
REGULATORY OVERVIEW

Set forth below are summaries of all material regulatory requirements that our Group is subject to in each of the jurisdictions in which we operate.

LAWS AND REGULATIONS RELATING TO FOREIGN INVESTED ENTERPRISES

The establishment and organizational structure of companies in the PRC are governed by the Company Law of the PRC (中華人民共和國公司法) (the “Company Law”) which was enacted by the Standing Committee of the National People’s Congress of the PRC (全國人民代表大會常務委員會) (the “Standing Committee of NPC”) and was first implemented on 1 July 1994. The currently effective Company Law was amended by the Standing Committee of NPC on 27 October 2005 and was implemented on 1 January 2006. The Company Law provides, among other things, the establishment, organizational structure, corporate management of companies, qualifications and obligations of company directors, supervisors and senior officers. The Company Law also applies to foreign-invested limited liability companies and companies limited by shares, unless otherwise provided in laws on foreign investment, in which case such provisions shall apply.

According to the Guidance Catalogue of Industries for Foreign Investment (Amended in 2007) (外商投資產業指導目錄 (2007年修訂)), which was promulgated on 31 October 2007 and came into force on 1 December 2007, the area of the manufacturing and sale of handbag, small leather goods and travel goods belongs to the Catalogue of Permitted Foreign Investment Industries, which means that foreign investors may invest in this area.

Wholly foreign-owned enterprises are also governed by the Law on Wholly Foreign-Owned Enterprises of the PRC (中華人民共和國外資企業法) (the “Wholly Foreign-Owned Enterprise Law”) and its implementation rules. The currently effective Wholly Foreign-Owned Enterprise Law was adopted by the Standing Committee of the NPC on 31 October 2000. The establishment procedures, registration procedures, registered capital and corporate structures of wholly foreign-owned enterprises are regulated by the abovementioned laws and regulations. The Ministry of Commerce or the relevant local authorities are responsible for approving the establishment of wholly foreign-owned enterprises and other changes to the enterprises, such as changes in capital, equity transfer and consolidation.

LAWS AND REGULATIONS RELATING TO TAXATION

The PRC subsidiaries of our Group shall pay tax in accordance with the PRC laws relating to taxation.

Corporate income tax

On 1 January 2008, the Income Tax Law for Enterprises with Foreign Investment and Foreign Enterprises of the PRC (中華人民共和國外商投資企業和外國企業所得稅法) was abolished and the PRC Corporate Income Tax Law, or CIT Law, promulgated on 16 March 2007, became effective. Save as any preferential treatment provided under the PRC laws and regulations, domestic enterprises and foreign-invested enterprises shall be subject to a unified applicable enterprise income tax rate of 25%. Pursuant to the PRC Corporate Income Tax Law, enterprises are divided into resident enterprises and non-resident enterprises. A resident enterprise refers to an enterprise that is established inside the PRC, or which is established under the law of a foreign country (region) but whose actual management organization is inside the PRC. A non-resident enterprise refers to an enterprise established under the law of a foreign country (region), whose actual management organization is not inside the PRC but which has

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offices or establishments inside the PRC; or which does not have any offices or establishments inside the PRC but has incomes sourced in the PRC. A resident enterprise shall pay the enterprise income tax on its incomes derived from both inside and outside the PRC at the rate of 25%. A non-resident enterprise having offices or establishments inside the PRC shall pay enterprise income tax on its incomes derived from the PRC and incomes derived from outside the PRC but which has actual connection with the said offices or establishments at the rate of 25%. A non-resident enterprise which has no office or establishment inside the PRC, or whose income has no actual connection with its office or establishment inside the PRC shall pay enterprise income tax on the incomes derived from the PRC at the rate of 20%.

