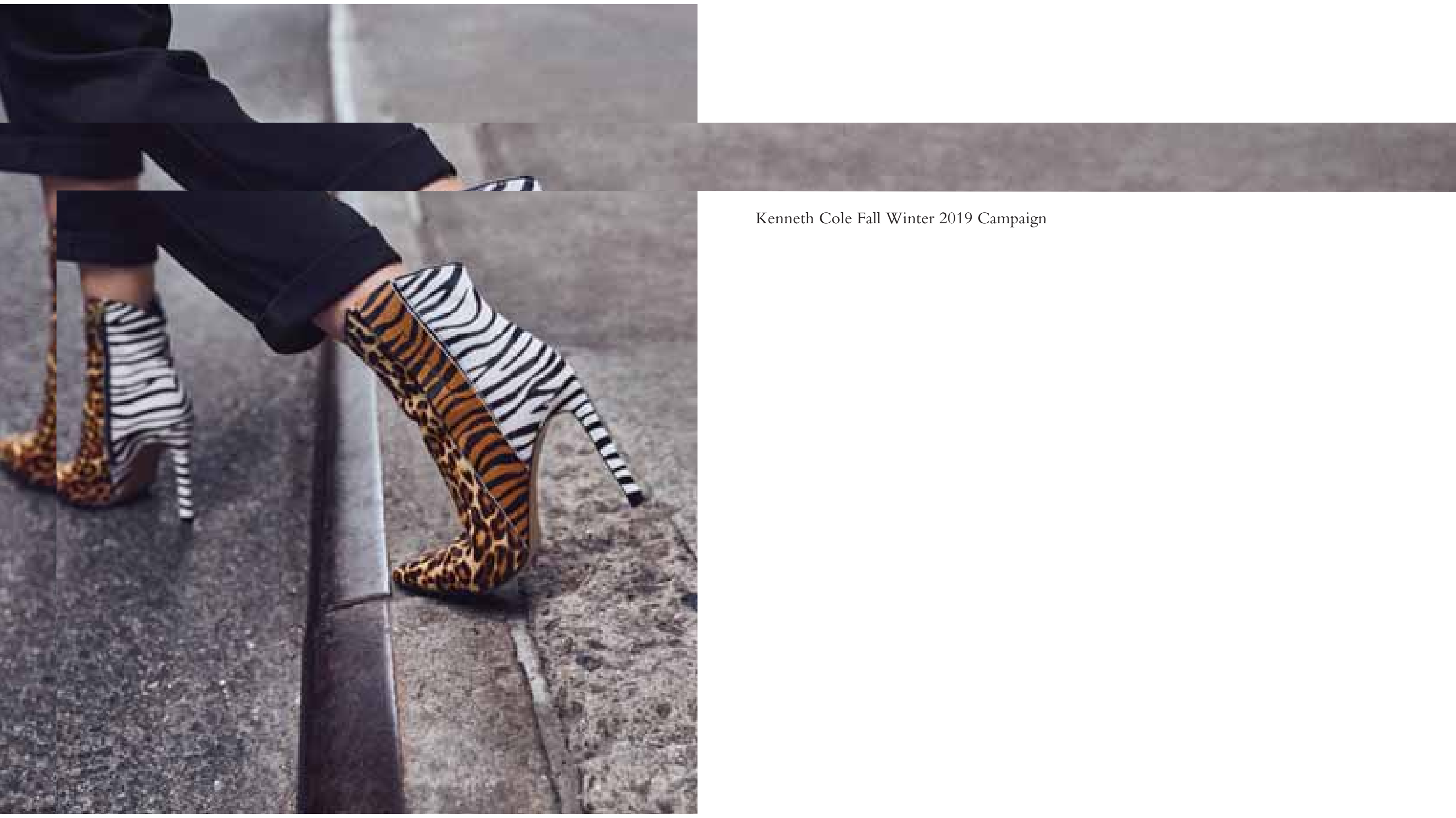
ABOUT KENNETH COLE

Kenneth Cole Fall Winter 2019 Campaign

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

ABOUT KENNETH COLE

on people's wardrobes, as well as communities in need. He is a pioneer. Today, The Kenneth Cole Foundation remains committed to helping communities in need by supporting Collective Health, Civil Liberties, and Artistic Activism.



Kenneth Cole Fall Winter 2019 Campaign

ABOUT JOCKEY

For more than 140 years, Jockey has led the apparel industry by producing garments that connect with our spirit of adventure. Our legacy, based on ingenuity, vitality and authenticity, celebrates Jockey as a pioneering brand of progressive and independent thinking. As a world-class brand, Jockey continues to inspire a renewed sense of individuality and freedom of movement in today's men and women across the world ultimately satisfying the human need for comfort.

Jockey International, Inc. is a privately held American company, founded in 1876 by Samuel T. Cooper. Today, Jockey is a leading manufacturer and marketer of apparel products sold in more than 120 countries. The 140-year old company is committed to quality, comfort, fashion, innovation and value.

JOCKEY Fall Winter 2019 Campaign

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)*
Dr. Lau Kin Shing, Charles *(Chief Financial Officer)*

Independent Non-executive Directors

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

AUTHORIZED REPRESENTATIVES

Mr. Yeung Wo Fai
Dr. Lau Kin Shing, Charles *CA, FCCA, FCPA (Aust.), CPHR*

COMPANY SECRETARY

Dr. Lau Kin Shing, Charles *CA, FCCA, FCPA (Aust.), CPHR*

REGISTERED OFFICE

Grand Pavilion, Hibiscus Way
802 West Bay Road, P.O. Box 31119
KY1-1205, Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

9th Floor, Sitoy Tower
164 Wai Yip Street, Kwun Tong
Kowloon, Hong Kong

PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

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

BOARD COMMITTEES

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

LEGAL ADVISER AS TO HONG KONG LAWS

Woo Kwan Lee & Lo

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of China (Hong Kong) 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

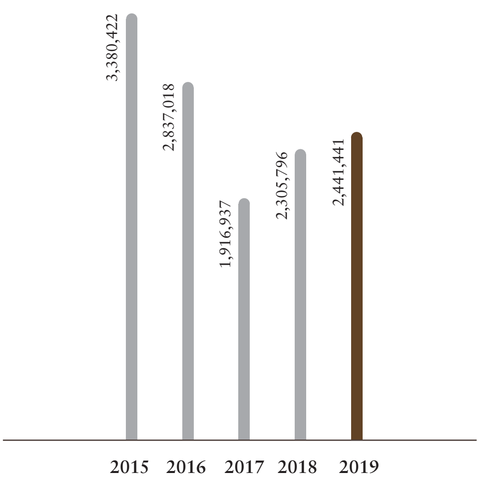
1023

COMPANY WEBSITE

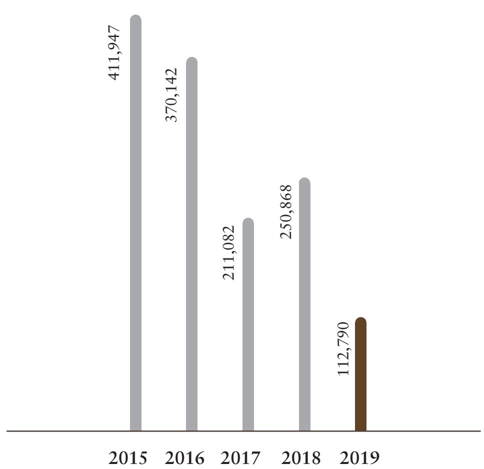
www.sitoy.com

FINANCIAL HIGHLIGHTS

REVENUE
HK$'000

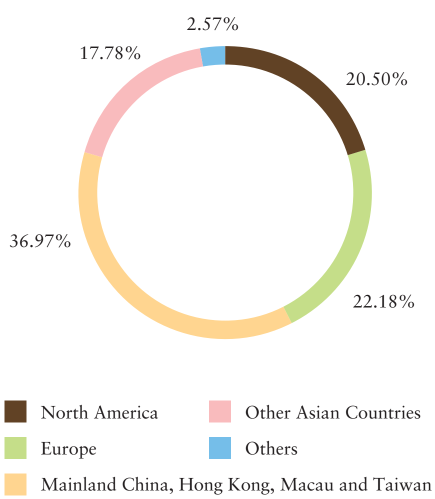


PROFIT FOR THE YEAR
HK$'000

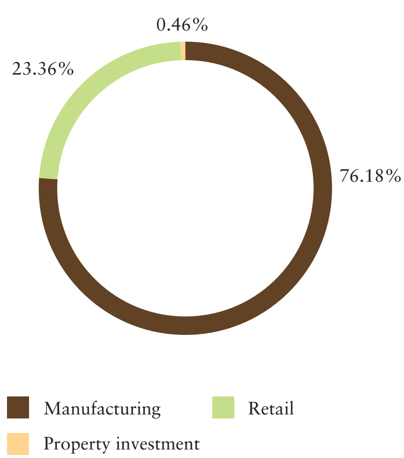


Consolidated revenue increased by 5.9% year-on-year to HK$2,441.4 million

2019 REVENUE BY GEOGRAPHICAL SEGMENT



2019 REVENUE BY OPERATING SEGMENT



Geographically, mainland China, Hong Kong, Macau and Taiwan and Europe were our two largest markets

FINANCIAL HIGHLIGHTS

	Year ended 30 June	
	2019 HK$'000	2018 HK$'000
Revenue	**2,441,441**	2,305,796
Gross profit	**695,293**	637,219
Profit before tax	**160,935**	282,197
Profit for the year	**112,790**	250,868
Net assets per share (note 1) (approximately)	**HK$2.13**	HK$2.20
Basic earnings per share (note 2) (approximately) (HK cents)	**12.97**	25.63
Diluted earnings per share (note 2) (approximately) (HK cents)	**12.91**	25.63
Dividends per share (note 3) (HK cents)	**8**	12
Total assets	**2,632,064**	2,556,089
Net assets	**2,060,091**	2,201,976
Current ratio	**2.46 times**	4.09 times
Quick ratio	**1.77 times**	3.15 times
Gearing ratio (note 4)	**6.2%**	N/A
Return on equity	**5.5%**	11.4%
Return on total assets	**4.3%**	9.8%

Notes:

1. The calculation of the net assets per share amount is based on the net assets as at 30 June 2019 to ordinary equity holders of the Company, and the number of ordinary shares of 965,430,250 in issue as at 30 June 2019 (30 June 2018: 1,001,532,000).

2. The calculation of the basic earnings per share amount is based on the profit for the year ended 30 June 2019 attributable to ordinary equity holders of the Company of approximately HK$125,566,000 (year ended 30 June 2018: HK$256,675,000), and the weighted average number of ordinary shares of 967,816,000 (30 June 2018: 1,001,532,000) in issue during the year.

   The calculation of the diluted earnings per share amount is based on the profit for the year ended 30 June 2019 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 year ended 30 June 2019, 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.

3. The Directors (as defined below) recommended the payment of a final dividend of HK2 cents per share for the year ended 30 June 2019 (30 June 2018: HK6 cents per share). Together with the interim dividend of HK6 cents per share for the period ended 31 December 2018 (31 December 2017: HK6 cents), the annual dividend will amount to HK8 cents per share for the year ended 30 June 2019 (30 June 2018: HK12 cents). For more details, please refer to note 12 to the consolidated financial statements.

4. Gearing ratio is presented as at 30 June 2019, which is net debt divided by total capital plus net debt. The Group's net debt consists of interest-bearing bank borrowings, trade and other payables and accruals, less cash and cash equivalents. The Group had no outstanding interest-bearing bank borrowings as at 30 June 2018 and hence no gearing ratio was presented.

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is my pleasure to present the annual results for the year ended 30 June 2019 ("FY2019" or the "Year under Review") of Sitoy Group Holdings Limited (the "Company" or "Sitoy Group") and its subsidiaries (collectively referred to as the "Group") to you.

OVERALL RESULTS

During the Year under Review, due to the escalating Sino-US trade friction, domestic export business was directly affected by the increased US tariffs on Chinese imports and economic performance in Asia remained weak. On the other hand, amid continued economic uncertainties, consumer sentiment in mainland China and Hong Kong has been weakening since the beginning of the year. Faced with a challenging business environment, the Group adhered to its principle of active innovation and flexibility in order to mitigate the impact brought by the macro-environment on our operation.

For FY2019, the Group recorded a revenue of approximately HK$2,441.4 million, representing a slight increase of 5.9% as compared to the previous year, while gross profit increased by 9.1% to HK$695.3 million and gross profit margin amounted to 28.5%. During the year, profit attributable to ordinary equity holders of the Company decreased by approximately 51.1% to approximately HK$125.6 million. Basic earnings per share were HK12.97 cents. The board (the "Board") of directors (the "Directors") of the Company recommended payment of a final dividend of HK2 cents per share.

RETAIL BUSINESS

During the Year under Review, the Group acquired A. Testoni S.p.A. and its subsidiaries, which owns a.testoni, a century-old Italian brand of luxury leather goods and i29, its sub-brand. The acquisition expanded the Group's retail network, which covers Hong Kong, major cities in mainland China, Taiwan, Japan, South Korea and Europe. The Group has formulated a three-year plan for brand revitalisation and marketing to develop a.testoni into a leading brand and promote the Group's position in the international high-end fashion brand community, as well as to strengthen its retail business, making it one of the Group's main sources of profit and cash flow in the long run.

The acquisition was completed in November 2018. After taking into account the seven-month revenue contribution from A. Testoni S.p.A. and its subsidiaries, income from the Group's retail business increased during the Year under Review. Revenue from retail business segment increased by 80.7% to approximately HK$570.2 million. Profit before tax of the segment was approximately HK$7.9 million, which was lower than the previous year. The decrease was partly due to the one-off legal and professional fees of approximately HK$7.2 million in relation to the acquisition.

As disclosed in the announcement of the Company dated 20 November 2018, prior to the acquisition, the operation of A. Testoni S.p.A. had been in a loss-making position. Nevertheless, a.testoni was considered as a brand with great potential by the Board. Sitoy Group, as the investor and operator, will preserve a.testoni's brand characteristics, promote its craftsmanship spirit and carry on the tradition of putting craft as a top priority through forward-looking visions and strategies, so as to achieve sustainable development and growth with vitality.

According to the Group's three-year development plan, the Group will gradually reduce the loss of the brand with a view to reaching the break-even point within three years and developing it into the Group's flagship brand and leading income source. The design team will retain local elites from Italy and bring in more fashionable styles and vitality while keeping its fine craftsmanship intact. We expect to launch new product collections under the brand in 2020. Meanwhile, leveraging Sitoy Group's retail experience in the Greater China Region, we are confident about achieving solid progress.

On top of a.testoni and i29, the Group also has two self-owned brands, TUSCAN'S and Fashion & Joy. We also own the exclusive rights for distribution and operation in Hong Kong and mainland China of two major international brands, Cole Haan and Kenneth Cole, and the exclusive rights for distribution and operation in mainland China of Jockey. These seven brands, each with its own brand history and characters and targeting at tastes of different customer groups, cover men's and women's bags, leather goods, clothing and accessories, which have greatly enriched the Group's product offerings. The diversified product portfolio and comprehensive strategic arrangement of operation enabled us to cater to the preferences of the middle class and young consumers in both mainland China and Hong Kong more precisely.

CHAIRMAN'S STATEMENT

The Group also made good use of its own 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 good reputation among consumers. The Group's marketing campaigns have also successfully increased brand awareness and increased store traffic, thereby contributing to our growth.

MANUFACTURING BUSINESS

Regarding the manufacturing business, during the Year under Review, orders remained steady and segment revenue reached approximately HK$1,860.0 million. During the second half of FY2019, due to the escalating Sino-US trade war and the unresolving negotiations between the two countries, customers were cautious when placing orders and the volume of each order was lower than before. Fortunately, the Group has been proactively increasing its European and Asian brand customers over the past few years, which reduced our reliance on orders from the US. Meanwhile, we adopted flexible methods to cope with the effects of the Sino-US trade conflict and discussed with US brand customers issues related to the ordering price and tariff affordability, and thus managed to maintain our order income at a steady level.

To reduce unduly dependence on the manufacturing business on a single market, the Group has started to implement a strategy of market diversification as early as two years ago. While strengthening the relationships with existing customers, it eagerly explored new business opportunities with brand customers from Europe, Asia and mainland China. During FY2019, customers from North America accounted for approximately 20.5% (FY2018: 27.5%), reflecting the Group's efforts in reducing dependence on the North American market.

In view of the huge potential in travel goods market, the Group has strived to tap into business and leisure travel goods segment in recent years and experienced satisfactory growth during the Year under Review. In response to the rising labour costs in mainland China, the management team has also improved each manufacturing process through research and development to increase cost-efficiency and maintain manufacturing cost at a steady level.

During the Year under Review, gross profit margin of the manufacturing business declined, which is mainly due to the orders with lower gross profit margins commissioned to the Group with capacity because some brand customers were relatively more cautious when placing orders. However, the Group believes that with our outstanding product quality and our prestige and reputation established among high-end European and US brand customers, we will still maintain a firm position in the market segment of refined craftsmanship of handbags and leather goods.

CHAIRMAN'S STATEMENT

PROPERTY INVESTMENT BUSINESS

The Group has maintained stable return for the property investment business. Currently, all available-for-rent floors of Sitoy Tower have been leased out. In addition to leasing purpose, a portion of floors of Sitoy Tower was reserved for use as the headquarters of the Company and product showrooms. On one hand, it generated a stable and long-term rental income to the Group. On the other hand, it facilitated the presentation of our latest and best product designs and crafts to customers, which helped propel the Group's manufacturing and retail business with contributions in different aspects. Furthermore, the office premises located at Hoi Yuen Road, Kwun Tong and Silvercord Centre, Tsim Sha Tsui, which were originally for our own use, were transferred to investment properties in 2017 and in current year respectively, and were fully rented out, continuing to bring a stable rental income to the Group.

PROSPECT

Looking forward, the Group will continue to push forward the general approach of increasing the proportion of retail sales business. We will identify reliable distributors in more provinces and cities in mainland China, and offer cooperation opportunities to distributors with sound operation histories in selected cities by implementing a distribution system under a pragmatic and solid strategy, so as to increase sales channels and reputation of the brand in mainland China, further fueling growth of the retail business. The Group will also actively seek ideal locations for opening multi-brand stores to provide consumers with the best shopping experience. Furthermore, we will continue to keep an eye on any suitable brands with a view to enriching our brand portfolio for distribution and licensing.

Regarding the manufacturing business, as the US-China trade talks are expected to continue to disturb economics in Asia in the future, it will encounter a number of challenges. However, over the past two years, under the leadership of an experienced management team, the Group has been forward-looking in exploring markets outside North America to diversify risks. Meanwhile, the retail business is on the right track after years of cultivation, becoming a new growth driver for the Group. As one of the world's leading high-end and luxury brands and manufacturers and distributors of small leather goods, Sitoy Group is fully confident about facing challenges with the goal of achieving steady growth.

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

Yeung Michael Wah Keung
Chairman

Hong Kong
27 September 2019

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

Retail business

Revenue generated from this segment soared by approximately 80.7% year-on-year to approximately HK$570.2 million for FY2019 as a result of the acquisition of A. Testoni S.p.A. and it subsidiaries in November 2018. The profit before tax of the retail segment was approximately HK$7.9 million for FY2019, representing a drop of approximately 64.2% when compared to the previous year. The profit from licensed brands was diluted by the legal and professional fees incurred on a one-off basis for the acquisition (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 the high demand for affordable quality handbags and leather goods in the Greater China 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 30 June 2019. 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 business accessories designed and expertly crafted for bold and young trend-setters.

During FY2019, 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 men's and women's 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.

As regards retail mode, the Group opened its first Fashion & Joy integrated flagship store in the second half of 2017, which continued to 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").

* Mainland only

MANAGEMENT DISCUSSION & ANALYSIS

Manufacturing business

During FY2019, the Group's purchase orders received from its external customers have slightly decreased by approximately 6.0% when compared to the previous year. The Group has maintained reasonable return with segment result of profit before tax to segment revenue ratio of approximately 7.1%. The segment profit before tax decreased mainly due to 1) intense competition among the Asian regions and 2) the increasing production and operating costs in the mainland China. The manufacturing business has generated segment revenue from external customers of approximately HK$1,860.0 million with segment result of profit before tax of approximately HK$132.4 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 diversify our market reach. Currently, the proportion of revenue from North America decreased to 20.50% from 27.48% of the Group's total revenue in previous year, which was offset by the increase in the shares of the Asian market;

(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 high quality raw materials at competitive prices, upgrading production facilities, continuing to optimise and streamline production procedures to boost competitiveness 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 into 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, Kowloon, Hong Kong 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 ceased to be for own use and was transferred to investment properties for rental income and capital appreciation purpose in early 2017. During FY2019, the Group transferred its self-use property located at No. 1011, 10th Floor, Tower 1, Silvercord, No. 30 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong, which was acquired through the acquisition of A. Testoni S.p.A. and its subsidiaries to investment property for rental income and capital appreciation purpose. The property investment segment is expected to generate stable returns for the Group. The property investment business has generated revenue of approximately HK$11.3 million with segment result of profit before tax of approximately HK$42.3 million during FY2019 as a result of net fair value gain on the investment properties of approximately HK$37.3 million.

