*You should read the following discussion and analysis of our financial condition and results of operations together with our audited combined financial statements for Fiscal Years 2009, 2010 and 2011 and the accompanying notes set forth in the Accountants' Report in Appendix I to this prospectus. The audited combined financial statements were prepared in accordance with IFRS. Our Fiscal Year commences on 1 July and ends on 30 June of the next year, so all references to a particular Fiscal Year are to the twelve-month period ended 30 June of that year.*

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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% of our revenue, respectively. 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. 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.

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 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 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 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 of 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.

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. 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.

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. 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.

***Basis of Presentation***

Pursuant to the Reorganization, the Company became the holding company of the companies now comprising the Group on 13 July 2011. The companies now comprising our Group were under the common control of the Controlling Shareholders prior to the Reorganization and have continued to be under the common control of the Controlling Shareholders since the Reorganization. Our Group, comprised of the Company and its subsidiaries, resulting from the Reorganization is regarded as a continuing entity. Accordingly, the financial information of our Group for Fiscal Years 2009, 2010 and 2011 has been prepared on a combined basis as if the Reorganization had been completed at the beginning of the Track Record Period and the Company had always been the holding company of the companies comprising our Group throughout the Track Record Period, using the principles of merger accounting. However, the combined financial information presented in this prospectus does not purport to be indicative of what our actual financial and operational data would have been if our current structure had been in existence since 1 July 2008. See "Our History and Reorganization — Corporate Development" in this prospectus and Appendix VI "Statutory and General Information" to this prospectus.

The combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for Fiscal Years 2009, 2010 and 2011 include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries and/or businesses first came under the common control of the Controlling Shareholders, where this is a shorter period. The combined statements of financial position of the Group as at 30 June 2009, 2010 and 2011 have been prepared to present the assets and liabilities of the subsidiaries and/or businesses comprising our Group using the historical book values from the Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or recognize any new assets or liabilities as a result of the Reorganization, and all intra-group transactions and balances have been eliminated on combination.

## PRINCIPAL FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, financial position and results of operations, as well as the period-to-period comparability of our results of operations, are significantly affected by a number of factors, some of which are beyond our control, including:

### *Factors affecting our Customers and Customer Relationships*

Our sales are made on the basis of individual purchase orders, and we have not entered into long-term purchase agreements with, and are not the exclusive supplier for, any of our customers. The volume of work we perform for specific customers may vary from year to year due to a number of factors affecting the demand for our customers' products, including the financial and operational success of our customers and the popularity of their brands. Sales of our customers' products and, as a result, the volume of work that we perform for them may also vary due to a number of factors affecting consumer spending patterns, including general economic conditions and perceptions of such conditions by consumers, employment rates, the level of consumers' disposable income, business conditions, interest rates, consumer debt levels, availability of credit and levels of taxation in the regions in which the products we manufacture are sold. Similar factors will also impact the future growth of our TUSCAN'S branded products retail business, particularly as such factors relate to the PRC.

We have well established and long-term relationships with certain of our key customers. 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. In addition, our second and third largest customers have been our customers more than 13 and 5 years, respectively. In addition, as a result of these long-term relationships, we believe we will receive more 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 believe that our relationships with our key customers also enhance our reputation as one of the leading manufacturers of outsourced luxury branded handbags and small leather goods and provide us with a competitive advantage in attracting additional international high-end and luxury brands as customers. However, our future results of operation may be particularly impacted by changes in relationships with our key customers or by factors that affect the demand for their products by consumers.

### *Growth in the PRC Luxury Handbag and Small Leather Goods Manufacturing Industry*

In the early 2000s, luxury branded handbag and small leather goods brands started to cooperate with outsourced handbag and small leather goods manufacturers in emerging regions, in particular the PRC, to reduce their manufacturing costs. Since then, the quality of the workforce, manufacturing technologies and quality control systems have improved significantly in the PRC, while labor costs have remained relatively low in comparison to more developed regions. In addition, improvements in the manufacturing efficiency of handbag and small leather goods manufacturers in the PRC have reduced manufacturing costs, while improvements in product quality have led to the 'Made in China' label gradually being more accepted by consumers of luxury handbags and small leather goods brands in developed regions. As a result, cooperation between luxury brands and manufacturers of outsourced handbags and small leather goods in the PRC is expected to continue to grow in the future to meet the growing consumer demand for luxury handbags and small leather goods. We believe that our market leading position will enable us to capture an increasing share of this anticipated growth; however, the continued growth of our business will depend on the continued acceptance of the 'Made in China' label and our ability to conduct our business under the current and future policies and laws of the PRC government as well as the political, economic and social conditions in the PRC.

***Cost of Raw Materials***

Our performance, and in particular our margins, depends on our ability to procure raw materials at low cost. For Fiscal Years 2009, 2010 and 2011, cost of raw materials accounted for 83.5%, 81.3% and 78.0%, respectively, of our total cost of sales. We have long-term and well established relationships with many of our suppliers, which has enabled us to maintain a stable supply of high-quality raw materials. In addition, 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. High-end cow leather is the primary raw material we use in manufacturing our products, and leather accounted for approximately half of our total cost of raw materials in Fiscal Years 2009, 2010 and 2011. Prices for certain of the raw materials we use, in particular leather, have risen in recent years and are likely to continue to increase for the foreseeable future. According to Frost & Sullivan, the average price of high-end cow leather used by leading outsourced luxury handbag and small leather goods manufacturers in the PRC increased from US$3.00 per square foot in 2006 to US$3.60 per square foot in 2010 and is likely to continue to increase. We do not enter into long-term purchase agreements with our suppliers and our raw material supplies and prices are subject to a number of risks and uncertainties that could affect our ability to procure sufficient low cost, high quality raw materials to meet the needs of our business, which could affect our future results of operation and, in particular, our margins.

***Labor Cost***

The production of handbags, small leather goods and travel goods is labor intensive. Labor costs directly associated with the manufacture of our products amounted to 14.7%, 17.0% and 19.7% of our total cost of sales for Fiscal Years 2009, 2010 and 2011, respectively. We have sought to maintain competitive working conditions by investing in new employee programs, such as the establishment of an employee training center, and introducing certain benefits for our employees and their families, such as improved dormitory housing and recreational activities. As a result of government-mandated wage increases and increases in competition for employees with other manufacturers in Guangdong Province, PRC, where our manufacturing facilities are located, we have experienced labor cost increases over the past several years. Notwithstanding increases in the cost of labor in the PRC, we have been able to improve our margins, in part through steps to improve efficiency, including by automating certain manufacturing processes and introducing lean production practices to increase production efficiency and minimize waste. To the extent that we are not able to continue to do so, we may be required to bear such increase in labor costs in the future, which could affect our future results of operation and, in particular, our margins.

***Expansion into New Markets***

We have experienced significant growth during the Track Record Period. Our ability to continue to grow our business will increasingly depend on our ability to successfully broaden our current customer base while expanding into new market segments, such as high-end and luxury branded bags and small leather goods for men and travel goods for leisure and business travel, seeking opportunities to research, develop, design and manufacture products for large department stores in the United States and Europe, and establishing our TUSCAN'S brand in the PRC by building up our retail business. This will depend on, among other things, global economic conditions, customer and consumer preferences, our ability to continue to maintain close relationships with and meet the production requirements of our current customers, as well as the availability of management, financial, technical, operational and other resources.

*Manufacturing Capabilities*

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 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, 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. We also plan to complete the second expansion phase of our Yingde manufacturing facility, which is expected to commence production in 2012.

We are increasing our manufacturing capabilities to prepare for an increase in demand for our products that we currently anticipate and to minimize the risk of losing potential sales opportunities during peak production periods. Increasing the size of our manufacturing facilities also gives us the flexibility to adapt our production lines for the production of small, customized orders, such as for select luxury branded handbags and small leather goods, and larger volume production runs to meet the varying demands of our customers, which enables us to yield higher profit margins and maintain our relationships with our customers. However, our ability to profit from our recent expansion and any future expansions in our manufacturing capabilities will in turn be dependent on continued customer demand for the products that we manufacture.

## CRITICAL ACCOUNTING POLICIES

We have identified below the accounting policies that we believe are the most critical to our audited combined financial statements. These accounting policies require the most difficult, subjective or complex judgments of our management, often as a result of the need to make estimates about the effect of matters which are inherently uncertain. Certain accounting estimates are particularly sensitive because of their significance to our audited combined financial statements. The estimates and associated assumptions are based on historical experience and various other factors that we believe are reasonable under the circumstances, the results of which form the basis of making judgments about matters that are not readily apparent from other sources. Actual results may differ from these estimates.

We review our estimates and underlying assumptions on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. For additional details regarding our Group's critical accounting policies, please see note 4 "Summary of Significant Accounting Policies" and note 5 "Significant Accounting Judgments and Estimates" in the Accountants' Report in Appendix I to this prospectus.

*Revenue Recognition*

We recognize revenue when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

- interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Under these criteria, revenue from the sale of our products is recognized net of allowances for returns, trade discounts and government surcharges, where applicable.

Our credit policy for our customers varies from customer to customer and includes telegraphic transfers before shipment, letters of credit at sight, and letters of credit and telegraphic transfers within 10 to 90 days after shipment. 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). For customers to which we provide credit terms, we have assessed a number of factors to determine whether collection from them is probable, including past transaction history with them and their creditworthiness. If we determine that collection is not reasonably assured, we defer the recognition of revenue until collection becomes reasonably assured, which is generally upon receipt of payment.

***Inventories***

We state inventories at the lower of cost and net realizable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labor and an appropriate proportion of overheads. Net realizable value of inventory is the estimated selling price in the ordinary course of business, less estimated costs to be incurred to completion and disposal. We record adjustments to write down the cost of obsolete or excess inventory to the estimated net realizable value based on historical and forecasted demand. These estimates are based on the current market condition and the historical experience of selling products of a similar nature and could change significantly as a result of changes in customer preferences or changes in consumer product industry cycles. Our management reassesses these estimates at the end of each reporting period.