For those enterprises that were established prior to the promulgation of the PRC Corporate Income Tax Law and enjoyed lower tax rates according to the provisions of the previous tax laws and regulations, their income tax rates shall, according to the stipulations of the State Council, be gradually transferred to the tax rate provided in the PRC Corporate Income Tax Law within five years after the PRC Corporate Income Tax Law is promulgated. Those enterprises are exempt from paying income tax for a period of two years starting from the year when they begin to make a profit or 1 January 2008, whichever is earlier, and thereafter enjoy a half tax payment reduction for the following three years. The enterprises that have enjoyed the preferential treatment of tax exemption for a fixed term may, according to the stipulations of the State Council, continue to enjoy such treatment after the promulgation of the PRC Corporate Income Tax Law until the fixed term expires. However, for those that have failed to enjoy the preferential treatment due to failure to make profits, the term of preferential treatment may be counted as of the year when the PRC Corporate Income Tax Law is promulgated.

Withholding tax

The PRC Corporate Income Tax Law prescribes a standard withholding tax rate of 20% on dividends and other PRC-sourced passive income of non-resident enterprises. However, the implementation rules of the PRC Corporate Income Tax Law reduced the rate from 20% to 10%, effective from 1 January 2008.

The PRC government and the Hong Kong government signed Arrangement between the Mainland of the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排) on 21 August 2006 (the “Arrangement”). According to the Arrangement, no more than 5% withholding tax rate applies to dividends paid by a PRC company to a Hong Kong tax resident, provided that the recipient is a company that directly holds at least 25% of the capital of the PRC company.

Value-added tax

The Provisional Regulation concerning value-added tax of the PRC (中華人民共和國增值稅暫行條例) was promulgated by the State Council on 13 December 1993 and revised on 5 November 2008. Under this regulation and its implementing rule, value-added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC. The value-added tax in general is at the rate of 17% for goods sold or imported by taxpayers. Small-scale taxpayers are subject to value-added tax rate of 3%. For certain specified categories of goods sold or imported by taxpayers, the value-added tax rate is 13%.

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On 3 June 2009, the Ministry of Finance and the State Administration of Taxation issued the Circular on the improvement of the export tax rebate rate of certain commodities (Caishui (2009) No. 88) (關於進一步提高部分商品出口退稅率的通知(財稅(2009)88號), which came into effect on 1 June 2009. Under such notice, the export tax rebate rate for bags and cases has been increased to 15%.

Real property tax

Pursuant to the Interim Regulation on Real Property Tax of the PRC (中華人民共和國房產稅暫行條例) promulgated by the State Council on 15 September 1986 (the “Interim Regulation on Real Property Tax”), the real property tax is payable by the real property owners on the remaining value of the original price of the property after an one-off deduction of 10% to 30% of its price. The tax rates of real property will be 1.2% if the tax is levied on the remaining value of the real property or 12% if the tax is levied on the rental income of the real property. Pursuant to the Notice Concerning Relevant Issues of Levy of Real Property Tax from Foreign Enterprises and Foreign Individuals (關於對外資企業及外籍個人徵收房產稅有關問題的通知) jointly issued by the Ministry of Finance of the PRC (中華人民共和國財政部) and State Administration of Taxation (國家稅務總局) on 12 January 2009 and the 546th Order issued by the State Council on 31 December 2008, the Provisional Urban Real Property Tax Regulation (城市房地產稅暫行條例) was repealed with effect from 1 January 2009. Foreign-invested enterprises, foreign enterprises and organizations and foreign individuals (including enterprises and organizations with Hong Kong, Macau and Taiwan investments and overseas Chinese, compatriots from Hong Kong, Macau and Taiwan, collectively known as foreign enterprises and foreign individuals) shall pay real property tax by reference to Interim Regulation on Real Property Tax.

