

### OVERVIEW

We are a large-scale outsourced manufacturer of luxury handbags and small leather goods. We are principally engaged in developing and manufacturing handbags, small leather goods, and travel goods on behalf of leading international high-end and luxury brands, such as Coach, Fossil, Michael Kors, Lacoste and Prada, and high-end travel brands, such as Tumi, who then sell the products we develop and manufacture to their customers. We also research, develop, design and manufacture private label handbags and small leather goods for a well-known large department store chain in the United States. In addition, in order to build on our approximately 30 years of operating history, in February 2011 we introduced TUSCAN'S brand of handbags and small leather goods, our high-end fashion brand with Italian origins, and opened two retail stores in Guangzhou in the PRC in February and March 2011. As of 31 October 2011, we had seven stand-alone retail stores and nine department store concession counters in various cities in the PRC.

We particularly benefit from our 13-year relationship with Coach, which has resulted in us becoming Coach's largest supplier of handbags and Coach being our largest customer during the Track Record Period. Our revenues derived from Coach for Fiscal Years 2009, 2010 and 2011 were HK\$562.0 million, HK\$908.4 million and HK\$1,327.6 million, respectively, which constituted 41.6%, 52.6% and 53.2%, respectively, of our revenue. For these same periods, the aggregate revenues derived from our five largest customers, which are primarily international high-end and luxury brand customers based in the United States and Europe, were HK\$1,020.8 million, HK\$1,451.2 million and HK\$2,055.6 million, constituting 75.6%, 84.1% and 82.4%, respectively, of our revenue. However, the volume of work performed for specific customers may vary from year to year, since we are not the exclusive supplier for any of our customers and have not entered into long-term purchase agreements with any of our customers. As of 30 June 2011, our remaining four largest customers included a U.S. listed global design, marketing and distribution company that specializes in consumer fashion accessories; a French provider of leather goods, travel bags and accessories; a U.S. listed large department store retailer in the United States and a U.S.-based handbag brand.

Many of the steps involved in the production of our products require a high level of craftsmanship. Through our long history of operations with international high-end and luxury brands, we have accumulated in-depth expertise and know-how with respect to every key step of the high-end and luxury handbags and small leather goods production process. The production process of a complex handbags involves over 200 steps, including the manual assembly of more than 100 separate components by skilled workers. Based on our experience, only a limited number of these steps can be automated, while a substantial number of the steps must be done manually and many also involve craftsmanship, which increases product quality and optimizes efficiencies, and therefore require a high level of skill or dexterity. These include specialized leather cutting, sewing, embroidery, patchwork, weaving and pleating, among others. Although we do not categorize our employees based on levels of craftsmanship, only our more experienced employees are permitted to undertake tasks that require craftsmanship skills.

### *Manufacturing*

As of 31 October 2011, we operated five manufacturing facilities with a total of 208 production lines, approximately 14,700 staff and an aggregate gross floor area of approximately 148,700 sq.m. Four of our manufacturing facilities are located in Dongguan, Guangdong Province, PRC; and one of our manufacturing facilities is located in Yingde, Guangdong Province, PRC. Our manufacturing facilities are strategically located in Guangdong Province in order to benefit from access to well-established

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## BUSINESS

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transport and logistics infrastructure, as well as raw material suppliers. We significantly expanded our manufacturing capacity over the Track Record Period. We manufactured and sold approximately 7.2 million products in Fiscal Year 2009, as compared to 9.0 million products in Fiscal Year 2010 and 12.3 million products in Fiscal Year 2011. As of 30 June 2009, 2010 and 2011, our estimated annual production capacity was approximately 10.5 million, 12.8 million and 16.1 million units of handbags, small leather goods and travel goods, respectively, while our estimated utilization rate for the corresponding Fiscal Years was approximately 69%, 73% and 76%, respectively. Our estimated annual production capacity is computed on the basis of the production month in which we recorded the highest production volume during the relevant Fiscal Year, assuming the same production volume would be achieved in every month during that Fiscal Year. The estimated utilization rate is the actual number of products manufactured divided by the estimated annual production capacity for the relevant Fiscal Year. The increase in our estimated annual production capacity was primarily due to the increase in the number of our production lines from 123 to 191 during the Track Record Period as a result of increased demand for our products from our customers. We believe this increase also improved our manufacturing flexibility and efficiency and allowed us to better meet the varying demands of our customers.

We plan to continue expanding our manufacturing capabilities. With respect to our manufacturing facilities, our current expansion plans include a second phase of expansion of our manufacturing facility in Yingde. We entered into a construction contract with respect to two buildings as part of the second expansion phase of our Yingde manufacturing facility in September 2010 and, according to our PRC legal advisers, we have obtained all necessary approvals and licences from the relevant PRC authorities in connection with the construction of these two buildings. We are in the process of negotiating construction contracts with respect to the remaining buildings and will proceed to obtain the requisite property ownership certificates for these buildings prior to commencement of production. Production at the first two buildings of the second phase of the facility is expected to commence in or around December 2011. Production at the remaining buildings is currently expected to commence in Fiscal Year 2013, with approximately 50% production capacity available at the beginning of Fiscal Year 2013 and the remaining production capacity available at the end of Fiscal Year 2013. The second phase will increase the number of our production lines by 84 and our estimated annual production capacity by approximately 8.1 million units when fully complete. We expect that the expansion of our manufacturing facility in Yingde will enhance our technical standard as we expect to install in such facility machinery and equipment that are more technologically advanced than those in our existing manufacturing facilities.

However, unlike manufacturing facilities that have standard production requirements and production times for particular products, the production requirements and production times for our handbags, small leather goods and travel goods vary significantly due to a number of factors, such as differences between the styles and structures of the products, the number of workers that can be used in a production line for a particular product, and the high level of craftsmanship involved in the production of our products, which limits the number of the steps in our production process that can be automated. In addition, we may receive orders for the production of complex products with lower production volumes but with higher selling prices, as well as less complex products with higher production volumes but with lower selling prices. As a result, our estimated annual production capacity and utilization rate may not be an accurate indication of the use of our production capacity or meaningful in estimating our profitability.

***Raw Materials and Suppliers***

We purchase our raw materials from over 300 different suppliers, the majority of which are located outside the PRC and also include a substantial number of PRC-based raw material suppliers. For Fiscal Years 2009, 2010 and 2011, purchases attributable to our single largest supplier amounted to 4.8%, 4.7% and 4.3%, respectively, and purchases attributable to our five largest suppliers amounted to 18.2%, 16.9% and 16.0%, respectively, of our total purchases. As of 30 June 2011, our five largest suppliers included an international supplier of leather hides for leather goods, small leather goods and footwear based in Spain; a global supplier of textiles and fabrics for high-end handbags and apparel based in South Korea; a South Korean-based supplier of high-quality leathers for fashion products; a PRC-based supplier of leather; and a South Korean-based supplier of leather. As of 30 June 2011, we had business relationships of on average over six years with our ten largest suppliers. Many of our customers have designated suppliers of raw materials that we are mandated to use in manufacturing their products, which enables us to benefit from their pricing leverage and influence and gives us priority in obtaining supplies of high-quality raw materials. However, substantially all of our suppliers act as both designated and non-designated suppliers, depending on the customers and the product ordered, and for Fiscal Years 2009, 2010 and 2011, all of our five largest suppliers acted as both designated suppliers and non-designated suppliers. When a supplier is designated by a customer, the only principal difference is that the customer designates the raw materials to be purchased by our procurement team from the supplier. We also benefit from being in close proximity to certain of our suppliers and have access to efficient port facilities to receive shipments from suppliers located outside of the PRC, which helps to reduce costs and shorten delivery times.

***Product Research, Development and Design***

We have an in-house creative center and an R&D Center that collaborate with our leading international high-end and luxury brand customers in their product development process. Our in-house creative center is responsible for the production of prototypes from design concepts, as well as sales samples, while our R&D Center, although not directly involved in the design and development of products, is responsible for researching and implementing manufacturing technology, such as introducing semi-automatic lacing machinery and embossing machinery into certain steps of the production process, when appropriate, to produce quality handbags and small leather goods efficiently, as well as for providing input on the production process for handbags and small leather goods with different designs, such as with respect to the feasibility of volume production of the products in terms of design and materials. These two centers are involved in the production of each product we produce and work closely together to research, develop and design private label handbags and small leather goods for a well-known large department store chain in the United States. As of 31 October 2011, our creative center and R&D Center had approximately 1,100 and 62 staff, respectively, many of whom have significant industry experience, which enhances our ability to collaborate with our customers in their product development process. We also engage a design team from a design studio based in Italy to provide design concepts to us from time to time for our consideration and use. Our creative center designed and developed or collaborated with our customers in the design and development of more than 5,000, 6,200 and 7,400 distinct handbags and small leather goods in Fiscal Years 2009, 2010 and 2011, respectively. We also have in-house design and development teams who are assigned to certain of our major customers.

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## BUSINESS

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Although our sales are made on the basis of individual purchase orders and we are not the exclusive supplier for any of our customers, we have long-term, stable relationships with certain of our key customers and believe our market-leading position and long track record in providing high quality services provide us with an advantage over our competitors. In addition, we believe our large scale of operations better positions us to respond to changing consumer preferences and meet the varying demands of our customers. We also believe that our expertise in the research, development, design and manufacture of handbags and small leather goods well positions us to attract and retain leading international high-end and luxury brands as customers. During the Track Record Period, as confirmed by our Directors, the aggregate number of purchase orders we received from our customers on an annual basis has continued to increase and we have not had to extend the credit terms of any of our customers.

### *Retail*

In order to leverage on our long and in-depth experience in the luxury branded handbag and small leather goods manufacturing business and our well-established manufacturing platform, we recently expanded into the rapidly growing PRC handbag and small leather goods retail market with TUSCAN'S, our high-end fashion brand with Italian origins. The TUSCAN'S brand, known for top quality contemporary Italian leather handbags and small leather goods, was originally established in 1974 with the founding of TUSCAN'S Europe in the Ponte a Egola tannery district, a historic center for leather processing and tanning, in Tuscany, Italy. Since its founding, TUSCAN'S Europe has expanded the presence of the TUSCAN'S brand internationally by partaking in numerous well know trade fairs and expanding its business into new markets. TUSCAN'S Europe currently distributes TUSCAN'S branded products across Europe and has showrooms in Athens, Florence, Milan and Rome. In February 2011, pursuant to our trademark assignment agreement with TUSCAN'S Europe, TUSCAN'S Europe assigned to us the right, title and interest in the "TUSCAN'S" trademark registered in the PRC and Japan as designated countries under international trademark registration. Such assignment has been recorded by the World Intellectual Property Organization and we are the registered holder of such trademark registered in the PRC and Japan.

Under our trademark assignment agreement with TUSCAN'S Europe, TUSCAN'S Europe has also agreed to assign to us the "TUSCAN'S" trademark that TUSCAN'S Europe has applied to or will apply to register in the jurisdictions of Hong Kong, Macau, Taiwan, Thailand, Malaysia, the United Arab Emirates, the United States, as well as in Singapore and South Korea as designated countries under international trademark registration. Trademark assignments will take place upon completion of the respective registrations. As at the Latest Practicable Date, the trademark had been registered in Hong Kong and Macau and we had been assigned with the right, title and interest in the trademark registered in Hong Kong and Macau. Recordal of such assignments at the respective government authorities has been arranged.

Pending assignment of the remaining "TUSCAN'S" trademark to us, we have pursuant to a trademark license agreement entered into between TUSCAN'S Europe and our Company in January 2011 acquired an exclusive and assignable license from TUSCAN'S Europe to use the "TUSCAN'S" trademark in Taiwan, Thailand, Malaysia, the United Arab Emirates, the United States, Singapore and South Korea in connection with our retail business.

Consistent with its Italian origins, we have positioned our TUSCAN'S products as a high-end, fashionable and stylish international brand. As of 31 October 2011, we employed 93 retail employees and had seven stand-alone retail stores with two in each of Beijing and Guangzhou, and one in each of Chongqing, Jinan and Shenzhen. We also had nine department store concession counters as of 31 October

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## BUSINESS

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2011, with five in Shanghai, and one in each of Hefei, Jinhua, Ningbo and Wuhu. We also propose to enter into a lease for an additional retail outlet in Hong Kong, which is expected to commence business in or around December 2011, and currently have plans to open additional retail outlets in the PRC and Macau. Since the launch of our retail business in February 2011, we have promoted TUSCAN'S handbag and small leather goods products through different marketing channels, including mass media, such as magazines, transportation advertising, such as in-flight advertisements, in-store promotion campaigns and fashion shows. The daily operations, business development, management and administration of our retail business is headed by a general manager with over 20 years of experience in retail chain management in the PRC. Our general manager is supported by a regional sales director based in the northern region of the PRC with over eight years of experience in retail management in the PRC, specializing in training and development of sales teams, a regional sales director in the eastern region of the PRC with over five years of experience in handbag and leather goods retail management in the PRC, specializing in sales management, and a regional sales director in the southern region of the PRC with over nine years of experience in handbag and leather goods retail management in the PRC, specializing in retail stores development. We believe the size and experience of our retail management and staff provide a solid foundation for the future growth of our retail business and expect to expand our retail team as our retail network in the PRC grows. We currently plan to expand our retail network in the PRC by increasing our total number of retail outlets in the PRC to approximately 100 over the next three years. We believe that our TUSCAN'S products will not be in direct competition with our existing customers since the price range of our TUSCAN'S products is generally below that of our major customers, they typically target a different consumer group and market segment and our TUSCAN'S design team is independent and works separately from design and development teams for our other customers.

We have enjoyed rapid growth in revenue and net profit during the Track Record Period. For Fiscal Years 2009, 2010 and 2011, we generated revenue of HK\$1,349.7 million, HK\$1,726.3 million and HK\$2,493.3 million, respectively, representing a CAGR of 35.9%. For these same periods, our net profit was HK\$78.2 million, HK\$151.8 million and HK\$302.4 million, respectively, representing a CAGR of 96.7%. We believe our ability to have grown our revenues and profits through the recent financial crisis demonstrates the strength of our business model and the resiliency of our target markets.

As a result of our commitment to the quality of our products, quality management system, contribution to exports from the PRC and focus on the continued improvement of our working environment and human resource management, we have received the following awards and recognitions, among others:

- In 2010, we obtained a renewal of our Certificate of Registration for ISO 9001:2008 certification issued by the British Standards Institution for the production of handbags by Sitoy Dongguan, which was originally issued in 2001.
- In 2010, we were accredited as “Enterprise with Harmonious Employment Relationship (勞動關係和諧企業)” by the People’s Government of Houjie Town, Dongguan, the PRC.
- In 2008, we were awarded a “Most Consistent Management Commitment” certificate by Coach.
- In 2005 and 2008, we were accredited as “Home of Employees (職工之家)” by the PRC State Labor Union (中華全國總工會).
- In 2004 and 2007, we were accredited as “Enterprise with Staff Satisfaction (員工滿意企業)” by the People’s Government of Houjie Town, Dongguan, PRC.

