



Sitoy

2018 INTERIM REPORT



時代集團控股有限公司
SITOIY GROUP HOLDINGS LTD.

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1023



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Corporate Information

Board of Directors

Executive Directors

Mr. Yeung Michael Wah Keung (*Chairman*)

Mr. Yeung Wo Fai (*Chief Executive Officer*)

Mr. Yeung Andrew Kin
(*Deputy General Manager*)

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

Independent Non-executive Directors

Mr. Yeung Chi Tat

Mr. Kwan Po Chuen, Vincent

Mr. Lung Hung Cheuk

Authorised Representatives

Mr. Yeung Wo Fai

Mr. Lau Kin Shing, Charles

Company Secretary

Mr. Lau Kin Shing, Charles

Registered Office

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

Head Office and Principal Place of Business in Hong Kong

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

Principal Place of Business in the People's Republic of China

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

Board Committees

Audit Committee

Mr. Yeung Chi Tat (*Chairman*)

Mr. Kwan Po Chuen, Vincent

Mr. Lung Hung Cheuk

Remuneration Committee

Mr. Lung Hung Cheuk (*Chairman*)

Mr. Yeung Michael Wah Keung

Mr. Yeung Chi Tat

Nomination Committee

Mr. Yeung Michael Wah Keung (*Chairman*)

Mr. Kwan Po Chuen, Vincent

Mr. Lung Hung Cheuk

Corporate Information

Legal Adviser as to Hong Kong Laws

Woo Kwan Lee & Lo

Principal Bankers

The Hongkong and Shanghai
Banking Corporation Limited
Hang Seng Bank Limited

Cayman Islands Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited
Royal Bank House – 3rd Floor
24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

Hong Kong 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



129 Spring Summer 2018

Management Discussion and Analysis

The board (the “Board”) of directors (the “Directors”) of Sitouy Group Holdings Limited (the “Company”) is pleased to present this interim report, including the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2017 (the “Period”).

BUSINESS REVIEW

Retail business

The Group’s retail business has achieved a major breakthrough, recording a considerable contribution to the Group’s attributable profit during the Period. Revenue generated from this segment jumped by approximately 111.9% period to period to approximately HK\$153.1 million for the six months ended 31 December 2017. The retail segment results of profit before tax was approximately HK\$12.8 million for the six months ended 31 December 2017 as opposed to a loss of approximately HK\$4.2 million for the same period in the previous year. The significant improvement was mainly resulted from the increased contribution from licensed brands, thanks to the Group’s strategies in enriching the retail brand portfolio. Revenue from the wholesale business and improved operating leverage also contributed to the improvement of the financial results.

The Group launched its retail business in 2011 with the introduction of TUSCAN’S and subsequently Fashion & Joy handbags, to diversify its business and tap growing demand for affordable quality handbags and leather goods in Hong Kong and mainland of the People’s Republic of China (the “PRC” or “China”). 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 of global brands for distribution and operation in China and Hong Kong in 2016.

The strategy was proved satisfactory as the Group now has a more diversified range of products catering for different customer demands. The Group operated eight brands as at 31 December 2017. TUSCAN’S and Fashion & Joy are self-owned brands of the Group. TUSCAN’S is a brand of high quality handbags originated from 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. The other six brands, namely Kenneth Cole, Bruno Magli, Cole Haan, Jockey*, a.Testoni* and i29*, are exclusive licensed brands, each with its own history and unique characters targeting different customer segments. The licensed brands not only provided a new stream of revenue to the Group’s retail business but also expanded its product range from handbags to male and female footwear and apparel products with diversified handbag collections.

* the PRC only

Management Discussion and Analysis

The Group is expanding its design and development team for the two self-owned brands and Kenneth Cole, a licensed brand, making use of its strong in-house manufacturing capabilities. New design teams were set up to enrich product offerings. For example, a design team dedicated for developing handbags for Kenneth Cole and another team for expanding the footwear offerings for Kenneth Cole were set up. The design team of TUSCAN'S and Fashion & Joy was also expanded for developing a more comprehensive product range. The Group is pleased to see that the new product designs are improving and have quickly attracted a strong following among China's upwardly mobile consumers. The Group's targeted marketing campaigns have also successfully attracted brand awareness and increased store traffic, which contributed to the growth in market demand.



a. Testoni Spring Summer 2018 Men's Collection



a. Testoni Spring Summer 2018 Women's Collection

As regards retail format, the Group opened its first Fashion & Joy integrated mega store during the Period. In the near future, the Group targets to open another integrated store with a space over 2,000 sq. ft. in a prominent shopping mall in Chengdu, the PRC. It will carry products across different brands catering for the demand from the younger generation. The Group also continued operating standalone stores and concessionary counters at department stores.

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

Management Discussion and Analysis

The retail business development has continuously been funded with the proceeds from the initial public offering (the “IPO”).

Manufacturing business

During the Period, the Group’s purchase orders received from its aggregated segment customers increased by approximately 12.6% compared with the same period in the previous year, which was mainly due to the gradual increase in demand for brand products in the worldwide market. In the meanwhile, the Group has been actively developing businesses with certain brands in China and across the globe. The Group has maintained stable return with segment results of profit before tax to segment revenue ratio of approximately 10.0%. The manufacturing business has generated segment revenue of approximately HK\$1,001.6 million from sales to external customers with segment results of profit before tax of approximately HK\$106.1 million.