MANAGEMENT DISCUSSION & ANALYSIS

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 high 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 of the manufacturing business, 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 the use of proceeds from IPO:

	Use of IPO proceeds prior to the Proposed Change		The Proposed Change	Use of IPO proceeds subsequent to the Proposed Change	Used up to 30 June 2019	Unused balance up to 30 June 2019	Expected timeline for unused IPO proceeds
	HK$'million approximately	Percentage approximately	HK$'million approximately	HK$'million approximately	HK$'million approximately	HK$'million approximately	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	91.8	91.8	–	N/A
	718.2	100%	–	718.2	718.2	–	

As at 30 June 2019, the Group's net IPO proceeds had been fully utilised.

FINANCIAL REVIEW

Revenue

The Group's revenue increased by approximately 5.9% to approximately HK$2,441.4 million for FY2019 from approximately HK$2,305.8 million for the year ended 30 June 2018 ("FY2018"). This rise was primarily due to expansion of the retail business as well as the acquisition of the a.testoni brand.

MANAGEMENT DISCUSSION & ANALYSIS

Cost of sales

Cost of sales of the Group increased by approximately 4.6% to approximately HK$1,746.1 million for FY2019 from approximately HK$1,668.6 million for FY2018. The increase in cost of sales was in line with revenue growth and as a result of the increase in the sales orders received from the customers.

Gross profit and gross profit margin

Gross profit increased by approximately 9.1% to approximately HK$695.3 million for FY2019 from approximately HK$637.2 million for FY2018. The gross profit margin increased to approximately 28.5% for FY2019 from approximately 27.6% for FY2018 as a result of increasing contribution from retail business.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 43.3% to approximately HK$282.2 million for FY2019 from approximately HK$196.9 million for FY2018. The increase was primarily attributable to the expansion of retail business.

Administrative expenses

Administrative expenses increased by approximately 35.8% to approximately HK$304.9 million for FY2019 from approximately HK$224.5 million for FY2018. The increase was primarily attributable to the hiring of more management staff to support the business expansion and manage the global retail business.

Income tax expense

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

Hong Kong profits tax as applicable to the Group was 16.5% for the years ended 30 June 2019 and 2018 on the estimated assessable profits arising in or derived from Hong Kong during the relevant year.

Macau Complementary Income Tax has not been provided for as the Group had no assessable profit arising in Macau during FY2019 (2018: nil).

Italy, Korea, Taiwan and Japan Income Tax has not been provided for as the Group has no assessable profit arising in those jurisdictions during FY2019.

The PRC corporate income tax was based on a statutory rate of 25% (2018: 25%) of the assessable profit of all the subsidiaries incorporated in the PRC as determined in accordance with the PRC Corporate Income Tax Law, which was approved and became effective on 1 January 2008.

The effective tax rate of the Group increased to approximately 29.9% for FY2019 (2018: 11.1%). The increase was due to the fully utilised tax losses of certain mainland China subsidiaries.

Profit for the Year

Profit for the Year decreased by approximately HK$138.1 million to approximately HK$112.8 million for FY2019 from approximately HK$250.9 million for FY2018.

MANAGEMENT DISCUSSION & ANALYSIS

Investment properties

Details of investment properties of the Group with carrying amounts of approximately HK$733.1 million and HK$635.6 million as at 30 June 2019 and 30 June 2018 respectively are as follows:

As at 30 June 2019

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
No. 1011, 10th Floor, Tower 1, Silvercord	No. 1011, 10th Floor, Tower 1, Silvercord, No. 30 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong (Kowloon Inland lot number 10456)	Commercial (for rental income and capital appreciation purposes)	Medium term lease

As at 30 June 2018

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

MANAGEMENT DISCUSSION & ANALYSIS

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", 7th to 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 remaining floors of Property 1 are held for rental income and capital appreciation purposes.

During the year ended 30 June 2017, the Company's offices located at 4th to 5th Floor, The Genplas Building, 56 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong (the "Property 2") ceased for the Group's 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.

During FY2019, the Company's office located at No. 1011, 10th Floor, Tower 1, Silvercord, No. 30 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong (the "Property 3") ceased for the Group's own use and thus were transferred to investment property. The Property 3 was acquired through the acquisition of A. Testoni S.p.A. and its subsidiaries during FY2019. The Property 3 has a total gross floor area of approximately 2,060 square feet and is held for rental income and capital appreciation purposes.

Capital expenditure

For FY2019, capital expenditure of the Group amounted to approximately HK$14.7 million, primarily due to the upgrading of existing manufacturing facilities, as well as the expansion of retail business.

Significant investments

The Group had no significant investments held during FY2019.

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.

MANAGEMENT DISCUSSION & ANALYSIS

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 20 November 2018.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

Save as disclosed above, the Group had no material acquisitions and disposals of subsidiaries, associates or joint ventures during FY2019.

Treasury policy

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

Liquidity and financial resources

The liquidity and financial resources position of the Group remains strong as it continues to adopt a prudent approach in managing its financial resources. The Group's cash and cash equivalents as at 30 June 2019 amounted to approximately HK$406.8 million (2018: HK$447.6 million), which are mainly denominated in Hong Kong dollars, Renminbi, Euro and US dollars. The Group has sufficient financial resources and a strong cash position to satisfy working capital requirements for business development, operations and capital expenditure. New investment opportunities, if any, would be funded by the Group's internal resources. The Group's gearing ratio is approximately 6.2% as at 30 June 2019, which is net debt divided by total capital plus net debt. The Group's net debt consists of interest-bearing bank borrowings, trade and other payables and accruals, less cash and cash equivalents. The Group had no outstanding interest-bearing bank borrowings as at 30 June 2018 and hence no gearing ratio was presented.

Foreign exchange risk

The Group has had transactional currency exposures for FY2019. Such exposures arose from sales or purchases by operating units in currencies other than the units' functional currency. During FY2019, 75.4% (2018: 85.1%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 69.5% (2018: 65.4%) of the costs were denominated in the units' functional currency.

As at 30 June 2019 and 2018, the Group did not have any outstanding foreign exchange forward contract.

Pledge of assets

As at 30 June 2019, approximately HK$23.5 million of time deposits were pledged as security for banking facilities available to the Group (2018: HK$23.7 million).

Inventory turnover days

Inventory turnover days increased to 81 days for FY2019 from 65 days for FY2018. The increase in inventory turnover days was due to the increase in average inventory level.

Trade receivables turnover days

Trade receivables turnover days increased to 75 days for FY2019 from 66 days for FY2018. The increase in turnover days was mainly due to the higher average trade receivables balance. The Group did not experience any significant credit risks due to strict credit control policies.

Trade payables turnover days

Trade payables turnover days slightly increased to 63 days for FY2019 from 58 days for FY2018. Trade payables are non-interest bearing and are generally settled within 90 days.

Off-balance sheet commitments and arrangements and contingent liabilities

As at 30 June 2019, the Group did not have any material off-balance sheet commitments and arrangements and contingent liabilities.

EMPLOYEES

As at 30 June 2019, the Group had about 7,900 employees. In addition to the basic salaries, performance bonuses will be offered to those staff members with good performance. The PRC subsidiaries of the Company are subject to social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations. The Group also adheres to statutory employment standards and those requested by customers, such as minimum wage levels and maximum working hours. Moreover, the Group provides staff quarters for most employees and, in the case of certain senior employees, family quarters. The Group also provides various amenities and recreation facilities such as canteens, sports grounds, library and internet center for its employees. The Group will continue to improve the working environment in the manufacturing facilities and the living qualities for its staff. The Directors believe that the remuneration packages and fringe benefits offered by the Group to its staff members are competitive in comparison with market standards and practices. Since human resource management is an important factor in maintaining and further enhancing the Group's strong expertise and know-how in the craftsmanship of handbags, small leather goods and travel goods, the in-house employee training center provides pre-job training programs to the new recruits before they are assigned to work at the manufacturing facilities of the Group. From time to time, different levels of on-the-job training will be provided to the employees to broaden their skills and enhance their productivity.

The Company also adopted a share option scheme approved on 15 November 2011 and a share award scheme approved on 12 July 2018 for the purpose of, among other things, recognition of employees' contribution. Details have been set out in the section headed "Share Option Scheme" and "Share Award Scheme" below.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Yeung Michael Wah Keung, aged 70, is an executive Director, the Chairman, a member of remuneration committee and the chairman of nomination committee of the Company. He was appointed as a Director on 21 February 2008. He has been with the Group since its establishment in the 1970's and is one of the founders. He is responsible for the Group's overall business development, strategic planning and corporate management.

He has over 48 years of experience in the handbag and leather goods industry, and has focused on manufacturing luxury branded handbags and small leather goods for more than 17 years. He is currently a director of certain subsidiaries of the Group. He is the brother of Mr. Yeung Wo Fai, an executive Director, the chief executive officer and a substantial shareholder of the Company. He is also the father of Mr. Yeung Andrew Kin, an executive Director and deputy general manager of the Group. He is also a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO").

Mr. Yeung Wo Fai, aged 66, is an executive Director and the chief executive officer of the Company. He was appointed as a Director on 21 February 2008 and is also one of the founders. He has been with the Group since 1974. He is responsible for the overall daily operations of the Group's business. He is also responsible for product development, marketing and administration of the Group.

He has over 41 years of experience in the handbag and leather goods industry, and has focused on manufacturing luxury branded handbags and small leather goods for more than 14 years. He is currently a director of certain subsidiaries of the Group. He is the brother of Mr. Yeung Michael Wah Keung, an executive Director, the Chairman and a controlling shareholder of the Company. He is also the uncle of Mr. Yeung Andrew Kin, an executive Director and deputy general manager of the Group. He is also a substantial shareholder of the Company within the meaning of Part XV of the SFO.

Mr. Yeung Andrew Kin, aged 45, is an executive Director of the Company, head of retail and deputy general manager of the Group. He is in charge of the retail business of the Group. He joined the Group in September 1999 and was appointed as a Director on 23 May 2011. He is responsible for the overall operations and strategic planning of the retail business of the Group. He is also responsible for the corporate management and business development of the retail business of the Group. He graduated from Simon Fraser University, British Columbia, Canada with a bachelor's degree of science in 1999.

He has over 20 years of experience in handbag and leather goods industry and has focused on strategic planning and business development for more than 13 years. Before he started focusing on the development of the Group's retail business, he had held various positions in the Group in relation to sales and marketing and merchandising. He is currently a director of certain subsidiaries of the Company. He is the son of Mr. Yeung Michael Wah Keung, an executive Director, the Chairman and the controlling shareholder of the Company. He is also the nephew of Mr. Yeung Wo Fai, an executive Director, the chief executive officer and the substantial shareholder of the Company.

DIRECTORS' PROFILE

Dr. Lau Kin Shing, Charles, aged 63, is an executive Director, the chief financial officer of the Group, company secretary (the "Company Secretary") and authorised representative of the Company. He was appointed as a Director on 1 June 2017. He is responsible for the Group's overall financial management and reporting, internal control, risk management, day-to-day financial administration, and for supporting the development of the Group's retail business and corporate governance. He holds a Doctorate degree in Business Administration from the Newcastle University of Australia, Master degree in Information System Management from the National University of Ireland, and a Bachelor degree in Accounting from the Curtin University of Technology, Australia. He is a Chartered Accountant (New Zealand), Certified Internal Auditor (US), and also a member of Association of Chartered Certified Accountants and Hong Kong Institute of Certified Public Accountants and a fellow member of CPA Australia. He possesses about 30-year executive experiences in corporate control, financial management, risk management and internal control gained from international listed companies. Before joining the Group in 2015, he held key corporate executive position in various conglomerates, including: vice president of China Resources Beer (Holdings) Company Limited (Stock Code: 291, formerly known as China Resources Enterprise, Limited), deputy head of internal audit for Hutchison Whampoa Limited, and chief financial officer and company secretary of Miramar Hotel and Investment Company, Limited (Stock Code: 71).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yeung Chi Tat, aged 49, is an independent non-executive Director, the chairman of audit committee and a member of remuneration committee of the Company. He was appointed as an independent non-executive Director on 15 November 2011. He graduated from the University of Hong Kong with a bachelor's degree of business administration and obtained a master's degree in professional accounting with distinction from Hong Kong Polytechnic University.

He possesses extensive experience in auditing, corporate restructuring and corporate finance. He worked at a major international accounting firm for over 10 years and then worked for various Hong Kong listed companies as financial controller and company secretary. He is a founding member and deputy president of the Hong Kong Independent Non-executive Director Association and the Greater China Development Working Committee member of The Association of Hong Kong Accountants. He is an independent non-executive director of Boer Power Holdings Limited (stock code: 1685) and Guodian Technology & Environment Group Corporation Limited (stock code: 1296), all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is an independent director of New Hope Dairy Co., Ltd. (stock code: 002946), which is listed on the SME Board of the Shenzhen Stock Exchange. He was an independent non-executive director of Ta Yang Group Holdings Limited (stock code: 1991) from 16 May 2007 to 10 September 2017 and ANTA Sports Products Limited (stock code: 2020) from 26 February 2007 to 1 June 2018, all of which are listed on the Main Board of the Stock Exchange.

He is a fellow member of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, a Certified Public Accountant practicing in Hong Kong, a senior international finance manager of the International Financial Management Association and the vice president of Hong Kong General Chamber of Wine & Spirits.

DIRECTORS' PROFILE

Mr. Kwan Po Chuen, Vincent, aged 60, is an independent non-executive Director, a member of each of audit committee and nomination committee of the Company. He was appointed as an independent non-executive Director on 15 November 2011. He graduated from the University of Hong Kong with a bachelor's degree in social sciences in 1983, from the University of London with a bachelor's degree in laws in 1987, from the University of Hong Kong with a master's degree in laws in 1992, from the University of London with a master's degree of science in financial management in 1998 and from the University of South Australia with a master's degree in advanced business practice in 2006.

He has more than 30 years of experience in the legal and accounting profession with extensive experience in real estate, corporate finance and compliance matters. From 1983 to 1987, he worked as an accounting officer and later auditor of the Treasury and Audit Departments of the Hong Kong government and from 1988 to 1993, he worked as trainee solicitor and associate of Deacons. From 1993 to 1996, he was an executive director of Chuang's Consortium International Limited (stock code: 367), a company listed on the Main Board of the Stock Exchange. From 1997 to 2012, he was the general manager (legal and secretarial) of Sino Land Company Limited (stock code: 83), a company listed on the Main Board of the Stock Exchange. From 2012 to 2015, he was the consultant of the then Messrs. Gallant Y T Ho & Co (now known as Gallant). He is currently a consultant of Messrs. LCP Lawyers.

He is a solicitor qualified in Hong Kong since September 1990. He is also qualified to practise laws in England and Australia since 1991. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Institute of Chartered Accountants in England and Wales. He also served as a member of the board of review (Inland Revenue Ordinance) from 2003 to 2011 and as a member of the then insider dealing tribunal from 2005 to 2009 and as a member of the advisory group on company formation, registration, re-registration and company meeting and administration provisions of the rewrite of Companies Ordinance from 2006 to 2009 and has recently served as a member of the market misconduct tribunal. He is also an ex-member of the company law committee and currently a member of the revenue law committee of the Law Society of Hong Kong. In 2014, he was appointed as the Chairman of the Financial and Regulatory Affairs Committee of the Chamber of Hong Kong Listed Companies. He has also written many articles that were published in Momentum, the official magazine of the Chamber of Hong Kong Listed Companies. He is also a regular speaker on corporate finance and compliance matters. Mr. Kwan is also a founding council member of the Hong Kong Independent Non-executive Director Association. Mr. Kwan is also an Adjunct Associate Professor of the Business School of the Baptist University of Hong Kong teaching 'Securities Regulation' of its Master of Corporate Governance and Compliance programme.

Mr. Lung Hung Cheuk, aged 72, is an independent non-executive Director, the chairman of remuneration committee, a member of each of audit committee and nomination committee of the Company. He was appointed as an independent non-executive Director on 15 November 2011. He is a retired chief superintendent of the Hong Kong Police Force. He joined the Hong Kong Police Force in 1966 as a probationary inspector at the age of 19. He was promoted to the rank of chief inspector in 1980, superintendent in 1986, senior superintendent in 1993 and chief superintendent in 1997. He had served in various police posts, namely Special Branch, Police Tactical Unit, Police Public Relations Branch and in a number of police divisions at management level. Prior to his retirement in April 2002, he was the commander of Sham Shui Po Police District.

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

He is currently an independent non-executive director of Winfull Group Holdings Limited (formerly known as Richfield Group Holdings Limited, stock code: 183), a company listed on the Main Board of the Stock Exchange. He was an independent non-executive director of Ascent International Holdings Limited (formerly known as Chanco International Group Limited, stock code: 264), a company listed on the Main Board of the Stock Exchange, from 21 September 2015 to 23 December 2015. He was an independent non-executive director of HJ Capital (International) Holdings Company Limited (stock code: 982, formerly known as iOne Holdings Limited), a company listed on the Main Board of the Stock Exchange, from 18 September 2009 to 21 July 2014.

SENIOR MANAGEMENT

Various businesses and functions of the Company are respectively under the direct responsibilities of the Executive Directors who are regarded as senior management of the Company.

CORPORATE GOVERNANCE REPORT

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

The Company has adopted and complied with the code provisions set out in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for FY2019, save that since all the executive Directors were involved in the daily operation of the Group and were well aware of the performance, position and prospects of the Group, and the executive Directors have provided timely and adequate information to all independent non-executive Directors upon requests, instead of providing monthly updates to all members of the Board as required by code provision C.1.2, all Directors (including independent non-executive Directors) were provided by the management with quarterly updates giving a balanced and understandable assessment of the Group's performance, position and prospects in sufficient details prior to the regular board meetings of the Company or upon request.

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct governing securities transactions by the Directors.

Specific enquiry has been made of all Directors and all Directors have confirmed that they had fully complied with the required standard set out in the Model Code for FY2019.

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

No incident of non-compliance with these guidelines by the relevant employees was noted by the Company during FY2019.

BOARD OF DIRECTORS

As at 30 June 2019, the Board comprises seven Directors, consisting of four executive Directors and three independent non-executive Directors.

Biographical information of the Directors and the details of the composition of the Board are set out below and in the Corporate Information, Directors' Profile and Directors' Report respectively of this annual report.

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

The Board monitors the development and financial performance and sets strategic directions of the Group's business.

CORPORATE GOVERNANCE REPORT

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

During the year, four regular Board meetings were held. Among others, the following key issues were discussed in the Board meetings:

– considered and approved the annual results and report of the Group for the year ended 30 June 2018;

– considered and discussed the quarterly results of the Group for three months ended 30 September 2018;

– considered and approved the interim results and report of the Group for the six months ended 31 December 2018;

– considered and discussed the quarterly results of the Group for nine months ended 31 March 2019; and

– considered and approved the grant of award shares to eligible participants and adoption of the share award scheme.

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

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

During the year, the respective attendances of the Directors at the above Board meetings and the annual general meeting held on 12 November 2018 are set out in the table below:

	Attendance	
Name of Directors	Board Meetings	Annual General Meeting
Executive Directors		
Mr. Yeung Michael Wah Keung	6/6	✓
Mr. Yeung Wo Fai	6/6	✓
Mr. Yeung Andrew Kin	6/6	✓
Dr. Lau Kin Shing, Charles	6/6	✓
Independent Non-executive Directors		
Mr. Yeung Chi Tat	6/6	✓
Mr. Kwan Po Chuen, Vincent	6/6	✓
Mr. Lung Hung Cheuk	6/6	✓

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

CORPORATE GOVERNANCE REPORT

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

Except for the family relationship between Mr. Yeung Michael Wah Keung, Mr. Yeung Wo Fai and Mr. Yeung Andrew Kin as disclosed in Directors' Profile on pages 24 to 27 of this report, there is no financial, business, family or other material or relevant relationship between Board members.

