

# LEE & MAN HANDBAGS HOLDING LIMITED

## 理文手袋集團有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**Stock Code: 1488**

## Listing by Introduction

Sponsor



**CIMB Securities (HK) Limited**

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## IMPORTANT

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*If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.*

# LEE & MAN HANDBAGS HOLDING LIMITED

理文手袋集團有限公司

*(incorporated in the Cayman Islands with limited liability)*

## LISTING BY WAY OF INTRODUCTION OF THE ENTIRE ISSUED SHARE CAPITAL OF THE COMPANY ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Stock Code: 1488

Sponsor



**CIMB Securities (HK) Limited**

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This document is published in connection with the Introduction on the Main Board of the Stock Exchange and contains particulars given in compliance with the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules solely for the purpose of giving information with regard to our Group.

This document does not constitute an offer of, nor is it calculated to invite offers for, shares or other securities of our Company, nor have any such shares or other securities been allotted with a view to any of them being offered for sale to or subscription by the public. No new Shares will be allotted and issued in connection with, or pursuant to, this document.

Your attention is drawn to the section headed "Risk factors" in this document.

Information regarding the proposed arrangements for the listing of, and dealings and settlement of dealings in, our Shares following the Introduction is set out in the section headed "Information about this document and the Introduction" in this document.

31 May 2011

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**EXPECTED TIMETABLE** (NOTES 1 AND 2)

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**2011**

|   |                                     |
|---|-------------------------------------|
| Last day of dealings in LM Shares on a cum entitlement basis  | Friday, 3 June                      |
| First day of dealings in LM Shares on an ex entitlement basis   | Tuesday, 7 June                     |
| Latest time for lodging transfers of LM Shares cum entitlement to our Shares pursuant to the Distribution at                  | 4:30 p.m. on Wednesday, 8 June      |
| Register of members of LM closes (both dates inclusive)   | Thursday, 9 June to Monday, 13 June |
| Distribution Record Date and the record date for determining the eligibility of LM Shareholders to attend and vote at the EGM | Monday, 13 June                     |
| EGM   | 10:30 a.m. on Monday, 13 June       |
| Register of members of LM re-opens on   | Tuesday, 14 June                    |
| Share certificates of our Shares to be despatched on <sup>(Note 2)</sup>  | Wednesday, 22 June                  |
| Dealings in our Shares on the Stock Exchange expected to commence at <sup>(Note 2)</sup>                                      | 9:00 a.m. on Monday, 27 June        |

*Notes:*

- (1) All times refer to Hong Kong local time.
- (2) The share certificates of our Shares are expected to be despatched to LM Qualifying Shareholders on Wednesday, 22 June 2011 after the Stock Exchange grants its approval for the Listing, which is expected to be on or before Wednesday, 22 June 2011. One share certificate of our Shares will be issued to each LM Qualifying Shareholder for the entitlement of our Shares. In the event the listing approval is not obtained on Wednesday, 22 June 2011, the share certificates of our Shares may not be despatched on Wednesday, 22 June 2011 and dealings in our Shares on the Stock Exchange may not commence on Monday, 27 June 2011. In such event, and before 9:00 a.m. on Monday, 27 June 2011, we will make an announcement of the above and of a revised timetable.

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*We have not authorised anyone to provide you with information which is different from that contained in this document. Any information or representation not made in this document must not be relied upon by you as having been authorised by us, the Sponsor, any of our respective Directors or any other person or party involved in the Introduction.*

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## SUMMARY

*This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all of the information which may be important to you. You should read the whole document before you decide to invest in our Shares.*

*There are risks associated with any investment. Some of the particular risks in investing in our Shares are summarised in the section headed “Risk factors” in this document. You should read that section carefully before you decide to invest in our Shares.*

### OVERVIEW

We are principally engaged in the manufacture and sale of handbags, which include ladies’ handbags, tote bags, cosmetics bags, children’s bags and backpacks to brand owners or brand carriers, department stores and/or megastores; and some of our products are also sold to importers, including an overseas trading firm which sells products to wholesalers, distributors and retailers. Approximately 100%, 100% and 99.8% of our production in terms of our total revenue through the PRC Processing Factories operated under the PRC Processing Agreements for each of the three years ended 31 December 2010 respectively. These products are made of different materials including PVC, PU, leather, nylon, cotton fabrics, metals and various types of textile materials.

We have a broad and diversified base of customers located in the U.S. and Europe. Currently, all of our handbag products are manufactured in the PRC. Our products are manufactured on an OEM basis for our customers. For each of the three years ended 31 December 2010, the sales volume was approximately 21.2 million pieces, 12.7 million pieces and 15.1 million pieces respectively and the selling price of our Group’s products ranged from approximately HK\$2 to HK\$546, HK\$4 to HK\$678 and HK\$4 to HK\$845 respectively. Our customers’ orders are typically priced on a cost-plus basis, profit mark-up will be negotiated between our customers and us on an order-by-order basis. About 81.1%, 72.2% and 78.7% of our revenue derived from sales of our products to brand owners or brand carriers for the same periods under review. A majority of our top ten customers during the Track Record Period had working relationship with us for more than five years.

The following table sets forth the breakdown of our revenue and gross profit margin by customer category:

|                                 | For the year ended 31 December |   |                     |                |   |                     |                |   |                     |
|---------------------------------|--------------------------------|---|---------------------|----------------|---|---------------------|----------------|---|---------------------|
|                                 | 2008                           |   |                     | 2009           |   |                     | 2010           |   |                     |
|                                 | Revenue                        | Approximate percentage of total revenue | Gross profit margin | Revenue        | Approximate percentage of total revenue | Gross profit margin | Revenue        | Approximate percentage of total revenue | Gross profit margin |
|                                 | HK\$’000                       | %                                       | %                   | HK\$’000       | %                                       | %                   | HK\$’000       | %                                       | %                   |
| Brand owners or brand carriers  | 730,917                        | 81.1                                    | 25.0                | 525,012        | 72.2                                    | 29.2                | 672,126        | 78.7                                    | 26.5                |
| Department stores or megastores | 118,782                        | 13.2                                    | 31.1                | 155,253        | 21.3                                    | 37.1                | 122,940        | 14.4                                    | 32.8                |
| Importers                       | 51,541                         | 5.7                                     | 18.2                | 47,290         | 6.5                                     | 21.0                | 58,473         | 6.9                                     | 24.9                |
| <b>Total</b>                    | <b>901,240</b>                 | <b>100.0</b>                            | <b>25.4</b>         | <b>727,555</b> | <b>100.0</b>                            | <b>30.3</b>         | <b>853,539</b> | <b>100.0</b>                            | <b>27.3</b>         |

## SUMMARY

The major markets of our products are the U.S., which accounted for approximately 51.0%, 49.2% and 53.6% of our turnover for each of the three years ended 31 December 2010 respectively, and Europe, which accounted for approximately 36.3%, 34.2% and 27.5% of our turnover for the same periods respectively. Apart from the U.S. and Europe, we also sell our products to Canada and other countries including countries in South America and Asia.

The following table sets forth the breakdown of our revenue from customers and our gross profit margin by geographical locations during the Track Record Period:

|                        | For the year ended 31 December |  |                           |                |  |                           |                |  |                           |
|------------------------|--------------------------------|--|---------------------------|----------------|--|---------------------------|----------------|--|---------------------------|
|                        | 2008                           |  |                           | 2009           |  |                           | 2010           |  |                           |
|                        | Revenue                        | Approximate<br>percentage<br>of total<br>revenue | Gross<br>profit<br>margin | Revenue        | Approximate<br>percentage<br>of total<br>revenue | Gross<br>profit<br>margin | Revenue        | Approximate<br>percentage<br>of total<br>revenue | Gross<br>profit<br>margin |
| <i>HK\$'000</i>        | %                              | %  | <i>HK\$'000</i>           | %              | %  | <i>HK\$'000</i>           | %              | %  |                           |
| U.S.                   | 459,601                        | 51.0   | 23.2                      | 357,700        | 49.2   | 29.5                      | 457,729        | 53.6   | 27.6                      |
| Europe                 | 326,893                        | 36.3   | 29.9                      | 248,781        | 34.2   | 33.0                      | 234,542        | 27.5   | 28.2                      |
| Others <i>(Note 1)</i> | 114,746                        | 12.7   | 21.3                      | 121,074        | 16.6   | 27.4                      | 161,268        | 18.9   | 25.4                      |
| <b>Total</b>           | <b>901,240</b>                 | <b>100.0</b>                                     | <b>25.4</b>               | <b>727,555</b> | <b>100.0</b>                                     | <b>30.3</b>               | <b>853,539</b> | <b>100.0</b>                                     | <b>27.3</b>               |

*Notes:*

- Others include Canada, Brazil, Japan, Taiwan, Hong Kong, China, Korea, Australia, Thailand, other countries in South America and Asia.
- The global financial crisis in late 2008 has led to a significant economic downturn and contraction in consumer spending especially in the U.S. and Europe. As a result, our sales to the U.S. and Europe experienced a decline from the year ended 31 December 2008 to the same period in 2009. Our sales to the U.S. improved for the year ended 31 December 2010 amid the gradual U.S. economic recovery. Due to the decline in customers' orders in Europe, our sales to Europe continued to decrease for the year ended 31 December 2010.

We have a product development team with more than 370 personnel (including personnel provided by the processing agents), comprising 98 personnel with more than five years of experience and 85 personnel with two to five years of experience, in sample making and developing. We manufacture products for our customers on an OEM basis. Our product development personnel from time to time keep abreast of the trends in the handbag market and our merchandising and marketing personnel keep abreast of the requirements of our customers. Our product development team produced more than 13,000, 12,000 and 11,000 new styles of handbags for each of the three years ended 31 December 2010 respectively.

During the Track Record Period, the financial results of our Group had been affected by various factors including the global financial crisis in 2008, the subsequent recovery of global economy, our Group's continuous effort in marketing and the economic growth in China. The global financial crisis occurred in late 2008, but the financial results of our Group for the year ended 31 December 2008 had not been materially affected as most of our orders for that year had been mostly arranged or confirmed before the fourth quarter in 2008. However, our revenue decreased by approximately 19.3% in the following year to

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## SUMMARY

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approximately HK\$727.6 million. The drop in revenue was due to a continuing sharp contraction of global consumer spending which in turn led to the decline in customers' orders especially in our Group's major markets of the U.S. and Europe.

### BACKGROUND INFORMATION OF OUR GROUP AND THE LM GROUP

The background and history of our Group before Listing and upon Listing is set out below:

- Our Group was founded by Mr. Lee Wan Keung and Ms. Wai Siu Kee in 1976. Mr. Lee Wan Keung and Ms. Wai Siu Kee set up LM Handbag Manufacturing in 1976 to engage in the trading of handbags;
- Subsequently, LM Group expanded its business to the manufacture of handbags in about 1980 to meet part of its sales orders;
- In May 1997, our then Group comprising three main businesses, namely the handbag business, the paper packaging business and the audio cassette business, was first listed on the Stock Exchange under the name Lee & Man Holdings Limited (Stock Code: 554) (“**Former LM**”);
- In January 2002, in order to allow a separate platform and a growth path for the handbag business of our then Group, the handbag business of our then Group was spun off and LM (formerly known as “Lee & Man Handbag International Limited”) was listed on the Main Board by way of introduction through distribution in specie. For each of the three years ended 31 March 2001 and the three months ended 30 June 2001, the amounts of net profits of LM were approximately HK\$88.7 million, HK\$84.0 million, HK\$78.6 million and HK\$30.7 million respectively; and the net assets value of LM amounted to approximately HK\$206.4 million, HK\$207.0 million, HK\$205.4 million and HK\$177.0 million as at 31 March 1999, 2000 and 2001 and 30 June 2001 respectively. Further, the market capitalisation of LM upon listing on 16 January 2002 was approximately HK\$437.3 million;
- Fortune Star was a substantial shareholder of Former LM before its disposal of 609,750,000 shares in Former LM, which represented approximately 73.91% of the then total issued share capital of Former LM, pursuant to a share and purchase agreement dated 19 April 2002. The name of Former LM was subsequently changed to “SC Industrial Development Company Limited” on 5 July 2002, then to “Wisdom Venture Holdings Limited” on 6 January 2003 and “Hans Energy Company Limited” on 2 February 2005. As at the Latest Practicable Date, Fortune Star did not hold any shares in Former LM and Former LM had no relationship with our Group or our Controlling Shareholders;

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## SUMMARY

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- After the separate listing of LM in 2002, the principal business of the then LM Group comprised the manufacture and sale of handbags. LM started to set up its chemical production plant in Changshu City of the Jiangsu Province, the PRC in 2005 and commenced the production of the chloro-alkali chemical products in May 2008. The business of the LM Group was further expanded to the manufacture and sale of chloro-alkali chemical products including methylene chloride, chloroform, and other by-products such as hydrogen peroxide and sodium hydroxide;
- Immediately upon completion of the Introduction, LM will no longer be interested in the issued share capital of our Company. The Introduction constitutes a deemed disposal of LM's equity interest in its subsidiary under Rule 14.29 of the Listing Rules, which constitutes a major transaction for LM under Chapter 14 of the Listing Rules and will be subject to reporting, announcement and shareholder's approval requirement under the Listing Rules; and
- Upon completion of the Introduction, our Company will cease to be a subsidiary of LM. The approval from the LM Shareholders will be sought at its extraordinary general meeting to be held on 13 June 2011.

On 5 January 2011, LM submitted a proposal for the Spin-off to the Stock Exchange pursuant to Practice Note 15 to the Listing Rules. Our Directors expect that, immediately following completion of the Distribution, the Remaining LM Group will be principally engaged in the manufacture and sale of chloro-alkali chemical products which consist of dichloromethane, chloroform, and other ancillary products such as hydrogen peroxide and sodium hydroxide, whereas our Group will focus on the manufacture and sale of handbags. The Spin-off is aiming to allow separate platforms for the two businesses of the LM Group with clear delineation. The board of directors of LM believes that the Spin-off will bring about a number of benefits to both LM and our Company:

- (i) LM and our Company are believed to have different growth paths and different business strategies and the Spin-off will allow separate platforms for the businesses of the two groups;
- (ii) the Spin-off will create two groups of companies and will offer investors with an opportunity to participate in the future development of both the Remaining LM Group as well as our Group and flexibility to invest in both or either of the groups;
- (iii) the Spin-off will be by way of a distribution in specie whereby upon Listing, all our Shares will be held by the LM Qualifying Shareholders and the Independent Third Party(ies) who purchased our Shares which the LM Excluded Shareholders shall be entitled to under the Distribution. The LM Excluded Shareholders will be entitled to receive the net proceeds from the disposal of such Shares to which they are entitled under the Distribution. LM will thus be able to return value to the LM Shareholders in the form of liquid securities or cash;

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## SUMMARY

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- (iv) the Spin-off will enable the management team of LM to continue to focus on building the core businesses of the Remaining LM Group (i.e. the manufacture and sale of chloro-alkali chemical products which consist of dichloromethane, chloroform, and other ancillary products such as hydrogen peroxide and sodium hydroxide), thereby enhancing the decision-making process and its responsiveness to market changes;
- (v) the Spin-off will provide a mechanism to attract and motivate our Group's management directly in line with the financial performance of our Group on a standalone basis;
- (vi) the Spin-off is expected to improve the operational and financial transparency of our Group and provide the investors, the market and rating agencies with greater clarity on the businesses as well as the respective financial status of the Remaining LM Group and our Group; and
- (vii) the Spin-off will provide separate fundraising platforms for the Remaining LM Group and our Group with respect to their respective operations and future expansion.

Before the Distribution, the major businesses of the LM Group are (i) the manufacture and sale of handbags; and (ii) the manufacture and sale of chloro-alkali chemical products which consist of dichloromethane, chloroform, and other ancillary products such as hydrogen peroxide and sodium hydroxide. Both businesses in the LM Group continued to develop stably with clear delineation. Through the Spin-off without any fund raising exercise, the Remaining LM Group and our Group can be clearly delineated into two separate business models so that they could further their businesses under independent platforms while there will be no dilution of the LM Qualifying Shareholders' attributable interest in the two distinct groups. As there is no fund raising and therefore, the LM Qualifying Shareholders will have the same attributable interest in both groups before and immediately after Listing. Upon completion of the Distribution, the Remaining LM Group will be principally engaged in the manufacture and sale of chloro-alkali chemical products which consist of dichloromethane, chloroform, and other ancillary products such as hydrogen peroxide and sodium hydroxide.

### THE DISTRIBUTION

On 18 May 2011, the board of directors of LM conditionally approved the Distribution. Pursuant to the Distribution, each LM Qualifying Shareholder or LM Excluded Shareholder will be entitled to one Share or equivalent cash payment (after deducting expenses) (as appropriate) for each LM Share held as at the close of business on the Distribution Record Date. Based on the issued share capital of LM as at the Latest Practicable Date and assuming it will remain unchanged on the Distribution Record Date, to effect the Distribution, subject to the Stock Exchange granting approval for the listing of, and permission to deal in our Shares on the Main Board, a total of 825,000,000 Shares were issued representing the entire issued share capital of our Company. If there are any LM Overseas Shareholders at the close of business on the Distribution Record Date, the directors of LM will make enquiries, based on legal opinions provided by legal advisers if the

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## SUMMARY

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directors of LM consider it necessary, as to whether the transfer of our Shares to the LM Overseas Shareholders may contravene the applicable securities legislations of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange. If, after making such enquiry, the directors of LM are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to transfer our Shares to such LM Overseas Shareholders, the LM Excluded Shareholders (if any) will be entitled to the Distribution but will not receive our Shares. Instead, they will receive a cash amount equals to the net proceeds of the sale by LM on their behalf of our Shares to which they would otherwise be entitled pursuant to the Distribution after dealings in our Shares commence on the Stock Exchange at the prevailing market price. LM will ensure that the purchaser(s) of such Shares will be Independent Third Party(ies). The net proceeds of such sale will be paid to the relevant LM Excluded Shareholders in Hong Kong dollars. Cheques for such net proceeds are expected to be despatched within approximately two weeks following the commencement of dealings in our Shares on the Main Board. As at the Latest Practicable Date, there was no LM Overseas Shareholder.

### SPIN-OFF

The Spin-off will be implemented in compliance with the Listing Rules including Practice Note 15 to the Listing Rules. As the Spin-off will be effected by way of introduction with no new offering of new Shares or any other securities, there will be no dilution of the attributable interest of the LM Qualifying Shareholders.

The Spin-off is conditional upon:

- (a) the Stock Exchange approving the Spin-Off;
- (b) the Listing Committee granting listing of, and permission to deal in, our Shares in issue and any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme, on the Main Board; and
- (c) the LM Shareholders passing ordinary resolutions at the EGM approving the Spin-off and the Share Option Scheme.

### PRODUCTION

We currently have three production facilities in China and all of them are situated in Dongguan. Gao Bu Processing Factory and Liu Wu Processing Factory are situated at Gao Bu Town and Shi Jie Town respectively and they are operated through the Gao Bu Processing Agreement and the Liu Wu Processing Agreement respectively. Lee Wai Factory is also situated at Gao Bu Town and it is operated by our wholly-owned subsidiary in China, Dongguan Lee Wai. All of our existing production facilities in the PRC (including the lands and buildings and production equipment) used by the PRC Processing Factories and Lee Wai Factory are owned by us. We also own a piece of land in Thailand for production purpose in Thailand from 1998 to 2001. Since July 2001, our production facilities (where no plant, machinery or equipment was housed as at the Latest Practicable Date) in Thailand have become dormant.

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## SUMMARY

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Both the PRC Processing Factories and Lee Wai Factory have adopted vertical integration in the production process. Some of the materials required in the production process will be assembled at the central processing workshop in the production facilities and will be passed down to the workshops for sewing according to the relevant specifications. Since 2008, Gao Bu Processing Factory has been gradually adopting the “one-piece-flow” workflow in some of its workshops whereby most of the materials required for production will be prepared in the workshop and production, quality inspection and packing of finished products will be carried in the same workshop. The aim of this production method is to minimise the time for semi-finished products to be assembled and transferred from one workshop to another. As different stages of the production process will be carried out in the same workshop, our quality assurance personnel can monitor the whole production process and to identify and deal with questions arising from production more easily.

### PROCESSING ARRANGEMENTS

Gao Bu Processing Factory and Liu Wu Processing Factory are currently operated by Gao Man United and Liu Wu Handbag as the processing agents under the Gao Bu Processing Agreement and the Liu Wu Processing Agreement respectively. Gao Man United and Liu Wu Handbag have worked with us since 1984 and 1988 respectively and we have a good working relationship with them.

#### **Gao Bu Factory**

##### ***Date:***

(1) *The Gao Bu Processing Agreement*

10 May 1984 (as supplemented and renewed from time to time)

(2) *The Liu Wu Processing Agreement*

4 October 1988 (as supplemented and renewed from time to time)

##### ***Duration:***

(1) *The Gao Bu Processing Agreement*

From 10 May 1984 for an initial term of one year, which was subsequently supplemented and renewed, with the existing Gao Bu Processing Agreement entered into on 10 December 2009 for a term of 10 years up to 31 May 2020.

(2) *The Liu Wu Processing Agreement*

From 4 October 1988 for an initial term of five years, which was subsequently supplemented and renewed, with the existing Liu Wu Processing Agreement entered into on 23 March 2010 for a term of 10 years up to 4 October 2020.

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## SUMMARY

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### *Parties:*

#### *(1) The Gao Bu Processing Agreement*

The parties to the existing Gao Bu Processing Agreement are set out below:

- (a) the processing agent, being Gao Man United, an Independent Third Party and has no other past or present relationship with our Group save for being a party to the Gao Bu Processing Agreement;
- (b) the legal owner of Gao Man United as confirmed by our PRC Legal Advisers, being 東莞市高鵬實業集團有限公司 (Dongguan City Gaopeng Enterprise Group Co., Ltd.\*) (“**Gaopeng Enterprise**”), an Independent Third Party and has no other past or present relationship with our Group save for being a party to the Gao Bu Processing Agreement;
- (c) the foreign party, being LM Company, our wholly-owned subsidiary; and
- (d) the business agent, being Gaopeng Enterprise.

#### *(2) The Liu Wu Processing Agreement*

The parties to the existing Liu Wu Processing Agreement are set out below:

- (a) the processing agent, being Liu Wu Handbag, an Independent Third Party and has no other past or present relationship with our Group save for being a party to the Liu Wu Processing Agreement;
- (b) the legal owner of Liu Wu Handbag as confirmed by our PRC Legal Advisers, being 東莞市石碣鎮經濟發展總公司 (Dongguan Shijie Economy Development General Company\*) (“**Shijie Company**”), an Independent Third Party and has no other past or present relationship with our Group save for being a party to the Liu Wu Processing Agreement;
- (c) the foreign party, being LM Handbag Manufacturing, our wholly-owned subsidiary; and
- (d) the business agent, being Shijie Company.

### *Primary responsibilities of the contracting parties:*

The responsibilities of the respective contracting parties to the PRC Processing Agreements are as follows:

- (a) the processing agent, being Gao Man United or Liu Wu Handbag (as appropriate), shall provide factory premises, labour and electricity for production of our products;

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## SUMMARY

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- (b) the foreign party, being LM Company or LM Handbag Manufacturing (as appropriate), shall provide raw materials, ancillary materials and packaging materials, machinery and equipment (for the PRC Processing Factories' use, and the ownership of the machinery and equipment belongs to our Group), certain relevant technical staff to install equipment, and technical support and guidance and pay a processing fee (subject to a minimum amount) to Gao Man United or Liu Wu Handbag (as appropriate) for the manufacture of handbags; and
- (c) the business agent, being Gaopeng Enterprise or Shijie Company (as appropriate), representing the PRC government, shall handle all the supplemental agreements to the PRC Processing Agreements and to submit them to the relevant PRC local government for necessary regulatory approvals after their written endorsements. As confirmed by Gao Man United and Liu Wu Handbag, the business agent of the respective PRC Processing Agreement, Gaopeng Enterprise or Shijie Company, had not actively participated in the respective operation of Gao Bu Processing Factory and Liu Wu Processing Factory. Further, Gao Man United, Liu Wu Handbag and our Group confirmed that no fee had been paid to such business agents during the Track Record Period.

In practice, our Group places production orders to the PRC Processing Factories and the PRC Processing Factories provide processing services to us and manufacture the handbag products in accordance with the production orders' requirements, title of the raw materials and the finished products belongs to our Group until our finished products have cleared the PRC customs for export and have delivered to our customers' engaged freight forwarders in the PRC or Hong Kong for shipment. Title of the goods is passed to our customers upon delivery of such goods to their freight forwarders in the PRC or Hong Kong.

As confirmed by our PRC Legal Advisers, the legal liabilities of the respective contracting parties to the PRC Processing Agreements are as follows:

- (a) the legal liabilities arising from accidents or non-compliance during the production process are to be borne by Gao Man United or Liu Wu Handbag (as appropriate); and
- (b) our Group is responsible to purchase comprehensive insurances and pay relevant insurance premiums for the transit of raw materials and finished goods, and fire insurance for production facilities and inventory in the factory premises.

The PRC Processing Agreements do not provide any terms on tax liability, our PRC Legal Advisers confirmed that the respective contracting parties to the PRC Processing Agreements shall bear tax liability in accordance with the relevant tax laws and regulation, in particular:

- (a) Gao Man United and Liu Wu Handbag shall bear relevant tax liabilities in relation to their respective revenue pursuant to Circular 403 and Circular 37; and

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## SUMMARY

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- (b) our Group has no PRC tax liability regarding the contract processing arrangements in the PRC pursuant to Circular 403 and Circular 37.

Our PRC Legal Advisers confirmed that Circular 403 and Circular 37 are applicable to our Group's contract processing arrangements and the fact that the factory premises are provided by our Group, rather than by the processing agents in accordance with the relevant PRC Processing Agreements, will not affect our Group's PRC tax position as mentioned above.

Gao Bu Processing Factory is currently located at Shao Tan Village of Gao Bu Town, occupying a gross floor area of approximately 85,012.97 sq.m.. For the first few years of the processing arrangement, Gao Man United had provided our Group with the factory premises owned by it, labour and electricity for production. In the 1990s, our Group considered that most of the factory premises provided by Gao Man United were no longer used due to disrepair. Our Group decided to provide new and different factory premises for the use of Gao Bu Processing Factory at nil consideration so as to facilitate our production. As at the Latest Practicable Date, all the factory premises used by Gao Bu Processing Factory were owned and provided by our Group.

Liu Wu Processing Factory is currently located at Liu Wu Management Area of Shi Jie Town, occupying a gross floor area of approximately 22,634.44 sq.m. which is mainly for production purpose. Since entering into of the Liu Wu Processing Agreement, all the factory premises used by Liu Wu Processing Factory were owned and provided by our Group.

Our PRC Legal Advisers confirmed that there is no mandatory requirement under the PRC laws or regulations in relation to the contract processing arrangement in the PRC as to whether the responsibility of providing factory premises falls on the processing agent or foreign parties to a contract processing arrangement. There are no laws or regulations prohibiting a foreign party to a processing agreement to provide factory premises at nil consideration, and the use of such factory premises by the processing agent will not invalidate such processing agreement. Our PRC Legal Advisers also confirmed that no approval or registration from the PRC governmental authority is required for such provision of factory premises.

***Renewal and termination:***

For renewal or termination of the PRC Processing Agreements, either party to the PRC Processing Agreements shall negotiate and confirm with each other six months prior to the proposed renewal and termination. In the event one party terminates the relevant PRC Processing Agreement unilaterally, such party shall compensate for the loss of the other parties.

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## SUMMARY

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### *Processing fee:*

#### *(1) The Gao Bu Processing Agreement*

The existing Gao Bu Processing Agreement provides for an annual processing fee in the sum of HK\$9.6 million per annum (which in fact is a minimum amount) for the year commencing from 1 June 2010, which is subject to an annual increment of 10%. The minimum processing fee is calculated principally on the average salary and wages of the personnel provided by Gao Man United (26 working days per month; and 8 hours per working day). Such annual processing fee payable to Gao Man United set out in the Gao Bu Processing Agreement has been arrived at through mutual negotiation between Gao Man United and our Group.

#### *(2) The Liu Wu Processing Agreement*

The existing Liu Wu Processing Agreement provides for an annual processing fee in the sum of HK\$10 million (which in fact is a minimum amount) for the year commencing from 5 October 2010, which is subject to an annual increment of 10%. The minimum processing fee is calculated principally on the average salary and wages of the personnel provided by Liu Wu Handbag (26 working days per month; and 8 hours per working day). Such annual processing fee payable to Liu Wu Handbag set out in the Liu Wu Processing Agreement has been arrived at through mutual negotiation between Liu Wu Handbag and our Group.