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

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

Management Discussion and Analysis

Property investment business

In the view that the Hong Kong commercial office leasing market remained strong with tight supply and robust demand, the Group expanded to the property investment market in year 2016 by acquiring a commercial building located in East Kowloon of Hong Kong. This market is still driven by the financial industry with many enterprises occupying office space in Central, Causeway Bay and nearby areas. Tenants from other industries, therefore, have been seeking prime offices in other areas, such as East Kowloon, mainly attributable to its convenient location, well-connected transportation options, and abundant lifestyle offerings such as shopping centres and entertainment facilities. In addition, the Company's offices located at 4-5th Floor, The Genplas Building, 56 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong ceased for own use and were transferred to investment properties for rental income or capital appreciation purpose in early 2017. The property investment segment is expected to generate stable returns for the Group. The property investment business has generated revenue of approximately HK\$5.4 million with segment results of profit before tax of approximately HK\$40.4 million during the Period as a result of fair value gain on investment properties of approximately HK\$37.3 million.

PRODUCT RESEARCH, DEVELOPMENT AND DESIGN

The in-house creative centre and R&D centre of the Group offer customers one-stop design, research, development and manufacturing solutions, which help the Group to serve its customers in response to fast-changing consumer preferences and fashion trends as well as to develop and manufacture products with complex designs. By offering customers 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 will source quality raw materials at competitive prices, and continue to optimise and streamline production procedures to boost competitiveness of the Group and satisfy brand customers' demands.

Management Discussion and Analysis

THE USE OF PROCEEDS FROM IPO

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

	Use of IPO proceeds prior to the Proposed Change		Use of IPO proceeds subsequent to the Proposed Change		Used as at 31 December 2017	Unused balance as at 31 December 2017
	HK\$'million approximately	Percentage approximately	HK\$'million approximately	HK\$'million approximately	HK\$'million approximately	HK\$'million approximately
Second phase of Yingde manufacturing facility	251.4	35%	(96.4)	155.0	155.0	–
Upgrading of machinery and tooling in existing manufacturing facilities	143.6	20%	(74.4)	69.2	65.5	3.7
Expansion of retail business	251.4	35%	150.8	402.2	334.3	67.9
Working capital	71.8	10%	20	91.8	91.8	–
	718.2	100%	–	718.2	646.6	71.6

Management Discussion and Analysis

PROSPECT

Retail business

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

The development of the e-commerce business is running to take online orders from customers. The Group will further strengthen online sales and facilitate the development of a new retail model with integrated online to offline (O2O) sales, with a view to capturing the upcoming trend of the market development by presenting its products to its customers through different platforms.

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

The retail business development has been and will continuously be funded with the proceeds from the IPO.



Jockey Spring Summer 2018 Women's Collection

Management Discussion and Analysis

Manufacturing business

The Group's manufacturing business gradually recovered from the global downturn of leather goods, with an additional 12.6% sales orders from its manufacturing customers. It was mainly due to the Group's ability to meet customers' diversified requirements, thanks to its extensive experience and outstanding craftsmanship in the manufacturing, design, research and development of handbags, leather goods and business and travel goods. Apart from the manufacturing advantages, the Group strengthens its sales team by recruiting international staff.

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

Property investment business

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



Management Discussion and Analysis

Financial Review

Revenue

The revenue increased by approximately 17.0% to approximately HK\$1,160.2 million for the six months ended 31 December 2017 from approximately HK\$991.5 million for the six months ended 31 December 2016. This increase was primarily due to the increase in demand from the brand customers and recovery of the retail business.

Cost of sales

Cost of sales of the Group increased by approximately 17.5% to approximately HK\$839.7 million for the six months ended 31 December 2017 from approximately HK\$714.7 million for the six months ended 31 December 2016. The increase in cost of sales was in line with the increase in revenue.

Gross profit and gross profit margin

Gross profit increased by approximately 15.8% to approximately HK\$320.5 million for the six months ended 31 December 2017 from approximately HK\$276.8 million for the six months ended 31 December 2016. Gross profit margin slightly decreased to approximately 27.6% for the six months ended 31 December 2017 when compared with approximately 27.9% for the six months ended 31 December 2016.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 32.4% to approximately HK\$92.0 million for the six months ended 31 December 2017 from approximately HK\$69.5 million for the six months ended 31 December 2016. The increase was primarily attributable to expansion of the retail business.

Administrative expenses

Administrative expenses slightly increased by approximately 0.5% to approximately HK\$106.4 million for the six months ended 31 December 2017 from approximately HK\$105.8 million for the six months ended 31 December 2016.

Management Discussion and Analysis

Income tax expense

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

Hong Kong Profits Tax as applicable to the Group was 16.5% for the six months ended 31 December 2017 and 2016 on the assessable profits arising in Hong Kong during the relevant periods.

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

Macau Complementary Income Tax has not been provided for as the Group has no assessable profit arising in Macau during the six months ended 31 December 2017 (six months ended 31 December 2016: nil).

The effective tax rate of the Group was 9.0% for the six months ended 31 December 2017 (six months ended 31 December 2016: 14.9%). The decrease was due to the non-taxable income of the fair value gain on investment properties and utilisation of tax losses which were not recognised before.