DIRECTORS' TRAINING

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

	Area of Training
Name of Directors	Requirements and procedures regarding big data and digital transformation
Executive Directors	
Mr. Yeung Michael Wah Keung	✓
Mr. Yeung Wo Fai	✓
Mr. Yeung Andrew Kin	✓
Dr. Lau Kin Shing, Charles	✓
Independent Non-executive Directors	
Mr. Yeung Chi Tat	✓
Mr. Kwan Po Chuen, Vincent	✓
Mr. Lung Hung Cheuk	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and the Chief Executive Officer are held separately by Mr. Yeung Michael Wah Keung and Mr. Yeung Wo Fai. The Chairman is responsible for leading the Board in respect of the overall development strategy of the Group. The Chief Executive Officer is delegated with the authorities to manage the day-to-day operation of the Company.

NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors has entered into an appointment letter with the Company pursuant to which each of them is appointed for service with the Company for a term of three years commencing on 6 December 2017. Their terms of appointment shall be subject to the rotational retirement provision of the articles of association of the Company.

BOARD COMMITTEES

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

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

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process, risk management over the financial reporting system and internal control systems of the Group. The audit committee comprises Mr. Yeung Chi Tat (chairman), Mr. Kwan Po Chuen, Vincent and Mr. Lung Hung Cheuk, all of whom are independent non-executive Directors. The audit committee has reviewed and discussed the annual report of the Group for FY2019.

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

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

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

- reviewed and commented on the annual results and report of the Group for the year ended 30 June 2018;

- reviewed and commented on the interim results and report of the Group for the six months ended 31 December 2018;

- discussed with the external auditors the financial matters of the Group, and reviewed their findings, recommendations and representations and the effectiveness of the Group's risk management and internal control systems;

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

- reviewed and recommended the re-appointment of the external auditors; and

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

NOMINATION COMMITTEE

The Company established a nomination committee with written terms of reference in compliance with the CG Code. The primary duties of the nomination committee are to make recommendations to the Board on the appointment of Directors.

A member of the nomination committee shall abstain from voting and shall not be counted in the quorum of a meeting in respect of a resolution in which he or any of his associates has any material interest, including the recommendation on nomination for appointment of such person as a Director. The nomination committee comprises the executive Director, Mr. Yeung Michael Wah Keung (chairman) and the independent non-executive Directors, Mr. Kwan Po Chuen, Vincent and Mr. Lung Hung Cheuk.

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

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

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

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

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

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

NOMINATION POLICY

The Board has adopted the nomination policy (the "Nomination Policy") on 17 September 2018 which sets out the nomination criteria and procedures for the Company to select candidate(s) for possible inclusion in the Board. The Nomination Policy could assist the Company to achieve board diversity in the Company and enhance the effectiveness of the Board and its corporate governance standard.

When assessing the suitability of a candidate, factors such as the qualifications, skills, integrity and experience will be taken into consideration as a whole. In the case of independent non-executive Directors, they must further satisfy the independence criteria set out within Rule 3.13 of the Listing Rules. Since the selection of candidates should ensure that diversity remains a central feature of the Board, a range of diverse perspectives, including but not limited to gender, age, cultural and educational background, or professional experience would be considered.

The process to identify potential candidates for the Board would be as follows:

(1) identifying potential candidates, including recommendations from the Board members, professional search firms and the shareholders of the Company;

(2) evaluating the candidates based on the approved selection criteria through methods such as reviewing the resume and conducting the background checks;

(3) reviewing the profiles of the shortlisted candidates and interview them; and

(4) making recommendations to the Board on the selected candidates.

The Nomination Policy also includes the Board succession plan to assess whether vacancies on the Board would be created or expected due to the Directors' resignation, retirement, death and other circumstances and to identify candidates in advance if necessary. The Nomination Policy will be reviewed on a regular basis.

BOARD DIVERSITY POLICY

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

Below is the summary of the Board Diversity Policy:

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

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

REMUNERATION COMMITTEE

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

The remuneration committee, with delegated responsibility, determines the remuneration package of individual executive Director and senior management of the Group and makes recommendations on the remuneration of non-executive Directors. The Board retains its power to determine the remuneration of non-executive Directors (including independent non-executive Directors).

The primary duties of the remuneration committee are to make recommendations to the Board on the remuneration policies and structure of the remuneration for the Directors and senior management and to set up a formal and transparent procedure for determination of such remuneration policies. A member of the remuneration committee shall abstain from voting in respect of a resolution regarding the remuneration payable to him. The remuneration committee comprises the independent non-executive Directors, Mr. Lung Hung Cheuk (chairman) and Mr. Yeung Chi Tat, and the executive Director, Mr. Yeung Michael Wah Keung.

During the year, the remuneration committee had held three physical meetings. The respective attendances of the members of remuneration committee and set out in the table below:

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

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

– reviewed and approved the termination of housing allowance to an executive Director;

– reviewed and approved the remuneration package to certain executive Directors;

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

– reviewed and recommended the grant of award shares to eligible participants and proposed adoption of the share award scheme.

CORPORATE GOVERNANCE REPORT

REMUNERATION POLICY

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

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

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

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

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

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

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

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

CORPORATE GOVERNANCE FUNCTION

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

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

During the year, the Board reviewed the Company's policy and practices on compliance with legal and regulatory requirements, the compliance with the CG Code for FY2019 and disclosure of this corporate governance report, as well as the code of conduct and compliance manual (if any) applicable to employees and Directors.

On 27 September 2019, the Board reviewed the Company's compliance with the CG Code for the year and disclosure in this Corporate Governance Report.

AUDITOR'S REMUNERATION

The remunerations in respect of audit and non-audit services for the year ended 30 June 2019 provided by the Company's auditors, Ernst & Young, are as follows:

	HK$'000
Audit services	2,450
Non-audit services	5,169

Non-audit service fees for the acquisition of A. Testoni S.p.A. and its subsidiaries.

ACKNOWLEDGEMENT OF RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the consolidated financial statements of the Group. In preparing the consolidated financial statements for the Year under Review, the Directors have:

– based on a going concern basis;

– selected suitable accounting policies and applied them consistently; and

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

The report of the auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report from pages 69 to 74 of this report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

Risk Management System

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

- *Identification:* Identify attribution of risks, business objectives and risks that could affect the achievement of objectives.

- *Evaluation:* Analyze the likelihood and impact of risks and evaluate the risk portfolio accordingly.

- *Management:* Consider the risk responses, ensure effective communication with the Board and on-going monitor the residual risks.

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

CORPORATE GOVERNANCE REPORT

Internal Control System

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

- *Control Environment:* A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.

- *Risk Assessment:* A dynamic and iterative process for identifying and analyzing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.

- *Control Activities:* Action established by policies and procedures to help ensure that management's directives to mitigate risks to the achievement of objectives are carried out.

- *Information and Communication:* Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.

- *Monitoring:* Ongoing and independent evaluations to ascertain whether each component of internal control is present and functioning normally.

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

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

- Confidentiality agreements are in place when the Group enters into significant negotiations.

- The executive Directors are designated persons who speak on behalf of the Company when communicating with external parties such as the media, analysts or investors.

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

Effectiveness of the Risk Management and Internal Control Systems

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

During FY2019, the Board has conducted semi-annual reviews of the effectiveness of the risk management and internal control systems of the Group. The Board, through its reviews and the reviews made by the audit committee, concluded that the risk management and internal control systems were effective and adequate. Such systems, however, are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. It is also considered that the resources, staff qualifications and experience of relevant staff were adequate and the training programs and budget provided were sufficient.

Internal Audit Function

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

COMMUNICATION WITH SHAREHOLDERS

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

COMPANY SECRETARY

Dr. Lau Kin Shing, Charles ("Dr. Lau") was appointed as the Company Secretary of the Company. According to Rule 3.29 of the Listing Rules, Dr. Lau took no less than 15 hours of relevant professional training for FY2019.

DIVIDEND POLICY

The Board has adopted the dividend policy (the "Dividend Policy") on 17 September 2018 which sets out the appropriate procedure on declaring and recommending the dividend payment of the Company. The Company takes priority to distributing dividends in cash and shares its profits with the shareholders of the Company. The dividend distribution decision of the Company will depend on, among others, the financial results, the current and future operations, liquidity and capital requirements, financial condition and other factors as the Board may deem relevant. The Board may also declare special dividends from time to time. The Dividend Policy will be reviewed on a regular basis.

CONSTITUTIONAL DOCUMENTS

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

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

Shareholders are encouraged to attend all general meetings of the Company. Pursuant to the articles of association of the Company, (i) two or more shareholders who hold in aggregate not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company or (ii) any one shareholder which is a recognised clearing house (or its nominee(s)) and holds not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company, may deposit a written request (the "Written Requisition") at the head office and principal place of business in Hong Kong of the Company (at 9th Floor, Sitoy Tower, 164 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong) for attention of the Company Secretary to request the Board to convene an extraordinary general meeting of the Company. The Written Requisition should state the full name of the requisitionist(s), the matter(s) and the proposed resolution(s) to be considered at the general meeting of the Company, and must be signed by all the requisitionist(s).

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

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

(b) **Procedures for members to propose a person for election as a director of the Company**

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

(c) **Procedures for directing enquires to the Company**

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

By post to the head office and principal place of business in Hong Kong at 9th Floor, Sitoy Tower, 164 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong.
Fax: (852) 2343 2808

(d) **Matters relating to share registration**

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

The Environmental, Social and Governance ("ESG") Report elaborates on various types of work done by Sitoy Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") to fully implement the concept of sustainable development and perform its corporate social responsibilities, and its environmental and social performance from 1 July 2018 to 30 June 2019 (the "Year"). For the information on corporate governance, please refer to the Corporate Governance Report in this Annual Report.

Scope of the Report

The ESG Report focuses on the environmental and social performance of the core business of the Group in mainland China and Hong Kong during the Year. The key performance indicators displayed in the appendix of the ESG Report are based on the data collected from the Group's subsidiaries, namely (i) Dongguan Shidai Leather Products Factory Co., Ltd. ("Dongguan Shidai"); (ii) Sitoy (Yingde) Leather Products Co., Ltd. ("Yingde Leather"); and (iii) Sitoy (Yingde) Luggage Co., Ltd. ("Yingde Luggage").

Reporting Framework

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

Information and Feedback

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

ESG GOVERNANCE

Effective ESG governance approach is vital to the sustainable development of the Group. With the aim to ensure proper ESG governance within the Group, the Group's Board of Directors (the "Board") shoulders the responsibility for the supervision of the Group's ESG governance and risk management. The Board identifies and manages ESG related risks, while authority is properly delegated to the management of the Group to formulate and execute ESG policies.

Communication with Stakeholders

The Group attaches great importance to the opinions of different stakeholders, which form the basis for the Group to map out short-term and long-term strategies for sustainable development. With an aim to communicate effectively with stakeholders, the Group strives to understand and respond to their expectations and needs through a wide range of communication channels.

Stakeholders	Expectations and Needs	Means of Communication and Response
Government and Regulators	• Strict compliance with national policies, laws and regulations • Supporting local economic growth • Promoting local employment • Paying taxes in full and on time • Production safety	• Regular information reporting • Regular meetings with regulators • Examinations and inspections
Shareholders	• Returns • Compliant operation • Raise in company value • Transparent information and effective communication	• General meetings • Announcements • Email, telephone communication and company website
Business Partners	• Operational integrity • Performance of contracts • Mutual benefits and win-win situations	• Business communications • Engagement and cooperation
Customers	• Outstanding products and services • Performance of contracts • Operational integrity	• Customer communication meetings • Social media platforms
Environment	• Compliant emission • Energy saving and emission reduction • Ecosystem protection • Reasonable use of water	• Communication with local environmental department
Industry	• Driving industry development	• Communication with local labour department • Participation in industry forums
Employee	• Protection of rights • Occupational health • Remunerations and benefits • Career development • Humanity cares	• Corporate journal and intranet • Training and workshops • Employee activities
Community and the Public	• Participation in charity • Transparent information	• Company website • Announcements • Interview with media

In the future, the Group will continue enhancing the level of stakeholder engagement so as to more comprehensively collect stakeholders' opinions towards the Group's business and ESG strategies.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL PROTECTION

The Group is principally engaged in the design, research, development, manufacturing, sale, retail and wholesale of handbags, small leather goods, travel goods and footwear products, provision of advertising and marketing services and property investment.

With an aim to minimise the environmental impacts brought about by the Group's activities, the Group is committed to strictly complying with all the laws and regulations relating to environmental protection in the areas where its factories are located, including but not limited to the Environmental Protection Law of the People's Republic of China (the "PRC") and Energy Conservation Law of the PRC. As a corporate citizen, the Group attaches great importance to conducting its business in an environmentally sustainable manner. For example, Dongguan Shidai, Yingde Leather and Yingde Luggage have formulated a comprehensive environmental management system regarding their environmental management approach and structure, policies for handling emissions, management of environmental pollution accidents, among others. Internal reviews are conducted on a regular basis to evaluate the effectiveness of the environmental management system.

Employees' understanding and participation in environmental protection are important for the Group to realise its environmental protection policies and measures. Therefore, Yingde Leather and Yingde Luggage have provided regular trainings regarding its environmental policies, in order to enhance employees' participation in and awareness of environmental protection.

Emission Management

The Group is in strict compliance with relevant local laws and regulations relating to the management of air emission, water discharge and solid waste, including but not limited to the Atmospheric Pollution Prevention and Control Law of the PRC, Water Pollution Prevention and Control Law of the PRC and Law of the PRC on the Prevention and Control of Environmental Pollution by Solid Waste. Non-compliance with applicable provisions was not observed during its operation.

Since there is no industrial air pollutant emitted from the Group's manufacturing process, vehicle exhaust is the main source of air emission. To minimise the environmental impacts of vehicle exhaust emission, the Group conducts regular maintenance for its vehicles and requires drivers to switch off idling engines.

The Group does not operate a water-intensive business. Industrial wastewater is only produced from the paint spraying process by Dongguan Shidai and recycled by qualified unit, while the major source of wastewater generated by the Group is domestic sewage, which undergoes a series of treatment before discharge. Regular clearance and maintenance of sewage treatment facilities is carried out by Dongguan Shidai, Yingde Leather and Yingde Luggage to ensure the normal functioning of the facilities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Scrap produced from cutting and trimming of leather, fabric and other raw materials or components accounts for the majority of the non-hazardous waste generated by the Group. The Group utilises computerised typesetting to maximise the use of fabric as far as possible and minimise scrap. The waste materials are separated and reused where practicable, while the remaining scrap is recycled by qualified units. The handling of scrap materials is in compliance with the Measures of the Customs of the PRC for the Administration of Leftover Bits and Pieces, Surplus Materials and Parts, Defective Products, By-products and Disaster-hit Bonded Goods in Processing Trade as well as other relevant laws and regulations. Apart from scrap, general waste produced during daily operation is separated and cleaned up by the municipal sanitation department on a daily basis. Hazardous waste, such as obsolete computers, used batteries and waste cartridges, is delivered to qualified recycling companies for further handling.

Sustainable Operation

Apart from emission management, the Group has also recognized the importance of sustainability development in its daily operation. To reduce consumption and conserve resources, various measures have been implemented, such as:

Reducing Energy Consumption	Conserving Water
• Utilising light-emitting diode (LED) lights instead of traditional incandescent light bulbs • Dividing the indoor areas into different light areas with independent switches • Reminding employees to switch off lights and electric devices when leaving workplaces • Maintaining air-conditioning system regularly to improve its efficiency and setting the temperature at or above 25.5 degree Celsius	• Putting up water-saving signs in toilets • Reminding employees to turn off the faucet completely after use • Installing water-saving faucets • Repairing dripping pipelines and faucets • Collecting rainwater and reusing it for greening and fish ponds

Apart from conserving energy and water, the Group has also made continuous efforts in integrating green office practices into its daily operation. For example, employees are encouraged to use both sides of paper, adjust the font size and line spacing for documents, and disseminate information via electronic means, so as to reduce paper consumption. In addition, the Group prefers packaging materials with optimised size and uses as less packaging filler as possible for the purpose of reducing the use of packaging materials.

The Group is fully aware of the impacts brought about by its greenhouse gas ("GHG") emission and strives to minimise the emission. To reduce GHG emission induced by commuting, the Group advocates green commuting among employees and replaces unnecessary business trips with video conferences.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYMENT AND LABOUR PRACTICES

Employment Policies

With employees' welfare and development being the Group's main concern, it is committed to providing employees with a fair and open working environment as well as strengthening their sense of belonging. The Group not only formulates its employment policies in accordance with all local laws and regulations regarding employment and labour practices, including but not limited to the Labour Law of the PRC, but also adheres to employment standards requested by its original equipment manufacturers' customers.

In terms of employee recruitment, the Group gives priority to internal promotion in case of any vacancies, so as to support employees' career development. In line with the principles of fairness and consistency, the Group embraces diverse workforce and will not tolerate any form of discrimination. Employees, regardless of their race, gender, age, marital status or religion, have equal access to opportunities within the Group. A comprehensive assessment system has been developed for employee recruitment in which only the applicants' ability and experience as well as the job requirements are considered. Working hours, which are explicitly stated in the labour contract, vary with employee's job nature and location. The Group rigorously prohibits the use of forced labour by ensuring that overtime work is on a voluntary basis and paying overtime wages in full and in a timely manner. To prevent the use of child labour, applicants' identification documents are carefully checked to ensure they are legally employable. For departing employees, an exit interview will be conducted by the human resource personnel to understand the reason of leaving and make further improvement to minimise future employee turnover.

During the Year, the Group did not notice any non-compliance of the applicable labour laws and regulations in the areas where it operates and did not face any disciplinary action with respect to the labour protection issues.

Salary and Benefits

In order to retain top talents in the industry, the Group provides competitive remuneration for employees and offers rewards and incentive payments to the best performers. An employee's remuneration package is determined on grounds of his or her qualification, position and seniority and is reviewed on an annual basis. Performance evaluations are conducted regularly, the results of which are used as the basis for assessing the training demands and developing other human resources policies such as promotion, position transfer and remuneration determination. In addition to public holidays and other holidays prescribed in applicable laws, employees are also entitled to maternity leave, marriage leave, paternity leave, compassionate leave, among others.

In accordance with the Social Insurance Law of the PRC, Mandatory Provident Fund ("MPF") Schemes Ordinance of Hong Kong and other relevant laws and regulations, the Group pays social insurance and housing provident fund for employees in mainland China; MPF Schemes, medical insurance and labour insurance for employees in Hong Kong. Various amenities, medical facilities and recreation facilities such as canteens, clinics, sports sites, libraries and internet centres are opened up for employees of Dongguan Shidai, Yingde Leather and Yingde Luggage. Meanwhile, additional benefits are available to employees, which include employee dormitories for employees of Dongguan Shidai, Yingde Leather and Yingde Luggage, shopping discounts in the Group's retail stores, long service awards, share option and award schemes, and so on. With an aim to promote work-life balance, the Group has organised various employee activities and provided employees with different benefits during the Year, such as Chinese New Year banquet, spring outing, carnivals and gifts distribution during traditional festivals.

Development and Training

The Group attaches great importance to establishing a team with diverse expertise and assisting its employees in exploring their potential. As such, regular performance appraisals are conducted to evaluate employees' working abilities, efficiency, attitudes, interpersonal skills and other capabilities. Outstanding employees will be given the opportunities for promotion. With a view to fully realising employees' potential, the Group has developed a comprehensive internal promotion system and provided employees with smooth career paths.

At the meantime, the Group provides pre-job training programmes to its new recruits before the commencement of work to help them familiarise with the Group's policies, working culture, employee benefits and safety knowledge. From time to time, different levels of on-the-job training are also provided for employees to enhance their skills and productivity. For example:

– Training on introduction of manufacturing requirements and the origin of customers' brand is provided for workshop leaders and management;

– Training on oblique opening of cutting bed is provided for leaders of oblique opening working in workshops;

– Gluing process training is provided for gluing employees working in workshops;

– Training on safety awareness of supply chain is provided for the management of different departments;

– Training on information security management and disposal is provided for employees using computers and working in the office premises; and

– Training on custom and shipping and the latest relevant laws, regulations and policies is provided for employees of the custom department, finance department, and human resources department; and

– Warehouse management training is provided for employees working in warehouses.

Apart from internal training, external training programmes are also offered to employees to cater to their training needs. To encourage employees to participate in work-related training courses offered by external professional organisation, the Group provides subsidies for external training to eligible employees in Hong Kong office.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Occupational Health and Safety

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

Upon recruitment, the Group notifies new recruits of the basic information such as job contents, occupational hazards and production safety in pre-job training. Employees are required to attend induction training and pass examination before taking up the post. In order to minimise work-related risks and injuries, the Group has formulated safety guidelines and operating manuals for manufacturing processes and posted them on the walls or tables in employees' working areas. The Group also provides employees with training programmes on work safety and adequate personal protective equipment and supplies. Regular inspections and maintenance checks on equipment are also conducted in accordance with applicable national or industrial standards.

