2020 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

OUR VALUES
我們的價值

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 in 2018 and its diffusion line i29. In addition, the Group owns the exclusive rights for distribution and operation in Hong Kong and mainland China of the major international brands, Cole Haan.

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，於二零一八年收購的a.testoni及其副線品牌i29。除此之外，本集團擁有國際品牌Cole Haan於香港及中國內地的獨家分銷及經營權。

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ABOUT A.TESTONI

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.

a.testoni Fall Winter 2020 Campaign

ABOUT TUSCAN'S

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.

Tuscan's Fall Winter 2020 Campaign

ABOUT COLE HAAN

Cole Haan Summer 2020 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 FASHION & JOY

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

Gearing to the needs of fashion-conscious consumers with a passion for travel, Fashion & Joy presents a collection of luggage and business accessories that juxtapose urban chic and functionality. We believe in travelling 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.

Fashion & Joy Spring Summer 2020 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

Independent Non-executive Directors

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

AUTHORIZED REPRESENTATIVES

Mr. Yeung Wo Fai
Mr. Yeung Andrew Kin *(appointed with effect from 29 September 2020)*
Dr. Lau Kin Shing, Charles *CA, FCCA, FCPA (Aust.), CPHR*
(resigned with effect from 29 September 2020)

COMPANY SECRETARY

Mr. Wong Yu Kit *(appointed on 29 September 2020)*
Dr. Lau Kin Shing, Charles
(resigned with effect from 29 September 2020)

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

Suntera (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

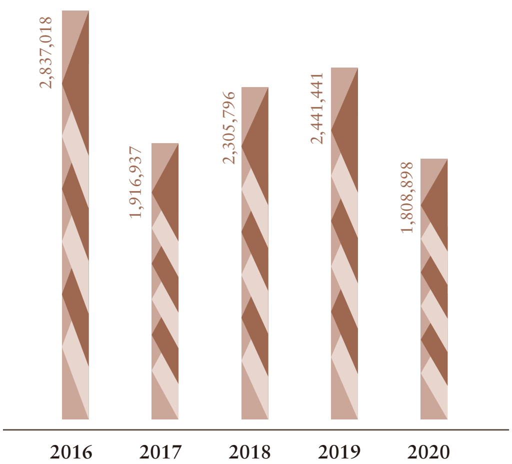
1023

COMPANY WEBSITE

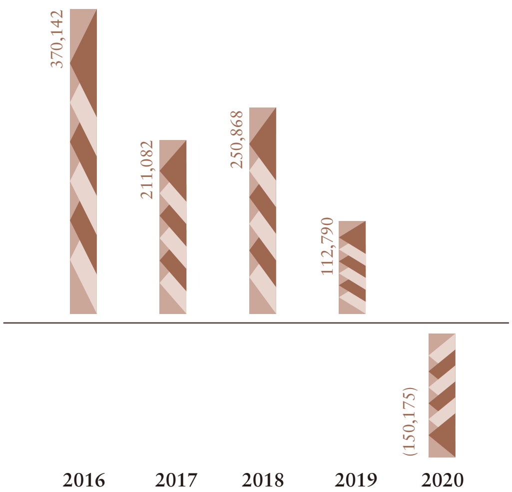
www.sitoy.com

FINANCIAL HIGHLIGHTS

REVENUE
HK$'000

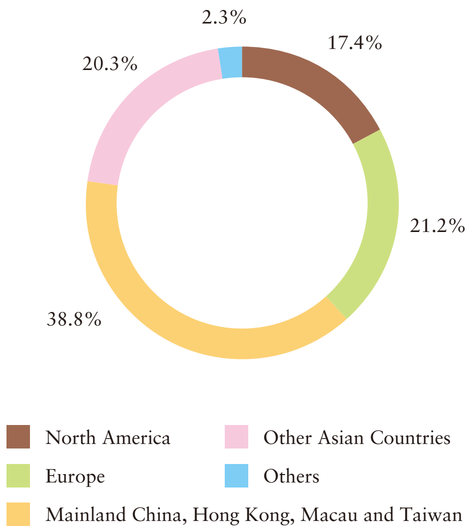


(LOSS)/PROFIT FOR THE YEAR
HK$'000

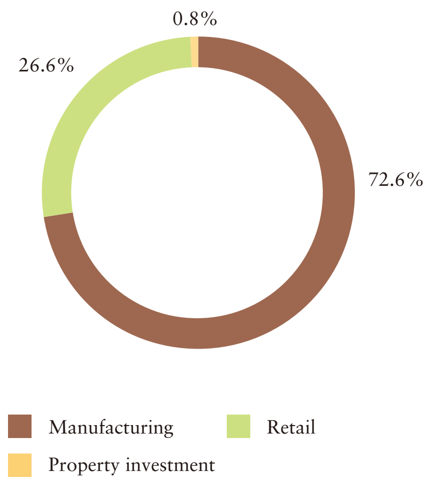


Consolidated revenue decreased by 25.9% year-on-year to HK$1,808.9 million

2020 REVENUE BY GEOGRAPHICAL SEGMENT



2020 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	
	2020 HK$'000	2019 HK$'000
Revenue	1,808,898	2,441,441
Gross profit	439,032	695,293
(Loss)/profit before tax	(122,490)	160,935
(Loss)/profit for the year	(150,175)	112,790
Net assets per share (note 1) (approximately)	HK$1.90	HK$2.13
Basic (loss)/earnings per share (note 2) (approximately) (HK cents)	(13.84)	12.97
Diluted (loss)/earnings per share (note 2) (approximately) (HK cents)	(13.79)	12.91
Dividends per share (note 3) (HK cents)	5	8
Total assets	2,452,285	2,632,064
Net assets	1,832,512	2,060,091
Current ratio	2.27 times	2.46 times
Quick ratio	1.73 times	1.77 times
Gearing ratio (note 4)	3.9%	6.2%
Return on equity	(8.2%)	5.5%
Return on total assets	(6.1%)	4.3%

Notes:

1. The calculation of the net assets per share amount is based on the net assets as at 30 June 2020 to ordinary equity holders of the Company, and the number of ordinary shares of 965,430,000 in issue as at 30 June 2020 (30 June 2019: 965,430,000).

2. The calculation of the basic (losses)/earnings per share amount is based on the loss for the year ended 30 June 2020 attributable to ordinary equity holders of the Company of approximately HK$132,833,000 (profit for the year ended 30 June 2019: HK$125,566,000), and the weighted average number of ordinary shares of 959,610,459 (30 June 2019: 967,816,250) in issue during the year.

   The calculation of the diluted (losses)/earnings per share amount is based on the (loss)/profit for the years ended 30 June 2020 and 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 years ended 30 June 2020 and 2019, as used in the basic (losses)/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) did not recommend the payment of a final dividend for the year ended 30 June 2020 (30 June 2019: HK2 cents per share). The Directors recommended the payment of a special dividend of HK3 cents per share for the year ended 30 June 2020 (30 June 2019: nil). Together with the interim dividend of HK2 cents per share for the period ended 31 December 2019 (31 December 2018: HK6 cents), the annual dividend will amount to HK5 cents per share for the year ended 30 June 2020 (30 June 2019: HK8 cents). For more details, please refer to note 12 to the consolidated financial statements.

4. Gearing ratio is net debt divided by total capital plus net debt. The Group's net debt consists of interest-bearing bank borrowings, lease liabilities, trade and other payables and accruals, less cash and cash equivalents.

CHAIRMAN'S STATEMENT

Dear Shareholders,

It is my pleasure to present the annual results for the year ended 30 June 2020 ("FY2020" 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

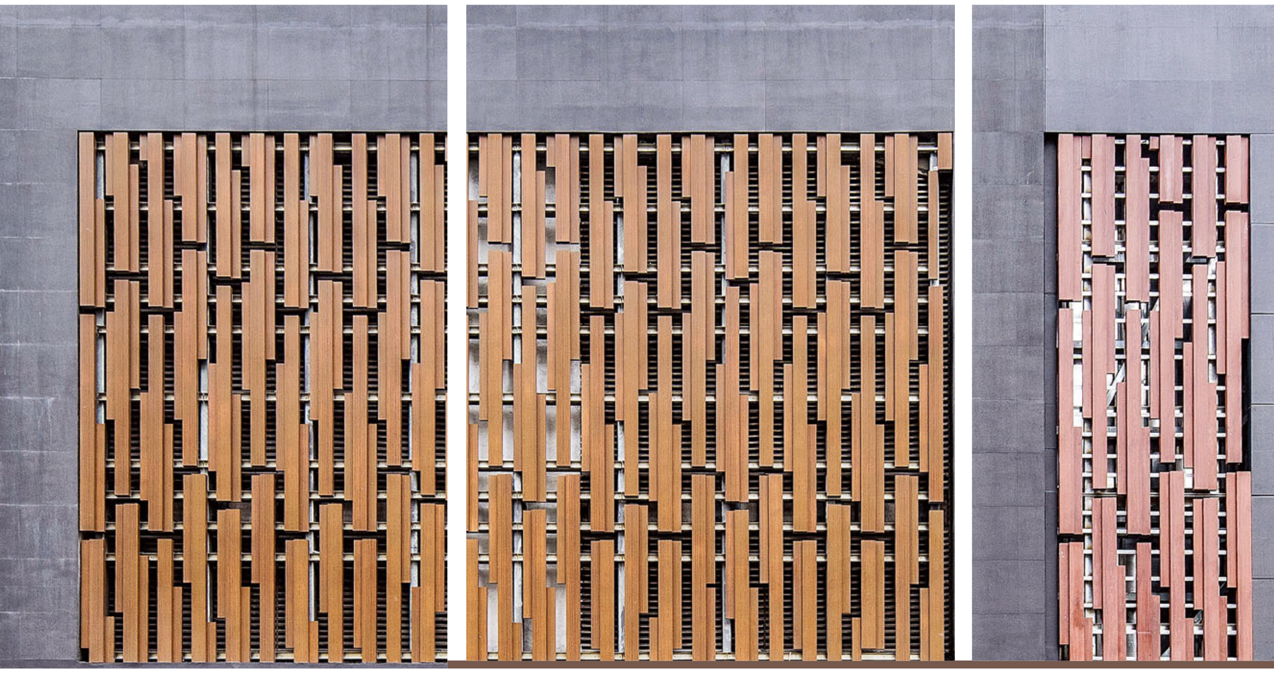
During the Year under Review, the Group has experienced the toughest financial year and recorded our first operating loss attributable to the owners of the Company since our listing in 2011.

Due to the continuous social incidents in Hong Kong in the first half of the Year under Review and the global COVID-19 outbreak in the second half of the Year under Review, our manufacturing and retail businesses are substantially disrupted. Manufacturing customers are more cautious when placing the orders. Quarantine and other measures have been implemented by different countries and areas during the first half year of 2020 and amidst the continued economic uncertainties, global consumer sentiment has been weakening which significantly struck our retail business. However, our property investment business is generating stable rental income to the Group despite non-cash fair value loss is recorded during FY2020. Faced with a challenging business environment, the Group adhered to its principle of active innovation and flexibility in order to mitigate the impact on our operation. Certain measures have been taken, including but not limited to (i) implementing voluntary salary reduction for the board (the "Board") of directors (the "Directors"); (ii) encouraging employees to take no-pay leave and/or annual leave; (iii) obtaining rent concessions on certain retail shops from the landlords; (iv) reducing advertising and promotion expenses; (v) reducing operating hours or temporarily closed our retail shops; and (vi) obtaining subsidies from different local governments.

For FY2020, the Group recorded a revenue of approximately HK$1,808.9 million, representing a decrease of 25.9% as compared to the previous year, while gross profit decreased by 36.9% to approximately HK$439.0 million and gross profit margin amounted to 24.3%. During FY2020, loss attributable to ordinary equity holders of the Company was approximately HK$132.8 million. Basic losses per share were HK13.84 cents. As the financial position of the Group is strong, the Directors did not propose payment of a final dividend, but proposed the payment of a special dividend of HK3 cents per share for FY2020.

RETAIL BUSINESS

In late 2018, the Group acquired A. Testoni S.p.A. and its subsidiaries, which owns a.testoni, a century old Italian brand of luxury leather goods. 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 had 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. However, due to the continuous social incidents in Hong Kong and the unexpected global COVID-19 outbreak, the Group has to slow down the re-branding process and reassess the branding position and the global point-of-sale networks. However, we believe the core elements of success, designed in Italy, made in Italy and the outstanding craftsmanship are the keys and we are confident that a.testoni will become the major source of income and contribute to the retail business by preserving a.testoni's brand characteristics, promoting its craftsmanship spirit and carrying on the tradition of putting craft as a top priority through forward-looking visions and strategies.



In addition to a.testoni, 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 an international brand, Cole Haan. These brands, each with its own brand history and characters and targeting at tastes of different customer groups, covering men's and women's bags, leather goods, clothing and accessories, 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.

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 TUSCAN'S and Fashion & Joy.

We will continue to enhance our e-commerce business, by launching our own brand sites or through different platforms as we believe the e-commerce channel will become more and more popular under the current situation and in the near future, and will become the major sales channel. In addition, it is expected that future store openings will be concentrated in the PRC cities.