***Depreciation of Property, Plant and Equipment***

We depreciate our property, plant and equipment, other than construction in progress, at rates sufficient to write off their costs less accumulated impairment losses and estimated residual values over their estimated useful lives on a straight-line basis. We review the useful lives periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of economic benefits from fixed assets. We estimate the useful lives and the residual values of the fixed assets based on our historical experience with similar assets, taking into account anticipated technological changes. The depreciation expense in future periods will change if there are significant changes from previous estimates. An item of property, plant or equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in our combined income statement in the year/period the asset is derecognized is the difference between the net sale proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery under construction or installation and testing which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction or installation and testing and capitalized borrowing costs on related borrowed funds during the period of construction or installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

## COMBINED RESULTS OF OPERATIONS

### *Selected Combined Financial Information*

The following table sets forth, for the periods indicated, selected income statement data as a percentage of revenue.

| | For Fiscal Year Ended 30 June | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| **Revenue** | **100.0%** | **100.0%** | **100.0%** |
| Cost of sales | (83.1)% | (80.3)% | (77.8)% |
| **Gross profit** | **16.9%** | **19.7%** | **22.2%** |
| Other income and gains | 0.7% | 0.6% | 1.1% |
| Selling and distribution costs | (2.9)% | (2.5)% | (2.3)% |
| Administrative expenses | (7.2)% | (6.2)% | (6.3)% |
| Other expenses | (0.2)% | (0.2)% | (0.0)% |
| Finance costs | (0.2)% | (0.2)% | (0.2)% |
| Profit before tax | 7.1% | 11.2% | 14.5% |
| Income tax expense | (1.3)% | (2.4)% | (2.4)% |
| **Profit for the year** | **5.8%** | **8.8%** | **12.1%** |

### *Description of Certain Income Statement Line Items*

#### Revenue

We generate revenue primarily from sales of high-end and luxury handbags, small leather goods and travel goods, with most of our revenue being generated from the sale of luxury handbags and small leather goods, and, since February 2011, from the sale of our TUSCAN'S branded products through our retail stores in the PRC. Our business is currently organized into two operating segments: Manufacturing, comprising sales of handbags, small leather goods and travel goods to high-end and luxury brand customers and private label customers, and Retail, comprising sales of our TUSCAN'S branded products through our retail stores in the PRC. Our Manufacturing segment represented substantially all of our revenue in the Track Record Period. For more information on our operating segments, please see note 6 in the Accountants' Report in Appendix I of this prospectus.

The following table sets forth, for the periods indicated, our revenue and sales volume by operating segment and product type and the revenue for each product type as a percentage of revenue.

| | For Fiscal Year Ended 30 June | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2010 | | | 2011 | | |
| | Sales Volume | Revenue | | Sales Volume | Revenue | | Sales Volume | Revenue | |
| | (Units '000) | (HK$'000) | (percentage) | (Units '000) | (HK$'000) | (percentage) | (Units '000) | (HK$'000) | (percentage) |
| **Manufacturing** | | | | | | | | | |
| Handbags | 6,029.1 | 1,223,465 | 90.7% | 7,396.1 | 1,565,586 | 90.7% | 9,934.9 | 2,242,933 | 90.0% |
| Small leather goods | 1,184.3 | 126,063 | 9.3% | 1,623.0 | 155,069 | 9.0% | 2,293.6 | 224,047 | 9.0% |
| Travel goods | 0.5 | 160 | 0.0% | 10.3 | 5,662 | 0.3% | 50.1 | 25,563 | 1.0% |
| **Subtotal** | **7,213.9** | **1,349,688** | **100.0%** | **9,029.4** | **1,726,317** | **100.0%** | **12,278.6** | **2,492,543** | **100.0%** |
| **Retail** | **–** | **–** | **–** | **–** | **–** | **–** | **0.8** | **729** | **0.0%** |
| **Total** | **7,213.9** | **1,349,688** | **100.0%** | **9,029.4** | **1,726,317** | **100.0%** | **12,279.4** | **2,493,272** | **100.0%** |

For Fiscal Year 2011, the average price range of our products charged to our 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.

For each of 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, primarily in the United States, while for the same periods, 1.7%, 2.3% and 8.8%, respectively, of our revenue was derived from sales of products shipped to the PRC, Hong Kong, Macau and Taiwan. The 6.5% increase in revenue derived from such sales to customers from Fiscal Year 2010 to Fiscal Year 2011 resulted from an increase in customer orders from this region primarily due to growing demand for high-end and luxury products in the PRC. 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 30 June | | | | | |
|---|---|---|---|---|---|---|
| | 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% |
| **Total** | **1,349,688** | **100.0%** | **1,726,317** | **100.0%** | **2,493,272** | **100.0%** |

**Cost of Sales**

Cost of sales primarily consists of cost of raw materials, direct labor costs, manufacturing overhead expenses (which includes primarily utility expenses, rental fees, amortization and depreciation and net value-added tax payables). The following table sets forth, for the periods indicated, the components of our cost of sales and the cost of sales for each component as a percentage of revenue.

| | For Fiscal Year Ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | |
| | (HK$'000, except percentages) | | | | | |
| Cost of Raw Materials | 936,342 | 69.4% | 1,127,096 | 65.3% | 1,513,944 | 60.7% |
| Direct Labor Costs | 164,179 | 12.2% | 235,998 | 13.7% | 382,406 | 15.3% |
| Manufacturing Overhead Expenses | 20,471 | 1.5% | 22,684 | 1.3% | 43,802 | 1.8% |
| **Total** | **1,120,992** | **83.1%** | **1,385,778** | **80.3%** | **1,940,152** | **77.8%** |

Cost of raw materials includes provision for slow moving or obsolete inventory.

**Other Income and Gains**

Other income and gains primarily consists of payments received from customers for change of work orders relating to changes or additions to product designs and reimbursement payments from suppliers for defects in purchased materials, PRC government grants for the compliance with social welfare regulations by our Dongguan manufacturing facility, based on recommendations of the Social Security Bureau of Dongguan (廣東省東莞市社會保障局), Guangdong Province, and the export production achievements of our manufacturing facilities, based on their export rankings in Dongguan and Qingyuan, Guangdong Province, as well as net currency exchange gains on trade receivables and trade payables. The PRC government grants that we have received to date have typically been awarded on an annual basis and, although the grants are not automatically recurring by nature and there can be no assurance that the Group will be awarded such grants in the future, it cannot be excluded that the Group will continue to receive such grants from time to time in the future based on its achievements.

**Selling and Distribution Costs**

Selling and distribution costs primarily consist of marketing and promotion expenses, sales and marketing staff remuneration and benefits, transportation costs for transporting finished goods to their port of shipment and supplies from our suppliers, customs clearance fees and other selling expenses. The following table sets forth, for the periods indicated, the components of our selling and distribution costs and the selling and distribution costs for each component as a percentage of revenue.

| | For Fiscal Year Ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | |
| | (HK$'000, except percentages) | | | | | |
| Marketing and promotion | 2,053 | 0.2% | 2,047 | 0.1% | 1,878 | 0.1% |
| Sales and marketing staff remuneration and benefits | 17,606 | 1.3% | 18,715 | 1.1% | 19,726 | 0.8% |
| Transportation | 14,644 | 1.1% | 16,848 | 1.0% | 24,850 | 1.0% |
| Customs clearance fee | 3,277 | 0.2% | 4,029 | 0.2% | 6,320 | 0.3% |
| Other selling expenses[1] | 2,034 | 0.1% | 1,774 | 0.1% | 3,150 | 0.1% |
| Total | 39,614 | 2.9% | 43,413 | 2.5% | 55,924 | 2.3% |

(1) Other selling expenses includes expenses for travelling, office expenses, operating lease rentals and depreciation of property, plant and equipment.

**Administrative Expenses**

Administrative expenses primarily consist of office and administrative expenses, administrative staff remuneration and benefits, directors remuneration, proposed initial public offering expenses, depreciation of office equipment and buildings, bank charges and other administrative expenses. The following table sets forth, for the periods indicated, the components of our administrative expenses and the administrative expenses for each component as a percentage of revenue.

| | For Fiscal Year Ended 30 June | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | |
| | (HK$'000, except percentages) | | | | | |
| Office and administrative expenses | 11,373 | 0.9% | 13,869 | 0.8% | 22,334 | 0.9% |
| Administrative staff remuneration and benefits | 66,519 | 4.9% | 63,708 | 3.7% | 89,559 | 3.6% |
| Directors remuneration | 2,311 | 0.2% | 2,795 | 0.2% | 3,336 | 0.1% |
| Proposed initial public offering expenses | – | – | – | – | 10,855 | 0.5% |
| Depreciation | 5,932 | 0.4% | 9,708 | 0.6% | 8,350 | 0.3% |
| Bank charges | 3,168 | 0.2% | 6,055 | 0.3% | 8,085 | 0.3% |
| Other administrative expenses[1] | 7,369 | 0.6% | 10,098 | 0.6% | 14,994 | 0.6% |
| Total | 96,672 | 7.2% | 106,233 | 6.2% | 157,513 | 6.3% |

(1) Others includes expenses for rental fees; professional fees; entertainment expenses; real estate tax, stamp duty and surcharge; and other expenses.

**Other Expenses**

Other expenses consist of net currency exchange losses on trade receivables and trade payables and losses on the disposal of property, plant and equipment.

**Finance Costs**

Finance costs consist of interest on bank borrowings fully repayable within five years.

**Income Tax Expense**

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

*Cayman Islands and British Virgin Islands Tax*

Under the current laws of the Cayman Islands and the British Virgin Islands, we are not subject to tax on our income or capital gains. In addition, our payments of dividends are not subject to withholding tax in the Cayman Islands or the British Virgin Islands.

*Hong Kong Tax*

Hong Kong profits tax as applicable to the Group was 16.5% in Fiscal Years 2009, 2010 and 2011 on the estimated assessable profits arising in Hong Kong during the relevant year or period.

In 1987, as a way of carrying out manufacturing operations in the PRC, 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. Under such arrangement, our Group supplied raw materials and machinery to Dongguan Houjie Qiaotou Sitoy Handbag Factory (東莞厚街橋頭時代手袋廠) for processing, upon completion of which Dongguan Houjie Qiaotou Sitoy Handbag Factory (東莞厚街橋頭時代手袋廠) would return the processed materials to our Group. As a result of concessionary tax treatment that our Group received under Hong Kong tax law in connection with this arrangement, only 50% of the profit we derived from the contract processing arrangement was subject to Hong Kong profits tax, provided that certain criteria as set out in the Departmental Interpretation and Practice Notes No. 21 (revised) issued by the Hong Kong Inland Revenue Department were fulfilled. In addition, Dongguan Houjie Qiaotou Sitoy Handbag Factory was subject to PRC corporate income tax at a rate of 25% on the deemed profit generated in the PRC. The deemed profit was calculated at a rate of 7% during the Track Record Period on the total deemed revenue which was determined by applying a 7% gross up on the total processing costs incurred by Dongguan Houjie Qiaotou Sitoy Handbag Factory. Dongguan Houjie Qiaotou Sitoy Handbag Factory (東莞厚街橋頭時代手袋廠) ceased operations in 2011 for the purpose of consolidating its manufacturing facility into Sitoy Dongguan.