In fact, the processing fees payable by our Group mainly represent the labour cost and the actual utility cost incurred by Gao Bu Processing Factory and Liu Wu Processing Factory. We pay processing fees to Gao Man United and Liu Wu Handbag for the provision of processing services which are negotiated on an order-by-order basis with reference to the type of goods involved, their specifications and the complexity of the processing procedures involved. The other costs to be borne by our Group also include travelling and accommodation expenses of technical personnel sent by our Group to the PRC Processing Factories, and transportation costs of returned products, raw materials and finished products. In case the actual processing fees reported by Gao Man United and Liu Wu Handbag substantially deviate from the agreed processing fees, it is the practice of our Group to review and verify the additional expenses incurred and may refuse to pay any unreasonable additional expenses to Gao Man United and Liu Wu Handbag. During the Track Record Period, there has not been any material dispute between our Group and Gao Man United or Liu Wu Handbag on the amounts of processing fees payable.

### **Lee Wai Factory**

With the view to expand our sales in the PRC market, we set up Lee Wai Factory in September 2009 and production in Lee Wai Factory commenced since January 2010.

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## SUMMARY

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Details of annual average number of flat-headed sewing machines operated, annual total number of flat-headed sewing machines available for production and the average utilisation rate (based on the assumptions below which our Directors believe should best illustrates our industry practice) of Gao Bu Processing Factory, Liu Wu Processing Factory and Lee Wai Factory are set out below:

|   | <b>For the year ended 31 December</b> |                          |                          |
|---|---------------------------------------|--------------------------|--------------------------|
|   | <b>2008</b>                           | <b>2009</b>              | <b>2010</b>              |
| <b><i>Gao Bu Processing Factory</i></b>   |                                       |                          |                          |
| Annual average number of flat-headed sewing machines operated (units) <i>(Note 1)</i>       | 1,358                                 | 1,094                    | 1,148                    |
| Annual total number of flat-headed sewing machines available for production <i>(Note 2)</i> | 1,690                                 | 1,735<br><i>(Note 4)</i> | 1,694<br><i>(Note 4)</i> |
| Average utilisation rate (%) <i>(Note 3)</i>  | 80%                                   | 63%<br><i>(Note 5)</i>   | 68%<br><i>(Note 5)</i>   |
| <b><i>Liu Wu Processing Factory</i></b>   |                                       |                          |                          |
| Annual average number of flat-headed sewing machines operated (units) <i>(Note 1)</i>       | 204                                   | 195                      | 191                      |
| Annual total number of flat-headed sewing machines available for production <i>(Note 2)</i> | 235                                   | 235                      | 235                      |
| Average utilisation rate (%) <i>(Note 3)</i>  | 87%                                   | 83%<br><i>(Note 5)</i>   | 81%<br><i>(Note 5)</i>   |
| <b><i>Lee Wai Factory</i></b>   |                                       |                          |                          |
| Annual average number of flat-headed sewing machines operated (units) <i>(Note 1)</i>       | –                                     | –                        | 30                       |
| Annual total number of flat-headed sewing machines available for production <i>(Note 2)</i> | –                                     | –                        | 30                       |
| Average utilisation rate (%) <i>(Note 3)</i>  | –                                     | –                        | 100%<br><i>(Note 6)</i>  |

*Notes:*

1. The annual average number of flat-headed sewing machines operated is estimated on the basis of the annual average number of personnel (the personnel engaged by Gao Man United or Liu Wu Handbag in Gao Bu Processing Factory or Liu Wu Processing Factory (as appropriate) or our workers in Lee Wai Factory (as the case may be), assuming that each worker operates one sewing machine for the purpose of production. However, the actual annual average number of flat-headed sewing machines operated may differ from the estimated annual average number of flat-headed sewing machines due to variation in the style of handbag products and other factors, and may affect the actual utilisation rate.
2. The annual total number of flat-headed sewing machines available for production is calculated on the basis of 80% of the total number of flat-headed sewing machines owned by our Group from time to time. The remaining 20% of flat-headed sewing machines are excluded from calculation as those sewing machines are reserved by our Group for back-up purposes in the event there is malfunction of production facilities or sudden increase of sales orders. Our Group has been operating based on such 20% back-up ratio throughout the Track Record Period.

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## SUMMARY

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3. In arriving at the average utilisation rate, we have taken into account the following assumptions:
  - (a) Gao Man United, Liu Wu Handbag and our Group would be able to recruit sufficient manpower to operate the flat-headed sewing machines from time to time; and
  - (b) the flat-headed sewing machines are our major production tools for manufacturing of handbags while the post bed sewing machines are used for ancillary purposes only and excluded from the calculation of average utilisation rate.
4. The decrease in the annual total number of flat-headed sewing machines available for production in Gao Bu Processing Factory in 2010 was due to the disposal of obsolete sewing machines by our Group during that year.
5. During the Track Record Period, the utilisation rate in each of Gao Bu Processing Factory and Liu Wu Processing Factory varied in accordance with the changes in production volume of each factory over the period. Our utilisation rate dropped in 2009 as our sales decreased as a result of the global financial crisis and significant economic downturn in late 2008. Our utilisation rate in Gao Bu Processing Factory increased in 2010 as our total sales improved in the following year amid the gradual global economic recovery, while our utilisation rate in Liu Wu Processing Factory dropped slightly as the factory was producing less quantity but higher value products in 2010.
6. Additional machineries will be purchased by our Group if further expansion of production capacity is required as and when appropriate.

### **CUSTOMERS AND SUPPLIERS**

Our five largest customers during the Track Record Period were mainly located in the U.S. and Europe, and are mostly brand owners or brand carriers. Our five largest suppliers during the Track Record Period were mainly located in Hong Kong and the PRC, and are mostly manufacturing and trading companies.

### **FUTURE PLANS**

We plan to continue to build on our market position in the handbag industry to consolidate and strengthen our business relationship with existing customers, develop new customers and to expand our business in the PRC market. To achieve this, we plan to implement the following business strategies:

#### **Enhance manufacturing capabilities and efficiency**

We will continue to improve our production efficiency and enhance our competitiveness and profitability. We target to apply the use of the “one-piece-flow” workflow to our entire production facilities in the PRC Processing Factories and Lee Wai Factory and we will also continue to upgrade our production equipment and to identify other new production equipment (such as automated sewing machines) to enhance our production efficiency and capacity, reduce labour costs and energy consumption. We believe that the adoption of more efficient workflow and the continuous upgrades will improve our productivity and profitability. As at the Latest Practicable Date, we had not entered into any material contracts for acquisition of new production equipment.

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## SUMMARY

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### **Strengthen and expand customer base**

We will continue to build on our solid customer base and increase business volume with our existing customers and develop new clientele. We will communicate with our customers to understand their needs and requirements and will also meet with potential customers to explore cooperation opportunities with them from time to time. We will meet with potential customers to introduce to them our Group, our products and services and our competitive strengths to explore more potential customers. We believe that our long-standing and proven business track record in the handbag industry can help us source new customers. We will aim at manufacturing products with a higher value to enhance our profitability.

Our product development team produced more than 13,000, 12,000 and 11,000 new styles of handbags for each of the three years ended 31 December 2010 respectively. We will continuously strengthen our product development team. We intend to acquire more and better computerised equipment to enhance the efficiency of our product development team and to provide more new sample products for our customers to meet their requirements, so that better services and products can be offered to our existing customers and attract more potential customers. We will work closely with our existing customers to provide better and more customised services to them and further solidify our relationships with them.

### **Geographical expansion of market**

Sales of our products in the PRC market only accounted for approximately 0.3%, 1.0% and 1.5% of our total revenue for each of the three years ended 31 December 2010 respectively. Gao Bu Processing Factory and Liu Wu Processing Factory are operated under two respective PRC Processing Agreements. According to the relevant PRC laws and regulations and as confirmed by our PRC Legal Advisers, products manufactured under a contract processing arrangement are required to be exported outside PRC. In September 2009, we set up a wholly-owned subsidiary in China with the aim to expand our business in China. Sales of our products in the PRC market for the two years ended 31 December 2008 and 2009 comprised the export sales of our products to our customers outside PRC and after the PRC customs clearance, to the best knowledge and belief of our Directors, such products were subsequently re-imported back to the PRC market under the arrangement of our customers. Since the commencement of operation of our wholly-owned subsidiary in the PRC in around January 2010, sales of our products in the PRC market for the year ended 31 December 2010 also included our Group's PRC domestic sales to our customers. We are developing and selling handbag products to certain brand owners doing business in China on an OEM basis and we plan to further expand our business with similar business modules (i.e. manufacturing handbag products on an OEM basis for our customers) in China. We believe that with the growing GDP and retail sales market in China, there is a great potential for the growth of handbag products in the PRC market; and with our solid track record in the handbag industry, we would be able to expand our business in China.

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## SUMMARY

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### FINANCIAL INFORMATION

The following tables set forth the summary of the combined financial information of our Group for the Track Record Period. We have derived the summary from our combined financial information set forth in the Accountants' Report in Appendix I to this document. The summary below should be read together with the combined financial information in Appendix I to this document, including the accompanying notes.

#### Combined Statements of Comprehensive Income

|   | Year ended 31 December |                       |                       |
|---|------------------------|-----------------------|-----------------------|
|   | 2008                   | 2009                  | 2010                  |
|   | <i>HK\$'000</i>        | <i>HK\$'000</i>       | <i>HK\$'000</i>       |
| Revenue   | 901,240                | 727,555               | 853,539               |
| Cost of sales   | <u>(672,214)</u>       | <u>(506,926)</u>      | <u>(620,264)</u>      |
| Gross profit  | 229,026                | 220,629               | 233,275               |
| Other income  | 9,477                  | 6,402                 | 8,620                 |
| Selling and distribution costs  | (37,064)               | (24,801)              | (33,279)              |
| General and administrative expenses   | (86,668)               | (82,365)              | (95,817)              |
| Finance costs   | <u>(2,707)</u>         | <u>(2,365)</u>        | <u>(1,707)</u>        |
| Profit before tax   | 112,064                | 117,500               | 111,092               |
| Income tax expense  | <u>(9,793)</u>         | <u>(10,564)</u>       | <u>(8,926)</u>        |
| Profit for the year   | 102,271                | 106,936               | 102,166               |
| Other comprehensive income  |                        |                       |                       |
| Surplus arising on revaluation of property, plant and equipment                               | 15,767                 | 8,449                 | 14,431                |
| Recognition of deferred tax liability arising on revaluation of property, plant and equipment | (1,289)                | (687)                 | (1,198)               |
| Effect of change in tax rate  | 160                    | –                     | –                     |
| Exchange difference arising on translation  | <u>(573)</u>           | <u>731</u>            | <u>2,661</u>          |
| Other comprehensive income for the year   | <u>14,065</u>          | <u>8,493</u>          | <u>15,894</u>         |
| Total comprehensive income for the year   | <u><u>116,336</u></u>  | <u><u>115,429</u></u> | <u><u>118,060</u></u> |
| Earnings per share (HK cents) ( <i>Note</i> )   | <u><u>12.4</u></u>     | <u><u>13.0</u></u>    | <u><u>12.4</u></u>    |

*Note:* The earnings per share was calculated based on the profit of the year divided by 825,000,000, being the number of ordinary shares of our Company in issue as at the Latest Practicable Date.

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## SUMMARY

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### Combined Statements of Financial Position

|  | As at 31 December     |                       |                       |
|--|-----------------------|-----------------------|-----------------------|
|  | 2008                  | 2009                  | 2010                  |
|  | <i>HK\$'000</i>       | <i>HK\$'000</i>       | <i>HK\$'000</i>       |
| <b>Non-current assets</b>                                      |                       |                       |                       |
| Property, plant and equipment                                  | 126,622               | 123,147               | 128,674               |
| Prepaid lease payments   | 18,740                | 18,250                | 17,760                |
| Investment properties  | 21,785                | 22,408                | 26,341                |
| Deposits paid for acquisition of property, plant and equipment | 142                   | 451                   | 1,094                 |
| Defined benefit assets   | <u>3,852</u>          | <u>4,250</u>          | <u>4,538</u>          |
|  | <u>171,141</u>        | <u>168,506</u>        | <u>178,407</u>        |
| <b>Current assets</b>  |                       |                       |                       |
| Inventories  | 88,609                | 69,904                | 82,684                |
| Prepaid lease payments   | 490                   | 490                   | 490                   |
| Trade and other receivables                                    | 119,819               | 118,446               | 150,616               |
| Derivative financial instruments                               | –                     | 704                   | –                     |
| Amount due from immediate holding company                      | 280,044               | 163,041               | –                     |
| Tax recoverable  | –                     | –                     | 2,824                 |
| Bank balances and cash   | <u>34,777</u>         | <u>48,833</u>         | <u>56,290</u>         |
|  | <u>523,739</u>        | <u>401,418</u>        | <u>292,904</u>        |
| <b>Current liabilities</b>                                     |                       |                       |                       |
| Trade and other payables                                       | 111,946               | 108,339               | 123,499               |
| Derivative financial instruments                               | 508                   | –                     | 530                   |
| Amount due to a related company                                | 1,170                 | 1,041                 | 926                   |
| Tax payable  | 1,445                 | 3,585                 | 2,481                 |
| Bank borrowings  | <u>188,849</u>        | <u>150,345</u>        | <u>125,853</u>        |
|  | <u>303,918</u>        | <u>263,310</u>        | <u>253,289</u>        |
| <b>Net current assets</b>                                      | <u>219,821</u>        | <u>138,108</u>        | <u>39,615</u>         |
| <b>Total assets less current liabilities</b>                   | 390,962               | 306,614               | 218,022               |
| <b>Non-current liabilities</b>                                 |                       |                       |                       |
| Deferred taxation  | <u>5,197</u>          | <u>5,420</u>          | <u>6,054</u>          |
|  | <u>5,197</u>          | <u>5,420</u>          | <u>6,054</u>          |
| <b>Net assets</b>  | <u><u>385,765</u></u> | <u><u>301,194</u></u> | <u><u>211,968</u></u> |

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## SUMMARY

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|                             | As at 31 December |                |                |
|-----------------------------|-------------------|----------------|----------------|
|                             | 2008              | 2009           | 2010           |
|                             | HK\$'000          | HK\$'000       | HK\$'000       |
| <b>Capital and reserves</b> |                   |                |                |
| Share capital               | 1                 | 1              | 1              |
| Reserves                    | <u>385,764</u>    | <u>301,193</u> | <u>211,967</u> |
| Total equity                | <u>385,765</u>    | <u>301,194</u> | <u>211,968</u> |

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### DIVIDEND POLICY

For each of the three years ended 31 December 2008, 2009 and 2010, our Group paid dividend of approximately HK\$25.0 million, HK\$200.0 million, and HK\$207.3 million, respectively. The payment and the amount of any future dividend will depend on the results of our operations, cash flow, financial condition, statutory and regulatory restrictions on the payment of dividend, future prospects and other factors that we may consider relevant. The declaration, payment and amount of any future dividend will be subject to our discretion.

Dividend may be paid out of our Group's distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividend, such profits will not be available to be reinvested in our Group's operations. There can be no assurance that our Group will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our Group's dividend distribution record in the past may not be used as a reference or basis to determine the level of dividend that may be declared or paid by our Group in the future.

### COMPETITIVE STRENGTHS

- Experienced management team
- Solid customer base and ability to develop new clients and offer dedicated customer services
- Strong product development ability
- Efficiency of our production process

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## SUMMARY

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### **BUSINESS STRATEGIES**

- Enhance manufacturing capabilities and efficiency
- Strengthen and expand customer base
- Geographical expansion of market

### **RISK FACTORS**

We believe there are certain risks involved in our operations, many of which are beyond our control. These risks are set out in the section headed “Risk factors” in this document and are summarised below:

#### **Risks relating to our Group**

- We rely on our major customers
- Adverse changes in the U.S. and the European market may affect our revenue and profit
- Our success depends on our customers’ ability to successfully sell their products developed and sold by us
- We may face difficulties in consolidating our existing customer base and developing new customers
- Our business strategies or expansion plans may not be successful
- We may not be able to successfully catch or respond to the fast changing fashion trends and customer demands for handbags
- Our operating results may be adversely affected if we are unable to pass on increases in costs to our customers or source the required materials requested by our customers
- Reliance on processing agreements
- Title defects affecting some of the properties in China that we own, including properties where our products are manufactured, could adversely affect our ownership and use of such properties
- Anti-dumping regulations may have impact on our business and results of operations
- Our products are manufactured in a single location, and any material disruption of our operations could adversely affect our business

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## SUMMARY

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- We may experience loss or damage of our raw materials, components, semi-finished goods or finished goods placed at our storage facilities
- Reliance on key management personnel may impose risks on our Group
- We may be subject to product liability claims
- Limited business insurance coverage may incur substantial costs for our Group
- We are subject to foreign exchange exposure
- We cannot assure that our operation does not or will not infringe any patents, valid copyrights or other intellectual property rights held by third parties
- The interests of our Controlling Shareholders may differ from those of our other Shareholders
- We cannot assure you that we will declare dividend in the future
- We may encounter adverse financial impact if we cannot dispose of our properties in Thailand above its net book value
- Our claim for 50:50 preferential tax treatment allowed by DIPN 21 may be challenged by the IRD

### **Risks relating to the industry**

- Our industry is subject to economic and market conditions. There has been significant deterioration and volatility in the global financial markets recently. As a result, our business operations may be adversely affected
- Our industry is highly competitive
- Our industry has low entry barrier
- Failure to comply with environmental regulations may materially and adversely affect our business, financial condition and results of operations

### **Risks relating to conducting business in the PRC**

- Political and economic policies of the PRC government and social conditions and legal developments of the PRC could affect our business
- Uncertainties regarding interpretation and enforcement of the PRC laws and regulations may impose adverse impact on our business, operations and profitability

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## SUMMARY

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- PRC regulations on loans to and direct investment by offshore holding companies in the PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC subsidiary
- PRC regulations relating to acquisitions of the PRC companies by foreign entities may limit our ability to acquire the PRC companies and adversely affect the implementation of our strategy as well as our business and prospects
- Our business will be affected if there is a labour shortage in the PRC
- We cannot assure that the PRC Processing Factories and our Group will be able to renew all necessary licences, certificates, approvals and permits for our production and operation
- We are a holding company and rely on dividend payments from our subsidiaries
- Under the Enterprise Income Tax Law and the related implementation regulations, which became effective on 1 January 2008, dividend from our subsidiary in the PRC may be subject to withholding tax or we may be subject to the PRC tax on our worldwide income
- Dividend payable by us to our Shareholders and gain on the sale of our Shares may be subject to the PRC tax
- Fluctuation of RMB may adversely affect our operations and financial results

### **Risks relating to the Introduction**

- Shareholders' interests in the share capital of our Company may be diluted in the future
- Lack of liquidity of our Shares and volatility of the market price may be resulted
- Difficulties may be experienced in effecting service of legal process and enforcing judgments against our Company and our management
- We cannot guarantee the accuracy of facts and other statistics with respect to the handbag industry and the global economy contained in this document
- Forward-looking statements contained in this document are subject to risks and uncertainties
- We strongly caution you not to place any reliance on any information contained in press articles or media regarding us or the Introduction

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## DEFINITIONS

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*In this document, unless the context otherwise requires, the following expressions shall have the following meanings.*

|   |  |
|---|--|
| “Articles” or “Articles of Association” | the articles of association of our Company, as amended from time to time   |
| “associate(s)”                          | has the meaning ascribed to it under the Listing Rules   |
| “Board”                                 | our board of Directors   |
| “BOI”                                   | Board of Investment of Thailand  |
| “Business Day(s)”                       | any day(s) (excluding Saturday(s) and Sunday(s)) in Hong Kong on which licensed banks in Hong Kong are open for banking business throughout their normal business hours                      |
| “BVI”                                   | the British Virgin Islands   |
| “CAGR”                                  | compound annual growth rate  |
| “CCASS”                                 | the Central Clearing and Settlement System established and operated by HKSCC   |
| “CCASS Clearing Participant”            | a person admitted to participate in CCASS as a direct clearing participant or general clearing participant   |
| “CCASS Custodian Participant”           | a person admitted to participate in CCASS as a custodian participant   |
| “Circular 37”                           | 《內地和香港特別行政區關於對所得避免雙重徵稅的安排》(Arrangement between the PRC and Hong Kong for the Avoidance of Double Taxation on Income*) promulgated by SAT on 18 June 1998                                     |
| “Circular 403”                          | 《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》(Arrangement between the PRC and Hong Kong for the Avoidance of Double Taxation on Income and Prevention on Tax Evasion*) promulgated by SAT on 4 April 2007 |
| “Companies Law”                         | the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands   |
| “Companies Ordinance”                   | Companies Ordinance (Chapter 32 of the Laws of Hong Kong)  |

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## DEFINITIONS

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|                              |  |
|------------------------------|--|
| “Company”                    | Lee & Man Handbags Holding Limited (理文手袋集團有限公司), formerly known as Heng Sing Holdings Limited (恆勝控股有限公司), an exempted company incorporated in the Cayman Islands on 4 January 2011 under the Companies Law with limited liability  |
| “connected person(s)”        | has the meaning ascribed to it under the Listing Rules   |
| “Controlling Shareholder(s)” | has/have the meaning ascribed to it under the Listing Rules and unless the context requires otherwise, refers to Full Gold which will control the exercise of 75% of the voting rights in the general meeting of our Company immediately after the Introduction, Mr. Lee Wan Keung and Mr. Lee Man Yan, who holds 55% and 45% of the total issued share capital of Full Gold respectively as at the Latest Practicable Date  |
| “DIPN 21”                    | Departmental Interpretation and Practice Note No. 21 (Revised in December 2009) issued by the IRD  |
| “Directors”                  | director(s) of our Company   |
| “Distribution”               | <p>the payment of a special interim dividend by LM to the LM Shareholders to be satisfied:</p> <p>(a) by way of distribution in specie of such number of Shares to the LM Qualifying Shareholders in the proportion of one Share for every one LM Share held by them as at the close of business on the Distribution Record Date; and</p> <p>(b) by way of cash payment (after deducting expenses) to the LM Excluded Shareholders which equals to the net proceeds of the sale by LM on their behalf our Shares to which the LM Excluded Shareholders would otherwise be entitled to receive,</p> <p>in either case, on the terms and conditions contained in this document</p> |
| “Distribution Record Date”   | 13 June 2011, being the record date for ascertaining entitlements to the Distribution  |
| “Dongguan Lee Wai”           | 東莞利偉手袋有限公司 (Dongguan Lee Wai Handbag Company*), a company established on 25 September 2009 in the PRC, and a wholly-owned subsidiary of our Company as at the Latest Practicable Date  |

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## DEFINITIONS

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|                               |   |
|-------------------------------|---|
| “EGM”                         | the extraordinary general meeting of LM to be held on 13 June 2011 for approving the Spin-off and the adoption of the Share Option Scheme   |
| “Enterprise Income Tax Law”   | 中華人民共和國企業所得稅法 (Enterprise Income Tax Law of the PRC*) promulgated on 16 March 2007  |
| “ERP”                         | enterprise resource planning, being a massive software architecture that supports the streaming and distribution of geographically scattered enterprise wide information across all the functional units of a business house  |
| “EU”                          | the European Union  |
| “Fortune Star”                | Fortune Star Tradings Ltd., a shareholder of LM which was interested in 75% of its issued share capital as at the Latest Practicable Date and a company incorporated in the BVI and was owned by each of Mr. Lee Wan Keung and Mr. Lee Man Yan as to 55% and 45% respectively as at the Latest Practicable Date                     |
| “Full Gold”                   | Full Gold Trading Limited, a company incorporated in the BVI and was owned by each of Mr. Lee Wan Keung and Mr. Lee Man Yan as to 55% and 45% respectively as at the Latest Practicable Date  |
| “Gao Bu Processing Agreement” | the processing agreement dated 10 May 1984 and all supplements and renewals thereto from time to time in relation to the processing arrangement of manufacturing handbag products in Gao Bu Processing Factory, details of which are set out in the paragraph headed “Production” in the section headed “Business” in this document |
| “Gao Bu Processing Factory”   | our production facilities located in Gao Bu Town, Dongguan, the PRC, being the PRC factory operated by Gao Man United under the Gao Bu Processing Agreement   |
| “Gao Man United”              | 東莞高埗高文聯合製造廠 (Dongguan Gao Bu Gao Man United Factory*), an independent establishment in the PRC and a processing agent of our Group pursuant to the Gao Bu Processing Agreement  |

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## DEFINITIONS

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| “Group”, “we”, “our” and “us”  | our Company and its subsidiaries or, where the context otherwise requires, in respect of the period prior to our Company becoming the holding company of its present subsidiaries, the present subsidiaries of our Company, some or any of them |
| “HKSCC”                        | Hong Kong Securities Clearing Company Limited   |
| “HKSCC Nominees”               | HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC  |
| “HK Subsidiaries”              | LM Company and LM Handbag Manufacturing   |
| “Hong Kong” or “HK”            | the Hong Kong Special Administrative Region of the PRC  |
| “Hong Kong Share Registrar”    | Tricor Secretaries Limited, the Hong Kong branch share registrar and transfer office of our Company   |
| “Independent Third Party(ies)” | a person(s) or company(ies) which is/are independent of and not connected with any directors, chief executive, Controlling Shareholders and substantial shareholders or any of its subsidiaries and their respective associates                 |
| “Introduction”                 | the listing of the entire issued share capital of our Company on the Stock Exchange by way of introduction  |
| “IRD”                          | Inland Revenue Department of Hong Kong  |
| “Land Office”                  | the Kabinburi branch of the Department of Lands of Thailand   |
| “Latest Practicable Date”      | 20 May 2011, being the latest practicable date prior to the printing of this document for ascertaining certain information in this document   |
| “Lee Wai Factory”              | our production facilities located in Dongguan, the PRC and operated by Dongguan Lee Wai   |
| “Listing”                      | the listing of our Shares on the Main Board   |
| “Listing Committee”            | the listing sub-committee of the board of directors of the Stock Exchange   |
| “Listing Date”                 | the date on which dealings in our Shares on the Main Board commence   |

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## DEFINITIONS

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| “Listing Rules”               | the Rules Governing the Listing of Securities on the Stock Exchange   |
| “Liu Wu Handbag”              | 東莞石碣劉屋理文手袋廠 (Dongguan Shijie Liu Wu Lee Man Handbag Factory*), an independent establishment in the PRC and a processing agent of our Group under the Liu Wu Processing Agreement  |
| “Liu Wu Processing Agreement” | the processing agreement dated 4 October 1988 and all supplements and renewals thereto from time to time in relation to the processing arrangement of manufacturing handbag products in Liu Wu Processing Factory, details of which are set out in the paragraph headed “Production” in the section headed “Business” in this document  |
| “Liu Wu Processing Factory”   | our production facilities located in Shi Jie Town, Dongguan, the PRC, being the PRC factory operated by Liu Wu Handbag under the Liu Wu Processing Agreement  |
| “LM”                          | Lee & Man Holding Limited, a company incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 27 July 2001, whose shares are listed on the Main Board (Stock Code: 746)  |
| “LM Company”                  | Lee & Man Company Limited 理文洋行有限公司, a company incorporated in Hong Kong on 21 November 1978, and a wholly-owned subsidiary of our Company as at the Latest Practicable Date   |
| “LM Development”              | Lee & Man Development Company Limited, a company incorporated in the BVI on 15 September 1992, and a wholly-owned subsidiary of our Company as at the Latest Practicable Date   |
| “LM Excluded Shareholder(s)”  | the LM Overseas Shareholder(s) whom the board of directors of LM, after making enquiries and based on the legal opinion provided by legal advisers, considers it necessary or expedient not to transfer our Shares to, on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place |
| “LM Group”                    | LM and its subsidiaries before the Distribution, which includes our Group   |

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## DEFINITIONS

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| “LM Handbag Manufacturing”   | Lee & Man Handbag Manufacturing Company Limited 理文手袋廠有限公司, a company incorporated in Hong Kong on 20 August 1976, and a wholly-owned subsidiary of our Company as at the Latest Practicable Date |
| “LM Luggage”                 | Lee & Man Luggage Manufacturing Company Limited 理文旅行箱有限公司, a company incorporated in Hong Kong on 25 June 1992, and a wholly-owned subsidiary of our Company as at the Latest Practicable Date   |
| “LM Management”              | Lee & Man Management Company Limited 理文管理有限公司, a company incorporated in Hong Kong on 24 November 1992, and a wholly-owned subsidiary of our Company as at the Latest Practicable Date           |
| “LM Overseas Shareholder(s)” | LM Shareholder(s) whose addresses appear on the register of members of LM at the close of business on the Distribution Record Date and are in jurisdictions outside Hong Kong                    |
| “LM Qualifying Shareholders” | LM Shareholders at the close of business on the Distribution Record Date other than the LM Excluded Shareholders   |
| “LM Shareholders”            | holder(s) of the LM Shares   |
| “LM Shares”                  | ordinary share(s) of HK\$0.10 each in the share capital of LM  |
| “Main Board”                 | the stock market operated by the Stock Exchange, which excludes Growth Enterprise Market of the Stock Exchange and the options market  |
| “OEM”                        | original equipment manufacturing whereby products are manufactured in whole or in part in accordance with the customer’s specifications and are marketed under the customer’s own brandnames     |
| “PRC” or “China”             | the People’s Republic of China which, for the purposes of this document only, excludes Hong Kong, the Macao Special Administrative Region of the PRC and Taiwan                                  |
| “PRC Legal Advisers”         | Goldsun Law Firm, a qualified PRC law firm acting as the PRC legal advisers to our Company for the application for Listing   |