Profit for the Period

Profit for the Period increased by approximately HK\$26.9 million to approximately HK\$143.3 million for the six months ended 31 December 2017 from approximately HK\$116.4 million for the six months ended 31 December 2016. As a percentage of revenue, profit margin ratio achieved approximately 12.4% for the six months ended 31 December 2017 (six months ended 31 December 2016: 11.7%).

Management Discussion and Analysis

Capital expenditure

For the six months ended 31 December 2017, the capital expenditure of the Group amounted to approximately HK\$10.7 million, primarily related to the expansion of retail business and upgrade of manufacturing facilities.

Significant investments

The Group had no significant investments held during the Period.

Material acquisitions and disposals of subsidiaries, associates and joint ventures

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

Treasury policy

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



Cole Haan Spring Summer 2018



Fashion & Joy Spring Summer 2018

Management Discussion and Analysis

Liquidity and financial resources

The liquidity and financial resources position remains strong as the Group continues to adopt a prudent approach in managing its financial resources. The Group's cash and cash equivalents as at 31 December 2017 amounted to approximately HK\$537.8 million (30 June 2017: approximately HK\$595.8 million) which are mainly denominated in Hong Kong dollars, Renminbi, and United States dollars. The Group has sufficient financial resources and a strong cash position for satisfying working capital requirements for business development, operations and capital expenditure. New investment opportunities, if any, would be funded by the Group's internal resources. The Group had no bank or other borrowings as at 31 December 2017 and 30 June 2017 and hence no gearing ratio is presented.

Foreign exchange risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. During the six months ended 31 December 2017, 85.4% (30 June 2017: 89.4%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the transaction, whilst approximately 67.3% (year ended 30 June 2017: 61.3%) of costs were denominated in the units' functional currency. As at 31 December 2017, the Group had no foreign exchange forward contracts and other financial derivatives outstanding (30 June 2017: nil).

Pledge of Assets

As at 31 December 2017, approximately HK\$23.3 million time deposits were pledged as securities for banking facilities granted to the Group (30 June 2017: approximately HK\$22.8 million).

Management Discussion and Analysis

Inventory turnover days

Inventory turnover days decreased to 61 days for the six months ended 31 December 2017 from 71 days for the year ended 30 June 2017. The decrease in inventory turnover days was mainly due to the increase in cost of sales as a result of recovery of both retail business and manufacturing business.

Trade receivables turnover days

Trade receivables turnover days increased to 60 days for the six months ended 31 December 2017 compared with 55 days for the year ended 30 June 2017. The increase in trade receivables turnover days was mainly due to the increase in average trade receivables. The Group did not experience any significant credit risk due to strict credit control policies.

Trade payables turnover days

Trade payables turnover days slightly decreased to 54 days for the six months ended 31 December 2017 compared with 55 days for the year ended 30 June 2017.

Off-balance sheet commitments and arrangements and contingent liabilities

As at 31 December 2017, the Group did not have any material off-balance sheet commitments and arrangements. The Group did not have any contingent liabilities as at 31 December 2017.

Management Discussion and Analysis

Employees

As at 31 December 2017, the Group had about 8,400 employees. In addition to the basic salaries, performance bonuses will be offered to those staff members with good performance. The PRC subsidiaries of the Group are subject to social insurance, provident housing fund and certain other employee benefits in accordance with the PRC laws and regulations and adhere to both statutory employment standards and those requested by customers, such as minimum wage levels and maximum working hours. Moreover, the Group provides staff quarters for most employees and, in case of certain senior employees, family quarters. The Group also provides various amenities and recreation facilities such as canteen, sports site, library and internet centre for the employees. The Group will continue to improve the working environment in the manufacturing facilities and the living facilities for the employees. The Directors believe that the remuneration packages and fringe benefits offered by the Group to its staff members are competitive in comparison with market standards and practices. Since human resource management is an important factor in maintaining and further enhancing the Group's strong expertise and know-how in the craftsmanship of handbags, small leather goods and travel goods, the in-house employee training centre provides pre-job training programs to the new recruits before they are assigned to work at the manufacturing facilities of the Group. From time to time, different levels of on-the-job training will be provided to the employees to broaden their skills and enhance their productivity.

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

Management Discussion and Analysis

Dividend, Record and Payment Dates

The Directors have declared an interim dividend of HK6 cents (six months ended 31 December 2016: HK6 cents) per share to the shareholders for the six months ended 31 December 2017 in recognition of their continuous support. The interim dividend will be paid to shareholders whose names appear on the register of members of the Company on Thursday, 29 March 2018. It is expected that the interim dividend will be paid on or before Friday, 20 April 2018.

Closure of Register of Members

The register of members of the Company will be closed on Wednesday, 28 March 2018 and Thursday, 29 March 2018, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all completed transfer documents, accompanied by relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301-04, 33/F, Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong, for registration not later than 4:00 p.m. on Tuesday, 27 March 2018.