Revenue from retail business segment decreased by 15.5% to approximately HK$481.6 million. Segment loss before tax was approximately HK$156.2 million. It is mainly due to the impairment losses recognised in respect of different assets of aggregated amount of approximately HK$127.6 million.

MANUFACTURING BUSINESS

Regarding the manufacturing business, during the Year under Review, segment revenue recorded approximately HK$1,312.8 million and with segment profit before tax of approximately HK$60.6 million. During the second half of FY2020, due to global COVID-19 outbreak, customers were cautious when placing orders and the volume of each order was lower than before, or some even cancelled and suspended the orders. Apart from strengthening the relationships with existing customers, we eagerly explored new business opportunities with brand customers from Europe, Asia and mainland China, and we expect the orders from these customers are stable. During FY2020, customers from North America accounted for approximately 17.4% of the revenue by geographical segment, reflecting the Group's efforts in reducing dependence on the North American market. We are also willing to invest in auto-production systems in order to reduce the reliance on manual production, shorten the production lead time, deploy flexible production lines and further enhance our competitiveness.

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, 95% of the 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 head office and principal place of business of the Company and product showrooms in Hong Kong. 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 2019 respectively, and were fully rented out, continuing to bring a stable rental income to the Group. However, due to the down turn of the Hong Kong commercial property market, a fair value loss of approximately HK$21.7 million was recognised in the profit or loss. During the Year under Review, property investment segment has generated segment revenue of approximately HK$14.5 million and incurred a segment loss before tax of approximately HK$13.0 million.

PROSPECT

Looking forward, the global COVID-19 outbreak is expected to continue to create unprecedented risks and challenges to the Group. The global business environment will become very challenging, impacting various businesses and industries, especially our manufacturing and retail businesses. With various adversities and challenges in the current market situations, the Group's operations in upcoming financial year will inevitably be impacted. However, the Group is led by the experienced management team, and together with our competitive advantages and strong financial fundamentals, we are confident we are able to mitigate the impact arising from various challenges by taking necessary policies and procedures to bring the business back to a healthy and profitable situation.

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 during this tough period. Sitoy Group will aspire to higher achievements in order to bring greater returns to the shareholders.

Yeung Michael Wah Keung
Chairman

Hong Kong
28 September 2020

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

Retail business

Revenue generated from this segment decreased by approximately 15.5% year-on-year to approximately HK$481.6 million for the year ended 30 June 2020 ("FY2020") and incurred segment loss before tax of approximately HK$156.2 million when compared to the previous year which recorded a profit before tax of approximately HK$7.9 million. It was mainly due to the weaker consumer sentiment caused by continuous social incidents in Hong Kong and the global COVID-19 outbreak, which significantly impacted the revenue from different channels. During FY2020, the provision for impairment in respect of right-of-use assets, leasehold improvements (included in property, plant and equipment), trademarks (included in intangible assets) and goodwill were approximately HK$20.4 million, HK$4.3 million, HK$8.4 million and HK$2.3 million respectively. In addition, write-down of retail inventories to net realisable value of approximately HK$92.1 million is also the contributing factor to such decrease. However, these treatments are non-cash accounting treatments made in accordance with relevant accounting policies and therefore have no impact on the Group's cash position.

In order to mitigate the impact arising from various challenges, the Group has adopted various immediate measures, making an all-out effort to reduce costs in order to preserve working capital, reviewing the current point-of-sales network, improving the organizational structure and cost structure, streamlining processes with the aim of raising operational efficiency, maintaining the Group's strength for its long term development and enabling the Group to get through this difficult moment. The Group will also remain cautious and agile in business operation and preserve liquidity for the situation to stabilise.

The Group operated five brands as at 30 June 2020. 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. 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 the global brand, Cole Haan, in mainland China and Hong Kong and further 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 in late 2018. The acquisition further enhanced the Group's retail network covering Hong Kong, mainland China, Taiwan, Southeast Asia, Japan and Europe.

On the digital front, the Group continued to strengthen its e-commerce development with most of its brands which are already available on Tmall and JD.com or their own brand sites. It is expected that e-commerce platforms will become more and more popular globally under the current situation.

MANAGEMENT DISCUSSION & ANALYSIS

Manufacturing business

During FY2020, the Group's purchase orders received from its external customers have decreased by approximately 29.4% when compared to the previous year. In early 2020, due to global COVID-19 outbreak, customers were cautious when placing orders and the volume of each order was lower than before, or some even cancelled and suspended the orders. However, the Group has maintained reasonable return with segment result of profit before tax to segment revenue ratio of approximately 4.6%. The manufacturing business has generated segment revenue from external customers of approximately HK$1,312.8 million with segment result of profit before tax of approximately HK$60.6 million.

In response to the impact of the global COVID-19 outbreak, the following strategies were adopted by the Group:

(1) Market Diversification: more than three years ago, we began to diversify our market reach. Currently, the proportion of revenue from North America, Europe and Asian markets are more evenly distributed;

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

(3) Production Flexibilities: with our different product plants in the PRC, we are able to manage our production lines to fit various production requirements.

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

The Group expanded into the property investment market in 2016 by acquiring a 20-storey office building, now named as "Sitoy Tower", located in East Kowloon at 164 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong (Kwun Tong Inland lot number of 316). Prime office locations such as Central, Causeway Bay and nearby areas are occupied by enterprises and companies from 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. In 2019, 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$14.5 million with segment result of loss before tax of approximately HK$13.0 million during FY2020 as a result of net fair value loss on the investment properties of approximately HK$21.7 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.

PROSPECT

Looking forward, the global COVID-19 outbreak is expected to continue to create unprecedented risks and challenges to the Group. The global business environment will become very challenging, impacting various businesses and industries, especially our manufacturing and retail businesses. With various adversities and challenges in the current market situations, the Group's operations in upcoming financial year will inevitably be impacted. However, the Group is led by the experienced management team, and together with our competitive advantages and strong financial fundamentals, we are confident we are able to mitigate the impact arising from various challenges by taking necessary policies and procedures to bring the business back to a healthy and profitable situation.

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately 25.9% to approximately HK$1,808.9 million for FY2020 from approximately HK$2,441.4 million for the year ended 30 June 2019 ("FY2019"). This decrease was primarily due to less manufacturing orders received from customers and drops in the retail business.

Cost of sales

Cost of sales of the Group decreased by approximately 21.5% to approximately HK$1,369.9 million for FY2020 from approximately HK$1,746.1 million for FY2019. The decrease in cost of sales was in line with revenue.

Gross profit and gross profit margin

Gross profit decreased by approximately 36.9% to approximately HK$439.0 million for FY2020 from approximately HK$695.3 million for FY2019. The gross profit margin decreased to approximately 24.3% for FY2020 from approximately 28.5% for FY2019. The decrease was mainly due to the recession in the retail business, which in turn resulted in a write-down of retail inventories to net realisable value of approximately HK$92.1 million and included in cost of sales, which diluted the gross profit and gross profit margin.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately 15.9% to approximately HK$237.4 million for FY2020 from approximately HK$282.2 million for FY2019. The decrease was primarily attributable to the tight cost control.

Administrative expenses

Administrative expenses slightly decreased by approximately 2.7% to approximately HK$296.6 million for FY2020 from approximately HK$304.9 million for FY2019.

MANAGEMENT DISCUSSION & ANALYSIS

Other expenses

Other expenses increased by approximately 384.8% to approximately HK$72.2 million for FY2020 from approximately HK$14.9 million for FY2019. The increase was primarily attributable to the inclusion of provision for impairment loss for right-of-use assets, property, plant and equipment, goodwill and intangible assets in an aggregation of approximately HK$35.5 million and fair value loss on investment properties of approximately HK$21.7 million.

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 the Cayman Islands and the British Virgin Islands. 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 2020 and 2019 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 FY2020 (2019: 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 FY2020 (2019: nil).

The PRC corporate income tax was based on a statutory rate of 25% (2019: 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 Group recorded loss before tax for FY2020 while the effective tax rate for 2019 was approximately 29.9%.

(Loss)/profit for the year

Loss for the year was approximately HK$150.2 million for FY2020 when compared to the profit for the year of approximately HK$112.8 million for FY2019.

MANAGEMENT DISCUSSION & ANALYSIS

Investment properties

Details of investment properties of the Group with carrying amounts of approximately HK$711.4 million and HK$733.1 million as at 30 June 2020 and 30 June 2019 respectively are as follows:

As at 30 June 2020 and 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

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 in East Kowloon at No. 164 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong (Kwun Tong inland lot No. 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 head office, 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 as investment properties held by the Group. 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.

MANAGEMENT DISCUSSION & ANALYSIS

During the year ended 30 June 2019, 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 as investment property held by the Group. 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 FY2020, capital expenditure of the Group amounted to approximately HK$19.7 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 FY2020.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

The Group had no material acquisitions and disposals of subsidiaries, associates or joint ventures during FY2020.

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 2020 amounted to approximately HK$517.8 million (2019: HK$406.8 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 3.9% as at 30 June 2020 (2019: 6.2%), which is net debt divided by total capital plus net debt. The Group's net debt consists of interest-bearing bank borrowings, lease liabilities, trade and other payables and accruals, less cash and cash equivalents.

Foreign exchange risk

The Group has had transactional currency exposures for FY2020. Such exposures arose from sales or purchases by operating units in currencies other than the units' functional currency. During FY2020, 71.3% (2019: 75.4%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 71.5% (2019: 69.5%) of the costs were denominated in the units' functional currency.

As at 30 June 2020 and 2019, the Group did not have any outstanding foreign exchange forward contract.

Pledge of assets

As at 30 June 2020, approximately HK$23.5 million of time deposits were pledged as security for banking facilities available to the Group (2019: HK$23.5 million).

MANAGEMENT DISCUSSION & ANALYSIS

Inventory turnover days

Inventory turnover days increased to 114 days for FY2020 from 81 days for FY2019. The increase in inventory turnover days was due to the decrease in cost of sales.

Trade receivables turnover days

Trade receivables turnover days slightly increased to 76 days for FY2020 from 75 days for FY2019. The Group did not experience any significant credit risks due to strict credit control policies.

Trade payables turnover days

Trade payables turnover days are 63 days for both FY2020 and FY2019. 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 2020, the Group did not have any material off-balance sheet commitments and arrangements and contingent liabilities.

EMPLOYEES

As at 30 June 2020, the Group had about 6,000 employees. In addition to the basic salaries, performance bonuses will be offered to those staff members with good performance. The PRC subsidiaries of the Company are subject to social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations. The Group also adheres to statutory employment standards and those requested by customers, such as minimum wage levels and maximum working hours. Moreover, the Group provides staff quarters for most employees and, in the case of certain senior employees, family quarters. The Group also provides various amenities and recreation facilities such as canteens, sports grounds, library and internet center for 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 sections headed "Share Option Scheme" and "Share Award Scheme" below in the Directors' Report.

DIRECTORS' EMOLUMENTS

From 1 March 2020 to 31 May 2020, the executive Directors, Mr. Yeung Michal Wah Keung, Mr. Yeung Wo Fai, Mr. Yeung Andrew Kin and Dr. Lau Kin Shing, Charles reduced their emoluments including directors' fees, salaries and housing allowances by the amount of HK$503,740, HK$454,030, HK$276,250 and HK$6,250 respectively. The independent non-executive Directors, Mr. Yeung Chi Tat, Mr. Kwan Po Chuen, Vincent and Mr. Lung Hung Cheuk each reduced their directors' fees by the amount of HK$27,500.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Yeung Michael Wah Keung, aged 71, 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 49 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 18 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 67, 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 42 years of experience in the handbag and leather goods industry, and has focused on manufacturing luxury branded handbags and small leather goods for more than 15 years. He is currently a director of 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 46, 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 21 years of experience in handbag and leather goods industry and has focused on strategic planning and business development for more than 14 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 64, is an executive Director of the Company. He was appointed as a Director on 1 June 2017. 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). He was also the chief financial officer of the Group, company secretary and authorised representative of the Company before he resigned from the above positions with effect from 29 September 2020, so that he can devote more time to focus on the development of the Group's retail business.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yeung Chi Tat, aged 50, 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 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 an independent non-executive director of Guodian Technology & Environment Group Corporation Limited (stock code: 1296) and Birmingham Sports Holdings Limited (stock code: 2309), 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, ANTA Sports Products Limited (stock code: 2020) from 26 February 2007 to 1 June 2018 and Boer Power Holdings Limited (stock code: 1685) from 30 September 2010 to 5 June 2020, all of which are listed on the Main Board of the Stock Exchange.

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 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 and a senior international finance manager of the International Financial Management Association. He is currently the Deputy President and Executive Council member of the Hong Kong Independent Non-executive Director Association.

DIRECTORS' PROFILE

Mr. Kwan Po Chuen, Vincent, aged 61, 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 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 (now retired but remains as a member). He has also written many articles that were published in Momentum, the official magazine of the Chamber of Hong Kong Listed Companies. He is also a regular speaker on corporate finance and compliance matters. Mr. Kwan is also a council member of the Hong Kong Independent Non-executive Director Association.

