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## CONNECTED TRANSACTIONS

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### CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENT

The following transactions have been carried out by our Group and its connected persons during the Track Record Period and are expected to continue following Listing. These transactions will constitute continuing connected transactions upon Listing and will be subject to the reporting, annual review and announcement requirements but will be exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

#### BACKGROUND

Trandy Leather Goods Handbag Factory Limited ("Trandy Leather") is a company incorporated in Hong Kong primarily engaged in processing raw materials for the manufacturing of handbags. The total issued share capital of Trandy Leather is owned by Mr. Yeung Hok Yin as to 60% and by Mr. Yeung Hok Chung as to 40%, both being relatives of certain of our Directors. Trandy Leather is the sole investor of Dongguan Houjie Fengrong Leather Products Factory\* (東莞厚街鋒榮皮具廠) ("Houjie Fengrong"), a processing factory located in Dongguan, Guangdong Province. As confirmed by our PRC legal advisers, Houjie Fengrong is not a separate legal entity and it has been operated in the form of "three types of processing plus compensation trades" in the PRC since its establishment on 20 May 2009. In view of the business that Trandy Leather is mainly engaged in, the Directors consider that there is no potential competition between the business of the Group and that of Trandy Leather.

Since 2003, Trandy Leather has by itself and through Houjie Fengrong provided processing services in respect of the raw materials used by our Group in the manufacture of handbags. The Group has engaged Trandy Leather to provide such processing services due to Trandy Leather's specialty in certain steps for processing raw materials. The historical transaction amounts during the Track Record Period for the transactions were HK\$19.3 million, HK\$10.9 million and HK\$10.2 million for each of the three Fiscal Years 2009, 2010 and 2011, respectively.

As Houjie Fengrong is located in the same town as our manufacturing facilities in Dongguan Guangdong, the close proximity of the processing factory enables us to save freight and logistics costs, shorten delivery time of our processed materials, and closely and regularly monitor the processing quality and efficiency of the processing factory. Moreover, since Trandy Leather has been providing processing services to us for over seven years, the Directors believe that Trandy Leather is in a better position to understand our requirements and standards.

On 27 October 2011, Trandy Leather and Sitoy Handbag entered into a processing agreement (the "Processing Agreement") to formalise the major terms and arrangement of the above transactions.

#### PRINCIPAL TERMS

Pursuant to the Processing Agreement, Trandy Leather agreed to provide processing services by itself and through Houjie Fengrong to Sitoy Handbag or other subsidiaries of the Group for a term commencing from the Listing Date to 30 June 2014. The processing services provided under the Processing Agreement shall include processing of our raw materials, mainly leather, used in our handbag manufacturing process. The processing fee shall be determined by the parties from time to time with reference to, among other factors, the market price of processing the same raw materials with similar processing procedures and specifications provided by other processing factories. The processing fee and

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other payment terms for the processing services shall be determined by the parties after arm's length negotiation and shall be no more favorable to Trandy Leather than the terms for similar services offered by independent third parties to the Group.

### EXPECTED ANNUAL CAPS

Our Directors estimate that the annual processing fees payable by our Group to Trandy Leather pursuant to the Processing Agreement for the three Fiscal Years 2012, 2013 and 2014 will not exceed the annual caps of HK\$12 million, HK\$13.5 million and HK\$15 million, respectively. The annual cap for the Fiscal Year 2012 is based on actual service commitment given by Trandy Leather and the annual caps for the Fiscal Years 2013 and 2014 have been mutually agreed between the parties. In arriving at the approximately 11% to 12% increment to the annual caps for Fiscal Years 2013 and 2014, our Directors have primarily taken into account (a) the estimated manufacturing capacity of Trandy Leather in the Fiscal Years 2013 and 2014 as indicated by Trandy Leather, (b) our Group's expected amount of products which will be required to be processed by Trandy Leather in the Fiscal Years 2013 and 2014; and (c) the estimated increase in processing fees due to inflation.

### LISTING RULES IMPLICATIONS

Trandy Leather is owned as to 60% by Mr. Yeung Hok Yin and 40% by Mr. Yeung Hok Chung, both of them are nephews of Mr. Yeung Michael Wah Keung, the Chairman and an executive Director, and Mr. Yeung Wo Fai, the chief executive officer and an executive Director, and cousins of Mr. Yeung Andrew Kin, an executive Director. Trandy Leather is therefore an associate of Mr. Yeung Michael Wah Keung, Mr. Yeung Wo Fai and Mr. Yeung Andrew Kin and it will become a connected person of our Company upon Listing under Rule 14A.11(4)(c)(ii) of the Listing Rules.

As the relevant percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the annual caps exceed 0.1% but are less than 5%, upon Listing, the transactions under the Processing Agreement will constitute non-exempt continuing connected transactions and will be subject to the reporting, annual review and announcement requirements but will be exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules pursuant to Rule 14A.34 of the Listing Rules.

### CONFIRMATION FROM THE DIRECTORS

Our Directors (including our independent non-executive Directors) are of the view that the continuing connected transactions described above have been and will be entered into on normal commercial terms and in the ordinary and usual course of business of our Group. In addition, our Directors (including our independent non-executive Directors) consider the terms of the Processing Agreement and the annual caps for such transactions are fair and reasonable and in the interests of our Company and its Shareholders as a whole.

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### CONFIRMATION FROM THE SOLE SPONSOR

Based on its review of the relevant documentation and historical figures provided by the Company and its discussions with the Company, the Sole Sponsor is of the view that (i) the transactions contemplated under the Processing Agreement are in the ordinary and usual course of business of our Group and on normal commercial terms; and (ii) the terms of the Processing Agreement and the annual caps for such transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### APPLICATION FOR WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

As the above continuing connected transactions are expected to continue on a recurring basis, our Directors consider that strict compliance with the announcement requirement under Chapter 14A of the Listing Rules would be impractical and would add unnecessary administrative costs to our Group.

We have therefore applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to our Company under Rule 14A.42(3) of the Listing Rules from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of the Processing Agreement for the three Fiscal Years 2012, 2013 and 2014.

Our Company confirmed that we will comply with the relevant requirements under Chapter 14A of the Listing Rules as amended from time to time, including Rules 14A.35(1), 14A.35(2), 14A.36 to 14A.40 and 14A.45 of the Listing Rules, and will immediately inform the Stock Exchange and re-comply with the relevant requirements under Chapter 14A of the Listing Rules if any of the respective annual caps set out above is exceeded, or when the relevant agreement is renewed or when any term of the non-exempt continuing connected transactions is materially altered.