Kenneth Cole Spring Summer 2018

Corporate Governance and Other Information

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

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which had been notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules") were as follows:

(a) Long positions

Name of Director	Capacity/ Nature of interest	Number of ordinary shares of the Company interested	Number of underlying ordinary shares of the Company interested pursuant to share options	Approximate percentage of the Company's issued shares
Mr. Yeung Michael Wah Keung	Beneficial owner/ personal interest	445,220,000	–	44.45%
Mr. Yeung Wo Fai	Beneficial owner/ personal interest	238,580,000	–	23.82%
Mr. Lau Kin Shing, Charles	Beneficial owner/ personal interest	50,000	1,544,000	0.15%
Mr. Chan Ka Dig Adam (resigned with effect from 27 July 2017)	Beneficial owner/ personal interest	–	1,799,000	0.18%

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

Corporate Governance and Other Information

(b) Rights to acquire shares of the Company

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

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

Save as disclosed above, as at 31 December 2017, none of the Directors or chief executive of the Company had registered an interest or a short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders’ and Other Persons’ Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 31 December 2017, so far as the Directors were aware, no person (other than the Directors or chief executive of the Company as disclosed above) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Corporate Governance and Other Information

Directors' and relevant employees' securities transactions

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

Specific enquiry has been made with all Directors and all Directors have confirmed that they had fully complied with the required standard set out in the Model Code for the six months ended 31 December 2017.

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

No incident of non-compliance with these guidelines by the relevant employees for the six months ended 31 December 2017 was noted by the Company.

Change in Director's information

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

Mr. Yeung Chi Tat resigned as financial controller and company secretary of Dynasty Fine Wines Group Limited, a company whose shares are listed on the Main Board of the Stock Exchange, with effect from 1 January 2018. He is currently a fellow member of the Institute of Chartered Accountants in England and Wales.

Corporate Governance

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

Corporate Governance and Other Information

The Board adopted a set of corporate governance practices which aligns with or is more restrictive than the requirements set out in the Corporate Governance Code (the “CG Code”) set out in Appendix 14 to the Listing Rules. The Board is of the view that the Company has complied with the code provisions set out in the CG Code for the six months ended 31 December 2017.

Audit Committee

The Company established an audit committee with written terms of reference in compliance with the CG Code. The primary duties of the audit committee are to review and supervise the financial reporting process and risk management over financial reporting system and internal control systems of the Group. The audit committee comprises Mr. Yeung Chi Tat (Chairman), Mr. Kwan Po Chuen, Vincent and Mr. Lung Hung Cheuk, all of whom are independent non-executive Directors. The interim condensed consolidated financial statements for the six months ended 31 December 2017 have not been audited, but the audit committee has discussed with the management of the Company and the external auditors, Ernst & Young, on the appropriateness and consistency of the accounting policies that have been adopted by the Company. In addition, Ernst & Young has performed certain agreed upon procedures in accordance with the request of the audit committee regarding the interim results and the interim report for the six months ended 31 December 2017 and reported to the audit committee accordingly. The audit committee has reviewed the interim results and the interim report of the Group for the six months ended 31 December 2017.

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

There was no purchase, sale or redemption of the Company’s listed securities by the Company or any of its subsidiaries during the six months ended 31 December 2017.

Share Option Scheme

A share option scheme was approved and adopted by shareholders of the Company on 15 November 2011 (the “Share Option Scheme”) to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants of the scheme. During the six months ended 31 December 2017, share options conditionally granted to subscribe for 1,799,000 ordinary shares of HK\$0.10 each of the Company lapsed under the Share Option Scheme. Accordingly, share options to subscribe for 4,500,000 ordinary shares of HK\$0.10 each of the Company were outstanding as at 31 December 2017.

Corporate Governance and Other Information

As at 31 December 2017, share options to subscribe for 3,006,000 ordinary shares of HK\$0.10 each of the Company have been vested and 3,006,000 ordinary shares are issuable for the outstanding share options granted under the Share Option Scheme.

Details of the movements of the share options under the Share Option Scheme during the six months ended 31 December 2017 are as follows:

				Number of Share Options					
Grantees	Date of Grant	Exercise Price	Exercise Period	Balance as at 1 July 2017	Granted during the Period	Exercised during the Period	Cancelled during the Period	Lapsed during the Period	Balance as at 31 December 2017
<i>Directors:</i>									
Mr. Lau Kin Shing, Charles	21 September 2015	HK\$3.84	21 September 2016 to 20 September 2025 (i)	1,544,000	-	-	-	-	1,544,000
Mr. Chan Ka Dig Adam (resigned with effect from 27 July 2017)	21 September 2015	HK\$3.84	21 September 2016 to 20 September 2025 (i)	1,799,000	-	-	-	(1,799,000)	-
Sub-total:				3,343,000	-	-	-	(1,799,000)	1,544,000
Eligible employees (i)	21 September 2015	HK\$3.84	21 September 2016 to 20 September 2025 (i)	2,956,000	-	-	-	-	2,956,000
Grand Total:				6,299,000	-	-	-	(1,799,000)	4,500,000

Notes:

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

Corporate Governance and Other Information

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

Share options	Vesting period	Exercise period
One-third of share options (rounded up to the nearest 1,000 share options)	21 September 2015 to 20 September 2016	21 September 2016 to 20 September 2025
One-third of share options (rounded up to the nearest 1,000 share options)	21 September 2015 to 20 September 2017	21 September 2017 to 20 September 2025
Remaining share options	21 September 2015 to 20 September 2018	21 September 2018 to 20 September 2025

- (iii) The values of share options are subject to (i) subjectivity and uncertainty relating to the assumptions to which such values are subject; and (ii) limitation of the model used to estimate such values. The fair value of share options as at the date of grant, its calculation and the model and assumptions used to estimate the fair value are set out in note 14 to the interim condensed consolidated financial statements.