### COMPETITIVE STRENGTHS

We believe that the following competitive strengths are the key factors contributing to our historical success and will continue to enable us to increase our market share and capture future growth opportunities in our target markets:

***We have large-scale and flexible manufacturing capabilities in a growing market***

We believe the large scale of our manufacturing capabilities positions us well to capture an increasing share of the expected continued growth in the global and the PRC luxury branded handbag and small leather goods manufacturing markets. For Fiscal Year 2011, we sold a total of approximately 9.9 million units of handbags and 2.3 million units of small leather goods. In Fiscal Years 2009, 2010 and 2011, we generated HK\$1,349.7 million, HK\$1,726.3 million and HK\$2,493.3 million, respectively, in revenue from the manufacturing and sale of our products.

The global luxury goods market has experienced an increase in total retail spending from approximately US\$218.4 billion in 2006 to US\$242.5 billion in 2010, representing a CAGR of 2.6% according to Frost & Sullivan. Over this same period, the global luxury branded handbag and small leather goods market had the highest growth rate among all of the various types of luxury goods markets and experienced an increase in total retail spending from approximately US\$44.6 billion in 2006 to US\$53.0 billion in 2010, representing a CAGR of 11.2%. The PRC's luxury branded handbag and small leather goods retail market increased from US\$1.2 billion in 2006 to US\$4.6 billion in 2010, representing a CAGR of 39.5%. We believe that the large scale of our operations will allow us to capture an increasing share of the expected continued growth in the global and the PRC luxury branded handbag and small leather goods markets. According to Frost & Sullivan, we have twice the PRC-based production volume of any other player in the PRC luxury branded handbag and small leather goods outsourced manufacturing industry. We believe this enables us to service our customers better in responding to fast changing consumer preferences and fashion trends, which will enable us to further strengthen our long-term relationships with our strategic customers, grow market share, and yield higher margins. Our large production scale also allows us to benefit from economies of scale through lower fixed per unit production costs, stronger bargaining power in purchasing raw materials, and higher market recognition and awareness.

While we have significantly increased the scale of our manufacturing capabilities over the Track Record Period, we have also maintained the flexibility to adapt our production lines for the production of small, customized orders, such as for luxury branded handbags and small leather goods, as well as larger volume production runs to meet the varying demands of our customers. The flexibility of our production lines also allows us to maximize efficiency and diversify our product portfolio.

***We have a broad customer base of well-known international high-end and luxury brands and high-end travel goods brands and long-term, stable relationships with certain of our key customers***

Our broad customer base includes many global high-end and luxury brands and high-end travel goods brands, including high-end and luxury brands such as Coach, Fossil, Michael Kors, Lacoste and Prada, and high-end travel brands, such as Tumi. The handbags, small leather goods and travel goods that we manufacture are sold by our customers across many parts of North America, Europe and Asia. Our customers also include a well-known large department store chain in the United States.

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## BUSINESS

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In addition, we have long-term, stable relationships with certain of our key customers. We believe that we are one of the first PRC manufacturers to manufacture outsourced handbags and small leather goods on a large scale for American and European high-end and luxury brands. We particularly benefit from our 13-year relationship with Coach, which has resulted in us becoming Coach's largest supplier of handbags and Coach being our largest customer during the Track Record Period. Our second and third largest customers have been our customers for 13 and 5 years, respectively. We maintain strong relationships with our customers, from senior management level to designers and working levels, which is established via both work and social activities. Our market leading position and long track record in providing top of the class services provide us with a competitive advantage in attracting additional international high-end and luxury brand owners as customers. During the Track Record Period, we have added Lacoste and Michael Kors, among others, as our customers.

The breadth of our customer base enables us to optimize our production capabilities and increase our bargaining power. In addition, our long-term relationships and collaborations with our customers have strengthened our skills and experience in product research, development, design and manufacturing capabilities, which we believe differentiates us from other competitors. We believe that as a result of our long-term relationships we will receive additional business from our existing customers as demand in the global high-end and luxury branded handbag and small leather goods retail market continues to grow. We also believe that this will further enhance our reputation as one of the leading manufacturers of outsourced luxury branded handbags and small leather goods, which will enable us to win new customers and reinforce our pricing strategy successfully. All these factors reinforce our position as the market leader in the global luxury branded handbag and small leather goods manufacturing market.

***We have strong handbag and small leather goods research, development, design and commercialization capabilities***

We have accumulated extensive expertise and capabilities in research, development, design and commercialization of high-end and luxury branded handbags and small leather goods from our long-term working relationships with various international high-end and luxury brands.

We also have in-house design and development teams who are assigned to certain of our major customers. Our customers place high value on the benefits that these arrangements provide, which include:

- the promotion of continued communication and the exchange of ideas between our customers' designers and our in-house design and development teams, which fosters a highly collaborative relationship;
- stronger protection of our customers' intellectual property rights, particularly with respect to our customers' latest product designs; and
- increased efficiency in the product research, development and design processes, including the selection of suitable leather and other raw materials, as our in-house designers have come to possess an in-depth understanding of our customers' needs, as well as the preferences of the target end-consumers for our customers' products.

According to Frost & Sullivan, we have one of the leading research, development and design platforms in the high-end and luxury branded handbag and small leather goods manufacturing industry in the PRC based on number of staff. We operate an in-house creative center that has approximately 1,100

staff as of 31 October 2011 dedicated to the design and development of handbags and small leather goods. From time to time, we also engage a design team from a design studio based in Italy to work with our in-house design and development team. Upon receiving a design concept from our customers, our creative center is usually able to turn complex design concepts into a handbag or small leather good prototype within one to two months. In addition, our R&D Center, which consisted of 62 staff as of 31 October 2011, provides input on the production process for handbags and small leather goods with different designs. Our in-house creative center has the capability to translate complex design concepts from our customers into prototypes and samples, with an emphasis on quality, comfort and style, on a timely basis.

We pride ourselves on our ability to offer customers one-stop research, development, design and manufacturing solutions, which helps us to service our customers in responding to fast changing consumer preferences and fashion trends, develop and manufacture products with complex designs, maintain our profitability, as well as secure additional business. We believe our research, development and design capabilities give us competitive advantages by enabling us to further leverage our position as one of the leading manufacturers of outsourced luxury branded handbags and small leather goods by offering our customers a comprehensive range of additional services in addition to our high level of craftsmanship and manufacturing expertise.

***We possess in-depth expertise and know-how in the craftsmanship of high-end and luxury handbags and small leather goods***

Many of the steps involved in the production of our products require a high level of craftsmanship. Through our long history of operations with international high-end and luxury brands, we have accumulated in-depth expertise and know-how with respect to every key step of the high-end and luxury handbags and small leather goods production process. The production process for a complex handbags involves over 200 steps, including the manual assembly of more than 100 separate components by skilled workers. Based on our experience, only a limited number of these steps can be automated, while a substantial number of the steps must be done manually and many also involve craftsmanship, which increases product quality and optimizes efficiencies, and therefore require a high level of skill or dexterity. These include specialized leather cutting, sewing, embroidery, patchwork, weaving and pleating, among others. Although we do not categorize our employees based on levels of craftsmanship, only our more experienced employees are permitted to undertake tasks that require craftsmanship skills.

Our workers are well trained and have the necessary experience and skills to enable us to produce our products in volume with optimal efficiency, superior quality and lower cost. The level of skill and craftsmanship required to manufacture high-end and luxury handbags and small leather goods makes it difficult for new competitors to enter into our industry, which reinforces our competitiveness and market leading position.

***We have an efficient and stable supply chain management system and lean production practices***

### *Supply chain management*

All five of our manufacturing facilities are strategically located in Guangdong Province, PRC, which is considered to be a hub province of the PRC manufacturing industry, with a well-established transport and logistics infrastructure, numerous raw material suppliers, and a large pool of skilled and efficient workers.



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## BUSINESS

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We have long-term and well established relationships with many of our suppliers, which enable us to maintain a stable supply of high-quality raw materials. Many of our customers have designated suppliers of raw materials that we are mandated to use in manufacturing their products, which enables us to benefit from their pricing leverage and influence and gives us priority in obtaining supplies of high-quality raw materials. We also benefit from being in close proximity to certain of our suppliers and have access to efficient port facilities to receive shipments from suppliers located outside of the PRC, which helps to reduce costs and shorten delivery times. In addition, in order to avoid accumulating inventory, we generally do not order the raw materials we need to manufacture a particular product from our suppliers until after we have received a purchase order from the customer. Upon receipt of our customer's purchase order, we seek to place a purchase order with a raw materials supplier as quickly as possible in order, to the extent possible, to align our actual raw material costs with the estimated raw material costs we have agreed with our customer.

As a result of our long operating history and the scale of our operations, we understand from our major suppliers that we are one of their preferred customers. In order to maintain an efficient and stable supply chain, we have a dedicated procurement team that visits our suppliers' sites regularly to ensure that the raw materials are of high quality and delivered on a timely basis. Such visits also enable our procurement team to learn about newly available raw materials and the latest industry trends.

### *Lean production practices*

We have introduced lean production practices into our production process to increase production efficiency and minimize waste. Prior to the assembly of our finished products, our R&D Center provides input into how to optimize the pre-production process. Based on this input, we organize our manufacturing staff into multiple production teams in order to produce the different components of a product and ensure each component satisfies our quality and design specifications before they are assembled together into the finished product. This streamlined production process enables us to discover and resolve any issues relating to production at an early stage, thereby allowing us to increase efficiency, improve product quality and reduce wastage and cost.

We consider efficiency control as an integral part of our lean production practice. We have a dedicated efficiency control department that oversees the entire production process to synchronize each step in the production process. By using our electronic tracking system, or ETS, we are able to keep track of our lead time for every key step in our production process on a real-time basis to help us better manage our production lines and deliver our products on time. This system also allows us to better evaluate the efficiency of our staff and reward our best performers appropriately with incentive payments and additional training.

### ***We have a strong senior management team with in-depth industry knowledge and an established track record***

We have a strong senior management team with in-depth industry knowledge and an established track record. Based in Hong Kong, our Founders each have over 35 years of experience in, and were among the earliest entrants into, the high-end and luxury branded handbag and small leather goods manufacturing industry in the PRC. Most of the members of our senior management team have been with us for 15 years or more. The industry knowledge and experience of our senior management team have been crucial in the successful development of our business and the establishment of our long-term strategic relationships with many leading international high-end and luxury brands.

### BUSINESS STRATEGIES

We intend to enhance shareholder value by leveraging our expertise in handbag and small leather goods research, development, design and manufacturing with a view to maintaining and strengthening our position as the leading outsourced luxury branded handbag and small leather goods manufacturer globally and enhancing our own brand. To achieve these goals, we are pursuing the following principal strategies:

#### *Broaden our customer base and expand into new segments*

We plan to continue to leverage on our market leading position and high quality services to attract new international high-end and luxury brand customers in order to diversify our revenue streams. We believe the expected growth in the global high-end and luxury branded fashion goods market, especially in the PRC, provides us with an opportunity to capitalize on our competitive strengths and attract additional international high-end and luxury brand customers.

From time to time, to the extent the order volume and margin we are able to charge are satisfactory, we also pursue opportunities that may arise to research, develop, design and manufacture private label products for large retail store chains in the United States, which often place large orders. We believe such opportunities could significantly increase our production volume and enhance our profitability through the economies of scale we can achieve as a result of the large scale of our operations.

We also intend to further penetrate high growth product markets where we can leverage our existing customer relationships and realize synergies with our existing research, development, design and commercialization capabilities. For example, we have been actively building our relationships with high-end travel goods brands in order to take advantage of the strong growth potential in the travel goods retail market due to recent increases in tourism and business travel. According to Frost & Sullivan, the global travel goods market is likely to grow at a CAGR of 5% from 2010 to 2015. The total size is expected to reach approximately US\$31.6 billion in terms of retail sales value by 2015. Similarly, we believe the male luxury bags and small leather goods market, globally and in the PRC, represents a high growth opportunity for our business. According to Frost & Sullivan, there is a global trend of increased spending by men on high-end and luxury branded bags, suitcases and small leather goods products, particularly in the PRC as demonstrated by the increase in the total retail sales value of the male luxury branded bag and small leather goods market in the PRC from RMB0.5 billion in 2006 to RMB2.2 billion in 2010, representing a CAGR of 44.4%. We plan to strengthen our capabilities in the research, development, design and manufacturing of high-end and luxury branded fashion goods products for men in order to capture this high growth market opportunity.

#### *Enhance and expand our research, development, design and other value-added services*

The research, development, design and other value-added services that we provide our customers are an important focus of our business. We collaborate with certain of our major customers in their product design and development process and provide input on the production of handbags and small leather goods with different designs. We arrange for our customers' design teams to visit our manufacturing sites to inspect, modify and refine their product prototypes together with our creative center. We also have in-house design and development teams who are assigned to certain of our major customers.

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## BUSINESS

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We plan to increase our investments in research, development and design capacities by recruiting or engaging additional foreign and local designers, upgrading our designers' computer software and hardware, setting up exchange programs with both international and local fashion design institutes. We also plan to upgrade our creative center into a new world-class creative center, which will involve the automation of our prototype development process. This will enable us to upload electronic design packages received from our customers onto a specialized machine installed with specified pattern design software that will then create a paper pattern. Once reviewed and analyzed by our creative center, the shape and size of each particular paper pattern will be able to be loaded into an automatic leather cutting machine that will then produce the leather components for the assembly of the prototype. Once the upgraded creative center is operational, we will have larger and better facilities to enhance collaboration with our customers' design teams. We will also continue to increase our work with customers at each stage of the manufacturing process, from the creation of a design concept and continuing through product research and development to the final delivery of the high-quality product.

We also plan to continue placing great emphasis on protecting the intellectual property of our customers and working with our customers to ensure our products meet their quality standards and specifications. For example, we currently place our in-house design and development teams in separate design rooms in order to protect customers' intellectual property. We also have designated working areas at our manufacturing sites for certain major customers' design teams to ensure the designs of one particular customer are kept confidential from our other customers. In addition, we permit certain of our major customers to inspect and monitor our production process through their on-site personnel. We believe these measures will strengthen our relationships with our customers and increase the opportunity to provide them value-added services.