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## DEFINITIONS

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| “PRC Processing Agreements” | collectively, the Gao Bu Processing Agreement and the Liu Wu Processing Agreement   |
| “PRC Processing Factories”  | collectively, Gao Bu Processing Factory and Liu Wu Processing Factory   |
| “PU”                        | polyurethane  |
| “PVC”                       | polyvinylchloride   |
| “Remaining LM Group”        | LM and its subsidiaries after the Distribution, which excludes our Group  |
| “Reorganisation”            | the corporate reorganisation of our Group in preparation for the Listing as described under the section headed “Reorganisation” in this document  |
| “SAFE”                      | State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)  |
| “SAT”                       | State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)   |
| “SFC”                       | the Securities and Futures Commission of Hong Kong  |
| “SFO”                       | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)   |
| “Share(s)”                  | ordinary share(s) of HK\$0.10 each in the share capital of our Company  |
| “Shareholder(s)”            | holder(s) of our Share(s)   |
| “Share Option Scheme”       | the share option scheme conditionally adopted by our Company on 18 May 2011, a summary of the principal terms of which is set out under the paragraph headed “Share Option Scheme” in Appendix V to this document                                     |
| “Spin-off”                  | the separate listing of our Shares on the Main Board, which is expected to be effected by way of introduction, together with the Distribution   |
| “Sponsor” or “CIMB”         | CIMB Securities (HK) Limited, a licensed corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities, being the sponsor of the Introduction |

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## DEFINITIONS

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| “Stock Exchange”                     | The Stock Exchange of Hong Kong Limited   |
| “subsidiary(ies)”                    | has the meaning ascribed to it under the Companies Ordinance  |
| “substantial shareholder(s)”         | has/have the meaning ascribed to it under the Listing Rules   |
| “Takeovers Code”                     | The Hong Kong Codes on Takeovers and Mergers and Share Repurchase as amended, supplemented or otherwise modified from time to time  |
| “Track Record Period”                | the three financial years ended 31 December 2010  |
| “U.K.”                               | the United Kingdom of Great Britain and Northern Ireland  |
| “U.S.” or “United States”            | the United States of America  |
| “Baht”                               | Thai Baht, the lawful currency of Thailand  |
| “Euro” or “€” or “EUR”               | the lawful currency of the member states of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992) |
| “HK\$” or “HK dollars” or “HK cents” | Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong   |
| “mu”                                 | a measurement unit (畝), equivalent to approximately 666.67 sq.m.  |
| “RMB”                                | Renminbi, the lawful currency of the PRC  |
| “US\$” or “USD”                      | United States dollars, the lawful currency of the U.S.  |
| “sq.ft.”                             | square feet   |
| “sq.m.” or “m <sup>2</sup> ”         | square metres   |
| “%”                                  | per cent.   |

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## DEFINITIONS

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*Unless otherwise specified, for the purpose of this document and for the purpose of illustration only, Hong Kong dollar amounts have been translated using the following rates:*

$$US\$1 = HK\$7.8$$

*No representation is made that any amounts in US\$ or HK\$ were or could have been converted at the above rate or at any other rates or at all.*

*For ease of reference, the names of certain PRC laws and regulations or the PRC established companies or entities have been included in this document in both the Chinese and English languages. The English names of these companies and entities are only English translation of their respective official Chinese names and they are denoted with “\*”. In the event of any inconsistency, the Chinese version shall prevail.*

*The English text of this document shall prevail over the Chinese text in case of inconsistency.*

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## RISK FACTORS

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*You should consider carefully all the information set out in this document and, in particular, should consider the following risks associated with our Company. You should pay particular attention to the fact that our Company is incorporated in the Cayman Islands and we have operations conducted outside Hong Kong and are governed by a legal and regulatory environment which in some respects may differ from that in Hong Kong. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operations and financial condition or on the trading price of our Shares.*

### **RISKS RELATING TO OUR GROUP**

#### **We rely on our major customers**

Our sales to our top five customers during the Track Record Period amounted to approximately HK\$424.6 million, HK\$394.0 million and HK\$451.9 million which accounted for approximately 47.1%, 54.2%, and 53.0%, respectively, of our total revenue for each of the three years ended 31 December 2010. Sales to our largest customer for each of the three years ended 31 December 2010 amounted to approximately HK\$152.8 million, HK\$105.4 million and HK\$142.2 million respectively, representing approximately 17.0%, 14.5% and 16.7% of our total revenue respectively.

We have not entered into long-term contracts with our major customers. There is no assurance that our business relationship with our major customers will continue in the future. In the event that any of our major customers significantly reduce their orders placed with us or our business relationship with them terminates, we may not be able to maintain the same sales volume with the remaining customers or attract new customers with the ability or willingness to contribute to the same amount of sales as our major customers have been contributing, which may adversely affect our business and profitability.

Even if we are able to maintain our business relationship with our major customers, the popularity of their brands may decline for reasons of changes in consumer trends or preferences, a loss of goodwill and reputation of them or other reasons. In addition, the decline of popularity in their brand in one region may affect the popularity of such brand in other regions, and the decline of popularity in one or some lines of their products may affect their other lines of products, which may all in turn adversely affect our operations as well as financial results.

#### **Adverse changes in the U.S. and the European market may affect our revenue and profit**

The U.S. and the European markets are the largest markets for our products. For each of the three years ended 31 December 2010, sales of our products to our customers in the U.S. and Europe accounted for approximately 51.0% and 36.3%, 49.2% and 34.2%, and 53.6% and 27.5% respectively of our total turnover. For each of the three years ended 31 December 2010, sales of our products to our customers in the U.S. and Europe amounted to approximately HK\$459.6 million and HK\$326.9 million, HK\$357.7 million and HK\$248.8 million, and HK\$457.7 million and HK\$234.5 million, respectively. The global financial crisis in late 2008 followed by the bankruptcy of renowned financial institutions are having

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## RISK FACTORS

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an adverse impact on the global economy, and in particular, the economic conditions in the U.S. and Europe. According to The World Bank, U.S. GDP decreased from approximately US\$14,369 billion in 2008 to approximately US\$14,119 billion in 2009. According to International Monetary Fund, EU's GDP decreased from approximately US\$18,388 billion in 2008 to approximately US\$16,477 billion in 2009. If the demand for our products from the U.S. and the European market continue to drop as a result of any economic and political uncertainties, our Group's business and profit will be adversely affected.

**Our success depends on our customers' ability to successfully sell their products developed and sold by us**

A majority of our customers are brand owners, brand carriers, department stores and megastores which will sell the products sourced from us to retail customers. Consequently, our results of operations are directly affected by the success of our customers in their business. Our customers may not be able to market and sell their products successfully or maintain their competitiveness due to lack of market acceptance or otherwise. Under those circumstances, our customers may not order new products or decrease the quantity or purchase price of their orders, which could adversely affect our results of operations and revenue from such customers. Accordingly, our success depends on our customers' ability to successfully sell their products that are developed and sold by us.

**We may face difficulties in consolidating our existing customer base and developing new customers**

Our customers are mainly located in the U.S. and Europe and our customers are mostly overseas brand owners, brand carriers, department stores and megastores; and some of our products are also sold to importers, including an overseas trading firm which sells products to wholesalers, distributors and retailers. The success of our business depends on our ability to maintain and expand the volume of businesses with our existing customers and to source and develop new customers.

There is no assurance that we will be successful to continue to maintain good business relationships with our existing customers or to develop new customers. Moreover, as many of our customers are brand owners, brand carriers, department stores and megastores, potential customers may not be willing to place orders with us if our existing customers may be their competitors.

If we are not able to expand the volume of businesses with our existing customers or to extend our customer base by adding new customers at desired levels or at all, it could have a material adverse effect on our business, financial condition and results of operations.

**Our business strategies or expansion plans may not be successful**

Our business strategies include enhancing our manufacturing capabilities and efficiency, strengthening and expanding our customer base and developing and expanding our sales in the PRC market. Substantial costs may be involved in connection with the expansion of our business, and any failure to successfully implement our expansion plans or to expand our customer base and attract more orders through the implementation of our business strategies

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## RISK FACTORS

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may materially and adversely affect our profitability and growth. Any failure to successfully manage our expansion may make it difficult to effectively compete, develop new products or take advantage of new markets.

**We may not be able to successfully catch or respond to the fast changing fashion trends and customer demands for handbags**

The styles of handbags changes from time to time, depending on the fashion trends, fluctuations in consumer preferences and demands, as well as other factors. In order to achieve continued and sustained success, we must be able to predict, identify and respond promptly to such changes. In addition, the purchasing power of consumers and their spending patterns may also be affected by economic conditions. Hence, if we fail to anticipate and respond rapidly and effectively to the fast changing fashion trends and consumers' demands, we may not be able to obtain orders from our existing customers or to develop any new clients, and our operating results may be materially and adversely affected.

**Our operating results may be adversely affected if we are unable to pass on increases in costs to our customers or source the required materials requested by our customers**

Our pricing are typically based on a cost-plus basis. Typically, there is a time lag of generally two months between the time our customer's order is confirmed and the time we deliver the finished products. If our production cost, such as raw materials costs, labour costs and other manufacturing overheads, increases significantly after the sale order is confirmed, we will not be able to pass such increased costs onto our customers. In such event, if we are not able to lower other costs in amounts sufficient to compensate such increased costs, our margins would be negatively impacted which could have a material and adverse effect on our results of operations.

For each of the three years ended 31 December 2010, our Group's cost of sales was approximately HK\$672.2 million, HK\$506.9 million and HK\$620.3 million respectively. It was relatively stable and maintained at approximately 74.6%, 69.7% and 72.7%, respectively, of our Group's revenue for the same periods. The cost of raw materials was the largest cost component of our Group's cost of sales, representing approximately 62.9%, 60.4% and 61.2%, respectively, of our Group's costs of sales for each of the three years ended 31 December 2010.

The decrease in factory overheads for the year ended 31 December 2009 was mainly due to a drop in the sales volume due to a continuing, sharp contraction of global consumer spending as a result of global financial crisis in late 2008. Processing fees, other factory overheads and labour costs, primarily consist of direct labour wages, subcontracting charges, transportation, electricity, staff welfare, depreciation and other direct costs were relatively stable and maintained at approximately 37.1%, 39.6% and 38.8% respectively, of our Group's total costs of sales for each of the three years ended 31 December 2008, 2009 and 2010.

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## RISK FACTORS

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### Reliance on processing agreements

The manufacturing operations of our Group in Gao Bu Processing Factory and Liu Wu Processing Factory are each undertaken through an independent processing agent pursuant to the PRC Processing Agreements, of which the terms are similar. Our manufacturing operations in the Gao Bu Town are undertaken by Gao Man United, an independent processing agent, pursuant to Gao Bu Processing Agreement which was first entered into in 1984 for an initial term of one year and the term of which was renewed for a term of 10 years up to 31 May 2020. Our manufacturing operations in Shi Jie Town are undertaken by Liu Wu Handbag, an independent processing agent. We first entered into the Liu Wu Processing Agreement with Liu Wu Handbag in 1988 for an initial term of five years and the agreement was subsequently renewed for a term of 10 years up to 4 October 2020. Approximately 100%, 100% and 99.8% of our production in terms of our total revenue through the PRC Processing Factories operated under the PRC Processing Agreements for each of the three years ended 31 December 2010 respectively.

The processing agents are responsible for providing labour and electricity for the production of our Group's products. Under each of the PRC Processing Agreements, no pre-determined calculation of compensation is stated; however, it is stated in each processing agreement that disputes which cannot be resolved by mutual agreements shall be referred to the arbitrator specified in the agreement, whose decision shall be binding on the parties. However, there is no assurance that our Group's manufacturing operations through the processing agents in the PRC would not be interrupted materially should there be any dispute between our Group and the processing agents. Both PRC Processing Agreements will expire in the year 2020 subject to further renewal. However, there is no assurance that the PRC Processing Agreements will be renewed upon expiry. The PRC Processing Agreements provide for an annual processing fee per annum (which in fact is a minimum amount) which is subject to an annual increment of 10%. The minimum processing fee is calculated principally on the average salary and wages of the personnel provided by the processing agents (26 working days per month, and 8 hours per working day). The annual processing fees payable to the processing agents set out in the PRC Processing Agreements have been arrived at through mutual negotiation between the processing agents and our Group. In fact, we pay processing fees to the processing agents for the provision of processing services which are negotiated on an order-by-order basis with reference to the type of goods involved, their specifications and the complexity of the processing procedures involved (including relevant labour costs and factory overheads). For each of the three years ended 31 December 2010, we paid approximately HK\$92.1 million, HK\$73.6 million and HK\$93.5 million respectively as processing fees to Gao Man United, representing approximately 10.2%, 10.1% and 11.0% of our turnover respectively and approximately 13.7%, 14.5% and 15.1% of our cost of sales respectively. For each of the three years ended 31 December 2010, we paid approximately HK\$52.4 million, HK\$53.2 million and HK\$65.3 million respectively as processing fees to Liu Wu Handbag, representing approximately 5.8%, 7.3% and 7.6% of our turnover respectively and approximately 7.8%, 10.5% and 10.5% of our cost of sales respectively. The operations and profitability of our Group may be adversely affected if our Group is unable to renew any of these PRC Processing Agreements upon its expiry and find other reliable processing agents to undertake its manufacturing operations.

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## RISK FACTORS

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### **Title defects affecting some of the properties in China that we own, including properties where our products are manufactured, could adversely affect our ownership and use of such properties**

We do not have the land use rights certificates to certain parcels of land that we own and the building ownership rights certificates to certain buildings that we own on such land which are used for production. For each of the three years ended 31 December 2010, the revenue contributed from the production in these properties with defective titles amounted to HK\$224.8 million, HK\$225.3 million and HK\$278.7 million, representing approximately 25%, 31% and 33% of our revenue respectively. For each of the three years ended 31 December 2010, the gross profit contributed from production in these properties with defective titles amounted to HK\$57.1 million, HK\$68.3 million and HK\$76.1 million, representing approximately 25%, 31% and 33% of our gross profits respectively. Details of such land and buildings were set out in the paragraph headed “Properties” in the section headed “Business” in this document and the property valuation report set out in Appendix III to this document. Our rights as owner of these land and buildings may be adversely affected as a result of the absence of such land use right certificates and/or the building ownership rights certificates, and we could lose our right to continue to operate using these land and buildings.

As confirmed by our Directors, most of the application documents for the land use rights certificates of the Three Shao Tan Village Land (as defined in the paragraph headed “Properties” in the section headed “Business” in this document) are available pending a formal letter from the original land use rights owner (i.e. a collectively-owned entity). Such letter is being reviewed by the representative of that collectively-owned entity who was newly elected in April 2011. Hence, as advised by our PRC Legal Advisers, the application for the land use rights certificates of the Three Shao Tan Village Land could only be submitted after signing of such letter.

As confirmed by our Directors, Dongguan Lee Wai will lodge its application for the land use rights certificates and building ownership rights certificates of the Three Shao Tan Village Land under 《東莞市推動產業結構調整和轉型升級實施“三舊”改造土地管理暫行辦法》 (“The interim measures of “Three Olds” for the land management reform implemented by the Dongguan City to promote the structural adjustment and transformation of the property”\*), and should accordingly submit the necessary documents to the relevant governmental authority for application.

Our Directors expect that Dongguan Lee Wai will obtain the land use rights certificates for the Three Shao Tan Village Land in around June 2011.

After obtaining the land use rights certificates for the Three Shao Tan Village Land, Dongguan Lee Wai should apply for the building ownership rights certificates of the Three Shao Tan Village Land. Our Directors expect that Dongguan Lee Wai will receive the reply from the relevant governmental authority concerning the necessary information to be filed for the purpose of applying for the building ownership rights certificates of the Three Shao Tan Village Land in around July 2011. Our Directors expect that Dongguan Lee Wai will obtain the building ownership rights certificates for the Three Shao Tan Village Land in around September 2011.

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## RISK FACTORS

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Our Directors consider the possibility that we will not be granted such land use rights certificates and the building ownership rights certificates is low as we have occupied the Three Shao Tan Village Land for over six years and as at the Latest Practicable Date, our Directors were not aware of any material dispute in relation to the beneficial ownership of such land and buildings.

As advised by our PRC Legal Advisers, upon submission of the necessary documents, there should be no legal obstacles for Dongguan Lee Wai to obtain the land use rights certificates and building ownership rights certificates of the Three Shao Tan Village Land.

However, no assurances can be given that we would be granted the land use rights certificates and/or the building ownership rights certificates which we will apply for. Any challenges to the continued operation of these manufacturing facilities, or any order for the relevant authorities to vacate the land or to cease operations at these facilities, may have a material adverse effect on our business and results of operations.

### **Anti-dumping regulations may have impact on our business and results of operations**

For each of the three years ended 31 December 2010, sales of our products to the U.S. amounted to approximately 51.0%, 49.2% and 53.6% respectively of the turnover of our Group and sales of our products to Europe amounted to approximately 36.3%, 34.2% and 27.5% respectively of the turnover of our Group.

The U.S. law provides for the protection of manufacturers in the U.S. from unfair foreign trade practices and accordingly, sales of our products to the U.S. may be subject to the anti-dumping investigation by the U.S. government. If manufacturers in the U.S. believe that foreign competitors are selling goods in the U.S. at prices lower than the prices of which comparable goods are sold in the domestic market of the exporter, they may request for the imposition of anti-dumping duties by filing a petition with the U.S. Department of Commerce's International Trade Administration and the U.S. International Trade Commission. Through its anti-dumping legislation, duties will be levied on goods dumped in the U.S. market.

Leather handbags imported from China were subject to an anti-dumping duty of 38% imposed by the EU in the past, and such measures expired on 3 August 2002. We are unable to predict whether such duty will be re-employed. Such action could increase the costs of imported handbags to the EU generally, or limit our ability to export handbags to such countries or regions.

Further details of the anti-dumping regulations in relation to our Group are disclosed in the section headed "Regulations" in this document.

Although, to the best of the knowledge and belief of our Directors, as at the Latest Practicable Date, they were not aware of any anti-dumping duty to be assessed on customs entries of our Group's handbag products to the U.S. or Europe, there is no assurance that our products would not be subject to the anti-dumping duty imposed by the U.S. or Europe in the future.

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## RISK FACTORS

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### **Our products are manufactured in a single location, and any material disruption of our operations could adversely affect our business**

Our operations are subject to uncertainties and contingencies beyond our control that could result in material disruptions in our operations and adversely affect our business. These include industrial accidents, fires, floods, droughts, storms, earthquakes, natural disasters and other catastrophes, equipment failures or other operational problems, strikes or other labour difficulties.

During the Track Record Period, all of our products were manufactured in the production facilities in Dongguan, the PRC. If there is any disruption to such production facilities, we may not be able to remedy such situations in a timely and proper manner, and our production could be materially and adversely affected. Any breakdown or malfunction of any of our equipment could cause a material disruption to our operations. Any such disruption in our operations could cause us to reduce or halt our production, prevent us from meeting customer orders, adversely affect our business reputation, increase our costs of production or require us to make unplanned capital expenditures, any one of which could materially and adversely affect our business, financial condition and results of operations.

### **We may experience loss or damage of our raw materials, components, semi-finished goods or finished goods placed at our storage facilities**

Some of our raw materials, components, semi-finished goods and finished goods are stored at our storage facilities in the PRC. For our day-to-day operations, we may face the risk of loss or damage to our inventories due to fire, flood and theft. Obsolete inventories (if any) will be written off according to the policy of our Group as stated in Note 5 to the Accountants' Report set out in Appendix I to this document.

As most of the raw materials and components for our handbags products are sourced according to confirmed customer's orders, in the event that the relevant raw materials or components are lost or damaged while being stored at our storage facilities, we may not be able to secure replacement to meet the production deadlines of our customers' orders. This may in turn have an adverse effect on our business, financial condition and results of operations.

### **Reliance on key management personnel may impose risks on our Group**

Our performance and success is, to a significant extent, attributable to the vision and leadership of our chairman, chief executive officer and executive Director, Ms. Wai Siu Kee and the contribution of our other executive Directors, including Ms. Lee Man Ching and Mr. Kung Phong, and our senior management team. Competition for senior management and key personnel in our industry is intense and the pool of qualified candidates is limited. Hence, we may not be able to retain the services of our Directors and members of senior management or other key personnel, or attract and retain high-quality personnel in the future. If any of these persons or any other member of the senior management team leaves us, and we were not able to engage a suitable replacement on a timely basis, our business, operations and financial condition may be adversely affected.

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## RISK FACTORS

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### **We may be subject to product liability claims**

We have maintained product liability insurance for our products but any imposition of liability in excess of our Group's product liability insurance coverage may materially affect our Group's business and financial position.

As at the Latest Practicable Date, as far as our Directors were aware and after making all reasonable enquiries, no material legal claim had been made against our Group arising from product defects. Our Directors believe that, however, if our products contain material defects which adversely affect our customers or ultimate buyers of such products, our Group may incur additional costs and sustain other resources in fixing such defects or defending any legal proceedings or claims brought against our Group or paying substantial damages for any successful product liability claim and may result in negative publicity which adversely affects our reputation.

No material legal claim had been made by any of our customers relating to our products during the Track Record Period. There is no assurance that there will not be any product liabilities claims against our Group in the future. If any customers of our Group make any claim against our Group due to the defects of our products in excess of our Group's product liability insurance coverage, our business and financial condition may be adversely affected.

### **Limited business insurance coverage may incur substantial costs for our Group**

We can give no assurance that the present insurance coverage is sufficient to meet any claims to which we may be subject and that we will in the future be able to obtain or maintain insurance on acceptable terms or at appropriate levels or that any insurance maintained will provide adequate protection against potential liabilities. In addition, defending ourselves against such claims may strain management resources, affect our reputation and require us to spend significant sums on legal costs. As we do not have any business liability insurance coverage for our business operations, any business disruption, litigation or natural disaster might result in substantial costs and diversion of our resources.

### **We are subject to foreign exchange exposure**

When we have accounts receivables in EUR, we may enter into foreign exchange forward contract(s) in EUR to minimise the risk in currency fluctuations. Save for such foreign exchange forward contracts, we had not engaged in other hedging activities as at the Latest Practicable Date. The derivatives were measured at fair value at the end of each reporting period. As at 31 December 2008, 2009 and 2010, derivative financial instruments assets/(liabilities) amounted to HK\$(508,000), HK\$704,000 and HK\$(530,000) respectively. The foreign exchange loss for each of the three years ended 31 December 2010 amounted to approximately HK\$6.6 million, HK\$3.1 million and HK\$8.2 million respectively. Our payments were mainly denominated in RMB and HK dollars while our revenue were mainly denominated in USD and EUR. As HK dollars are linked with USD, our Group does not have material exchange risk on this currency pair. Due to the respective appreciation of RMB and depreciation of EUR against the HK dollars during the Track Record Period, our Group recorded such foreign exchange loss. Further details of the derivative financial

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instruments are set out in the paragraph headed “Derivative financial instruments” in the section headed “Financial information” in this document. For illustrative purposes, a 5% depreciation in EUR, would have resulted in a drop in the gross profit margin and net profit margin from approximately 27.3% to 27.0%, and from approximately 12.0% to 11.6%, respectively, for the year ended 31 December 2010. On the other hand, a 5% appreciation in RMB, would have led to a decline in the gross profit margin and net profit margin from approximately 27.3% to 25.1%, and from approximately 12.0% to 9.8%, respectively, for the year ended 31 December 2010. If there is any material fluctuation in the exchange rates of one currency that we use to settle our payables against the other currency we received from our customers, and if we are unable to pass on the exchange risk to our customers, our results of operations and financial condition may be adversely affected.

**We cannot assure that our operation does not or will not infringe any patents, valid copyrights or other intellectual property rights held by third parties**

We may, in the future, be subject to legal proceedings and claims from time to time relating to the intellectual property rights of others in the ordinary course of our business. If we are found to have violated the intellectual property rights of others, we may be prohibited from using such intellectual property, and we may incur licensing fees or be forced to develop alternative designs or products. In addition, we may incur substantial expenses in defending against these third party infringement claims, regardless of their merit. Successful infringement or licensing claims against us may result in substantial monetary liabilities, which may materially disrupt the continuity of our business and the stability of our financial situation.

**The interests of our Controlling Shareholders may differ from those of our other Shareholders**

Our Controlling Shareholders will control the exercise of 75% of the voting rights in the general meeting of our Company immediately after the Distribution. In light of the foregoing, our Controlling Shareholders could exercise significant influence in determining the outcome of any corporate transaction or other matters submitted to our Shareholders for approval, including mergers, consolidations and the sale of all, or substantially all, of our assets, election of directors, and other significant corporate actions.

The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. If the interests of our Controlling Shareholders conflict with the interests of our other Shareholders, or if our Controlling Shareholders choose to cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, those Shareholders could be disadvantaged by the actions of our Controlling Shareholders.

**We cannot assure you that we will declare dividend in the future**

For each of the three years ended 31 December 2008, 2009 and 2010, our Group paid dividend of approximately HK\$25.0 million, HK\$200.0 million, and HK\$207.3 million, respectively. Further details of our dividend policy are set out in the paragraph headed “Dividend policy” under the section headed “Financial information” in this document.

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However, there is no assurance that future dividend will be declared or paid in an amount equivalent to or exceeding historical dividend declared or at all. Therefore, investors are cautioned not to use historical dividend as an indication of the amount of future dividend to be declared or paid. The payment and the amount of any future dividend will depend on the results of our operations, cash flow, financial condition, statutory and regulatory restrictions on the payment of dividend, future prospects and other factors that we may consider relevant. The declaration, payment and amount of any future dividend will be subject to our discretion.

### **We may encounter adverse financial impact if we cannot dispose of our properties in Thailand above its net book value**

We own a parcel of land with a site area of approximately 64,776 sq.m. in Thailand. Under the laws of Thailand, a majority foreign-owned company is not normally permitted to own land in Thailand. The BOI may grant a majority foreign-owned company special permission to own land on which to operate a factory for a BOI-promoted project. The land and factory premises are supposed to be sold within one year of termination of the BOI-promoted activities. If the owner fails to sell the land within one year, there is no sanction against the owner, but the Land Office becomes empowered to sell the property on the owner's behalf. Unless we receive a notice or directions from the Land Office for forced sale of our Thailand properties, our Thailand properties are freely transferable in the market. As advised by our Thailand legal advisers, Bamrung Savicha Apisakdi Law Associates, the Land Office rarely exercise its power to sell the property in practice. We had not received such notice or directions from the Land Office as at the Latest Practicable Date. Normally the owner of the land continues to hold the land beyond the one-year period until a buyer at a suitable price can be located. There is no stated maximum time beyond which the owner can own the property. As confirmed by our Thailand legal advisers, there is no legal consequence for (i) failure to sell our Thailand properties or (ii) keeping our Thailand properties other than the empowerment of the Land Office to sell our Thailand properties after the initial one-year period has expired. Since we have suspended the operation of our factory in Thailand in 2001, the land is no longer conducting BOI-promoted activities. The BOI had also been informed of our suspension of operations in Thailand. We are most likely under a continuing obligation to sell our Thailand properties to a buyer at a suitable price. We have contacted real estate agents with the intent to sell our Thailand properties. As at the Latest Practicable Date, no appropriate purchaser had been identified and it is the intention of the management to retain our Thailand properties until a buyer who can offer a price that can satisfy our Group's capital appreciation objective. Our Directors are optimistic about the Thailand property market. As at 31 December 2010, the net book value of our Thailand properties was approximately HK\$26.3 million. In the event the Land Office sold our Thailand properties on our behalf at a price lower than its net book value (amounted to approximately HK\$26.3 million as at 31 December 2010), we would have an adverse impact on our financial results.

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### **Our claim for 50:50 preferential tax treatment allowed by DIPN 21 may be challenged by the IRD**

Pursuant to the DIPN 21, the IRD is prepared to concede that, in cases where a Hong Kong manufacturing business entity enters into a contract processing arrangement with a PRC entity where the production processes are carried out at the factory premises situated in the PRC, profits from the sale of goods that are manufactured by such PRC processing agent can be apportioned on a 50:50 basis and the chargeable profits so apportioned can be treated as non-taxable in Hong Kong.