*PRC Corporate Income Tax*

During the Track Record Period, PRC corporate income tax was based on a statutory rate of 25% of the assessable profit of our PRC subsidiaries as determined in accordance with the CIT Law, which was approved and became effective on 1 January 2008. Certain foreign invested enterprises, or FIEs, that were established prior to the promulgation of the CIT Law and enjoyed lower tax rates according to the provisions of the previous tax laws and regulations are exempt from paying income tax for a period of two years starting from the year when the FIEs begin to make a profit or 1 January 2008, whichever is earlier, and thereafter enjoy a 50% reduced tax rate for the following three years. Our subsidiary, Sitoy Yingde, is an FIE that qualifies for this 50% reduced tax rate until 31 December 2012. For Fiscal Years 2009 and 2010, Sitoy Yingde was loss making and did not have sufficient tax liabilities to take advantage of the preferential tax treatment. For Fiscal Year 2011, Sitoy Yingde was able to take advantage of the preferential tax treatment to the extent of HK$2.9 million. To the extent we are unable to offset the expiration of this preferential tax treatment, which will not be renewed, with new tax exemptions, incentives or other tax benefits, Sitoy Yingde's effective tax rate in the PRC will increase to 25% thereafter.

*Additional Provision for Transfer Pricing*

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. When our 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 in turn invoices our customers. We have used Sitoy Handbag to invoice our customers since its incorporation in 1982. Under PRC tax regulations, the sales by our PRC subsidiaries to Sitoy Handbag, in the case of Sitoy Dongguan, and to Sitoy Company, in the case of Sitoy Yingde, may expose our PRC subsidiaries to tax liabilities. As required by PRC tax regulations, when filing annual tax returns, we have prepared and submitted the "PRC Annual Related Party Transaction Reporting Form" to the local tax authorities in Dongguan and Yingde during the Track Record Period, and for each taxable year since 2009 we have also prepared and maintained relevant contemporaneous documents regarding related party transactions, which included a transfer pricing study on our pricing policy we prepared in consultation with PRC tax consultants. Under PRC tax regulations, we are required to submit the contemporaneous documents based on the PRC tax authorities' request, and the PRC tax authorities have the right to select the target enterprises for a transfer pricing audit, applying a transfer pricing adjustment or reaching a positive transfer pricing audit conclusion after the audit. During the Track Record Period and up to and including the Latest Practicable Date, the PRC tax authorities have not made such a request, or informed us that they have selected any of our PRC subsidiaries for a transfer pricing audit and adjustment, or challenged our pricing policy in other ways, and the Company duly considers the tax provisions to be sufficient for such periods.

*PRC Tax Levied on Hong Kong Entities*

Under the CIT Law, the exemption from the withholding tax on dividends distributed by foreign-invested enterprises to their foreign investors under the previous tax laws is no longer available. A Hong Kong incorporated company that has a direct interest in at least 25% of the capital of a PRC company and is considered non-resident enterprises by the PRC tax authority is subject to a PRC withholding tax at a rate of 5%. During the Track Record Period, PRC tax levied on HK entities in this regard was primarily contributed by Dongguan Houjie Qiaotou Sitoy Handbag Factory (東莞厚街橋頭時代手袋廠).

## REVIEW OF HISTORICAL RESULTS OF OPERATIONS

### *Fiscal Year 2011 Compared to Fiscal Year 2010*

#### Revenue

Our revenue increased by 44.4% to HK$2,493.3 million in Fiscal Year 2011 from HK$1,726.3 million in Fiscal Year 2010. This increase was primarily due to an increase in the sales volumes of our products to 12.3 million units in Fiscal Year 2011 from 9.0 million units in Fiscal Year 2010 resulting from a significant increase in the number of units of handbags and small leather goods we sold to high-end and luxury brand customers in Fiscal Year 2011 as a result of growing demand in the markets in which our customers sell their products. The increase in the sales volumes was made possible by an increase in our manufacturing capabilities during Fiscal Year 2011 as a result of the expansion of our manufacturing facilities in Dongguan and Yingde in Fiscal Year 2011.

#### Cost of Sales

Cost of sales increased by 40.0% to HK$1,940.2 million in Fiscal Year 2011 from HK$1,385.8 million in Fiscal Year 2010. This increase was primarily due to an increase in sales volume in Fiscal Year 2011 compared to Fiscal Year 2010, which resulted in a HK$386.8 million increase in cost of raw materials and a HK$146.4 million increase in direct labor costs. As a percentage of revenue, costs of sales decreased to 77.8% in Fiscal Year 2011 from 80.3% in Fiscal Year 2010 primarily due to a decrease in our cost of raw materials as a percentage of revenue to 60.7% in Fiscal Year 2011 from 65.3% in Fiscal Year 2010, notwithstanding the steady increase in the prices of the raw materials we use, in particular leather, in recent years. This decrease in our cost of raw materials as a percentage of revenue was primarily a result of continued improvements in our product design and development capabilities, which enabled us to successfully implement our strategy of targeting luxury brand customers to whom we sell more complex products at higher agreed per unit margins. Direct labor costs increased as a percentage of revenue to 15.3% in Fiscal Year 2011 from 13.7% in Fiscal Year 2010, primarily as a result of higher wages and an increase in head count in connection with the expansion of our manufacturing capabilities in Fiscal Year 2011, contributing to the decrease in our cost of raw materials as a percentage of revenue. Our manufacturing overhead expenses increased as a percentage of revenue to 1.8% in Fiscal Year 2011 from 1.3% in Fiscal Year 2010.

#### Gross Profit

As a result of the foregoing, our gross profit increased by 62.4% to HK$553.1 million in Fiscal Year 2011 from HK$340.5 million in Fiscal Year 2010, and our gross profit margin increased to 22.2% from 19.7%.

**Other Income and Gains**

Other income and gains increased to HK$27.4 million in Fiscal Year 2011 from HK$10.1 million in Fiscal Year 2010. This increase was primarily due to a HK$11.6 million increase in net exchange gains on trade receivables and trade payables as a result of fluctuations between the Euro and the Hong Kong dollar, HK$4.3 million received in additional PRC government grants compared to Fiscal Year 2010 for compliance with social welfare regulations and export production achievements by our manufacturing facilities and a HK$0.9 million increase in payments received from customers for change of work orders relating to changes or additions to their product designs.

**Selling and Distribution Costs**

Our selling and distribution costs increased by 28.8% to HK$55.9 million in Fiscal Year 2011 from HK$43.4 million in Fiscal Year 2010. This increase was primarily due to increased sales volumes, which resulted in a HK$8.0 million increase in transportation costs for transporting finished goods to their port of shipment and raw materials from our suppliers, as well as a HK$2.3 million increase in customs clearance fees and a HK$1.0 million increase in sales and marketing staff remuneration and benefits. As a percentage of our revenue, selling and distribution costs decreased slightly to 2.3% in Fiscal Year 2011 from 2.5% in Fiscal Year 2010.

**Administrative Expenses**

Administrative expenses increased by 48.3% to HK$157.5 million in Fiscal Year 2011 from HK$106.2 million in Fiscal Year 2010. This increase was primarily due to a HK$25.9 million increase in administrative staff remuneration and benefits relating primarily to an increase in administrative staff head count in connection with the expansion of our manufacturing capabilities and higher wages and related benefits in Fiscal Year 2011; expenses of HK$10.9 million incurred in connection with our proposed initial public offering in Fiscal Year 2011; a HK$8.5 million increase in office and administrative expenses, which included a HK$6.2 million increase in office administrative expenses resulting from the expansion of our manufacturing capabilities, the commencement of our retail operations and increased sales volumes and a HK$2.1 million increase in travel and fuel expenses for our administrative staff; and a HK$2.0 million increase in bank charges primarily relating to transactional charges for trade payment arrangements resulting from increased business activity. As a percentage of our revenue, administrative expenses increased slightly to 6.3% in Fiscal Year 2011 from 6.2% in Fiscal Year 2010.

**Other Expenses**

Other expenses decreased to HK$0.4 million in Fiscal Year 2011 from HK$3.7 million in Fiscal Year 2010, primarily due to a HK$2.5 million decrease in net exchange losses on trade receivables and trade payables relating to fluctuations between the Euro and the Hong Kong dollar and a HK$1.0 million decrease in loss on the disposal of property, plant and equipment.

**Finance Costs**

Finance costs decreased to HK$3.8 million in Fiscal Year 2011 from HK$4.1 million in Fiscal Year 2010. This decrease was primarily due to a decrease in our bank borrowings in 2011 as a result of our strategy to reduce our bank borrowings to the extent conducive to our business.

**Profit before Tax**

Profit before tax increased to HK$362.9 million in Fiscal Year 2011 from HK$193.1 million in Fiscal Year 2010. As a percentage of revenue, profit before tax increased to 14.5% in Fiscal Year 2011 from 11.2% in Fiscal Year 2010, as a result of the cumulative effect of the foregoing factors.

**Income Tax Expense**

Income tax expense increased to HK$60.4 million in Fiscal Year 2011 from HK$41.3 million in Fiscal Year 2010, primarily due to a HK$15.5 million increase in taxes payable on our profits generated in Hong Kong due to the increase in the profits we generated from the increase in our sales volumes. Our effective income tax rate decreased to 16.7% in Fiscal Year 2011 from 21.4% in Fiscal Year 2010 primarily as a result of a reversal of income tax provisions for previous periods in the amount of HK$5.7 million resulting from the closure of Dongguan Houjie Qiaotou Sitoy Handbag Factory (東莞厚街橋頭時代手袋廠), our former "three types of processing plus compensation trades" entity in the PRC, in May 2011, as well as tax losses from previous periods utilized by our PRC subsidiaries in the amount of HK$3.1 million and Sitoy Yingde being able to take advantage of preferential tax treatment as an FIE under the CIT Law to the extent of HK$2.9 million. Please see "— Income Tax Expense — PRC Corporate Income Tax" above.

**Profit for the Year**

Profit for the year increased by 99.2% to HK$302.4 million in Fiscal Year 2011 from HK$151.8 million in Fiscal Year 2010. As a percentage of revenue, profit increased to 12.1% in Fiscal Year 2011 from 8.8% in Fiscal Year 2010, as a result of the cumulative effect of the foregoing factors.