### *Further enhance our operational efficiency and strengthen our human resource training*

We seek to further strengthen our manufacturing capabilities by enhancing our operational efficiency. We have invested in the development of our ETS and ERP systems to help us evaluate manufacturing performance, identify production bottlenecks, and design and implement production processes to improve our operating efficiency. With the support of our ETS and ERP systems, we are able to manage our production on a real-time basis and more accurately, including by tracking the status of our raw materials and finished products as well as evaluating the work efficiency of our workers so that we can reward our best performers with incentive payments and additional training. We periodically analyze data, including our production efficiency, costs and inventory and formulate a plan to improve our performance. We expect to upgrade our ETS and ERP systems as our business needs require and have purchased, and are also in the process of integrating, an SAP system to more efficiently manage our business.

We also plan to realize operational efficiencies by regularly upgrading our machinery and equipment at our existing manufacturing facilities as appropriate. For example, we have two computerized cutting machines in our cutting department and plan to acquire several additional computerized cutting machines to further enhance our leather cutting process.

We have an employee training center to provide pre-job training programs to our new recruits before they are assigned to work at our manufacturing facilities. From time to time, we also provide different levels of on-the-job training to our staff to broaden their skills and enhance their productivity. We plan to upgrade our employee training center to provide more pre-job and on-the-job training programs to our employees and professional management courses to our management.

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## BUSINESS

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### *Continue to expand and improve on our manufacturing capabilities*

We intend to continue to expand our manufacturing capabilities in anticipation of the continued growth of our business. Increasing our manufacturing capabilities also gives us the flexibility to adapt our production lines for the production of small, customized orders, such as for luxury branded handbags and small leather goods, as well as larger volume production runs to meet the varying demands of our customers. The flexibility of our production lines also enables us to yield higher margins and maintain our relationships with our customers. We significantly expanded our manufacturing capabilities over the Track Record Period. In April 2009, we commenced production at our manufacturing facility in Yingde, which increased our number of production lines by more than a half, and in 2010, we expanded our manufacturing capabilities further through the commencement of production at two new leased manufacturing facilities in Dongguan, which further increased our number of production lines by approximately a third. As of 31 October 2011, we operated five manufacturing facilities with a total of 208 production lines and approximately 14,700 staff. Four of our manufacturing facilities are located in Dongguan, Guangdong Province, PRC and one is located in Yingde, Guangdong Province, PRC. We also plan to complete the second expansion phase of our Yingde manufacturing facility, pursuant to which production at the first two buildings of the second phase of the facility is expected to commence in or around December 2011. Production at the remaining buildings is currently expected to commence in Fiscal Year 2013, with approximately 50% production capacity available at the beginning of Fiscal Year 2013 and the remaining production capacity available at the end of Fiscal Year 2013.

### *Continue to enhance brand recognition for our TUSCAN'S brand and expand our retail business*

In order to leverage on our long and in-depth experience in the luxury branded handbag and small leather goods manufacturing business and our well-established manufacturing platform, we recently expanded into the rapidly growing PRC handbag and small leather goods retail market with TUSCAN'S, our high-end fashion brand with Italian origins. Consistent with its Italian origins, we have positioned our TUSCAN'S products as a high-end, fashionable and stylish international brand. Our TUSCAN'S handbag products are typically priced between RMB1,500 and RMB4,500 per bag and target middle-class women between the age of 22 to 35. We believe TUSCAN'S can tap the rapidly growing high-end handbags and small leather goods retail market in the PRC, which is still in a formative stage of development. As of 31 October 2011, we employed 93 retail employees and had seven stand-alone retail stores with two in each of Beijing and Guangzhou and one in each of Chongqing, Jinan and Shenzhen. We also had nine department store concession counters as of 31 October 2011, with five in Shanghai, and one in each of Hefei, Jinhua, Ningbo and Wuhu. We also propose to enter into a lease for an additional retail outlet in Hong Kong, which is expected to commence business in or around December 2011. We also have plans to open additional retail outlets in the PRC and Macau.

We intend to further enhance and promote the brand recognition of our TUSCAN'S brand by launching a further advertising campaign through multiple marketing channels, including mass media, such as magazines, transportation advertising, such as in-flight advertisements, high profile store opening ceremonies, in-store promotion campaigns and fashion shows in order to effectively reach targeted customers. We also intend to focus on directly operated stores, while expanding our retail channels into different retail formats, in particular department store concession counters, and stand-alone retail stores, primarily in first-tier and second-tier cities in the PRC where a rapidly growing middle class is driving the demand for high-end handbag and small leather goods products.

## BUSINESS

In addition, we have a dedicated design and development team in the PRC which collaborates closely with the in-house design team of TUSCAN'S Europe based in Italy, which allows us to combine Italian designing expertise and tradition with our strong understanding of PRC consumer preferences. Supported by our strong creative center and R&D Center, we are able to launch new TUSCAN'S handbag or small leather goods product lines quickly in order to meet fast changing consumer preferences and fashion trends. We plan to continuously improve the design and product quality of our TUSCAN'S brand handbags and small leather goods by hiring both international and domestic top quality designers, reacting proactively to customer feedback to our products and increasing the product mix of our product series.

We believe that our experience in acquiring and introducing the TUSCAN'S brand will lead to new opportunities for us to introduce additional brands into the high-end handbag and small leather goods market. As a result, we may from time to time consider opportunities to acquire additional brands to increase the size of our retail portfolio that are consistent with our business strategies, and which we believe will generate a satisfactory return on investment.

### MANUFACTURING BUSINESS

#### *Products*

Our manufacturing business comprises the products we develop and manufacture for our high-end and luxury brand customers, as well as the products we research, develop, design and manufacture for our private label customers. We categorize our principal products of our business into handbags, small leather goods and travel goods. For Fiscal Year 2011, we manufactured and sold a total of approximately 12.3 million units of handbags, small leather goods and travel goods, representing 80.9%, 18.7% and 0.4%, respectively, of our total units sold. We generated 90.0%, 9.0% and 1.0% of our revenue in Fiscal Year 2011 from the sale of handbags, small leather goods and travel goods, respectively. The following table sets forth, for Fiscal Years 2009, 2010 and 2011, the sales volume and revenue (excluding sales of our TUSCAN'S brand products) attributed to each category of the principal products of our manufacturing business.

	For Fiscal Year Ended					
	2009		2010		2011	
	Sales Volume	Revenue	Sales Volume	Revenue	Sales Volume	Revenue
	(Units'000)	(HK\$'000)	(Units'000)	(HK\$'000)	(Units'000)	(HK\$'000)
Handbags . . . . .	6,029.1	1,223,465	7,396.1	1,565,586	9,934.9	2,242,933
Small leather goods . .	1,184.3	126,063	1,623.0	155,069	2,293.6	224,047
Travel goods . . . . .	0.5	160	10.3	5,662	50.1	25,563
<b>Total . . . . .</b>	<b><u>7,213.9</u></b>	<b><u>1,349,688</u></b>	<b><u>9,029.4</u></b>	<b><u>1,726,317</u></b>	<b><u>12,278.6</u></b>	<b><u>2,492,543</u></b>

For Fiscal Year 2011, the average price range of our products charged to customers was HK\$80 to HK\$640 for handbags, HK\$40 to HK\$140 for small leather goods and HK\$450 to HK\$670 for travel goods.

### **Handbags**

Our handbags product category primarily includes top handle bags, clutch bags, shoulder bags, tote bags, satchels, buckets and bowling bags. Depending on our customers' orders, our handbags are predominantly made of high-end cow leather and, to a lesser extent, fabric and straw. For Fiscal Years 2009, 2010 and 2011, we generated 90.7%, 90.7% and 90.0%, respectively, of our revenue from the sale of handbags.



### **Small leather goods**

Our small leather goods product category primarily includes wallets, cosmetic bags and pouches. Depending on our customers' orders, our small leather goods are predominantly made of high-end cow leather and, to a lesser extent, fabric. For Fiscal Years 2009, 2010 and 2011, we generated 9.3%, 9.0% and 9.0% of our revenue from the sale of small leather goods.



### **Travel goods**

Our travel goods product category primarily includes suitcases, computer cases, briefcases and backpacks. Depending on our customers' orders, our travel goods are made of genuine leather and fabric. We started manufacturing travel goods in April 2009, and for Fiscal Year 2011, sales of travel goods represented 1.0% of our revenue.



### ***Principal Customers***

We are a large-scale outsourced manufacturer of luxury handbags and small leather goods. We develop and manufacture handbags, small leather goods and travel goods for leading international high-end and luxury brands, such as Coach, Fossil, Michael Kors, Lacoste and Prada, and high-end travel brands, such as Tumi, and collaborate with certain of these customers with respect to their product research, development and design process through our in-house creative center and our R&D Center. We provide research, development and design services to our international high-end and luxury brand customers in connection with their product design and development process. Our in-house creative center is responsible for the production of prototypes from design concepts, as well as sales samples, while our R&D Center, although not directly involved in the design and development of products, is responsible for researching and implementing manufacturing technology, such as introducing semi-automatic lacing machinery and embossing machinery into certain steps of the production process, when appropriate, to produce quality handbags and small leather goods more efficiently, as well as for providing input on the production process for handbags and small leather goods with different designs, such as with respect to the feasibility of volume production of the products in terms of design and materials. We also engage a

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## BUSINESS

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design team from a design studio based in Italy that assists us with our TUSCAN'S brand designs to work with our in-house design and development team on designs for international high-end and luxury brand customers.

We also research, develop, design and manufacture private label handbags and small leather goods for a well-known large department store chain in the United States. Our in-house creative center and R&D Center work closely together to design and develop private label handbags and small leather goods for this customer. Our private label products give us the opportunity to provide customers with value-added research, development and design services, while utilizing our manufacturing expertise to produce products that are tailored to their needs.

The scope of our services to our customers includes complying with specific guidelines with respect to the manufacture of their products to ensure that our customers are able to comply with the laws and regulations of the jurisdictions into which they import and sell their products. These include regulations with respect to product safety and restricted and hazardous materials laws and regulations and customs, packaging and labeling requirements, among others, and certain customers require us to provide warranties and indemnities with respect to our obligations in this regard. In addition, one of our major customers requires our products to be covered by product liability insurance. In such case, our customer typically obtains product liability insurance for us and we reimburse the customer the amount of the insurance premium paid. The rights that our customers grant us with respect to use of their designs and intellectual property are limited to such use as is required for us to assist our customers in the research, development, design and manufacture of their products, as the case may be. In addition, our customers generally require us to enter into confidentiality agreements under which we undertake to protect the confidentiality of their designs and intellectual property, on which we place great emphasis.

Although our sales are made on the basis of individual purchase orders and we are not the exclusive supplier for any of our customers, we have long-term, stable relationships with certain of our key customers. As of 30 June 2011, our two largest customers have been our customers for more than 13 years, while our third largest customer has been a customer for over five years. During the Track Record Period, as confirmed by our Directors, we have not had any significant decreases in purchase orders from our major customers and we have not had to extend credit terms of any of our customers. For Fiscal Years 2009, 2010 and 2011, sales to our five largest customers accounted for 75.6%, 84.1% and 82.4%, respectively, of our revenue.

We particularly benefit from our 13-year relationship with Coach, which has resulted in us becoming Coach's largest supplier of handbags and Coach being our largest customer during the Track Record Period. Our revenues derived from Coach for Fiscal Years 2009, 2010 and 2011 were HK\$562.0 million, HK\$908.4 million and HK\$1,327.6 million, respectively, which constituted 41.6%, 52.6% and 53.2%, respectively, of our revenue. Our product quality, consistency in producing products in volume and timeliness of delivery have constantly met Coach's specific requirements for their vendors and we have been able to do so since 1998. As a result, we have been recognized by Coach as one of their key vendors. As part of their commitment to our long-term strategic relationship, we have been given a non-legally binding indication of not less than 10% additional future orders from Coach for Fiscal Year 2012 as compared to Fiscal Year 2011.

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## BUSINESS

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However, neither our existing purchase orders from Coach nor the non-legally binding indication of future orders should be relied upon as the revenues that we will ultimately derive from Coach during Fiscal Year 2012. Coach's indication of additional Fiscal Year 2012 orders is entirely non-legally binding on Coach and is subject to numerous uncertainties, including uncertainties relating to general economic conditions and the market for handbags and small leather goods, both generally and as they may specifically relate to Coach, as well as other factors such as our ability to maintain our relationship with Coach and developments in its relationships with other vendors. Moreover, even our existing purchase orders, as well as any future purchase orders we may receive from Coach for Fiscal Year 2012, may not necessarily result in revenues for Fiscal Year 2012, or at all. Such purchase orders are subject to cancellation, renegotiation, modification, delay or default, on the part of Coach or ourselves.

We intend to build upon our established market position to win further business from our strategic customers. We attract new customers through referrals from existing customers and word-of-mouth. From time to time, we optimize our customer portfolio to align it with our strategy and to enable the full utilization of our research, development, design and manufacturing capabilities. We intend to add new brands to our customer base across our product lines. During the Track Record Period, we added Lacoste and Michael Kors, among others, as our customers.

None of our Directors or their associates, or any Shareholders, who, to the knowledge of our Directors, owns more than 5.0% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our five largest customers in Fiscal Years 2009, 2010 and 2011.

### *Pricing*

Under our pricing model, the per unit price of the products we manufacture is determined by reference to the estimated raw material cost, labor cost, production overhead and margin we will earn from the order based on negotiations with our customers. The margin we charge varies depending on factors such as the complexity of the product, the labor and technology involved in the design or production processes, the volume of the order and our relationship with the customer. For example, the more complex a product design is, the higher the margin we are generally able to charge, since more complex designs can require higher levels of customization and craftsmanship. In addition, the flexibility of our product lines allows us to make larger volume production runs to meet the varying demands of our customers, while allowing us to enhance our profitability through the economies of scale that we can achieve as a result of the large scale of our operations.

In order to leverage on our long and in-depth experience in the luxury branded handbag and small leather goods manufacturing business and our well-established manufacturing platform, we recently expanded into the rapidly growing PRC handbag and small leather goods retail market with TUSCAN'S, our high-end fashion brand with Italian origins. The TUSCAN'S brand, known for top quality contemporary Italian leather handbags and small leather goods, was originally established in 1974 with the founding of TUSCAN'S Europe in the Ponte a Egola tannery district, a historic center for leather processing and tanning, in Tuscany, Italy. Since its founding, TUSCAN'S Europe has expanded the presence of the TUSCAN'S brand internationally by partaking in numerous well-known trade fairs and expanding its business into new markets. TUSCAN'S Europe currently distributes TUSCAN'S branded products across Europe and has showrooms in Athens, Florence, Milan and Rome.