Mr. Lung Hung Cheuk, aged 73, is an independent non-executive Director, the chairman of remuneration committee, a member of each of audit committee and nomination committee of the Company. He was appointed as an independent non-executive Director on 15 November 2011. He is a retired chief superintendent of the Hong Kong Police Force. He joined the Hong Kong Police Force in 1966 as a probationary inspector at the age of 19. He was promoted to the rank of chief inspector in 1980, superintendent in 1986, senior superintendent in 1993 and chief superintendent in 1997. He had served in various police posts, namely Special Branch, Police Tactical Unit, Police Public Relations Branch and in a number of police divisions at management level. Prior to his retirement in April 2002, he was the commander of Sham Shui Po Police District.

DIRECTORS' PROFILE

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

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

ADOPTION AND COMPLIANCE OF CORPORATE GOVERNANCE PRACTICES

The Board has adopted a set of corporate governance practices which aligns with or is more restrictive than the requirements set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Board is of the view that the Company has complied with the code provisions set out in the CG Code for FY2020.

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 FY2020.

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 FY2020.

BOARD OF DIRECTORS

As at 30 June 2020, 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 sections headed "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 2019;

– considered and discussed the quarterly results of the Group for three months ended 30 September 2019;

– considered and approved the interim results and report of the Group for the six months ended 31 December 2019;

– considered and discussed the quarterly results of the Group for nine months ended 31 March 2020.

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 11 November 2019 are set out in the table below:

	Attendance	
Name of Directors	Board Meetings	Annual General Meeting
Executive Directors		
Mr. Yeung Michael Wah Keung	4/4	✓
Mr. Yeung Wo Fai	4/4	✓
Mr. Yeung Andrew Kin	4/4	✓
Dr. Lau Kin Shing, Charles	4/4	✓
Independent Non-executive Directors		
Mr. Yeung Chi Tat	4/4	✓
Mr. Kwan Po Chuen, Vincent	4/4	✓
Mr. Lung Hung Cheuk	3/4	✓

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

CORPORATE GOVERNANCE REPORT

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

Except for the family relationship between Mr. Yeung Michael Wah Keung, Mr. Yeung Wo Fai and Mr. Yeung Andrew Kin as disclosed in Directors' Profile on pages 19 to 22 of this annual 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's 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 until 5 December 2020. 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.

CORPORATE GOVERNANCE REPORT

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

AUDIT COMMITTEE

The Company has 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 FY2020.

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 2019;

– reviewed and commented on the interim results and report of the Group for the six months ended 31 December 2019;

– 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 has 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.

CORPORATE GOVERNANCE REPORT

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

Members	Attendance
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.

CORPORATE GOVERNANCE REPORT

BOARD DIVERSITY POLICY

The Board has 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 two 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)*	1/2
Mr. Yeung Michael Wah Keung	2/2
Mr. Yeung Chi Tat	2/2

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

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

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

REMUNERATION POLICY

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

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

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

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

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

– long-term variable incentive – which may include share options 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 REPORT

CORPORATE GOVERNANCE FUNCTION

The Board is entrusted with the overall responsibility of developing and maintaining sound and effective corporate governance within the Group and is committed to ensuring that an effective governance structure is put in place to continuously review and improve the corporate governance practices within the Group in light of the evolving operating environment and 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 had reviewed the training and continuous professional development of the Directors and senior management, the Company's policy and practices on compliance with legal and regulatory requirements, the compliance with the CG Code for FY2020 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 28 September 2020, the Board had 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 FY2020 provided by the Company's auditors, Ernst & Young, are as follows:

	HK$'000
Audit services	2,350
Non-audit services	–

ACKNOWLEDGEMENT OF RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

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

– based on a going concern basis;

– selected suitable accounting policies and applied them consistently; and

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

The report of the auditors of the Company about their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report from pages 63 to 68 of this annual report.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

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

Risk Management System

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

- *Identification:* Identify 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.

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 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.

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

Effectiveness of the Risk Management and Internal Control Systems

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

During FY2020, 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.

CORPORATE GOVERNANCE REPORT

CHANGE OF COMPANY SECRETARY

Dr. Lau Kin Shing, Charles ("Dr. Lau") has tendered his resignation as the company secretary of the Company with effect from 29 September 2020. Following the resignation of Dr. Lau, the Board has resolved to appoint Mr. Wong Yu Kit ("Mr. Wong") as the company secretary of the Company with effect from 29 September 2020. For biographical details of Mr. Wong, please refer to the Company's announcement on 28 September 2020. Dr. Lau is the primary corporate contact person at the Company for Mr. Wong. According to Rule 3.29 of the Listing Rules, Dr. Lau has taken no less than 15 hours of relevant professional training during his tenure as a company secretary of the Company for FY2020.

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 (www.hkexnews.hk) and the Company's website (www.sitoy.com). During the year, there was no alteration of the constitutional documents of the Company.

SHAREHOLDERS' RIGHTS

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

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

The Board shall consider the Written Requisition and, if thought fit, shall within 21 days from the date of deposit of the Written Requisition proceed to convene a general meeting to be held within such number of days in accordance with the articles of association of the Company and in compliance with the requirements of the Listing Rules. Pursuant to the articles of association of the Company, an annual general meeting of the Company and an extraordinary general meeting of the Company called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting of the Company shall be called by not less than 14 days' notice in writing. Pursuant to the CG Code, written notice of an annual general meeting of the Company and written notice of an extraordinary general meeting of the Company shall be sent by the Company to all shareholders 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.

CORPORATE GOVERNANCE REPORT

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 2019 to 30 June 2020 (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 the People's Republic of China (the "PRC") and Hong Kong during the Year. The key performance indicators disclosed in 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 and in compliance with the "comply or explain" provision thereof.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Stakeholders	Expectations and Needs	Means of Communication and Response
Government and Regulators	• Strict compliance with national policies, laws and regulations • Paying taxes in full and on time • Production safety	• Regular information reporting • Regular meetings with regulators
Shareholders	• Returns • Compliant operation • Transparent information and effective communication	• General meetings • Announcements • Email, telephone communication and company website
Business Partners	• Operational integrity • Performance of contracts	• Business communications • Engagement and cooperation
Customers	• Outstanding products and services • Performance of contracts • Operational integrity	• Customer communication meetings • Return visits
Environment	• Energy conservation and emission reduction • Reasonable use of water	• Communication with local environmental department
Industry	• Establishing industry standards	• Communication with local labour department • Participation in industry forums • Visits and mutual inspections
Employee	• Protection of rights • Occupational health and safety • Remunerations and benefits	• Training and workshop • Employee activities
Community and the Public	• Participation in charity	• Company website • Interview with media • Mutual visits

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 engaged in the design, research, development, manufacturing, sale, retail and wholesale of handbags, small leather goods, travel goods and footwear products, the provision of advertising and marketing services and property investment. As the Group's manufacturing and operating facilities are mainly based in the PRC, the Group complies with local relevant environmental laws and regulations, including but not limited to Environmental Protection Law of the PRC, Law of the PRC on the Prevention and Control of Atmospheric Pollution, Law of the PRC on Prevention and Control of Water Pollution 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.

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 training regarding its environmental policies, in order to enhance employees' participation in and awareness of environmental protection.

Emission Management

Apart from complying with relevant local laws and regulations relating to the management of air emission, water discharge and solid waste, the Group endeavours to control and mitigate environmental pollution, and strictly controls the management of exhaust emission from the manufacturing process. Major sources of exhaust emission from the Group include the industrial exhaust emission generated during the paint spraying process and gluing process by Dongguan Shidai as well as emission from vehicle exhaust. Exhaust emission generated from the glue sprayer in the gluing process is transferred to a closed water tank for dilution, sedimentation, filtration and disinfection before discharge. Regular inspection by third-party consultants and clearance of emission pipelines is carried out by Dongguan Shidai to ensure proper functioning. In the Year, Dongguan Shidai has upgraded the management plan of the installation of the paint spraying process and gluing process so as to meet the continuously improving requirements of environmental protection. The details of the management plan as of below:

- replace old, less efficient facilities of the paint spraying process;
- centralise the installation of paint spraying equipment for more standardised management; and
- upgrade the exhaust gas purification treatment equipment of paint spraying process and gluing process.

For vehicle exhaust emission, the Group conducts regular vehicle maintenance and requires drivers to switch off idling engines to minimise the environmental impacts of vehicle exhaust emission.

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. In the Year, the Group did not have any issue in sourcing water.

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 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. Other than the 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 recognised 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

- 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; and
- Maintaining air-conditioning system regularly to improve its efficiency and setting the temperature at or above 25.5 degree Celsius.

Conserving Water

- 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; and
- Collecting rainwater and reusing it for greening and fish ponds.

In addition to conservation of energy and water, the Group has 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.

Response to Climate Change

The world is currently encountering the challenge of climate change. In order to deal with the extreme weather conditions and natural disasters brought by climate change, the Group has established natural disaster emergency plan in accordance with the Emergency Response Law of the PRC, Flood Control Law of the PRC, Law of the PRC on Protecting Against and Mitigating Earthquake Disasters and other national laws and regulations. The Group strictly implements the relevant management measures and requires the management personnel to set a good example for employees, with an aim to safeguard the safety of employees and reduce property loss.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYMENT AND LABOUR PRACTICES

The Group always strives to build a harmonious workplace for employees with the purpose of enhancing sincere and interactive communication, supporting employees' career development, and protecting the interests of employees. We are a responsible employer and are committed to implementing better employment practices, and advocate ethics and human rights at the workplace.

Employment Policies

The Group is convinced that employees are the core driving force for the success of the corporation. The Group is committed to providing employees with a fair and open working environment as well as strengthening their sense of belonging. The Group not only formulates its employment policies in accordance with all local laws and regulations regarding employment and labour practices, including but not limited to the Labour Law of the PRC, Labour Contract Law of the PRC and Employment Ordinance of Hong Kong, 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 outstanding 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 reunion banquet, marathon, hiking and gifts distribution during traditional festivals.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 manufacturing skills such as oblique opening of cutting bed is provided for leaders working in workshops;

– Orientation training such as occupational health and safety, business ethic and chemicals knowledge is provided for new employees;

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

– Training on risk and emergency management is provided for new employees and different departments;

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

– Training on the latest relevant laws, regulations and policies is provided for custom department, human resources department and other related departments;

– 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.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 by third-party consultants on occupational hazards posed by chemical materials, dust and noise 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 606 regular safety inspections and 393 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, there were no work-related fatalities but 23 lost days due to 26 cases of work injury among our employees. 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.

Regarding the public health issue in the Year, Yingde Leather and Yingde Luggage have formulated measures against Coronavirus Disease 2019, displayed notices in workplace area and taught employees the correct personal protection means, so as to prevent the virus from spreading in the workplace. Regular disinfection were carried out to provide a virus-free working environment to safeguard employee's health.

OPERATION MANAGEMENT

Integrity, responsibility and compassion are the foundation stones we use to build excellence in our operation. We have continued to safeguard the quality of our products and services with reliable and accountable management systems and adhere to the principle of sustainable development at the same time.

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. During the Year, there were 309 suppliers from Guangdong, 11 suppliers from Zhejiang and 1 supplier from Hong Kong.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Quality Control

Product quality and safety is the foundation of the Group's product commitment and has been embedded in its manufacturing process. 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 defective products can be identified 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. During the Year, there were no products sold or shipped subject to recalls due to safety and health reasons.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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. Moreover, in order to enhance the awareness of employees in ethical issues and corruption risks, training was provided to employees of Dongguan Shidai, Yingde Leather and Yingde Luggage. Employees were informed with laws and regulations and company policies related to prevention of corruption, and the skills to handle ethical situation in workplace. 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 RMB142,000 for local poverty alleviation. In addition, a total amount of RMB100,000 was donated to aid the Coronavirus Disease 2019 and RMB50,000 was donated to charity marathon competition. On the other hand, Dongguan Shidai donated a total of RMB185,000 for local poverty alleviation and aiding Coronavirus Disease 2019.

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 "Hong Kong & Kowloon Walk for Millions" organised by The Community Chest on 5 January 2020. Funds donated to this event will be used to support 24 social welfare member agencies in providing "Family and Child Welfare Services" in maintaining and strengthening family bonding and to assist the family members in establishing mutual support relationship.