***Fiscal Year 2010 Compared to Fiscal Year 2009***

**Revenue**

Our revenue increased by 27.9% to HK$1,726.3 million in Fiscal Year 2010 from HK$1,349.7 million in Fiscal Year 2009. This increase was primarily due to an increase in the sales volumes of our products to 9.0 million units in Fiscal Year 2010 from 7.2 million units in Fiscal Year 2009 resulting from a significant increase in the number of units of handbags and small leather goods we sold to high-end and luxury brand customers in Fiscal Year 2010 as a result of growing demand in the markets in which our customers sell their products. The increase in the sales volumes was made possible by an increase in our manufacturing capabilities during Fiscal Year 2010 as a result of the expansion of our manufacturing facilities in Dongguan and Yingde in Fiscal Year 2010.

**Cost of Sales**

Cost of sales increased by 23.6% to HK$1,385.8 million in Fiscal Year 2010 from HK$1,121.0 million in Fiscal Year 2009. This increase was primarily due to an increase in sales volume in Fiscal Year 2010 compared to Fiscal Year 2009, which resulted in a HK$190.8 million increase in cost of raw materials and a HK$71.8 million increase in direct labor costs. As a percentage of revenue, costs of sales decreased to 80.3% in Fiscal Year 2010 from 83.1% in Fiscal Year 2009 primarily due to a decrease in our cost of raw materials as a percentage of revenue to 65.3% in Fiscal Year 2010 from 69.4% in Fiscal Year 2009, notwithstanding the steady increase in the prices of the raw materials we use, in particular leather, in recent years. This decrease in our cost of raw materials as a percentage of revenue was primarily a result of our improved product design and development capabilities, which enabled us to successfully implement our strategy of targeting luxury brand customers to whom we sell more complex products at higher agreed per unit margins. Direct labor costs increased as a percentage of revenue to 13.7% in Fiscal Year 2010 from 12.2% in Fiscal Year 2009, primarily as a result of higher wages and an increase in head count in connection with the expansion of our manufacturing capabilities in Fiscal Year 2010, contributing to the decrease in our cost of raw materials as a percentage of revenue. Our manufacturing overhead expenses decreased slightly as a percentage of revenue to 1.3% in Fiscal Year 2010 from 1.5% in Fiscal Year 2009.

**Gross Profit**

As a result of the foregoing, our gross profit increased by 48.9% to HK$340.5 million in Fiscal Year 2010 from HK$228.7 million in Fiscal Year 2009, and our gross profit margin increased to 19.7% from 16.9%.

**Other Income and Gains**

Other income and gains increased by 13.5% to HK$10.1 million in Fiscal Year 2010 from HK$8.9 million in Fiscal Year 2009. This increase was primarily due to HK$1.0 million received in PRC government grants for compliance with social welfare regulations and export production achievements by our manufacturing facilities and a HK$0.7 million increase in payments received from customers for change of work orders relating to changes or additions to their product designs, which partially offset by a decrease in interest income and other income received.

**Selling and Distribution Costs**

Our selling and distribution costs increased by 9.6% to HK$43.4 million in Fiscal Year 2010 from HK$39.6 million in Fiscal Year 2009. This increase was primarily due to increased sales volumes, which resulted in a HK$2.2 million increase in transportation costs for transporting finished goods to their port of shipment and raw materials from our suppliers, as well as a HK$1.1 million increase sales and marketing staff salary, bonus and benefit expense and a HK$0.7 million increase in customs clearance fees. As a percentage of our revenue, selling and distribution costs decreased to 2.5% in Fiscal Year 2010 from 2.9% in Fiscal Year 2009.

**Administrative Expenses**

Administrative expenses increased by 9.8% to HK$106.2 million in Fiscal Year 2010 from HK$96.7 million in Fiscal Year 2009. This increase was primarily due to a HK$3.8 million increase in depreciation of office equipment and buildings; a HK$2.5 million increase in office and administrative expenses, which included a HK$2.9 million increase in office administrative expenses resulting from the expansion of our manufacturing capabilities and increased sales volumes, which was partially offset by a HK$1.5 million decrease in office maintenance expenses; a HK$2.9 million increase in bank charges primarily relating to transactional charges for trade payment arrangements resulting from increased business activity; and a HK$1.4 million in increased professional fees primarily for accounting services and trademark registration services, which were offset by a HK$2.8 million decrease in administrative staff remuneration and benefits primarily due to cost savings realized from changes in staff administrative policies. As a percentage of our revenue, administrative expenses decreased to 6.2% in Fiscal Year 2010 from 7.2% in Fiscal Year 2009.

**Other Expenses**

Other expenses increased to HK$3.7 million in Fiscal Year 2010 from HK$2.6 million in Fiscal Year 2009, primarily due to a HK$0.9 million increase in loss on disposal of property, plant and equipment.

**Finance Costs**

Finance costs increased to HK$4.1 million in Fiscal Year 2010 from HK$3.0 million in Fiscal Year 2009. This increase was primarily due to an increase in our bank borrowings in 2010 as a result of our increased financing requirements resulting from the increase in our business activities.

**Profit before Tax**

Profit before tax increased to HK$193.1 million in Fiscal Year 2010 from HK$95.8 million in Fiscal Year 2009. As a percentage of revenue, profit before tax increased to 11.2% in Fiscal Year 2010 from 7.1% in Fiscal Year 2009, as a result of the cumulative effect of the foregoing factors.

**Income Tax Expense**

Income tax expense increased to HK$41.3 million in Fiscal Year 2010 from HK$17.6 million in Fiscal Year 2009, primarily due to a HK$25.6 million increase in taxes payable on our profits generated in Hong Kong due to the increase in the profits we generated as a result of the increase in our sales volumes and a decrease in income not subject to tax in that jurisdiction in Fiscal Year 2010 as a result of the gradual transfer of manufacturing activities from our former "three types of processing plus compensation trades" entity, Dongguan Houjie Qiaotou Sitoy Handbag Factory (東莞厚街橋頭時代手袋廠), with which Sitoy Handbag had a contract processing arrangement and, as a result, received concessionary tax treatment in Hong Kong, to Sitoy Dongguan. Our effective income tax rate increased to 21.4% in Fiscal Year 2010 from 18.4% in Fiscal Year 2009 primarily as a result of the decrease in tax benefits enjoyed by Sitoy Handbag, which in Fiscal Year 2010 amounted to HK$2.0 million compared to HK$6.2 million in Fiscal Year 2009.

**Profit for the Year**

Profit for the year increased by 94.1% to HK$151.8 million in Fiscal Year 2010 from HK$78.2 million in Fiscal Year 2009. As a percentage of revenue, profit increased to 8.8% in Fiscal Year 2010 from 5.8% in Fiscal Year 2009, as a result of the cumulative effect of the foregoing factors.

## LIQUIDITY AND CAPITAL RESOURCES

Prior to the Listing, we funded our operations principally from the proceeds from sales of our products and bank borrowings. Our principal liquidity and capital requirements relate to the following:

- costs and expenses related to the operation of our business, including our operation of our manufacturing facilities; and
- capital expenditures for the expansion of existing manufacturing facilities and construction of new manufacturing facilities and the continued rollout of our TUSCAN'S brand and retail stores.

After the Listing Date, we expect to fund our liquidity needs through cash flow from our operations, bank borrowings, and the net proceeds of the Global Offering. We may consider additional debt or equity financing, depending on market conditions, our financial performance and other relevant factors. No assurance can be given that we will be able to raise additional capital, should that become necessary, on terms acceptable to us or at all. Please see "Future Plans and Use of Proceeds — Use of Proceeds"

Our Directors are of the opinion that after taking into account the existing financial resources available to us, as described above, we have sufficient working capital for at least the next 12 months from the date of this prospectus.

***Cash Flows***

The following table sets forth, for the periods indicated, selected cash flow data from our combined statements of cash flows.

| | For Fiscal Year Ended 30 June | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | | (HK$'000) | |
| Operating cash flows before movements in working capital | 111,869 | 226,455 | 389,164 |
| Net cash inflow/(outflow) from operating activities | 91,125 | 110,523 | 294,613 |
| Net cash inflow/(outflow) from investing activities | (61,124) | (88,351) | (108,269) |
| Net cash inflow/(outflow) from financing activities | (17,109) | (3,098) | (157,300) |
| Net increase/(decrease) in cash and cash equivalents | 12,892 | 19,074 | 29,044 |
| Cash and cash equivalents at end of the year | 31,745 | 50,146 | 80,390 |

**Operating Activities**

Net cash generated from operating activities in Fiscal Year 2011 was HK$294.6 million, while operating cash flows before movement in working capital was HK$389.2 million. The difference of HK$94.6 million was primarily due to a HK$78.9 million increase in trade receivables, a HK$50.4 million increase in inventories, and a HK$20.7 million increase in prepayments, deposits and other receivables. The increase in trade receivables was due to increased sales volumes. The increase in inventories was due to an increase in work in progress and raw materials resulting from increased sales volumes made possible by an increase in our manufacturing capabilities during Fiscal Year 2011. The increase in prepayments, deposits and other receivables was related to an increase in value-added tax refund receivables, arising from our recovery of input value-added tax on the raw materials we buy in order to manufacture our products, from the increased procurement of raw materials, reimbursement of stamp duty overcharges and capitalized expenses in connection with our proposed initial public offering.

These effects were partially offset by a HK$36.2 million increase in other payables and accruals and a HK$42.6 million increase in trade payables. The increase in other payables and accruals was related to an increase in payroll payables due to an increase in staff head count as a result of the expansion of our manufacturing capabilities, accrued expenses related to our proposed initial public offering and other tax provision and payables and staff housing fund payables. The increase in trade payables was related to the increase in sales volumes in Fiscal Year 2011.

Operating cash flows before movement in working capital in Fiscal Year 2011 consisted primarily of HK$362.9 million in profit before tax and HK$19.7 million of depreciation for property, plant and equipment, relating primarily to buildings, which are depreciated at a lower rate than other categories of property, plant and equipment. Most of the building's constructed during the Fiscal Year were completed in the second half of the Fiscal Year, contributing to lower depreciation for the period.