During the Track Record Period, our Group has conducted its manufacturing business under the PRC Processing Agreements entered between the HK Subsidiaries and the PRC Processing Factories. Our Directors consider that it is reasonable for our Group to adopt the DIPN 21 for the tax assessment of HK Subsidiaries despite the fact that the factory premises are provided by the HK Subsidiaries and regardless whether the IRD is aware of this fact. Hence, the HK Subsidiaries have applied the DIPN 21 to claim for apportionment of profit during the Track Record Period.

In the event that the IRD considers that our Group's mode of manufacturing operations under the PRC Processing Agreements is not within the scope under the DIPN 21, or there are any changes in Hong Kong tax laws or its interpretation, the IRD might treat our Group's profits generated from the sale of goods processed under the PRC Processing Agreements as profits derived from Hong Kong. If it did so and our Group failed to prove otherwise, 50% of the chargeable profits of the HK Subsidiaries which has previously been treated as non-taxable in Hong Kong would have become taxable and would have an adverse impact on our Group's profitability. In the unlikely event that the IRD considers that the HK Subsidiaries are not entitled to the 50:50 preferential tax treatment, the theoretical tax exposure to Hong Kong profits tax during the Track Record Period was estimated to be not more than approximately HK\$30 million in aggregate, by applying 16.5% on the non-taxable profits claimed by the HK Subsidiaries under the 50:50 preferential treatment for the three years ended 31 December 2010, as if so happened under this hypothetical circumstance.

### **RISKS RELATING TO THE INDUSTRY**

**Our industry is subject to economic and market conditions. There has been significant deterioration and volatility in the global financial markets recently. As a result, our business operations may be adversely affected**

Our business depends substantially on the global economic and market conditions. Slowing economic growth or a recession could have a material adverse effect on our business, financial condition and results of operations as well as affecting our expansion strategies. Periods of relatively slow economic growth, a recession or public perception that a slowdown or recession may occur, may decrease the demand for our products, thereby adversely affecting our sales and profitability. For example, during periods of slowing growth or recession, consumer spending power may drop as they are less willing to spend money. As our products are ultimately sold to consumers in the retail market, a drop in consumer spending power could lead to a drop in the amount of purchases from our customers and, in turn, adversely affect the demand for our products thereby adversely

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affecting our results of operations and financial conditions. This is particularly so as handbags are generally considered discretionary consumption items and the handbag industry is very sensitive to changes in the economy.

Certain recent adverse financial developments have impacted the global financial markets. These developments include a general slowing of economic growth both in the U.S. and globally and a drop in consumer expenditure in general, substantial volatility in equity securities markets, volatility and tightening of liquidity in credit markets. Our Directors believe that the economic downturn would affect the purchasing power of our customers and their demands.

It is difficult to predict how long these conditions will exist and which markets and businesses of our Group may be affected. These developments could continue to present risks for an extended period of time for our Group, including a potential slowdown in our sales to customers. If this economic downturn continues, our business, financial condition and results of operations may be adversely affected.

### **Our industry is highly competitive**

Our industry is highly competitive and is characterised by frequent introduction of new styles, short product life cycles, price sensitivity, and customers' focus on quality and timely delivery. We cannot assure you that we will be able to sustain our competitive position in the future. Our competitors, including new entrants, may offer better product development or manufacturing services and/or lower prices than we do and they may increase their market share at our expense. To the extent that we are not able to provide ideas on or manufacture new handbag styles as timely as other handbag manufacturers, our operating results may be materially and adversely affected.

### **Our industry has low entry barrier**

The industry in which we operate does not have a high entry barrier, nor is there any heavy capital requirement or other entry barriers for new competitors to participate in the relevant business. Hence, we cannot assure you that there will not be any significant increase in the number of competitors in the industry which can manufacture handbags with comparable or better quality or with lower pricing than us. Such competition could adversely affect our profitability.

### **Failure to comply with environmental regulations may materially and adversely affect our business, financial condition and results of operations**

The operations of our Group are subject to the environmental protection laws and regulations promulgated by the PRC government. These laws and regulations require us to adopt effective measures to control and properly dispose of waste water and other environmental pollutants. We could be exposed to penalties, fines, suspensions or actions in other forms if we fail to comply with these laws and regulations. The environmental laws and regulations in China may be amended from time to time and changes in those laws and regulations may cause us to incur additional costs in order to comply with the more stringent rules. There is no assurance that we would be able to support changes in technical

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requirements which could be required as a result of changes to environmental laws and regulations or that our operation will always be in compliance with the applicable environmental regulations. In the event that changes to existing laws and regulations require us to incur additional compliance costs or require costly changes to our production process, the production costs of our Group could increase and we may lose our business with certain customers, which will decrease our market share and materially and adversely affect our business, financial conditions and results of operations.

### **RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC**

#### **Political and economic policies of the PRC government and social conditions and legal developments of the PRC could affect our business**

Our results, financial condition and prospects are to a significant degree subject to the economic, political and legal developments of the PRC, as most of our assets are located in the PRC and all of our products are manufactured in the PRC. The economic, political and social conditions, as well as government policies, including taxation policies, of the PRC, could affect our business. The PRC economy differs from the economies of other countries in many respects. The PRC economy has historically been a planned economy and has been in a transitional stage to a more market economy. Although the PRC government has implemented measures emphasising the use of market forces for economic reform in recent years, there can be no assurance that economic, political or legal systems of the PRC will not develop in a way that is detrimental to our business, results of operations and prospects.

#### **Uncertainties regarding interpretation and enforcement of the PRC laws and regulations may impose adverse impact on our business, operations and profitability**

Although many laws and regulations have been promulgated and amended in the PRC since 1978, the PRC legal system is still not sufficiently comprehensive when compared to the legal systems of certain developed countries. The interpretation of the PRC laws and regulations may be influenced by momentary policy changes reflecting domestic political and social changes. In addition, it may also be difficult to enforce judgments and arbitration awards in the PRC.

Many laws and regulations in the PRC are promulgated in broad principles and the Central People's Government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. There can be no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon our business, operations or profitability.

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### **PRC regulations on loans to and direct investment by offshore holding companies in the PRC entities may delay or prevent us from making loans or additional capital contributions to our PRC subsidiary**

As an offshore holding company of our PRC subsidiary, we may make loans to our PRC subsidiary, or we may make additional capital contributions to our PRC subsidiary. Any loans to our PRC subsidiary are subject to the PRC regulations and foreign exchange loan registrations. For example, loans by us to our PRC subsidiary to finance their activities cannot exceed statutory limits and must be registered with the SAFE or its local counterpart. We may also determine to finance our PRC subsidiary by means of capital contributions. These capital contributions must be approved by the Ministry of Commerce of the PRC or its local counterpart. We cannot assure you that we can obtain these government registrations or approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to finance our PRC subsidiary. If we fail to receive relevant registrations or approvals, our ability to capitalise our PRC operations would be negatively affected which would adversely and materially affect our liquidity and our ability to expand our business.

### **PRC regulations relating to acquisitions of the PRC companies by foreign entities may limit our ability to acquire the PRC companies and adversely affect the implementation of our strategy as well as our business and prospects**

The Rules on the Acquisition of Domestic Enterprises by Foreign Investors (2009 Revision) (關於外國投資者併購境內企業的規定) (“**M&A Rules**”), which were promulgated on 22 June 2009 and were effective from the same day, provide the rules with which foreign investors must comply if they are seeking to acquire shares in a domestic enterprise, whether through a purchase agreement with existing shareholders or through a direct subscription from a company, that would result in that company becoming a foreign-funded enterprise. The M&A Rules further require that the business scope of the resultant foreign-funded enterprise conform to the Foreign Investment Industrial Guidance Catalogue (外商投資產業指導目錄). The M&A Rules also provide the takeover procedures for the acquisition of equity interests in domestic enterprises.

There are uncertainties as to how the M&A Rules will be interpreted or implemented. If we decide to acquire a PRC company in the future, there is no assurance that we or the owners of such PRC company can successfully complete all necessary approval requirements under the M&A Rules. This may restrict our ability to implement our expansion and acquisition strategy and could materially and adversely affect our future growth.

### **Our business will be affected if there is a labour shortage in the PRC**

Handbag manufacturing is a labour-intensive business. If there is a shortage of labour in the PRC where all of our production took place, our operations will be affected and extra time and resources will be employed to recruit new labour. The cost of production of our products is likely to increase. This may in turn affect the selling prices of our products, which may then affect the demand for such products and thereby adversely affect our sales and financial condition. During the Track Record Period, the processing agents and our Group had not experienced significant shortage of labour in the PRC. Further, increase in

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average salary and wages will also raise our overall cost of production. The total staff costs for each of the three years ended 31 December 2008, 2009 and 2010 were approximately HK\$170.0 million, HK\$154.6 million and HK\$195.7 million respectively and which accounted for approximately 18.9%, 21.2% and 22.9% of our total revenue in the corresponding periods.

For each of the three years ended 30 June 2010, the minimum monthly labour wage in Dongguan (“**Dongguan Minimum Wage**”) was set at RMB770, RMB770 and RMB920 respectively and such Dongguan Minimum Wage has been increased to RMB1,100 since 1 March 2011, representing a trend of pay rise of approximately 20% over the years (except for the year ended 30 June 2009). As at 31 December 2010, the average monthly salary for the personnel engaged by the processing agents and our staff employed by Dongguan Lee Wai was approximately RMB2,100, which is higher than the Dongguan Minimum Wage. We may incur increase in the average salary and wages of our staff if the Dongguan Minimum Wage would be further increased.

**We cannot assure that the PRC Processing Factories and our Group will be able to renew all necessary licences, certificates, approvals and permits for our production and operation**

As at the Latest Practicable Date, Gao Man United, Liu Wu Handbag and Dongguan Lee Wai had obtained all necessary licences, certificates, approvals and permits for the production of our existing products. There was no requirement for a particular licence, certificate, approval or permit specific for the production of handbags in the PRC. The abovementioned licences, certificates, approvals and permits that were obtained include the government licences, approvals and permits that Gao Man United, Liu Wu Handbag and Dongguan Lee Wai have obtained from the relevant government authorities for the establishment of a company in the PRC for the handbag manufacturing business and the other licences and permits, including the tax registration, that are generally required for companies to operate their businesses in the PRC.

There is no assurance that Gao Man United, Liu Wu Handbag and Dongguan Lee Wai will be able to renew such licences, certificates, approvals and permits upon their expiration. The eligibility criteria for such licences, certificates, approvals and permits may change from time to time and may become more stringent. In addition, new requirements for licences, certificates, approvals and permits may come into effect in the future. The introduction of any new and/or more stringent laws, regulations, licenses, certificates, approvals or permits requirements relevant to our business operations and the handbag manufacturing industry may significantly escalate our compliance and maintenance costs or may limit our Group to continue with our existing operations or may limit or prohibit us from expanding our business. Any such event may have an adverse effect to our business, financial results and future prospects.

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### **We are a holding company and rely on dividend payments from our subsidiaries**

We are a holding company and conduct substantially all of our business through our operating subsidiaries. As a result, our ability to pay dividend depends on dividend and other distributions received from our operating subsidiaries. If our subsidiaries incur debts or losses, it may impair their ability to pay dividend or other distributions to us, which could adversely affect our ability to pay dividend to our Shareholders.

The ability of our subsidiaries to pay any dividend in a given year to us depends on the legal and regulatory requirements to which the relevant subsidiary is subject; in general, our subsidiaries could not pay any dividend to us if they do not have any distributable profits. Limitations on the ability of our subsidiaries to remit their after-tax profits to us in the form of dividend or other distributions could adversely affect our ability to grow, to invest, to pay dividend and otherwise fund, and to conduct our business. We also cannot assure you that our subsidiaries will generate sufficient earnings and cash flow to pay dividend or otherwise distribute sufficient funds to us to enable us to pay dividend to our Shareholders.

In respect of our PRC subsidiary, the newly enacted Enterprise Income Tax Law and its implementation rules stipulate that if an entity is deemed to be a non-PRC resident enterprise which has no establishment or place of business in the PRC or has establishment or place of business in the PRC but the income has no relationship with such establishment or place, withholding tax at the rate of 10% will be applicable to any dividend paid to it by its PRC subsidiary, unless it is entitled to reduction or elimination of such tax, including under relevant tax treaties.

In addition, restrictive covenants in bank credit facilities, joint venture agreements or other arrangements that we or our subsidiaries may enter into in the future may also restrict the ability of our subsidiaries to pay dividend or make distributions to us. These restrictions would reduce the amount of dividend or other distributions we could receive from our subsidiaries, which in turn would restrict our ability to pay dividend to our Shareholders.

### **Under the Enterprise Income Tax Law and the related implementation regulations, which became effective on 1 January 2008, dividend from our subsidiary in the PRC may be subject to withholding tax or we may be subject to the PRC tax on our worldwide income**

Under the PRC tax laws effective prior to 1 January 2008, dividend payments to foreign investors made by foreign-invested enterprises, such as dividend distributed to our Company from our subsidiary in the PRC, were exempted from the PRC withholding tax. Since 2008, the PRC Government adopted the Enterprise Income Tax Law and the related implementation regulations, which became effective on 1 January 2008. Under such income tax law and its implementation regulations, all domestic companies and wholly-owned foreign entities are subject to a uniform enterprise income tax at the rate of 25% and dividend from the PRC companies to their foreign shareholders are subject to a withholding tax generally at a rate of 10%, unless it is entitled to reduction or elimination of such tax under the Arrangement between the PRC and Hong Kong for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income

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(“**HK-China Tax Arrangement**”). However, the tax treaty benefits may be denied even though tax treaties have been signed between the PRC and the contracting countries where the foreign shareholders reside. Pursuant to Guo Shui Han [2009] No. 601 (“**Circular 601**”) issued on 27 October 2009, the PRC tax authorities would adopt the principle of substance over form in reviewing the eligibility of the applicants for the purposes of tax treaty benefits.

According to Circular 37, the PRC Processing Factories entering into contract processing arrangements with our subsidiaries are regarded as the permanent establishment of our subsidiaries in the PRC and hence, subject to PRC enterprise income tax on profits attributable to such permanent establishment. However, as mentioned in Circular 37 and Circular 403, which provide clarification on tax treatment for the HK-China Tax Arrangement and would not be considered as not applicable after the implementation of the Enterprise Income Tax Law, a Hong Kong entity entering into the contract processing arrangement would be considered to be having a permanent establishment in the PRC, but to the extent that the arrangement would be eligible to the 50:50 preferential tax treatment by the IRD, no PRC enterprise income tax would be assessed in the PRC on that Hong Kong entity. Circular 403 further confirms that the existing tax treatment that the PRC Processing Factories are subject to PRC enterprise income tax in respect of their sub-contracting fee income will continue.

In accordance with Circular 403 which continues to be the current SAT document in force even after the enactment of the Enterprise Income Tax Law, our PRC Legal Advisers are of the opinion that in relation to the contract processing arrangements, the tax liability falls on the processing agent to file tax return to the relevant government authorities and pay the relevant tax, and accordingly, our Group has no PRC tax liability regarding the contract processing arrangements in the PRC.

Under the Enterprise Income Tax Law and its implementation regulations, all domestic companies and companies regarded as residents in the PRC (collectively referred to as “PRC Companies”) are subject to PRC enterprise income tax on its net profits, both sourced in and outside of PRC, at the rate of 25%. In determining whether a company is a resident in the PRC under the Enterprise Income Tax Law, a company organised under the laws of jurisdictions outside China with its “de facto management bodies” located within China may be considered as a PRC resident enterprise. Under the implementation regulations of the Enterprise Income Tax Law, “de facto management bodies” are defined as bodies that have material and overall management and control over the production, business, personnel, accounts and properties of the enterprise. At present, there is no specific guideline issued by the SAT on how to determine whether an enterprise controlled by foreigners like our Company would be regarded as a resident enterprise in the PRC. However, SAT has issued Guo Shui Fa [2009] No. 82 (“**Circular 82**”) on 22 April 2009 to set out certain criteria in determining whether an offshore enterprise controlled by PRC enterprises, rather than those controlled by PRC individuals or foreigners, would be regarded as a resident enterprise in the PRC. The criteria in Circular 82 include but not limited to the location of the management responsible for the enterprise’s daily operation and financial and personnel arrangement, key assets, records of accounts, company’s seal, meeting minutes and the location where half or more than half of the directors or management who have voting rights would normally reside.

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As at the Latest Practicable Date, our Group, through the HK Subsidiaries had seconded 14 Hong Kong management staff and technical staff to support and co-ordinate certain operations at the PRC Processing Factories while there was over 5,400 managerial, production and other operation personnel employed by the processing agents under the PRC Processing Agreements wholly responsible for the management and operations of Gao Bu Processing Factory and Liu Wu Processing Factory in the PRC. The seconded Hong Kong management staff and technical staff are mainly responsible for the provision of operational advisory and technical supports services, and assisting in and coordinating production and product quality activities at the PRC Processing Factories. In view of the criteria in Circular 82, our PRC Legal Advisers are of the opinion that the 14 Hong Kong management staff and technical staff employed by the HK Subsidiaries would not constitute “de facto management bodies” located within the PRC and the HK Subsidiaries would not be regarded as tax resident enterprises in the PRC. Moreover, under the terms of the relevant PRC Processing Agreements, each of the processing agents is responsible for providing labour to our Group, and it is also responsible for its operational management, including staff employment, finance and production management. Accordingly, the HK Subsidiaries takes no responsibility for the operational management of the PRC Processing Factories. As at the Latest Practicable Date, the HK Subsidiaries had not been regarded as tax resident enterprises in the PRC by the relevant PRC tax authorities. However, if the PRC authorities were to subsequently determine that we should be so treated, a 25% enterprise income tax on our global income would be imposed which would significantly increase our tax burden and materially and adversely affect our cash flow and profitability. In the unlikely event that our Group is required to pay the PRC enterprise income tax, the theoretical PRC enterprise income tax exposure is estimated to be not more than approximately HK\$86 million in aggregate by applying 25% on the profit before tax of the HK Subsidiaries engaging in contract processing arrangements for the three years ended 31 December 2010, subject to tax credit under the tax treaties, as if so happened under this hypothetical circumstance.

The tax consequences of such treatment are currently unclear, as they will depend on how tax authorities apply or enforce the Enterprise Income Tax Law or its implementation regulations. See also paragraph headed “Dividend payable by us to our Shareholders and gain on the sale of our Shares may be subject to the PRC tax” below.

### **Dividend payable by us to our Shareholders and gain on the sale of our Shares may be subject to the PRC tax**

Under the Enterprise Income Tax Law and its implementation regulations, dividend income of non-resident enterprises (enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with such establishment or place of business) are generally subject to PRC enterprise income tax at the rate of 10% to the extent such dividend has its source within the PRC unless it can be reduced pursuant to the respective tax treaty between the PRC and the jurisdiction in which the non-resident enterprise resides which reduces or exempts the relevant tax. Similarly, any gain realised on the transfer of shares by such non-resident investors is subject to a 10% PRC enterprise income tax if such gain is regarded as income derived from sources within the PRC. Since it is uncertain whether our Company will be considered a PRC resident enterprise, dividend payable to our Shareholders with respect to our Shares, or the gain our Shareholders may realise from the

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transfer of our Shares, may be treated as income derived from sources within the PRC and be subject to the PRC tax. If we are required under the Enterprise Income Tax Law to withhold the PRC tax on dividend payable to our foreign Shareholders, or if you are required to pay the PRC tax on the transfer of your Shares, the value of your investment in our Shares may be materially and adversely affected.

### **Fluctuation of RMB may adversely affect our operations and financial results**

The value of the RMB is subject to changes in the PRC government's policies and depends, to a large extent, on domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the conversion of RMB into foreign currencies, including Hong Kong dollars and USD, has been based on exchange rates published by the People's Bank of China, which are set daily based on the previous day's interbank foreign exchange market rates in the PRC and current exchange rates on the world financial markets. Since 1994, the official exchange rate for the conversion of RMB into USD has generally been stable. However, on 21 July 2005, as a result of RMB being re-pegged to a basket of currencies, RMB was revalued and appreciated against USD and Hong Kong dollar. The PRC government has since made adjustments, and in the future may make further adjustments, to the exchange rate system. On 21 July 2005, the PRC Government introduced a managed floating exchange rate system to allow the value of RMB to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of RMB appreciated by approximately 2% against USD. Any appreciation of RMB against Hong Kong dollar or any other foreign currencies may subject us to increased costs. As at the Latest Practicable Date, our Group had a wholly-owned subsidiary in the PRC, namely Dongguan Lee Wai. Any significant depreciation in the exchange rates of RMB against USD or Hong Kong dollar could adversely affect the value of our dividend payment, which would be funded by RMB but paid in Hong Kong dollars.

In addition, under the current foreign exchange regime in the PRC, there can be no guarantee that sufficient foreign currency will be available in the PRC at a given exchange rate to satisfy the demands of a particular enterprise in full. There can also be no assurance that shortages in the availability of foreign currency will not restrict our ability to obtain sufficient foreign currency in the PRC to satisfy our foreign currency needs.

### **RISKS RELATING TO THE INTRODUCTION**

#### **Shareholders' interests in the share capital of our Company may be diluted in the future**

We may in the future expand our capabilities and business through acquisition, joint venture and strategic partnership with parties who can add value to our business. We may require additional equity funding after the Introduction and the equity interest of our Shareholders will be diluted should our Company issue new Shares to finance future acquisitions, joint ventures and strategic partnerships and alliances.

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Any exercise of the options to be granted under the Share Option Scheme in the future and issuance of Shares thereunder would also result in the reduction in the percentage ownership of our Shareholders. There may also be a dilution in the earnings per Share and net assets value per Share as a result of the increase in the number of Shares after the issue of such additional Shares.

Under the Hong Kong Financial Reporting Standard 2, the costs of share options to be granted to employees under the Share Option Scheme will be charged to our income statement over the vesting period by reference to the fair value at the date at which the share options are granted. As a result, our profitability may be adversely affected.

### **Lack of liquidity of our Shares and volatility of the market price may be resulted**

Prior to the Introduction, there has been no public market for our Shares. There is no guarantee that a liquid public market for our Shares will be developed or be sustainable upon completion of the Introduction.

If an active public market for our Shares could not develop after the Introduction, the market price and liquidity of our Shares might be adversely affected. The stock market of Hong Kong generally has experienced increasing price and volume fluctuations, some of which have been unrelated or have not corresponded to the operating performances of such companies in recent years. Volatility in the price of our Shares may be caused by factors beyond our control and may be unrelated or disproportionate to our operating results.

### **Difficulties may be experienced in effecting service of legal process and enforcing judgments against our Company and our management**

Our Company is a company incorporated in the Cayman Islands under the Companies Law with limited liability and the Companies Law differs in some respects from those of Hong Kong or other jurisdictions where you may be located. As a result, the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions.

Our Company's corporate affairs are governed by its memorandum of association and the Articles, the Companies Law and the common law of the Cayman Islands. The rights of our Shareholders to take legal action against our Directors and our Company, actions by minority Shareholders and the fiduciary responsibilities of our Directors to our Company under the Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The rights of our Shareholders and the fiduciary responsibilities of our Directors under the Cayman Islands law may not be as clearly established as they would be under statutes or judicial precedents in Hong Kong or other jurisdictions where you may be located. In particular, the Cayman Islands has a less developed body of securities laws.

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## RISK FACTORS

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In addition, although our Company will be subject to the Listing Rules and the Takeovers Code upon the listing of our Shares on the Stock Exchange, our Shareholders will not be able to bring actions on the basis of violations of the Listing Rules and must rely on the Stock Exchange to enforce its rules.

Furthermore, the Takeovers Code does not have the force of law and only provide standards of commercial conduct acceptable for takeover and merger transactions and share repurchases in Hong Kong.

As a result of any or all of the above, our Shareholders may have more difficulty in protecting their interests in the face of actions taken by our Company's management, directors or major shareholders than they would as shareholders of a Hong Kong company or companies incorporated in other jurisdictions.

Further information on the constitution of our Company and the Companies Law, is set out in the section headed "Summary of the constitution of our Company and Cayman Islands company law" set out in Appendix IV to this document.

**We cannot guarantee the accuracy of facts and other statistics with respect to the handbag industry and the global economy contained in this document**

We have derived certain facts and other statistics in this document relating to the handbag industry and the global economy from various government publications or various organisations that we believe to be reliable. However, we cannot guarantee the quality or reliability of such source materials. While our Directors have taken reasonable care in the reproduction of the information, they have not been prepared or independently verified by us, the Sponsor or any of our or their respective affiliates or advisers and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC. The facts and other statistics include the facts and statistics included in this section and the sections headed "Industry overview" and "Business" in this document. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to official statistics produced for other economies and you should not place undue reliance on them. Further, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such facts or statistics.

**Forward-looking statements contained in this document are subject to risks and uncertainties**

This document contains certain statements that are "forward-looking" and indicated by the use of forward-looking terminology such as "anticipate", "believe", "estimate", "expect", "may", "ought to", "should" or "will" or similar terms. You are cautioned that reliance on any forward-looking statement involves risk and uncertainties, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions could also be incorrect. The risks and uncertainties in this

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## RISK FACTORS

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regard consist of those identified in the risk factors discussed above. In light of these and other risks and uncertainties, the enclosure of forward-looking statements in this document should not be regarded as representations by us that the plans and objectives will be achieved, and you should not place undue reliance on such statements.

**We strongly caution you not to place any reliance on any information contained in press articles or media regarding us or the Introduction**

There may be press and media coverage regarding us or the Introduction, which may include certain financial information, financial projections and other information about us that do not appear in this document. We have not authorised the disclosure of any such information in the press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this document is inconsistent or conflicts with the information contained in this document, we disclaim it. Accordingly, you should not rely on any such information. You should rely only on the financial, operational and other information included in this document.

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## **WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES**

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In preparation for the Listing, we have sought the following waiver from strict compliance with the relevant provisions of the Listing Rules:

### **CONTINUING CONNECTED TRANSACTIONS**

LM Management and LM Development have entered into, and will continue to carry on certain transactions, which would constitute non-exempt continuing connected transactions for our Company under the Listing Rules after the Listing. Our Company has applied to the Stock Exchange for, and has been granted a waiver from strict compliance with the relevant announcement requirements set out in Chapter 14A of the Listing Rules for such transactions. Further details of such non-exempt continuing connected transactions and the waiver are set out in the section headed “Continuing connected transactions” in this document.

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## **INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT**

This document, for which our Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information about our Group. Our Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

This document is published in connection with the Introduction. It may not be used for any other purpose and, in particular, no person is authorised to use or reproduce this document or any part thereof in connection with any offering, or invitation to the offer, of our Shares or other securities of our Company. Accordingly, there is no, and will not be any, offer of or solicitation, or an invitation by or on behalf of our Company and the Sponsor to subscribe for or purchase any of our Shares. Neither this document nor any other document or information (or any part thereof) delivered or supplied under or in relation to the Introduction may be used for the purpose of making, and the delivery, distribution and availability of this document or such other document or information (or any part thereof) does not constitute, any offer of or solicitation or an invitation by or on behalf of our Company and/or the Sponsor to subscribe for or purchase any of our Shares.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

Application has been made to the Listing Committee for granting listing of, and permission to deal in, on the Main Board, our Shares in issue and any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme. Dealings in our Shares on the Stock Exchange are expected to commence on 27 June 2011. Save as disclosed herein, none of our Shares are listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

As LM Shareholders' approval is required for the Spin-off, a circular in relation to the Spin-off was despatched by LM on 19 May 2011 to the LM Shareholders. The EGM will be held on 13 June 2011 at which resolutions for the approval of the Spin-off and the adoption of the Share Option Scheme, are expected to be passed by the LM Shareholders.

### **ABOUT THE INTRODUCTION**

The Introduction does not involve an offering of new Shares or any other securities and no new proceeds will be raised pursuant to the Introduction. By undertaking the Introduction on the Stock Exchange, we seek to avail the LM Qualifying Shareholders with a liquid public market for our Shares.

### **COMMENCEMENT OF DEALINGS IN OUR SHARES**

Dealings in our Shares on the Main Board are expected to commence on 27 June 2011. Our Shares will be traded on the Main Board in board lots of 2,000 Shares each.

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## **INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION**

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### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of listing of, and permission to deal in, our Shares on the Stock Exchange and the compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in our Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for our Shares to be admitted into CCASS. If you are unsure about the details of CCASS settlement arrangements and how such arrangements will affect your rights and interests, you should seek the advice of your stockbrokers or other professional advisers.

### **NO CHANGE IN THE NATURE OF BUSINESS**

No change in the nature of business of our Group is contemplated following the Introduction.