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## BUSINESS

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In February 2011, pursuant to our trademark assignment agreement with TUSCAN'S Europe, TUSCAN'S Europe assigned to us the right, title and interest in the "TUSCAN'S" trademark registered in the PRC and Japan as designated countries under international trademark registration. The effects of such international trademark registration in the PRC and Japan are the same as if the trademark had been registered in such countries directly. Such assignment has been recorded by the World Intellectual Property Organization and we are the registered holder of such trademark registered in the PRC and Japan.

Under our trademark assignment agreement with TUSCAN'S Europe, TUSCAN'S Europe has also agreed to assign to us the "TUSCAN'S" trademark that TUSCAN'S Europe has applied to or will apply to register in the jurisdictions of Hong Kong, Macau, Taiwan, Thailand, Malaysia, the United Arab Emirates, the United States, as well as in Singapore and South Korea as designated countries under international trademark registration. Trademark assignments will take place upon completion of the respective registrations. Prior to the entering of the trademark assignment agreement, TUSCAN'S Europe sold its products in some of the jurisdictions specified under the agreement, including Hong Kong. To our knowledge, TUSCAN'S Europe did not engage vendors to sell its products in those jurisdictions, and there has been no sale of such products by TUSCAN'S Europe in any of the jurisdictions specified under the trademark assignment agreement after the entering into of the same. As at the Latest Practicable Date, the trademark had been registered in Hong Kong and Macau and we had been assigned with the right, title and interest in the trademark registered in Hong Kong and Macau. Recordal of such assignments at the respective government authorities has been arranged. Regarding registration of the trademark in other jurisdictions, the Company understands from TUSCAN'S Europe that in the absence of obstacles, including third party oppositions or legal issues that may arise in the application process or administrative actions by the relevant governmental authority, it is expected to take approximately 8 to 12 months for the registration to be granted in Taiwan, approximately 12 to 24 months for the registration to be granted in Thailand and United Arab Emirates, approximately 8 to 14 months for a notice of allowance to be issued in the United States which indicates that the trademark will be permitted to be registered after the filing of the necessary documentation, while in Malaysia usually applications are not processed before 24 to 36 months from the filing date. In South Korea and Singapore, in the absence of obstacles, including third party oppositions or legal issues that may arise in the application process or administrative actions by the World Intellectual Property Organization, the World Intellectual Property Organization may take over one year to process a request for the extension of the protection in these additional designated countries.

Pending assignment of the aforementioned "TUSCAN'S" trademark to us, we have pursuant to a trademark license agreement entered into between TUSCAN'S Europe and our Company in January 2011 acquired an exclusive and assignable license from TUSCAN'S Europe to use the "TUSCAN'S" trademark in Taiwan, Thailand, Malaysia, the United Arab Emirates, the United States, Singapore and South Korea in connection with our retail business. The license granted to us to use the "TUSCAN'S" trademark in the United States shall only be effective when the trademark has been successfully registered by TUSCAN'S Europe in the United States while the license granted to us to use the "TUSCAN'S" trademark in other jurisdictions is deemed to be effective as of 1 December 2010 and all licenses shall continue until assignment of the aforementioned "TUSCAN'S" trademark to us.

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## BUSINESS

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Consistent with its Italian origins, we have positioned our TUSCAN'S products as a high-end, fashionable and stylish international brand. Our TUSCAN'S handbag products are typically priced between RMB1,500 and RMB4,500 per bag and target middle-class women between the age of 22 to 35. We believe TUSCAN'S can tap the rapidly growing high-end handbags and small leather goods retail market in the PRC, which is still in a formative stage of development.

We currently expect to sell a variety of TUSCAN'S product lines that are designed in different series, including:

- *Fashion*: fashionable handbag and small leather goods designed for general occasions, such as work, shopping and meetings and expected to be the primary product line;
- *Casual*: for casual dining and outdoor activities;
- *Occasions*: a more novel and high fashion series for special occasions and events;

In addition, we also expect to offer different product categories, including:

- *Small leather goods*: price points between RMB300 to RMB800; wallet, cardholders, key chains etc.
- *Fabric-oriented handbags*: price points between RMB800 to RMB1,800; made with fabric, PVC, nylon, with lower price points for customers looking for a more frequent change in handbag style;
- *Leather-oriented handbag*: price points between RMB1,800 to 2,800; key product; and
- *Luxury*: price points between RMB2,800 to RMB4,500; our 100% Made-in-Italy Series.

We independently manufacture, design and develop each of the products in our TUSCAN'S product lines, except for the products in our 100% Made-In-Italy Series, which are manufactured by TUSCAN'S Europe in Italy based on purchase orders we place with TUSCAN'S Europe according to our decisions to sell products under this product line. Our 100% Made-In-Italy Series is designed and developed by TUSCAN'S Europe's in-house design team in collaboration with our dedicated design and development team in the PRC. This collaboration allows us to combine Italian designing expertise and tradition with our strong understanding of PRC consumer preferences. For the designs of our other TUSCAN'S product lines, from time to time we engage a design team from a design studio based in Italy to work with our in-house design and development team. We source all of the raw materials for the TUSCAN'S products we manufacture, while TUSCAN'S Europe sources the raw materials used in the products in our 100% Made-In-Italy Series. However, regardless of the product line, we retain complete freedom and discretion with respect to the design, manufacture (including with regard to the raw materials used), promotion and distribution of our TUSCAN'S products, as well as with respect to the location of our TUSCAN'S retail stores and the expansion of our TUSCAN'S retail network, in the jurisdictions in which we hold a license or trademark to the TUSCAN'S brand.

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## BUSINESS

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We believe our strong manufacturing platform provides several competitive advantages in our retail business. Supported by our strong creative center and R&D Center, we are able to launch new TUSCAN'S handbag or small leather goods product lines quickly in order to meet fast changing consumer preferences and fashion trends. We also have the advantage of being able to test the market acceptance of each design before incurring significant production costs. We estimate that we are able to generate approximately 100 different designs and styles of handbags each six-month season and also introduce four to six SKU each month in order to attract customers to revisit our stores more frequently and increase store traffic. We are able to monitor the inventory status of our TUSCAN'S products through our ERP system, which is also capable of generating aging reports for the inventories, enabling us to keep track of the popularity of the products our retail business sells to determine whether to increase or decrease the production of particular models.

We believe that our TUSCAN'S products will not be in direct competition with our existing customers since the price range of our TUSCAN'S products is generally below that of our major customers, they typically target a different consumer group and market segment and our TUSCAN'S design team is independent and works separately from design and development teams for our other customers. Please see "Risk Factors — Risks Relating to Our Business — The continued expansion of our TUSCAN'S retail business depends on our ability to implement successfully our business strategy for that brand."

As of 31 October 2011, we employed 93 retail employees and had seven stand-alone retail stores with two in each of Beijing and Guangzhou and one in each of Chongqing, Jinan and Shenzhen. We also had nine department store concession counters as of 31 October 2011, with five in Shanghai, and one in each of Hefei, Jinhua, Ningbo and Wuhu. We also propose to enter into a lease for an additional retail outlet in Hong Kong, which is expected to commence business in or around December 2011. We also have plans to open additional retail outlets in the PRC and Macau. Since the launch of our retail business in February 2011, we have promoted TUSCAN'S handbag and small leather goods products through different marketing channels, including mass media, such as magazines, transportation advertising, such as in-flight advertisements, in-store promotion campaigns and fashion shows. The daily operations, business development, management and administration of our retail business is headed by a general manager with over 20 years of experience in retail chain management in the PRC. Our general manager is supported by a regional sales director based in the Northern region of the PRC with over eight years of experience in retail management in the PRC, specializing in training and development of sales teams, a regional sales director in the Eastern region of the PRC with over five years of experience in handbag and leather goods retail management in the PRC, specializing in sales management, and a regional sales director in the Southern region of the PRC with over nine years of experience in handbag and leather goods retail management in the PRC, specializing in retail stores development. We believe the size and experience of our retail management and staff provide a solid foundation for the future growth of our retail business and expect to expand our retail team as our retail network in the PRC grows. We currently plan to expand our retail network in the PRC by increasing the total number of retail outlets we operate in the PRC to approximately 100 over the next three years.

**PRODUCT RESEARCH, DEVELOPMENT AND DESIGN**

We believe that our experience in research and development of handbags and small leather goods constitutes one of our important competitive strengths. As of 31 October 2011, our creative center and R&D Center had approximately 1,100 and 62 staff, respectively, many of whom have significant experience in our industry, which enhances our ability to collaborate with our customers in their product development process. Our creative center designed or collaborated with our customers in the design and development of more than 5,000, 6,200 and 7,400 distinct handbags and small leather goods in Fiscal Years 2009, 2010 and 2011, respectively.

***International high-end and luxury brands***

At the beginning of the design process, for our international high-end and luxury brand customers, our creative center receives a design package, which generally includes technical drawings or electronic paper patterns, by way of encrypted email or regular mail, while for our private label customer, our creative center initiates the product design. Our creative center then studies the design concept in order to develop a product prototype. Our R&D Center provides input on the production process for handbags and small leather goods with different designs, as well as advice on product engineering to enhance the quality of the product. Typically, our creative center is able to produce a initial prototype within one to two months from receipt or creation of the design concept.

Once the first prototype is ready, the design team of the relevant international high-end and luxury brand customer usually visits our manufacturing sites to inspect, modify and refine the prototype together with our creative center. We also have in-house design and development teams who are assigned to certain of our major customers. We place our in-house design and development teams into separate design rooms in order to protect our customers' intellectual property. In addition, we also have designated working areas at our manufacturing sites for certain major customers' design teams to ensure the designs of one particular customer are kept confidential from our other customers. In order to preserve the confidentiality of our customers' designs, it is our policy that prototypes that are approved by our customers are destroyed once every two years, while first prototypes are destroyed once every year and prototypes that our customers no longer need due to subsequent modifications are destroyed once every six months. Our Directors confirm that as of the Latest Practicable Date and during the Track Record Period, we are not aware of any unauthorized use of our customers' prototypes or designs for our own production.

For Fiscal Years 2009, 2010 and 2011, our prototype conversion rate was approximately 60.0%, 65.0% and 68.7%, respectively. Once the refined prototype of the product is approved by our customer, our creative center will commence the production of sales samples for our customer for the purpose of gauging the response of sales personnel to the product. The number of sales samples to be produced can be up to a few thousands depending on requirements of our customers. The sales samples are typically evaluated by the customer's sales personnel only and not displayed or sold to end-consumers. Depending on the responses of the sales personnel to the sales samples, our customers determine the size of the purchase orders to be placed with us and we begin manufacturing the product.

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## BUSINESS

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The period from design-collaboration development up to the creation of the first prototype, typically takes one to two months. We generally bear the costs of the development of prototypes. For Fiscal Years 2009, 2010 and 2011, we incurred HK\$32.7 million, HK\$37.0 million and HK\$46.7 million, respectively, in prototype development cost.

### *Private label*

For our private label products, the design and development process begins when our creative center works with our R&D Center, which provides input on the production process for the product being designed, to provide a design that we then present to the customer, with whom we further refine the design. If the design is accepted by the customer, arrangements will be made to commence manufacturing of the products.

For a description of aspects of our product research, development and design for our TUSCAN'S brand products, see “— Retail Business”.

### **MANUFACTURING PROCESS**

The production of handbags, small leather goods and travel goods is a highly customized process that involves significant skill and craftsmanship. For example, our most complex handbags involve the manual assembly of more than 100 separate components by skilled workers, while the production process to make a complex handbag involves over 200 separate steps, which include the cutting of materials, the matching of materials, stitching, gluing and assembly.

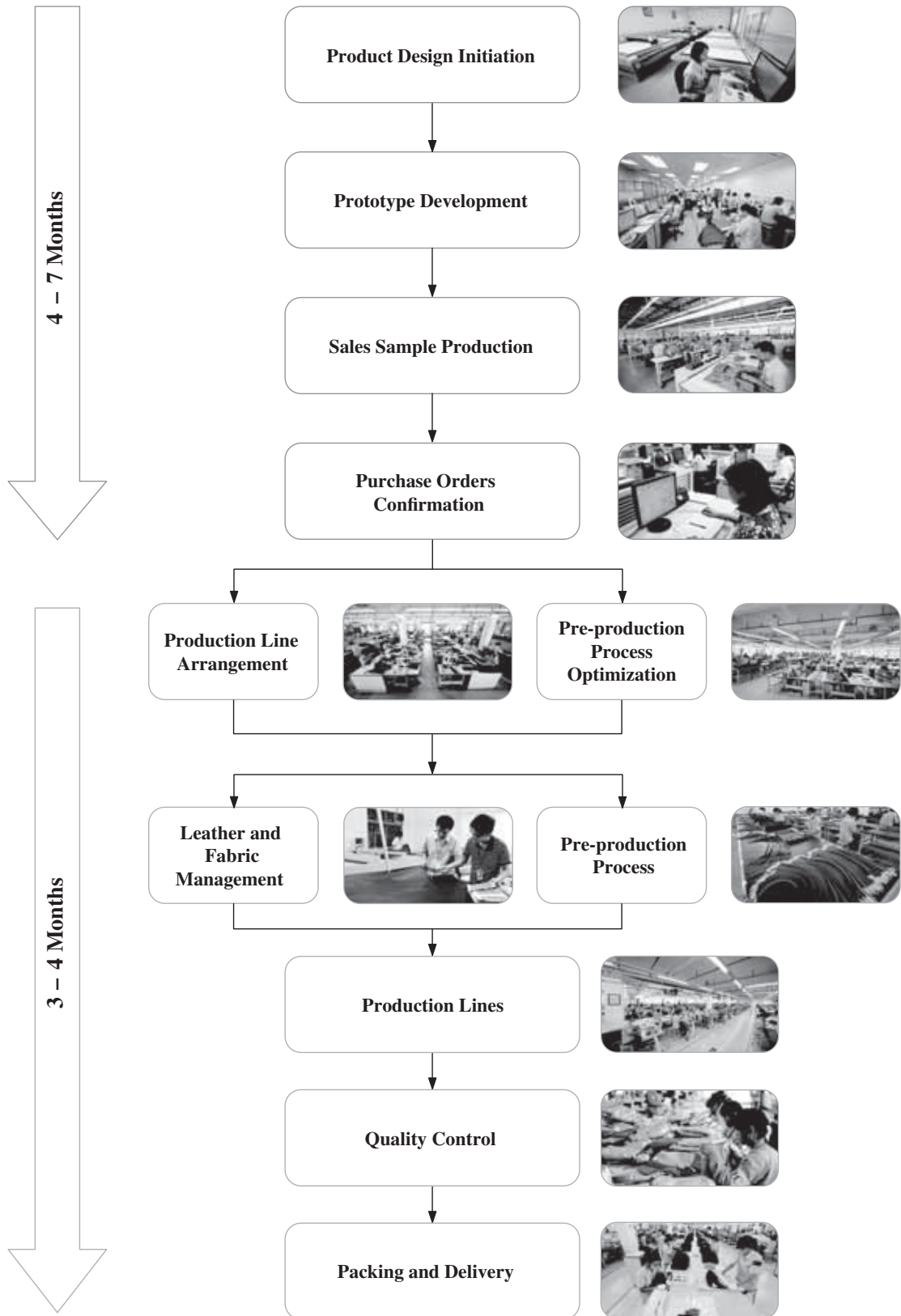
The production process for our product is characterized by two periods: First, product inception to the manufacturing of sales samples, which for most of our products ranges between 4 and 7 months, and second, receipt of purchase order to shipment of finished products, which for most of our products ranges between 3 and 4 months.