During the Year, the Group carried out safety and fire drills, with an aim to enhance employees' safety awareness and improve their emergency capabilities. Dongguan Shidai, Yingde Leather and Yingde Luggage conducted a total of 628 regular safety inspections and 439 special safety inspections during the Year. These frequent safety inspections enabled the Group to identify potential safety risks and eliminate such risks promptly.

During the Year, the Group did not notice any non-compliance of the applicable laws and regulations relating to occupational health and safety in the areas where it operates and did not face any disciplinary action with respect to occupational health and safety issues.

OPERATION MANAGEMENT

Supply Chain Management

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

The Group's procurement processes are subject to various customer-imposed guidelines on safety, health, environmental and human rights to reduce the environmental and social risks involved in its manufacturing operations. Many of the raw material suppliers are designated and have been acknowledged by the Group's customers in terms of their performance in environmental and social governance. When receiving an order in which the suppliers are designated by customers, the Group strictly adheres to the requirements set forth in the order to purchase raw materials of a specific quantity, type and quality. When there are no designated suppliers, the Group's procurement team selects suppliers based on its own criteria, including quality, price, experience, service and payment terms. In order to maintain an efficient and stable supply chain, the procurement team also visits both designated and non-designated suppliers regularly to ensure that the raw materials are up to standard and can be delivered on a timely basis.

The Group continues performing strict inspections on the quality of raw materials to ensure that their quality meets the required standards. Raw materials that fail in the Group's tests would be returned to the relevant suppliers. If the supplier fails to comply with the Group's requirements repeatedly, it would be removed from the list of certified suppliers with the procurement terminated.

Quality Control

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

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

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

To ensure that the quality of finished products meets relevant requirements and identify defective products at an early stage, the Group performs various quality inspections, including random sample testing at different stages in the manufacturing process. The Group also conducts various testing procedures in laboratories, such as tests on decolourisation and fading, abrasion, tensile and water-proof. Meanwhile, on-site quality control personnel are also arranged by customers to inspect the quality of finished products. In case of any non-conforming products reported by customers, the Group will recall them based on the procedures requested by customers and carry out corresponding measures of redress to minimise the impacts and customers' loss.

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

Customer Service

The Group sells handbags, small leather goods, travel goods and footwear products of brands TUSCAN'S, Fashion & Joy, Kenneth Cole and Cole Haan through its retail stores in mainland China and Hong Kong and a.testoni, i29 in Europe, mainland China, Hong Kong, Taiwan, Korea, Japan and Jockey in mainland China. Committed to providing customers with high-quality products and services, the Group not only executes strict quality control measures in the manufacturing process, but also engages professional organisations like the National Leather Products Quality Supervision and Examination Centre in the PRC to conduct quality examination of each new product so as to guarantee that only qualified products are launched in its retail stores.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group has formulated a guideline for employees in retail stores. Employees shall serve customers with enthusiasm and sincerity, have a good command of product knowledge and promote sales based on customers' demands. Upon receipt of customers' complaints, response shall be given and follow-up measures shall be taken in a polite and timely manner. The Group normally offers a warranty period for all the products in the retail stores. In case of any defective products found, employees shall confirm and record customers' maintenance requirements carefully. The Group also focuses on improving its service level and perfecting product development by collecting and preserving customers' opinions and suggestions.

Advertisement and Promotion

The Group promotes the products of its retail stores through both online and offline activities. Online activities mainly involve interaction on social media, such as WeChat and Weibo, as well as promotion on the official website and other online media. Offline activities include road shows, fashion shows, opening activities of new stores, in-store display and promotion, advertisements on magazines and so on. It is the Group's commitment that all the advertising and promotional activities are carried out in conformity with the laws and regulations on advertisement and promotion in the areas where it operates, including but not limited to the Advertising Law of the PRC, Trade Descriptions Ordinance of Hong Kong. Product information published has been strictly reviewed and does not contain any form of false advertising that jeopardises consumers' rights and interests.

Privacy and Intellectual Property Protection

The Group attaches great importance to privacy protection and complies with relevant laws and regulations relating to privacy protection, including but not limited to the Personal Data (Privacy) Ordinance of Hong Kong. All new recruits are requested to sign a confidentiality agreement. As stipulated in the confidentiality provisions and non-competition restrictions formulated by the Group, employees are prohibited from divulging any technical information, such as the manufacturing methods, experimental data, drawings, and operation manuals; business information, such as customer lists, marketing plans, procurement documents, and cooperation agreements; and customers' information. In addition, employees are required to keep and use documents in strict compliance with the Group's regulations.

The Group strictly abides by the Trademark Law of the PRC, Copyright Law of the PRC, Copyright Ordinance of Hong Kong, and other relevant laws and regulations relating to intellectual property protection. Apart from manufacturing customers' products, the Group has also established its own brands. The Group has implemented internal policies to eliminate the risk of infringing customers' and third parties' intellectual property in its design, research, development and manufacturing processes as well as protecting its own rights. Employees working on customers' products are not allowed to participate in manufacturing the Group's own products. The Group's design and development team shall ensure their designs are not identical and do not bear a close resemblance to the products of any other customers or those in the public market. In addition, measures have been adopted to facilitate the management and protection of intellectual property, for example, using password-protected computers to store products' information, encrypting files in the transmission process and prohibiting employees from taking out product prototypes and samples without permission.

During the Year, the Group did not notice any non-compliance of the applicable laws and regulations relating to privacy and intellectual property protection in the areas where it operates and did not face any disciplinary action with respect to these issues.

Anti-corruption

It is the Group's long held belief that honesty and integrity are among the most important moral conducts. The Group adheres to all the laws and regulations regarding anti-corruption, including but not limited to the Criminal Law of the PRC and Prevention of Bribery Ordinance of Hong Kong, and strictly forbids any form of bribery and corruption during its operation.

Employees are obliged to avoid conflicts of interest while dealing with suppliers, customers and other third parties in cooperation with the Group. Any potential conflicts of interest should be reported to the Group. Employees holding important positions are required to sign an anti-commercial bribery statement with the Group. Employees should report any illegal behaviour discovered and the whistleblower's privacy will be kept strictly confidential. With regard to the procurement process, the Group has set up an internal monitoring group to assess suppliers' performance on a monthly basis for the identification and prevention of any illegal activities.

During the Year, the Group did not notice any non-compliance of the applicable laws and regulations relating to anti-corruption and did not face any disciplinary action with respect to corruption issues.

COMMUNITY INVESTMENT

While focusing on its business operation, the Group also continued fulfilling its social responsibilities by making contributions to the community.

The Group spares no effort in participating in public welfare activities to help those in need in the community where it operates. Yingde Leather and Yingde Luggage not only donated food to the local destitute households, but also donated quilts and daily necessities to an elderly home in Yingde. To offer more assistance to the needy, Yingde Leather and Yingde Luggage donated RMB140,000 for local poverty alleviation. In addition, a total amount of RMB70,000 was donated to facilitate family and school education.

In Hong Kong, the Group also actively contributed to the charity and public welfare undertakings through organising employees and their family members to participate in the "The Community Chest 50th Anniversary Walk for Millions (Central – Wan Chai Bypass)" organised by The Community Chest on 6 January 2019. Funds donated to this event will be used to improve and develop the "Family and Child Welfare Services" in helping families in need, encouraging members to love each other, maintaining and strengthening family relationships.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SUMMARY OF KEY PERFORMANCE INDICATORS

The environmental and social key performance indicators of Dongguan Shidai, Yingde Leather and Yingde Luggage are as follows:

Indicators	Year ended 30 June 2019	Year ended 30 June 2018[1]
Environmental Aspects		
Air Pollutant Emissions		
Total Emission of Nitrogen Oxides (NO_x) (kg)	250	21
Total Emission of Sulphur Oxides (SO_x) (kg)	1	1
Total Emission of Particulate Matter (PM) (kg)	15	2
GHG Emissions		
Total Emission (Scope 1, 2 & 3) (t CO_2e)	10,563	5,356
Emission Intensity (kg CO_2e/m^2 of floor area)	60.15	105.00
Scope 1 Direct GHG Emissions (t CO_2e)	895	1,060
Scope 2 Energy Indirect GHG Emissions (t CO_2e)	9,388	4,132
Scope 3 Indirect GHG Emissions (t CO_2e)	280	164
Solid Wastes		
Non-hazardous Wastes[2]		
Total Production (t)	509	210
Production Intensity (kg/m^2 of floor area)	2.90	4.11
Hazardous Wastes[3]		
Total Production (t)	1	Not Applicable
Production Intensity (kg/m^2 of floor area)	0.01	Not Applicable
Use of Resources		
Energy		
Total Consumption (MWh)	19,393	10,696
Consumption Intensity (kWh/m^2 of floor area)	110.44	209.71
Direct Energy Consumption (MWh)	1,582	2,857
Indirect Energy Consumption (MWh)	17,811	7,839
Water		
Total Consumption (m^3)	563,268	244,331
Consumption Intensity (m^3/m^2 of floor area)	3.21	4.79
Packaging Materials[4]		
Total Consumption of Plastic Products (piece)	11,628,773	7,815,127
Consumption Intensity of Plastic Products (piece/product)	1.45	1.03
Total Consumption of Paper Products (piece)	53,236,417	32,760,841
Consumption Intensity of Paper Products (piece/product)	6.63	4.33

1 Key Performance Indicators for the year ended 30 June 2018 were confined to the data of Dongguan Shidai.

2 During the Year, the Group has optimised the data collection process and calculation method of non-hazardous waste production, and accordingly restated such data for the year ended 30 June 2018.

3 The Group has improved the data collection process and started reporting the data of hazardous wastes in the Year.

4 During the Year, the Group was unable to accurately calculate the total weight of packaging materials and will consider tracking and measuring the corresponding weight in the future.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Indicators	Year ended 30 June 2019	Year ended 30 June 2018[5]
Social Aspects		
Employment		
Total Number of Employees	7,590	5,012
Male	3,303	2,524
Female	4,287	2,488
By Age Group		
Below 30 Years Old	1,845	1,592
30 ~ 50 Years Old	5,353	3,184
Above 50 Years Old	392	236
By Type of Employment		
Full-time	7,590	5,012
Part-time	0	0
Development and Training[6]		
Percentage of Employees Trained	100%	100%
Senior Management	100%	100%
Middle Management	100%	100%
Entry-level Management	100%	100%
Frontline Employees	100%	100%
Average Orientation Training Hours Completed	4	3
Senior Management	3	3
Middle Management	4	3
Entry-level Management	4	3
Frontline Employees	4	3

5 Key Performance Indicators for the year ended 30 June 2018 were confined to the data of Dongguan Shidai.

6 The percentage of employees trained and the average training hours completed are calculated based on the orientation training for new recruits only.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPENDIX: CONTENT INDEX ON KEY PERFORMANCE INDICATORS OF THE ESG REPORT

ESG Indicators	Summary	Sections	Page
Environmental			
Aspect A1: Emissions	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Protection Emission Management Sustainable Operation	42 42 43
Aspect A2: Use of Resources	**General Disclosure** Policies on the efficient use of resources, including energy, water and other raw materials.	Environmental Protection Sustainable Operation	42 43
Aspect A3: The Environment and Natural Resources	**General Disclosure** Policies on minimising the issuer's significant impact on the environment and natural resources.	Environmental Protection Emission Management	42 42
Social			
Employment and Labour Practices			
Aspect B1: Employment	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment and Labour Practices Employment Policies Salary and Benefits	44 44
Aspect B2: Health and Safety	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Employment and Labour Practices Occupational Health and Safety	44 46

ESG Indicators	Summary	Sections	Page
Aspect B3: Development and Training	**General Disclosure** Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Employment and Labour Practices Development and Training	44 45
Aspect B4: Labour Standards	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Employment and Labour Practices Employment Policies	44 44
Operating Practices			
Aspect B5: Supply Chain Management	**General Disclosure** Policies on managing environmental and social risks of the supply chain.	Operation Management Supply Chain Management	46 46
Aspect B6: Product Responsibility	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Operation Management Quality Control Customer Service Advertisement and Promotion Privacy and Intellectual Property Protection	46 47 47 48 48
Aspect B7: Anti-corruption	**General Disclosure** Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to prevention of bribery, extortion, fraud and money laundering.	Operation Management Anti-corruption	46 49
Community			
Aspect B8: Community Investment	**General Disclosure** Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment	49

DIRECTORS' REPORT

The Board of the Company is pleased to present the annual report and the audited consolidated financial statements of the Group for FY2019.

PRINCIPAL ACTIVITIES

The Company is an investment holding company and the principal activities of the Group are design, research, development, manufacturing, sales, retailing and wholesales of handbags, small leather goods, travel goods and footwear products, provision of advertising and marketing services and property investment. Particulars of the principal activities of the Company's major subsidiaries are set out in note 4 to the consolidated financial statements of the Group for FY2019.

RESULTS AND PROPOSED FINAL DIVIDEND

The results of the Group for FY2019 are set out in the consolidated statement of profit or loss on page 75.

An interim dividend of HK6 cents per share was paid on 18 April 2019. The Directors recommended the payment of a final dividend of HK2 cents per share for FY2019 (30 June 2018: HK6 cents per share) to the shareholders whose names appear on the register of members of the Company on Wednesday, 20 November 2019. The final dividend, subject to approval by the shareholders at the annual general meeting to be held on Monday, 11 November 2019 (the "2019 AGM"), will be paid on or before Friday, 13 December 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Tuesday, 19 November 2019 and Wednesday, 20 November 2019, during which period no share transfer will be registered. In order to qualify for the proposed final dividend, all completed transfer documents, accompanied by relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited (the "Hong Kong Branch Share Registrar"), at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Monday, 18 November 2019.

The register of members of the Company will be closed from Monday, 4 November 2019 to Monday, 11 November 2019 (both days inclusive), during which period no share transfer will be registered. The record date for determining shareholders of the Company entitled to attend the 2019 AGM will be Monday, 11 November 2019. In order to be eligible to attend and vote at the 2019 AGM, all completed transfer documents, accompanied by relevant share certificates, must be lodged with the Hong Kong Branch Share Registrar at the address stated above, for registration not later than 4:00 p.m. on Friday, 1 November 2019.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets and liabilities of the Group for the last five financial years is set out on page 167 of the annual report. This summary does not form part of the audited consolidated financial statements.

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

Details of the share capital of the Company for FY2019 are set out in note 29 to the consolidated financial statements.

During FY2019, 36,102,000 ordinary shares were repurchased on the Stock Exchange and these shares were subsequently cancelled by the Company. The summary details of the repurchases are as follows:

Month	Number of ordinary shares repurchased	Price per share Highest (HK$)	Price per share Lowest (HK$)	Total price paid (HK$)
October 2018	31,246,000	2.62	2.23	77,406,790
November 2018	4,856,000	2.59	2.40	12,271,240
Total	36,102,000			89,678,030

The total amount of HK$89,678,030 of the repurchase was paid wholly out of retained profits and 36,102,000 repurchased ordinary shares of the Company were cancelled during FY2019. The above repurchases during FY2019 were effected by the Directors, pursuant to the mandate from shareholders received at the last annual general meeting, with a view to benefiting the shareholders as a whole by enhancing the net assets value per share and earnings per share of the Company.

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 FY2019.

RESERVES AND DISTRIBUTABLE RESERVES

Details of the movements in reserves of the Group and the Company during the year and distributable reserves of the Company as at 30 June 2019 are set out on page 78 in the consolidated statement of changes in equity and note 32 to the consolidated financial statements respectively.

PRE-EMPTIVE RIGHTS

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

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

Details of movements during the year in property, plant and equipment, investment properties and prepaid land lease payments of the Group are set out in notes 14, 15 and 16 to the consolidated financial statements respectively.

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of revenue attributable to the Group's five largest customers to the total revenue of the Group was 41.7% for FY2019. The percentage of revenue attributable to the Group's largest customer to the total revenue of the Group was 13.6% for FY2019.

The percentage of purchases attributable to the Group's five largest suppliers to the total purchases of the Group was 19.4% for FY2019. The percentage of purchases attributable to the Group's largest supplier to the total purchases of the Group was 6.7% for FY2019.

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

MANAGEMENT CONTRACTS

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

DIRECTORS

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

Executive Directors:

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

Independent Non-executive Directors:

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

In accordance with article 16.18(B) of the Company's articles of association, Dr. Lau Kin Shing, Charles, Mr. Yeung Chi Tat and Mr. Lung Hung Cheuk will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

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

DIRECTORS' SERVICE CONTRACTS

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

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

As at 30 June 2019, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO, which had been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code 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%
Dr. Lau Kin Shing, Charles	Beneficial owner/ personal interest	2,417,000 (Note)	1,544,000	4,240,000	0.44%
	Beneficiary of a trust	1,823,000 (Note)	–		

Note: 2,646,000 award shares were granted to Dr. Lau Kin Shing, Charles ("Dr. Lau") on 12 July 2018 (the "Grant Date"). Subject to the condition that Dr. Lau remains in employment with the Group, (i) 823,000 award shares were vested on 12 July 2019 which 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 below under the heading "Share Option Scheme" below.

DIRECTORS' REPORT

(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 year, the Directors or chief executive of the Company (including their spouse and children under 18 years of age) had any interest in, or had been granted, or had exercised, any rights to subscribe for shares (warrants or debentures, if applicable) of the Company or any of its associated corporation required to be disclosed pursuant to the SFO.

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

Save as disclosed above, as at 30 June 2019, none of the Directors or chief executive of the Company had registered an interest or a short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2019, 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 30 June 2019, 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' INTERESTS IN COMPETING BUSINESS

As at 30 June 2019, none of the Directors had any interest in any business which competes or may compete with the business of the Group.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed in this report, no Director or his connected entity has or had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the Company or any of its subsidiaries, fellow subsidiaries or its parent company was a party subsisting during or at FY2019.

PERMITTED INDEMNITY PROVISION

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

UPDATE ON DIRECTOR'S INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the information of the Director of the Company since the date of the last interim report are set out as follows:

Mr. Yeung Chi Tat was appointed as the independent non-executive director of New Hope Dairy Co., Ltd., a company whose shares are listed on the SME Board of the Shenzhen Stock Exchange with effect from 25 January 2019.

Effective from 1 January 2019, the monthly salary of the executive Director, Mr. Yeung Wo Fai, has been adjusted by HK$200,000 to HK$298,520 while the monthly housing allowance of HK$200,000 had been terminated on 31 December 2018; effective from 1 June 2019, the monthly salary of executive Director, Mr. Yeung Andrew Kin, has been adjusted by HK$52,500 to HK$180,000. The salary adjustment has been approved by the remuneration committee.

EQUITY-LINKED AGREEMENTS

Details of the equity-linked agreement entered into during the year or subsisting at the end of the year are set out below:

SHARE OPTION SCHEME

A share option scheme was approved and adopted on 15 November 2011 (the "Share Option Scheme") to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants of the scheme.

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

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

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

DIRECTORS' REPORT

As at the date of this report, the total number of shares available for issue under the Share Option Scheme is 94,932,000 (representing approximately 9.83% of the existing issued shares of the Company) and a total of 4,500,000 shares (representing approximately 0.47% of the existing issued shares of the Company) may be issued upon exercise of all options that have been granted but not yet lapsed or exercised under the Share Option Scheme.

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

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

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

The subscription price in respect of each share issued pursuant to the exercise of the options granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a Participant and shall be at least the highest of: (a) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the offer date; (b) a price being the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the offer date; and (c) the nominal value of a share. The Share Option Scheme shall be valid and effective for a period of 10 years commencing on 15 November 2011. The remaining life of the Share Option Scheme is 2 years.

During FY2019, no share options were conditionally or unconditionally (as the case may be) granted. Accordingly, share options to subscribe for 4,500,000 ordinary shares of HK$0.10 each of the Company were outstanding as at 30 June 2019.

As at 30 June 2019, 4,500,000 share options have been vested and 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 FY2019 are as follows:

				Number of Share Options					
Grantees	Date of Grant	Exercise Price	Exercise Period	Balance as at 1 July 2018	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 30 June 2019
Director:									
Dr. 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.

(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 FY2019.

DIRECTORS' REPORT

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 FY2019, 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 Dr. Lau, being the executive Director, chief financial officer, authorised representative and company secretary of the Company. As Dr. Lau is an executive Director, he is a connected person of the Company and accordingly, the granting of the award shares to Dr. Lau constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Dr. 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 Dr. Lau amounts to HK$5,292,000.