### **HONG KONG STAMP DUTY**

Dealings in Shares registered in the Hong Kong Branch Share Register kept by our Company are subject to Hong Kong stamp duty.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

If you are unsure about the taxation implications of the purchasing, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares, you should consult an expert. It is emphasised that none of our Company, the Sponsor, any of their respective directors, agents, employees, advisers or affiliates or any other person or party involved in the Introduction accepts responsibility for any tax effects on, or liabilities of, any person resulting from the purchasing, holding or disposal of, dealing in, or the exercise of any rights in relation to, our Shares.

### **CONDITIONS OF THE INTRODUCTION**

The Introduction is subject to the fulfillment of the conditions that, amongst other things, the Listing Committee grants the listing of, and permission to deal in, our Shares on the Main Board as well as the approval of the LM Shareholders of the Spin-off and adoption of the Share Option Scheme.

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## INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

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### **SPIN-OFF**

The Spin-off will be implemented in compliance with the Listing Rules including Practice Note 15 to the Listing Rules. As the Spin-off will be effected by way of introduction with no new offering of new Shares or any other securities, there will be no dilution of the attributable interest of the LM Qualifying Shareholders.

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**DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION**

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**DIRECTORS**

| <b>Name</b>                                | <b>Residential Address</b>  | <b>Nationality</b> |
|--|---|--------------------|
| <i>Executive Directors</i>                 |   |                    |
| Ms. Wai Siu Kee                            | House 2, 44 Oxford Road<br>Kowloon Tong<br>Kowloon<br>Hong Kong                             | Chinese            |
| Mr. Kung Phong                             | 9D, Imperial Garden<br>3 Duke Street<br>Kowloon<br>Hong Kong                                | Chinese            |
| Ms. Lee Man Ching                          | 9D, Imperial Garden<br>3 Duke Street<br>Kowloon<br>Hong Kong                                | Chinese            |
| Ms. Poon Lai Ming                          | Flat 2, 7/F, Block 29<br>Heng Fa Chuen<br>100 Shing Tai Road<br>Hong Kong                   | Chinese            |
| <i>Independent non-executive Directors</i> |   |                    |
| Mr. Heng Victor Ja Wei                     | 11/F., Ascot Tower<br>45-47 Village Road<br>Hong Kong                                       | British            |
| Mr. So Wing Keung                          | Flat C, 22/F., Block 5<br>King's Park Villa<br>1 King's Park Rise<br>Homantin<br>Hong Kong  | Chinese            |
| Mr. Tsang Hin Man Terence                  | Flat B, 7/F<br>Wisteria Mansion Harbour View<br>Gardens 4<br>Taikoo Shing Road<br>Hong Kong | British            |

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## DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

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### PARTIES INVOLVED IN THE INTRODUCTION

|  |  |
|--|--|
| <b>Sponsor</b>                           | CIMB Securities (HK) Limited<br>Units 7706-08, Level 77<br>International Commerce Centre<br>1 Austin Road West<br>Kowloon<br>Hong Kong |
| <b>Auditor and reporting accountants</b> | Deloitte Touche Tohmatsu<br><i>Certified Public Accountants</i><br>35th Floor, One Pacific Place<br>88 Queensway<br>Hong Kong          |
| <b>Our legal advisers</b>                |  |
| <i>as to Hong Kong law</i>               | Chiu & Partners<br>40th Floor, Jardine House<br>1 Connaught Place<br>Central<br>Hong Kong  |
| <i>as to PRC law</i>                     | Goldsun Law Firm<br>16th Floor, Xin Chuang Ju Plaza<br>123W. Tiyu Road<br>Guangzhou<br>China   |
| <i>as to Cayman Islands law</i>          | Conyers Dill & Pearman<br>Cricket Square<br>Hutchins Drive<br>P.O. Box 2681<br>Grand Cayman KY1-1111<br>Cayman Islands                 |
| <i>as to Thailand law</i>                | Bamrung Suvicha Apisakdi Law Associates<br>155/19 Soi Mahadlekluang 1<br>Rajdamri Road<br>Bangkok 10330<br>Thailand                    |
| <i>as to U.S. law</i>                    | Inderjit K. Sidhu, ESQ. LLC<br>Cranbury Campus<br>2540 Route 130 North, Suite 118<br>Cranbury, New Jersey 08512<br>United States       |

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## DIRECTORS AND PARTIES INVOLVED IN THE INTRODUCTION

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**Property valuer**

Jones Lang LaSalle Sallmanns Limited  
6/F Three Pacific Place  
1 Queen's Road East  
Hong Kong

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## CORPORATE INFORMATION

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|   |   |
|---|---|
| <b>Registered office</b>                                    | Cricket Square<br>Hutchins Drive<br>P.O. Box 2681<br>Grand Cayman KY1-1111<br>Cayman Islands  |
| <b>Principal place of business in Hong Kong</b>             | 8th Floor, Liven House<br>61-63 King Yip Street<br>Kwun Tong, Kowloon<br>Hong Kong  |
| <b>Company website</b>                                      | <a href="http://www.leemanhandbags.com">http://www.leemanhandbags.com</a> ( <i>information on the website does not form part of this document</i> )   |
| <b>Compliance adviser</b>                                   | CIMB Securities (HK) Limited  |
| <b>Company secretary</b>                                    | Ms. Wong Yuet Ming, <i>CPA</i>  |
| <b>Authorised representatives</b>                           | Ms. Wai Siu Kee<br>House 2, 44 Oxford Road<br>Kowloon Tong<br>Kowloon<br>Hong Kong<br><br>Ms. Wong Yuet Ming, <i>CPA</i><br>Flat 5C, Blk. 13, 5/F<br>Phase 1, Laguna City,<br>Kwun Tong<br>Kowloon<br>Hong Kong |
| <b>Audit committee</b>                                      | Mr. Heng Victor Ja Wei ( <i>Chairman</i> )<br>Mr. So Wing Keung<br>Mr. Tsang Hin Man Terence  |
| <b>Remuneration committee</b>                               | Mr. Heng Victor Ja Wei ( <i>Chairman</i> )<br>Mr. So Wing Keung<br>Mr. Tsang Hin Man Terence  |
| <b>Hong Kong branch share registrar and transfer office</b> | Tricor Secretaries Limited<br>26/F Tesbury Centre<br>28 Queen's Road East<br>Hong Kong  |

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## CORPORATE INFORMATION

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**Principal share registrar**

Butterfield Fulcrum Group (Cayman) Limited  
Butterfield House  
68 Fort Street  
P.O. Box 609  
Grand Cayman  
Cayman Islands

**Principal bankers**

Hang Seng Bank Limited  
83 Des Voeux Road Central  
Hong Kong

Chiyu Banking Corporation Ltd.  
78 Des Voeux Road Central  
Hong Kong

The Hongkong and Shanghai Banking  
Corporation Limited  
HSBC Main Building  
1 Queen's Road Central  
Hong Kong

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## INDUSTRY OVERVIEW

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*This section contains certain information which is derived from various official government or publicly available sources, including The World Bank, International Monetary Fund, U.S. Census Bureau, Travel Goods Association, Organisation for Economic Co-operation and Development (OECD), China Customs Statistics Information and Annual Review of Hong Kong External Merchandise Trade published by the Census and Statistics Department. We believe that the sources of such information are appropriate and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. The information has not been independently verified by us, our Controlling Shareholders, the Sponsor, any other party involved in the Introduction or their respective directors, officers, employees, advisers, agents and no representation is given as to the accuracy or completeness of such information. Accordingly, such information should not be unduly relied upon.*

*Certain information in this document on the PRC handbags market is from independent market research carried out by Euromonitor International Limited but should not be relied upon in making, or refraining from making, any investment decision. Euromonitor International Limited is a leading independent provider of business intelligence on industries, countries and consumers. Euromonitor International Limited is an Independent Third Party. The purchase price of the report from Euromonitor International Limited is USD855 and the authorisation fee is USD500. The report prepared by Euromonitor International Limited was issued in May 2010.*

### **General**

We are principally engaged in the manufacture and sale of handbags, which include ladies' handbags, tote bags, cosmetics bags, children's bags and backpacks to brand owners or brand carriers, department stores and/or megastores; and some of our products are also sold to importers, including an overseas trading firm which sells products to wholesalers, distributors and retailers. Currently, all of our handbag products are manufactured in the PRC. Our products are manufactured on an OEM basis for our customers. The major markets of our products are the U.S., which accounted for approximately 51.0%, 49.2% and 53.6% of our turnover for each of the three years ended 31 December 2010 respectively, and Europe, which accounted for approximately 36.3%, 34.2% and 27.5% of our turnover for the same periods respectively.

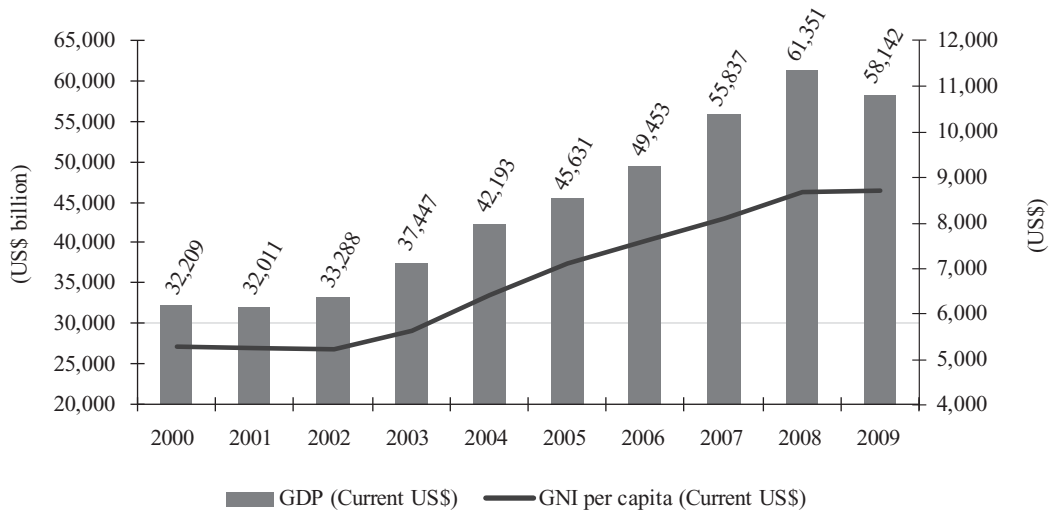
### **Growth of the global economy and income levels**

Our business depends substantially on the global economic and market conditions. Slowing economic growth or a recession could have a material adverse effect on our business, financial condition and results of operations as well as affecting our expansion strategies. Periods of relatively slow economic growth, a recession or public perception that a slowdown or recession may occur, may decrease the demand for our products, thereby adversely affecting our sales and profitability. Handbag industry is very sensitive to changes in the economy.

## INDUSTRY OVERVIEW

The global economy had been growing steadily prior to the global downturn in 2009 resulting from the global financial crisis in late 2008. According to The World Bank, world Gross Domestic Product (“GDP”) increased from approximately US\$32,209 billion in 2000 to approximately US\$58,142 billion in 2009, representing a CAGR of approximately 6.8% from 2000 to 2009. Associated with the steady growth of GDP, income levels have increased accordingly, World Gross National Income (“GNI”) per capita increased from approximately US\$5,293 in 2000 to approximately US\$8,728 in 2009 according to The World Bank, representing a CAGR of approximately 5.7% from 2000 to 2009.

**GDP & GNI per capita in the world from 2000 to 2009**



Source: The World Bank

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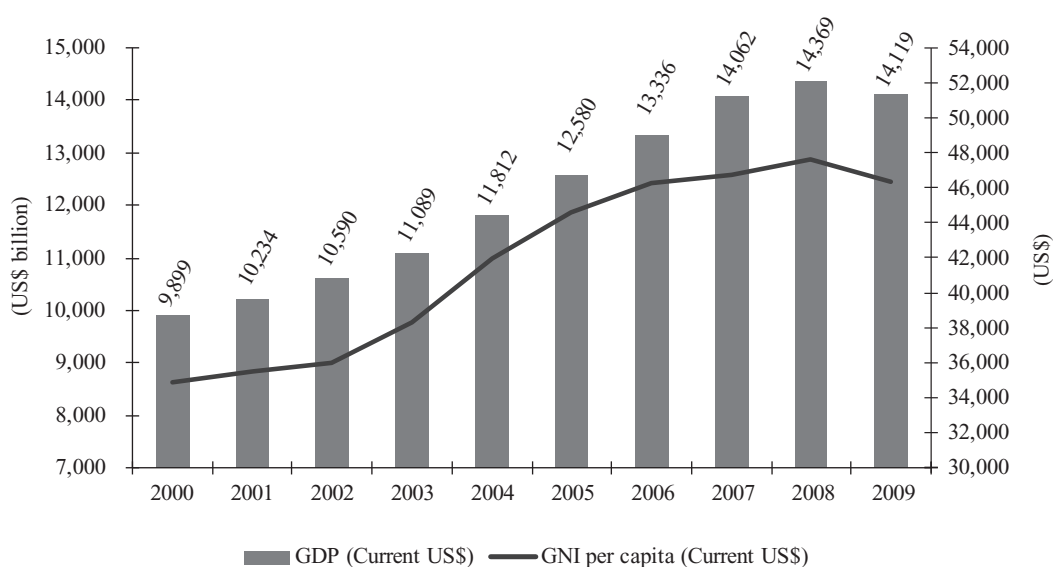
## INDUSTRY OVERVIEW

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### Growth of the U.S. economy and income levels

According to The World Bank, the U.S. GDP increased steadily from approximately US\$9,899 billion in 2000 to approximately US\$14,119 billion in 2009, representing a CAGR of approximately 4.0% from 2000 to 2009. The global economic downturn, the sub-prime mortgage crisis, investment bank failures, falling home prices, and tighten credit policy pushed the United States into a recession in the second half of 2008. Associated with the steady growth of GDP, income levels in the U.S. have increased accordingly over the 8-year period from 2000 to 2008, despite the global economic downturn in 2009, GNI per capita in the U.S. increased from approximately US\$34,890 in 2000 to approximately US\$46,360 in 2009, representing a CAGR of approximately 3.2% from 2000 to 2009.

**GDP & GNI per capita in the United States from 2000 to 2009**



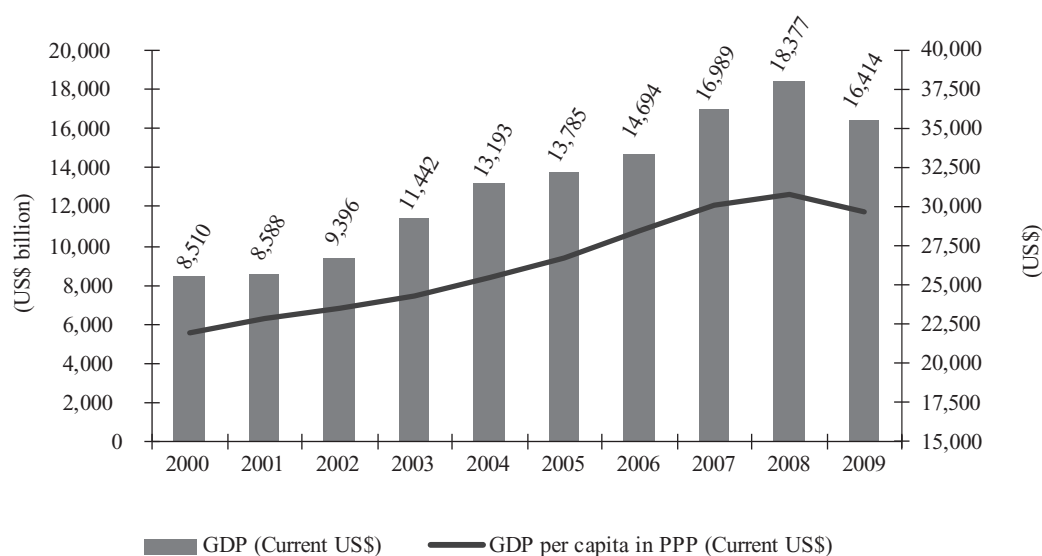
Source: The World Bank

## INDUSTRY OVERVIEW

### Growth of the EU economy

According to International Monetary Fund, the EU's GDP increased from approximately US\$8,510 billion in 2000 to approximately US\$16,414 billion in 2009, representing a CAGR of approximately 7.6% from 2000 to 2009, and GDP per capita in Purchasing Power Parity ("PPP") in the EU increased from approximately US\$21,958 in 2000 to approximately US\$29,662 in 2009, representing a CAGR of approximately 3.4% from 2000 to 2009. Despite the European government debt crisis and global economic downturn in 2009, the EU's GDP and GDP per capita in PPP increased over the 9-year period from 2000 to 2009.

**GDP & GDP per capita in the EU from 2000 to 2009**



Sources: International Monetary Fund

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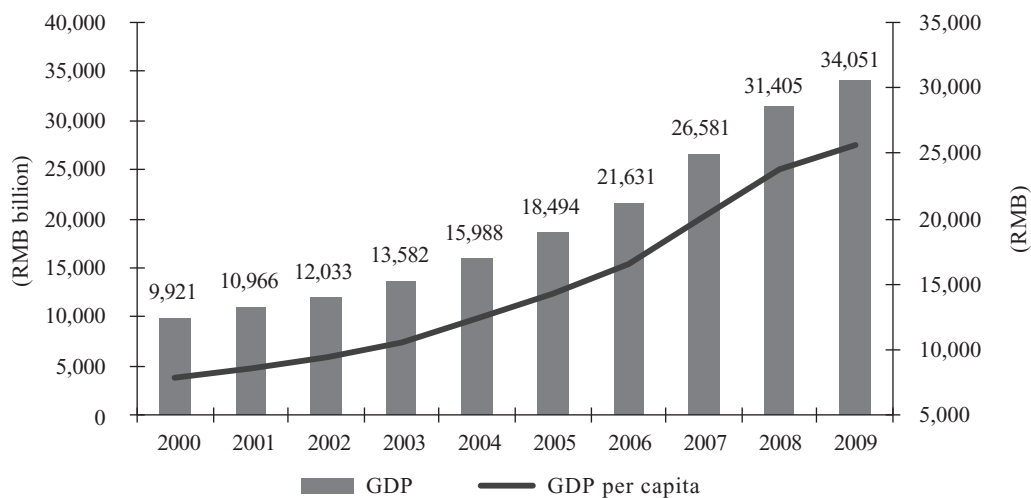
## INDUSTRY OVERVIEW

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### Growth of the PRC economy

According to National Bureau of Statistics of China, GDP increased from approximately RMB9,921 billion in 2000 to approximately RMB34,051 billion in 2009, representing a CAGR of approximately 14.7%, reflecting a rapid growth. The GDP per capita increased from approximately RMB7,858 in 2000 to approximately RMB25,575 in 2009, representing a CAGR of approximately 14.0% from 2000 to 2009.

**GDP & GDP per capita in the PRC from 2000 to 2009**



Source: National Bureau of Statistics of China

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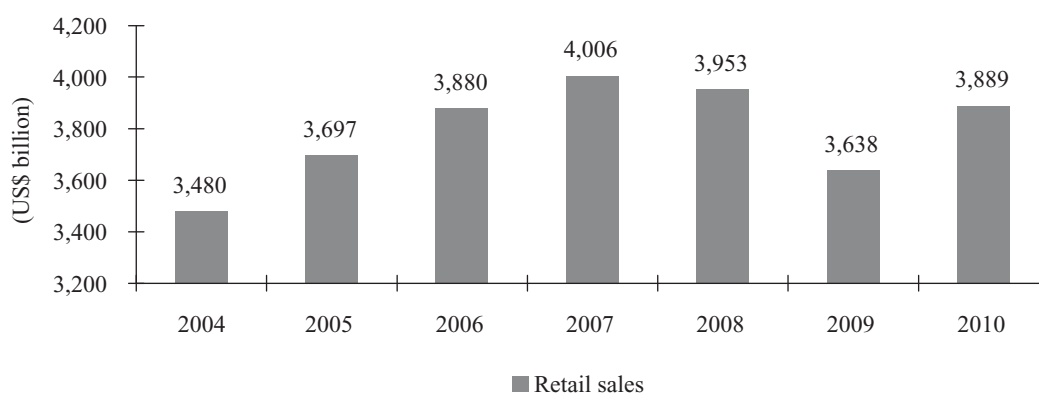
## INDUSTRY OVERVIEW

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### The overall retail market and handbags retail market in the U.S.

According to the Annual Retail Trade Survey released by the U.S. Census Bureau, U.S. retail sales increased from approximately US\$3,480 billion in 2004 to approximately US\$3,889 billion in 2010 despite the decreases in 2008 and 2009 as result of the economic downturn in the U.S., representing a CAGR of approximately 1.9% from 2004 to 2010. In the latest monthly report released by the U.S. Census Bureau, total retail sales in the U.S. for March 2011 was approximately US\$353 billion, representing an increase by approximately 8.2% compared to March 2010, and an increase by approximately 8.6% compared to first quarter of 2010, which indicates strengthening consumer outlook for the retail sector in the U.S..

**The U.S. retail sales from 2004 to 2010**



Source: U.S. Census Bureau, Annual Retail Trade Survey

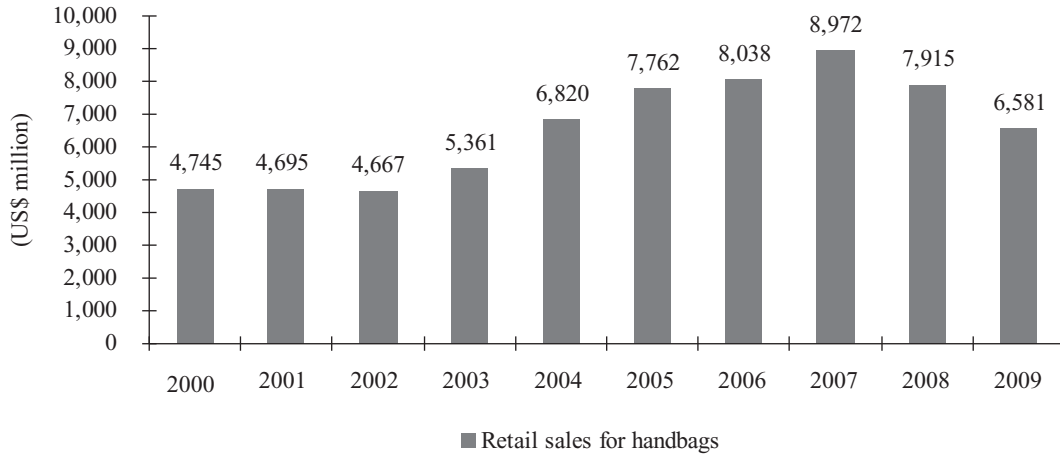
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## INDUSTRY OVERVIEW

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According to Travel Goods Association, handbags retail sales in the U.S. increased from approximately US\$4,745 million in 2000 to approximately US\$8,972 million in 2007. Despite the decreases in handbags retail sales in the U.S. in 2008 and 2009 due to economic downturn, the CAGR of handbags retail sales in the U.S. was still approximately 3.7% from 2000 to 2009. The following chart below sets forth the retail sales of handbags from 2000 to 2009:

**The U.S. handbags retail sales from 2000 to 2009**



*Source: Travel Goods Association Releases First Half 2010*

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## INDUSTRY OVERVIEW

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### The overall retail market in the EU

According to Organisation for Economic Co-operation and Development, the retail trade index increased from 97.9 in 2004 to 104.9 in 2010 (2005 = 100), which indicates that retail trade has been on a positive upward trend over this 4-year period, with a slight decrease in 2009.

**The EU Retail Trade Index from 2004 to 2010**



*Source: Organisation for Economic Co-operation and Development (OECD)*

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## INDUSTRY OVERVIEW

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### The overall retail market and handbags retail market in the PRC

The retail sales of consumer goods in the PRC had experienced rapid growth amid the PRC's strong economy, growing middle class and increasing affluence. These changing demographics have coincided with the increase in disposable income per capita, suggesting that the consumption power of consumers in the PRC has risen. Consumer spending, as measured by the total value of retail sales of consumer goods, has grown from approximately RMB5,950 billion in 2004 to approximately RMB12,534 billion in 2009, representing a CAGR of approximately 16.1% from 2004 to 2009.

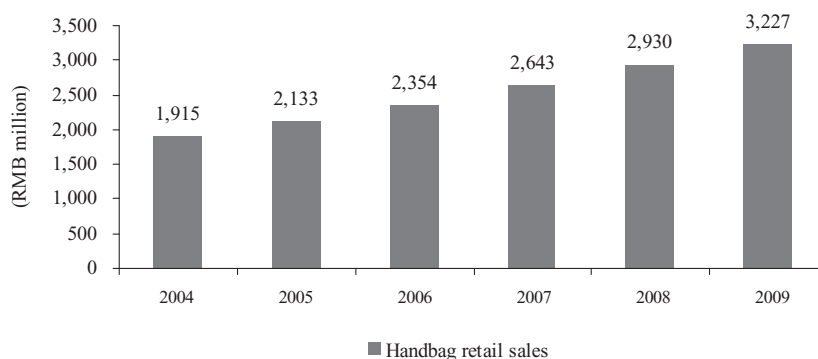
**The PRC retail sales from 2004 to 2009**



*Source: National Bureau of Statistics of China*

In the PRC handbags market, handbags have become more fashionable, their life cycles have been shortened, and new items are now introduced all year round. According to Euromonitor International, the PRC handbag retail distribution channels include department and specialist stores, national and mass merchant retailers, warehouse clubs, and company owned retail stores. During the period from 2004 to 2009, handbags retail sales in the PRC have increased from approximately RMB1,915 million to approximately RMB3,227 million, which representing a CAGR of approximately 11.0% from 2004 to 2009. The following chart below sets forth the retail sales of handbags from 2004 to 2009:

**The PRC handbags retail sales from 2004 to 2009**



*Source: Euromonitor International*

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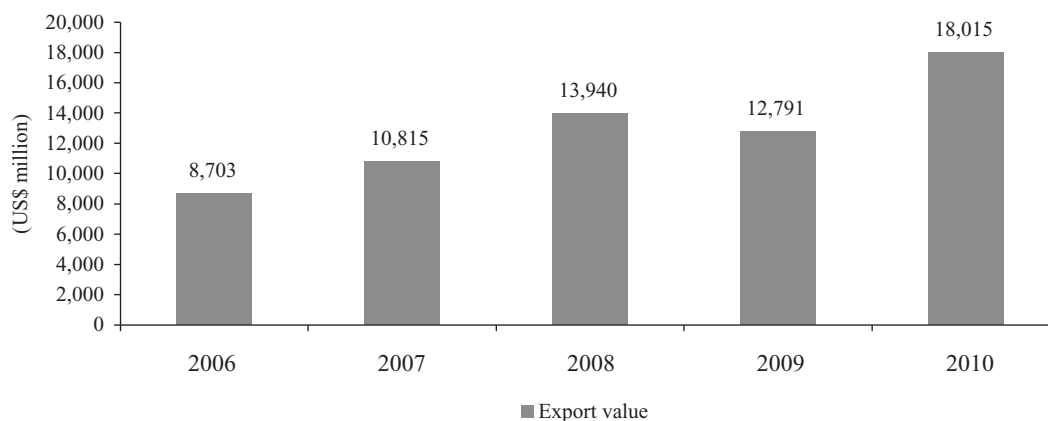
## INDUSTRY OVERVIEW

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### The PRC travel goods, handbags and similar containers export market

According to statistics published by China Customs Statistics Information, the value of travel goods, handbags and similar containers exported from the PRC increased from approximately US\$8,703 million in 2006 to approximately US\$18,015 million in 2010, despite a decrease in 2009 due to global economic downturn, representing a CAGR of approximately 19.9% from 2006 to 2010. The following chart below sets forth the value of travel goods, handbags and similar containers exported from the PRC from 2006 to 2010:

**The PRC travel goods, handbags and similar containers  
export market from 2006 to 2010**



Source: China Customs Statistics Information

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## INDUSTRY OVERVIEW

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The United States and the EU are two of the important the PRC leather goods, travel goods and handbags export markets. The value of leather goods, travel goods and handbags exported from the PRC to the United States increased from approximately US\$4,100 million in 2007 to approximately US\$5,593 million in 2010 despite a decrease in 2009 from 2008, representing a CAGR of approximately 10.9% from 2007 to 2010. The value of leather goods, travel goods and handbags exported from the PRC to the EU has increased from approximately US\$4,102 million in 2007 to approximately US\$5,871 million in 2010 despite the decrease in 2009 from 2008, representing a CAGR of approximately 12.7% from 2007 to 2010. The following chart below sets forth the leather goods, travel goods and handbags exported from the PRC to the United States and EU in value terms:

**Value of PRC leather goods, travel goods and handbags exports to United States and EU from 2007-2010**



Source: China Customs Statistics Information

### The Hong Kong travel goods and handbags export market

According to the Hong Kong Trade Statistics for the year of 2010 published by the Census and Statistics Department of Hong Kong, domestic exports and re-exports of travel goods, handbags and similar containers accounted for approximately 1.4% of Hong Kong's total domestic exports and re-exports in value in 2010. Hong Kong domestic exports and re-exports of travel goods, handbags and similar containers have experienced an increase from approximately HK\$37,525 million in 2005 to approximately HK\$41,720 million in 2010 despite a decrease in 2009, representing a CAGR of approximately 2.1% from 2005 to 2010. The total exports of travel goods, handbags and similar containers for Hong Kong accounted for approximately 1.7%, 1.6%, 1.6%, 1.6%, 1.5% and 1.4% respectively of the total exports of Hong Kong for each of the six years ended 31 December 2010.