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The chart below sets out the key design, development and manufacturing steps in the production of our handbags, small leather goods and travel goods:



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## BUSINESS

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Descriptions of each of our key design, development and manufacturing steps are set forth below:

- ***Product Design Initiation.*** Our creative center receives a design package, including technical drawings or electronic paper patterns or, for our private label customer, initiates the product design for our customers.
- ***Prototype Development.*** Our creative center makes the first prototype of the product for consideration by our customers. We liaise with our customers to refine the prototype. Our costing department provides an indicative unit price of finished goods to the customers.
- ***Sales Sample Production.*** Once a customer is satisfied with the prototype, our creative center makes sales samples for the customers for the purpose of research on sales personnel responses to the product. We continue to discuss the unit price of the finished goods with our customer.
- ***Purchase Orders Confirmation.*** Depending on the response of the customer's sales personnel and the indicative unit price we provide, the customer decides the size of a purchase order to be placed with us. The final negotiated unit price of the finished goods is set out in the purchase order to be placed.
- ***Production Line Arrangement.*** Under our corporate planning department, the production planning team arranges suitable production lines for production, the material control team calculates the volume of the raw materials required, and the procurement team orders such materials from suppliers.
- ***Pre-production Process Optimization.*** Our R&D Center provides input into how to optimize the pre-production process, which includes input on the feasibility of volume production of the product in terms of design and materials, as well as advice on product engineering to enhance the quality of the product.
- ***Leather and Fabric Management.*** The leather and fabric we use in our products are subject to quality control inspections, and our cutting department cuts leather or fabric into various shapes as required for production and, with respect to leather, re-sorts the cut leather pieces according to color and pattern.
- ***Pre-production Process.*** We organize our manufacturing staff into several production teams to produce different product parts. Our initial quality control division of quality control department ensures raw materials satisfy our quality and design specifications before they are assembled together to become a finished product.
- ***Production Lines.*** On the production lines, different components, including cut, matched and processed leather and other components of the product are assembled together to make a finished product.
- ***Quality Control.*** Our quality control department and on-site quality control personnel of certain of our customers inspect the finished products to ensure that only quality products are packed.
- ***Packing and Delivery.*** If the quality is satisfactory, our shipping department arranges for the packing and delivery of the finished products to our customers.

### *Research, development and design*

At the beginning of the design and development process for our international high-end and luxury brand customers, our creative center receives a design package, which generally includes technical drawings or electronic paper patterns, by way of encrypted email or regular mail, while for our private label customer, our creative center initiates the product design. Our creative center then studies the design concept in order to develop a product prototype. Once the customer's in-house design team is satisfied with the prototype, we make sales samples that the customers can use to gauge the response of sales personnel to the product. Please see “— Product Research, Development and Design” for more details on our design and development capabilities.

### *Costing*

We aim to provide the costing information to our customers as early as possible in the production process. Our costing department is able to provide an indicative unit price for finished goods to our customers by way of a costs sheet, which includes the estimated raw material cost, labor cost, production overhead and our margins, when we deliver the first prototypes. Once the unit price is agreed between us and our customers, it is fixed in the customer's purchase orders.

### *Production line arrangement*

We prepare the production line arrangements for a production run once we receive the purchase order. Each type of handbag, small leather good and travel good has a unique production line designed by our corporate planning department. As of 31 October 2011, our corporate planning department had over 120 staff and consisted of three separate teams: the production planning team, the material control team and the procurement team.

The production planning team studies the prototype of each product that is approved by customers in order to develop an efficient production line. The material control team calculates the volume of the raw materials required and the procurement team orders the materials from suppliers. We perform quality control checks on the raw materials we procure and visit our suppliers' sites regularly to ensure that the raw materials we order are of high quality and delivered to us on time.

Our R&D Center is responsible for identifying each step in the manufacturing process, while our corporate planning department is responsible for inputting the relevant production data into our ETS system, which enables us to track the lead times of our key production processes.

### *Leather and fabric management*

The leather and fabric that are delivered to our manufacturing sites are inspected manually for flaws and subject to strict quality control inspections to international standards at a laboratory near our raw material warehouse, including with regard to the color of materials, water resistance, temperature resistance and tension resistance. We classify leather, the primary material we use for manufacturing handbags and small leather goods, into four grades, Grade A, B, C and D, based on the amount of flaws in the leather and the size of the usable area of the leather. Among the four grades, Grade A leather has the least flaws and has approximately 80% to 90% usable area, while Grade B leather has approximately 70% to 80% usable area and Grades C and D have approximately 60% to 70% and lower than 60% usable leather, respectively. The products that we manufacture are made of a mixture of Grades A and B leather,



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## BUSINESS

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with luxury goods typically containing more than 90% Grade A leather and less than 10% Grade B leather and high-end goods typically containing approximately 60% Grade A leather and 40% Grade B leather.

After the inspection is complete, the leather and fabric is assigned a tracking number by our ERP system and is taken to warehouses for storage. Our warehouses have special storage facilities that have air-conditioning, humidity control and specially-made A-shaped racks for storing leather to ensure the high quality of the raw materials is maintained. However, since the leather and other raw materials we use are highly affected by pestilence and other unpredictable factors and consumer preferences for a particular type of leather or other raw materials can change quickly, we do not generally accumulate large inventories of raw materials.

Our cutting department is responsible for cutting the leather and fabric into various shapes required for each product. Different product designs require different cutting skills and techniques, such as creasing and cutting or computerized cutting. We have also installed computerized cutting machines in our cutting department to modernize our leather cutting process. Each piece of cut leather is re-sorted by our skilled staff according to color and pattern before being taken to the production line.

Each batch of cut leather and fabric, known as components, is assigned a barcode by our ERP system before it is delivered to the production line so that it can be tracked.

### *Pre-production process*

We have introduced lean production practices into our production process to increase production efficiency and minimize waste. Prior to the assembly of our finished products, our R&D Center provides input into how to optimize the pre-production process, which includes input on the feasibility of volume production of handbags and small leather goods with different designs, as well as advice on product engineering to enhance the quality of the product. Based on this input, we organize our manufacturing staff into multiple production teams in order to produce the different components of a product and ensure each component satisfies our quality and design specifications before they are assembled together into the finished product. Our initial quality control division of quality control department ensures that raw materials satisfy our quality and design specifications, before they are assembled together into a finished product. This streamlined production process enables us to discover and resolve any issues relating to production at the early stage, thereby allowing us to increase efficiency, improve product quality and reduce wastage and cost.

### *Production Lines*

Our ERP system tracks and monitors each piece of raw materials and component, starting from when it is delivered to our site to when it is assembled into a finished product. Each production line employee is assigned a step in the assembly process. To increase efficiency, our ETS system also indicates a daily target number of components to be finished by each employee on the production line. Our employees are usually able to finish the daily target number of components to assemble each day.

Each step on the production line has a team leader who is responsible for supervising and monitoring the quality of that particular step on the production line. As of 31 October 2011, we had approximately 11,500 employees on our production lines working in different workshops. We will only assign the most experienced and skilled workers to handle the most complicated and value-added part of production, such as stitching and leather cutting. As of 31 October 2011, our production lines consisted of between 40 and 70 employees each.

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## BUSINESS

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On the production lines, our workshops are responsible for putting together the primary product components. We assign dedicated production lines and working areas for certain of our major customers. On the production lines, different components, including cut, matched and processed raw materials, are then assembled together to become the finished product.

It generally takes up to four weeks to complete the entire manufacturing process for a particular handbag or small leather good purchase order once the production process has been initiated.

### *Quality control, packing and delivery*

The quality control procedures that we undertake with respect to finished products are performed by both our quality control department and our customers. Our major customers generally send their own quality control team to our site periodically to inspect the quality of finished products to ensure their quality requirements are met. If the result of quality control procedures is satisfactory, our shipping department arranges for the packing and delivery of the finished products to our customers. Please see “Business — Quality Control” for more details on our other quality control measures.

## MANUFACTURING FACILITIES

As of 31 October 2011, we operated five manufacturing facilities with a total of 208 production lines, approximately 14,700 staff and an aggregate gross floor area of approximately 148,700 sq.m. Four of our manufacturing facilities are located in Dongguan, Guangdong Province, PRC, and one of our manufacturing facilities is located in Yingde, Guangdong Province, PRC. The manufacturing facilities in Dongguan have 126 production lines and a total of approximately 8,700 employees, and the manufacturing facility in Yingde has 82 production lines and a total of approximately 5,800 employees. Our manufacturing facilities also benefit from being in close proximity to certain of our suppliers and have access to efficient port facilities to receive shipments from suppliers located outside of the PRC, which helps to reduce costs and shorten delivery times.

As of 30 June 2009, 2010 and 2011, our estimated annual production capacity was approximately 10.5 million, 12.8 million and 16.1 million units of handbags, small leather goods and travel goods, respectively, while our estimated utilization rate for the Corresponding Fiscal Years was approximately 69%, 73% and 76%, respectively. Our estimated annual production capacity is computed on the basis of the production month in which we recorded the highest production volume during the relevant Fiscal Year, assuming the same production volume would be achieved in every month during that Fiscal Year. The estimated utilization rate is the actual number of products manufactured divided by the estimated annual production capacity for the relevant Fiscal Year. The increase in our estimated annual production capacity was primarily due to the increase in the number of our production lines from 123 to 191 during the Track Record Period as a result of increased demand for our products from our customers. We believe this increase also improved our manufacturing flexibility and efficiency and allowed us to better meet the varying demands of our customers.

## BUSINESS

We plan to continue expanding our manufacturing capabilities. With respect to our manufacturing facilities, our current expansion plans include a second phase of expansion of our manufacturing facility in Yingde. We entered into a construction contract with respect to two buildings as part of the second expansion phase of our Yingde manufacturing facility in September 2010 and, according to our PRC legal advisers, we have obtained all necessary approvals and licences from the relevant PRC authorities in connection with the construction of these two buildings. We are in the process of negotiating construction contracts with respect to the remaining buildings and will proceed to obtain the requisite property ownership certificates for these buildings prior to commencement of production. Production at the first two buildings of the second phase of the facility is expected to commence in or around December 2011. Production at the remaining buildings is currently expected to commence in Fiscal Year 2013, with approximately 50% production capacity available at the beginning of Fiscal Year 2013 and the remaining production capacity available at the end of Fiscal Year 2013. The second phase will increase the number of our production lines by 84 and our estimated annual production capacity by approximately 8.1 million units when fully complete. We expect that the expansion of our manufacturing facility in Yingde will enhance our technical standard as we expect to install in such facility machinery and equipment that are more technologically advanced than those in our existing manufacturing facilities.

However, unlike manufacturing facilities that have standard production requirements and production times for particular products, the production requirements and production times for our handbags, small leather goods and travel goods vary significantly due to a number of factors, such as differences between the styles and structures of the products, the number of workers that can be used in a production line for a particular product, and the high level of craftsmanship involved in the production of our products, which limits the number of the steps in our production process that can be automated. In addition, we may receive orders for the production of complex products with lower production volumes but with higher selling prices, as well as less complex products with higher production volumes but with lower selling prices. As a result, our estimated annual production capacity and utilization rate may not be an accurate indication of the use of our production capacity or meaningful in estimating our profitability.

The following table sets forth certain information with regard to our manufacturing facilities as of 30 June 2011:

<u>Facility Location</u>	<u>Estimated Annual Production Capacity (’000 units)</u>	<u>Floor Space (in ’000 sq.m.)</u>	<u>Number of Production lines</u>	<u>Year Operations Commenced</u>
Main Factory (Dongguan) . . . . .	4,838.0	42.5	61	2000
Qiaotou Branch (Dongguan) . . .	1,891.8	9.0	18	2007
Xiabian Branch (Dongguan) . . .	1,637.8	9.3	15	2010
Qiaonan Branch (Dongguan) . . .	2,104.0	9.2	29	2010
Yingde Factory (Yingde) . . . . .	5,621.0	78.7	68	2009
Total . . . . .	<u>16,092.5</u>	<u>148.7</u>	<u>191</u>	

Each of our manufacturing facilities had the ability to manufacture handbags, small leather goods and travel goods. As of the Latest Practicable Date, each of our facilities manufactured handbags and small leather goods, while travel goods were only manufactured at our Yingde facility.

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## BUSINESS

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In 1987, Sitoy Company entered into a processing agreement with Dongguan External Processing and Assembly Services Company\* (東莞市對外加工裝配服務公司) and Dongguan Houjie Qiaotou Sitoy Handbag Factory\* (東莞厚街橋頭時代手袋廠) (previously known as Dongguan Nanwu Sitoy Handbag Factory) in respect of the operation of Dongguan Houjie Qiaotou Sitoy Handbag Factory\* (東莞厚街橋頭時代手袋廠) in Dongguan, Guangdong Province and its undertaking of our Group's manufacturing activities. Pursuant to such processing agreement and its supplements and subsequent renewals, the PRC party agreed, among other things, to provide factory premises, labor and electricity while our Group agreed, among other things, to provide machinery, equipment, raw materials, ancillary materials and packaging materials required in the manufacturing process of the manufacturing facility. Our Group had to pay a processing fee for the processing services provided by Dongguan Houjie Qiaotou Sitoy Handbag Factory\* (東莞厚街橋頭時代手袋廠). As confirmed by our PRC legal advisers, Dongguan Houjie Qiaotou Sitoy Handbag Factory\* (東莞厚街橋頭時代手袋廠) was not a separate legal entity and it had operated in the form of "three types of processing plus compensation trades" under the processing agreement and its supplements and subsequent renewals. As disclosed in note 12 "Income Tax Expense" in the Accountants' Report in Appendix I to this prospectus, our Group received concessionary tax treatment in Hong Kong as a result of the processing arrangement during the Track Record Period.