Net cash generated from operating activities in Fiscal Year 2010 was HK$110.5 million, while operating cash flows before movement in working capital was HK$226.5 million. The difference of HK$116.0 million was primarily due to:

- a HK$154.7 million increase in inventories related to an increase in work in progress and raw materials resulting from increased sales volumes made possible by an increase in our manufacturing capabilities in Fiscal Year 2010;
- a HK$15.5 million increase in trade receivables related to the increase in sales volume; and
- a HK$13.5 million increase in prepayments, deposits and other receivables related to an increase in value-added tax refund receivables from the increased procurement of raw materials, prepayments to suppliers and an increase in sample fee receivables for increased samples produced for customers, each as a result of the increase in sales volumes.

These effect were partially offset by:

- a HK$49.0 million increase in trade payables related to the increase in sales volumes in Fiscal Year 2010; and
- a HK$23.2 million increase in other payables and accruals related to an increase in payroll payables due to an increase in staff head count as a result of the expansion of our manufacturing facilities.

Operating cash flows before movement in working capital in Fiscal Year 2010 consisted primarily of HK$193.1 million of profit before tax, HK$15.8 million in write-downs of inventories to net realizable value, and HK$13.3 million of depreciation of property, plant and equipment, relating primarily to buildings, which are depreciated at a lower rate than other categories of property, plant and equipment. Most of the building's constructed during the Fiscal Year were completed in the second half of the Fiscal Year, contributing to lower depreciation of the period.

Net cash generated from operating activities in Fiscal Year 2009 was HK$91.1 million, while operating cash flows before movement in working capital was HK$111.9 million. The difference of HK$20.8 million was primarily due to a HK$60.2 million increase in trade receivables and a HK$9.3 million increase in prepayments, deposits and other receivables. The increase in trade receivables was related to the increase in sales volumes in Fiscal Year 2009. The increase in prepayments, deposits and other receivables was related to value-added tax refund receivables for increased procurement of raw materials and an increase in sample fee receivables for increased samples produced for customers, each as a result of the increase in sales volume.

These effect were partially offset by a decrease of HK$45.7 million in inventories and an increase of HK$16.1 million in other payables and accruals. The decrease in inventories related to an accelerated delivery of inventory due to increased sales volume resulting from the economic recovery in markets in which our products are sold. The increase in other payables and accruals was related to an increase in wage expenses due to an increase in staff as a result of the expansion of our Dongguan manufacturing facility and the commencement of operations of our Yingde manufacturing facility in April 2009.

Operating cash flows before movement in working capital in Fiscal Year 2009 consisted primarily of HK$95.8 million in profit before taxation and HK$10.5 million of depreciation of property, plant and equipment, relating in part to buildings, which are depreciated at a lower rate than other categories of property, plant and equipment. Most of the buildings constructed during the Fiscal Year were completed in the second half of the Fiscal Year, contributing to lower depreciation for the period.

**Investing Activities**

Net cash used in investing activities in Fiscal Year 2011 was HK$108.3 million. The cash outflows related primarily to purchases of items of property, plant and equipment in the amount of HK$96.2 million related to equipment and machinery for our Dongguan and Yingde manufacturing facilities and in connection with ongoing construction in progress for the expansion of our Yingde manufacturing facility and the purchase of available-for-sale investments consisting of floating interest rate notes in the amount of HK$10.0 million, which were pledged as security for our interest-bearing bank borrowings.

Net cash used in investing activities in Fiscal Year 2010 was HK$88.4 million. The cash outflows related primarily to purchases of items of property, plant and equipment in the amount of HK$88.5 million related to the purchase of equipment and machinery for our Dongguan and Yingde manufacturing facilities and in connection with ongoing construction in progress for the expansion of our Yingde manufacturing facility.

Net cash used in investing activities in Fiscal Year 2009 was HK$61.1 million. The cash outflows related primarily to purchases of property, plant and equipment to increase our manufacturing capabilities, which included the purchase of equipment and machinery for our manufacturing facility at Yingde, which commenced initially operations in April 2009, as well as construction costs for the Yingde facility.

**Financing Activities**

Net cash used in financing activities in Fiscal Year 2011 was HK$157.3 million, which consisted primarily of dividends paid in the amount of HK$99.2 million and net repayments of bank and other borrowings of HK$64.3 million, which were partially offset by a decrease in pledged time deposits in the amount of HK$10.0 million. Net cash used in financing activities in Fiscal Year 2010 was HK$3.1 million, which resulted from net new bank and other borrowings of HK$51.8 million, which was partially offset by dividends paid to our shareholders in the amount of HK$50.8 million and interest paid on bank and other borrowings of HK$4.1 million. Net cash used in financing activities in Fiscal Year 2009 was

HK$17.1 million, which consisted primarily of dividends paid to our shareholders of HK$34.2 million, an increase in pledged time deposits of HK$10.0 million, which was partially offset by net new bank and other borrowings of HK$30.0 million.

## DISCUSSION OF SELECTED STATEMENT OF FINANCIAL POSITION ITEMS

### *Net Current Assets/(Liabilities)*

The following table sets forth, as of the balance sheet dates indicated, our net current assets/(liabilities).

| | As of 30 June | | | As of 30 September |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 |
| | (HK$'000) | | | |
| | | | | (unaudited) |
| **Current Assets** | | | | |
| Inventories | 104,750 | 243,643 | 291,837 | 386,087 |
| Trade receivables | 145,496 | 160,978 | 239,860 | 217,963 |
| Prepayments, deposits and other receivables | 16,000 | 29,541 | 50,271 | 58,427 |
| Amounts due from shareholders | 6,147 | – | – | – |
| Amount due from a related company | – | – | 540 | 551 |
| Available-for-sale investment | – | – | 9,609 | 9,657 |
| Pledged deposits | 10,000 | 10,000 | – | – |
| Cash and cash equivalents | 31,745 | 50,146 | 80,390 | 105,474 |
| **Total** | **314,138** | **494,308** | **672,507** | **778,159** |
| **Current Liabilities** | | | | |
| Trade payables | 106,330 | 155,379 | 197,972 | 181,045 |
| Other payables and accruals | 34,655 | 55,409 | 96,495 | 88,963 |
| Interest-bearing bank borrowings[1] | 118,419 | 170,192 | 105,901 | 139,825 |
| Tax payable | 24,929 | 55,172 | 96,324 | 114,604 |
| Amounts due to shareholders | – | 59,192 | – | – |
| Amount due to a related company | 589 | – | – | – |
| **Total** | **284,922** | **495,344** | **496,692** | **524,437** |
| **Net Current Assets/(Liabilities)** | **29,216** | **(1,036)** | **175,815** | **253,722** |

(1) Includes amounts outstanding of HK$18.8 million, HK$67.4 million and HK$48.8 million as of 30 June 2009, 2010 and 2011, respectively under our credit facilities that have been classified as current liabilities as a result of repayment on demand clauses in the loan agreements governing our credit facilities, of which HK$18.8 million and HK$55.4 million as of 30 June 2009 and 2010, respectively, would have nonetheless been reclassified as current liabilities as a result of our subsidiary, Sitoy Handbag, inadvertently being in breach of certain financial covenants in the loan agreements governing our credit facilities. Please see "Indebtedness".

The change from net current assets of HK$29.2 million as of 30 June 2009 to net current liabilities of HK$1.0 million as of 30 June 2010 was primarily due to an increase in trade payables due to increased procurement of raw materials as a result of the increase in sales volumes in Fiscal Year 2010, an increase in our interest-bearing bank borrowings as a result of an increase in our financing requirements resulting from the increase in our business activities and an increase in amounts due to shareholders. The change from net current liabilities of HK$1.0 million as of 30 June 2010 to net current assets of HK$175.8 million as of 30 June 2011 was primarily due to an increase in trade receivables due to the increase in sales volumes in Fiscal Year 2011 and an increase in inventories due to increased procurement of raw materials as a result of the increased sales volumes and a decrease in a provision against inventories, as well as a decrease in interest-bearing bank borrowings as a result of our strategy to reduce our bank borrowings to the extent conducive to our business.

***Inventories, Receivables and Payables***

The following table sets forth, for the periods indicated, certain information relating to our inventories, trade receivables and trade payables.

| | For Fiscal Year Ended 30 June | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| Average inventory turnover days[1] | 44 | 48 | 52 |
| Average trade receivables turnover days[2] | 31 | 32 | 29 |
| Average trade payables turnover days[3] | 42 | 42 | 43 |

(1) Calculated as the average of the beginning and ending inventory balances for the period before provisions against inventories, divided by the cost of sales for the period, multiplied by 365 days.

(2) Calculated as the average of the beginning and ending trade receivables balances for the period, divided by revenue for the period, multiplied by 365 days.

(3) Calculated as the average of the beginning and ending trade payables balances for the period, divided by the cost of raw materials and components in the period, multiplied by 365 days.

***Inventories***

Our average inventory turnover days increased to 52 days in Fiscal Year 2011 compared with 48 days in Fiscal Year 2010 and 44 days in Fiscal Year 2009. The increase of 4 average inventory turnover days in Fiscal Year 2010 compared to Fiscal Year 2009 and the increase of 4 average inventory days in Fiscal Year 2011 compared to Fiscal Year 2010 were due to an increase in advanced planning with respect to our utilization of the raw materials we procure to fill customer purchase orders.

Our inventories increased from HK$107.0 million as of 30 June 2009 to HK$259.5 million as of 30 June 2010, and increased to HK$295.6 million as of 30 June 2011. The increase in inventories in Fiscal Year 2010 was due to an increase in work in progress and raw materials in connection with the expansion of our Dongguan manufacturing facility and the commencement of operations at our Yingde manufacturing facility. The increase in inventories in Fiscal Year 2011 was due to an increase in work in progress and raw materials resulting from increased sales volumes made possible by an increase in our manufacturing capabilities during Fiscal Year 2011.

The following table sets forth, as of the balance sheet dates indicated, our inventory positions.

| | As of 30 June | | |
|---|---|---|---|
| | **2009** | **2010** | **2011** |
| | | **(HK$'000)** | |
| Raw materials | 41,678 | 75,841 | 96,441 |
| Work in progress | 55,524 | 137,520 | 150,170 |
| Finished goods | 9,837 | 46,111 | 48,962 |
| **Subtotal** | **107,039** | **259,472** | **295,573** |
| Provision against inventories | (2,289) | (15,829) | (3,736) |
| **Total** | **104,750** | **243,643** | **291,837** |

As of 31 October 2011, being the latest practicable date such information was available to us, HK$282.5 million, representing 96.8%, of our inventories as of 30 June 2011 had been consumed or sold.