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 2020	Year ended 30 June 2019
Environmental Aspect		
Vehicle Exhaust Emissions		
Total Emission of Nitrogen Oxides (NO_x) (kg)	131	250
Total Emission of Sulphur Oxides (SO_x) (kg)	1	1
Total Emission of Particulate Matter (PM) (kg)	9	15
GHG Emissions		
Total Emission (Scope 1, 2 & 3) (t CO_2e)	9,955	10,868
Emission Intensity (kg CO_2e/m^2 of floor area)	51.89	56.64[1]
Scope 1 Direct Emissions (t CO_2e)	1,035	1,200[1]
Scope 2 Energy Indirect Emissions (t CO_2e)	8,688	9,388
Scope 3 Other Indirect Emissions (t CO_2e)	232	280
Solid Wastes		
Non-hazardous Wastes		
Total Production (t)	809	509
Production Intensity (kg/m^2 of floor area)	4.21	2.65[1]
Hazardous Wastes		
Total Production (t)	1	1
Production Intensity (kg/m^2 of floor area)	0.004	0.005[1]
Use of Resources		
Energy		
Total Consumption (MWh)	18,975	20,918
Consumption Intensity (kWh/m^2 of floor area)	98.90	109.02[1]
Direct Energy Consumption (MWh)	2,492	3,107[1]
Indirect Energy Consumption (MWh)	16,483	17,811
Water		
Total Consumption (m^3)	480,958	563,268
Consumption Intensity (m^3/m^2 of floor area)	2.51	2.94[1]
Packaging Materials[2]		
Total Consumption of Plastic Products (piece)	10,188,886	11,628,773
Consumption Intensity of Plastic Products (piece/product)	1.52	1.45
Total Consumption of Paper Products (piece)	28,026,101	53,236,417
Consumption Intensity of Paper Products (piece/product)	4.18	6.63

1 The Group reviewed the data collection during the Year, and accordingly restated the relevant data for year ended 30 June 2019.

2 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 2020	Year ended 30 June 2019
Social Aspect		
Employment		
Total Number of Employees	*5,466*	*7,590*
Male	2,315	3,303
Female	3,151	4,287
By Age Group		
Below 30 Years Old	850	1,845
30 ~ 50 Years Old	4,179	5,353
Above 50 Years Old	437	392
By Type of Employment		
Full-time	5,466	7,590
Part-time	0	0
By Geographical Location		
The PRC	5,465	7,589
Hong Kong	1	1
Development and Training[3]		
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	*3*	*4*
Senior Management	3	3
Middle Management	3	4
Entry-level Management	3	4
Frontline Employees	3	4

3 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 OF "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE"

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	37 37 38
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	37 38
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	37 37
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, antidiscrimination, and other benefits and welfare.	Employment and Labour Practices Employment Policies Salary and Benefits	39 39 39
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	39 40

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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	39 40
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	39 39
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	41 41
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	41 42 42 43 43
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	41 44
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	44

DIRECTORS' REPORT

The Board of the Company is pleased to present the annual report and the audited consolidated financial statements of the Group for FY2020.

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 FY2020.

RESULTS AND PROPOSED DIVIDEND

The results of the Group for FY2020 are set out in the consolidated statement of profit or loss on page 69.

An interim dividend of HK2 cents per share was paid on 23 April 2020. The Directors did not propose the payment of a final dividend for FY2020 (30 June 2019: HK2 cents per share). The Directors proposed the payment of a special dividend of HK3 cents per share for FY2020 (30 June 2019: nil) to the shareholders whose names appear on the register of members of the Company on Wednesday, 25 November 2020. The proposed dividend, subject to approval by the shareholders at the annual general meeting to be held on Monday, 16 November 2020 (the "2020 AGM"), will be paid on or before Friday, 18 December 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Tuesday, 24 November 2020 and Wednesday, 25 November 2020, during which period no share transfer will be registered. In order to qualify for the proposed 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, 23 November 2020.

The register of members of the Company will be closed from Monday, 9 November 2020 to Monday, 16 November 2020 (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 2020 AGM will be Monday, 16 November 2020. In order to be eligible to attend and vote at the 2020 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, 6 November 2020.

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 164 of the annual report. This summary does not form part of the audited consolidated financial statements.

DIRECTORS' REPORT

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

Details of the share capital of the Company for FY2020 are set out in note 28 to the consolidated financial statements.

During FY2020, there was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries.

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 2020 are set out on page 72 in the consolidated statement of changes in equity and note 31 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/RIGHT-OF-USE ASSETS

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

MAJOR CUSTOMERS AND SUPPLIERS

The percentage of revenue attributable to the Group's five largest customers to the total revenue of the Group was 44.8% for FY2020. The percentage of revenue attributable to the Group's largest customer to the total revenue of the Group was 16.2% for FY2020.

The percentage of purchases attributable to the Group's five largest suppliers to the total purchases of the Group was 20.5% for FY2020. The percentage of purchases attributable to the Group's largest supplier to the total purchases of the Group was 7.1% for FY2020.

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' REPORT

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

Independent Non-executive Directors:
Mr. Yeung Chi Tat
Mr. Kwan Po Chuen, Vincent
Mr. Lung Hung Cheuk

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

As Mr. Kwan has served as an independent non-executive Director for more than 9 years, his further appointment will be subject to a separate resolution to be approved by the shareholders at the 2020 AGM. The nomination committee and the Board consider that the long service of Mr. Kwan would not affect his exercise of independent judgement, and therefore recommend Mr. Kwan for re-election.

The Company has received annual confirmation in accordance to Rule 3.13 of The Rules Governing the Listing of Securities on the Stock Exchange 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' REPORT

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

As at 30 June 2020, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") 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	5,784,000	0.60%
	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 being the first anniversary of the Grant Date; (ii) 882,000 award shares were vested on 12 July 2020 being the second anniversary of the Grant Date; and (iii) 941,000 award shares will be vested on 12 July 2021 being the third anniversary of the Grant Date.

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

DIRECTORS' REPORT

(b) **Rights to acquire shares of the Company**

Save as disclosed in the sections 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 2020, 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 2020, so far as the Directors are aware, the persons or corporations (other than the Directors or chief executive of the Company as disclosed above) who 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
Samarang Ucits	Beneficial Owner	48,543,000	5.03%

Save as disclosed above, as at 30 June 2020, the Directors are not aware of any other person or corporation (other than the 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 2020, none of the Directors had any interest in any business which competes or may compete with the business of the Group.

DIRECTORS' REPORT

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 FY2020.

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 Law 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 during FY2020.

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 retired as an independent non-executive director of Boer Power Holdings Limited (stock code: 1685), a company whose shares are listed on the Main Board of the Stock Exchange with effect from 5 June 2020.

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.

DIRECTORS' REPORT

The total number of shares, which may be issued upon exercise of all options granted or to be granted under the Share Option Scheme and any other share option scheme of the Company, shall not in aggregate exceed 10% of the total number of shares in issue immediately following completion of the 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.

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 approximately 1 year.

DIRECTORS' REPORT

During FY2020, 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 2020.

As at 30 June 2020, 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 FY2020 are as follows:

				Number of Share Options					
Grantees	Date of Grant	Exercise Price	Exercise Period	Balance as at 1 July 2019	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 30 June 2020
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 FY2020.

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 an executive Director of the Company. Subject to the condition that Dr. Lau remains in employment with the Group, 823,000 award shares were vested on 12 July 2019 and 882,000 award shares were vested on 12 July 2020. 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 30 to the consolidated financial statements.

SWCS Formation Limited has been appointed as the new trustee of the Share Award Scheme upon the termination of the appointment of Tricor Trust (Hong Kong) Limited (formerly known as Acheson Limited) with effect from 8 May 2020. The change of trustee of the Share Award Scheme will not affect the subsisting rights of certain selected participants under the Share Award Scheme. For details, please refer to the announcement of the Company dated 8 May 2020.

RELATED PARTY TRANSACTIONS

The related party transactions of the Company for FY2020 are set out in note 36 to the consolidated financial statements. Except for the disclosed in note 36 to the consolidated financial statements, other 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. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the connected transactions and the continuing connected transactions entered into by the Group during FY2020.

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 and up to the date of this report.

DIRECTORS' 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 41 to the consolidated financial statements.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 23 to 34 of this annual 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 FY2020 and the material factors underlying its results and financial position can be found in the Chairman's Statement on pages 9 to 11 and the Management Discussion and Analysis on pages 12 to 18 of this annual report. An analysis using financial key performance indicators can be found in the Financial Highlights on pages 7 to 8 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 35 to 48 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 FY2020, 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 segment are listed below.

Retail business

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.

Manufacturing business

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.

DIRECTORS' REPORT

Property investment business

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.

DIRECTORS' REPORT

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 21 to the consolidated financial statements for more details of the trade receivables of the Group as at 30 June 2020.

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.

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 25 to the consolidated financial statements for more details of the trade payables of the Group as at 30 June 2020.

DIRECTORS' REPORT

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 of the Company.

On behalf of the Board
Sitoy Group Holdings Limited

Yeung Michael Wah Keung
Chairman
Hong Kong, 28 September 2020

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 69 to 163, which comprise the consolidated statement of financial position as at 30 June 2020, 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 2020, 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 2020, investment properties amounted to approximately HK$711,356,000, and represented approximately 29% of the total consolidated assets of the Group, was material to the consolidated financial statements. To support management's assessment of the fair value of the investment 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 investment 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(v) 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 2020, the Group's inventories amounted to approximately HK$280,091,000. 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. In current year, the retail operation was also adversely affected by the recent outbreak of the Covid-19 pandemic since late January 2020. Management's judgment is required for assessing the appropriate level of inventory provision in light of the current challenging retail environment. The related accounting policies, estimates and disclosures of inventory provision are included in notes 2.4, 3(viii) and 20 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 information and historical sales trend of the Group.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of non-financial assets Since late January 2020, due to the outbreak of the Covid-19 pandemic, the retail segment of the Group has suffered a decline in both revenue and profit, which indicated impairment of non-financial assets. Management, assisted by an external valuation specialist, assessed the recoverable value of the related cash-generated units. As at 30 June 2020, the impairments of non-financial assets, including right-of-use assets, leasehold improvement (included in property, plant and equipment) and trademarks (included in intangible assets), amounted to approximately HK$33,115,000. The process for the valuation was complex and involved various management assumptions and judgements. The related accounting policies, estimates and disclosures of the impairment of non-financial assets are included in note 2.4, 3(iv), 14, 16 and 17 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 discount rate and growth rate by comparing these assumptions to source data, market data and historical experience of the Group. 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.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company (the "Directors") 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.

INDEPENDENT AUDITOR'S REPORT

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

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional 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

28 September 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 30 June 2020

	Notes	Year ended 30 June 2020 HK$'000	Year ended 30 June 2019 HK$'000
REVENUE	6	**1,808,898**	2,441,441
Cost of sales		**(1,369,866)**	(1,746,148)
Gross profit		**439,032**	695,293
Other income and gains	6	**56,087**	72,488
Selling and distribution expenses		**(237,442)**	(282,221)
Administrative expenses		**(296,559)**	(304,935)
Other expenses		**(72,234)**	(14,900)
Finance costs	8	**(11,374)**	(4,790)
(LOSS)/PROFIT BEFORE TAX	7	**(122,490)**	160,935
Income tax expense	11	**(27,685)**	(48,145)
(LOSS)/PROFIT FOR THE YEAR		**(150,175)**	112,790
Attributable to:			
Owners of the Company		**(132,833)**	125,566
Non-controlling interests		**(17,342)**	(12,776)
		(150,175)	112,790
(LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	13		
Basic			
– For (loss)/profit for the year (HK cents)		**(13.84)**	12.97
Diluted			
– For (loss)/profit for the year (HK cents)		**(13.79)**	12.91

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 30 June 2020

	Year ended 30 June	
	2020 HK$'000	2019 HK$'000
(LOSS)/PROFIT FOR THE YEAR	**(150,175)**	112,790
OTHER COMPREHENSIVE 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	**453**	404
Income tax effect	**(109)**	(97)
	344	307
Exchange differences:		
Exchange differences on translation of foreign operations	**(44,499)**	(49,275)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(44,155)**	(48,968)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(44,155)**	(48,968)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	**(194,330)**	63,822
Attributable to:		
Owners of the Company	**(176,988)**	76,598
Non-controlling interests	**(17,342)**	(12,776)
	(194,330)	63,822

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2020

	Notes	As at 30 June 2020 HK$'000	As at 30 June 2019 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**374,739**	409,471
Investment properties	15	**711,356**	733,095
Prepaid land lease payments	16(a)	**–**	15,914
Right-of-use assets	16(b)	**126,776**	–
Goodwill		**–**	2,346
Other intangible assets	17	**8,964**	20,434
Debt investments at fair value through other comprehensive income	18	**9,526**	13,996
Deferred tax assets	19	**28,969**	33,213
Other non-current assets	22	**13,539**	7,489
Total non-current assets		**1,273,869**	1,235,958
CURRENT ASSETS			
Inventories	20	**280,091**	393,779
Trade receivables	21	**271,064**	485,699
Prepayments, other receivables and other assets	22	**85,916**	86,365
Pledged deposits	23	**23,523**	23,484
Cash and cash equivalents	23	**517,822**	406,779
Total current assets		**1,178,416**	1,396,106
CURRENT LIABILITIES			
Interest-bearing bank borrowings	24	**200,789**	166,289
Trade payables	25	**133,618**	221,806
Other payables and accruals	26	**113,838**	155,928
Lease liabilities	16(c)	**55,190**	–
Tax payable		**16,589**	22,858
Total current liabilities		**520,024**	566,881
NET CURRENT ASSETS		**658,392**	829,225
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,932,261**	2,065,183
NON-CURRENT LIABILITIES			
Lease liabilities	16(c)	**89,727**	–
Deferred tax liabilities	19	**7,293**	1,830
Deferred income	27	**2,729**	3,262
Total non-current liabilities		**99,749**	5,092
Net assets		**1,832,512**	2,060,091
EQUITY			
Share capital	28	**96,543**	96,543
Treasury shares		**(13,385)**	(19,910)
Reserves	31	**1,771,904**	1,988,666
Equity attributable to owners of the Company		**1,855,062**	2,065,299
Non-controlling interests		**(22,550)**	(5,208)
Total equity		**1,832,512**	2,060,091