REGULATIONS ON DIVIDEND DISTRIBUTION

The principal laws and regulations governing distribution of dividends paid by domestic companies and wholly foreign-owned enterprises include (i) the Company Law; and (ii) Wholly Foreign-Owned Enterprise Law and implementation regulations. Under the above laws and regulations, domestic companies and wholly foreign-owned enterprises in the PRC may pay dividends only from accumulated after-tax profits. In addition, such enterprises are required to allocate at least 10% of their after-tax profits each year, if any, to their statutory common reserve, until the accumulated amount reaches 50% of the registered capital of such enterprises. The statutory common reserve is not distributable as cash dividends. Under the relevant PRC law, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

LAWS RELATING TO FOREIGN EXCHANGE

The principal law governing foreign currency exchange in the PRC is the Regulation on Foreign Exchange Administration of the PRC (中華人民共和國外匯管理條例) (the “Foreign Exchange Rules”). The Foreign Exchange Rules was first enacted by the State Council on 29 January 1996. On 1 August 2008, the State Council amended the Foreign Exchange Rules. Pursuant to the Foreign Exchange Rules, the foreign exchange income of a domestic organization or individual may be transferred back into the PRC or deposited overseas, the specific conditions and term requirements of which shall be determined by the foreign exchange administrative department of the State Council in light of the balance of payments and the foreign exchange administrative requirements. Conversion of RMB and remittance of the foreign currency outside the PRC for capital account items, such as direct equity investments, loans and repatriation of investment, are subject to prior approval from SAFE or its local counterpart.

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LAWS AND REGULATIONS RELATING TO PRODUCT QUALITY

Pursuant to the Product Quality Law of the PRC (中華人民共和國產品質量法), which was promulgated on 22 February 1993 and revised on 8 July 2000, producers shall be liable for the products they produce. Where a defective product causes physical injury to a person or damage to property, the victim may claim compensation against the producer or the seller of such product. If the case is severe enough to constitute a crime, criminal responsibility shall apply.

On 31 October 1993, the Standing Committee of NPC enacted the Law on Protection of Consumers' Rights and Interests of the PRC (中華人民共和國消費者權益保護法), which came to effect on 1 January 1994. The consumers who purchase and use commodities or receive services for daily consumption shall have the protection under the said law. Business operators which provide the commodities manufactured or sold by them or render services to the consumers shall abide by this law. Business operators shall guarantee that commodities and services supplied comply with the requirements of personal and property safety. Business operators shall make compensations if damages occur. Where the case is severe enough to constitute a crime, criminal responsibility shall apply.

LAWS RELATING TO TRADEMARKS

The PRC Trademark Law (中華人民共和國商標法) which was promulgated on 23 August 1982, amended on 22 February 1993 and on 27 October 2001, seeks to improve the administration of trademarks, protect the right to exclusive use of trademarks and encourage producers and operators to guarantee the quality of their goods and services and maintain the reputation of their trademarks, so as to protect the interests of consumers and of producers and operators.

Under this law, any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark: using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a license from the registrant of that trademark; selling the commodities that infringe upon the right to exclusive use of a registered trademark; forging, manufacturing without authorization the marks of a registered trademark of others, or selling the marks of a registered trademark forged or manufactured without authorization; changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; and causing other damage to the right to exclusive use of a registered trademark of another person. In the event of any above mentioned acts which infringe upon the right to the exclusive use of a registered trademark, the infringer would be imposed a fine, ordered to stop the infringement acts immediately, and give the infringed party compensation.

LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

Our operations are subject to PRC environmental laws and regulations, which include the Environmental Protection Law of the PRC (中華人民共和國環境保護法), the Law on Prevention and Control of Atmospheric Pollution of the PRC (中華人民共和國大氣污染防治法), the Law on Prevention and Control of Water Pollution of the PRC (中華人民共和國水污染防治法), the Law on Prevention and Control of Environmental Pollution by Solid Wastes of the PRC (中華人民共和國固體廢物污染環境防治法), the Law on Prevention and Control of Environmental Noise Pollution of the PRC (中華人民共和國環境噪聲污染防治法), the Administrative Regulations on Environmental Protection for Construction Projects (建設項目環境保護管理條例), the Administrative Regulations on Levy and Utilization of Sewage Charge (排污費徵收使用管理條例) and the Law on Appraising of Environment Impacts of the PRC (中華人民共和國環境影響評價法).