Dongguan Houjie Qiaotou Sitoy Handbag Factory\* (東莞厚街橋頭時代手袋廠) ceased operations in 2011 and consolidated its manufacturing facility into Sitoy Dongguan. Before its cessation of operation, the manufacturing facility occupied a gross floor area of approximately 9,000 sq.m. with 18 production lines and a total number of approximately 1,000 employees. Our Directors believe that the business and operations of our Group will not be adversely affected by the cessation of operation of the manufacturing facility because its manufacturing activities have been fully taken up by Sitoy Dongguan.

### RAW MATERIALS AND SUPPLY CHAIN MANAGEMENT

#### *Raw materials*

The raw materials that we use to produce handbags and small leather goods consist primarily of leather, fabric, straw, PU, PVC and, to a lesser extent, other materials such as metal components or reinforcement like EVA or bonded leather. The raw materials required to produce travel goods are essentially the same, although the proportion of leather used in travel goods is less than that in handbags and small leather goods. There are also other auxiliary manufacturing materials, such as thread, lining, reinforcement material, edge paint and various packaging materials that we use to manufacture handbags, small leather goods and travel goods.

For the purpose of estimating the prices of handbags, small leather goods and travel goods produced by us, our costing department typically provides our customers with a costs sheet that sets out our estimated costs for producing a product at the time we provide the first prototypes. Please see "— Manufacturing Business — Pricing".

**Leather**

Leather is the primary material we use for manufacturing handbags and small leather goods and typically represents over half of the costs we incur in producing the handbags and small leather goods that we produce. We choose the leather we use based on the absence of flaws in the leather and the size of the usable area of the leather and use primarily high-end cow leather in the products we manufacture.



**Fabric**

Fabric is also one of the primary materials we use in manufacturing our products. In certain cases, our customers may nominate or recommend the fabric suppliers to us.



**Straw**

The surface of a small portion of our handbags and small leather goods are made of straw. We source good quality straw for such products.



**PVC/PU**

We generally refer to PVC and PU as synthetic leather or imitated leather. PVC and PU which are relatively less expensive, are used to strengthen and enhance the appearance of handbags, small leather goods and travel goods.



**Metal components**

Almost all of our handbags, small leather goods and travel goods have metal components, such as clamps, zippers, hooks, snaps, latches and frames, that we purchase from suppliers.



**EVA**

Depending on the design, we use EVA to shape or strengthen handbags, small leather goods and travel goods by inserting it into inner layer of leather.



### *Supply chain management*

We procure our raw materials through our procurement team, which is managed by our corporate planning department. Many of our customers have designated suppliers of raw materials that we are mandated to use in manufacturing their products. However, substantially all of our suppliers act as both designated and non-designated suppliers, depending on the customer and the product ordered, and for Fiscal Years 2009, 2010 and 2011, each of our five largest suppliers acted as both designated suppliers and non-designated suppliers. When a supplier is designated by a customer, the only principal difference in our ordering and procurement arrangements is that the customer designates the raw materials to be purchased by our procurement team from the supplier. In addition, we may be able to benefit from our customers pricing leverage and influence and receive priority in obtaining supplies of high-quality new materials. When we receive an order from a customer that involves a supplier that has been designated by that customer, it is our internal policy to strictly adhere to the requirements set forth in the purchase order with respect to quantity, type and quality of the raw materials that are requested to be procured for the manufacture of that customer's product. When our customers do not require that we use a designated supplier, our procurement team identifies a supplier and purchases each raw material we require for our products. Our procurement team also visits suppliers regularly to ensure that the raw materials are of high quality and delivered on a timely basis. Such visits also enable our procurement team to learn about newly available raw materials and the latest trends in the high-end and luxury branded handbag and small leather goods industry.

We perform strict inspections of the quality of raw materials at a laboratory near our raw material warehouse to ensure the quality of our raw materials meet our required standards. Our laboratory is equipped to inspect various aspects of our raw materials to international standards, including with regard to the color of materials, the smoothness of zippers, water resistance, temperature resistance and tension resistance. We have also established a chemical custody team to carry out various measures, including engaging third parties to carry out chemical testing of our finished products for compliance with EU product safety standards.

We generally do not enter into long-term supply agreements, and typically we procure the raw materials and components that we require through purchase orders, and generally only order the raw materials we require for a particular product after we have received a purchase order from the relevant customer. After first complying with any specific requirements our customers may require with regard to our suppliers, such as using designated suppliers or requiring suppliers to meet certain quality control standards, we primarily focus on the following criteria in selecting our suppliers: quality, price, experience, service and payment terms.

We purchase our raw materials from over 300 different suppliers, the majority of which are located outside the PRC and also include a substantial number of PRC-based raw material suppliers. For Fiscal Years 2009, 2010 and 2011, purchases attributable to our single largest supplier amounted to 4.8%, 4.7% and 4.3%, respectively, and purchases attributable to our five largest suppliers amounted to 18.2%, 16.9% and 16.0%, respectively, of our total purchases. As of 30 June 2011, our five largest suppliers included an international supplier of leather hides for leather goods, small leather goods and footwear based in Spain; a global supplier of textiles and fabrics for high-end handbags and apparel based in South Korea; a South Korean-based supplier of high-quality leathers for fashion products; a PRC-based supplier of leather; and a South Korean-based supplier of leather. As of 30 June 2011, the length of our business relationships with our ten largest suppliers averaged over six years. The manner in which we pay our suppliers varies, ranging from cash on delivery, telegraphic transfer before shipment, and telegraphic transfer within 30 to 60 days following shipment.

## BUSINESS

None of our Directors or their associates, or any Shareholders, who, to the knowledge of our Directors, owns more than 5.0% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of our five largest suppliers in Fiscal Years 2009, 2010 and 2011.

### SALES AND MARKETING

#### *Manufacturing business*

We received orders from more than 20 customers in Fiscal Year 2011. We have a sales and marketing department of more than 170 employees dedicated to sales and marketing, who proactively promote referrals by our existing customers and word-of-mouth to market our products.

We have sales and marketing teams that collaborate with certain of our major customers. When our sales and marketing teams receive instructions or requests from these major customers, such communications are provided to our various departments and teams promptly and we seek to fulfill the requests or provide solutions as soon as practicable.

#### *Regional segments for our products*

For Fiscal Years 2009, 2010 and 2011, 71.1%, 72.8% and 68.0%, respectively, of our revenue was derived from sales to customers that required the products we manufactured for them to be shipped to distribution centers in North America. The following table sets forth, for the periods indicated, a breakdown of our revenue by region of the customer distribution centers to which our products were shipped and the revenue generated from each region as a percentage of our revenue. The location of our customers' distribution centers may not necessarily correspond to the region in which the products are ultimately sold by our customers.

	For Fiscal Year Ended					
	2009		2010		2011	
	(HK\$'000, except percentages)					
North America . . . . .	960,166	71.1%	1,255,661	72.8%	1,694,261	68.0%
Europe . . . . .	286,750	21.2%	323,133	18.7%	424,505	17.0%
The PRC, Hong Kong, Macau and Taiwan . . . . .	22,749	1.7%	39,953	2.3%	219,756	8.8%
Other Asian countries . . . . .	74,908	5.6%	106,818	6.2%	151,695	6.1%
Others . . . . .	5,115	0.4%	752	0.0%	3,055	0.1%
<b>Total . . . . .</b>	<b><u>1,349,688</u></b>	<b><u>100.0%</u></b>	<b><u>1,726,317</u></b>	<b><u>100.0%</u></b>	<b><u>2,493,272</u></b>	<b><u>100.0%</u></b>

#### *Retail business*

Since the launch of our retail business in February 2011, we have promoted TUSCAN'S handbag and small leather goods products through different marketing channels, including mass media, such as magazines, transportation advertising, such as in-flight advertisements, in-store promotion campaigns, and fashion shows in order to effectively reach targeted customers. We intend to further enhance the brand recognition of TUSCAN'S as a high-end fashion brand with Italian origins through the launch of a national promotional campaign in multiple advertising channels, including those described above, in addition to high profile store opening ceremonies.

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## BUSINESS

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### PURCHASE, PAYMENT AND OTHER ARRANGEMENTS

We develop and manufacture handbags and small leather goods for our customers based on their individual purchase orders. We are not the exclusive supplier for, and have not entered into long-term purchase agreements with, any of our customers. The purchase orders generally specify the model, quantity, unit price and delivery time of the product.

Our key customers generally give us at least a one-year indication of the number of orders they expect to place with us for the coming year. In addition, as a result of the order requirements of our customers, we generally deliver (typically at the port of shipment) our products on average three to four months after the date when we receive the agreed purchase orders from our customers. This means that the number of orders we have scheduled for delivery at any one time generally gives us good visibility as to the revenues we will generate over any given six-month period.

Our trading terms with our customers, which are substantially the same for all of our customers, including our private label customers, are primarily through letters of credit. Our payment terms range from telegraphic transfers before shipment and letters of credit at sight to letters of credit and telegraphic transfers within 10 to 90 days. The payment period of individual customers is considered on a case-by-case basis, but most of our customer payment arrangements are pursuant to letters of credit at sight. We receive cash for the significant majority of our sales transactions after we have delivered our products (typically at the port of shipment).

All of our manufacturing activities in the PRC are undertaken by Sitoy Dongguan and Sitoy Yingde, our PRC manufacturing subsidiaries, while the sales, marketing and other administrative activities with respect to the products they manufacture are undertaken by their Hong Kong holding companies, Sitoy Handbag and Sitoy Company, respectively. With respect to invoicing, when Sitoy Dongguan manufactures a product, it invoices Sitoy Handbag, which then invoices our customers. When Sitoy Yingde manufactures a product, it invoices Sitoy Company, which then sells the products to, and invoices, Sitoy Handbag, which then invoices our customers. We have used Sitoy Handbag to invoice our customers since its incorporation in 1982. As advised by our legal advisers as to Hong Kong laws, our invoicing arrangements do not infringe the applicable customs laws in Hong Kong. As advised by our PRC legal advisers, according to the relevant compliance letters issued by the local tax authorities and customs authorities, our invoicing arrangements do not infringe the applicable tax and customs laws in the PRC. With respect to our transfer pricing arrangements relating to these intercompany transactions, please see “Financial Information — Combined Results of Operations — Description of Certain Income Statement Line Items — Income Tax Expense”.

### AWARDS AND RECOGNITIONS

As a result of our commitment to the quality of our products, quality management system, contribution to exports from the PRC and focus on the continued improvement of our working environment and human resource management, we have received the following awards and recognitions among others:

- In 2011, we were accredited as “Houjie Town 2010 Foreign Trade Export Contribution Award — Ranked 8th (厚街鎮2010年度外貿出口貢獻獎 — 排名第八)” by the Foreign Trade and Economic Cooperation Office, the People’s Government of Houjie Town, Dongguan, PRC.



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## BUSINESS

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- In 2010, we obtained a renewal of our Certificate of Registration for ISO 9001:2008 certification issued by the British Standards Institution for the production of handbags by Sitoy Dongguan, which was originally issued in 2001.
- In 2010, we were accredited as “Qingyuan Municipal Government — Export-Increasing Enterprise Award (清遠市政府企業擴大出口獎)” by the People’s Government of Qingyuan City, Guangdong Province, PRC.
- In 2010, we were accredited as “Enterprise with Harmonious Employment Relationship (勞動關係和諧企業)” by the People’s Government of Houjie Town, Dongguan, PRC.
- In 2008, we were awarded a “Most Consistent Management Commitment” certificate by Coach.
- In 2006 and 2007, we were awarded a “Most Improved in Health & Safety” certificate by Coach.
- In 2006 and 2007, we were accredited as “Advanced Enterprise (先進單位)” by the Dongguan Labor Bureau, Dongguan, PRC.
- In 2005 and 2008, we were accredited as “Home of Employees (職工之家)” by the PRC State Labor Union (中華全國總工會).
- In 2004 and 2007, we were accredited as “Enterprise with Staff Satisfaction (員工滿意企業)” by the People’s Government of Houjie Town, Dongguan, PRC.

We will strive to build and maintain our reputation. Our Directors believe that, as a result of the awards and recognitions, we are able to attract a broader customer base.

## COMPETITION

### *Manufacturing business*

The high-end and luxury branded handbag and small leather goods manufacturing industry is highly competitive. Our competitors are primarily PRC-based outsourced handbag and small leather goods manufacturers, given the low cost of labor in the PRC. We do not believe that manufacturers in other emerging markets will become a significant source of competition in the foreseeable future because the PRC has superior infrastructure, numerous raw material suppliers, especially in Guangdong Province, as well as a large number of skilled and efficient workers. Please see “Industry Overview”. We compete with other global manufacturers in the PRC and in other Asian countries principally on reputation, manufacturing know-how and craftsmanship, product quality, product research, development and design skills, price, product range, delivery, customer service and distribution.

We believe we distinguish ourselves from other PRC manufacturers in each phase of the handbag and small leather goods production process on the basis of the strength of our relationships with our customers, our technical know-how and capabilities, our integrated design and research and development services, our financial resources and our strong management.

### *Retail business*

The high-end handbag and small leather goods market in the PRC is still at a formative stage and has grown rapidly in recent years. We expect this market will continue to grow in conjunction with the PRC economy. As a result, competition in this market is likely to increase as both international and domestic brands enter into the market in the PRC.

We compete with other high-end handbag and small leather goods companies on product design and brand image, product quality and pricing. We believe the following factors will allow us to remain competitive:

#### **Our retail business will be vertically integrated**

We are able to research, develop, design, manufacture and market our TUSCAN'S products to the PRC retail market. This will enable us to monitor and control each production step, reduce our cost and allow us to react quickly to changes in market trends and consumer preferences.

#### **We can leverage the long and in-depth experience and well established platform of our high-end and luxury manufacturing business for our TUSCAN'S products**

We believe our strong manufacturing platform provides several competitive advantages in our retail business, including, for example, our strong creative center and R&D Center, which will have knowledge of international trends, will enable us to launch a new TUSCAN'S handbag or small leather goods prototype within one week, permitting us to take advantages of changes in consumer preferences. Also, as TUSCAN'S is our brand, we have the advantage of being able to test the market acceptance of each design before incurring significant costs.

#### **We have a focused target market with an appropriate product portfolio**

We position and price our TUSCAN'S products at above local PRC luxury branded goods, but below international luxury branded goods brands, and target middle-class women aged between 22 and 35. By targeting this market, we avoid any direct competition with our customers, which are usually focusing on first-tier cities with relatively strong brand recognition and loyalty. In addition, we believe that we can tap into the potential strong demand for affordable branded fashion goods by the rapidly growing middle class in the PRC, in particular in light of the increasing popularity in the PRC of high-end handbags of foreign origin as compared to local PRC brands.