According to the provision policy of the Group, for inventory aged under six months, the Group reviews the net realizable value of inventories on a case-by-case basis and recognizes a provision when the net realizable value of the inventories is below the original cost. Inventory aged over six months will generally be recognized as provision against inventories. The increase in provision against inventories from HK$2.3 million as of 30 June 2009 to HK$15.8 million as of 30 June 2010 was primarily attributable to a build up of leather inventories resulting from negotiated cancellations of customer purchase orders with certain existing customers as a result of decisions by such customers to adjust their product ranges in response to the 2009 financial crisis. Provision against inventories decreased from HK$15.8 million as of 30 June 2010 to HK$3.7 million as of 30 June 2011 as a result of the build up of inventories relating to the customer cancellations in Fiscal Year 2010 becoming obsolete and being written off in Fiscal Year 2011.

***Trade Receivables***

We generate trade receivables related to sales to our customers. Our average trade receivable turnover days decreased to 29 days in Fiscal Year 2011 compared with 32 days in Fiscal Year 2010 and 31 days in Fiscal Year 2009. The decrease of 3 average trade receivable turnover days in Fiscal Year 2011 compared to Fiscal Year 2010 was a result of the Company's ability to negotiate better payment terms with its customers in Fiscal Year 2011.

Our trade receivables increased from HK$145.5 million as of 30 June 2009 to HK$161.0 million as of 30 June 2010, and to HK$239.9 million as of 30 June 2011. These increases were primarily due to increases in sales volume. As of 30 June 2009, 2010 and 2011, our largest customer accounted for 14.0%, 41.3% and 20.7%, respectively, of our trade receivables, and our five largest customers accounted for 55.5%, 74.5% and 57.0%, respectively.

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 arrangements with our customers include telegraphic transfers before shipment, letters of credit at sight, and letters of credit and telegraphic transfers generally between 10 and 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. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimize credit risk. Overdue balances are reviewed regularly by senior management. Our management specifically analyzes factors such as feasibility of collection, customer creditworthiness, change in customer payment patterns and current economic situation to assess whether impairment allowance is necessary. The following table sets forth an aging analysis of our trade receivables that are not individually or collectively considered to be impaired, based on the payment terms of the invoices.

| | As of 30 June | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | (HK$'000) | | |
| Neither past due nor impaired | 114,623 | 149,980 | 214,497 |
| Past due but not impaired (less than 90 days) | 30,873 | 10,998 | 25,363 |
| | 145,496 | 160,978 | 239,860 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. Receivables that were past due but not impaired relate to a number of customers that have a good track record with the Group. Based on this policy, we believe that, as of the Latest Practicable Date, no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. We assess regularly on a case-by-case basis whether trade receivables are uncollectible or unlikely to be collected. As of the Latest Practicable Date, none of our trade receivables were impaired. Trade receivables are unsecured and non-interest-bearing.

We receive the majority of proceeds within 30 days from the invoice date on which the sales are made. The following table sets forth an aging analysis of our trade receivables, including outstanding balances for each period as a percentage of total outstanding balances, based on invoice dates as of the dates indicated.

| | As of 30 June | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | |
| | (HK$'000, except for percentages) | | | | | |
| **Days outstanding** | | | | | | |
| Within 30 days | 105,482 | 72.5% | 114,474 | 71.1% | 205,765 | 85.8% |
| 31 to 60 days | 33,294 | 22.9% | 26,862 | 16.7% | 26,690 | 11.1% |
| 61 to 90 days | 6,449 | 4.4% | 14,981 | 9.3% | 7,306 | 3.1% |
| Over 90 days | 271 | 0.2% | 4,661 | 2.9% | 99 | 0.0% |
| **Total** | **145,496** | **100.0%** | **160,978** | **100.0%** | **239,860** | **100.0%** |

As of 31 October 2011, being the latest practicable date such information was available to us, all of our trade receivables as of 30 June 2011 had been settled.

### *Deposits and Other Receivables*

Deposits and other receivables primarily include sample fee receivables from customers for sample orders, reimbursements for stamp duty overcharges, value-added tax refund receivables, arising from our recovery of input value-added tax on the raw materials we buy in order to manufacture our products, and tenancy deposits.

Deposits and other receivables increased by 50.7% to HK$11.3 million as of 30 June 2010 from HK$7.5 million as of 30 June 2009. This increase was primarily due to an increase in sample fee receivables for increased samples produced for customers as a result of the increase in sales volume and an increase in value-added tax refund receivables for increased procurement of raw materials as a result of increased sales volume. Deposits and other receivables increased to HK$15.1 million as of 30 June 2011 from HK$11.3 million as of 30 June 2010. This increase was primarily due to reimbursements for stamp duty overcharges and a tenancy deposit made in connection with our retail stores.

***Trade Payables***

Our trade payables are generated from the purchase of raw materials from our suppliers. Our average trade payable turnover days increased to 43 days in Fiscal Year 2011 compared with 42 days in Fiscal Year 2010 and 42 days in Fiscal Year 2009. Our trade payables increased from HK$106.3 million as of 30 June 2009 to HK$155.4 million as of 30 June 2010 primarily due to increased procurement of raw materials from suppliers as a result of the increase in our sales volumes in Fiscal Year 2010, and increased from HK$155.4 million as of 30 June 2010 to HK$198.0 million as of 30 June 2011 primarily due to increased procurement of raw materials from suppliers as a result of the increase in our sales volumes in Fiscal Year 2011.

Our trade payables are non-interest-bearing and are generally settled within 90 days. Our payment arrangements with our suppliers primarily include telegraphic transfers before shipment, cash on delivery and telegraphic transfers after shipment. The payment period of individual suppliers is agreed on a case-by-case basis. The following table sets forth an aging analysis of our trade payables, including outstanding balances for each period as a percentage of total outstanding balances, based on invoice dates as of the dates indicated.

| | As of 30 June | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2010 | | 2011 | |
| | (HK$'000, except for percentages) | | | | | |
| **Days outstanding** | | | | | | |
| Within 30 days ....... | 73,744 | 69.4% | 96,508 | 62.1% | 145,956 | 73.7% |
| 31 to 60 days ........ | 14,332 | 13.5% | 28,892 | 18.6% | 30,415 | 15.4% |
| 61 to 90 days ........ | 12,102 | 11.3% | 23,391 | 15.1% | 15,046 | 7.6% |
| Over 90 days ........ | 6,152 | 5.8% | 6,588 | 4.2% | 6,555 | 3.3% |
| **Total** ............... | **106,330** | **100.0%** | **155,379** | **100.0%** | **197,972** | **100.0%** |

As of 31 October 2011, being the latest practicable date such information was available to us, HK$196.1 million, representing 99.1%, of the trade payables as of 30 June 2011 had been fully settled.

***Other Payables and Accruals***

Other payables and accruals primarily include payroll payables, payables for construction fees in connection with the expansion of our manufacturing facilities, tax provisions and payables, payables for equipment and machinery, advances from customers, payables relating to customer claims, and accruals relating to rental expenses, utilities and office and administrative expenses.

Other payables and accruals increased by 59.7% to HK$55.4 million as of 30 June 2010 from HK$34.7 million as of 30 June 2009. This increase was primarily due to an increase in payroll payables and payables for equipment and machinery in connection with the expansion of our manufacturing facilities. Other payables and accruals increased by 74.2% to HK$96.5 million as of 30 June 2011 from HK$55.4 million as of 30 June 2010. This increase was primarily due to an increase in staff head count as a result of the expansion of our manufacturing capabilities, accrued expenses related to our proposed initial public offering and construction payables related to the expansion of our Yingde manufacturing facility.

***Capital Expenditures***

Our capital expenditures amounted to HK$69.8 million, HK$101.2 million and HK$114.6 million in Fiscal Years 2009, 2010 and 2011, respectively. During the Track Record Period, our capital expenditure related primarily to the expansion of our manufacturing capabilities through the construction of our new manufacturing facility in Yingde in 2009 and two new leased manufacturing facilities in Dongguan in 2010, including the purchase of machinery for those facilities and the purchase of land use rights, as well as the further expansion of our Yingde manufacturing facility. In addition, with respect to our TUSCAN'S brand, we made capital expenditures of HK$2.8 million on our retail business from the commencement of operations in February 2011 until 30 June 2011, and expended EUR200,000 as an initial installment payment for our acquisition of the right, title and interest in the TUSCAN'S trademark in certain jurisdictions. After Listing, we expect to incur capital expenditure of approximately HK$152 million in Fiscal Year 2012.

Of our current principal expected capital expenditures in Fiscal Year 2012, approximately HK$66 million is expected to relate to the second phase of expansion of our manufacturing facilities in Yingde, approximately HK$74 million is expected to relate to the purchase of new manufacturing equipment and machinery for our existing manufacturing facilities. It is possible that due to unforeseen circumstances, our current expansion plans with respect to our Yingde manufacturing facility may be postponed or costs of these projects may either increase or decrease, depending on a number of economic and other factors.

With respect to our TUSCAN'S brand, for the period 1 July 2011 to 30 September 2011, we incurred HK$2.0 million; we currently expect to make a further estimated HK$2.0 million in capital expenditures on our retail business from 1 October 2011 to 31 December 2011, and expend a further EUR400,000 in connection with further installment payments for our acquisition of the right, title and interest in the TUSCAN'S trademark in certain jurisdictions.

No assurance can be given that any of these planned capital expenditures will proceed as planned. The actual amounts of capital expenditures incurred in connection with these projects may vary for a variety of reasons, including, among others, our ability to generate sufficient cash flow from operations to finance capital expenditures and investments and our ability to finance any shortfall. We expect to fund the capital expenditures described above principally through cash flow from our operations, bank borrowings and the net proceeds of the Global Offering. In the future, we may consider additional debt or equity financing, depending on market conditions, our financial performance and other relevant factors. No assurance can be given that we will be able to raise additional capital, should that become necessary, on terms acceptable to us or at all. With respect to our plans for the use of proceeds from the Global Offering, please see "Future Plans and Use of Proceeds — Use of Proceeds".

### *Contractual Obligations*

The following table sets out our contractual obligations (other than with respect to our indebtedness) as of 30 September 2011.

| | Payment Due | | | |
|---|---|---|---|---|
| | Within 1 Year | Within 2 to 5 Years | After 5 Years | Total |
| | (HK$'000) | | | |
| **Contractual Obligations** | | | | |
| Operating lease obligations | 15,547 | 27,226 | 1,965 | 44,738 |
| Capital commitments[1] | 8,730 | – | – | 8,730 |
| **Total** | **24,277** | **27,226** | **1,965** | **53,468** |

(1) Includes HK$4,235,000 relating to payment obligations with respect to our purchase of the TUSCAN'S brand trademark in certain jurisdictions and HK$4,495,000 with respect to payments for properties and prepaid land lease payments.