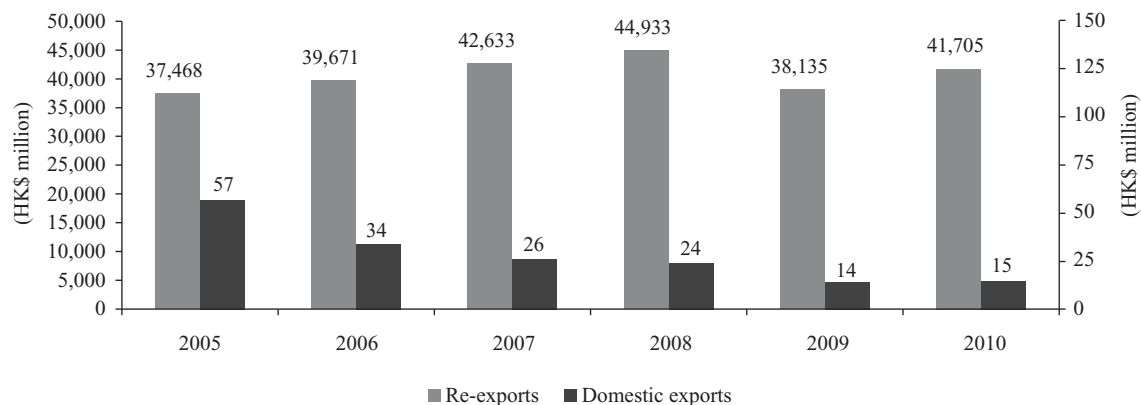
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## INDUSTRY OVERVIEW

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An extract from these domestic export and re-export statistics for travel goods handbags and similar containers for the six years ended 31 December 2010 is set out in the following chart:

**Hong Kong domestic exports and re-exports of travel goods, handbags and similar containers from 2005 to 2010**



*Source: Annual Review of Hong Kong External Merchandise Trade published by the Census and Statistics Department, Hong Kong*

### Competitive landscape

Our industry is highly competitive and is characterised by frequent introduction of new designs, short product life cycles, price sensitivity, and customers' focus on quality and timely delivery.

Our market share in the U.S. and European markets is unknown as there are various PRC and Asian companies producing handbags on an OEM basis for these markets. Therefore, we compete with manufacturers of handbag products in China as well as other countries from which our customers will source their products. Our competitors, including new entrants, may offer better product development or manufacturing services and/or lower prices than we do and they may increase their market share at our expense.

We believe that competition of handbag products industry in the U.S., European and PRC market is keen and highly fragmented with numerous players selling and distributing a wide range of products with varying quality and price range and they source products from various countries, including China and other Asian and middle-east countries.

### Competitive advantages

Our Directors believe that the competition in the handbag industry is based upon various factors including management, quality of products, product innovation, product development, customer service and price. Our core management team is led by our chairman, chief executive officer and executive Director, Ms. Wai Siu Kee, who has more

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## INDUSTRY OVERVIEW

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than 34 years of experience in the handbag manufacturing industry. We believe that our management team's in-depth knowledge of the handbag industry can enable us to respond efficiently to various challenges from the changing market conditions.

We have a solid customer base comprising mostly overseas brand owners and brand carriers, megastores and department stores. Because of the long-term relationship track record with our customers and dedicated customer services, our Group has such capability to develop new potential clients effectively with long-standing business history and good reputation in the handbag industry.

We have a product development team of over 370 personnel (including personnel provided by the processing agents), comprising 98 personnel with more than five years of experience and 85 personnel with two to five years of experience, in sample making and developing. They can broaden product offerings to our customers, and keep themselves abreast with global fashion trends, latest trends in style and use of materials. Our involvement in the product development stage strengthens our relationship with our customers and ensures that quality of our products meets our customers' demands.

We are committed to continuously improving our production efficiency and productivity. The aim for the adoption of "one-piece-flow" workflow is to minimise the time for semi-finished products to be assembled and transferred from one workshop to another as well as to monitor the whole production processes for quality control.

Therefore, we believe that our experienced management team, long-standing history and good reputation in the industry, ability to manufacture products with different materials and style, stringent quality control policies; good and stable business relationship with our customers and our customer services give us competitive advantages over our competitors.

### **Market entry barriers**

The handbags industry in which we operate does not have a high entry barrier, nor is there any heavy capital requirement or other entry barriers for new competitors to participate in the industry. Hence, we cannot assure that there will not be any significant increase in the number of competitors in the industry which can manufacture handbags with comparable or better quality or with lower pricing than us.

### **Prospects**

In the near future, we expect overall business environment will continue to improve as the global financial economy shows signs of recovery. However, the current handbag market is still weak as the outlook of traditional export markets such as the U.S. and Europe will remain weak and uncertain in the near term and together with a severe shortage of labour in China, the handbag business will be full of challenges in the coming years. Despite unsteady pace of the global economic recovery, we expect to increase our competitiveness and profitability by enhancing our manufacturing capabilities and efficiency, expanding our customer base and developing and expanding our sales in the PRC market. We believe that customer demand will return gradually and we will strive to develop various styles of products to meet the market needs.

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## REGULATIONS

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### **THE ESTABLISHMENT, OPERATION AND MANAGEMENT OF A WHOLLY FOREIGN-OWNED ENTERPRISE**

#### **The Company Law of the PRC (中華人民共和國公司法) (hereinafter “the PRC Company Law”)**

In the PRC, the PRC Company Law is applicable to the establishment, operation and management of corporate-nature economic entities. The PRC Company Law is enacted by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) (hereinafter “the NPC Standing Committee”), it was promulgated on 29 December 1993 and became effective on 1 July 1994. The PRC Company Law was subsequently amended by the NPC Standing Committee on 25 December 1999, 28 August 2004 and 27 October 2005. The PRC Company Law applies to two types of companies – limited liability companies and stock limited companies.

#### **Wholly Foreign-owned Enterprise Law of the PRC (中華人民共和國外資企業法) (hereinafter “Wholly Foreign-owned Enterprise Law”) and the Implementation Regulation under the Wholly Foreign-owned Enterprise Law (《外資企業法實施細則》)**

The Wholly Foreign-owned Enterprise Law and its implementation regulations are applicable to the establishment approval procedures, registered capital, foreign exchange management, financial accounting, taxation and labour management of a wholly foreign-owned enterprise. The Wholly Foreign-owned Enterprise Law is enacted by the National People’s Congress. It was promulgated and implemented on 12 April 1986 and amended by the NPC Standing Committee on 31 October 2000. The Implementation Regulation under the Wholly Foreign-owned Enterprise Law was enacted by the State Council. It was promulgated and implemented on 12 December 1990 and amended on 12 April 2001.

#### **The Guidance Catalogue of Industries for Foreign Investment (外商投資產業指導目錄) (hereinafter “Catalogue”)**

Investments in the PRC conducted by foreign investors or foreign-owned enterprises shall comply with the relevant requirements of the Catalogue. The Catalogue was amended in 2007, jointly promulgated by the National Development and Reform Commission (國家發展與改革委員會) and the Ministry of Commerce (國家商務部) on 31 October 2007 and became effective on 1 December 2007.

## **TAXATION**

### **Income tax**

The HK Subsidiaries have been conducting their business through contract processing arrangements consistent with the requirements set out in the DIPN 21 and accordingly are entitled to a 50:50 preferential tax treatment allowed by DIPN 21.

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The requirements in the DIPN 21 mainly include (i) a Hong Kong entity is responsible for the supply of raw materials and machinery without consideration and to provide technical and managerial know-how while the PRC processing factory is responsible for the provision of factory premises, utilities and labour force; (ii) a Hong Kong entity pays a subcontracting charge to the PRC processing factory; and (iii) the legal title to the raw materials and finished goods remains with a Hong Kong entity. The DIPN 21 further elaborates that considering that the Hong Kong entity's operation in Mainland China complement its operation in Hong Kong, an apportionment of profits on a 50:50 basis is usually accepted. The provision of factory premises by a Hong Kong entity would only further strengthen the position that the Hong Kong entity has an operation in Mainland China, and that operation would complement its operation in Hong Kong.

There are two circulars, Circular 37 and Circular 403, issued by the SAT for clarification on the implementation of the first and second HK-China Tax Arrangement signed in 1998 and 2006 respectively. Circular 403 provides further elaboration on the tax treatment for contract processing arrangement as set out in Circular 37.

According to Circular 37, a Hong Kong entity under contract processing arrangement continues to enjoy a preferential treatment and the PRC processing factory entering into contract processing agreement with a Hong Kong entity is only subject to PRC enterprise income tax in respect of the sub-contracting fee income. As mentioned in Circular 37 and Circular 403, which provide clarification on tax treatment for the HK-China Tax Arrangement and would not be considered as not applicable after the implementation of the Enterprise Income Tax Law, a Hong Kong entity entering into a contract processing arrangement would be considered to be having a permanent establishment in the PRC, but to the extent that the arrangement would be eligible to the 50:50 preferential tax treatment by the IRD, no PRC enterprise income tax would be assessable in the PRC to that Hong Kong entity. Circular 403 further confirms the existing tax treatment that the PRC processing factory is subject to PRC enterprise income tax in respect of its sub-contracting fee income will continue. However, there is always a risk that the PRC tax authority could revoke the circulars at a later time in which case the profits of HK Subsidiaries attributable to contract processing arrangements in China would be subject to PRC enterprise income tax.

### **The Enterprise Income Tax Law**

The Enterprise Income Tax Law was enacted by the National People's Congress, it was promulgated on 16 March 2007, became effective on 1 January 2008 and is applicable to all enterprises in the PRC. Unless otherwise stipulated, the enterprise income tax rate for both domestic and foreign enterprises is 25%. The enterprise income tax rate for non-resident enterprises is 10%.

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### **The Detailed Rules for the Implementation of the Enterprise Income Tax Law of the PRC (中國企業所得稅法實施條例)**

The Detailed Rules for the Implementation of the Enterprise Income Tax Law of the PRC were implemented by the State Council. They were promulgated on 6 December 2007 and became effective on 1 January 2008. They were enacted pursuant to the Enterprise Income Tax Law which specifically governs their implementation.

### **The Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC (外商投資企業與外國企業所得稅法)**

Prior to 1 January 2008, the Foreign-invested Enterprise and Foreign Enterprise Income Tax Law of the PRC applies to the enterprise income tax payable by foreign-invested enterprises in the PRC. This law was enacted by the National People's Congress, promulgated on 9 April 1991 and became effective on 1 July in the same year.

Our Group may also have potential tax exposure in other jurisdictions including Thailand and the U.S. for its subsidiaries incorporated in these jurisdictions. Since the Thailand subsidiary is inactive and has no profits and the U.S. subsidiary only has minimal revenue, and accordingly, no significant tax exposure in other jurisdictions is expected.

### **Value added tax**

#### **The Provisional Regulations of the PRC Concerning Value Added Tax (中華人民共和國增值稅暫行條例) (hereinafter "VAT Regulations")**

VAT Regulations were promulgated by the State Council on 13 December 1993 and were amended on 5 November 2008. The amended VAT Regulations were implemented on 1 January 2009.

### **Business tax**

#### **The Provisional Regulations of the PRC Concerning Business Tax (中華人民共和國營業稅暫行條例) (hereinafter "Business Tax Regulations")**

The Business Tax Regulations were promulgated by the State Council on 13 December 1993 and were amended on 5 November 2008. The amended Business Tax Regulations were implemented on 1 January 2009. Pursuant to the Business Tax Regulations and its implementation rules, entities and individuals that provide services stipulated in the Business Tax Regulations, assign intangible assets or sell immovable properties in the PRC are liable to business tax at a rate ranging from 3% to 20%.

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**The Decision on the Provisional Regulations Concerning Taxation Including Value Added Tax, Consumption Tax and Business Tax Applicable to Foreign-invested Enterprises and Foreign Enterprises** (全國人大常委會關於外商投資企業和外國企業適用增值稅、消費稅、營業稅等稅收暫行條例的決定) (hereinafter “**Decision on the Provisional Regulations of Applicable Taxes**”)

The Decision on the Provisional Regulations of Applicable Taxes was enacted by the NPC Standing Committee. It was promulgated and implemented on 29 December 1993. It was applicable to the payment of Value Added Tax, Consumption Tax and Business Tax by foreign-invested enterprises and foreign enterprises in the PRC.

### **Custom duty**

**General Administration of Customs Announcement No. 103 of 2008** (海關總署公告2008年第103號) (hereinafter “**Notice 103**”)

According to the Notice 103, custom duty for the equipment imported and provided by the foreign companies for the processing entities are exempted. Such equipment must be used by the processing entities.

As the equipment provided by our Group are used by the processing entities only, the importing of such equipment is custom-duty-exempted under the Notice 103.

### **ENVIRONMENTAL PROTECTION**

**The Environmental Protection Law of the PRC** (中華人民共和國環境保護法) (hereinafter “**Environmental Protection Law**”)

The Environmental Protection Law was enacted by the NPC Standing Committee. It was promulgated and implemented on 26 December 1989. According to the requirements of the Environmental Protection Law:

1. Entities that cause environmental pollution and other hazards must incorporate environmental protection works into their plans, establish an environmental protection liability regime and adopt effective measures to prevent the waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation, etc generated from production, construction or other activities from polluting and harming the environment.
2. Entities that discharge pollutants must report and register according to the requirements of the environmental protection authorities of the State Council.
3. Entities that discharge pollutants in excess of the prescribed national or local standards for pollutant discharge must pay excess pollutant discharging fee according to national requirements and take responsibility to deal with the pollutants.

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Violation of the Environmental Protection Law may result in fines, suspension of operation, closedown or even criminal liabilities. The Environmental Protection Law does not stipulate the amount of the fines.

### **The Environmental Protection Regulation of Guangdong Province (廣東省環境保護條例) (hereinafter “Guangdong Environmental Protection Regulation”)**

The Guangdong Environmental Protection Regulation was enacted by the Standing Committee of the People’s Congress of Guangdong, was promulgated on 24 September 2004 and became effective on 1 January 2005. The Guangdong Environmental Protection Regulation is a local regulation incorporating the actual conditions of Guangdong, which specifically implements the Environmental Protection Law. It applies to prevent and treat waste gas, waste water, waste residues, dust, malodorous gases, radioactive substances, noise, vibration and electromagnetic radiation as well as other hazards in Guangdong Province.

This regulation further clarifies the legal liability for the breach of the Environmental Protection Law. For example, entities which discharge pollutants without complying with the requirements of the pollutant discharge permit shall rectify within a time limit and may be imposed a fine of RMB10,000 to RMB50,000. Pollutant discharge permit may be revoked in serious cases or in case the conditions are not rectified within a time limit. Pollutant discharging entities which discharge pollutants without obtaining pollutant discharge permit or after having their pollutant discharge permit revoked will be ordered to stop discharging pollutants and be imposed a fine of RMB50,000 to RMB100,000; entities which cause serious environmental pollution or refuse to stop discharging pollutants within a time limit will be ordered to suspend production and operation. Pollutant discharging entities which do not set up sewage outlets according to requirements or remove, leave idle, alter or damage the online automatic monitoring and control equipments will be ordered to rectify and be imposed a fine of RMB2,000 to RMB10,000.

## **FOREIGN CURRENCY EXCHANGE MANAGEMENT**

### **The Foreign Exchange Administration Rules of the PRC (中華人民共和國外匯管理條例) (hereinafter “Foreign Exchange Administration Rules”)**

The Foreign Exchange Administration Rules were promulgated by the State Council on 29 January 1996, became effective on 1 April 1996 and were amended on 1 August 2008. Under these rules, RMB for current items is freely convertible in accordance with the Foreign Exchange Administration Rules (such as trade and service-related foreign exchange transactions etc). However, RMB for capital items (such as direct investment or trading of securities and derivatives) is not freely convertible unless prior approval from foreign exchange administration authorities is obtained.

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### PRODUCT QUALITY

#### **The Product Quality Law of the PRC (中華人民共和國產品質量法) (hereinafter “Product Quality Law”)**

The Product Quality Law was enacted by the NPC Standing Committee. It was promulgated on 22 February 1993, became effective on 1 September 1993 and was amended on 8 July 2000. This law is applicable to the production and sale of products within the PRC.

### THE INSPECTION OF IMPORT AND EXPORT COMMODITIES

#### **The Law of the People’s Republic of China on Import and Export Commodity Inspection (中華人民共和國進出口商品檢驗法) (hereinafter “Import and Export Inspection Law”)**

The Import and Export Inspection Law was enacted by the NPC Standing Committee. It was promulgated on 21 February 1989, became effective on 1 August 1989 and was amended on 28 April 2002. Under this law, import and export commodities included in the list must be inspected by commodity inspection organisation(s). No permission shall be granted for the sale or use of import commodities specified in this law until they have undergone inspection; and no permission shall be granted for the export of export commodities specified in this law until they have been found to be up to standard through inspection.

### Labour

#### **The PRC Labour Law (中華人民共和國勞動法) (hereinafter “Labour Law”)**

The Labour Law was enacted by the NPC Standing Committee. It was promulgated on 5 July 1994, became effective and implemented on 1 January 1995 and was amended on 27 August 2009. This law stipulated labour rights and employers’ obligations, the format of labour contracts and the essential terms, the entering into, amendment, termination, dissolution of labour contracts and contract effects, the calculation of economic compensation upon termination of labour contract, working hours and holiday system, wage guarantee system, labour safety and hygiene system, social insurance and welfare system, as well as the settlement mechanism for labour disputes, etc. This law also stipulated the legal liabilities, warnings, penalties, revoke of business license of employers and their person-in-charge in case of breach of the Labour Law. Criminal responsibilities may be investigated in case a breach constitutes a crime.

#### **The PRC Labour Contract Law (中華人民共和國勞動合同法) (hereinafter “Labour Contract Law”)**

The Labour Contract Law was enacted by the NPC Standing Committee. It was promulgated on 29 June 2007 and became effective and implemented on 1 January 2008. This law stipulated that employers must enter into written labour contracts with labours or else double wage has to be paid. It further clarifies the format of labour contracts and the

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essential terms, the entering into, amendment, termination, dissolution of labour contracts and contract effects, economic compensation, and collective contract, etc.. This law also stipulated the legal liabilities, civil compensation and administrative penalty of employers in breach of the Labour Contract Law. Criminal responsibilities may be investigated in case a breach constitutes a crime. For example, if employers charge the employees as guarantor or otherwise, a fine of RMB500 to RMB2,000 per person may be imposed; if employers fail to pay employees the labour remuneration, over-time wage or economic compensation according to the laws, or the wages is lower than the local minimum wage standards, apart from the full amount required to be paid, a compensation ranging from 50% to 100% of the payable amount may be ordered to pay the employees as well.

### **Production safety**

#### **The PRC Production Safety Law (中華人民共和國安全生產法) (hereinafter “Production Safety Law”)**

The Production Safety Law was enacted by the NPC Standing Committee. It was promulgated on 29 June 2002, became effective and implemented on 1 November 2002 and was amended on 27 August 2009. This law stipulated that production and operation entities must establish a sound production safety responsibility system according to the law which the major responsible person shall be fully responsible for the production safety of the entities, must truthfully inform the employees of the risk factors, preventive measures and emergency measures of the workplace and the job, must provide the employees with protective equipments of national or industrial standards and supervise and educate their wearing and use, must take part in work injuries social insurance according to the law and pay the premium for the staff. In the labour contracts entered into between production and operation entities and employees, matters relating to the protection of employee safety and prevention of occupational hazards shall be stated. Production and operation entities shall not enter into agreements with employees in any format to waive or reduce their legal liabilities for the injury or death of employees caused by production safety issues. This law also stipulated relevant legal liabilities. In case production and operation entities are in breach of the Production Safety Law, a penalty of RMB20,000 to RMB100,000 may be imposed based on the specific conditions and operation shall be suspended for rectification. If the responsible person is in breach of the Production Safety Law, a penalty of RMB20,000 to RMB100,000 and a security detention of less than 15 days may be imposed based on the specific conditions. Criminal responsibilities may be investigated in case a breach constitutes a crime.

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### **OTHER REGULATORY DOCUMENTS RELATED TO OUR GROUP'S PROCESSING ARRANGEMENTS**

#### **The Measures on Foreign Processing and Assembling and Compensation Trade (開展對外加工裝配和中小型補償貿易辦法) (hereinafter "Compensation Trade Measures")**

The Compensation Trade Measures were promulgated by the State Council on 3 September 1979, and were abolished by The Decision To Abolish some of The Administrative Regulations (國務院關於廢止部分行政法規的決定) on 15 January 2008. Before abolishment, the Compensation Trade Measures were applicable to, among others, the foreign processing and assembling industries.

#### **The Provisional Measures on the Export Licensing Systems (國家進出口管理委員會，對外貿易部關於出口許可制度的暫行辦法)**

The Provisional Measures on the Exporting Licensing Systems were promulgated by National Import and Export Management Committee (in 1982 combined into the Ministry of Foreign Economic and Trade) and the Ministry of Foreign Trade on 3 June 1980. They are applicable to the management activities on exporting products.

#### **The Provisional Regulations of the People's Government of Guangdong Province on Strengthening the Management of Foreign Processing and Assembling Operations Business (廣東省人民政府關於加強對外加工裝配業務管理的暫行規定) (hereinafter "Provisional Regulations of GD on Foreign processing and assembling")**

The Provisional Regulations of GD on Foreign processing and assembling were promulgated by the People's Government of Guangdong on 30 April 1983. They were abolished on 20 February 2002 by the Catalogue of the Regulations and Regulatory Documents Enacted or Abolished by the People's Government of Guangdong Province in 2001 (2001年度廣東省人民政府規定、廢止的規章和規範性文件目錄). Until they were abolished, the Provisional Regulations of GD on Foreign Processing and Assembling were applicable to the daily operation and management of foreign processing and assembly enterprises in Guangdong Province and the import and export management related to foreign processing and assembly.

#### **The Regulations of the Customs of the PRC Governing Foreign Processing and Assembling Operations Business (中華人民共和國海關關於對外加工裝配業務的管理規定) (hereinafter "Foreign Processing and Assembling Regulations")**

The Foreign Processing and Assembling Regulations were promulgated and implemented by the Customs General Administration on 1 November 1987 and amended on 5 October 1990. However, they were abolished by the Catalogues of Abolishing the Documents of Processing and Trade (廢止加工貿易文件目錄) issued by the Customs General Administration on 1 April 2004. Until they were abolished, the Foreign Processing and Assembling Regulations mainly apply to import and export management concerning foreign processing and assembling business.

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### **The Measures of Guangdong Province on Encouraging the Development of Processing, Assembly and Compensation Trade Business (廣東省鼓勵開展對外加工裝配、補償貿易辦法) (hereinafter “Measures on encouraging processing, assembly and compensation trade business”)**

The Measures on encouraging processing, assembly and compensation trade business were promulgated and implemented on 2 March 1988 by the People’s Government of Guangdong Province. They are applicable to enterprises in Guangdong Province engaging in foreign processing and assembly as well as compensation trade business. They mainly stipulate some measures to encourage the development of foreign processing and assembly and compensation trade business in Guangdong Province, such as project approval, goods under the contracts of foreign processing and assembly and compensation trade not subject to export licensing management systems, tax incentives and foreign exchange management, etc.

### **The Provisional Regulations of Guangdong Province on the Private Foreigner Contracting to Run the Enterprises of Processing & Assembly and Compensation Trade (廣東省私人(外商)承包經營對外加工裝配、補償貿易暫行辦法) (hereinafter “Provisional Regulations on Contracting to Run Foreign Processing & Assembly and Compensation Trade”)**

The Provisional Regulations on Contracting to Run Foreign Processing & Assembly and Compensation Trade were promulgated on 11 March 1989 by the People’s Government of Guangdong Province. They were declared invalid on 14 January 2008 by the Catalogue of the governmental regulations abolished by the Government of Guangdong Province (廣東省政府宣布失效的政府規章目錄). Until they were declared invalid, the Provisional Regulations on Contracting to Run Foreign Processing & Assembly and Compensation Trade were applicable to the contracting operation activities for foreign processing and assembly and compensation trade business in Guangdong Province.

### **The Regulations of Guangdong Province on Business Concerning Processing and Assembling for Foreigners (廣東省對外加工裝配業務條例) (hereinafter “Foreign Processing Regulations”)**

The Foreign Processing Regulations were enacted by the Standing Committee of the People’s Congress of Guangdong. They were promulgated and implemented on 1 June 1993 and were amended on 29 July 2004 and 28 November 2008. These regulations are applicable to the foreign processing and assembling activities of legally established enterprises in Guangdong Province (excluding foreign-invested enterprises). The followings are stipulated by the regulation:

Foreign processing and assembling business can be started in existing factories, and foreign companies may also provide equipment and fund for factory construction for free or at a charge. In case the provision is made with a charge, the PRC contracting party shall repay with processing fee.

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Our PRC Legal Advisers confirmed that there is no mandatory requirement under the laws or regulations in relation to the contract processing arrangement in the PRC as to whether the responsibility of providing factory premises falls on the processing agent or foreign parties to a contract processing arrangement. There are no laws or regulations prohibiting a foreign party to a processing agreement to provide factory premises at nil consideration, and the use of such factory premises by the processing agent will not invalidate such processing agreement. Our PRC Legal Advisers also confirmed that no approval or registration from the PRC governmental authority is required for such provision of factory premises.

A written agreement (contract) must be entered into for the commencement of foreign processing and assembling business. Foreign processing and assembling business can be undertaken by the following ways:

- (1) Production enterprises with the right to operate import and export may enter into agreements (contracts) with foreign companies;
- (2) Enterprises without import and export rights may enter into agreements with foreign trade companies or industrial trade companies, foreign processing and assembling services companies and foreign companies;
- (3) Foreign trade companies, industrial trade companies, foreign processing and assembling services companies and foreign companies may enter into agreements (contracts) and establish factories for production.

For foreign processing and assembling projects which foreign companies provide production equipment and renovation materials for factories either at a cost or free-of-charge and do not involve the overall balance of the country and the province, its agreements (contracts) are handled by the foreign economic and trade department of each city and county based on the affiliations of the enterprises. After obtaining approval, enterprises may handle tax registration, customs registration and open bank accounts using the approved agreements (contracts).

Licensing management system is not implemented on the export of foreign processing and assembling products. The machinery, equipment and the raw materials imported and provided by the foreign companies to the processing entities are custom-duty-exempted under the supervision of the relevant customs department. As confirmed by our PRC Legal Advisers, the products under a contract processing arrangement are required to be exported outside PRC.

All of the products manufactured at Liu Wu Processing Factory and Gao Bu Processing Factory are exported to our overseas customers.

As our Group engages in processing arrangements in the manufacture of handbags, the Foreign Processing Regulations are applicable to our Group, and our PRC Legal Advisers confirmed that that we have complied with such regulations during the Track Record Period.

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Materials imported for the launch of foreign processing and assembling business shall be monitored by the customs from the import date till the export date of the finished products; equipment and vehicles shall be monitored by the customs from the import date till the date on which the monitoring is removed by the customs. During the monitoring period, no entities or individuals (including foreign companies) shall sell, transfer or use these items for other purposes without the approvals of the approving authorities of the original agreement (contract) and the local customs.

### **“Measures on the Administration of Processing Trade Goods” (海關對加工貿易貨物監管辦法)**

Measures on the Administration of Processing Trade Goods were promulgated and issued by the General Administration of the Customs on 26 February 2004, revised on 14 January 2008 and 1 November 2010. The measures apply to the records of processing trade goods, import and export declaration, processing, supervision and verification procedures. Our Group has to comply with the measures in relation to its processing arrangement. Our PRC Legal Advisers confirmed that we comply with the measures during the Track Record Period.

As at the Latest Practicable Date, our PRC Legal Advisers also confirmed that, save for the housing fund non-compliance as disclosed in the paragraph headed “Workforce” in the section headed “Business” in this document, our Group has complied with all applicable laws and regulations in the PRC where we operate our production facilities during the Track Record Period.