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According to the environmental laws and regulations, all business operations that may cause environmental pollution and other public hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These operations must adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of waste gas, liquid and solid waste, dust, malodorous gas, radioactive substances, noise, vibration, and electromagnetic radiation generated in the course of production, construction, or other activities.

According to the environmental laws and regulations, companies are also required to carry out an environmental impact assessment before commencing construction of manufacturing facilities and also must install pollution treatment facilities that meet the relevant environmental standards to treat pollutants before discharge.

If a company fails to report and/or register in respect of any environmental pollution caused by it, it will be warned or subject to penalties. If the company then fails to restore the environment to its original state or improve the environment as affected by the pollution within the time limit, it will be penalized, and its business license may be suspended. Companies or enterprises causing environmental pollutions and hazards are responsible for taking actions to remedy the hazards and consequences caused by the pollutions, and compensation for any loss or damages caused by the environmental pollutions.

Enterprises are required to comply with the applicable national and local environmental laws and regulations.

LAWS AND REGULATIONS RELATING TO LABOR AND SOCIAL INSURANCE

The Standing Committee of NPC promulgated the Labor Law of the PRC (中華人民共和國勞動法), which became effective on 1 January 1995. Pursuant to the Labor Law of the PRC, the State shall implement a system of guaranteed minimum wages. Specific standards on minimum wages shall be stipulated by provincial, autonomous regional and municipal people's governments and reported to the State Council for registration. The employer shall pay laborers wages no lower than local standards on minimum wages.

On 29 June 2007, the Standing Committee of NPC promulgated the PRC Employment Contract Law (中國人民共和國勞動合同法), which became effective on 1 January 2008. The PRC Employment Contract Law contains provisions for the protection of the legitimate rights of employees including the requirement of execution of labor contracts in written form, the stipulation as to circumstances under which employees may be entitled to economic compensation for termination of labor contracts and the imposition of stricter penalties on employers who fail to pay wages or social security premiums for their employees according to the laws and regulations.

According to the Interim Regulation on Collections and Payment of Social Insurance Fund (社會保險費徵繳暫行條例) promulgated and implemented on 22 January 1999 by the State Council and the Regulation on Work-related Injury Insurance (工傷保險條例) implemented on 1 January 2004 by the State Council, the employer shall pay pension insurance fund, basic medical insurance fund, unemployment insurance fund and occupational injury insurance fund for the employees. In addition, we are also subject to other social insurance laws and regulations in the PRC including the Unemployment Insurance Law (失業保險條例) and the Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法).

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According to the Regulations on the Management of Housing Provident Fund (住房公積金管理條例) effective on 3 April 1999 and revised on 24 March 2002, the PRC companies shall go through housing fund registration with the local housing fund administration centers and open housing fund accounts for their employees with banks. A company may be subject to an order to attend to registration within a time limit for failure to comply with the rules in relation to the abovementioned registration and accounts opening. If a company fails to attend to registration within the prescribed time limit, it shall be imposed with a penalty ranging from RMB10,000 to RMB50,000. Where a company fails to pay up housing funds within the time limit, the housing provident fund management centre will order it to make payment within a certain period of time, and if the company still fails to do so, the housing provident fund management centre may apply to the court for enforcement of the unpaid amount.