Yeung Wo Fai
Director

Yeung Michael Wah Keung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2020

	Attributable to owners of the Company												
	Share capital HK$'000 (note 28)	Treasury shares HK$'000	Share premium account* HK$'000 (note 31)	Share option/ award reserve* HK$'000 (note 29, 30)	Merger reserve* HK$'000 (note 31)	Statutory reserve fund* HK$'000 (note 31)	Asset revaluation reserve* HK$'000	Fair value reserve of financial assets at fair value through other comprehensive income* HK$'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 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
Loss for the year	-	-	-	-	-	-	-	-	-	(132,833)	(132,833)	(17,342)	(150,175)
Other comprehensive income for the year:													
Change in fair value of debt investments at fair value through other comprehensive income, net of tax	-	-	-	-	-	-	-	344	-	-	344	-	344
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	-	(44,499)	-	(44,499)	-	(44,499)
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	-	344	(44,499)	(132,833)	(176,988)	(17,342)	(194,330)
2019 final dividend declared	-	-	-	-	-	-	-	-	-	(19,194)	(19,194)	-	(19,194)
2020 interim dividend declared	-	-	-	-	-	-	-	-	-	(19,194)	(19,194)	-	(19,194)
Equity-settled share award arrangement	-	-	-	5,139	-	-	-	-	-	-	5,139	-	5,139
Equity-settled share award vested	-	6,525	(941)	(5,584)	-	-	-	-	-	-	-	-	-
Transfer from retained profits	-	-	-	-	-	6,185	-	-	-	(6,185)	-	-	-
At 30 June 2020	96,543	(13,385)	923,073	14,999	4,030	76,169	24,688	651	(151,530)	879,824	1,855,062	(22,550)	1,832,512

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2020

	Attributable to owners of the Company												
	Share capital HK$'000 (note 28)	Treasury shares HK$'000	Share premium account* HK$'000 (note 31)	Share option/ award reserve* HK$'000 (note 29, 30)	Merger reserve* HK$'000 (note 31)	Statutory reserve fund* HK$'000 (note 31)	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 for 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

* These reserve accounts comprise the consolidated reserves of HK$1,771,904,000 (30 June 2019: HK$1,988,666,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June 2020

	Notes	Year ended 30 June 2020 HK$'000	2019 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(122,490)**	160,935
Adjustments for:			
Finance costs	8	**11,374**	4,790
Loss on disposal of items of property, plant and equipment	7	**1,244**	2,604
Loss on disposal of items of intangible assets	7	**2,437**	–
Depreciation of items of property, plant and equipment	7	**45,607**	47,565
Depreciation of right-of-use assets/amortization of prepaid land lease payments	7	**51,474**	422
Amortization of other intangible assets	7	**1,247**	2,371
Amortization of deferred income	27	**(420)**	(203)
Covid-19 rent concessions	16	**(4,642)**	–
Fair value loss/(gain) on investment properties	7	**21,739**	(40,260)
Equity-settled share option expense	29	**–**	115
Equity-settled share award expense	30	**5,139**	10,723
(Reversal of impairment)/impairment of trade receivables, net	7	**(190)**	2,513
Impairment of right-of-use assets	7	**20,355**	–
Impairment of property, plant and equipment	7	**4,344**	–
Impairment of other intangible assets	7	**8,416**	3,316
Impairment of goodwill	7	**2,346**	–
Fair value loss on investment property transferred from owner-occupied property	15	**–**	3,000
Write-down of inventories to net realizable value	7	**101,987**	28,775
		149,967	226,666
Decrease in trade receivables		**218,116**	45,706
Decrease/(increase) in prepayments, other receivables and other assets		**11,844**	(3,402)
Decrease/(increase) in inventories		**1,536**	(10,075)
Decrease in trade payables		**(83,067)**	(21,556)
Decrease in other payables and accruals		**(56,530)**	(2,236)
Cash generated from operations		**241,866**	235,103
Hong Kong profits tax paid		**(11,466)**	(5,325)
PRC corporate income tax paid		**(32,290)**	(26,618)
Other regions tax paid		**(1,003)**	–
NET CASH FLOWS FROM OPERATING ACTIVITIES		**197,107**	203,160

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 June 2020

	Notes	2020 HK$'000	2019 HK$'000
		Year ended 30 June	
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(19,496)**	(14,536)
Purchases of other intangible assets		**(3,353)**	(3,303)
Proceeds from disposal of items of property, plant and equipment		**331**	317
Decrease in time deposit with original maturity of more than three months		**–**	35,583
Purchases of debt investments designated at fair value through other comprehensive income		**–**	(1,587)
Proceeds from disposal of debt investments designated at fair value through other comprehensive income		**1,672**	–
Consideration paid for acquisition of subsidiaries		**–**	(52,706)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(20,846)**	(36,232)
CASH FLOWS FROM FINANCING ACTIVITIES			
New interest-bearing bank borrowings raised		**125,230**	148,883
Repayment of interest-bearing bank borrowings		**(90,416)**	(70,570)
Dividends paid		**(38,388)**	(114,830)
Interest paid		**(11,374)**	(4,790)
Repurchase of shares under share award scheme		**–**	(19,910)
Consideration paid for share buy-back		**–**	(89,677)
Repayment of loans due to the former shareholder of a newly acquired subsidiary		**–**	(44,426)
Principal portion of lease payments		**(36,694)**	–
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(51,642)**	(195,320)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**124,619**	(28,392)
Cash and cash equivalents at beginning of year		**406,779**	447,552
Effect of foreign exchange rate changes, net		**(13,576)**	(12,381)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**517,822**	406,779
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	23	**517,822**	406,779

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

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 2020. 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 2020

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 and IFRSs for the first time for the current year's consolidated financial statements.

Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
IFRS 16	*Leases*
Amendment to IFRS 16	*COVID-19-Related Rent Concessions* (early adopted)
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Except for the amendments to IFRS 9, IAS 19 and IAS 28 and *Annual Improvements to IFRSs 2015-2017 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) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-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 account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

The Group has adopted IFRS 16 using the modified retrospective method with the date of initial application of 1 July 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 July 2019, and the comparative information for the year ended 30 June 2019 was not restated and continued to be reported under IAS 17 and related interpretations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

New definition of a lease

Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 July 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of plants, retail office and stores. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 July 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 July 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 July 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets were 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 1 July 2019.

All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 July 2019. They continue to be measured at fair value applying IAS 40.

The Group has used the following elective practical expedients when applying IFRS 16 at 1 July 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Financial impact at 1 July 2019

The impact arising from the adoption of IFRS 16 at 1 July 2019 was as follows:

	HK$'000
Assets	
Increase in right-of-use assets	133,813
Decrease in prepaid land lease payments	(15,914)
Decrease in prepayments, other receivables and other assets	(310)
Increase in total assets	117,589
Liabilities	
Increase in lease liabilities	117,589

The lease liabilities as at 1 July 2019 reconciled to the operating lease commitments as at 30 June 2019 are as follows:

	HK$'000
Operating lease commitments as at 30 June 2019	137,603
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 30 June 2020	(16,143)
	121,460
Weighted average incremental borrowing rate as at 1 July 2019	2.5%
Discounted operating lease commitments as at 1 July 2019	117,589
Lease liabilities as at 1 July 2019	117,589

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) Amendment to IFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted.

During the year ended 30 June 2020, certain monthly lease payments for the leases of the Group's office buildings and retail stores have been reduced or waived by the lessors as a result of the COVID-19 pandemic and there are no other changes to the terms of the leases. The Group has early adopted the amendment on 1 July 2019 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the COVID-19 pandemic during the year ended 30 June 2020. Accordingly, a reduction in the lease payments arising from the rent concessions of HK$4,642,000 has been accounted for as a variable lease payment by derecognising part of the lease liabilities and crediting to profit or loss for the year ended 30 June 2020.

(c) 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 tax 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. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

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*[1]
Amendments to IFRS 9, IAS 39 and IFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
IFRS 17	*Insurance Contracts*[2]
Amendments to IAS 1 and IAS 8	*Definition of Material*[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 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. Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IFRS 9, IAS 39 and IFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 July 2020. Early application is permitted. 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 2020

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

Amendments to IFRS 10 and IAS 28 (2011) address an inconsistency between the requirements in IFRS 10 and in IAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to IFRS 10 and IAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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

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

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

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

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

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

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, 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 2020

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 2020

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 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold property held as a right-of-use asset (2019: leasehold property) under an operating lease 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 licenses

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 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 July 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

At inception or on reassessment of a contract that contains a lease component and non-lease component(s), the Group adopts the practical expedient not to separate non-lease component(s) and to account for the lease component and the associated non-lease component(s) (e.g., property management services for leases of properties) as a single lease component.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	50 years
Plants	2 to 5 years
Retailing stores	2 to 10 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for "investment properties".

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 July 2019) (continued)

Group as a lessee (continued)

(b) Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(c) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 July 2019) (continued)

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease.

Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee are accounted for as finance leases.

Leases (applicable before 1 July 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the statement of profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 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 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 recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

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" 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. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

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. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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)

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.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group recognises an allowance for expected credit losses ("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.

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.

Impairment of financial assets

General approach

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 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (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.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings, or 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:

Financial liabilities at amortised cost (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

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

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax liabilities are recognized for all taxable temporary differences, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised 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:

- 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.

Deferred tax assets are recognized for all deductible temporary differences, and 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Revenue recognition

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 with 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. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

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 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

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 29 and note 30 to the consolidated financial statements.

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments (continued)

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.

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

The 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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:

Property lease classification – 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, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards incidental to ownership of these properties which are leased out and accounts for the contracts as operating leases.

Classification between investment properties and owner-occupied properties

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Judgments (continued)

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 2020 was nil (2019: HK$2,346,000).

(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.

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 a customer's actual default in the future. The information about the ECLs on the Group's trade receivables is disclosed in note 21 to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(iii) Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

(iv) 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.

(v) 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 2020 was approximately HK$711,356,000 (2019: HK$733,095,000). Further details, including the key assumptions used for fair value measurement, are included in note 15 to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

(vi) 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.

(vii) 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 2020 was HK$1,343,000 (2019: HK$3,052,000). The amount of unrecognised tax losses at 30 June 2020 was HK$403,130,000 (2019: HK$241,452,000). Further details are contained in note 19 to the consolidated financial statements.

(viii) 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.

(ix) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

4. PARTICULARS OF THE COMPANY'S PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries as at 30 June 2020 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 2020

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
Guangdong Sitoy Leather Goods Company Limited* @ (formerly known as "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 2020

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 Investment Company Limited	Hong Kong 29 June 2018	HK$10,000	–	75	Investment holding
Sitoy JKY Retailing Company Limited	Hong Kong 18 December 2017	HK$1	–	75	Investment holding
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	RMB50,000,000	–	75	Trading, retail and wholesale of fashion products
Sitoy Brand Management Company Limited	Hong Kong 29 May 2017	HK$40,000,000	–	75	Investment holding
Sitoy Retailing Investment Company Limited	Hong Kong 6 October 2017	HK$10,000	100	–	Investment holding
Sitoy AT Holdings Company Limited	Hong Kong 30 August 2018	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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

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		Principal activities
			Direct %	Indirect %	
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
A. Testoni Japan Co. Ltd	Japan 14 February 1986	JPY50,000,000**	–	95.35	Wholesale and retail sales 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 NT$ 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 2020

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 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 2020

5. OPERATING SEGMENT INFORMATION (continued)

	Year ended 30 June 2020			
	Retail HK$'000	Manufacturing HK$'000	Property investment HK$'000	Total HK$'000
Segment revenue (note 6):				
Sales to external customers	481,574	1,312,822	14,502	1,808,898
Intersegment sales	–	172,124	3,072	175,196
	481,574	1,484,946	17,574	1,984,094
Reconciliation:				
Elimination of intersegment sales	–	(172,124)	(3,072)	(175,196)
Total revenue				1,808,898
Segment results	(156,233)	60,595	(12,999)	(108,637)
Reconciliation:				
Corporate and other unallocated expenses				(13,853)
Loss before tax				(122,490)
Segment assets	529,098	2,126,108	748,511	3,403,717
Reconciliation:				
Elimination of intersegment receivables				(1,095,824)
Corporate and other unallocated assets				144,392
Total assets				2,452,285
Segment liabilities	821,615	326,440	567,086	1,715,141
Reconciliation:				
Elimination of intersegment payables				(1,095,824)
Corporate and other unallocated liabilities				456
Total liabilities				619,773
Other segment information:				
Depreciation of items of property, plant and equipment	12,268	30,810	–	43,078
Unallocated depreciation of items of property, plant and equipment				2,529
				45,607
Depreciation of right-of-use assets	47,092	4,382	–	51,474
Amortization of other intangible assets	1,247	–	–	1,247
Write-down of inventories to net realizable value	92,138	9,849	–	101,987
Impairment of other intangible assets	8,416	–	–	8,416
Impairment of property, plant and equipment	4,344	–	–	4,344
Impairment of right-of-use assets	20,355	–	–	20,355
Impairment of goodwill	2,346	–	–	2,346
Operating lease rentals	26,023	2,105	–	28,128
Capital expenditure*	13,852	5,878	–	19,730