### **QUALITY CONTROL**

We focus on the quality of our products and perform various quality inspections and testing procedures, including random sample testing at different stages in the manufacturing process, including with respect to the inspection of leather, the cutting of leather and fabrics, finished products and packaging. As at 31 October 2011, we had a quality control department of more than 600 employees dedicated to the quality control of our products. Our quality control department employees are not required to have specific qualifications; however, the employees that we select to join this department generally have industry experience and are familiar with the processes that they inspect and test. In 2010, we obtained a renewal of our ISO 9001:2008 certification, which was originally issued in 2001, for the production of handbags by Sitoy Dongguan. The certification applies to each of our manufacturing facilities in Dongguan. This certification is renewed every three years and is currently valid until 2013. We obtain the certification, which requires that our handbags meet the international standards of quality assurance, independent of any requests from our customers. As of the Latest Practicable Date, we expect to be able to renew the certification upon expiration.

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## BUSINESS

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Many of our customers require us to comply with specific guidelines based on US, EU and international product safety and restricted and hazardous materials laws and regulations that apply in the jurisdictions into which they import and sell their products. Certain of these customers also require us to provide warranties and indemnities relating to our compliance with these requirements, complete questionnaires and provide access to our facilities for purposes of inspections, among other things. If the products that we manufacture do not comply with these requirements, our customers could suspend their current business activity with us until we have taken the necessary steps to remedy the violations of these requirements and prevent future violations, cancel outstanding orders, terminate purchases from products made from one of our manufacturing facilities or from us generally or report any illegal activity to the appropriate legal authorities. Depending on the material, our customers require us to comply with, among other things, the EU Registration, Evaluation, Authorisation and Restriction of Chemicals (“REACH”) Regulations standards with respect to Substances of Very High Concern (“SVHC”) and the EU Restriction of Hazardous Substances Directive (“RoHS”) standards, and require that we undertake detection and analysis testing for lead, nickel, perfluorooctane sulfonate, dimethyl fumarate, azo dyes, pentachlorophenol, benzene, toluene, trichlorobenzene and butylated hydroxytoluene, among other substances, in order to comply with applicable standards. Please See “Regulatory Overview — Overseas Regulations”.

In order to ensure that the contents of the products we manufacture meet our standards and comply with our customers’ requirements, we perform quality control and sample checks on the raw materials we procure and visit both designated and non-designated suppliers’ sites regularly to review the quality of the raw materials that we order and to confirm they are delivered on a timely basis. In addition, our chemical custody team has the materials we use in our products tested at internationally recognized independent testing centers, such as SGS, Bureau Veritas and Intertek Testing Services, and we enter into agreements with our suppliers setting out the relevant standards and specifications of the materials they are required to supply us. The testing centers spot check the materials our suppliers provide to us for compliance with the relevant regulations and standards, as well as any other related testing we may require. To the extent the materials provided to us by our suppliers fail the tests, we return the materials to the relevant supplier and the supplier is responsible for any costs associated with the return. If the supplier fails to comply with our requirements repeatedly, we remove them from our list of certified suppliers and terminate purchases of materials from that supplier. In addition, under our arrangements with our suppliers, we typically require our suppliers to indemnify us for any liability or damages that result if the products supplied is rejected and returned by our customer as a result of the materials supplied failing to meet the requisite testing requirements, including any compensation that we must pay our customers as a result of such failure.

We also perform strict inspections of the quality of raw materials at a laboratory near our raw material warehouse. Our laboratory is equipped to inspect various aspects of our raw materials to determine if they meet international standards, including with regard to the color of materials, the smoothness of zippers, water resistance, temperature resistance and tension resistance. The leather and fabric that we use are also checked manually for flaws and the leather we use is classified according to the number of flaws and usable area. The quality control devices we use in these inspections include color assessment cabinets, water resistance testers, crocking testers, crockmeters, abrasion testers and taber abrasors. For other raw materials, we will carry out sampling tests. In addition, we use a tensile test machine to predict how materials will react under different types of forces and a temperature and humidity chamber and a salt test machine to test the durability of a new designed product.

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## BUSINESS

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While customers generally inspect and monitor the production process through their on-site technical managers and quality control personnel, we have independent quality control guidelines and procedures for inspection and monitoring of the different production stages in order to comply with our and our customers' product quality requirements and attempt to identify defects and non-compliant products at an early stage of production. Although there is no set schedule with respect to when the inspections and testing occur and they can vary from product to product, the inspections and tests are carried out on each production line daily. We also undertake testing of our quality control equipment to ensure its accuracy.

Once finished products are made, our quality control department (and, for certain major customers, their own quality control team) inspects the quality of the finished products to ensure they meet their quality requirements. As part of this process, we have checklists to check the quality of products, such as the condition of materials, thread colors, edge painting, labels, zippers and metal components, among others. In addition, we require a fixed number of products in each of our shipments to be randomly sample tested. Our quality control department is committed to ensuring only quality finished products are packed and delivered to our customers in accordance with the customs, packaging and labeling guidelines provided by our customers.

### **INVENTORY CONTROL**

#### *Raw materials*

The supply of leather and other raw materials we use are highly affected by pestilence and other unpredictable factors. In order to avoid accumulating large inventories of raw materials, we generally only place orders for raw materials until after we have received confirmed purchase orders from our customers and time the delivery of the raw materials required for our purchase orders in a manner that is coordinated with our customers' requested delivery dates so as to minimize the time we have to store raw materials prior to production. Any excess raw materials that result from the manufacturing process are typically disposed of at no cost. We do keep a small amount of inventory of certain auxiliary manufacturing materials, such as thread, lining, reinforcement material and edge painting, but the cost of these materials is minimal.

#### *Products for our customers*

Finished goods inventory only occurs where we store the finished products pending shipment to our customers. Our ERP system keeps track of the finished goods inventory level and itinerary of shipments through a computerized inventory control system.

### **MANAGEMENT INFORMATION SYSTEMS**

We recognize the importance of using management information systems to increase our productivity and efficiency. We have ETS and ERP systems to help us evaluate our manufacturing performance, identify production bottlenecks, and design and implement programs to improve our operating efficiency. During the manufacturing process, our ERP system traces our inventory and raw materials and provides real time data to us to determine their current status. By using the system, we are able to monitor the manufacturing process and identify the production line that is working on a particular material or product. Our ERP system integrates internal and external management information across our entire organization to facilitate the flow of information between all business functions inside our

## BUSINESS

organization. We expect to upgrade our ETS and ERP systems as our business needs require and have purchased, and are also in the process of implementing, an SAP system to more efficiently manage our business.

In addition, we have an information system in place to centrally monitor sales activity and inventory levels at our TUSCAN'S retail stores on a timely basis from our office headquarters. We plan to invest in enhancing our ERP and management information systems in order to achieve better inventory control with our TUSCAN'S retail stores.

By upgrading such system and by creating a direct interface between the individual systems at each of our retail stores, we will be able to obtain timely operating data of our retail stores, thereby allowing our management to further improve inventory and financial management capabilities and communication among the retail stores.

### EMPLOYEES

The following table sets forth, for the periods indicated, the number of our employees employed in the areas of human resources and administration, research, development and design, quality control, manufacturing and other areas.

	As of 30 June		As of
	2009	2010	31 October 2011
	<b>Number of Employees</b>		
Production department .....	6,928	9,351	11,585
Creative center .....	527	769	1,132
Quality control department .....	448	503	606
Management and administration department .....	428	493	609
Warehouse .....	98	158	178
Sales and marketing department .....	114	127	171
Corporate planning department .....	87	99	122
Costing department .....	44	51	66
R&D Center .....	17	43	62
Accounting department .....	36	44	56
IT department .....	8	10	13
Retail .....	0	0	93
<b>Total</b> .....	<b>8,735</b>	<b>11,648</b>	<b>14,693</b>

We recruit our employees through our own recruitment center, agents, general employment advertisements and by word-of-mouth from other factories. We recognize that human resource management is an important factor in maintaining and further enhancing our strong expertise and know-how in the craftsmanship of handbags, small leather goods and travel goods. We have an employee training center to provide pre-job training programs to our new recruits before they are assigned to work at our manufacturing facilities. From time to time, we also provide different levels of on-the-job training to our employees to broaden their skills and enhance their productivity. We provide competitive remuneration and reward our best performers with incentive payments and additional training in order to retain top talent in the industry.

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## BUSINESS

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In addition, we provide staff quarters for most of our employees and, in case of certain senior employees, family quarters. We also provide various amenities and recreation facilities such as canteen, clinic, sports site, library and internet center for our employees. We will continue to improve the working environment in our manufacturing facilities and the living facilities for our employees.

We seek to grow our management team internally through effective training and promotion programs. In particular, certain of our employees in our creative center and R&D Center are promoted from our production lines.

We enter into employment agreements with our employees, and our basic employment agreements stipulate the name, scope of work, term of employment, remuneration and other benefits for the relevant employee. Our employment agreements with certain key personnel include confidentiality and non-compete provisions.

We provide our employees with training programs on work safety, including training on the safe use of equipment, and conduct regular inspections and maintenance checks on our safety equipment in compliance with the applicable national or industrial standards. Our Directors are aware of the importance of work safety, and we have in place safety guidelines and operating manuals setting out safety guidelines for our production processes.








We contribute to our employees' social insurance, provident housing fund and certain other employee benefits in accordance with PRC laws and regulations and adhere to both statutory employment standards and those requested by our customers, such as minimum wage levels and maximum working hours.

We are also required to comply with the guidelines imposed by our customers relating to human health and safety conditions. Our customers are generally concerned with the number of working hours and with the use of child labor in the facilities in emerging markets to which they outsource production. Our Directors confirm that, during the Track Record Period, we complied with all the applicable labor laws and regulations in the jurisdictions in which we operate in all material aspects, including not having recruited or employed child labor, and implemented our own internal safety guidelines and operating procedures. During the Track Record Period, none of our employees has been involved in any strike or major accident in the course of their employment, and we have never been subject to disciplinary actions with respect to the labor protection issues. In addition, we have not been held liable for any violation by our suppliers of laws, rules and regulations during the Track Record Period.

### ***MPF Scheme for our staff in Hong Kong***

In Hong Kong, we operate a defined contribution retirement benefit scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all of our employees in Hong Kong who joined us after the commencement of this Ordinance. Contributions are made based on a percentage of the employees' basic salaries and are charged to our income statement as they become payable in accordance with the rules of the MPF Scheme. Our contributions as employer vest fully with the employees when we contribute to the scheme in accordance with the rules of the MPF Scheme.

## **INTELLECTUAL PROPERTY RIGHTS**

We recognize the importance of protecting and enforcing our intellectual property rights and rely on intellectual property laws and related registration procedures to protect our intellectual property rights. We are the registered owner of trademarks “**SITTOY**” in Hong Kong, the United Kingdom, the PRC and Taiwan, “” in Hong Kong, the United Kingdom and Taiwan, “” in Hong Kong and the PRC, “” in the United Kingdom and Taiwan, “時代”, “” and “” in Hong Kong, “**Fashion & Joy**” and “**美乐时**” in the PRC, and “” in Hong Kong and Macau. We are also the registered owner of the trademark “” in the PRC and Japan acquired pursuant to our trademark assignment agreement with TUSCAN’S Europe referred to below. In addition, we have registered a number of domain names in connection with our business. For a list of our domain names, please see “Domain Name” in Appendix VI to this prospectus.

### *The TUSCAN’S brand*

We entered into the following agreements with TUSCAN’S Europe to acquire rights in relation to the “TUSCAN’S” trademark:

(I) Trademark assignment agreement

Date: 16 February 2011

Parties: TUSCAN’S Europe as assignor

Sitoy Retailing as assignee

Assignment of trademark: TUSCAN’S Europe has agreed to assign to us all its right, title and interest in and goodwill attaching to the “TUSCAN’S” trademark that:

- (a) it registered in the PRC and Japan as designated countries under international trademark registration; and
- (b) it had applied/will apply for registration in Hong Kong, Macau, Taiwan, Thailand, Malaysia, the United Arab Emirates, the United States, and in Singapore and South Korea as designated countries under international trademark registration

Effective date of assignment: The trademark assignment in each of the above jurisdictions will take place subject to the registration of the trademark by the relevant government authority or by the World Intellectual Property Organization

Consideration: EUR600,000 (the “Acquisition Price”)

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## BUSINESS

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Payment terms:

Acquisition Price shall be payable in three equal installments of EUR200,000 each:

- (a) the first installment was paid in advance by us upon our entering into the trademark license agreement (as set out below) on 10 January 2011
- (b) the second installment shall be made by us within thirty business days after the date on which we are notified by the assignor of fulfillment of both of the following conditions:
  - (i) execution of assignment and the subsequent recordal of assignment of the international trademark registration in respect of PRC and Japan at the World Intellectual Property Organization; and
  - (ii) completion of registration of the Hong Kong trademark application and Macau trademark application and the subsequent execution of assignment and recordal of assignment for the registrations at the Hong Kong and Macau Trade Marks Registry (or equivalent government authorities) respectively
- (c) the final installment shall be made by us within thirty business days after the date on which we are notified by the assignor of fulfillment of both of the following conditions:
  - (i) completion of registration of all remaining applications; and
  - (ii) execution of assignment and the subsequent recordal of the assignment of such remaining registrations with the respective government authorities and/or with the World Intellectual Property Organization

notwithstanding the above payment terms, in the event that the assignor fails to register any of the “TUSCAN’S” trademark in any of the jurisdictions in which registration is pending, the second installment and the final installment (and accordingly the Acquisition Price) shall be reduced by an agreed amount depending on the jurisdiction in which the assignor fails to register the trademark



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## BUSINESS

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- Rights and obligations of the parties:
- (a) the assignor shall at its sole costs and expenses file and process all applications for registration of the trademark and shall assign to us and procure the recordal of assignment with the relevant government authority and/or the World Intellectual Property Organization immediately after each of the applications has matured to registration
  - (b) the assignor undertakes that we may apply for registration of the trademark in classes other than those which are the subject matter of the assignment in the relevant jurisdictions

In pursuance of the above trademark assignment agreement, TUSCAN'S Europe has already assigned to us the right, title and interest in and the goodwill attaching to the "TUSCAN'S" trademark registered in the PRC and Japan as designated countries under international trademark registration on date of the trademark assignment agreement. The effects of such international trademark registration in the PRC and Japan are the same as if the trademark had been registered in such countries directly. Such assignment has been recorded by the World Intellectual Property Organization and we are the registered holder of such trademark registered in the PRC and Japan.

In addition, subsequent to execution of the trademark assignment agreement, TUSCAN'S Europe had successfully registered the "TUSCAN'S" trademark in Hong Kong and Macau and the right, title and interest in and the goodwill attaching to the "TUSCAN'S" trademark registered in Hong Kong and Macau had been assigned to us in pursuance of the trademark assignment agreement. As at the Latest Practicable Date, recordal of such assignments at the respective government authorities had been arranged.