### **ANTI-DUMPING**

The U.S. law provides for the protection of manufacturers in the U.S. from unfair foreign trade practices and accordingly, sales of our Group’s products to the U.S. may be subject to anti-dumping investigation by the U.S. government. If manufacturers in the U.S. believe that foreign competitors are selling goods in the U.S. at prices lower than the prices of which comparable goods are sold in the domestic market of the exporter (i.e. “dumped import”), they may request the imposition of anti-dumping duties by filing a petition with the U.S. Department of Commerce’s International Trade Administration and the U.S. International Trade Commission. Petitions may be filed by a domestic interested party, including a manufacturer or a union within the domestic industry manufacturing the product which competes with the imports to be investigated. To ensure that there is sufficient support by domestic industry for the investigation, the law requires that the petitioners must represent at least 25% of domestic production.

The International Trade Commission will determine whether the domestic industry is suffering material injury as a result of the imports of the dumped products, taking into account all relevant economic factors, including the domestic industry’s output, sales, market share, employment and profits. Through its anti-dumping legislation, duties will be levied on goods dumped on the U.S. market. As some of our products are exported to the U.S., our Directors consider that the sales of our products to the U.S. are subject to such anti-dumping investigation by the U.S. government.

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Leather handbags imported from China were subject to an anti-dumping duty of 38% imposed by the EU in the past, and such measures expired on 3 August 2002. Certain products of our Group fell into such category of products at the relevant time. So far as our Directors are aware, our products were not subject to such anti-dumping investigation during the Track Record Period.

To the best of the knowledge and belief of our Directors, they are of the opinion that the selling prices of our products would be similar if such products were to be sold to comparable customers in the PRC market, when comparing to exporting to the U.S. or the EU, therefore, the risk of such products being categorised as “dumped import” would not be high. Our Directors also consider that the handbag manufacturing industry in the U.S. and the EU is not as flourishing as in the past, it is also less likely that the importing handbag products could be viewed as causing injury to their domestic handbag industry. Accordingly, to the best of the knowledge and belief of our Directors, they consider that the chance of our products that would be subject to anti-dumping investigations or measures would not be high. However, there is no assurance that our products would not be subject to the anti-dumping investigations or measures should any handbag manufacturers file such claims against our Group in the future.

### **OTHER OVERSEAS REGULATIONS**

During the Track Record Period, we had not sold our products directly to the overseas retail consumers and we only manufactured and delivered our products to our overseas customers mainly on Free-on-board (at PRC ports or Hong Kong ports) terms in accordance with our overseas customers’ specifications. Accordingly, our overseas customers were the registered customs entries of our products to those overseas countries and they were responsible for ensuring the products meet the relevant overseas laws and regulations (including import duties, product safety and anti-dumping regulations, etc.). Details of our customers’ product examination and acceptance arrangement of our products are disclosed in the paragraph headed “Quality control and assurance” in the section headed “Business” in this document. Accordingly, our Directors consider that there would be no liabilities to our Group once the delivered products have met all our customers’ specifications. In addition, our Directors are not aware of any overseas regulations of those countries that would be applicable to our Group as our Group has not carried on business in those overseas countries.

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## HISTORY AND DEVELOPMENT

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### OUR CORPORATE HISTORY

#### LM Handbag Manufacturing

Our history began when Mr. Lee Wan Keung and Ms. Wai Siu Kee founded our Group in 1976 and set up LM Handbag Manufacturing in Hong Kong on 20 August 1976 to engage in the trading of handbags. The then issued share capital of LM Handbag Manufacturing was HK\$200 divided into two shares of HK\$100 each, of which one share was issued to each of Mr. Lee Wan Keung and Ms. Wai Siu Kee.

After various transfers and allotments during the period from 1976 to 1997, LM Development held 5,000 non-voting deferred shares and 99 shares of HK\$100 each of LM Handbag Manufacturing while Mr. Lee Wan Keung held one share of HK\$100 each of LM Handbag Manufacturing on trust for LM Development, and LM Development became the sole beneficial owner of LM Handbag Manufacturing on 24 May 1997. Since then and up to the Latest Practicable Date, LM Handbag Manufacturing had been beneficially and wholly owned by LM Development.

#### LM Company

On 21 November 1978, LM Company was incorporated in Hong Kong with an authorised share capital of HK\$2,000,000 divided into 200 shares of HK\$10,000 each, of which one share was issued to each of Mr. Lee Wan Keung and Ms. Wai Siu Kee respectively. After various transfers and allotments during the period from 1978 to 1997 and since 24 May 1997, Mr. Lee Wan Keung held one share of LM Company on trust for LM Development and LM Development held 99 shares and 100 non-voting deferred shares of LM Company. On 31 December 2010, Mr. Lee Wan Keung transferred the one share in LM Company to LM Development at nil consideration. Since 31 December 2010 and up to the Latest Practicable Date, LM Company had been directly wholly-owned by LM Development.

#### LM Development

Gain Top Assets Limited was incorporated in the BVI on 15 September 1992, of which its name changed to LM Development on 30 November 1992. It has an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, of which 39 shares were issued to Mr. Lee Wan Keung, 12 shares were issued to Ms. Wai Siu Kee and 28 shares were issued to Independent Third Parties (other than Ms. Poon Lai Ming, our executive Director; Mr. Wai King Hei, the brother of Ms. Wai Siu Kee; Mr. Ng Yu Hung and Mr. Ng Yu Kuen, our senior management; and Ms. Ng Lau Mui, the mother of Mr. Ng Yu Kuen and Mr. Ng Yu Hung) respectively. After various transfers and allotments during the period from 1992 to 2001, Lee & Man Handbag International Limited (which is the former company name of LM) held 90 shares of LM Development, representing the entire issued capital of LM Development. Since 14 December 2001 and before the Reorganisation, LM Development was wholly owned by LM. The entire issued share capital of LM Development was transferred to our Company as part of the Reorganisation, details of which were set out in the section headed “Reorganisation” in this document. As at the Latest Practicable Date, LM Development was a wholly-owned subsidiary of our Company.

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## HISTORY AND DEVELOPMENT

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### **Well Known Associates Limited**

On 2 August 2001, Well Known Associates Limited was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, among which one share was issued to LM Development. Since 18 January 2002 and up to the Latest Practicable Date, Well Known Associates Limited had been wholly owned by LM Development. Well Known Associates Limited had been the holding company of Catini Bags, Inc. and Catini Bags (Hong Kong) Limited up to the Latest Practicable Date.

### **Catini Bags, Inc.**

On 25 September 2001, Catini Bags, Inc. was incorporated under the laws of Delaware, the U.S.. It was authorised to issue 1,500 common stock with a par value of US\$10 each, of which 100 shares were issued to and owned by Well Known Associates Limited since its incorporation and up to the Latest Practicable Date. Catini Bags, Inc. was our sales office in the U.S.. Except for an insignificant amount of revenue generated from sundry sales, Catini Bags, Inc. did not carry on any business operations during the Track Record Period. As at the Latest Practicable Date, Catini Bags, Inc. did not carry on any business operations. Our Directors expect that Catini Bags, Inc. will become dormant within 2011.

Our U.S. legal advisers confirmed that during the Track Record Period, our Group has complied with all applicable rules and regulations in New York and New Jersey (where Catini Bags, Inc. had operations during the Track Record Period).

### **Catini Bags (Hong Kong) Limited**

On 7 November 2001, Catini Bags (Hong Kong) Limited was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, among which one share was issued to each of Thanigs Limited and Slemish Company Limited on 18 January 2002, each held the one share on trust for Well Known Associates Limited. Since its incorporation and up to the Latest Practicable Date, Catini Bags (Hong Kong) Limited had been beneficially indirectly wholly-owned by LM Development. Catini Bags (Hong Kong) Limited was incorporated to engage in the sale of handbags and it has remained dormant since 2007.

### **LM Management**

On 24 November 1992, LM Management was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which one share was issued to Becmac Limited, which was later transferred to LM Development on 5 January 1993 and one share was issued to Camceb Limited, which was later transferred to Mr. Lee Wan Keung on 5 January 1993, who held such one share on trust for LM Development. Since 5 January 1993 and up to the Latest Practicable Date, LM Management had been beneficially wholly-owned by LM Development (with one share owned by LM Development and one share held by Mr. Lee Wan Keung on trust for LM Development).

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## HISTORY AND DEVELOPMENT

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### **LM Luggage**

On 25 June 1992, LM Luggage was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which one share was issued to each of Mr. Lee Wan Keung and Lee & Man (Holdings) Company Limited. On 17 November 1992, Lee & Man (Holdings) Company Limited transferred the one share in LM Luggage to Gain Top Assets Limited at a consideration of HK\$1.00. On the same day, Mr. Lee Wan Keung declared that he held the one share of LM Luggage on trust for Gain Top Assets Limited. On 30 November 1992, Gain Top Assets Limited changed its name to LM Development. Since 17 November 1992 and up to the Latest Practicable Date, LM Luggage had been beneficially wholly-owned by LM Development. LM Luggage was incorporated to engage in the manufacture and sale of luggage products and it has remained dormant since 1995.

### **Lee & Man Handbag (Thailand) Company Limited**

On 11 November 1997, Lee & Man Handbag (Thailand) Company Limited was established in Thailand with a registered capital of 30,000,000 Baht (equivalent to approximately US\$798,000 based on the then exchange rate of USD and Baht) divided into 300,000 shares of 100 Baht (equivalent to approximately US\$2.66 based on the then exchange rate of USD and Baht) each. One share was issued to each of the seven Independent Third Parties as promoters of Lee & Man Handbag (Thailand) Company Limited and 299,993 shares were issued to LM Development. On the same day, the seven Independent Third Parties each transferred its one share to LM Development, Mr. Lee Wan Keung, Ms. Wai Siu Kee, Ms. Lee Man Wai Marina, Mr. Ng Yu Hung, Ms. Poon Lai Ming and Mr. Chan Kam Bun respectively, each of the six individuals declared to hold the one share on trust for LM Development.

Since its incorporation and up to the Latest Practicable Date, Lee & Man Handbag (Thailand) Company Limited had been beneficially wholly-owned by LM Development (with 299,994 shares owned by LM Development and one share held by each of Mr. Lee Wan Keung, Ms. Wai Siu Kee, Ms. Lee Man Wai Marina, Mr. Ng Yu Hung, Ms. Poon Lai Ming and Mr. Chan Kam Bun on trust for LM Development). Lee & Man Handbag (Thailand) Company Limited was incorporated for the purpose of setting up our Group's production facilities. Our Directors consider that the utilisation of the Thailand manufacturing plant was not optimal and that our Group should focus its resources in the PRC production facilities. In this connection, the operation of the production facilities in Thailand have been suspended since July 2001 and since then it has remained dormant.

Under the laws of Thailand, a majority foreign-owned company is not normally permitted to own land in Thailand. The BOI may grant a majority foreign-owned company special permission to own land on which to operate a factory for a BOI-promoted project. The land and factory premises are supposed to be sold within one year of termination of the BOI-promoted activities. Normally the owner of the land is allowed to continue holding the land for more than one year if a buyer at a suitable price cannot be located. Since Lee & Man Handbag (Thailand) Company Limited suspended the operation of the factory in 2001 the land is no longer conducting its BOI-promoted activities. The BOI had also been informed of our suspension of operations in Thailand. Lee & Man Handbag (Thailand)

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## HISTORY AND DEVELOPMENT

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Company Limited is most likely under a continuing obligation to sell our Thailand properties to a buyer at a suitable price. Our Group has not sold our Thailand properties as it cannot identify an appropriate buyer at a suitable price. We have contacted real estate agents with the intent to sell our Thailand properties. As at the Latest Practicable Date, no appropriate buyer had been identified.

### **Lee Wai Handbag Manufacturing Company Limited**

On 23 March 2009, Lee Wai Handbag Manufacturing Company Limited was incorporated in Hong Kong. It has an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which one share was issued to LM Development. Since its incorporation and up to the Latest Practicable Date, Lee Wai Handbag Manufacturing Company Limited had been directly wholly-owned by LM Development. Lee Wai Handbag Manufacturing Company Limited was the holding company of Dongguan Lee Wai as at the Latest Practicable Date.

### **Dongguan Lee Wai**

On 25 September 2009, Dongguan Lee Wai was established in the PRC with a registered capital of HK\$6,000,000 and a total investment of HK\$8,000,000, respectively, and the entire interest of it was held by Lee Wai Handbag Manufacturing Company Limited. The registered business scope of Dongguan Lee Wai included the production and sales of all kinds of handbags, wallets, briefcases, backpacks, luggages, belts and accessories. The Certificate of Approval For Establishment of Enterprises with Foreign Investment and the business licence were granted to Dongguan Lee Wai on 4 September 2009 and 25 September 2009 respectively. As at 31 December 2009, the paid up capital of Dongguan Lee Wai amounted to HK\$900,000. As at 8 January 2010, its paid-up capital increased to HK\$2,000,000. As at 30 November 2010, its registered capital of HK\$6,000,000 was fully paid up. All such paid-up capital was contributed by Lee Wai Handbag Manufacturing Company Limited.

### **Our Company**

For the purpose of the Listing, our Company was incorporated on 4 January 2011 in the Cayman Islands as an exempted company with limited liability, which became the ultimate holding company of our Group as a result of the Reorganisation. Details of the Reorganisation are set out in the section headed “Reorganisation” in this document.

## **OUR BUSINESS HISTORY**

Our Group was founded by Mr. Lee Wan Keung and Ms. Wai Siu Kee in 1976. Mr. Lee Wan Keung and Ms. Wai Siu Kee set up LM Handbag Manufacturing in 1976 to engage in the trading of handbags. Subsequently, LM Group expanded its business to the manufacture of handbags in about 1980 to meet part of its sales orders.

In order to meet the continuing market demand for the products of our Group and to cater for future growth, our Group entered into the Gao Bu Processing Agreement in 1984 to engage, among others, Gao Man United for the production of handbags through Gao Bu

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## HISTORY AND DEVELOPMENT

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Processing Factory in Gao Bu Town, Dongguan. The term of the Gao Bu Processing Agreement was subsequently renewed from time to time, the existing Gao Bu Processing Agreement was entered into on 10 December 2009 for a term of 10 years up to 31 May 2020.

The continued growth of the business of our Group resulted in the need for additional production facilities to cope with the increasing demand from its customers. In 1988, our Group entered into the Liu Wu Processing Agreement to engage Liu Wu Handbag, for the production of handbags through Liu Wu Processing Factory in Shi Jie Town, Dongguan. The term of Liu Wu Processing Agreement was subsequently supplemented and renewed from time to time with the existing Liu Wu Processing Agreement entered on 23 March 2010 for a term of 10 years up to 4 October 2020. At present, our Group's production facilities in Shi Jie Town, provided to Liu Wu Processing Factory for production purpose, have a total gross floor area of approximately 22,634.44 sq.m..

In order to further increase our Group's production capacity as well as efficiency, our Group started in 1991 to expand by phases its production facilities in Gao Bu Town. Currently, the production facilities in Gao Bu Town, provided to Gao Bu Processing Factory for production purpose, have a total gross floor area of approximately 85,012.97 sq.m., consisting of our offices, workshops, warehouses, staff quarters and ancillary facilities.

In May 1997, our then Group comprising three main businesses, namely the handbag business, the paper packaging business and the audio cassette business, was first listed on the Stock Exchange under the name Lee & Man Holdings Limited (Stock Code: 554) ("**Former LM**").

In January 2002, in order to allow a separate platform and a growth path for the handbag business of our then Group, the handbag business of our then Group was spun off and LM (formerly known as "Lee & Man Handbag International Limited") was listed on the Main Board by way of introduction through distribution in specie. For each of the three years ended 31 March 2001 and the three months ended 30 June 2001, the amounts of net profits of LM were approximately HK\$88.7 million, HK\$84.0 million, HK\$78.6 million and HK\$30.7 million respectively; and the net assets value of LM amounted to approximately HK\$206.4 million, HK\$207.0 million, HK\$205.4 million and HK\$177.0 million as at 31 March 1999, 2000 and 2001 and 30 June 2001 respectively. Further, the market capitalisation of LM upon listing on 16 January 2002 was approximately HK\$437.25 million.

Fortune Star was a substantial shareholder of Former LM before its disposal of 609,750,000 shares in Former LM, which represented approximately 73.91% of the then total issued share capital of Former LM, pursuant to a share and purchase agreement dated 19 April 2002. The name of Former LM was subsequently changed to "SC Industrial Development Company Limited" on 5 July 2002, then to "Wisdom Venture Holdings Limited" on 6 January 2003 and "Hans Energy Company Limited" on 2 February 2005. As at the Latest Practicable Date, Fortune Star did not hold any shares in Former LM and Former LM had no relationship with our Group or our Controlling Shareholders.

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## HISTORY AND DEVELOPMENT

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After the separate listing of LM in 2002, the principal business of the then LM Group comprised the manufacture and sale of handbags. LM started to set up its chemical production plant in Changshu City of the Jiangsu Province, the PRC in 2005 and commenced the production of chloro-alkali chemical products in May 2008. The business of the LM Group was further expanded to the manufacture and sale of chloro-alkali chemical products including methylene chloride, chloroform, and other by-products such as hydrogen peroxide and sodium hydroxide. Mr. Lee Wan Keung, a founder of our Group and a Controlling Shareholder, was once an executive director of LM and he resigned from such directorship in 2003. Mr. Lee Wan Keung remains as a director of Lee & Man Handbag (Thailand) Company Limited. As Mr. Lee Wan Keung has not participated in the management of our Group since then, he was not appointed to our Board.

We have successfully developed our base of customers in the U.S. and Europe including brand owners or brand carriers, department stores and megastores; and some of our products are also sold to importers, including an overseas trading firm which sells products to wholesalers, distributors and retailers. Our products are manufactured on an OEM basis for our customers.

In 2009, with the view to expand our business in the PRC market, we decided to expand our production facilities in the PRC and established Lee Wai Factory and it is operated by our wholly-owned subsidiary in the PRC, Dongguan Lee Wai. Production in Lee Wai Factory commenced in January 2010. For the year ended 31 December 2010, sales generated from our facilities at Lee Wai Factory was about HK\$1.4 million and which represented about 0.2% of our total revenue for the same period. The insignificant contribution of the Lee Wai Factory to our revenue in the year ended 31 December 2010 was due to the fact that Lee Wai Factory was newly set up in September 2009 and commenced its production since January 2010, and it involved mainly in product development functions to cope with the demand of new clients and the PRC market which is an under-developed market for our Group. Since the beginning of 2011, our Group has added two more new customers for Dongguan Lee Wai. The products manufactured in Lee Wai Factory were sold in the PRC market.

Our handbag business had been operating under LM during the entire Track Record Period. We currently have three production facilities in the PRC, including Gao Bu Processing Factory, Liu Wu Processing Factory and Lee Wai Factory and all of them are situated in Dongguan.

For further particulars on business strategies of our Group, please refer to the paragraph headed “Business strategies” under the section headed “Business” in this document.

# REORGANISATION

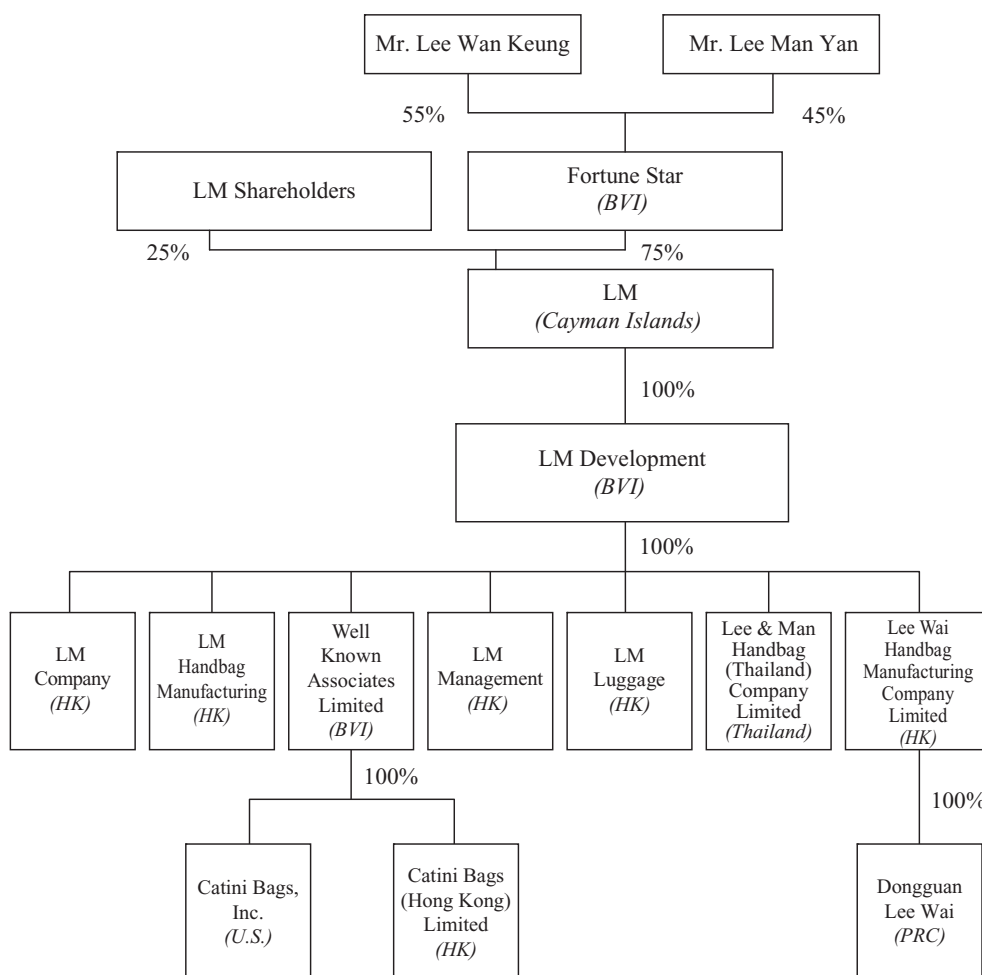
## GENERAL

In contemplation of the Listing, members of our Group have undergone certain restructuring steps whereby a coherent corporate structure of our Group has been established which is suitable for listing on the Main Board. The Reorganisation involved the following principal steps:-

- (1) Incorporation of Full Gold;
- (2) Incorporation of our Company; and
- (3) Acquisition of the entire issued share capital in LM Development by our Company and the Distribution.

## CORPORATE STRUCTURE PRIOR TO THE REORGANISATION

Set out below is the shareholding structure of our Group immediately prior to the Reorganisation:



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## REORGANISATION

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### DETAILED PROCEDURES

For the purpose of Listing, the following Reorganisation steps have been implemented:

**(1) Incorporation of Full Gold**

On 26 October 2010, Full Gold was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, of which 55 shares and 45 shares were subscribed at par by each of Mr. Lee Wan Keung and Mr. Lee Man Yan respectively.

**(2) Incorporation of our Company**

On 4 January 2011, our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with an authorised share capital of HK\$100,000 divided into 1,000,000 Shares of HK\$0.10 each, of which one Share was allotted and issued nil-paid by our Company to Codan Trust Company (Cayman) Limited on 4 January 2011. The said one nil-paid Share was transferred to LM on the same day. On 4 January 2011, a further 99,999 nil-paid Shares were allotted and issued by our Company to LM. The 100,000 nil-paid Shares were subsequently paid up in the manner described in paragraph (3) below.

On 22 March 2011, the name of our Company changed from Heng Sing Holdings Limited (恆勝控股有限公司) to Lee & Man Handbags Holding Limited (理文手袋集團有限公司), which is our current company name.

**(3) Acquisition of the entire issued share capital in LM Development by our Company and the Distribution**

On 18 May 2011, the authorised share capital of our Company was increased from HK\$100,000 to HK\$500,000,000 by the creation of an additional 4,999,000,000 Shares.

On 18 May 2011, LM transferred the entire issued share capital of LM Development to our Company in consideration and in exchange for which:

- (i) an aggregate number of 824,900,000 Shares were allotted and issued, credited as fully paid, to LM; and
- (ii) the 100,000 nil-paid Shares which were registered in the name of LM were credited as fully paid at par.

Subject to the passing of the requisite resolutions for the Distribution referred to below; a special interim dividend in a sum which equals to the net book value of all Shares to be available for the Distribution (approximately HK\$212.0 million as at 31 December 2010) will be paid to the LM Shareholders; and which will be satisfied by way of distribution in specie of such number of Shares to the LM Qualifying Shareholders in the proportion of one Share for every one LM Share held by them as at the close of business on the Distribution Record Date; and by way of cash payment

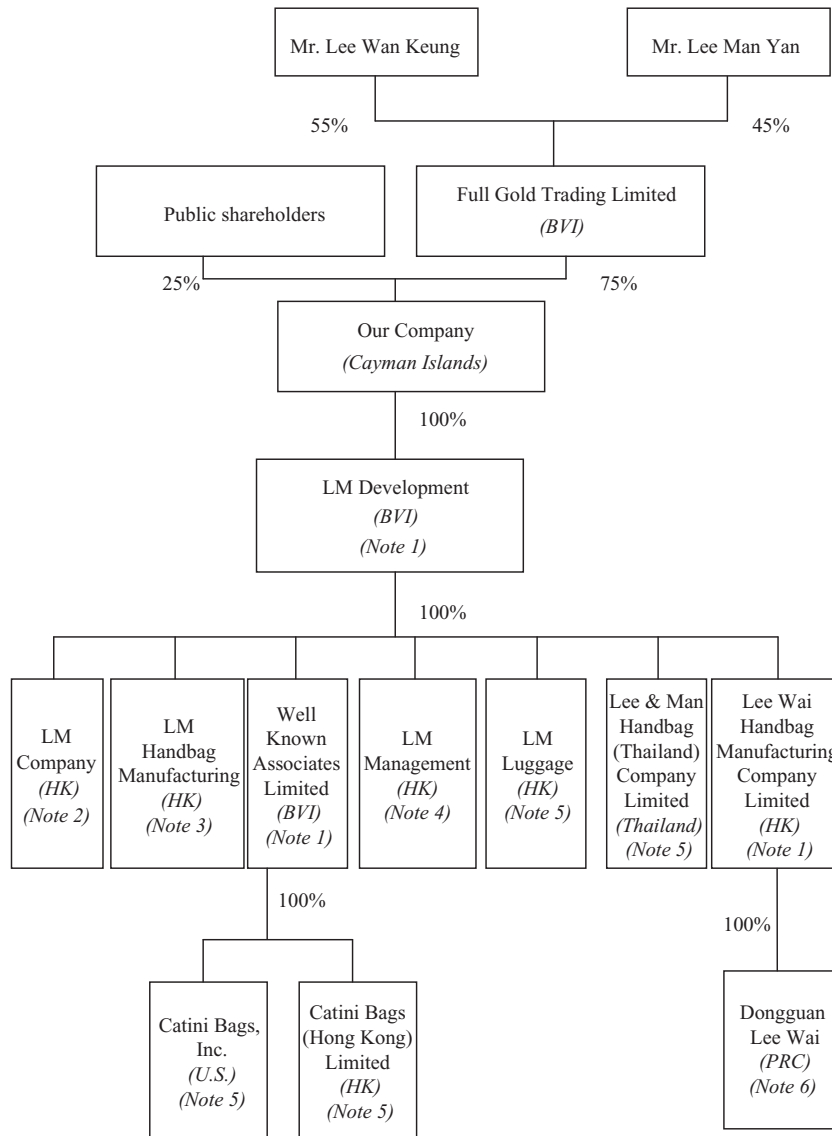
## REORGANISATION

(after deducting expenses) to the LM Excluded Shareholders (if any) which equals to the net proceeds of the sale by LM on their behalf of our Shares to which the LM Excluded Shareholders would otherwise be entitled to receive, in either case, on the terms and conditions contained in this document.

Based on 825,000,000 LM Shares in issue as at the Latest Practicable Date, one Share or the equivalent cash payment (after deducting expenses) will be distributed for every LM Share held by the LM Shareholders as at the close of business on the Distribution Record Date.

### CORPORATE STRUCTURE AFTER THE REORGANISATION AND THE DISTRIBUTION

Set out below is the shareholding structure of our Group after the Reorganisation and the Distribution:



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## REORGANISATION

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*Notes:*

1. The principal activity of each of LM Development, Well Known Associates Limited and Lee Wai Handbag Manufacturing Company Limited, is investment holding.
2. The principal activity of LM Company is the manufacture and sales of handbags. LM Company is one of the parties to the Gao Bu Processing Agreement.
3. The principal activity of LM Handbag Manufacturing is the manufacture and sales of handbags. LM Handbag Manufacturing is one of the parties to the Liu Wu Processing Agreement.
4. The principal activity of LM Management is the provision of management and administration service.
5. Each of LM Luggage, Lee & Man Handbag (Thailand) Company Limited and Catini Bags (Hong Kong) Limited is currently dormant and does not carry out any operation of business. Except for an insignificant amount of revenue generated from sundry sales, Catini Bags, Inc. did not carry on any business operations during the Track Record Period. As at the Latest Practicable Date, Catini Bags, Inc. did not carry on any business operations. Our Directors expect that Catini Bags, Inc. will become dormant within 2011.
6. The principal activity of Dongguan Lee Wai is the manufacture and sales of handbags in the PRC.