Except as disclosed above, no share option lapsed or was granted, exercised or cancelled under the Share Option Scheme during the six months ended 31 December 2017.

Board of Directors

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

By order of the Board
Sitoy Group Holdings Limited

Yeung Michael Wah Keung
Chairman

Hong Kong, 26 February 2018

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 31 December 2017

		For the six months ended 31 December	
	Notes	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
REVENUE	4	1,160,170	991,526
Cost of sales		(839,692)	(714,718)
Gross profit		320,478	276,808
Other income and gains	4	51,012	36,194
Selling and distribution expenses		(92,001)	(69,467)
Administrative expenses		(106,403)	(105,828)
Other expenses		(15,613)	(923)
PROFIT BEFORE TAX	5	157,473	136,784
Income tax expense	6	(14,158)	(20,360)
PROFIT FOR THE PERIOD		143,315	116,424
Attributable to:			
Owners of the Company		144,699	116,424
Non-controlling interests		(1,384)	–
		143,315	116,424
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted			
– For profit for the period (HK cents)	8	14.45	11.62

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

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 31 December 2017

	For the six months ended 31 December	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
PROFIT FOR THE PERIOD	143,315	116,424
OTHER COMPREHENSIVE INCOME/(EXPENSE)		
Exchange differences on translation of foreign operations	41,922	(51,186)
OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD, NET OF TAX	41,922	(51,186)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	185,237	65,238
Attributable to:		
Owners of the Company	186,621	65,238
Non-controlling interests	(1,384)	–
	185,237	65,238

Interim Condensed Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	460,446	462,572
Investment properties		609,556	571,556
Prepaid land lease payments		17,398	16,966
Intangible asset		5,734	5,734
Deferred tax assets		24,343	20,613
Prepayments		477	364
Total non-current assets		1,117,954	1,077,805
CURRENT ASSETS			
Inventories		289,408	239,023
Trade receivables	10	436,407	322,516
Prepayments, deposits and other receivables		72,297	42,043
Prepaid income tax		12,166	–
Pledged deposits		23,303	22,798
Time deposit with original maturity of more than three months		35,889	34,565
Cash and cash equivalents		537,807	595,820
Total current assets		1,407,277	1,256,765
CURRENT LIABILITIES			
Trade payables	11	192,272	156,044
Other payables and accruals		125,155	97,949
Tax payable		12,197	15,476
Total current liabilities		329,624	269,469
NET CURRENT ASSETS		1,077,653	987,296
TOTAL ASSETS LESS CURRENT LIABILITIES		2,195,607	2,065,101

Interim Condensed Consolidated Statement of Financial Position

As at 31 December 2017

	Note	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
NON-CURRENT LIABILITY			
Deferred tax liability		2,449	2,503
Total non-current liability		2,449	2,503
Net assets		2,193,158	2,062,598
EQUITY			
Share capital	12	100,153	100,153
Reserves		2,089,389	1,962,445
Equity attributable to owners of the Company			
		2,189,542	2,062,598
Non-controlling interests		3,616	–
Total equity		2,193,158	2,062,598

Yeung Michael Wah Keung
Director

Yeung Wo Fai
Director

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2017

	Attributable to owners of the Company										
	Share capital	Share premium account*	Share option reserve*	Merger reserve*	Statutory reserve fund*	Asset revaluation reserve*	Exchange fluctuation reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2017	100,153	1,010,081	5,479	4,030	59,296	24,688	(80,186)	919,057	2,062,598	-	2,062,598
Profit/(loss) for the period	-	-	-	-	-	-	-	144,699	144,699	(1,384)	143,315
Other comprehensive income for the period:											
Exchange differences on translation of foreign operations	-	-	-	-	-	-	41,922	-	41,922	-	41,922
Total comprehensive income/(expenses) for the period	-	-	-	-	-	-	41,922	144,699	186,621	(1,384)	185,237
Capital contribution from a non-controlling shareholder	-	-	-	-	-	-	-	-	-	5,000	5,000
Dividends	-	-	-	-	-	-	-	(80,092)	(80,092)	-	(80,092)
Equity-settled share option arrangement	-	-	415	-	-	-	-	-	415	-	415
Transfer of share option reserve upon the lapse of share options	-	-	(1,634)	-	-	-	-	1,634	-	-	-
Transfer from retained profits	-	-	-	-	930	-	-	(930)	-	-	-
At 31 December 2017 (unaudited)	100,153	1,010,081	4,260	4,030	60,226	24,688	(18,264)	1,004,368	2,189,542	3,616	2,193,158