On 28 October 2010, the Standing Committee of NPC promulgated the PRC Social Insurance Law (中華人民共和國社會保險法), which became effective on 1 July 2011. The PRC Social Insurance Law covers a wide range of social insurance programs, including basic pension insurance, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance, and covers all employing entities within the territory of the PRC and all individuals, including city residents, flexible employment individuals, migrant workers and foreigners working in the PRC. Major provisions include, but are not limited to, the portability of basic pension and health care benefits across different regions in the country, the establishment of a nationwide unified personal social security ID system based on the same identity number for each citizen, the gradual realization of a national pooling fund for the basic pension scheme and a provincial pooling fund for the other social insurance schemes, the coverage of foreigners working in the PRC, enhanced compliance and enforcement measures with regard to a unified collection of social insurance contributions, privacy protection as regards social security information, prevention of the misappropriation of social insurance funds, investment and management of the non-contributory national social security fund (as a strategic reserve for the social insurance schemes).

OVERSEAS REGULATIONS

During the Track Record Period, we did not sell our products directly to overseas retail consumers but instead delivered our products to our overseas customers primarily on free-on-board terms (at PRC ports or Hong Kong ports) in accordance with our overseas customers' specifications. Accordingly, our overseas customers were responsible for the registered customs entries of our products to those overseas countries and they were responsible for ensuring the products meet the relevant overseas laws and regulations (including import duties, product safety and anti-dumping regulations, etc.). Details of our product examination arrangements with respect to our products are disclosed in the paragraph headed "Quality Control" in the section headed "Business" in this prospectus. Accordingly, our Directors do not believe that our Group is exposed to material liabilities as a result of any such regulation once the products we deliver meet our customers' specifications. In addition, during the Track Record Period, we conducted the operations of our business in Hong Kong and the PRC and are not aware of any regulations that are directly applicable to our business in countries outside of these jurisdictions.

However, overseas sales of our products by our customers expose us to possible sales interruptions or cancellations and increased costs in the event of adverse actions by U.S., EU or other foreign government agencies with respect to continued trade or the enactment of legislation that restricts trade. In Fiscal Years 2009, 2010 and 2011, shipments of our products to destinations in North America, primarily the United States, accounted for 71.1%, 72.8% and 68.0%, respectively, of our revenue and Europe accounted for 21.2%, 18.7% and 17.0%, respectively, of our revenues. The United States currently provides the PRC with normal trade relation status, allowing the PRC to receive the same tariff treatment

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that the United States extends to most of its trading partners. Notwithstanding this current policy, the U.S. government could seek to revoke the PRC's normal trade relation status or condition its renewal on factors such as the PRC's human rights record. The administration of existing U.S. trade law could also create adverse consequences for sales by us to our customers. In particular, there are certain provisions under U.S. law that permit the U.S. government to retaliate against certain unfair foreign trading practices. United States and PRC trade relations have been contentious in the recent past, and we cannot predict whether this tension will interfere with our ability of our customers to import our products into the United States in the future. Such action could further increase the costs of imported handbags and small leather goods generally, or limit our ability to sell handbags and small leather goods or such other products to our customers as a result of restrictions on the import of our products by our customers. In addition, if manufacturers or governmental authorities in the United States or the EU were to believe that our products or the products of our competitors were being "dumped" onto the U.S. market at prices lower than the prices of which comparable goods are sold in the domestic market of the exporter, they could request the imposition of anti-dumping duties on our products. For example, leather handbags imported from the PRC have previously been the subject of an anti-dumping duty of 38% imposed by the EU in the past, which expired in August 2002. So far as our Directors are aware, our products were not the subject of any anti-dumping investigation or anti-dumping duties during the Track Record Period. However, there is no assurance that our products would not be subject to the anti-dumping investigations or duties in the future.

We are also unable to predict whether other customs duties, quotas or other restrictions in the United States, EU or any other jurisdictions in which our products are sold by our customers will be imposed in the future upon the importation of our products to such regions, as a result of any of the matters discussed above, or because of similar U.S. or foreign government actions. Any such actions could also result in increases in the prices of imported handbags and small leather goods generally, or limitations on our ability to sell handbags and small leather goods to customers who sell our products in such countries or regions.