Further details of the Share Award Scheme are disclosed in note 31 to the consolidated financial statements.

CONNECTED TRANSACTIONS

The related party transactions of the Company for FY2019 are set out in note 38 to the consolidated financial statements. Other than disclosed below, the related party transactions of the Company did not constitute connected transactions or continuing connected transactions of the Company under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under the Listing Rules.

Non-exempt Continuing Connected Transactions and Termination of Non-exempt Continuing Connected Transaction

During FY2019, the Group has entered into the following transactions, which constituted non-exempt continuing connected transactions for the Company subject to announcement, annual review and reporting requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The Company shall comply with the annual review and reporting requirements for all of the following non-exempt continuing connected transactions under Chapter 14A of the Listing Rules.

Leasing of Properties

Pursuant to Chapter 14A of the Listing Rules, details of the non-exempt continuing connected transactions for FY2019 required to be disclosed in the annual report are as follows:

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

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

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

Nature of the transactions

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

The annual cap for FY2019 in respect of the aggregate rent payable by Sitoy HK to Maxon and Golden Palace is HK$4,800,000.

Since the tenancy agreements signed on 1 April 2016 expired on 30 June 2018, the Board proposed to renew the tenancy agreements. On 1 June 2018, Sitoy HK entered into a new tenancy agreement with each of Maxon and Golden Palace, each for a term commencing from 1 July 2018 to 30 June 2021 (both days inclusive) with the terms and annual caps remain unchanged.

On 31 December 2018, Sitoy HK and Golden Palace entered into a termination agreement pursuant to which both parties have agreed to terminate Tenancy agreement B with effect from 31 December 2018. Upon termination of Tenancy agreement B and delivery of vacant possession of premises to Golden Palace by Sitoy HK, Sitoy HK and Golden Palace shall be released and discharged from their respective further liabilities and obligations thereunder absolutely.

Details of the above non-exempt continuing connected transactions and termination of the non-exempt continuing connected transactions were disclosed in the announcements of the Company dated 1 April 2016, 1 June 2018 and 31 December 2018 respectively.

DIRECTORS' REPORT

Confirmation of Independent Non-executive Directors

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

Confirmation from Auditors of the Company

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

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

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

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

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

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

SUFFICIENCY OF PUBLIC FLOAT

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

EVENTS AFTER THE END OF THE REPORTING PERIOD

Details of the significant events after the end of the reporting period of the Group are set out in note 42 to the consolidated financial statements.

CORPORATE GOVERNANCE

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

BUSINESS REVIEW

A fair review of the business and outlook of the Company as well as a discussion and analysis of the Group's performance during FY2019 and the material factors underlying its results and financial position can be found in the Chairman's Statement on pages 13 to 15 and the Management Discussion and Analysis on pages 16 to 23 of this annual report. An analysis using financial key performance indicators can be found in the Financial Highlights on pages 11 to 12 of this annual report. These discussions and financial highlights form part of this Directors' Report.

ENVIRONMENTAL POLICY

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

The Group will review the environmental policy from time to time and will consider implementing further environmentally friendly measures and practices in the operation of the Group's businesses. A discussion and analysis of the Group's environmental policy can be found in the Environmental, Social and Governance Report on pages 40 to 53 of this annual report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

The PRC subsidiaries are governed by the laws and regulations relating to taxation, foreign exchange, product quality, trademarks, environmental protection, labor and social insurance. Any non-compliance will impose fines or other serious penalty actions against the PRC subsidiaries. We have implemented various measures to ensure compliance with such laws and regulations, including but not limited to consulting our PRC legal adviser and tax professional.

During FY2019, there was no material breach of or non-compliance with the applicable laws and regulations by the Group that have a significant impact on the Group's business.

PRINCIPAL RISKS AND UNCERTAINTIES

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

For the retail business, the risks and uncertainties include:

- Falling consumer spending leading to excess inventory in the retail channels and the need for aggressive discounting activity, and/or inventory obsolescence and discounting due to rapid changes in fashion trends.
- Changes in government policy that reduce customers' desire to buy fashion products.
- The Group faces risks associated with the reliance on/potential loss of key management personnel.
- Impact on sales, costs, profit and cash:
  - ■ Economic conditions in China
  - ■ Change in market trends
  - ■ Cost of wages and salaries, rents, services and utilities
  - ■ Competitor activity
- The Group's operations and interests in other areas are subject to the risk of adverse movements in foreign currency exchange rates as the HK$ is used as the reporting currency.
- Failure or unavailability of operational and/or IT infrastructure.

DIRECTORS' REPORT

For the manufacturing business, the risks and uncertainties include:

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

For property investment business, the risks and uncertainties include:

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

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

Employees

We believe that our employees are important assets of the Group. We use our best efforts to attract and retain appropriate and suitable personnel. We assess the available human resources on a continuous basis and will determine the need to recruit additional personnel to cope with our business development from time to time. We also emphasise continuing education and quality training of our staff to enhance their work performance. We offer training programmes to our employees, which are designed to develop their skills to meet our enterprise goals and our customers' requirements.

The Group also values the knowledge and skills of its employees, and continues to provide favourable career development opportunities for its employees.

The Group offers attractive remuneration packages to its employees, which include salary, discretionary bonuses and allowance. We determine the salaries of our employees mainly on the basis of their qualifications, experience, position and seniority.

The Group has maintained good relationship with its employees. We have not experienced any major strikes, work stoppages or labour disputes which affected our operations during the year. The Directors also consider that the relationship and co-operation between the management team and the employees have been good during the year.

Customers

We maintain close and stable relationships with our major customers. However, due to the business nature, we do not have any long-term contracts with our major customers. To cope with this situation, we maintain our relationships with our customers by ensuring the quality of our products and services, on-time delivery and maintaining our reputation in the industry.

We strive to strengthen our market position and actively establish rapport with potential customers from time to time, introducing our expertise and experience in the industry.

We believe that our ability to maintain our retail services at a high standard would improve customer satisfaction and in turn enhance our capacity in the future.

The Group generally allows the credit terms from its manufacturing customers range from telegraphic transfers before shipment, letters of credit at sight to 120 days and telegraphic transfers within 14 to 120 days. Please refer to the note 22 to the consolidated financial statements for more details of the trade receivables of the Group as at 30 June 2019.

During the year, the Group has not experienced any major disruption of business due to shipment delay or default of payment by our customers due to their financial difficulties. We did not have any major product dispute with our customers.

Suppliers

The Group has always paid great attention to and maintained a good working relationship with the upstream suppliers. We maintain a list of approved suppliers. We assess and evaluate the industry qualification, reference check, business scale, on-time delivery, financial stability and compliant history of the suppliers to determine whether a supplier is eligible for inclusion in the list of approved suppliers. We generally procure materials from suppliers in the list of approved suppliers to ensure the quality of the materials supplied.

DIRECTORS' REPORT

We have not entered into long term agreements with our suppliers.

Close relationships with a stable list of reliable suppliers would enable us to obtain quotes in an efficient manner. It would also enable us to provide quality work in a timely manner, whereby we can procure the necessary materials and supplies as and when they are needed from time to time, reducing the risk of shortage or delay in delivery of materials causing disruption to our works. We believe that our reputation in the industry of on-time settlement of accounts payable helps us to build a stable network of quality suppliers. We have therefore cultivated long term and well-established relationships with the major suppliers.

The payment terms granted by suppliers were generally from telegraphic transfers before shipment to 120 days. The payables were usually settled within the credit period. Please refer to the note 26 to the consolidated financial statements for more details of the trade payables of the Group as at 30 June 2019.

The Group did not have any significant disputes with its major suppliers during the year.

The aforementioned suppliers and customers are good working partners creating value for the Group.

AUDITORS

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

On behalf of the Board
Sitoy Group Holdings Limited

Yeung Michael Wah Keung
Chairman
Hong Kong, 27 September 2019

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of Sitoy Group Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 75 to 167, which comprise the consolidated statement of financial position as at 30 June 2019, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Valuation of investment properties As at 30 June 2019, investment properties amounted to approximately HK$733,095,000, and represented approximately 28% of the total consolidated assets of the Group, which was material to the consolidated financial statements. To support management's assessment of the fair value of the properties, it is the Group's policy that property valuations are performed by an external appraiser at least once a year. The valuation of the properties involved significant judgement, was highly dependent on estimates and was based on a number of assumptions, such as market rent, market yield and term yield. The related accounting policies, estimates and disclosures of the valuation of investment properties are included in notes 2.4, 3(iv) and 15 to the consolidated financial statements.	We considered the objectivity, independence and expertise of the external appraiser. We assessed the valuation approach and the key assumptions used, which included market rent, market yield and term yield which were used in developing the valuation through the income approach or market approach. Our internal valuation specialists were involved to assist us in evaluating the techniques and key assumptions used in the calculation against valuation guidelines and industry practice.
Inventory provision As at 30 June 2019, the Group had inventories of approximately HK$393,779,000. Because of fast changing market conditions, significant judgement and estimates made by management are involved in identifying inventories with net realizable values that are lower than their costs, and obsolescence with reference to selling prices and salability of inventories, and prevailing sales trend. The related accounting policies, estimates and disclosures of inventory provision are included in notes 2.4, 3(vii) and 21 to the consolidated financial statements.	Our procedures included, among others, selecting samples of inventories and reviewing their net realizable values with reference to their selling prices subsequent to the end of the reporting period and the Group's pricing strategy. We evaluated management's assessment of obsolescence of inventories with reference to their aging, the condition of inventories, and the historical and prevailing sales trend. We also evaluated sales forecasts prepared by management through benchmarking against market data and historical sales trend of the Group.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Purchase price allocation for business combination During the year, the Group acquired approximately 95.35% equity interests in A. Testoni S.p.A. at a total consideration of HK$65,163,000 and it has been accounted for as a subsidiary of the Group since the acquisition date. Management, assisted by the external valuation specialist, assessed the fair values of the identifiable assets acquired and liabilities assumed and completed the purchase price allocation, which resulted in goodwill in total of HK$2,346,000. The process for the purchase price allocation was complex and involved various management's assumptions and judgements. We focused on the purchase price allocation from the above business combination due to its materiality to the consolidated financial statements and the high level of management's judgement involved. The related accounting policies, estimates and disclosures of the business combination are included in note 2.4, 3(ix) and 33 to the consolidated financial statements.	Our audit procedures included, among others, reading the sales and purchase agreement and the announcement issued by the Company in relation to the acquisition to obtain an understanding of the transaction and the key terms. We discussed with management to understand the identification of assets and liabilities acquired. We involved our internal valuation specialists to assist us in evaluating the valuation methodology and assumptions used by management and the external valuation expert in the fair valuation of the acquired assets and liabilities. We assessed the valuation assumptions such as discount rate and growth rate by comparing these assumptions to source data, market data and historical experiences of the Group in respect of companies in the same business. We also assessed the objectivity, independence, competence and relevant experience of the external valuation expert. We also assessed the adequacy of related disclosures in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ho Siu Fung, Terence.

Ernst & Young
Certified Public Accountants
Hong Kong

27 September 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 30 June 2019

	Notes	Year ended 30 June 2019 HK$'000	2018 HK$'000
REVENUE	6	**2,441,441**	2,305,796
Cost of sales		**(1,746,148)**	(1,668,577)
Gross profit		**695,293**	637,219
Other income and gains	6	**72,488**	78,105
Selling and distribution expenses		**(282,221)**	(196,909)
Administrative expenses		**(304,935)**	(224,476)
Other expenses		**(14,900)**	(11,742)
Finance costs	8	**(4,790)**	–
PROFIT BEFORE TAX	7	**160,935**	282,197
Income tax expense	11	**(48,145)**	(31,329)
PROFIT FOR THE YEAR		**112,790**	250,868
Attributable to:			
Owners of the Company		**125,566**	256,675
Non-controlling interests		**(12,776)**	(5,807)
		112,790	250,868
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic			
– For profit for the year (HK cents)		**12.97**	25.63
Diluted			
– For profit for the year (HK cents)		**12.91**	25.63

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 30 June 2019

	Year ended 30 June	
	2019 HK$'000	2018 HK$'000
PROFIT FOR THE YEAR	**112,790**	250,868
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Debt investments at fair value through other comprehensive income:		
Changes in fair value	**404**	–
Income tax effect	**(97)**	–
	307	–
Exchange differences:		
Exchange differences on translation of foreign operations	**(49,275)**	2,430
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(48,968)**	2,430
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(48,968)**	2,430
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**63,822**	253,298
Attributable to:		
Owners of the Company	**76,598**	259,105
Non-controlling interests	**(12,776)**	(5,807)
	63,822	253,298

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**409,471**	444,021
Investment properties	15	**733,095**	635,556
Prepaid land lease payments	16	**15,914**	17,035
Goodwill	17	**2,346**	–
Other intangible assets	18	**20,434**	8,481
Debt investments at fair value through other comprehensive income	19	**13,996**	–
Deferred tax assets	20	**33,213**	24,537
Other non-current assets	23	**7,489**	983
Total non-current assets		**1,235,958**	1,130,613
CURRENT ASSETS			
Inventories	21	**393,779**	328,551
Trade receivables	22	**485,699**	515,500
Prepayments, other receivables and other assets	23	**86,365**	74,591
Pledged deposits	24	**23,484**	23,699
Time deposit with original maturity of more than three months	24	**–**	35,583
Cash and cash equivalents	24	**406,779**	447,552
Total current assets		**1,396,106**	1,425,476
CURRENT LIABILITIES			
Interest-bearing bank borrowings	25	**166,289**	–
Trade payables	26	**221,806**	216,170
Other payables and accruals	27	**155,928**	120,706
Tax payable		**22,858**	11,264
Total current liabilities		**566,881**	348,140
NET CURRENT ASSETS		**829,225**	1,077,336
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,065,183**	2,207,949
NON-CURRENT LIABILITIES			
Deferred tax liabilities	20	**1,830**	2,363
Deferred income	28	**3,262**	3,610
Total non-current liabilities		**5,092**	5,973
Net assets		**2,060,091**	2,201,976
EQUITY			
Share capital	29	**96,543**	100,153
Treasury shares		**(19,910)**	–
Reserves	32	**1,988,666**	2,102,127
Equity attributable to owners of the Company		**2,065,299**	2,202,280
Non-controlling interests		**(5,208)**	(304)
Total equity		**2,060,091**	2,201,976

Yeung Wo Fai
Director

Lau Kin Shing, Charles
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2019

	Attributable to owners of the Company												
	Share capital HK$'000 (note 29)	Treasury shares HK$'000	Share premium accounts* HK$'000 (note 32)	Share option/ award reserve* HK$'000 (note 30, 31)	Merger reserve* HK$'000 (note 32)	Statutory reserve fund* HK$'000 (note 32)	Asset revaluation reserve* HK$'000	Fair value reserve* HK$'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 year	-	-	-	-	-	-	-	-	-	125,566	125,566	(12,776)	112,790
Other comprehensive income for the year:													
Change in fair value of debt investments at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	307	-	-	307	-	307
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(49,275)	-	(49,275)	-	(49,275)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	-	307	(49,275)	125,566	76,598	(12,776)	63,822
2018 final dividend declared	-	-	-	-	-	-	-	-	-	(57,415)	(57,415)	-	(57,415)
2019 interim dividend declared	-	-	-	-	-	-	-	-	-	(57,415)	(57,415)	-	(57,415)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	7,872	7,872
Equity-settled share award arrangement	-	-	-	10,723	-	-	-	-	-	-	10,723	-	10,723
Equity-settled share option arrangement	-	-	-	115	-	-	-	-	-	-	115	-	115
Repurchase of shares under share award scheme	-	(19,910)	-	-	-	-	-	-	-	-	(19,910)	-	(19,910)
Consideration paid of share buy-back	(3,610)	-	(86,067)	-	-	-	-	-	-	-	(89,677)	-	(89,677)
Transfer from retained profits	-	-	-	-	-	9,004	-	-	-	(9,004)	-	-	-
At 30 June 2019	96,543	(19,910)	924,014	15,444	4,030	69,984	24,688	307	(107,031)	1,057,230	2,065,299	(5,208)	2,060,091

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2019

	Attributable to owners of the Company										
	Share capital HK$'000 (note 29)	Share premium account* HK$'000 (note 32)	Share option reserve* HK$'000 (note 30)	Merger reserve* HK$'000 (note 32)	Statutory reserve fund* HK$'000 (note 32)	Asset revaluation reserve* HK$'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 year	–	–	–	–	–	–	–	256,675	256,675	(5,807)	250,868
Other comprehensive income for the year:											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	2,430	–	2,430	–	2,430
Total comprehensive income/(loss) for the year	–	–	–	–	–	–	2,430	256,675	259,105	(5,807)	253,298
Capital contribution from a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	5,503	5,503
2017 final dividend declared	–	–	–	–	–	–	–	(60,092)	(60,092)	–	(60,092)
2018 interim dividend declared	–	–	–	–	–	–	–	(60,092)	(60,092)	–	(60,092)
Equity-settled share option arrangement	–	–	761	–	–	–	–	–	761	–	761
Transfer of share option reserve upon the lapse of share options	–	–	(1,634)	–	–	–	–	1,634	–	–	–
Transfer from retained profits	–	–	–	–	1,684	–	–	(1,684)	–	–	–
At 30 June 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

* These reserve accounts comprise the consolidated reserves of HK$1,988,666,000 (30 June 2018: HK$2,102,127,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June 2019

		Year ended 30 June	
	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**160,935**	282,197
Adjustments for:			
Finance costs	8	**4,790**	–
Loss on disposal of items of property, plant and equipment	7	**2,604**	946
Depreciation	7	**47,565**	46,111
Amortization of prepaid land lease payments	7	**422**	425
Amortization of other intangible assets	7	**2,371**	387
Amortization of deferred income	28	**(203)**	(7)
Fair value gain on investment properties	7	**(40,260)**	(62,994)
Equity-settled share option expense	30	**115**	761
Equity-settled share award expense	31	**10,723**	–
Impairment/(reversal of impairment) of trade receivables, net	7	**2,513**	(44)
Impairment of other intangible assets	7	**3,316**	–
Fair value loss on investment property transferred from owner occupied property	15	**3,000**	–
Write-down/(reversal of write-down) of inventories to net realizable value	7	**28,775**	(2,461)
		226,666	265,321
Decrease/(increase) in trade receivables		**45,706**	(191,387)
Increase in prepayments, other receivables and other assets		**(3,402)**	(31,348)
Increase in inventories		**(10,075)**	(79,146)
(Decrease)/increase in trade payables		**(21,556)**	56,486
Decrease in other payables and accruals		**(2,236)**	(2,994)
Cash generated from operations		**235,103**	16,932
Hong Kong profits tax paid		**(5,325)**	(32,707)
PRC corporate income tax paid		**(26,618)**	(6,718)
NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		**203,160**	(22,493)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June 2019

	Notes	2019 HK$'000	2018 HK$'000
		Year ended 30 June	
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(14,536)**	(22,326)
Purchases of other intangible assets		**(3,303)**	–
Proceeds from disposal of items of property, plant and equipment		**317**	726
Receipt of government grants for property, plant and equipment		**–**	3,565
Decrease/(increase) in time deposit with original maturity of more than three months		**35,583**	(1,018)
Purchases of debt investments at fair value through other comprehensive income		**(1,587)**	–
Consideration paid for acquisition of subsidiaries		**(52,706)**	–
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(36,232)**	(19,053)
CASH FLOWS FROM FINANCING ACTIVITIES			
New interest-bearing bank borrowings raised		**148,883**	–
Repayment of interest-bearing bank borrowings		**(70,570)**	–
Dividends paid		**(114,830)**	(120,184)
Interest paid		**(4,790)**	–
Repurchase of shares under share award scheme		**(19,910)**	–
Consideration paid of share buy-back		**(89,677)**	–
Repayment of loans due to the former shareholder of a newly acquired subsidiary		**(44,426)**	–
Increase in pledged deposits		**–**	(901)
Capital contribution from a non-controlling shareholder of a subsidiary		**–**	5,503
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(195,320)**	(115,582)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(28,392)**	(157,128)
Cash and cash equivalents at beginning of year		**447,552**	595,820
Effect of foreign exchange rate changes, net		**(12,381)**	8,860
CASH AND CASH EQUIVALENTS AT END OF YEAR		**406,779**	447,552
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position and in the consolidated statement of cash flows	24	**406,779**	447,552

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

1. CORPORATE AND GROUP INFORMATION

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

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

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

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") (which include all International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board ("IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for debt investments at fair value through other comprehensive income and investment properties which have been measured at fair value. The consolidated financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries) for the year ended 30 June 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of investment Property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

Except for the amendments to IFRS 4 and *Annual Improvements to IFRSs 2014-2016 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised IFRSs are described below:

(a) Amendments to IFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The amendments have had no significant impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 July 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The Group has 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.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the 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:

	Note	IAS 39 measurement Category	IAS 39 measurement Amount HK$'000	ECLs HK$'000	IFRS 9 measurement Amount HK$'000	IFRS 9 measurement Category
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]
Pledged deposits		L&R[1]	23,699	–	23,699	AC[2]
Time deposit with original maturity of more than three months		L&R[1]	35,583	–	35,583	AC[2]
Cash and cash equivalents		L&R[1]	447,552	–	447,552	AC[2]
			1,049,325	(460)	1,048,865	
Financial liabilities						
Trade payables		AC[2]	216,170	–	216,170	AC[2]
Financial liabilities included in other payables and accruals		AC[2]	30,307	–	30,307	AC[2]
			246,477	–	246,477	

[1] L&R: Loans and receivables

[2] AC: Financial assets or financial liabilities 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Impairment

The following table reconciles the aggregate opening impairment allowances under IAS 39 to the ECL allowances under IFRS 9.