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 31 December 2017

	Attributable to owners of the Company							
	Share capital HK\$'000	Share premium account* HK\$'000	Share option reserve* HK\$'000	Merger reserve* HK\$'000	Statutory reserve fund* HK\$'000	Exchange fluctuation reserve* HK\$'000	Retained profits* HK\$'000	Total HK\$'000
At 1 July 2016	100,153	1,010,081	3,538	4,030	57,158	(45,600)	1,050,202	2,179,562
Profit for the period	-	-	-	-	-	-	116,424	116,424
Other comprehensive expense for the period:								
Exchange differences on translation of foreign operations	-	-	-	-	-	(51,186)	-	(51,186)
Total comprehensive (expense)/ income for the period	-	-	-	-	-	(51,186)	116,424	65,238
Dividends	-	-	-	-	-	-	(280,429)	(280,429)
Equity-settled share option arrangements	-	-	1,210	-	-	-	-	1,210
Transfer of share option reserve upon the lapse of share options	-	-	(432)	-	-	-	432	-
Transfer from retained profits	-	-	-	-	2,231	-	(2,231)	-
At 31 December 2016 (unaudited)	100,153	1,010,081	4,316	4,030	59,389	(96,786)	884,398	1,965,581

* These reserve accounts comprise the consolidated reserves of HK\$2,089,389,000 (31 December 2016: HK\$1,865,428,000) in the interim condensed consolidated statement of financial position.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2017

	For the six months ended 31 December	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	157,473	136,784
Total adjustments	(13,272)	17,890
Total working capital adjustments	(113,678)	(16,770)
Cash generated from operations	30,523	137,904
Hong Kong profits tax paid	(33,157)	(55,455)
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	(2,634)	82,449
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of items of property, plant and equipment	790	44
Purchase of items of property, plant and equipment	(11,906)	(6,527)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(11,116)	(6,483)

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 31 December 2017

	For the six months ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(60,092)	(280,429)
(Increase)/decrease in pledged deposits	(505)	560
Capital contribution from a non-controlling shareholder	5,000	–
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(55,597)	(279,869)
NET DECREASE IN CASH AND CASH EQUIVALENTS		
	(69,347)	(203,903)
Cash and cash equivalents at beginning of the period	595,820	830,572
Effect of foreign exchange rate changes, net	11,334	(9,881)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	537,807	616,788

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

1. Corporate information

Sitoy Group Holdings Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 21 February 2008 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The registered office address of the Company is Grand Pavilion, Hibiscus Way, 802 West Bay Road, P.O. Box 311119, KY1-1205, Cayman Islands. In the opinion of the Directors, the controlling shareholders of the Company are Mr. Yeung Michael Wah Keung and Mr. Yeung Wo Fai.

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

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

2.1 Basis of Preparation

The interim condensed consolidated financial statements for the six months ended 31 December 2017 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 30 June 2017.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

2.2 Significant Accounting Policies

The accounting policies and basis of preparation adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2017, except for the adoption of revised International Financial Reporting Standards ("IFRSs") as noted below.

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

Amendments to IAS 7	<i>Disclosure Initiative</i>
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to IFRS 12 included in <i>Annual Improvements 2014-2016 Cycle</i>	<i>Disclosure of Interests in Other Entities</i>

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

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

3. Operating Segment Information

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

- (a) Retail: manufactures, retails and wholesales handbags, small leather goods, travel goods, footwear and fashion products for the brands owned or licensed by the Group, and provision of handbag and accessories design, advertising and marketing services;
- (b) Manufacturing: produces handbags, small leather goods and travel goods for branding and resale by others; and
- (c) Property investment: invests in office space for its rental income or capital appreciation purpose.

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

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

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

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

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

3. Operating Segment Information (continued)

For the six months ended 31 December 2017 (unaudited)

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

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

3. Operating Segment Information (continued)

For the six months ended 31 December 2016 (unaudited)

	Retail HK\$'000	Manufacturing HK\$'000	Property investment HK\$'000	Total HK\$'000
Segment revenue:				
Sales to external customers	72,264	914,858	4,404	991,526
Intersegment sales	–	29,147	–	29,147
	72,264	944,005	4,404	1,020,673
<i>Reconciliation:</i>				
Elimination of intersegment sales	–	(29,147)	–	(29,147)
Total revenue				991,526
Segment results				
	(4,241)	138,716	17,456	151,931
<i>Reconciliation:</i>				
Corporate and other unallocated expenses, net				(15,147)
Profit before tax				136,784
Other segment information:				
Depreciation of items of property, plant and equipment	3,264	19,189	–	22,453
Unallocated depreciation of items of property, plant and equipment	–	–	–	1,275
				23,728
Amortization of prepaid land lease payments	–	207	–	207
Write-down of inventories to net realizable value	3,118	4,591	–	7,709
Operating lease rentals	14,680	2,599	–	17,279
Capital expenditure*	1,919	2,863	–	4,782

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

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

3. Operating Segment Information (continued)

The following table compares the total segment assets and liabilities as at 31 December 2017 and as at the date of the last annual financial statements (30 June 2017).