We lease certain of our office and manufacturing properties under operating lease arrangements, which are negotiated for terms ranging from one to ten years. Our operating leases include leases with respect to our manufacturing facilities in Dongguan, as well as office space and retail stores in Guangzhou.

Our capital commitments, all of which may become payable within one year, relate to payment obligations with respect to our purchase of the TUSCAN'S brand trademark in certain jurisdictions from TUSCAN'S Europe and property with respect to our Yingde manufacturing facilities.

Pursuant to a trademark assignment agreement we entered into in February 2011 with TUSCAN'S Europe, TUSCAN'S Europe agreed to assign right, title and interest in the TUSCAN'S trademark in certain jurisdictions to us for a total consideration of EUR600,000 separated into three equal payments, the first of which amounting to EUR200,000 having already been paid in advance by us upon our entering into a license agreement in January 2011 under which TUSCAN'S Europe granted us a license to use the TUSCAN'S brand in the PRC, Singapore, South Korea, Malaysia, Japan, the United Arab Emirates, Hong Kong, Macau, Taiwan, Thailand and the United States. As of the Latest Practicable Date, the remaining conditions applicable to the second installment payment of EUR200,000 is the completion of the assignment in Macau and the registration of the assignments with the relevant authorities with respect to the registered trademarks in Hong Kong and Macau. The third installment payment is conditioned on completion of the registration of the TUSCAN'S trademark in each of Taiwan, Thailand, Malaysia, the United Arab Emirates, the United States, Singapore and South Korea, the execution of assignments of the resulting registered trademarks in such jurisdictions and the subsequent registration of such assignments with the relevant authorities. In the event that TUSCAN'S Europe fails to register any of the trademarks that have yet to be registered in the relevant jurisdictions, the third installment payment shall be reduced by an agreed amount applicable to the trademark in such jurisdiction. As of 30 June 2011, the advanced payment of EUR200,000 (HK$2.1 million) was recognized as a prepayment on intangible asset on our combined statements of financial position, while our commitment to pay the second and third installment payments of EUR200,000 each were recognized as capital commitments payable within one year in the amount of HK$4.5 million. We expect that the trademark will be recorded as an other intangible asset on our statements of financial position in accordance with IFRS.

For a description of our indebtedness, please see "— Indebtedness" below.

## INDEBTEDNESS

As of 30 September 2011, we had HK$139.8 million of outstanding borrowings and HK$150.9 million of unutilized borrowing capacity under our credit facilities. Our aggregate bank borrowings as of 30 June 2009, 2010, 2011 and 30 September 2011 are set forth below:

| | As of 30 June | | | As of 30 September |
|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2011 |
| | (HK$'000) | | | |
| **Current** | | | | |
| Bank loans — secured(1) | 99,619 | 102,837 | 57,086 | 95,332 |
| Current portion of long-term bank loans — secured(2) | 18,800 | 67,355 | 48,815 | 44,493 |
| **Total** | **118,419** | **170,192** | **105,901** | **139,825** |

(1) Represents amounts outstanding under our credit facilities for each of the periods presented that had contractual maturities of one year or less.

(2) Represents amounts outstanding under our credit facilities for each of the periods presented that had contractual maturities of more than one year, which have been classified as current liabilities as result of repayment on demand clauses contained in the loan agreements governing our credit facilities. Of these amounts, HK$18.8 million and HK$55.4 million as of 30 June 2009 and 2010, respectively, would have nonetheless been reclassified as current liabilities as a result of our subsidiary, Sitoy Handbag, inadvertently being in breach of certain financial covenants in the loan agreements governing our credit facilities. For an analysis of the repayment schedule of our interest — bearing bank borrowings based on our loan agreements, without considering the breach of covenants and the repayment on demand clauses contained in such loan agreements, see note 28 "Interest — Bearing Bank Borrowings" in the Accountants' Report in Appendix I to this Prospectus.

As of 30 September 2011, we had two secured credit facilities in the aggregate nominal amount of HK$374.5 million, which include certain trading facilities, term loans and treasury facilities. Amounts borrowed under these credit facilities are subject to interest rates ranging from 1.5% to 2.25% per annum over 3-month HIBOR or from 2.0% to 1.0% below the relevant bank's best lending rate and contained standard financial covenants and other provisions that are customary of loan agreements in Hong Kong. Our credit facilities are reviewed annually for renewal. As of 30 September 2011, an aggregate amount of HK$112.6 million outstanding under our credit facilities had contractual maturities of one year or less and HK$27.2 million had contractual maturities of two to five years.

Our credit facilities are secured by, among other things, a HK$9.7 million available-for-sale investment and a fixed legal charge for HK$4.6 million over certain of our real property. In addition, certain companies of our Group have provided unlimited corporate guarantees, as well as certain other undertakings and indemnities, in support of our credit facilities and the Chairman and an executive Director, Mr. Yeung Michael Wah Keung, has provided unlimited personal guarantees in support of our credit facilities. The guarantees of Mr. Yeung Michael Wah Keung shall be released upon Listing.

Both of our credit facilities contain clauses that give the lenders the right, at their sole discretion, to demand immediate repayment at any time, regardless of our compliance with applicable covenants and scheduled repayment obligations. As a result, in accordance with IAS 1 "Presentation of Financial Statements — Current/non-current classification of a callable term loan", even our borrowings for which the maturity date is more than one year have been classified, and will continue to be classified, as current liabilities (Current portion of long-term bank loans — secured). As of 30 September 2011, HK$44.5 million outstanding under our credit facilities was classified in this manner.

In addition, as of 30 June 2009 and 2010, our subsidiary, Sitoy Handbag, was inadvertently in breach of certain financial covenants in the loan agreements governing our credit facilities relating to its tangible net worth, limitations on amounts due to it from related companies and certain ongoing reporting requirements. The breach arose primarily as a result of intercompany transfers from Sitoy Handbag to Sitoy Company for purposes of making investments in the expansion of our Yingde manufacturing facility, which resulted in restrictions set out in such covenants being exceeded. If our borrowings for which the maturity date is more than one year had not already been classified as current liabilities, the amounts outstanding that became immediately repayable under our credit facilities as a result of the breach would have nonetheless been reclassified as current liabilities in accordance with IAS 1. In June 2011, all of the lending banks renewed the relevant credit facilities with appropriate amendments to the covenants that supersede the covenants that Sitoy Handbag had breached. In the opinion of our Directors, Sitoy Handbag has met all of the financial covenants stated therein as of 30 June 2011.

Save as disclosed in "Indebtedness" of this section, and apart from intra-group liabilities, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding as of 30 September 2011.

As of the Latest Practicable Date, we had two foreign exchange forward contracts to purchase US$1,348,500 and US$271,600, respectively, using Euro and no other financial derivatives outstanding. The contracted exchange rates of our foreign exchange forward contracts were US$1.3485 and US$1.358, respectively, to one Euro, and the expiration dates of these contracts are 22 February 2012 and 28 February 2012, respectively.

The Directors confirm that there has not been any material change in the indebtedness and contingent liabilities of our Group since 30 September 2011.

## PROPERTY INTERESTS

Savills Valuation and Professional Services Limited, an independent qualified professional surveyor, has valued our property interests, including land use rights accounted for as prepaid land lease payments, as at 31 August 2011 at approximately HK$293.3 million. The text of its letter, summary of values and valuation certificate are set out in Appendix IV to this prospectus. A reconciliation of the net book value of the relevant property interests, including land use rights accounted for as prepaid land lease payments, as at 30 June 2011 to their fair value as at 31 August 2011 is as follows:

| | HK$'000 |
|---|---|
| Valuation as at 31 August 2011 set out in the property valuation report in Appendix IV | 293,277 |
| Net book value of property interests of our Group as at 30 June 2011 | 205,831 |
| Valuation surplus | 87,446 |

## OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of 30 September 2011, we did not have any material off-balance sheet arrangements or contingencies.

## RELATED PARTY TRANSACTIONS

The table below sets out the amounts from/to related parties as at 30 June 2009, 2010 and 2011:

| | As of 30 June | | |
|---|---|---|---|
| | 2009 | 2010 | 2011 |
| | HK$'000 | HK$'000 | HK$'000 |
| **Group** | | | |
| Amounts due from Shareholders | 6,147 | – | – |
| Amounts due to Shareholders | – | 59,192 | – |
| Amount due from a related company: Trandy Leather | – | – | 540 |
| Amount due to a related company: Trandy Leather | 589 | – | – |
| **Company** | | | |
| Amounts due from Subsidiaries | – | – | 397,551 |
| Amount due to a Subsidiary | 60 | 86 | – |

### *Amounts due from/to a related company*

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. On 27 October 2011, Trandy Leather and Sitoy Handbag entered into the Processing Agreement to formalise the major terms and arrangement of the above transactions. The transactions relating to Trandy Leather will continue after the listing of the Company's Shares on the Stock Exchange. The amounts due from/to Trandy Leather were unsecured, interest-free and repayable on demand. All of these balances were trade-related in nature.

### *Amounts due from/to a Shareholders and Subsidiaries*

The amounts due from/to Shareholders and Subsidiaries of the Company were unsecured, interest-free and repayable on demand. All of these balances were non-trade-related in nature, and the Directors confirm that the amounts due from subsidiaries will be settled prior to the Listing of the Company's shares on the Stock Exchange.

With respect to the above related party transactions, details of which has also been set out in the Accountants' Report in Appendix I to this prospectus, our Directors confirm that such transactions were carried out in the ordinary course of business, on normal commercial terms and mutally agreed by the respective parties.

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

We are exposed to various types of market risks, including interest rate risk, foreign currency risk, credit risk and liquidity risk. For additional details regarding our Group's risk management policies, please see note 38 "Financial Risk Management Objectives and Policies" of our audited combined financial statements in the Accountants' Report.

### *Interest Rate Risk*

Our exposure to interest rate risk primarily relates to our bank borrowings with floating interest rates. As of 30 June 2009, 2010 and 2011, all of our interest-bearing borrowings bore interest at floating rates and, in our management's opinion, we did not have significant exposure to interest rate risk. During the Track Record Period, we did not use any derivative financial instruments to manage our interest risk exposure. Currently, we do not have a specific policy to manage our interest rate risk, but closely monitor our exposure to interest rates and may consider hedging interest rate risk should the need arise.