	Impairment allowances under IAS 39 at 30 June 2018 HK$'000	Re-measurement HK$'000	ECL allowances under IFRS 9 at 1 July 2018 HK$'000
Trade receivables	460	–	460
Financial assets included in prepayments, other receivables and other assets	–	–	–
	460	–	460

Impact on reserves and retained profits

There was no impact of transition to IFRS 9 on reserves and retained profits.

(c) IFRS 15 and its amendments replace IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 6 to the financial statements. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 July 2018.

The cumulative effect of the initial application of IFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 July 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

Set out below are the amounts by which each financial statement line item was affected as at 1 July 2018 as a result of the adoption of IFRS 15:

	Note	Increase/ (decrease) HK$'000
Liabilities		
Other payables and accruals	(ii)	(6,648)
Contract liabilities	(ii)	6,648
Total liabilities		–
Equity		
Retained profits		–
Non-controlling interests		–
		–

Set out below are the amounts by which each financial statement line item was affected as at 30 June 2019 and for the year ended 30 June 2019 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under IFRS 15 and the second column shows what the amounts would have been had IFRS 15 not been adopted:

– The consolidated statement of profit or loss for the year ended 30 June 2019 would have been the same if IFRS 15 had not been adopted.

– Consolidated statement of financial position as at 30 June 2019:

		Amounts prepared under		
	Note	IFRS 15 HK$'000	Previous IFRS HK$'000	Increase/ (decrease) HK$'000
Other payables and accruals	(ii)	144,441	155,928	(11,487)
Contract liabilities	(ii)	11,487	–	11,487
		155,928	155,928	–

For the Group's business of the manufacture, sale, retailing and wholesale of handbags, small leather goods, travel goods and footwear products, the goods are sold on their own in separately identified contracts with customers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

(i) Sale of goods

The Group's contracts with customers for the sale of goods generally include one performance obligation. The Group has concluded that revenue from the sale of goods should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

(ii) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as other payables and accruals. Under IFRS 15, the amount is classified as contract liabilities which are included in other payables and accruals.

Therefore, upon adoption of IFRS 15, the Group reclassified HK$6,648,000 from other payables and accruals to contract liabilities as at 1 July 2018 in relation to the consideration received from customers in advance as at 1 July 2018.

As at 30 June 2019, under IFRS 15, HK$11,487,000 was reclassified from other payables and accruals to contract liabilities in relation to the consideration received from customers in advance for the sale of goods.

(d) Amendments to IAS 40 clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments have had no impact on the financial position or performance of the Group.

(e) IFRIC 22 provides guidance on how to determine the date of the transaction when applying IAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Amendments to IFRS 3	*Definition of a Business*[2]
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to IFRS 10 and IAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
IFRS 16	*Leases*[1]
IFRS 17	*Insurance Contracts*[3]
Amendments to IAS 1 and IAS 8	*Definition of Material*[2]
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
IFRIC 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

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

Amendments to IFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 July 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

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

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-Int 15 *Operating Leases – Incentives* and SIC-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

The Group will adopt IFRS 16 from 1 July 2019. The Group plans to adopt the transitional provisions in IFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 July 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying IAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application.

The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During the year ended 30 June 2019, the Group has performed a detailed assessment on the impact of adoption of IFRS 16. The Group has estimated that right-of-use assets of HK$126,972,000 and lease liabilities of HK$110,748,000 will be recognised at 1 July 2019.

Amendments to IAS 1 and IAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 July 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

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

Amendments to IAS 28 clarify that the scope exclusion of IFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies IFRS 9, rather than IAS 28, including the impairment requirements under IFRS 9, in accounting for such long-term interests. IAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 July 2019 and the amendments are not expected to have any significant impact on the Group's financial statements.

IFRIC 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 July 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 30 June. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

Impairment of non-financial assets

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

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly.

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

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

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

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

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

Intangible assets (other than goodwill)

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

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

Research and development costs

All research costs are charged to the consolidated statement of profit or loss as incurred.

Patents and license

Purchased patents and licenses are stated at cost less any impairment losses and are amortized on the straight-line basis over their estimated useful lives of 10 to 20 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

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

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

Investments and other financial assets (policies under IFRS 9 applicable from 1 July 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through other comprehensive income.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 July 2018)" below.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IFRS 9 applicable from 1 July 2018) (continued)

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

Investments and other financial assets (policies under IAS 39 applicable before 1 July 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

Subsequent measurement

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under IAS 39 applicable before 1 July 2018) (continued)

Loans and receivables

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

Derecognition of financial assets (policies under IFRS 9 applicable from 1 July 2018 and policies under IAS 39 applicable before 1 July 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

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

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

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

Impairment of financial assets (policies under IFRS 9 applicable from 1 July 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 July 2018) (continued)

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been no significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under IFRS 9 applicable from 1 July 2018) (continued)

Simplified approach

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Impairment of financial assets (policies under IAS 39 applicable before 1 July 2018)

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

Financial assets carried at amortised cost

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under IFRS 9 applicable from 1 July 2018 and IAS 39 applicable before 1 July 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings and payables.

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

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

Subsequent measurement

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

Loans and borrowings

After initial recognition, interest-bearing borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the statement of profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

Derecognition of financial liabilities (policies under IFRS 9 applicable from 1 July 2018 and IAS 39 applicable before 1 July 2018)

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

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

Offsetting of financial instruments (policies under IFRS 9 applicable from 1 July 2018 and IAS 39 applicable before 1 July 2018)

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

Treasury shares

Own equity instruments which are reacquired and held by the Company or the Group (treasury shares) are recognised directly in equity at cost. No gain or loss is recognised in the statement of profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

Income tax

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the statement of profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 July 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in IFRS 15.

(a) Sale of leather products

Revenue from the sale of leather products is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the leather products.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable before 1 July 2018)

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

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

(b) from the rendering of services, when the relevant services have been rendered and it is probable that economic benefits will flow to the Group and the relevant income can be measured reliably;

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

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial asset to the net carrying amount of the financial asset.

Contract liabilities (applicable from 1 July 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Share-based payments

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30 and note 31 to the consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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

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

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

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

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

Pension schemes

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

The employees of the Group's subsidiaries which operate in mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 13% to 14% of their payroll costs to the central pension scheme. The contributions are charged to the consolidated statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension schemes (continued)

Employees employed by the Group's operations in the Macau Special Administrative Region ("Macau") are members of government-managed retirement benefits scheme operated by the Macau government. The Macau operations are required to pay a monthly fixed contribution to the retirement benefit schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes operated by the Macau government is to make the required contributions under the scheme.

The retirement benefit schemes of A. Testoni S.p.A. and its subsidiaries are based on legal obligations in each host country or region and on its subsidiaries' compensation policies. The main obligation of the Group with respect to the retirement benefit schemes operated by each host country's or region's government is to make the required contributions under the scheme.

Borrowing costs

All borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in note 12 to the consolidated financial statements.

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognized in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

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

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgments

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

Operating lease arrangements – Group as lessor

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Judgments (continued)

Classification between investment properties and owner-occupied properties

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

Withholding taxes arising from the distributions of dividends

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

Estimation uncertainty

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

(i) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 30 June 2019 was HK$2,346,000 (2018: nil).

(ii) Provision for expected credit losses on trade receivables

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(ii) Provision for expected credit losses on trade receivables (continued)

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 22 to the financial statements.

(iii) Impairment of non-financial assets (other than goodwill)

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

(iv) Estimation of fair value of investment properties

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

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

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

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

The carrying amount of investment properties as at 30 June 2019 was approximately HK$733,095,000 (2018: HK$635,556,000). Further details, including the key assumptions used for fair value measurement, are included in note 15 to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(v) Useful lives of property, plant and equipment

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

(vi) Deferred tax assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 30 June 2019 was HK$3,052,000 (2018: HK$6,275,000). The amount of unrecognised tax losses at 30 June 2019 was HK$241,452,000 (2018: HK$93,384,000). Further details are contained in note 20 to the consolidated financial statements.

(vii) Net realizable value of inventories

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

(viii) Income tax

The Group is subject to income taxes in various regions. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimates and judgments based on currently enacted tax laws, regulations and other related policies are required in determining the provision for corporate income taxes. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact the corporate income tax and tax provisions in the period in which the differences are realized. Further details are contained in note 11 to the consolidated financial statements.

(ix) Business combination

During the year, the Group acquired approximately 95.35% equity interests in A. Testoni S.p.A. at a total consideration of HK$65,163,000 and it has been accounted for as a subsidiary of the Group since the acquisition date. Intangible asset acquired by the Group in the acquisition includes trademark. The residual portion of the purchase consideration was allocated as goodwill, which represents the balance of the purchase consideration over the fair value of identifiable net assets acquired by the Group. The purchase price allocation has involved significant management judgement and estimation, such as the valuation methodologies, estimated revenue and profit margins, the discount rate adopted and the estimation of useful life of the intangible asset. Further details are given in note 33 to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

4. PARTICULARS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 30 June 2019 are set out below:

Name of company	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Subsidiaries					
Sitoy International Limited	The British Virgin Islands ("BVI") 10 September 2010	US$1	100	–	Investment holding
Sitoy Handbag Factory Limited	BVI 23 May 2011	US$300	100	–	Investment holding
Sitoy Investment International Limited	BVI 23 May 2011	US$300	100	–	Investment holding
Sitoy Property Investment (BVI) Limited	BVI 4 May 2016	US$100	100	–	Investment holding
Harbour Century Limited	BVI 28 August 2013	US$1	–	100	Investment holding
Sitoy (Hong Kong) Handbag Factory Limited	Hong Kong 9 July 1982	HK$4,000,000	–	100	Investment holding, trading of handbags, small leather goods and travel goods
Sitoy Company Limited	Hong Kong 29 July 1986	HK$30,000	–	100	Investment holding, trading of handbags, small leather goods and travel goods
Sitoy Retailing Limited	Hong Kong 21 September 2010	HK$5,000,000	–	100	Investment holding, trading, retail and wholesale of handbags, small leather goods and travel goods
Sitoy Retailing (Macau) Limited	Macau 9 October 2015	Macau Pataca ("MOP$") MOP$25,000	–	100	Trading and retail of handbags, small leather goods and travel goods

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

4. PARTICULARS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Sitoy K Retailing Company Limited	Hong Kong 18 May 2016	HK$10,000	–	75	Trading, retail and wholesale of fashion products
Sitoy BM Retailing Company Limited	Hong Kong 28 April 2016	HK$10,000	–	100	Trading, retail and wholesale of footwear products
Sitoy Property Investment Company Limited	Hong Kong 18 March 2016	HK$10,000	–	100	Investment holding
Worldmax Enterprises Limited	Hong Kong 30 November 2010	HK$10,000	–	100	Property investment
Sitoy CH Retailing Company Limited	Hong Kong 20 June 2017	HK$40,000,000	–	75	Trading and retail of footwear products
Dongguan Shidai Leather Products Factory Co., Ltd. @	The People's Republic of China ("PRC")/mainland China 13 July 1992	HK$60,000,000	–	100	Manufacture and sale of handbags, small leather goods and travel goods
Sitoy (Yingde) Leather Products Co., Ltd. @	PRC/mainland China 11 December 2006	HK$270,000,000	–	100	Manufacture and sale of handbags, small leather goods and travel goods
Sitoy (Yingde) Luggage Co., Ltd. @	PRC/mainland China 30 May 2013	HK$70,000,000	–	100	Manufacture and sale of luggage and travel goods
Guangzhou Sitoy Leather Goods Company Limited* @	PRC/mainland China 18 January 2011	HK$100,000,000	–	100	Design, retail and wholesale of handbags, small leather goods and travel goods, and provision of advertising and marketing service

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

4. PARTICULARS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
Brilliant Treasure Development Limited	Hong Kong 18 March 2017	HK$1	–	100	Treasury management
Sitoy AT Retailing Company Limited	Hong Kong 18 July 2017	HK$10,000	–	75	Trading, retail and wholesale of fashion products
Shanghai Shiwo Trading Company Limited* @	PRC/mainland China 14 July 2017	RMB20,000,000	–	75	Trading, retail and wholesale of fashion products
Sitoy Retailing Investment Company Limited	Hong Kong 6 October 2017	HK$10,000	–	100	Investment holding
Zhejiang Free Trade Zone Meishile Trading Company Limited* @	PRC/mainland China 14 September 2018	RMB10,000,000	–	100	Design, retail and wholesale of handbags, small leather goods and travel goods, and provision of advertising and marketing service
Zhejiang Free Trade Zone Shiwo Trading Company Limited* @	PRC/mainland China 5 September 2018	RMB10,000,000	–	75	International trade, entrepot trade, and trade agency, and online sales of leather goods, clothing and accessories, and goods for daily use
A. Testoni S.p.A.	Italy 7 March 1969	EUR5,018,542	–	95.35	Retail sales of footwear and Leather goods in specialised stores
A. Testoni Italia S.p.A.	Italy 7 February 1986	EUR792,739**	–	95.35	Retail sales of footwear and Leather goods in specialised stores

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

4. PARTICULARS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES (continued)

Name of company	Place and date of incorporation/ registration and place of operations	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities
A. Testoni Japan Co. Ltd	Japan 14 February 1986	JPY50,000,000**	–	95.35	Wholesale and retail sale of leatherware, fashion garments and apparel
A. Testoni Hong Kong Limited	Hong Kong 24 February 1984	HK$1,000,000	–	95.35	Wholesale and retail sales of leatherware, fashion garments and apparel
A.Testoni Korea Co., Ltd.	Korea 20 April 1994	WON142,860,000**	–	95.35	Wholesale and retail of shoes, clothes, belts, stationaries, glasses, bags and other fashion products
Shanghai Tesma Trading Limited	PRC/mainland China 25 May 2017	USD543,000**	–	95.35	Trading, retail and wholesale
Teslion Corporation Ltd.	Taiwan 31 May 2001	NT$40,000,000**	–	47.68	Operating shops, boutiques, department stores corners to sell fashion products of a.testoni Italy

* The English names represent the translated Chinese names of these subsidiaries as no English names have been registered.

** JPY, EUR, WON, US$ and TWD are the abbreviations of Japanese Yen, Euro, Korea won, United States dollar and New Taiwan dollar, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

5. OPERATING SEGMENT INFORMATION

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

(a) Retail: manufactures, retails and wholesales handbags, small leather goods, travel goods and footwear products for the brands owned or licensed by the Group, and provides of handbag and accessories design, advertising and marketing services;

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

5. OPERATING SEGMENT INFORMATION (continued)

	Year ended 30 June 2019			
	Retail HK$'000	Manufacturing HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue (note 6):				
Sales to external customers	570,232	1,859,958	11,251	2,441,441
Intersegment sales	–	207,494	3,072	210,566
	570,232	2,067,452	14,323	2,652,007
Reconciliation:				
Elimination of intersegment sales	–	(207,494)	(3,072)	(210,566)
Total revenue				2,441,441
Segment results	7,927	132,358	42,313	182,598
Reconciliation:				
Corporate and other unallocated expenses				(21,663)
Profit before tax				160,935
Segment assets	618,734	2,138,008	760,383	3,517,125
Reconciliation:				
Elimination of intersegment receivables				(1,037,052)
Corporate and other unallocated assets				151,991
Total assets				2,632,064
Segment liabilities	750,766	291,045	567,053	1,608,864
Reconciliation:				
Elimination of intersegment payables				(1,037,052)
Corporate and other unallocated liabilities				161
Total liabilities				571,973
Other segment information:				
Depreciation of items of property, plant and equipment	9,669	35,367	–	45,036
Unallocated depreciation of items of property, plant and equipment				2,529
				47,565
Amortization of prepaid land lease payments	–	422	–	422
Amortization of other intangible assets	2,371	–	–	2,371
Write-down/(reversal of write-down) of inventories to net realizable value	32,670	(3,895)	–	28,775
Impairment of other intangible assets	3,316	–	–	3,316
Operating lease rentals	74,784	4,951	–	79,735
Capital expenditure*	7,140	7,176	340	14,656

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

5. OPERATING SEGMENT INFORMATION (continued)

	Year ended 30 June 2018			
	Retail HK$'000	Manufacturing HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue:				
Sales to external customers	315,519	1,978,145	12,132	2,305,796
Intersegment sales	–	122,265	3,072	125,337
	315,519	2,100,410	15,204	2,431,133
Reconciliation:				
Elimination of intersegment sales	–	(122,265)	(3,072)	(125,337)
Total revenue				2,305,796
Segment results	22,144	198,819	68,752	289,715
Reconciliation:				
Corporate and other unallocated expenses				(7,518)
Profit before tax				282,197
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
Other segment information:				
Depreciation of items of property, plant and equipment	6,434	37,148	–	43,582
Unallocated depreciation of items of property, plant and equipment				2,529
				46,111
Amortization of prepaid land lease payments	–	425	–	425
Amortization of other intangible assets	387	–	–	387
(Reversal of write-down)/write-down of inventories to net realizable value	(3,532)	1,071	–	(2,461)
Operating lease rentals	49,625	4,711	–	54,336
Capital expenditure*	12,924	10,497	1,006	24,427

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

5. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	Year ended 30 June	
	2019	2018
	HK$'000	HK$'000
Revenue		
North America	**500,521**	633,611
mainland China, Hong Kong, Macau and Taiwan	**902,726**	630,654
Europe	**541,473**	574,516
Other Asian countries	**434,092**	385,417
Other countries/regions	**62,629**	81,598
	2,441,441	2,305,796

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

(b) Non-current assets

	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Mainland China, Hong Kong, Macau and Taiwan	**1,169,172**	1,106,076
Europe	**21,701**	–
Other Asian countries	**11,872**	–
	1,202,745	1,106,076

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

Information about a major customer

For the year ended 30 June 2019, revenue derived from sales by the manufacturing segment to one major customer amounting to HK$333,016,000 had accounted for over 10% of the Group's revenue, including sales to a group of entities which are known to be under common control of these customers.

For the year ended 30 June 2018, revenue derived from sales by the manufacturing segment to one major customer amounting to HK$394,093,000 had accounted for over 10% of the Group's revenue, including sales to a group of entities which are known to be under common control of these customers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

6. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 30 June	
	2019 **HK$'000**	2018 HK$'000
Revenue from contracts with customers		
Sale of goods	**2,430,190**	2,293,664
Revenue from other sources		
Gross rental income	**11,251**	12,132
	2,441,441	2,305,796

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 30 June 2019

Segments	Retail HK$'000	Manufacturing HK$'000	Total HK$'000
Type of goods or services			
Sale of goods	570,232	1,859,958	2,430,190
Geographical markets			
North America	1,448	499,073	500,521
Europe	19,547	521,926	541,473
Mainland China, Hong Kong, Macau and Taiwan	514,006	377,469	891,475
Other Asian countries	35,231	398,861	434,092
Others	–	62,629	62,629
Total revenue from contracts with customers	570,232	1,859,958	2,430,190

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

6. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) ***Disaggregated revenue information*** (continued)

For the year ended 30 June 2019

Segments	Retail HK$'000	Manufacturing HK$'000	Total HK$'000
Timing of revenue recognition			
Goods transferred at a point in time	570,232	1,859,958	2,430,190

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information:

For the year ended 30 June 2019

Segments	Retail HK$'000	Manufacturing HK$'000	Total HK$'000
Revenue from contracts with customers			
Sales to external customers	570,232	1,859,958	2,430,190
Intersegment sales	–	207,494	207,494
	570,232	2,067,452	2,637,684
Elimination of intersegment sales	–	(207,494)	(207,494)
Total revenue from contracts with customers	570,232	1,859,958	2,430,190

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period	
Sale of goods	6,648
Revenue recognised from performance obligations satisfied in previous periods	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

6. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations

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

Sale of handbags, small leather goods, etc.