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

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

* 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 2020

5. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	Year ended 30 June	
	2020 HK$'000	2019 HK$'000
Revenue		
Mainland China, Hong Kong, Macau and Taiwan	**702,637**	902,726
North America	**314,015**	500,521
Europe	**383,488**	541,473
Other Asian countries	**367,020**	434,092
Other countries/regions	**41,738**	62,629
	1,808,898	2,441,441

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

(b) Non-current assets

	As at 30 June 2020 HK$'000	As at 30 June 2019 HK$'000
Mainland China, Hong Kong, Macau and Taiwan	**1,220,812**	1,169,172
Europe	**14,466**	21,701
Other Asian countries	**9,622**	11,872
	1,244,900	1,202,745

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 2020, revenue derived from sales by the manufacturing segment to one major customer amounting to HK$292,171,000 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 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

6. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	Year ended 30 June	
	2020 HK$'000	2019 HK$'000
Revenue from contracts with customers		
Sale of goods	1,794,396	2,430,190
Revenue from other sources		
Gross rental income	14,502	11,251
	1,808,898	2,441,441

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 30 June 2020

Segments	Retail HK$'000	Manufacturing HK$'000	Total HK$'000
Type of goods or services			
Sale of goods	481,574	1,312,822	1,794,396
Geographical markets			
Mainland China, Hong Kong, Macau and Taiwan	407,569	280,566	688,135
North America	–	314,015	314,015
Europe	23,690	359,798	383,488
Other Asian countries	50,315	316,705	367,020
Others	–	41,738	41,738
Total revenue from contracts with customers	481,574	1,312,822	1,794,396

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

6. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 30 June 2020

Segments	Retail HK$'000	Manufacturing HK$'000	Total HK$'000
Timing of revenue recognition			
Goods transferred at a point in time	**481,574**	**1,312,822**	**1,794,396**

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			
Mainland China, Hong Kong, Macau and Taiwan	514,006	377,469	891,475
North America	1,448	499,073	500,521
Europe	19,547	521,926	541,473
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
Timing of revenue recognition			
Goods transferred at a point in time	570,232	1,859,958	2,430,190

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

6. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

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 2020

Segments	Retail HK$'000	Manufacturing HK$'000	Total HK$'000
Revenue from contracts with customers			
Sales to external customers	**481,574**	**1,312,822**	**1,794,396**
Intersegment sales	**–**	**172,124**	**172,124**
	481,574	**1,484,946**	**1,966,520**
Elimination of intersegment sales	**–**	**(172,124)**	**(172,124)**
Total revenue from contracts with customers	**481,574**	**1,312,822**	**1,794,396**

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:

	Year ended 30 June	
	2020 HK$'000	2019 HK$'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period		
Sale of goods	**11,487**	6,648
Revenue recognised from performance obligations satisfied in previous periods	**–**	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

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 handbags, 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 amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 30 June are as follows:

	Year ended 30 June	
	2020 **HK$'000**	2019 HK$'000
Amounts expected to be recognised as revenue:		
Within one year	**9,082**	11,487

The amounts of transaction prices allocated to the remaining performance obligations which are expected to be recognised as revenue in one year relate to sale of handbags, small leather goods, etc., of which the performance obligations that are to be satisfied within two years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

Other income and gains

	Year ended 30 June	
	2020 **HK$'000**	2019 HK$'000
Government grants	**19,151**	3,906
Exchange gain, net	**18,692**	9,086
Royalty income	**6,464**	2,003
Interest income	**8,098**	7,224
Net sample and material income	**1,874**	8,343
Fair value gain on investment properties	**–**	40,260
Others	**1,808**	1,666
	56,087	72,488

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

7. (LOSS)/PROFIT BEFORE TAX

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

	Year ended 30 June	
	2020 HK$'000	2019 HK$'000
Cost of inventories sold	1,369,866	1,746,148
Employee benefit expense (including Directors' and chief executive's remuneration as set out in note 9)		
– Wages and salaries	539,733	623,585
– Equity-settled share option expense	–	115
– Equity-settled share award expense	5,139	10,723
– Pension scheme contributions	21,773	24,172
	566,645	658,595
Depreciation of items of property, plant and equipment (note 14)	45,607	47,565
Depreciation of right-of-use assets (2019: amortisation of prepaid land lease payments) (note 16(b))	51,474	422
Amortization of other intangible assets (note 17)	1,247	2,371
Fair value loss/(gain) on investment properties (included in other expenses/other income and gains) (note 15)	21,739	(40,260)
Fair value loss on investment property transferred from owner-occupied property (included in other expenses) (note 15)	–	3,000
(Reversal of impairment)/impairment of trade receivables, net (included in other income and gains/other expenses) (note 21)	(190)	2,513
Impairment of other intangible assets (included in other expenses) (note 17)	8,416	3,316
Write-down of inventories to net realizable value	101,987	28,775
Impairment of right-of-use assets (included in other expenses) (note 16(b))	20,355	–
Impairment of property, plant and equipment (included in other expenses) (note 14)	4,344	–
Impairment of goodwill (included in other expenses)	2,346	–
Loss on disposal of items of property, plant and equipment (included in other expenses)	1,244	2,604
Loss on disposal of items of intangible assets (included in other expenses) (note 17)	2,437	–
Minimum lease payments under operating leases	–	79,735
Lease payments not included in the measurement of lease liabilities (note 16(d))	28,128	–
Auditors' remuneration	2,350	2,450
Exchange gain, net	(18,692)	(9,086)

8. FINANCE COSTS

An analysis of finance costs is as follows:

	Year ended 30 June	
	2020 HK$'000	2019 HK$'000
Interest on bank borrowings	6,672	4,790
Interest on lease liabilities	4,702	–
	11,374	4,790

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

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	
	2020 HK$'000	2019 HK$'000
Fees	**754**	860
Other emoluments:		
Salaries, allowances and benefits in kind	**10,322**	11,629
Discretionary bonuses	**4,434**	3,640
Equity-settled share option expense	**–**	40
Equity-settled share award expense	**1,511**	3,152
Pension scheme contributions	**222**	173
	16,489	18,634
	17,243	19,494

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 29 and 30 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	
	2020 HK$'000	2019 HK$'000
Mr. Yeung Chi Tat	**193**	220
Mr. Kwan Po Chuen, Vincent	**193**	220
Mr. Lung Hung Cheuk	**192**	220
	578	660

As at 30 June 2020, there were no other emoluments payable to the independent non-executive Directors (30 June 2019: nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

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 2020							
Mr. Yeung Michael Wah Keung	44	3,482	902	–	–	–	4,428
Mr. Yeung Wo Fai	44	3,134	812	–	–	–	3,990
Mr. Yeung Andrew Kin	44	1,890	2,306	–	–	210	4,450
Mr. Lau Kin Shing, Charles	44	1,816	414	–	1,511	12	3,797
	176	10,322	4,434	–	1,511	222	16,665

	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
Mr. 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

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 2020 (2019: nil).

As at 30 June 2020, there was no remuneration payable to the Directors (30 June 2019: nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four Directors (2019: 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 (2019: one) highest paid employee who is neither a Director nor chief executive of the Company are as follows:

	Year ended 30 June	
	2020 HK$'000	2019 HK$'000
Salaries, allowances and benefits in kind	**728**	874
Discretionary bonuses	**2,602**	1,553
Pension scheme contributions	**167**	121
	3,497	2,548

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

	Number of employees Year ended 30 June	
	2020	2019
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**1**	–

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

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

Hong Kong profits tax has been provided at the rate of 16.5% for the year ended 30 June 2020 (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

Income taxes in Italy, Korea, Taiwan and Japan have not been provided for as the Group has no assessable profit arising in those jurisdictions during the year ended 30 June 2020.

The provision for PRC corporate income tax is based on a statutory rate of 25% for the year ended 30 June 2020 (2019: 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	
	2020 HK$'000	2019 HK$'000
Current – Hong Kong		
Charge for the year	**2,163**	11,877
Adjustments in respect of current income tax of previous years	**(1,281)**	716
Current – Mainland China		
Charge for the year	**23,480**	34,120
Adjustments in respect of current income tax of previous years	**(1,700)**	(3,221)
Current – Other regions		
Charge for the year	**1,300**	–
Deferred tax (note 19)	**3,723**	4,653
Total tax charge for the year	**27,685**	48,145

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

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 2020

	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	(26,023)		4,178		41,285		(12,679)		(129,251)		(122,490)	
Tax at the statutory tax rate	(4,294)	16.5	522	12.5	10,321	25.0	(2,092)	16.5	(31,020)	24.0	(26,563)	21.7
Adjustments in respect of current tax of previous years	(1,281)	4.9	–	–	(1,700)	(4.1)	–	–	–	–	(2,981)	2.4
Income not subject to tax	(660)	2.5	–	–	–	–	(53)	0.4	–	–	(713)	0.6
Expenses not deductible for tax	4,872	(18.7)	274	6.6	465	1.1	5,371	(42.4)	1,003	(0.8)	11,985	(9.8)
Deductible temporary differences not recognized, net	(4)	–	–	–	(117)	(0.3)	–	–	–	–	(121)	0.1
Tax losses not recognized in current year	5,413	(20.8)	–	–	12,592	30.5	–	–	29,154	(22.5)	47,159	(38.5)
Tax losses utilized from previous years	(285)	1.1	(796)	(19.1)	–	–	–	–	–	–	(1,081)	0.9
Tax charge at the Group's effective rate	3,761	(14.5)	–	–	21,561	52.2	3,226	(25.5)	(863)	0.7	27,685	(22.6)

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

* During the year ended 30 June 2020 and 2019, 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 2020

12. DIVIDENDS

	Year ended 30 June	
	2020 **HK$'000**	2019 HK$'000
Interim – 2020: HK2 cents per ordinary share (2019: HK6 cents per ordinary share)	**19,194**	57,415
Proposed final – 2020: nil (2019: HK2 cents per ordinary share) (i)	**–**	19,138
Proposed special – 2020: HK3 cents per share (2019: nil) (i)	**28,963**	–
	48,157	76,553

Note:

(i) The Board did not propose a final dividend for the year ended 30 June 2020 (2019: a final dividend of HK2 cents). The Board proposed a special dividend of HK3 cents for the year ended 30 June 2020 (2019: nil).

13. (LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic (losses)/earnings per share amount is based on the (loss)/profit for the years ended 30 June 2020 and 2019 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 959,610,459 (2019: 967,816,250) in issue excluding awarded shares during the year.

The calculation of the diluted (losses)/earnings per share amount is based on the (loss)/profit for the years ended 30 June 2020 and 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 years ended 30 June 2020 and 2019, as used in the basic (losses)/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 2020, the calculation of diluted (losses)/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 (2019: nil).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

13. (LOSSES)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY (continued)

The calculations of basic and diluted (losses)/earnings per share are based on:

	Year ended 30 June	
	2020 HK$'000	2019 HK$'000
(Losses)/earnings		
(Loss)/profit attributable to ordinary equity holders of the Company used in the basic and diluted (losses)/earnings per share calculations	**(132,833)**	125,566

	Year ended 30 June	
	2020	2019
Number of shares		
Weighted average number of ordinary shares in issue during the year used in the basic (losses)/earnings per share calculation	**959,610,459**	967,816,250
Effect of dilution – weighted average number of ordinary shares	**3,499,943**	4,964,193
Weighted average number of ordinary shares in issue during the year used in the diluted (losses)/earnings per share calculation	**963,110,402**	972,780,443
Basic (losses)/earnings per share (HK cents)	**(13.84)**	12.97
Diluted (losses)/earnings per share (HK cents)	**(13.79)**	12.91

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

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 2020							
Cost							
At 30 June 2019 and at 1 July 2019	434,464	94,355	185,701	106,213	9,762	1,861	832,356
Additions	290	8,905	2,403	6,008	199	1,925	19,730
Transfers	–	–	1,820	105	–	(1,925)	–
Disposals	(880)	(6,101)	(5,815)	(552)	(216)	–	(13,564)
Exchange realignment	(1,345)	1,395	(6,364)	(2,155)	(182)	(68)	(8,719)
At 30 June 2020	432,529	98,554	177,745	109,619	9,563	1,793	829,803
Accumulated depreciation							
At 30 June 2019 and at 1 July 2019	127,617	77,542	130,604	80,281	6,841	–	422,885
Depreciation provided during the year	17,542	7,344	12,133	7,742	846	–	45,607
Disposals	(880)	(5,427)	(5,092)	(400)	(190)	–	(11,989)
Exchange realignment	1,846	(1,716)	(4,075)	(1,665)	(127)	–	(5,737)
At 30 June 2020	146,125	77,743	133,570	85,958	7,370	–	450,766
Impairment							
At 30 June 2019 and at 1 July 2019	–	–	–	–	–	–	–
Impairment during the year	–	4,344	–	–	–	–	4,344
Exchange realignment	–	(46)	–	–	–	–	(46)
At 30 June 2020	–	4,298	–	–	–	–	4,298
Net book value							
At 30 June 2020	286,404	16,513	44,175	23,661	2,193	1,793	374,739
At 30 June 2019	306,847	16,813	55,097	25,932	2,921	1,861	409,471

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

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 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	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	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 2020

15. INVESTMENT PROPERTIES

	As at 30 June 2020 HK$'000	As at 30 June 2019 HK$'000
Carrying amount at beginning of the year	**733,095**	635,556
Transfer from construction in progress (note 14)	–	340
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 (loss)/gain on investment properties (note 7)	**(21,739)**	40,260
Carrying amount at end of the year	**711,356**	733,095

* 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, had 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 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 2020, based on valuations performed by Vincorn Consulting and Appraisal Limited, an independent professional and qualified valuer, at an aggregated amount of approximately HK$711,356,000. 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 2020

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.