As at 31 December 2017 (unaudited)

	Retail HK\$'000	Manufacturing HK\$'000	Property investment HK\$'000	Total HK\$'000
Segment assets	290,932	2,282,131	626,244	3,199,307
<i>Reconciliation:</i>				
Elimination of intersegment receivables				(868,564)
Corporate and other unallocated assets				194,488
Total assets				2,525,231
Segment liabilities	347,051	286,272	567,029	1,200,352
<i>Reconciliation:</i>				
Elimination of intersegment payables				(868,564)
Corporate and other unallocated liabilities				285
Total liabilities				332,073

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

3. Operating Segment Information (continued)

As at 30 June 2017 (audited)

	Retail HK\$'000	Manufacturing HK\$'000	Property investment HK\$'000	Total HK\$'000
Segment assets	158,708	2,113,220	550,150	2,822,078
<i>Reconciliation:</i>				
Elimination of intersegment receivables				(681,597)
Corporate and other unallocated assets				194,089
Total assets				2,334,570
Segment liabilities	127,439	258,734	566,822	952,995
<i>Reconciliation:</i>				
Elimination of intersegment payables				(681,597)
Corporate and other unallocated liabilities				574
Total liabilities				271,972

Geographical information

(a) Revenue from external customers

	For the six months ended 31 December	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue		
North America	340,191	382,535
Europe	268,982	252,284
Mainland China, Hong Kong, Macau and Taiwan	308,774	188,302
Other Asian countries	188,823	135,811
Others	53,400	32,594
	1,160,170	991,526

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

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

3. Operating Segment Information (continued)

Geographical information (continued)

(b) *Non-current assets*

	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
Mainland China, Hong Kong and Macau	1,093,611	1,057,192

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

Information about major customers

For the six months ended 31 December 2017, revenue derived from sales by the manufacturing segment to one major customer amounting to HK\$224,084,000 (unaudited) had accounted for over 10% of the Group's revenue, including sales to a group of entities which are known to be under common control of the customer.

For the six months ended 31 December 2016, revenue derived from sales by the manufacturing segment to two major customers respectively amounting to HK\$176,509,000 (unaudited) and HK\$143,228,000 (unaudited) had accounted for over 10% of the Group's revenue, including sales to a group of entities which are known to be under common control of these customers.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

4. Revenue, Other Income and Gains

Revenue represents the net invoiced value of goods sold, after allowances for returns, trade discounts and various types of government surcharges, where applicable; and gross rental income received and receivable from investment property during the period.

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

	For the six months ended 31 December	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue		
Sale of goods	1,154,733	987,122
Gross rental income	5,437	4,404
	1,160,170	991,526
Other income and gains		
Fair value gain on investment properties	37,259	16,000
Net sample and material income	4,338	2,776
Interest income	4,057	3,852
Exchange gain, net	–	12,554
Government grants (note i)	3,927	–
Others	1,431	1,012
	51,012	36,194

Note:

- (i) Government grants represented the Guangdong High-Tech Company Breed Fund granted to the Group by the Guangdong Province Government.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

5. Profit Before Tax

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

	For the six months ended 31 December	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Cost of inventories sold	839,692	714,718
Employee benefit expense including		
Directors' remuneration		
– Wages and salaries	312,357	278,973
– Pension scheme contributions	11,421	9,995
– Equity-settled share option expense	415	1,210
	324,193	290,178
Depreciation of items of property, plant and equipment	23,424	23,728
Amortization of prepaid land lease payments	213	207
Operating lease rentals	25,001	17,279
Write-down of inventories to net realizable value	4,296	7,709
Auditors' remuneration	800	800
Exchange loss/(gain), net	12,753	(12,554)

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

6. Income Tax Expense

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

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

Hong Kong profits tax has been provided at the rate of 16.5% (six months ended 31 December 2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the reporting period.

Macau Complementary Income Tax has not been provided for as the Group has no assessable profit arising in Macau during the six months ended 31 December 2017 (six months ended 31 December 2016: nil).

The provision for PRC corporate income tax is based on a statutory rate of 25% (six months ended 31 December 2016: 25%) of the assessable profit of the subsidiaries in Mainland China as determined in accordance with the PRC Corporate Income Tax Law for the six months ended 31 December 2017.

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

	For the six months ended 31 December	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Current – Hong Kong		
Charge for the period	10,460	16,310
Current – Mainland China		
Charge for the period	6,924	5,346
Deferred tax	(3,226)	(1,296)
Total tax charged for the period	14,158	20,360

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

7. Dividends

	For the six months ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
.....		
Dividends on ordinary shares declared and paid during the six-month period:		
Final dividend for the year ended 30 June 2017: HK6 cents per ordinary share (year ended 30 June 2016: HK13 cents)	60,092	130,199
Special dividend for the year ended 30 June 2017: nil (year ended 30 June 2016: HK15 cents)	–	150,230
.....		
	60,092	280,429
Dividends on ordinary shares declared (not recognized as a liability as at 31 December):		
Interim dividend – HK6 cents per ordinary share (six months ended 31 December 2016: HK6 cents)	60,092	60,092
.....		

On 26 February 2018, the Board of Directors of the Company resolved to propose an interim dividend for the six months ended 31 December 2017 of HK6 cents (six months ended 31 December 2016: HK6 cents) per ordinary share out of the consolidated retained profits of the Group as at 31 December 2017.

8. Earnings Per Share

The calculation of the basic earnings per share amount is based on the profit for the six months ended 31 December 2017 attributable to owners of the Company, and the weighted average number of ordinary shares of 1,001,532,000 (six months ended 31 December 2016: 1,001,532,000) in issue during the six months ended 31 December 2017.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

8. Earnings Per Share (continued)

For the six months ended 31 December 2017, the calculation of diluted earnings per share did not assume the exercise of the Company's outstanding share options as the exercise price of those options was higher than the average market price of the shares of the Company (six months ended 31 December 2016: nil).