### (II) Trademark license agreement

- Date: 10 January 2011
- Parties: TUSCAN'S Europe as licensor  
our Company as licensee
- Grant of license: pending assignment of the "TUSCAN'S" trademark to us, the licensor has granted to us a license to use the "TUSCAN'S" trademark to design, manufacture, distribute and promote certain of our products in the PRC, Japan, Hong Kong, Macau, Taiwan, Thailand, Malaysia, the United Arab Emirates, the United States, Singapore and South Korea and for all purposes in relation thereto
- Nature of license: exclusive, sub-licensable and assignable by us

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## BUSINESS

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- Duration of license: the license to use the “TUSCAN’S” trademark in the United States shall only be effective when the trademark has been successfully registered by the licensor in the United States and the license to use the “TUSCAN’S” trademark in the other jurisdictions referred to above was deemed to be effective as of 1 December 2010
- the license granted shall continue until the assignment of the “TUSCAN’S” trademark to us
- Consideration: advance payment of the first installment of the Acquisition Price upon execution of the trademark license agreement
- Rights and obligations of the parties: (a) under the license, we shall have absolute freedom and discretion in designing, manufacturing, promoting and distributing our products falling under the trademark classes (including but not limited to the style of design, the choice of factory and manufacturing materials and determination of the retail price and promotion channels) and the licensor shall have no right in interfering with our freedom and our exercise of discretion
- (b) the licensor shall keep us fully indemnified against all losses and all actions, claims, proceedings, costs and damages, legal costs or other expenses, arising from any breach or alleged breach of licensor’s warranties in respect of the TUSCAN’S” trademark or out of any claim by a third party based on any facts which, if substantiated, would constitute such a breach

For details of our intellectual property rights, please see “Statutory and General Information — Further Information about the Business of Our Company — 9. Intellectual property rights of our Group” in Appendix VI to this prospectus.

### *Measures for protection of intellectual property*

We have placed a great emphasis in protecting our customers’ intellectual property and our own intellectual property. We have established internal policies to manage the risk of inadvertently infringing third parties’ intellectual property rights in our research, development, design and manufacturing process.

Our creative center, which works with our customers’ product designs, is required to ensure that our designs are not identical and do not bear a close resemblance to any designs of our customers or those that are already in the public market. In addition, employees in our creative center and R&D Center who work on designs and the production processes for products we manufacture for customers are not allowed to participate in the design of TUSCAN’S brand products. We also make sure our computers that store the

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## BUSINESS

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design are password-protected and the relevant computer files are encrypted when transmitted. We also have in-house design and development teams who are assigned to certain of our major customers. We place our in-house design and development teams into separate design rooms in order to protect customers' intellectual property. In addition, we do not allow unauthorized access to our product prototypes and samples and they cannot be taken out of our premises without our express authority. We have designated working areas at our manufacturing sites for certain major customers' design teams to ensure designs of one particular customer are kept confidential from our other customers.

Our Directors confirm that as of the Latest Practicable Date and during the Track Record Period, we did not carry out any unauthorized use of the trademarks or trade name of any of our customers and have not received any complaints from our customers regarding our use of their trademarks or trade names.

Our Directors confirm that as of the Latest Practicable Date and during the Track Record Period, we were not aware of (i) any material violation, infringements or unauthorized use of our trademarks or trade name; and (ii) any infringement of any third parties' intellectual property rights through our use of the trademarks and trade name.

### PROPERTY INTERESTS

#### *Owned Land*

As of the Latest Practicable Date, we owned four parcels of land in the PRC, with a total area of approximately 225,800 sq.m.. We have obtained land use rights certificate for these parcels of land. We have used part of this land and plan to continue to use the remaining land for industrial purposes, as stated in the land use rights certificate.

#### *Owned properties*

As of the Latest Practicable Date, we owned a total of 23 buildings having a total gross floor area of approximately 121,200 sq.m.. We use these buildings for purposes of our manufacturing facilities, offices and electricity transformation facilities, as well as for staff quarters, guardhouses, canteens, garages and store rooms, which is consistent with the purposes set forth in the relevant land use rights certificates. We have obtained property ownership certificates for 20 of the buildings, but we are still in the process of applying for the property ownership certificates for the remaining 3 buildings. We also had two additional buildings under construction on these properties and have obtained the required construction permits for these two buildings.

We purchased 11 buildings from the Dongguan Houjie town Qiaotou village committee (東莞厚街鎮橋頭村村民委員會) in 2004 when the Land Use Rights Certificates (國有土地使用權證), the property ownership certificates as well as the required construction permits, namely the Planning Permit for Using Construction Usage Land (建設用地規劃許可證), the Construction Planning Permit (建設工程規劃許可證) and the Permit to Commence Construction (建築工程施工許可證) have not been obtained and the inspection procedures in respect of the construction and the fire prevention and acceptance of the quality thereof by the competent governmental authority in the PRC have not been completed. The 11 buildings are currently used by the Group as office, workshop, warehouse, canteen and dormitory and are not viewed by the Company as being, individually or collectively, crucial to the operation of its business. As advised by our PRC legal advisers, the construction of the 11 buildings should have been commenced

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## BUSINESS

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after all the aforesaid permits having been obtained and we should have used these buildings only after completion of the inspection and acceptance procedures. As advised by our PRC legal advisers, under the prevailing PRC laws, (i) the relevant land administrative authority may evict occupants of buildings held in violation of these requirements and confiscate the buildings erected thereon, (ii) the relevant planning authority may impose a fine of up to 10% of the construction cost of the relevant buildings for failure to obtain the Construction Planning Permit (建設工程規劃許可證) prior to commencing construction, (iii) the relevant construction administrative authority may impose a fine of up to 2% of the fees payable under the relevant construction contract for failure to obtain the Permit to Commence Construction (建築工程施工許可證) prior to commencing construction, and (iv) the relevant construction administrative authority may order us to rectify the situation and impose a fine of up to 4% of the fees payable under the relevant construction contract for occupying the buildings before completion of inspection and acceptance procedures. Due to the deficiency of all the requisite permits and inspection and acceptance procedures, it took much more time for us to obtain the Land Use Rights Certificates (國有土地使用權證) and the Planning Permit for Using Construction Usage Land (建設用地規劃許可證) after 2004, we have paid up fines of RMB954,801.60 and have obtained the property ownership certificates for 8 buildings thereof in August 2011, and we are still in the process of applying for the property ownership certificates for the remaining 3 buildings. As advised by our PRC legal advisers, according to the letter issued by the relevant offices of the People's Government of Dongguan Houjie Town (東莞市厚街鎮人民政府), there are no material legal impediments preventing Dongguan Sitoy from obtaining the property ownership certificates for the remaining 3 buildings. We currently expect to obtain the property ownership certificates for the remaining 3 buildings by early 2012 and do not expect any penalty received as a result of not holding such certificates to have a material impact on our business or results of operations.

As at the Latest Practicable Date, we owned and occupied 4-5th Floor, The Genplas Building, 56 Hoi Yuen Road, Kwun Tong, Kowloon, Hong Kong. We also owned an investment property at shop 125, Ground Floor, Yuet Wu Villa, 2 Wu Sau Street, Tuen Mun, New Territories, Hong Kong and no tenancy agreement was entered into in respect of such investment property as at the Latest Practicable Date.

### *Leases*

We lease certain properties in the PRC for business purposes and have entered into a lease agreement with respect to each of the properties that we lease. Our PRC Legal Advisers have advised us that, except for eight of the lease agreements discussed below, all the other eight lease agreements are legal, valid and enforceable. Our PRC Legal Advisers have advised us that, except for those discussed below, the lessors under these eight lease agreements are the owner of or have the right or appropriate authorization to lease the relevant leased properties.

We lease in Dongguan a property of approximately 8,900 sq.m. for use as a manufacturing facility and dormitory, starting from September 2007 for a term of ten years, from Dongguan Houjie town Qiaotou village committee (東莞市厚街鎮橋頭村委會). We have not completed registration for the Dongguan tenancy agreement because Dongguan Houjie town Qiaotou village committee (東莞市厚街鎮橋頭村委會) has not obtained valid property ownership certificates which are requisite for the registration. The relevant construction (Housing Management) administrative authority may order us to rectify the situation and impose a fine because of the incomplete registration. Due to the lack of the relevant property ownership certificates, under the PRC laws, we cannot be certain that the landlord's ownership of these properties is not subject to any dispute or that all requisite governmental approvals have been obtained in connection with the construction of these properties, the lease agreement is legal, valid and enforceable, or our occupation and use of such leased properties will not be disrupted.

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## BUSINESS

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In September 2010, we entered into a lease agreement with Dongguan Trade and Educational Gifts Co, Ltd, (東莞司貿文教贈品有限公司), in connection with the lease of the multi-use building of approximately 9,200 sq.m. located in Dongguan with a term of five years. We have not completed registration for this lease agreement because Dongguan Trade and Educational Gifts Co, Ltd, (東莞司貿文教贈品有限公司) has not obtained valid property ownership certificates which are requisite for the registration. The relevant construction (Housing Management) administrative authority may order us to rectify the situation and impose a fine because of the incomplete registration. Due to the lack of the relevant property ownership certificates, under the PRC laws, we cannot be certain that the landlord's ownership of these properties is not subject to any dispute or that all requisite governmental approvals have been obtained in connection with the construction of such property, the lease agreement is legal, valid and enforceable, or our occupation and use of such leased properties will not be disrupted.

From June 2010 to June 2011, we entered into six lease agreements with different individuals, in connection with the lease of properties for warehouse and dormitory uses. We have not completed registration for these lease agreements because the landlords have not provided valid property ownership certificates to us, which are requisite for the registration. The relevant construction (Housing Management) administrative authority may order us to rectify the situation and impose a fine because of the incomplete registration. Due to the lack of the relevant property ownership certificates, under the PRC laws, we cannot be certain that the landlords' ownership of these properties is not subject to any dispute or that all requisite governmental approvals have been obtained in connection with the construction of such properties, that the lease agreement are legal, valid and enforceable, or that our occupation and use of such leased properties will not be disrupted. However, to the extent our occupation and use of such leased properties is disrupted, the Company does not expect the operations of the Group will be materially affected.

We also entered into other two lease agreements in 2011 in connection with the leases of retail stores located in Beijing and Jinan. We have not completed registration of these lease agreements, the timing of which depends on the relevant housing authority, but currently expect such registration to be completed around the end of 2011.

For all of the other six lease agreements, the lessor has registered the relevant leases with the competent housing departments as required by the relevant PRC laws and regulations.

### *Other property interests*

As of the Latest Practicable Date, we did not have any owned property or other leased property save as disclosed herein. Please see "Property Valuation" in Appendix IV to this prospectus for more details of our owned properties and leased properties.

## ENVIRONMENTAL MATTERS

We are subject to PRC national environmental laws and regulations as well as environmental regulations promulgated by local governments from time to time. Please see "Regulatory Overview" in this prospectus for more details on these environmental laws and regulations.

According to the Rules Relating to the Application for Pollutant Emission Certificate in Guangdong Province (廣東省排放污染物許可證實施細則), where our Dongguan and Yingde manufacturing facilities are located, industries which emit certain types of pollutants are required to apply for a Pollutant Emission Certificate (排放污染物許可證). Dongguan Environmental Protection Department (東莞市環境保護局) has confirmed that our manufacturing facilities in Dongguan are not allowed to emit polluted water and waste, while the Yingde Environmental Protection Department (英德市環境保護局) has issued our manufacturing facility in Yingde a Pollutant Emission Certificate (排放污染物許可證) permitting our manufacturing facility in Yingde to produce and emit air and noise pollutants within the scope as permitted by this certificate.

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## BUSINESS

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We seek to conduct our business in a manner that does not adversely affect the environment. We place emphasis on pollution management and control procedures, including plant operation and maintenance procedures, in the training of our personnel. We have an environmental management policy covering all waste streams and production cycles.

Solid wastes, which consist primarily of scraps from cutting and trimming of leather, fabric, PVC and PU are the primary wastes of the handbag and small leather goods manufacturing process. We segregate, measure and route the solid wastes and attempt to reduce, reuse or recycle such wastes where practicable.

We have complied with the guidelines imposed by our customers relating to environmental conditions. In addition, we have complied with the applicable PRC laws and regulations on environmental protection in all material respects and were not in breach of such laws and regulations during the Track Record Period. Although compliance involves continuing costs over the Track Record Period, the ongoing costs of compliance with customer environmental guidelines and existing environmental laws and regulations have not had, nor are they expected to have, a material effect upon our business, financial condition or results of operations. As of the Latest Practicable Date, we had not been subject to any material fines or legal action involving non-compliance with any relevant environmental regulations in the PRC. In addition, our Directors confirm that as at the Latest Practicable Date, there were no threatened or pending actions by any environmental regulatory authority known to the Directors to be against our Group in the PRC.

### INSURANCE

We maintain insurance policies in respect of our offices, manufacturing facilities and inventories covering losses owing to fire, flood, earthquake and hurricane. One of our major customers requires our products to be covered by product liability insurance. In such case, our customer typically obtains product liability insurance for us and we reimburse the customer the amount of the insurance premium paid. Apart from the above, we do not maintain business interruption insurance and general product liability insurance on the basis that it is not an industry practice in the PRC and is not required by the applicable laws and regulations in the PRC.

We believe that our insurance coverage is adequate and conforms to insurance programs customary for manufacture operators in the PRC. However, we are subject to the risk that our insurance coverage for losses, damage and liabilities that may arise in our business operations is insufficient.

In Fiscal Year 2011, we had expenses of HK\$2.4 million relating to insurance premiums. We have not made any material insurance claims on any insurance policy maintained by us beginning 1 July 2008 to the Latest Practicable Date.

### LEGAL PROCEEDINGS

From time to time, we may be involved in litigation or other legal proceedings in the ordinary course of our business, which are primarily disputes with our customers over payment of amounts overdue.

The Directors confirm that as of the Latest Practicable Date, there were no legal, arbitration or administrative proceedings or any intellectual property rights disputes or claims existing or known to the Directors to be pending against us that may have a material adverse impact on our business or our results of operations.

### LEGAL COMPLIANCE

During the Track Record Period, we held all the necessary certificates, permits and licenses for the operation of our business as currently conducted in the PRC. We have also complied with the applicable laws and regulations in all material respects in the jurisdictions in which we operate and were not in breach of such laws and regulations in all material respects during the Track Record Period. As of the Latest Practicable Date, we had not been subject to any material fines or legal action involving non-compliance with any PRC laws and regulations in the PRC. We are not currently aware of any threatened or pending action by any governmental authority in the PRC.