The performance obligation is satisfied upon delivery of handbag, small leather goods, etc. and payment is generally due within 14 to 150 days from delivery, except for new customers, where payment in advance is normally required.

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 June 2019 are as follows:

	HK$'000
Within one year	**11,487**

The remaining performance obligation relating to the sale of goods is expected to be recognised within one year. The amounts disclosed above do not include variable consideration which is constrained.

Other income and gains

	Year ended 30 June	
	2019 HK$'000	2018 HK$'000
Fair value gain on investment properties	**40,260**	62,994
Net sample and material income	**8,343**	4,483
Exchange gain, net	**9,086**	–
Interest income	**7,224**	5,778
Investment income	**–**	2,801
Government grants	**3,906**	1,430
Royalty income	**2,003**	–
Others	**1,666**	619
	72,488	78,105

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

7. PROFIT BEFORE TAX

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

	Year ended 30 June	
	2019 HK$'000	2018 HK$'000
Cost of inventories sold	**1,746,148**	1,668,577
Employee benefit expense (including Directors' and chief executive's remuneration as set out in note 9)		
– Wages and salaries	**623,585**	612,805
– Equity-settled share option expense	**115**	761
– Equity-settled share award expense	**10,723**	–
– Pension scheme contributions	**24,172**	25,423
	658,595	638,989
Depreciation of items of property, plant and equipment (note 14)	**47,565**	46,111
Amortization of prepaid land lease payments (note 16)	**422**	425
Amortization of other intangible assets (note 18)	**2,371**	387
Operating lease rentals	**79,735**	54,336
Fair value gain on investment properties (note 15)	**(40,260)**	(62,994)
Fair value loss on investment property transferred from owner-occupied property (note 15)	**3,000**	–
Impairment/(reversal of impairment) of trade receivables, net (included in other expenses/(other income and gains)) (note 22)	**2,513**	(44)
Impairment of other intangible assets (note 18)	**3,316**	–
Write-down/(reversal of write-down) of inventories to net realizable value	**28,775**	(2,461)
Loss on disposal of items of property, plant and equipment	**2,604**	946
Auditors' remuneration	**2,450**	2,200
Exchange (gain)/loss, net	**(9,086)**	8,195

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 30 June	
	2019 HK$'000	2018 HK$'000
Interest on bank borrowings	**4,790**	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	Year ended 30 June	
	2019 HK$'000	2018 HK$'000
Fees	**860**	863
Other emoluments:		
Salaries, allowances and benefits in kind	**11,629**	11,532
Discretionary bonuses	**3,640**	3,774
Equity-settled share option expense	**40**	306
Equity-settled share award expense	**3,152**	–
Pension scheme contributions	**173**	195
	18,634	15,807
	19,494	16,670

Certain directors were granted share options and share awards, in respect of their services to the Group, under the share option scheme and share award scheme of the Company, further details of which are set out in notes 30 and 31 to the consolidated financial statements, respectively. The fair value of such options and awards, which has been recognized in the consolidated statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the consolidated financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

Independent non-executive Directors

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

	Year ended 30 June	
	2019 HK$'000	2018 HK$'000
Mr. Yeung Chi Tat	**220**	220
Mr. Kwan Po Chuen, Vincent	**220**	220
Mr. Lung Hung Cheuk	**220**	220
	660	660

As at 30 June 2019, there were no other emoluments payable to the independent non-executive Directors (30 June 2018: nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

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

Executive directors and the chief executive

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expense HK$'000	Equity-settled share award expense HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 30 June 2019							
Mr. Yeung Michael Wah Keung	50	3,980	902	–	–	–	4,932
Mr. Yeung Wo Fai	50	3,582	812	–	–	–	4,444
Mr. Yeung Andrew Kin	50	1,583	1,512	–	–	155	3,300
Dr. Lau Kin Shing, Charles	50	2,484	414	40	3,152	18	6,158
	200	11,629	3,640	40	3,152	173	18,834

	Fees HK$'000	Salaries, allowances, and benefits in kind HK$'000	Discretionary bonuses HK$'000	Equity-settled share option expenses HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Year ended 30 June 2018						
Mr. Yeung Michael Wah Keung	50	3,980	902	–	–	4,932
Mr. Yeung Wo Fai	50	3,582	812	–	18	4,462
Mr. Yeung Andrew Kin	50	1,425	1,196	–	131	2,802
Dr. Lau Kin Shing, Charles	50	2,448	406	237	18	3,159
Mr. Chan Ka Dig Adam*	3	97	458	69	28	655
	203	11,532	3,774	306	195	16,010

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

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

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year ended 30 June 2019 (2018: nil).

As at 30 June 2019, there was no remuneration payable to the Directors (30 June 2018: nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four Directors (2018: four Directors, including the chief executive), details of whose remuneration are set out in note 9 above. Details of the remuneration for the remaining one (2018: one) highest paid employee who is neither a Director nor chief executive of the Company are as follows:

	Year ended 30 June	
	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits in kind	**874**	1,332
Discretionary bonuses	**1,553**	220
Pension scheme contributions	**121**	18
	2,548	1,570

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

	Number of employees Year ended 30 June	
	2019	2018
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,500,001 to HK$3,000,000	**1**	–
	1	1

11. INCOME TAX EXPENSE

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

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

Hong Kong profits tax has been provided at the rate of 16.5% for the year ended 30 June 2019 (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Macau Complementary Income Tax has not been provided for as the Group had no assessable profit arising in Macau during the year (2018: nil).

Italy, Korea, Taiwan and Japan income tax has not been provided for as the Group has no assessable profit arising in those jurisdictions during the year ended 30 June 2019.

The provision for PRC corporate income tax is based on a statutory rate of 25% for the year ended 30 June 2019 (2018: 25%) of the assessable profit of the subsidiaries in mainland China as determined in accordance with the PRC Corporate Income Tax Law which was approved and became effective on 1 January 2008.

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

	Year ended 30 June	
	2019 **HK$'000**	2018 HK$'000
Current – Hong Kong		
Charge for the year	**11,877**	20,134
Adjustments in respect of current income tax of previous years	**716**	77
Current – mainland China		
Charge for the year	**34,120**	16,882
Adjustments in respect of current income tax of previous years	**(3,221)**	(2,154)
Deferred tax (note 20)	**4,653**	(3,610)
Total tax charge for the year	**48,145**	31,329

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

11. INCOME TAX EXPENSE (continued)

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

Year ended 30 June 2019

	Hong Kong		Macau		mainland China		Cayman Islands*		Italy and others		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	78,651		(1,156)		136,619		(20,932)		(32,247)		160,935	
Tax at the statutory tax rate	12,977	16.5	(145)	12.5	34,154	25.0	(3,454)	16.5	(7,740)	24.0	35,792	22.2
Adjustments in respect of current tax of previous years	716	0.9	–	–	(3,221)	(2.4)	–	–	–	–	(2,505)	(1.6)
Income not subject to tax	(6,735)	(8.6)	–	–	–	–	(72)	0.4	–	–	(6,807)	(4.2)
Expenses not deductible for tax	1,315	1.7	–	–	517	0.4	2,024	(9.7)	320	(1.0)	4,176	2.6
Deductible temporary differences not recognized, net	3,310	4.2	–	–	(122)	(0.1)	–	–	–	–	3,188	2.0
Tax losses not recognized in current year	4,305	5.5	145	(12.5)	8,517	6.3	–	–	7,740	(24.0)	20,707	12.9
Tax losses utilized from previous years	–	–	–	–	(6,406)	(4.7)	–	–	–	–	(6,406)	(4.0)
Tax charge at the Group's effective rate	15,888	20.2	–	–	33,439	24.5	(1,502)	7.2	320	(1.0)	48,145	(29.9)

Year ended 30 June 2018

	Hong Kong		Macau		mainland China		Cayman Islands*		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(loss) before tax	201,108		(1,965)		73,927		9,127		282,197	
Tax at the statutory tax rate	33,183	16.5	(246)	12.5	18,482	25.0	1,506	16.5	52,925	18.8
Adjustments in respect of current tax of previous years	77	–	–	–	(2,154)	(2.9)	–	–	(2,077)	(0.7)
Income not subject to tax	(10,506)	(5.2)	–	–	–	–	(1,454)	(15.9)	(11,960)	(4.2)
Expenses not deductible for tax	429	0.2	–	–	586	0.8	–	–	1,015	0.4
Deductible temporary differences not recognized, net	(4,922)	(2.4)	–	–	(122)	(0.2)	–	–	(5,044)	(1.8)
Tax losses not recognized in current year	2,614	1.3	246	(12.5)	3,886	5.3	–	–	6,746	2.4
Tax losses recognized in current year	(4,516)	(2.2)	–	–	–	–	–	–	(4,516)	(1.6)
Tax losses utilized from previous years	(1,632)	(0.8)	–	–	(4,128)	(5.6)	–	–	(5,760)	(2.0)
Tax charge at the Group's effective rate	14,727	7.3	–	–	16,550	22.4	52	0.6	31,329	11.1

* During the year ended 30 June 2019 and 2018, the Company generated revenue in Hong Kong and was therefore subject to Hong Kong profits tax.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

12. DIVIDENDS

	Year ended 30 June	
	2019	2018
	HK$'000	HK$'000
Interim – 2019: HK6 cents per ordinary share (2018: HK6 cents per ordinary share)	**57,415**	60,092
Proposed final – 2019: HK2 cents per ordinary share (2018: HK6 cents per ordinary share) (i)	**19,138**	60,092
	76,553	120,184

Note:

(i) On 27 September 2019, the Board of Directors of the Company resolved to propose a final dividend for the year ended 30 June 2019 of HK2 cents (2018: a final dividend of HK6 cents) per ordinary share out of the consolidated retained profits of the Group as at 30 June 2019 subject to the approval by the shareholders at the forthcoming annual general meeting of the Company.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount is based on the profit for the years ended 30 June 2019 and 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 end of the reporting period, and the weighted average number of ordinary shares of 967,816,250 (2018: 1,001,532,000) in issue excluding awarded shares during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year ended 30 June 2019 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 year ended 30 June 2019, 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 year ended 30 June 2019, 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 (2018: nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (continued)

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

	Year ended 30 June	
	2019 HK$'000	2018 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic and diluted earnings per share calculations	**125,566**	256,675

	Year ended 30 June	
	2019	2018
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**967,816,250**	1,001,532,000
Effect of dilution – weighted average number of ordinary share	**4,964,193**	–
Weighted average number of ordinary shares in issue during the year used in the diluted earnings per share calculation	**972,780,443**	1,001,532,000
Basic earnings per share (HK cents)	**12.97**	25.63
Diluted earnings per share (HK cents)	**12.91**	25.63

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
30 June 2019							
Cost							
At 30 June 2018 and at 1 July 2018	431,968	79,740	168,600	66,865	8,716	1,942	757,831
Acquisition of subsidiaries (note 33)	72,542	20,490	20,273	40,551	503	–	154,359
Additions	454	5,437	865	3,203	1,171	3,362	14,492
Transfers	–	–	2,688	334	–	(3,022)	–
Disposals	(838)	(7,385)	(1,439)	(1,591)	(430)	–	(11,683)
Transferred to investment properties (note 15)	(61,000)	–	–	–	–	(340)	(61,340)
Exchange realignment	(8,662)	(3,927)	(5,286)	(3,149)	(198)	(81)	(21,303)
At 30 June 2019	434,464	94,355	185,701	106,213	9,762	1,861	832,356
Accumulated depreciation							
At 30 June 2018 and at 1 July 2018	97,563	63,647	104,228	42,699	5,673	–	313,810
Acquisition of subsidiaries (note 33)	10,180	10,154	16,888	33,843	503	–	71,568
Depreciation provided during the year	18,917	8,634	13,159	5,866	989	–	47,565
Disposals	(653)	(5,884)	(1,075)	(963)	(187)	–	(8,762)
Transferred to investment properties (note 15)	(1,061)	–	–	–	–	–	(1,061)
Exchange realignment	2,671	991	(2,596)	(1,164)	(137)	–	(235)
At 30 June 2019	127,617	77,542	130,604	80,281	6,841	–	422,885
Net book value							
At 30 June 2019	306,847	16,813	55,097	25,932	2,921	1,861	409,471
At 30 June 2018	334,405	16,093	64,372	24,166	3,043	1,942	444,021

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
30 June 2018							
Cost							
At 30 June 2017 and at 1 July 2017	423,231	78,324	163,090	59,717	8,203	2,034	734,599
Additions	–	8,335	4,180	5,796	1,700	1,277	21,288
Transfers	–	–	–	421	–	(421)	–
Disposals	–	(8,648)	(3,200)	(233)	(1,306)	–	(13,387)
Transferred to investment properties	–	–	–	–	–	(1,006)	(1,006)
Exchange realignment	8,737	1,729	4,530	1,164	119	58	16,337
At 30 June 2018	431,968	79,740	168,600	66,865	8,716	1,942	757,831
Accumulated depreciation							
At 30 June 2017 and at 1 July 2017	78,710	60,702	90,887	35,748	5,980	–	272,027
Depreciation provided during the year	16,408	9,715	12,821	6,316	851	–	46,111
Disposals	–	(8,277)	(2,017)	(180)	(1,241)	–	(11,715)
Exchange realignment	2,445	1,507	2,537	815	83	–	7,387
At 30 June 2018	97,563	63,647	104,228	42,699	5,673	–	313,810
Net book value							
At 30 June 2018	334,405	16,093	64,372	24,166	3,043	1,942	444,021
At 30 June 2017	344,521	17,622	72,203	23,969	2,223	2,034	462,572

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

15. INVESTMENT PROPERTIES

	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Carrying amount at beginning of the year	**635,556**	571,556
Transfer from construction in progress (note 14)	**340**	1,006
Transfer from owner-occupied property (note 14)	**59,939**	–
Fair value loss on investment property transferred from owner occupied property* (note 7)	**(3,000)**	–
Fair value gain on investment properties (note 6)	**40,260**	62,994
Carrying amount at end of the year	**733,095**	635,556

* On 1 April 2019, an office building occupied by the Group as a self-occupied property became an investment property. The building was revalued at the transfer date by Vincorn Consulting and Appraisal Limited, an independent professionally qualified valuer, at an open market value of HK$56,939,000, which was lower than the then carrying amount. A revaluation loss of HK$3,000,000, resulting from the above valuation, has been charged to profit or loss during the year ended 30 June 2019.

The Group's investment properties consist of three commercial properties in Hong Kong. The Directors of the Company have determined that the investment properties are commercial based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 30 June 2019, based on valuations performed by Vincorn Consulting and Appraisal Limited, an independent professionally qualified valuer, at an aggregated amount of approximately HK$733,095,000. Each year, the Directors decide to appoint an external valuer to be responsible for the valuations of the Group's investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Directors have discussions with the valuer on the valuation assumptions and valuation results every year when the valuation is performed for annual financial reporting.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

15. INVESTMENT PROPERTIES (continued)

Below is the information about these three commercial properties:

Property	Address	Existing use	Lease term
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	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
Office No.1011 on 10th Floor of Tower 1	10th Floor of Tower 1, Silvercord, No. 30 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong (Kowloon Inland lot number 10456)	Commercial (for rental income and capital appreciation purposes)	Medium term lease

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 37(a) to the consolidated financial statements.

Fair value hierarchy

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

	Fair value measurement as at 30 June 2019 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Commercial properties	–	–	733,095	733,095

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

15. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

	Fair value measurement as at 30 June 2018 using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for:				
Commercial properties	–	–	635,556	635,556

During the year, there were no transfers into or out of Level 3 (2018: nil).

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

	HK$'000
Carrying amount at 1 July 2017	571,556
Transfer from construction in progress (note 14)	1,006
Fair value gain on investment properties	62,994
Carrying amount at 30 June 2018 and 1 July 2018	635,556
Transfer from construction in progress (note 14)	340
Transfer from owner-occupied property (note 14)	59,939
Fair value loss on transfer from owner-occupied property (note 7)	(3,000)
Fair value gain on investment properties (note 7)	40,260
Carrying amount at 30 June 2019	733,095

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

15. INVESTMENT PROPERTIES (continued)

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

	Valuation technique	Significant unobservable inputs	Range or weighted average
Commercial property 1	Income approach – term and reversion analysis	Estimated rental value (per square foot and per month)	HK$33.70
		Estimated price (per square foot)	HK$11,228
		Market yield	2.5%
		Term yield	1.6%
Commercial property 2	Market approach	Estimated price (per square foot)	HK$5,948
Commercial property 3	Market approach	Estimated price (per square foot)	HK$27,670

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

The term and reversion analysis is used to estimate the value of the properties on an open market basis by capitalizing the rental income on a fully leased basis having regard to the current passing rental income from the existing tenancies and the potential future reversionary rental income in the market. No allowances have been made for vacancy or capital deductions of any nature.

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

For commercial property 2 and property 3, this valuation method provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. By analysing such sales, which qualify as "arms-length" transactions, between willing buyers and sellers, adjustments are made for size, location, time, amenities and other relevant factors when comparing such sales prices to assess the value of the subject asset.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

16. PREPAID LAND LEASE PAYMENTS

	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Carrying amount at beginning of the year	**17,035**	16,966
Charge for the year	**(422)**	(425)
Exchange realignment	**(699)**	494
Carrying amount at end of the year	**15,914**	17,035

17. GOODWILL

	HK$'000
At 30 June 2018	–
Acquisition of a subsidiary (note 33)	2,346
Impairment during the year	–
Cost and net carrying amount at 30 June 2019	2,346

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to products cash-generating unit with the brand of "a.testoni" for impairment testing:

As at 30 June 2019, the recoverable amount of "a.testoni" products cash-generating unit was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by management. The values assigned to the key assumptions on market development of leather products retailing industries, discount rates and raw materials price inflation are consistent with external information sources.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

18. OTHER INTANGIBLE ASSETS

	Trademark HK$'000	License right* HK$'000	Total HK$'000
30 June 2019			
Cost and net carrying amount at 1 July 2018	**5,734**	**2,747**	**8,481**
Acquisition of a subsidiary (note 33)	**18,560**	**–**	**18,560**
Additions	**164**	**–**	**164**
Amortization provided during the year	**(1,866)**	**(505)**	**(2,371)**
Impairment during the year	**(3,316)**	**–**	**(3,316)**
Exchange realignment	**(980)**	**(104)**	**(1,084)**
Cost and net carrying amount at 30 June 2019	**18,296**	**2,138**	**20,434**
30 June 2018			
Cost and net carrying amount at 1 July 2017	5,734	–	5,734
Additions	–	3,139	3,139
Amortization provided during the year	–	(387)	(387)
Exchange realignment	–	(5)	(5)
Cost and net carrying amount at 30 June 2018	5,734	2,747	8,481

* License right represents the franchise distribution right of "JOCKEY" which was acquired during the year ended 30 June 2018.

Indefinite useful life

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

18. OTHER INTANGIBLE ASSETS (continued)

Impairment testing

During the year, an impairment loss of HK$3,316,000 was recognised in the consolidated statement of profit or loss as other expense, in respect of the acquired "TUSCAN'S" trademark. The impairment charge is driven by the lower recoverable amount of the trademark "TUSCAN'S" resulting from the directors' assessment that the estimated future business performance of the trademark "TUSCAN'S" might not achieve the expectation of management taking the budgeted performance results and estimated growth rate into consideration.

The Directors estimated the recoverable amount of the trademark "TUSCAN'S" by comparing the higher of the fair value less costs to sell and the value in use of the trademark based on the discounted cash flow prepared by management. The estimate of the recoverable amount of the trademark as at 30 June 2019 was determined based on a value in use calculation using cash flow projections based on the five-year financial forecast approved by the Directors, which is based on certain key assumptions including discount rate, long-term growth rate and budgeted performance results. The carrying amount of the trademark was determined to be higher than its recoverable amount of HK$3,316,000 and an impairment loss of HK$3,316,000 (2018: Nil) was recognised. The key assumptions used in value-in-use calculation include a discount rate of 15.0%, a long-term growth rate of 3% and budgeted margin which are consistent with market average level and external information sources. The Directors mark the above financial forecast based on the expectation of future market development and the strategic retail expansion plan going forward.

19. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Debt investments at fair value through other comprehensive income	**13,996**	–

The above debt investments were irrevocably designated at fair value through other comprehensive income as the objective of the Group in holding these debt investments is to collect contractual cash flows and to sell the financial assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

20. DEFERRED TAX

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

Deferred tax assets

	Unrealized gain/(loss) arising from intra-group transactions HK$'000	Temporary differences on prepaid land lease payments HK$'000	Accruals and provisions HK$'000	Provision against inventories HK$'000	Operating loss HK$'000	Other temporary differences HK$'000	Total HK$'000
At 1 July 2017	2,289	6,782	3,871	2,765	3,891	1,015	20,613
Deferred tax credited/(charged) to to the consolidated statement of profit or loss during the year (note 11)	946	(167)	(397)	639	2,302	126	3,449
Exchange realignment	–	197	106	90	82	–	475
Gross deferred tax assets at 30 June 2018 and 1 July 2018	3,235	6,812	3,580	3,494	6,275	1,141	24,537
Deferred tax (charged)/credited to the consolidated statement of profit or loss during the year (note 11)	(2,104)	(166)	(515)	(3,107)	(3,185)	1,788	(7,289)
Acquisition of a subsidiary (note 33)	–	–	–	16,553	–	–	16,553
Exchange realignment	–	(278)	(133)	(139)	(38)	–	(588)
At 30 June 2019	1,131	6,368	2,932	16,801	3,052	2,929	33,213

Deferred tax liabilities

	Accelerated tax depreciation HK$'000
At 1 July 2017	2,503
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	(161)
Exchange realignment	21
Gross deferred tax liabilities at 30 June 2018 and 1 July 2018	2,363
Acquisition of a subsidiary (note 33)	2,124
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	(2,636)
Exchange realignment	(21)
At 30 June 2019	1,830

20. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

At 30 June 2019, no deferred tax liabilities had been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in mainland China. In the opinion of the Directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in mainland China for which deferred tax liabilities have not been recognized was approximately HK$687,115,000 (30 June 2018: HK$572,716,000).

Deferred tax assets have not been recognised in respect of the following item:

	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Tax losses	**241,452**	93,384

Deferred tax assets have not been recognised in respect of the above item as it is not considered probable that taxable profits will be available against which the above items can be utilised.

21. INVENTORIES

	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Raw materials	**54,693**	77,545
Work in progress	**115,419**	147,251
Finished goods	**265,762**	117,732
	435,874	342,528
Less: provision against inventories	**(42,095)**	(13,977)
	393,779	328,551

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

22. TRADE RECEIVABLES

	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Trade receivables	**488,212**	515,960
Impairment	**(2,513)**	(460)
	485,699	515,500

The Group grants different credit periods to customers. The Group generally requires its customers to make payments at various stages of a sale transaction. The credit period of individual customers is considered on a case-by-case basis and set out in the sales contracts, as appropriate. Certain customers are required to make partial payments before or upon delivery. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are unsecured and non-interest-bearing.

An aging 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 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Within 90 days	**441,068**	495,231
91 to 180 days	**30,136**	10,643
Over 180 days	**14,495**	9,626
	485,699	515,500

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

	Year ended 30 June 2019 HK$'000	Year ended 30 June 2018 HK$'000
At beginning of year	**460**	504
Impairment losses/(reversal of impairment losses), net (included in other expenses/(other income and gains)) (note 7)	**2,513**	(44)
Amounts written off as uncollectible	**(460)**	–
At end of year	**2,513**	460

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

22. TRADE RECEIVABLES (continued)

Impairment under IFRS 9 for the year ended 30 June 2019

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.

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

		Past due			
As at 30 June 2019	Current HK$'000	1 month HK$'000	1 to 3 months HK$'000	Over 3 months HK$'000	Total HK$'000
Expected credit loss rate	0.16%	0.39%	4.44%	14.00%	0.51%
Gross carrying amount (HK$'000)	367,820	104,045	7,941	8,406	488,212
Expected credit loss (HK$'000)	580	405	352	1,176	2,513

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.

The aging 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
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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

22. TRADE RECEIVABLES (continued)

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

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 were 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 were still considered fully recoverable.

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Non-current portion:		
Rental deposits	**6,462**	–
Prepayments for items of property, plant and equipment	**1,027**	983
	7,489	983
Current portion:		
Prepayments	**19,348**	17,603
Deposits and other receivables	**26,697**	26,531
Value-added tax	**40,320**	30,457
	86,365	74,591
Total	**93,854**	75,574

Deposits and other receivables mainly represent rental deposits and deposits with suppliers.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

24. CASH AND CASH EQUIVALENTS, PLEDGED AND TIME DEPOSITS

	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Cash and bank balances	**406,779**	447,552
Time deposits	**23,484**	59,282
	430,263	506,834
Less: Time deposit with original maturity of more than three months	**–**	(35,583)
Time deposits pledged as security for banking facilities	**(23,484)**	(23,699)
Cash and cash equivalents	**406,779**	447,552

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

	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Denominated in RMB	**272,905**	308,947

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

25. INTEREST-BEARING BANK BORROWINGS

	As at 30 June 2019			As at 30 June 2018		
	Effective interest rate (%)	Maturity	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Bank loans – secured	1.750% – 2.525%	On demand	110,831	–	–	–
Bank loans – unsecured	0.250% – 2.25%	On demand	55,458	–	–	–
			166,289			–

The bank borrowing 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 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Aggregate carrying amount	56,631	–

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

25. INTEREST-BEARING BANK BORROWINGS (continued)

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 30 June 2019		As at 30 June 2018	
	Maturity	HK$'000	Maturity	HK$'000
Bank borrowings – secured	2019-2022	110,831	–	–
Bank borrowings – unsecured	2019-2020	55,458	–	–
		166,289		–
Analyzed into:				
Bank borrowings repayable:				
Within one year or on demand		109,658		–
In the second year		34,847		–
In the third to fifth years, inclusive		21,784		–
		166,289		–

26. 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 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Within 90 days	201,921	197,150
91 to 180 days	7,866	8,563
181 to 365 days	5,108	7,421
Over 365 days	6,911	3,036
	221,806	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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

27. OTHER PAYABLES AND ACCRUALS

	Notes	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Payroll payable		**87,956**	74,684
Receipt in advance		**–**	6,784
Contract liabilities	(a)	**11,487**	–
Accruals		**8,428**	7,775
Other payables	(b)	**48,057**	31,463
		155,928	120,706

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

Notes:

(a) Details of contract liabilities as at 30 June 2019 and 1 July 2018 are as follows:

	30 June 2019 HK$'000	1 July 2018 HK$'000
Short-term advances received from customers		
Sale of goods	**11,487**	6,648

Contract liabilities include short-term advances received to deliver leather products. The increase in contract liabilities in the year ended 30 June 2019 was mainly due to the increase in short-term advances received from customers in relation to the sales of goods at the end of the year.

(b) Other payables are non-interest-bearing and have an average credit term of three months.

28. DEFERRED INCOME

	Government grants HK$'000
At 1 July 2017	–
Additions	3,565
Recognized during the year	(7)
Exchange realignment	52
At 30 June 2018 and 1 July 2018	3,610
Recognized during the year	(203)
Exchange realignment	(145)
At 30 June 2019	3,262

29. SHARE CAPITAL

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

Shares:

	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
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	1,001,532,000	100,153
Repurchase and cancellation of shares (note i)	(36,102,000)	(3,610)
At 30 June 2019	965,430,000	96,543

Note:

(i) During the year ended 30 June 2019, the Group repurchased 44,622,000 shares on the Hong Kong 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.

Share options and share awards

Details of the Company's share option and share award schemes and the share options and share awards granted under the schemes are included in notes 30 and 31 to the consolidated financial statements respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

30. SHARE OPTION SCHEME

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

A total of 95,653,000 shares (representing approximately 9.55% of the existing issued share capital of the Company) may be issued upon exercise of all options that may be granted and have been granted but not yet lapsed or exercised under the Share Option Scheme.

The maximum entitlement for any one participant (including both exercised and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

30. SHARE OPTION SCHEME (continued)

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

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

	2019 Weighted average exercise price HK$ of options	Number per share '000
At 1 July 2018 and 30 June 2019	**3.84**	4,500

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

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

2019 Number of options '000	Exercise price* HK$ per share	Exercise period
1,500	3.84	2016/9/21 to 2025/9/20
1,500	3.84	2017/9/21 to 2025/9/20
1,500	3.84	2018/9/21 to 2025/9/20
4,500		

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

There were no share options granted during the year (2018: nil). The Group recognized a share option expense of HK$115,000 (2018: HK$761,000) during the year ended 30 June 2019.

At the date of approval of these consolidated financial statements, the Company had 4,500,000 share options outstanding under the Share Option Scheme, which represented approximately 0.47% of the Company's shares in issue as at that date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

31. SHARE AWARD SCHEME

In July 2018, 9,000,000 treasury shares were promised to be 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 year was HK$18,000,000, of which the Group recognized an expense of approximately HK$10,723,000 for the year ended 30 June 2019.

At the date of approval of these consolidated financial statements, the Company had 8,520,000 treasury shares held under the share award scheme, which represented approximately 0.88% of the Company's shares in issue as at that date.

32. RESERVES

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

Share premium

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

Merger reserve

The merger reserve represents the difference between the nominal value of shares of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange therefor.

Statutory reserve fund

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

33. BUSINESS COMBINATION

On 22 November 2018, the Group acquired approximately 95.35% of the total issued shares of A. Testoni S.p.A., and the remaining 4.65% of the issued shares were 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") are effectively wholly owned by the Group. A. Testoni Group is principally engaged in the manufacture 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 EUR7,334,000 (approximately HK$65,163,000) which was paid on the acquisition date.

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

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

	Notes	Fair value recognized on acquisition HK$'000
Property, plant and equipment	14	82,791
Other intangible assets	18	18,560
Deferred tax assets	20	16,553
Debt investments at fair value through other comprehensive income	19	12,102
Other non-current assets	23	12,723
Inventories	21	96,857
Trade receivables	22	16,793
Prepayments, deposits and other receivables	23	6,690
Cash and cash equivalents	24	12,457
Trade payables	26	(33,452)
Other payables and accruals	27	(81,254)
Interest-bearing bank borrowings	25	(88,007)
Deferred tax liabilities	20	(2,124)
Total identifiable net assets at fair value		70,689
Non-controlling interest		(7,872)
		62,817
Goodwill on acquisition		2,346
Satisfied by cash		65,163

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

33. 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 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 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$114,173,000 to the Group's revenue and incurred a loss of HK$32,566,000 on the consolidated profit for the year ended 30 June 2019.

Had the combination taken place at the beginning of the reporting period, the revenue and the net profit of the Group for the year ended 30 June 2019 would have been approximately HK$2,534,468,000 and approximately HK$41,264,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group entered into a share award scheme with an expense of approximately HK$10,723,000 charged to profit or loss (2018: Nil).

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings HK$'000	Dividends payables HK$'000
At 1 July 2018	–	–
2018 final and 2019 interim dividends payables	–	114,830
Changes from financing cash flows	78,313	(114,830)
Foreign exchange movement	(31)	–
Increase arising from acquisition of subsidiaries	88,007	–
At 30 June 2019	**166,289**	**–**

35. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2019 (30 June 2018: nil).

36. PLEDGE OF ASSETS

Details of the Group's assets pledged for banking facilities of the Group are included in note 24 to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 15) under operating lease arrangements, with leases negotiated for terms ranging from one to four years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Within one year	**11,531**	4,508
In the second to fifth years, inclusive	**28,027**	4,916
	39,558	9,424

(b) As lessee

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

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

	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
Within one year	**44,703**	28,470
In the second to fifth years, inclusive	**70,249**	28,690
After five years	**22,651**	–
	137,603	57,160

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

38. RELATED PARTY TRANSACTIONS

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

	Year ended 30 June	
	2019 HK$'000	2018 HK$'000
Property lease from a company of which a Director of the Company is a controlling shareholder		
Golden Palace Corporation Limited	**1,200**	2,400
Maxon Properties Limited	**2,400**	2,400
	3,600	4,800

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

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

	Year ended 30 June	
	2019 HK$'000	2018 HK$'000
Short term employee benefits	**15,469**	15,509
Post-employment benefits	**173**	195
Equity-settled share option expense	**40**	306
Equity-settled share award expense	**3,152**	–
Total compensation paid to key management personnel	**18,834**	16,010

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

39. FINANCIAL INSTRUMENTS BY CATEGORY

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

2019

Financial assets

	Financial assets at fair value through other comprehensive income – debt investments HK$'000	Financial assets at amortised cost HK$'000	Total HK$'000
Debt investments at fair value through other comprehensive income	13,996	–	13,996
Trade receivables	–	485,699	485,699
Financial assets included in prepayments, other receivables and other assets	–	26,697	26,697
Pledged deposits	–	23,484	23,484
Cash and cash equivalents	–	406,779	406,779
	13,996	942,659	956,655

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Interest-bearing bank borrowings	166,289
Trade payables	221,806
Financial liabilities included in other payables and accruals	38,937
	427,032

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2018

Financial assets

	Loans and receivables HK$'000
Trade receivables	515,500
Financial assets included in deposits and other receivables	26,531
Pledged deposits	23,699
Time deposit with original maturity of more than three months	35,583
Cash and cash equivalents	447,552
	1,048,865

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Trade payables	216,170
Financial liabilities included in other payables and accruals	30,307
	246,477

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	2019 HK$'000	2018 HK$'000	2019 HK$'000	2018 HK$'000
Financial assets				
Debt investments at fair value through other comprehensive income	**13,996**	–	**13,996**	–
	13,996	–	**13,996**	–

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade receivables, trade payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals and interest-bearing bank borrowings approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the chief financial officer is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance manager reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the financial assets are based on quoted market prices. The directors believe that the fair values supported by observable market prices or rates, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in other comprehensive income, are reasonable, and that they were the most appropriate values at the end of the reporting period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

40. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

Assets measured at fair value:

As at 30 June 2019

	Fair value measurement using			
	Quoted prices in active markets Level 1 HK$'000	Significant observable inputs Level 2 HK$'000	Significant unobservable inputs Level 3 HK$'000	Total HK$'000
Debt investments at fair value through other comprehensive income	**13,996**	**–**	**–**	**13,996**

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank borrowings and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and trade payables, which arise directly from its operations.

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

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

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. During the year ended 30 June 2019, 75.4% (2018: 85.1%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 69.5% (2018: 65.4%) of costs were denominated in the units' functional currency.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in US$/EUR/RMB %	Increase/ (decrease) in profit before tax HK$'000	Increase/ (decrease) in equity* HK$'000
Year ended 30 June 2019			
If HK$ weakens against US$	**5**	**9,095**	**–**
If HK$ strengthens against US$	**(5)**	**(9,095)**	**–**
If HK$ weakens against EUR	**5**	**6,336**	**3,811**
If HK$ strengthens against EUR	**(5)**	**(6,336)**	**(3,448)**
If HK$ weakens against RMB	**5**	**(11,127)**	**65,680**
If HK$ strengthens against RMB	**(5)**	**11,127**	**(59,420)**
Year ended 30 June 2018			
If HK$ weakens against US$	5	20,598	–
If HK$ strengthens against US$	(5)	(20,598)	–
If HK$ weakens against EUR	5	993	–
If HK$ strengthens against EUR	(5)	(993)	–
If HK$ weakens against RMB	5	(8,843)	62,171
If HK$ strengthens against RMB	(5)	8,843	(56,246)

* Excluding retained profits

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

Maximum exposure and year-end staging as at 30 June 2019

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 30 June 2019. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging as at 30 June 2019 (continued)

	12-month ECLs	Lifetime ECLs		
	Stage 1 HK$'000	Stage 2 HK$'000	Stage 3 HK$'000	Simplified approach HK$'000
Debt investments at fair value through other comprehensive income	–	–	–	**13,996**
Trade receivables*	–	–	–	**485,699**
Financial assets included in prepayments, other receivables and other assets				
– Normal**	**26,697**	–	–	–
Pledged deposits				
– Not yet past due	**23,484**	–	–	–
Cash and cash equivalents				
– Not yet past due	**406,779**	–	–	–

* For trade receivables to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in note 22 to the financial statements.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Maximum exposure as at 30 June 2018

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

The maturity profile of the Group's financial liabilities as at the end of the reporting period is as follows:

As at 30 June 2019	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	Total HK$'000
Interest-bearing bank borrowings	**170,148**	**–**	**–**	**170,148**
Trade payables	**68,389**	**145,764**	**7,653**	**221,806**
Financial liabilities included in other payables and accruals	**38,937**	**–**	**–**	**38,937**
	277,474	**145,764**	**7,653**	**430,891**

As at 30 June 2018	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	Total HK$'000
Trade payables	50,375	156,932	8,863	216,170
Financial liabilities included in other payables and accruals	30,307	–	–	30,307
	80,682	156,932	8,863	246,477

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 30 June 2019 and 2018.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's net debt consists of interest-bearing bank and other borrowings, trade and other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the parent company.

The gearing ratios as at the end of the reporting periods were as follows:

	2019 HK$'000	2018 HK$'000
Interest-bearing bank borrowings	**166,289**	–
Trade payables	**221,806**	216,170
Other payables and accruals	**155,928**	120,706
Less: Cash and cash equivalents	**(406,779)**	(447,552)
Net debt	**137,244**	(110,676)
Equity attributable to owners of the parent company	**2,065,299**	2,202,280
Capital and net debt	**2,202,543**	2,091,604
Gearing ratio	**6.2%**	N/A

42. EVENTS AFTER THE REPORTING PERIOD

There are no material events after the reporting period which could influence the economic decisions that users make on the basis of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	Note	As at 30 June 2019 HK$'000	As at 30 June 2018 HK$'000
NON-CURRENT ASSETS			
Deferred tax assets		**2,929**	1,141
Investments in subsidiaries		**430,011**	430,011
Total non-current assets		**432,940**	431,152
CURRENT ASSETS			
Prepayments, other receivables and other assets		**1,395**	244
Amounts due from subsidiaries		**580,512**	701,182
Pledged deposit		**13,301**	13,562
Cash and cash equivalents		**15,599**	14,883
Total current assets		**610,807**	729,871
CURRENT LIABILITIES			
Tax payable		**107**	157
Other payables and accruals		**54**	124
Total current liabilities		**161**	281
NET CURRENT ASSETS		**610,646**	729,590
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,043,586**	1,160,742
Net assets		**1,043,586**	1,160,742
EQUITY			
Share capital	29	**96,543**	100,153
Treasury shares		**(19,910)**	–
Reserves (note)		**966,953**	1,060,589
Total equity		**1,043,586**	1,160,742

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2019

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

Note:

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

	Share premium account HK$'000 (note 32)	Share option reserve HK$'000 (note 30)	Share award reserve HK$'000 (note 31)	Retained profits HK$'000	Total HK$'000
At 1 July 2017	1,050,081	5,479	–	(4,806)	1,050,754
Profit for the year	–	–	–	129,258	129,258
2017 final dividend declared	–	–	–	(60,092)	(60,092)
2018 interim dividend declared	–	–	–	(60,092)	(60,092)
Equity-settled share option arrangement	–	761	–	–	761
Transfer of share option reserve upon the lapse of share options	–	(1,634)	–	1,634	–
30 June 2018 and 1 July 2018	1,050,081	4,606	–	5,902	1,060,589
Profit for the year	–	–	–	96,423	96,423
2018 final dividend declared	–	–	–	(57,415)	(57,415)
2019 interim dividend declared	–	–	–	(57,415)	(57,415)
Equity-settled share option arrangement	–	115	–	–	115
Equity-settled share award arrangement	–	–	10,723	–	10,723
Repurchase of shares	(86,067)	–	–	–	(86,067)
At 30 June 2019	964,014	4,721	10,723	(12,505)	966,953

44. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issue by the Board of Directors on 27 September 2019.

SUMMARY FINANCIAL INFORMATION

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

RESULTS:

	Year ended 30 June				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**2,441,441**	2,305,796	1,916,937	2,837,018	3,380,422
Profit before tax	**160,935**	282,197	236,394	445,341	507,721
Income tax expense	**(48,145)**	(31,329)	(25,312)	(75,199)	(95,774)
Profit for the year	**112,790**	250,868	211,082	370,142	411,947

ASSETS AND LIABILITIES:

	As at 30 June				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**2,632,064**	2,556,089	2,334,570	2,463,507	2,679,501
Total liabilities	**(571,973)**	(354,113)	(271,972)	(283,945)	(559,556)
Net assets	**2,060,091**	2,201,976	2,062,598	2,179,562	2,119,945

Note:

The consolidated results of the Group for the five years ended 30 June 2015, 2016, 2017, 2018 and 2019 and the consolidated assets and liabilities of the Group as at 30 June 2015, 2016, 2017, 2018 and 2019 have been extracted from the published audited consolidated financial statements.

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

時代集團控股有限公司
SITOY GROUP HOLDINGS LTD.