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 2020 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	–	–	711,356	711,356

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

15. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

	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

During the year, there were no transfers into or out of Level 3 (2019: nil).

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

	HK$'000
Carrying amount at 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 investment property transferred from owner-occupied property (note 7)	(3,000)
Fair value gain on investment properties (note 7)	40,260
Carrying amount at 30 June 2019 and 1 July 2019	733,095
Fair value loss on investment properties (note 7)	(21,739)
Carrying amount at 30 June 2020	711,356

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

15. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (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$32.80
		Estimated price (per square foot)	HK$11,041
		Market yield	2.5%
		Term yield	1.7%
Commercial property 2	Market approach	Estimated price (per square foot)	HK$5,785
Commercial property 3	Market approach	Estimated price (per square foot)	HK$22,816

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 analyzing 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 2020

16. LEASES

The Group as lessee

The Group has lease contracts for various items of plants, office and retail stores used in its operations. Lump sum payments were made upfront to acquire the leased land from the owners with lease periods of 50 years, and no ongoing payments will be made under the terms of these land leases. Leases of plants generally have lease terms of 5 years, while retail offices and stores generally have lease terms of 1 to 6 years. Other equipment generally has lease terms of 12 months or less and is individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group.

(a) Prepaid land lease payments (before 1 July 2019)

	HK$'000
Carrying amount at 1 July 2018	17,035
Recognised in profit or loss during the year	(422)
Exchange realignment	(699)
Carrying amount at 30 June 2019	15,914

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments HK$'000	Plants HK$'000	Retailing stores HK$'000	Total HK$'000
As at 1 July 2019	15,914	13,651	104,248	133,813
Additions	–	–	69,708	69,708
Depreciation charge	(397)	(3,985)	(47,092)	(51,474)
Impairment during the year	–	–	(20,355)	(20,355)
Exchange realignment	(588)	(430)	(3,898)	(4,916)
As at 30 June 2020	14,929	9,236	102,611	126,776

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

16. LEASES (continued)

The Group as lessee (continued)

(b) *Right-of-use assets* (continued)

Impairment testing

During the year, an impairment loss of HK$20,355,000 was recognised in the consolidated statement of profit or loss as other expense, in respect of the impairment of right-of-use assets. The impairment charge was driven by the lower cash flow generated from retail stores resulting from the global outbreak of the Covid-19 pandemic in January 2020.

The Group regards each individual retail store as a separately identifiable cash-generating unit. Management carried out an impairment assessment for the retail store assets, including property, plant and equipment and right-of-use assets, which have an impairment indicator. Given the potential adverse impact on the performance of the Group's retail stores as a result of the Covid-19 pandemic, management performed impairment assessment for all the retail stores.

The carrying amount of the retail store assets is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The estimates of the recoverable amounts were based on value-in-use calculations using discounted cash flow projections based on the financial forecasts approved by management covering the remaining tenure of the lease, with major assumptions such as percentage change in revenue, percentage change in running cost and gross profit margin.

As a result, impairment losses on right-of-use assets and leasehold improvements (included in property, plant and equipment) of HK$20,355,000 and HK$4,344,000 respectively were recognized during the year ended 30 June 2020 (2019: nil).

Key assumptions used in the value-in-use calculations for the recoverable amount of retail store assets are as follows:

Percentage change in revenue:	based on the estimated timing of easing quarantine restrictions at the borders and the recovery of tourist arrivals and the consequential effect on the Group's retail stores
Percentage change in running cost:	based on the estimated change related to the Group's cost saving plan and measures
Gross profit margin:	based on the historical data and change in product mix

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

16. LEASES (continued)

The Group as lessee (continued)

(c) Lease liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities HK$'000
Carrying amount at 1 July 2019	117,589
New leases	69,708
Accretion of interest recognised during the year	4,702
Payments	(41,396)
Adjustment for Covid-19 rent concessions	(4,642)
Exchange realignment	(1,044)
Carrying amount at 30 June 2020	144,917
Analysed into:	
Current portion	**55,190**
Non-current portion	**89,727**

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 HK$'000
Interest on lease liabilities	**4,702**
Depreciation charge of right-of-use assets	**51,474**
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 30 June 2020	**20,760**
Variable lease payments not included in the measurement of lease liabilities (included in selling and distribution expenses)	**7,368**
Total amount recognised in profit or loss	**84,304**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

16. LEASES (continued)

The Group as lessee (continued)

(e) ***Variable lease payments***

The Group leased a number of retail stores and units in a shopping mall which contain variable lease payment terms that are based on the Group's turnover generated from the retail stores and the units in the shopping mall. The amounts of the variable lease payments recognised in profit or loss for the current year for these leases are HK$7,368,000.

(f) The future cash outflows relating to leases that have not yet commenced are disclosed in note 35 to the financial statements.

The Group as lessor

The Group leases its investment properties consisting of three commercial properties under operating lease arrangements. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the prevailing market conditions. Rental income recognised by the Group for the year ended 30 June 2020 was HK$14,502,000 (2019: HK$11,251,000), details of which are included in note 5 to the financial statements.

At 30 June 2020, the undiscounted minimum lease payments receivable by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	As at 30 June 2020 HK$'000	As at 30 June 2019 HK$'000
Within one year	**15,492**	11,531
After one year but within two years	**8,667**	15,271
After two years but within three years	**546**	12,756
	24,705	39,558

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

17. OTHER INTANGIBLE ASSETS

	Trademark HK$'000	License right* HK$'000	Total HK$'000
30 June 2020			
Cost and net carrying amount at 1 July 2019	**18,296**	**2,138**	**20,434**
Amortization provided during the year	**(1,247)**	**–**	**(1,247)**
Disposals	**(299)**	**(2,138)**	**(2,437)**
Impairment during the year	**(8,416)**	**–**	**(8,416)**
Exchange realignment	**630**	**–**	**630**
Cost and net carrying amount at 30 June 2020	**8,964**	**–**	**8,964**
30 June 2019			
Cost and net carrying amount at 1 July 2018	5,734	2,747	8,481
Acquisition of a subsidiary	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

* License right represents the franchise distribution right of "JOCKEY" which was disposed on 31 December 2019.

Impairment testing

During the current year, an impairment loss of HK$8,416,000 was recognised in the consolidated statement of profit or loss as other expense, in respect of "A. Testoni" trademark. The impairment charge is driven by the lower recoverable amount of the trademark "A. Testoni" resulting from the directors' assessment that the estimated future business performance of the trademark "A. Testoni" might not achieve the expectation of management taking the budgeted performance results and estimated growth rate into consideration.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

17. OTHER INTANGIBLE ASSETS (continued)

Impairment testing (continued)

The Directors estimated the recoverable amount of the trademark "A. Testoni" 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 2020 was determined based on a value in use calculation using cash flow projections based on the financial forecast, 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$8,416,000 and an impairment loss of HK$8,416,000 was recognised. The key assumptions used in value-in-use calculation include a discount rate of 19.62%-20.96%, a long-term growth rate of 3% and budgeted margin which are consistent with market average level and external information sources. The Directors make the above financial forecast based on the expectation of future market development and the strategic retail expansion plan going forward.

18. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 30 June 2020 HK$'000	As at 30 June 2019 HK$'000
Debt investments at fair value through other comprehensive income	**9,526**	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 2020

19. 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 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	–	–	–	16,553	–	–	16,553
Exchange realignment	–	(278)	(133)	(139)	(38)	–	(588)
Gross deferred tax assets at 30 June 2019 and 1 July 2019	1,131	6,368	2,932	16,801	3,052	2,929	33,213
Deferred tax (charged)/credited to the consolidated statement of profit or loss during the year (note 11)	(1,131)	(160)	136	8,260	(1,709)	(2,466)	2,930
Exchange realignment	–	(233)	(109)	(6,824)	–	(8)	(7,174)
At 30 June 2020	–	5,975	2,959	18,237	1,343	455	28,969

Deferred tax liabilities

	Unrealized gain/(loss) arising from intra-group transactions HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 1 July 2018	–	2,363	2,363
Acquisition of a subsidiary	–	2,124	2,124
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	–	(2,636)	(2,636)
Exchange realignment	–	(21)	(21)
Gross deferred tax liabilities at 30 June 2019 and 1 July 2019	–	1,830	1,830
Deferred tax credited to the consolidated statement of profit or loss during the year (note 11)	1,100	5,553	6,653
Exchange realignment	–	(1,190)	(1,190)
At 30 June 2020	1,100	6,193	7,293

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

19. DEFERRED TAX (continued)

Deferred tax liabilities (continued)

At 30 June 2020, 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$750,616,000 (30 June 2019: HK$687,115,000).

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

	As at 30 June 2020 HK$'000	As at 30 June 2019 HK$'000
Tax losses	**403,130**	241,452

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.

20. INVENTORIES

	As at 30 June 2020 HK$'000	As at 30 June 2019 HK$'000
Raw materials	**85,532**	54,693
Work in progress	**84,380**	115,419
Finished goods	**252,053**	265,762
	421,965	435,874
Less: provision against inventories	**(141,874)**	(42,095)
	280,091	393,779

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

21. TRADE RECEIVABLES

	As at 30 June 2020 HK$'000	As at 30 June 2019 HK$'000
Trade receivables	**273,387**	488,212
Impairment	**(2,323)**	(2,513)
	271,064	485,699

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 2020 HK$'000	As at 30 June 2019 HK$'000
Within 90 days	**192,700**	441,068
91 to 180 days	**62,183**	30,136
Over 180 days	**16,181**	14,495
	271,064	485,699

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

	Year ended 30 June 2020 HK$'000	Year ended 30 June 2019 HK$'000
At beginning of year	**2,513**	460
(Reversal of impairment losses)/impairment losses, net (note 7)	**(190)**	2,513
Amounts written off as uncollectible	**–**	(460)
At end of year	**2,323**	2,513

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

21. TRADE RECEIVABLES (continued)

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 2020	**Current**	**Less than 3 months**	**3 to 6 months**	**Over 6 months**	**Total**
Expected credit loss rate	**0.16%**	**0.41%**	**4.40%**	**12.41%**	**0.85%**
Gross carrying amount (HK$'000)	**152,014**	**98,940**	**13,805**	**8,628**	**273,387**
Expected credit loss (HK$'000)	**238**	**407**	**607**	**1,071**	**2,323**

		Past due			
As at 30 June 2019	Current	Less than 3 months	3 to 6 months	Over 6 months	Total
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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

22. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	As at 30 June 2020 HK$'000	As at 30 June 2019 HK$'000
Non-current portion:		
Rental deposits	**8,967**	6,462
Prepayments for items of property, plant and equipment	**4,572**	1,027
	13,539	7,489
Current portion:		
Prepayments	**17,472**	19,348
Deposits and other receivables	**29,120**	26,697
Value-added tax	**39,324**	40,320
	85,916	86,365
Total	**99,455**	93,854

Deposits and other receivables mainly represent rental deposits and deposits with suppliers.