9. Property, Plant and Equipment

During the six months ended 31 December 2017, the Group acquired property, plant and equipment with a cost of HK\$10,719,000 (six months ended 31 December 2016: HK\$4,782,000).

During the six months ended 31 December 2017, depreciation for property, plant and equipment was HK\$23,424,000 (six months ended 31 December 2016: HK\$23,728,000).

During the six months ended 31 December 2017, property, plant and equipment with a net book value of HK\$1,280,000 (six months ended 31 December 2016: HK\$1,080,000) were disposed, resulting in a net loss on disposal of HK\$490,000 (six months ended 31 December 2016: HK\$1,036,000).

10. Trade Receivables

	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
Trade receivables	436,911	323,020
Impairment	(504)	(504)
	436,407	322,516

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

10. Trade Receivables (continued)

The Group's trading terms with its customers are mainly on credit. The Group grants different credit periods to customers. The credit terms range from telegraphic transfers before shipment, letters of credit at sight to 90 days and telegraphic transfers within 14 to 105 days. The credit period of individual customers is considered on a case-by-case basis. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimize credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade receivables approximate to their fair values.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
Within 90 days	424,000	294,804
91 to 180 days	6,888	22,740
Over 180 days	5,519	4,972
	436,407	322,516

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

	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
At beginning and ending of period/year	504	504

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

10. Trade Receivables (continued)

As at 31 December 2017, included in the above provision for impairment of trade receivables was a provision for an individually impaired trade receivable of HK\$504,000 (30 June 2017: HK\$504,000) with a carrying amount before provision of HK\$561,000 (30 June 2017: HK\$561,000).

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

An aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
Neither past due nor impaired	360,864	204,989
Past due but not impaired:		
Less than 90 days	69,021	106,427
91 to 180 days	6,109	10,484
Over 180 days	356	559
	436,350	322,459

Receivables that were neither past due nor impaired relate to a large number of diversified customers with no recent history of default.

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

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

11. Trade Payables

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

	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
Within 90 days	179,118	143,122
91 to 180 days	9,017	9,479
181 to 365 days	851	479
Over 365 days	3,286	2,964
	192,272	156,044

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.

12. Share Capital

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

Shares:

	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
Issued and fully paid: 1,001,532,000 (30 June 2017: 1,001,532,000) ordinary shares	100,153	100,153

There was no movement of the Company's share capital during the six months ended 31 December 2017 and 2016.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

13. Contingent Liabilities

The Group had no significant contingent liabilities as at 31 December 2017 (30 June 2017: nil).

14. Share-Based Payments

In September 2015, 7,609,000 share options were granted to senior staff under a share option scheme. The exercise price of the options of HK\$3.84 was equal to the market price of the shares on the date of grant. Vesting of the options is conditional upon the fulfilment of vesting considerations as determined by the directors. The fair value at grant date is estimated using a binomial pricing model, taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is ten years. There is no cash settlement of the options. The fair value of options was estimated on the date of grant using the following assumptions:

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

The fair value of the share options granted in 2015 was HK\$7,983,000 (HK\$1.05 each), of which the Group recognized a share option expense of HK\$415,000 for the six months ended 31 December 2017 (six months ended 31 December 2016: HK\$1,210,000).

At the date of approval of these interim condensed consolidated financial statements, the Company had 4,500,000 share options outstanding under the Share Option Scheme, which represented approximately 0.45% of the Company's shares in issue as at that date.

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

15. Operating Lease Arrangements

(a) As lessor

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to four years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
Within one year	9,423	9,307
In the second to fourth years, inclusive	6,139	6,838
	15,562	16,145

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For the six months ended 31 December 2017

15. Operating Lease Arrangements (continued)

(b) As lessee

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

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

	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
Within one year	30,354	20,591
In the second to fifth years, inclusive	10,348	8,167
	40,702	28,758

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 Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

16. Commitments

In addition to the operating lease commitments detailed in note 15 above, the Group had the following capital commitments at the end of the reporting period:

	As at 31 December 2017 HK\$'000 (Unaudited)	As at 30 June 2017 HK\$'000 (Audited)
Contracted, but not provided for:		
Property, plant and equipment	209	168

17. Related Party Transactions

(a) In addition to the transactions detailed elsewhere in these interim condensed consolidated financial statements, the Group had the following transactions with related parties during the six months ended 31 December 2017:

	For the six months ended 31 December	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Property lease from a company of which a Director of the Company is a controlling shareholder		
Golden Palace Corporation Limited	1,200	1,200
Maxon Properties Limited	1,200	1,200
	2,400	2,400

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

Notes to Interim Condensed Consolidated Financial Statements

For the six months ended 31 December 2017

17. Related Party Transactions (continued)

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

	For the six months ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short term employee benefits	5,794	5,272
Post-employment benefits	53	79
Equity-settled share option expense	188	332
Total compensation paid to key management personnel	6,035	5,683

18. Events After the Reporting Period

There was no significant event that took place after the reporting period and up to the date of the interim condensed consolidated financial statements.

19. Approval of the Interim Condensed Consolidated Financial Statements

The interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on 26 February 2018.