### *Foreign Currency Risk*

The operating subsidiaries of our Group sell products and purchase raw materials in currencies other than their respective functional currencies, the RMB and the Hong Kong dollar. For Fiscal Years 2009, 2010 and 2011, almost all of the sales by our operating subsidiaries were denominated in U.S. dollars, while 7.4%, 25.8% and 37.9% of the costs they incurred were in their respective functional currencies. Although we generally place orders for the raw materials relating to a particular purchase order immediately after receiving the purchase order, the exchange rates between the functional currencies of our operating subsidiaries and the currency in which they place orders with suppliers may be substantially different from those at the time when they are paid by our customers with respect to those orders. As a result, we are exposed to foreign exchange fluctuations and movements in the exchange rate between the functional currencies of our operating subsidiaries and other currencies, in particular the U.S. dollar. In particular, these foreign exchange rates may be impacted by a number of measures the PRC government has recently implemented to prevent the economy from overheating and to control inflation. Although the exchange rate fluctuations between the U.S. dollar and the RMB have been closely managed by the PRC government in recent years, if inflation in the PRC continues to rise, the PRC government may allow the RMB to appreciate relative to other currencies, such as the U.S. dollar, which could have a material adverse effect on our profitability. Please see "Risk Factors — Risks Relating to Conducting Business in the PRC — Fluctuation in the value of the Renminbi may adversely affect our business and have a material and adverse effect on your investment."

While we generally do not hedge our exposure to the U.S. dollar, we use forward exchange contracts to hedge our exposure to currency risk on sales of our products denominated in Euro against the primary currency in which we generate cash flows, the U.S. dollar. As of the Latest Practicable Date, we had two foreign exchange forward contracts to purchase US$1,348,500 and US$271,600, respectively, using Euro and no other financial derivatives outstanding. The contracted exchange rates of our foreign exchange forward contracts were US$1.3485 and US$1.358, respectively, to one Euro, and the expiration dates of these contracts are 22 February 2012 and 28 February 2012, respectively.

### *Credit Risk*

Our trading terms with our customers are primarily through letters of credit. Our payment arrangements with our customers include telegraphic transfers before shipment, letters of credit at sight, and letters of credit and telegraphic transfers generally between 10 and 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. The Group seeks to maintain strict control over its outstanding receivables and closely monitors them to minimize credit risk. Overdue balances are reviewed regularly by senior management. Our management specifically analyzes factors such as the collectibility of individual customer, customer creditworthiness, change in customer payment pattern and current economic situation, to assess whether impairment allowance is necessary.

The credit risk of the Group's financial assets, including trade receivables, cash and cash equivalents, pledged deposits, available-for-sale investment, amounts due from a related company, amounts due from shareholders and other receivables, arises from the potential default of the relevant counterparty, with a maximum exposure equal to the carrying amounts of these instruments as set forth in our audited combined financial statements in the Accountants' Report.

***Liquidity Risk***

We regularly review our major funding positions to ensure that we have adequate resources to meet our financial obligations. We use a liquidity risk management framework to monitor the maturity of our financial instruments and financial assets, as well as the projected and actual cash flows from our operations. As of 30 June 2009, 2010 and 2011, our financial liabilities payable upon demand or in less than a year were HK$259.6 million, HK$439.9 million and HK$399.9 million, respectively.

***Capital Management***

The primary objective of the Group's capital management is to ensure that it maintains strong credit and a healthy capital ratio in order to support its business and increase shareholder value. The Group manages and makes adjustments to its capital structure in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the Track Record Period.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Group's net debt consists of interest-bearing bank and other borrowings, amounts due to shareholders less cash and cash equivalents. Capital includes total equity. As of 30 June 2011, the Group's strategy was to maintain the net borrowings to equity ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The following table sets forth the gearing ratio as of the dates indicated.

| | As of 30 June | | |
|---|---|---|---|
| | **2009** | **2010** | **2011** |
| | **(HK$'000, except percentages)** | | |
| Interest-bearing bank and other borrowings | 118,419 | 170,192 | 105,901 |
| Amounts due to shareholders | – | 59,192 | – |
| Less: Cash and cash equivalents | (31,745) | (50,146) | (80,390) |
| **Net debt** | **86,674** | **179,238** | **25,511** |
| Total equity | 171,106 | 217,302 | 493,437 |
| **Total equity and net debt** | **257,780** | **396,540** | **518,948** |
| **Gearing ratio** | **33.6%** | **45.2%** | **4.9%** |

## DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that, save as disclosed in note 31 of the Accountants' Report in Appendix I to this prospectus, as of the Latest Practicable Date, there are no circumstances that would give rise to a disclosure requirement under the Listing Rules 13.13 to 13.19.

## UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following table of our unaudited pro forma adjusted combined net tangible assets was prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only and is set out below to illustrate the effect of the Global Offering on our net tangible assets as at 30 June 2011 as if it had taken place on that date.

The table of unaudited pro forma adjusted combined net tangible assets of our Group has been prepared for illustrative purpose only and, because of their hypothetical nature, they may not give a true picture of our net tangible assets had the Global Offering been completed as of 30 June 2011 or at any subsequent date.

The unaudited pro forma adjusted combined net tangible assets set out below are calculated based on our audited combined net assets attributable to owners of our Company of HK$493,437,000 as of 30 June 2011, as shown in the Accountants' Report in Appendix I of this prospectus, and is adjusted as described below.

| | Audited combined net tangible assets of our Group attributable to the owners of our Company as of 30 June 2011 | Estimated net proceeds from the Global Offering(1) | Unaudited pro forma adjusted net tangible assets attributable to the owners of the Company | Unaudited pro forma adjusted net tangible assets per Share(2) |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$ |
| Based on an Offer Price of HK$2.95 per share . . . . . . . . . . | 493,437 | 677,174 | 1,170,611 | 1.17 |
| Based on an Offer Price of HK$3.95 per share . . . . . . . . . . | 493,437 | 919,286 | 1,412,723 | 1.41 |

(1) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$2.95 and HK$3.95 per Share, after deduction of the underwriting fees and other related expenses payable by us. No account has been taken for Shares which may be issued upon the exercise of the Over-allotment Option.

(2) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustment for the estimated net proceeds from the Global Offering payable to us as described in note (1) and on the basis that a total of 998,400,000 Shares were in issue as of 30 June 2011 (including Shares in issue as of the date of this Prospectus and those Shares to be issued pursuant to the Global Offering).

## PROFIT FORECAST FOR THE SIX MONTHS ENDING 31 DECEMBER 2011

Forecast consolidated profit attributable to the owners of the Company for the six months ending 31 December 2011[(1)] . . . . Not less than HK$175 million

(1) The forecast consolidated profit attributable to the owners of the Company for the six months ending 31 December 2011 has been prepared based on the unaudited consolidated results of the Group for the three months ended 30 September 2011 and a forecast of the consolidated results of the Group for the remaining three months ending 31 December 2011. The profit forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by the Group as set out in Section II of the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

Pursuant to Rule 11.18 of the Listing Rules, we have given an undertaking to the Stock Exchange that the interim report for the six months ending 31 December 2011 will be audited.

### *Sensitivity analysis for the profit forecast*

The Board of Directors of the Company considers that the forecast consolidated profit attributable to the owners of the Company for the six months ending 31 December 2011 is mainly affected by the sales price of the leather products and the purchase price of raw materials. The following table demonstrates the sensitivity of the forecast consolidated profit attributable to the owners of the Company to a movement in the sales price of each product sold by the Group during the Forecast Period, with all other variables held constant:

| | Increase/(decrease) | For the six months ending 31 December 2011 Increase/(decrease) |
|---|---|---|
| | % | HK$'000 |
| **Indictors:** | | |
| If sales price increases . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 5 | 34,756 |
| If sales price decreases . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | (5) | (34,756) |
| If sales price increases . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 10 | 69,512 |
| If sales price decreases . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | (10) | (69,512) |

We generally negotiate and establish raw material costs, including high-end cow leather, the primary raw material we use in manufacturing our products, with our customers as part of the estimated per unit price of a product prior to receiving their purchase orders and, consequently, we have historically been able to pass any increases in raw material prices on to our customers. The following table demonstrates the sensitivity in the forecast consolidated profit attributable to the owners of the Company to a movement in the average purchase price of high-end cow leather purchased by the Group during the Forecast Period, with all other variables held constant, on the assumption that we were no longer able to continue to pass on such increases to our customers:

| | Increase/(decrease) | For the six months ending 31 December 2011 Increase/(decrease) |
|---|---|---|
| | % | HK$'000 |
| **Indictors:** | | |
| If purchase price increases | 5 | (9,714) |
| If purchase price decreases | (5) | 9,714 |
| If purchase price increases | 10 | (19,428) |
| If purchase price decreases | (10) | 19,428 |

## DIVIDENDS AND DIVIDEND POLICY

During Fiscal Years 2009, 2010 and 2011, one of our subsidiaries, Sitoy Handbag, declared dividends to its then shareholders in the amount of HK$30 million, HK$110 million and HK$440 million, respectively. For the purpose of the Reorganization, on 28 May 2011 Sitoy Handbag declared special dividends of HK$400 million to its then shareholders who assigned such dividends payable to our Company. Other than these dividends, no other dividends were declared or paid by us or any of our subsidiaries during the Track Record Period. For more information about our historical dividends, see note 14 in the Accountants' Report in Appendix I of this prospectus.

The declaration of dividends is subject to the discretion of our Directors, and, if necessary, the approval of our Shareholders. The amount of dividends actually declared and paid will also depend upon our Group's earnings and cash flow, financial condition, capital requirements, investment requirements, contractual restriction and any other conditions that our Directors may deem relevant. Any declaration and payment as well as the amount of dividends will also be subject to our Articles of Association and the Companies Law. Our future declarations of dividends may or may not reflect our historical declarations of dividends. Subject to the above factors, our Directors currently plan to pay dividends of no less than 30% of our distributable profit attributable to Shareholders of our Company for the financial year ending 30 June 2012. Such intention does not amount to any guarantee or representation or indication that we must or will declare and pay dividends in such manner or declare and pay any dividends at all.

## DISTRIBUTABLE RESERVES

As of 30 June 2011, our Company had no distributable reserves available for distribution to our Shareholders.

## NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 30 June 2011, which is the date at which our latest audited financial statements were prepared.