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 30 June 2020 and 2019, the loss allowance was assessed to be minimal.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

23. CASH AND CASH EQUIVALENTS, PLEDGED AND TIME DEPOSITS

	As at 30 June 2020 HK$'000	As at 30 June 2019 HK$'000
Cash and bank balances	**517,822**	406,779
Time deposits	**23,523**	23,484
	541,345	430,263
Less: Time deposits pledged as security for banking facilities	**(23,523)**	(23,484)
Cash and cash equivalents	**517,822**	406,779

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

	As at 30 June 2020 HK$'000	As at 30 June 2019 HK$'000
Denominated in RMB	**411,973**	272,905

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 2020

24. INTEREST-BEARING BANK BORROWINGS

	30 June 2020			1 July 2019	30 June 2019		
	Effective interest rate (%)	Maturity	HK$'000	HK$'000	Effective interest rate (%)	Maturity	HK$'000
Current							
Lease liabilities (notes 16(c))	**0.78–5.00**	**2020**	**55,190**	33,439	–	–	–
Bank loans – secured	**1.000–2.525**	**On demand**	**200,789**	110,831	1.750–2.525	On demand	110,831
Bank loans – unsecured			**–**	55,458	0.250–2.25	On demand	55,458
			255,979	199,728			166,289
Non-current							
Lease liabilities (notes 16(c))	**0.78–5.00**	**2021-2022**	**89,727**	84,150			–

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 2020 HK$'000	As at 30 June 2019 HK$'000
Aggregate carrying amount	**21,776**	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 2020

24. 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 2020		As at 30 June 2019	
	Maturity	**HK$'000**	Maturity	HK$'000
Bank borrowings – secured	**2020-2022**	**200,789**	2019-2022	110,831
Bank borrowings – unsecured		**–**	2019-2020	55,458
		200,789		166,289
Analyzed into:				
Bank borrowings repayable:				
Within one year or on demand		**179,013**		109,658
In the second year		**21,776**		34,847
In the third to fifth years, inclusive		**–**		21,784
		200,789		166,289

25. 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 2020 HK$'000	As at 30 June 2019 HK$'000
Within 90 days	**121,134**	201,921
91 to 180 days	**10,710**	7,866
181 to 365 days	**349**	5,108
Over 365 days	**1,425**	6,911
	133,618	221,806

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 2020

26. OTHER PAYABLES AND ACCRUALS

	Notes	As at 30 June 2020 HK$'000	As at 30 June 2019 HK$'000
Payroll payable		**59,371**	87,956
Contract liabilities	(a)	**9,082**	11,487
Accruals		**15,178**	8,428
Other payables	(b)	**30,207**	48,057
		113,838	155,928

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

Notes:

(a) Details of contract liabilities as at 30 June 2020 and 1 July 2019 are as follows:

	30 June 2020 HK$'000	1 July 2019 HK$'000
Short-term advances received from customers		
Sale of goods	**9,082**	11,487

Contract liabilities include short-term advances received to deliver leather products. The decrease in contract liabilities in the year ended 30 June 2020 was mainly due to the decrease 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.

27. DEFERRED INCOME

	Government grants HK$'000
At 1 July 2018	3,610
Recognized during the year	(203)
Exchange realignment	(145)
At 30 June 2019 and 1 July 2019	3,262
Recognized during the year	(420)
Exchange realignment	(113)
At 30 June 2020	2,729

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

28. SHARE CAPITAL

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

Shares:

	As at 30 June 2020 HK$'000	As at 30 June 2019 HK$'000
Issued and fully paid:		
959,702,000 (30 June 2019: 956,910,000) ordinary shares	**95,970**	95,691
Treasury shares:		
5,728,000 (30 June 2019: 8,520,000) ordinary shares (note i)	**573**	852
	96,543	96,543

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

	Number of shares in issue	Issued share capital HK$'000
At 1 July 2018	1,001,532,000	100,153
Repurchase and cancellation of shares (note i)	(36,102,000)	(3,610)
At 30 June 2019 and 30 June 2020	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 option scheme and share award scheme

Details of the Company's share option scheme and share award scheme are included in notes 29 and 30 to the consolidated financial statements, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

29. 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 2020

29. 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:

	2020 Weighted average exercise price HK$ per share	Number of options '000
At 1 July 2019 and 30 June 2020	**3.84**	3.84

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:

2020 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 (2019: nil). The Group recognized no share option expense (2019: HK$115,000) during the year ended 30 June 2020.

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 2020

30. 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 share award scheme shall be valid for a term of three years, commencing from the date of grant of the share award on 12 July 2018 and ending on the date on which all the awarded shares have been granted or otherwise cancelled. As the vesting condition of the first tranche was fulfilled by the grantees, 2,792,000 treasury shares were vested to the grantees on 12 July 2019.

The Group recognized an expense of approximately HK$5,139,000 for the year ended 30 June 2020 (for the year ended 30 June 2019: HK$10,723,000).

At the date of approval of these consolidated financial statements, the Company had 5,728,000 treasury shares held under the share award scheme, which represented approximately 0.59% of the Company's shares in issue as at that date.

31. 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 2020

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, as the vesting condition of the first tranche was fulfilled by the grantees, 2,792,000 treasury shares were vested to the grantees on 12 July 2019. HK$5.6 million of share award reserve and HK$6.5 million of treasury shares were transferred into share premium for the vesting of first tranche of share awards. Besides, the Group recognized on equity-settled share award expense of approximately HK$5,139,000 charged to profit or loss (2019: HK$10,723,000).

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings HK$'000	Dividends payable HK$'000	Lease liabilities HK$'000
At 1 July 2019	**166,289**	**–**	**117,589**
2019 final and 2020 interim dividends payable	**–**	**38,388**	**–**
New leases	**–**	**–**	**69,708**
Accretion of interest recognized during the year	**–**	**–**	**4,702**
Adjustment for COVID-19 rent concessions	**–**	**–**	**(4,642)**
Changes from financing cash flows	**34,814**	**(38,388)**	**(41,396)**
Foreign exchange movement	**(314)**	**–**	**(1,044)**
At 30 June 2020	**200,789**	**–**	**144,917**

33. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2020 (30 June 2019: nil).

34. PLEDGE OF ASSETS

Details of the Group's assets pledged for banking facilities of the Group are included in note 23 to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

35. COMMITMENTS

Operating lease commitments as at 30 June 2019

The Group leases certain of its plants, office properties and retail outlets under operating lease arrangements. Leases for plants are negotiated for five years. Leases for office properties and retail outlets are negotiated for terms ranging from one to six years.

At 30 June 2019, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 June 2019 HK$'000
Within one year	44,703
In the second to fifth years, inclusive	70,249
After fifth years	22,651
	137,603

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

36. 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	
	2020 HK$'000	2019 HK$'000
Property lease from a company of which a Director of the Company is a controlling shareholder		
Golden Palace Corporation Limited	–	1,200
Maxon Properties Limited	**2,100**	2,400
	2,100	3,600

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.

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.

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

	Year ended 30 June	
	2020 HK$'000	2019 HK$'000
Short term employee benefits	**14,932**	15,469
Post-employment benefits	**222**	173
Equity-settled share option expense	–	40
Equity-settled share award expense	**1,511**	3,152
Total compensation paid to key management personnel	**16,665**	18,834

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

37. 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:

2020

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	9,526	–	9,526
Trade receivables	–	271,064	271,064
Financial assets included in prepayments, other receivables and other assets	–	29,120	29,120
Pledged deposits	–	23,523	23,523
Cash and cash equivalents	–	517,822	517,822
	9,526	841,529	851,055

Financial liabilities

	Financial liabilities at amortised cost HK$'000
Interest-bearing bank borrowings	200,789
Trade payables	133,618
Financial liabilities included in other payables and accruals	41,344
	375,751

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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 2020

38. 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	
	2020 HK$'000	2019 HK$'000	2020 HK$'000	2019 HK$'000
Financial assets				
Debt investments at fair value through other comprehensive income	**9,526**	13,996	**9,526**	13,996
	9,526	13,996	**9,526**	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 2020

38. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

Assets measured at fair value:

As at 30 June 2020

	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	9,526	–	–	9,526

39. 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 2020, 71.3% (2019: 75.4%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sales, whilst approximately 71.5% (2019: 69.5%) 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 2020

39. 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$'000
Year ended 30 June 2020			
If HK$ weakens against US$	**5**	**9,809**	**–**
If HK$ strengthens against US$	**(5)**	**(9,809)**	**–**
If HK$ weakens against EUR	**5**	**8,368**	**12**
If HK$ strengthens against EUR	**(5)**	**(8,368)**	**(9)**
If HK$ weakens against RMB	**5**	**(13,238)**	**64,338**
If HK$ strengthens against RMB	**(5)**	**13,238**	**(58,214)**
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)

* 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

The tables below show 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 2020. 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 2020

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging (continued)

As at 30 June 2020

	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	–	–	–	**9,526**
Trade receivables*	–	–	–	**271,064**
Financial assets included in prepayments, other receivables and other assets				
– Normal**	**29,120**	–	–	–
Pledged deposits				
– Not yet past due	**23,523**	–	–	–
Cash and cash equivalents				
– Not yet past due	**517,822**	–	–	–

As at 30 June 2019

	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 21 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".

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

39. 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 interest-bearing bank borrowings and lease liabilities. 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 2020	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Lease liabilities	–	18,046	48,179	77,660	1,032	144,917
Interest-bearing bank borrowings	201,934	–	–	–	–	201,934
Trade payables	30,616	101,969	1,033	–	–	133,618
Financial liabilities included in other payables and accruals	41,344	–	–	–	–	41,344
	273,894	120,015	49,212	77,660	1,032	521,813

As at 30 June 2019	On demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2020 and 2019.

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 Company.

The gearing ratios as at the end of the reporting periods were as follows:

	30 June 2020 HK$'000	1 July 2019 HK$'000	30 June 2019 HK$'000
Interest-bearing bank borrowings (note 24)	**345,706**	283,878	166,289
Trade payables	**133,618**	221,806	221,806
Other payables and accruals	**113,838**	155,928	155,928
Less: Cash and cash equivalents	**(517,822)**	(406,779)	(406,779)
Net debt	**75,340**	254,833	137,244
Equity attributable to owners of the Company	**1,855,062**	2,065,299	2,065,299
Capital and net debt	**1,930,402**	2,320,132	2,202,543
Gearing ratio	**3.9%**	11.0%	6.2%

Note: The Group has adopted IFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 July 2019 with no adjustments to the comparative amounts as at 30 June 2019. This resulted in an increase in the Group's net debt and hence the Group's gearing ratio increased from 6.2% to 11.0% on 1 July 2019 when compared with the position as at 30 June 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

40. 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 2020 HK$'000	As at 30 June 2019 HK$'000
NON-CURRENT ASSETS			
Deferred tax assets		–	2,929
Investments in subsidiaries		**430,011**	430,011
Total non-current assets		**430,011**	432,940
CURRENT ASSETS			
Prepayments, other receivables and other assets		**1,458**	1,395
Amounts due from subsidiaries		**575,337**	580,512
Pledged deposit		**13,236**	13,301
Cash and cash equivalents		**13,463**	15,599
Total current assets		**603,494**	610,807
CURRENT LIABILITIES			
Tax payable		**209**	107
Other payables and accruals		**249**	54
Total current liabilities		**458**	161
NET CURRENT ASSETS		**603,036**	610,646
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,033,047**	1,043,586
Net assets		**1,033,047**	1,043,586
EQUITY			
Share capital	28	**96,543**	96,543
Treasury shares		**(13,386)**	(19,910)
Reserves (note)		**949,890**	966,953
Total equity		**1,033,047**	1,043,586

Yeung Wo Fai
Director

Yeung Michael Wah Keung
Director

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

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

Note:

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

	Share premium account HK$'000 (note 31)	Share option reserve HK$'000 (note 29)	Share award reserve HK$'000 (note 30)	Retained profits/ (Accumulated losses) HK$'000	Total HK$'000
At 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 and 1 July 2019	964,014	4,721	10,723	(12,505)	966,953
Profit for the year	–	–	–	22,711	22,711
2019 final dividend declared	–	–	–	(19,194)	(19,194)
2020 interim dividend declared	–	–	–	(19,194)	(19,194)
Equity-settled share award arrangement	–	–	5,139	–	5,139
Equity-settled share award vested	(941)	–	(5,584)	–	(6,525)
At 30 June 2020	963,073	4,721	10,278	(28,182)	949,890

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended 30 June 2020

41. EVENT AFTER THE REPORTING PERIOD

Since late January 2020, the outbreak of COVID-19 has impacted the global business environment. Up to the date of this report, COVID-19 has resulted impact to the Group. Pending the development and spread of COVID-19 subsequent to the date of this report, further changes in economic conditions for the Group arising thereof may have impact on the financial results of the Group. The Company will closely monitor the situation and assess its impacts on the financial position and operating results of the Group. As of the date of this report, such assessment is still ongoing.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorized for issue by the Board of Directors on 28 September 2020.

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				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**1,808,898**	2,441,441	2,305,796	1,916,937	2,837,018
(Loss)/profit before tax	**(122,490)**	160,935	282,197	236,394	445,341
Income tax expense	**(27,685)**	(48,145)	(31,329)	(25,312)	(75,199)
(Loss)/profit for the year	**(150,175)**	112,790	250,868	211,082	370,142

ASSETS AND LIABILITIES:

	As at 30 June				
	2020	2019	2018	2017	2016
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**2,452,285**	2,632,064	2,556,089	2,334,570	2,463,507
Total liabilities	**(619,773)**	(571,973)	(354,113)	(271,972)	(283,945)
Net assets	**1,832,512**	2,060,091	2,201,976	2,062,598	2,179,562

Note:

The consolidated results of the Group for the five years ended 30 June 2016, 2017, 2018, 2019 and 2020 and the consolidated assets and liabilities of the Group as at 30 June 2016, 2017, 2018, 2019 and 2020 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.