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## THE DISTRIBUTION AND SPIN-OFF

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### THE DISTRIBUTION

On 18 May 2011, the board of directors of LM conditionally approved the Distribution. Pursuant to the Distribution, each LM Qualifying Shareholder or LM Excluded Shareholder will be entitled to one Share or equivalent cash payment (after deducting expenses) (as appropriate) for each LM Share held as at the close of business on the Distribution Record Date. Based on the issued share capital of LM as at the Latest Practicable Date and assuming it will remain unchanged on the Distribution Record Date, to effect the Distribution, subject to the Stock Exchange granting approval for the listing of, and permission to deal in, our Shares on the Main Board, a total of 825,000,000 Shares were issued representing the entire issued share capital of our Company.

If there are any LM Overseas Shareholders at the close of business on the Distribution Record Date, the directors of LM will make enquiries, based on legal opinions provided by legal advisers if the directors of LM consider it necessary, as to whether the transfer of our Shares to the LM Overseas Shareholders may contravene the applicable securities legislation of the relevant overseas places or the requirements of the relevant regulatory body or stock exchange. If, after making such enquiry, the directors of LM are of the opinion that it would be necessary or expedient, on account either of the legal restrictions under the laws of the relevant place or any requirement of the relevant regulatory body or stock exchange in that place, not to transfer our Shares to such LM Overseas Shareholders, the LM Excluded Shareholders (if any) will be entitled to the Distribution but will not receive our Shares. Instead, they will receive a cash amount equals to the net proceeds of the sale by LM on their behalf of our Shares to which they would otherwise be entitled pursuant to the Distribution after dealings in our Shares commence on the Stock Exchange at the prevailing market price. LM will ensure that the purchaser(s) of such Shares will be Independent Third Party(ies). The net proceeds of such sale will be paid to the relevant LM Excluded Shareholders in Hong Kong dollars. Cheques for such net proceeds are expected to be despatched within approximately two weeks following the commencement of dealings in our Shares on the Main Board. As at the Latest Practicable Date, there was no LM Overseas Shareholder.

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## THE DISTRIBUTION AND SPIN-OFF

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### REASONS FOR THE SPIN-OFF

On 5 January 2011, LM submitted a proposal for the Spin-off to the Stock Exchange pursuant to Practice Note 15 to the Listing Rules. Our Directors expect that, immediately following completion of the Distribution, the Remaining LM Group will be principally engaged in the manufacture and sale of chloro-alkali chemical products which consist of dichloromethane, chloroform, and other ancillary products such as hydrogen peroxide and sodium hydroxide, whereas our Group will focus on the manufacture and sale of handbags. The Spin-off is aiming to allow separate platforms for the two businesses of the LM Group with clear delineation. The board of directors of LM believes that the Spin-off will bring about a number of benefits to both LM and our Company:

- (i) LM and our Company are believed to have different growth paths and different business strategies and the Spin-off will allow separate platforms for the businesses of the two groups;
- (ii) the Spin-off will create two groups of companies and will offer investors with an opportunity to participate in the future development of both the Remaining LM Group as well as our Group and flexibility to invest in both or either of the groups;
- (iii) the Spin-off will be by way of a distribution in specie whereby upon Listing, all our Shares will be held by the LM Qualifying Shareholders and the Independent Third Party(ies) who purchased our Shares which the LM Excluded Shareholders shall be entitled to under the Distribution. The LM Excluded Shareholders will be entitled to receive the net proceeds from the disposal of such Shares to which they are entitled under the Distribution. LM will thus be able to return value to the LM Shareholders in the form of liquid securities or cash;
- (iv) the Spin-off will enable the management team of LM to continue to focus on building the core businesses of the Remaining LM Group (i.e. the manufacture and sale of chloro-alkali chemical products which consist of dichloromethane, chloroform, and other ancillary products such as hydrogen peroxide and sodium hydroxide), thereby enhancing the decision-making process and its responsiveness to market changes;
- (v) the Spin-off will provide a mechanism to attract and motivate our Group's management directly in line with the financial performance of our Group on a standalone basis;
- (vi) the Spin-off is expected to improve the operational and financial transparency of our Group and provide the investors, the market and rating agencies with greater clarity on the businesses as well as the respective financial status of the Remaining LM Group and our Group; and
- (vii) the Spin-off will provide separate fundraising platforms for the Remaining LM Group and our Group with respect to their respective operations and future expansion.

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## THE DISTRIBUTION AND SPIN-OFF

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Neither the Distribution nor the Spin-Off involves any offering of new Shares or any other securities and no new proceeds will be raised.

The Spin-off is conditional upon:

- (a) the Stock Exchange approving the Spin-Off;
- (b) the Listing Committee granting listing of, and permission to deal in, our Shares in issue and any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme, on the Main Board; and
- (c) the LM Shareholders passing ordinary resolutions at the EGM approving the Spin-off and the Share Option Scheme.

The share certificates of our Shares are expected to be despatched to the LM Qualifying Shareholders on Wednesday, 22 June 2011 after the Stock Exchange grants its approval for the Listing, which is expected to be on or before Wednesday, 22 June 2011. One share certificate of our Shares will be issued to each LM Qualifying Shareholder for the entitlement of our Shares. In the event such listing approval is not obtained on Wednesday, 22 June 2011, the share certificates of our Shares may not be despatched on Wednesday, 22 June 2011 and dealings in our Shares on the Stock Exchange may not commence on Monday, 27 June 2011. In such event, and before 9:00 a.m. on Monday, 27 June 2011, we will make an announcement of the above and of a revised timetable.

The LM Qualifying Shareholders who hold LM Shares through CCASS Clearing Participants or CCASS Custodian Participants will receive our Shares through their respective brokers or custodians who are CCASS Clearing Participants or CCASS Custodian Participants.

## BUSINESS

### OVERVIEW

We are principally engaged in the manufacture and sale of handbags, which include ladies' handbags, tote bags, cosmetics bags, children's bags and backpacks to brand owners or brand carriers, department stores and/or megastores; and some of our products are also sold to importers, including an overseas trading firm which sells products to wholesalers, distributors and retailers. Approximately 100%, 100% and 99.8% of our production in terms of our total revenue through our PRC Processing Factories operated under the PRC Processing Agreements entered into by our Group for each of the three years ended 31 December 2010 respectively. These products are made of different materials including PVC, PU, leather, nylon, cotton fabrics, metals and various types of textile materials.

We have a broad and diversified base of customers located in the U.S. and Europe. Currently, all of our handbag products are manufactured in the PRC. Our products are manufactured on an OEM basis for our customers. For each of the three years ended 31 December 2010, the sales volume was approximately 21.2 million pieces, 12.7 million pieces and 15.1 million pieces respectively and the selling price of our Group's products ranged from approximately HK\$2 to HK\$546, HK\$4 to HK\$678 and HK\$4 to HK\$845 respectively. Our customers' orders are typically priced on a cost-plus basis, profit mark-up will be negotiated between our customers and us on an order-by-order basis. About 81.1%, 72.2% and 78.7% of our revenue derived from sales of our products to brand owners or brand carriers for the same periods under review. A majority of our top ten customers during the Track Record Period had working relationship with us for more than five years.

The following table sets forth the breakdown of our revenue and our gross profit margin by customer category:

|                                 | For the year ended 31 December |   |                     |                |   |                     |                |   |                     |
|---------------------------------|--------------------------------|---|---------------------|----------------|---|---------------------|----------------|---|---------------------|
|                                 | 2008                           |   |                     | 2009           |   |                     | 2010           |   |                     |
|                                 | Revenue                        | Approximate percentage of total revenue | Gross profit margin | Revenue        | Approximate percentage of total revenue | Gross profit margin | Revenue        | Approximate percentage of total revenue | Gross profit margin |
|                                 | HK\$'000                       | %                                       | %                   | HK\$'000       | %                                       | %                   | HK\$'000       | %                                       | %                   |
| Brand owners or brand carriers  | 730,917                        | 81.1                                    | 25.0                | 525,012        | 72.2                                    | 29.2                | 672,126        | 78.7                                    | 26.5                |
| Department stores or megastores | 118,782                        | 13.2                                    | 31.1                | 155,253        | 21.3                                    | 37.1                | 122,940        | 14.4                                    | 32.8                |
| Importers                       | 51,541                         | 5.7                                     | 18.2                | 47,290         | 6.5                                     | 21.0                | 58,473         | 6.9                                     | 24.9                |
| <b>Total</b>                    | <b>901,240</b>                 | <b>100.0</b>                            | <b>25.4</b>         | <b>727,555</b> | <b>100.0</b>                            | <b>30.3</b>         | <b>853,539</b> | <b>100.0</b>                            | <b>27.3</b>         |

For each of the three years ended 31 December 2010, our gross profit margin attributable to importer customers increased stably as our Group received orders of higher-valued products with larger quantity from one of our importer customers, which accounted for approximately 2.0%, 3.6% and 4.8% of our total sales over the same periods.

The major markets of our products are the U.S., which accounted for approximately 51.0%, 49.2% and 53.6% of our turnover for each of the three years ended 31 December 2010 respectively, and Europe, which accounted for approximately 36.3%, 34.2% and 27.5%

## BUSINESS

of our turnover for the same periods respectively. Apart from the U.S. and Europe, we also sell our products to Canada and other countries including countries in South America and Asia.

The following table sets forth the breakdown of our revenue from customers and our gross profit margin by geographical locations during the Track Record Period:

|                          | For the year ended 31 December |  |                           |                |  |                           |                |  |                           |
|--------------------------|--------------------------------|--|---------------------------|----------------|--|---------------------------|----------------|--|---------------------------|
|                          | 2008                           |  |                           | 2009           |  |                           | 2010           |  |                           |
|                          | Revenue                        | Approximate<br>percentage<br>of total<br>revenue | Gross<br>profit<br>margin | Revenue        | Approximate<br>percentage<br>of total<br>revenue | Gross<br>profit<br>margin | Revenue        | Approximate<br>percentage<br>of total<br>revenue | Gross<br>profit<br>margin |
| <i>HK\$'000</i>          | %                              | %  | <i>HK\$'000</i>           | %              | %  | <i>HK\$'000</i>           | %              | %  |                           |
| U.S.                     | 459,601                        | 51.0   | 23.2                      | 357,700        | 49.2   | 29.5                      | 457,729        | 53.6   | 27.6                      |
| Europe                   | 326,893                        | 36.3   | 29.9                      | 248,781        | 34.2   | 33.0                      | 234,542        | 27.5   | 28.2                      |
| Others ( <i>Note 1</i> ) | 114,746                        | 12.7   | 21.3                      | 121,074        | 16.6   | 27.4                      | 161,268        | 18.9   | 25.4                      |
| <b>Total</b>             | <b>901,240</b>                 | <b>100.0</b>                                     | <b>25.4</b>               | <b>727,555</b> | <b>100.0</b>                                     | <b>30.3</b>               | <b>853,539</b> | <b>100.0</b>                                     | <b>27.3</b>               |

*Notes:*

- Others include Canada, Brazil, Japan, Taiwan, Hong Kong, China, Korea, Australia, Thailand, other countries in South America and Asia.
- The global financial crisis in late 2008 has led to a significant economic downturn and contraction in consumer spending especially in the U.S. and Europe. As a result, our sales to the U.S. and Europe experienced a decline from the year ended 31 December 2008 to the same period in 2009. Our sales to the U.S. improved for the year ended 31 December 2010 amid the gradual U.S. economic recovery. Due to the decline in customers' orders in Europe, our sales to Europe continued to decline for the year ended 31 December 2010.

We have a product development team with more than 370 personnel (including personnel provided by the processing agents), comprising 98 personnel with more than five years of experience and 85 personnel with two to five years of experience, in sample making and developing. We manufacture products for our customers on an OEM basis. Our product development personnel from time to time keeps abreast of the trends in the handbag market and our merchandising and marketing personnel keeps abreast of the requirements of our customers.

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### COMPETITIVE STRENGTHS

We believe that our success to date and potential for future long-term growth can be attributed to our following strengths:

#### **Experienced management team**

Our core management team is led by our chairman, chief executive officer and executive Director, Ms. Wai Siu Kee, who has more than 34 years of experience in the handbag manufacturing industry. Ms. Wai Siu Kee founded the handbag business of the LM Group in 1976 and is responsible for the strategic planning and overall management of our Group. Other members of our Board include Ms. Lee Man Ching, who is the daughter of Ms. Wai Siu Kee and our executive Director, she has over 12 years of experience in sales and marketing and is leading our merchandising and marketing team, and Mr. Kung Phong, who is the husband of Ms. Lee Man Ching and the son-in-law of Ms. Wai Siu Kee and our executive Director, he has over 11 years of experience in business development as well as extensive knowledge in sales and marketing and is responsible for the management and development of our Group. We believe that our management team's in-depth knowledge of the handbag industry can enable us to respond efficiently to various challenges from the changing market conditions.

#### **Solid customer base and ability to develop new clients and offer dedicated customer services**

We have a solid customer base comprising mostly overseas brand owners and brand carriers, megastores and department stores. We have maintained close and long-term relationships with our customers as we provide quality products and services. A majority of our top ten customers during the Track Record Period had working relationship with us for more than five years.

Other than a solid customer base with long-term relationship with us, we believe we are able to source and develop new potential clients effectively with our long-standing business history and good reputation in the handbag industry. For each of the three years ended 31 December 2010, we successfully developed business relationships with approximately 19, 15 and 16 new customers respectively.

#### **Strong product development ability**

Our strength in product development enables us to broaden our product offerings to our customers. We have a product development team of over 370 personnel (including personnel provided by the processing agents), they keep themselves abreast with global fashion trends, latest trends in style and use of materials. Within our product development team, we have several sample workshops in the PRC to develop sample products. Our product development capabilities enable us to offer more product styles for our customers to suit their requirements. Our product development team works closely with our marketing and merchandising team as well as production personnel. Our product development team, through marketing and merchandising team, understands customer's specifications and requirements and takes feedbacks from customers for modifications to the initial design and

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the materials to be used. Our product development team from time to time communicates with our marketing and merchandising personnel to discuss on product developments. They also work closely with the production department to fine-tune the manufacturing process and they also produce samples of new products in the sample workshops. Our product development team produced more than 13,000, 12,000 and 11,000 new styles of handbags for each of the three years ended 31 December 2010 respectively. Our involvement in the product development stage strengthens our relationship with our customers and ensures that quality of our products meets our customers' demands.

### **Efficiency of our production process**

We are committed to continuously improving our production efficiency and productivity. Since 2008 and 2010, Gao Bu Processing Factory and Lee Wai Factory have designated personnel to undertake industrial engineering functions respectively with the aim to improve production efficiency and since 2008, Gao Bu Processing Factory has been gradually adopting the "one-piece-flow" workflow in some of its production workshops.

In "traditional" workflow, workers in a workshop will produce a particular part of the product; semi-finished products will be kept in warehouse or transferred to another stage of production in another workshop. "One-piece flow" is one of the production methods adopted in the manufacturing sectors where goods are manufactured one at a time on each step, and flowed through the manufacturing system as a single unit. The goal is to attain an optimally balanced production line with minimised waste, reduced cost, on-time and defect-free production. In the "one-piece-flow" workflow, personnel of our industrial engineering team will set up the number of work stations and workers required according to the styles of products to be manufactured and they will also monitor the time required for manufacturing a product. Workers in a workshop are organised into different work stations according to the types of work required and finished products will be lastly packed in the same workshop. Our quality assurance personnel is able to monitor the whole production processes in the same workshop and can identify and deal with questions arising from production more easily.

## **BUSINESS STRATEGIES**

We aim to continue to build on our market position in the handbag industry, to consolidate and strengthen our business relationship with existing customers, develop new customers and to expand our business in the PRC market. To achieve this, we plan to implement the following business strategies:

### **Enhance manufacturing capabilities and efficiency**

We will continue to improve our production efficiency and enhance our competitiveness and profitability. We target to apply the use of the "one-piece-flow" workflow to our entire production facilities in the PRC Processing Factories and Lee Wai Factory and we will also continue to upgrade our production equipment and to identify other new production equipment (such as automated sewing machines) to enhance our production efficiency and capacity, reduce labour costs and energy consumption. We believe that the

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adoption of more efficient workflow and the continuous upgrades will improve our productivity and profitability. As at the Latest Practicable Date, we had not entered into any material contracts for the acquisition of new production equipment.

### **Strengthen and expand customer base**

We will continue to build on our solid customer base and increase business volume with our existing customers and develop new clientele. We will communicate with our customers to understand their needs and requirements and will also meet with potential customers to explore cooperation opportunities with them from time to time. We will meet with potential customers to introduce to them our Group, our products and services and our competitive strengths to explore more potential customers. We believe that our long-standing and proven business track record in the handbag industry can help us source new customers. We will aim at manufacturing products with a higher value to enhance our profitability.

Our product development team produced more than 13,000, 12,000 and 11,000 new styles of handbags for each of the three years ended 31 December 2010 respectively. We will continuously strengthen our product development team. We intend to acquire more and better computerised equipment to enhance the efficiency of our product development team and to provide more new sample products for our customers to meet their requirements, so that better services and products can be offered to our existing customers and attract more potential customers. We will work closely with our existing customers to provide better and more customised services to them and further solidify our relationships with them.

### **Geographical expansion of market**

Sales of our products in the PRC market only accounted for approximately 0.3%, 1.0% and 1.5% of our total revenue for each of the three years ended 31 December 2010 respectively. Gao Bu Processing Factory and Liu Wu Processing Factory are operated under the PRC Processing Agreements. According to the relevant PRC laws and regulations and as confirmed by our PRC Legal Advisers, products manufactured under a contract processing arrangement are required to be exported outside PRC. In September 2009, we set up a wholly-owned subsidiary in China with the aim to expand our business in China. Sales of our products in the PRC market for the two years ended 31 December 2008 and 2009 comprised the export sales of our products to our customers outside PRC and after the PRC customs clearance, to the best knowledge and belief of our Directors, such products were subsequently re-imported back to the PRC market under the arrangement of our customers. Since the commencement of operation of our wholly-owned subsidiary in the PRC in around January 2010, sales of our products in the PRC market for the year ended 31 December 2010 also included our Group's PRC domestic sales to our customers. We are developing and selling handbag products to certain brand owners doing business in China on an OEM basis and we plan to further expand our business with similar business model (i.e. manufacturing handbag products on an OEM basis for our customers) in China. We believe that with the growing GDP and retail sales market in China, there is a great potential for the growth of handbag products in the PRC market; and with our solid track record in the handbag industry, we would be able to expand our business in China.

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### PRINCIPAL PRODUCTS

We produce a variety of handbag products on an OEM basis for our customers and they include ladies' handbags, tote bags, cosmetics bags, and children's bags and backpacks. Our target customers include brand owners or brand carriers, department stores and/or megastores which are mostly located in the U.S. and Europe. We also target to expand our business in the PRC market. During the Track Record Period and until the Latest Practicable Date, there was no recorded sales of products under our own brandnames or trademarks. Our Directors may use the trademarks registered by our Group for future business development of our Group; as at the Latest Practicable Date, we did not have any concrete plans on the usages of such brandnames or trademarks.

For each of the three years ended 31 December 2010, the selling price of our Group's products ranged from approximately HK\$2 to HK\$546, HK\$4 to HK\$678 and HK\$4 to HK\$845 respectively and the average price of our products amounted to approximately HK\$43, HK\$57 and HK\$57 respectively, which is calculated by dividing our revenue by the sales volume for the relevant periods.

### PRODUCTION

We currently have three production facilities in China and all of them are situated in Dongguan. Gao Bu Processing Factory and Liu Wu Processing Factory are situated at Gao Bu Town and Shi Jie Town respectively and they are operated through the Gao Bu Processing Agreement and the Liu Wu Processing Agreement respectively. Lee Wai Factory is also situated at Gao Bu Town and it is operated by our wholly-owned subsidiary in China, Dongguan Lee Wai. All of our existing production facilities in the PRC (including the lands and buildings and production equipment) used by the PRC Processing Factories and Lee Wai Factory are owned by us. We also own a piece of land in Thailand for production purpose in Thailand from 1998 to 2001. Since July 2001, our production facilities (where no plant, machinery or equipment was housed as at the Latest Practicable Date) in Thailand have become dormant.

#### Production facilities

##### *Gao Bu Processing Factory*

Our manufacturing operations in Gao Bu Town are undertaken through Gao Bu Processing Factory operated by Gao Man United, an independent processing agent. According to the business licence of Gao Man United, its scope of business includes the processing of handbags, plastics, decorative products (Christmas ornaments, cosmetic bags, CD covers, and scarves, etc.). Gao Bu Processing Factory has 21 workshops with over 4,500 personnel. As confirmed by our PRC Legal Advisers, Gao Man United is not a separate legal entity and is, in law, construed as legally owned by 東莞市高鵬實業集團有限公司 (Dongguan City Gaopeng Enterprise Group Co., Ltd.\*) ("**Gaopeng Enterprise**"). Gao Bu Processing Factory is currently operating under the Gao Bu Processing Agreement entered into among Gao Man United (as the processing agent), Gaopeng Enterprise (as confirmed by our PRC

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Legal Advisers, being the legal owner of Gao Man United and business agent) and LM Company. Details of the Gao Bu Processing Agreement are set out in the sub-paragraph headed “The PRC Processing Agreements” below.

### *Liu Wu Processing Factory*

Our manufacturing operations in Shi Jie Town are undertaken through Liu Wu Processing Factory operated by Liu Wu Handbag, an independent processing agent. According to the business license of Liu Wu Handbag, its scope of business includes the processing of handbags, decorative products (letter holder, box, pen holder, photo case, card case and beach tables and chairs, etc.). Liu Wu Processing Factory has four workshops and over 800 personnel. As confirmed by our PRC Legal Advisers, Liu Wu Handbag is not a separate legal entity and is, in law, construed as legally owned by 東莞市石碣鎮經濟發展總公司 (Dongguan Shijie Economy Development General Company\*) (“**Shijie Company**”). Liu Wu Processing Factory is currently operating under the Liu Wu Processing Agreement entered into among Liu Wu Handbag (as the processing agent), Shijie Company (as confirmed by our PRC Legal Advisers, being the legal owner of Liu Wu Handbag and business agent) and LM Handbag Manufacturing. Details of the Liu Wu Processing Agreement are set out in the sub-paragraph headed “The PRC Processing Agreements” below.

As confirmed by Gao Man United and Liu Wu Handbag, Gao Bu Processing Factory and Liu Wu Processing Factory had been operated exclusively for our Group and had not provided processing services to any other parties apart from our Group during the Track Record Period. Gao Man United and Liu Wu Handbag further confirmed the same arrangement will be continued for the remaining period under the respective PRC Processing Agreements.

Our Group adopts the following measures in monitoring the production in the PRC Processing Factories: (i) sending our experienced staff to station at the PRC Processing Factories; (ii) keeping track of the processing orders placed to the PRC Processing Factories; (iii) reviewing and co-ordinating the production schedules with the management of the PRC Processing Factories; (iv) providing manufacturing advisory services or technical supports to the production personnel of the PRC Processing Factories; (v) reviewing and co-ordinating the shipment schedules with the management of the PRC Processing Factories; and (vi) providing operation advisory services to the management of the PRC Processing Factories on any significant matters arising from the operation of the PRC Processing Factories. As at the Latest Practicable Date, our Group, through the HK Subsidiaries, had seconded 14 Hong Kong management staff and technical staff to support and co-ordinate certain operations with the PRC Processing Factories. The seconded Hong Kong management staff and technical staff are mainly responsible for the provision of operational advisory and technical support services, and assisting in and coordinating production and product quality activities at the PRC Processing Factories. Our executive Director, Mr. Kung Phong, and the senior management of our Company frequently travel to the PRC Processing Factories and visit the factory premises to ensure that our Group’s guidance and instructions are well followed.

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As confirmed by our PRC Legal Advisers, as at the Latest Practicable Date, Gao Man United and Liu Wu Handbag had obtained all necessary licences, certificates, approvals and permits for the manufacturing of our existing products. There was no requirement for a particular licence, certificate, approval or permit specific for the production of handbags in the PRC. Further, our PRC Legal Advisers also confirmed that our Group has complied with all applicable laws and regulations in the PRC where we operate our production facilities through Gao Man United and Liu Wu Handbag during the Track Record Period. We will seek legal advice from time to time to ensure our ongoing compliance with relevant laws and regulations.

Approximately 100%, 100% and 99.8% of our production in terms of our total revenue through the PRC Processing Factories operated under the PRC Processing Agreements for each of the three years ended 31 December 2010 respectively. With the view to expand our business in the PRC market, we set up Lee Wai Factory in September 2009 and production commenced in January 2010. For the year ended 31 December 2010, sales generated from our facilities at Lee Wai Factory was about HK\$1.4 million and which represented about 0.2% of our total revenue for the same period. The insignificant contribution of Lee Wai Factory to our revenue in the year ended 31 December 2010 was due to the fact that Lee Wai Factory was newly set up in September 2009 and commenced its production since January 2010, and it involved mainly in product development functions to cope with the demand of new clients and the PRC market which is an under-developed market for our Group. Since the beginning of 2011, our Group has added two more new customers for Dongguan Lee Wai.

All of our existing production facilities in the PRC (including the lands and buildings and production equipment) used by the PRC Processing Factories and Lee Wai Factory are owned by us.

Unlike a manufacturing plant with standard production requirements and production time for a particular product, the production requirements and production time for the handbags of our Group vary in accordance with the style and structure of handbags. The annual production capacity in terms of number of handbags produced varies from producing different styles and structures of handbags. Our Group may receive order for the production of complicated handbags with lower production volume but with higher selling price or less complicated handbags with higher production volume but with lower selling price. As a result, it is not meaningful to calculate our production capacity and utilisation rate based on the number of handbags produced.

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Details of the annual average number of flat-headed sewing machines operated, annual total number of flat-headed sewing machines available for production and the average utilisation rate (based on the assumptions below which our Directors believe should best illustrates our industry practice) of Gao Bu Processing Factory, Liu Wu Processing Factory and Lee Wai Factory are set out below:

|   | <b>For the year ended 31 December</b> |                          |                          |
|---|---------------------------------------|--------------------------|--------------------------|
|   | <b>2008</b>                           | <b>2009</b>              | <b>2010</b>              |
| <b><i>Gao Bu Processing Factory</i></b>   |                                       |                          |                          |
| Annual average number of flat-headed sewing machines operated (units) <i>(Note 1)</i>       | 1,358                                 | 1,094                    | 1,148                    |
| Annual total number of flat-headed sewing machines available for production <i>(Note 2)</i> | 1,690                                 | 1,735<br><i>(Note 4)</i> | 1,694<br><i>(Note 4)</i> |
| Average utilisation rate (%) <i>(Note 3)</i>  | 80%                                   | 63%<br><i>(Note 5)</i>   | 68%<br><i>(Note 5)</i>   |
| <b><i>Liu Wu Processing Factory</i></b>   |                                       |                          |                          |
| Annual average number of flat-headed sewing machines operated (units) <i>(Note 1)</i>       | 204                                   | 195                      | 191                      |
| Annual total number of flat-headed sewing machines available for production <i>(Note 2)</i> | 235                                   | 235                      | 235                      |
| Average utilisation rate (%) <i>(Note 3)</i>  | 87%                                   | 83%<br><i>(Note 5)</i>   | 81%<br><i>(Note 5)</i>   |
| <b><i>Lee Wai Factory</i></b>   |                                       |                          |                          |
| Annual average number of flat-headed sewing machines operated (units) <i>(Note 1)</i>       | –                                     | –                        | 30                       |
| Annual total number of flat-headed sewing machines available for production <i>(Note 2)</i> | –                                     | –                        | 30                       |
| Average utilisation rate (%) <i>(Note 3)</i>  | –                                     | –                        | 100%<br><i>(Note 6)</i>  |

*Notes:*

1. The annual average number of flat-headed sewing machines operated is estimated on the basis of the annual average number of personnel (the personnel engaged by Gao Man United or Liu Wu Handbag in Gao Bu Processing Factory or Liu Wu Processing Factory (as appropriate)) or our workers in Lee Wai Factory (as the case may be), assuming that each worker operates one sewing machine for the purpose of production. However, the actual annual average number of flat-headed sewing machines operated may differ from the estimated annual average number of flat-headed sewing machines due to variation in the style of handbag products and other factors, and may affect the actual utilisation rate.
2. The annual total number of flat-headed sewing machines available for production is calculated on the basis of 80% of the total number of flat-headed sewing machines owned by our Group from time to time. The remaining 20% of flat-headed sewing machines are excluded from calculation as those sewing machines are reserved by our Group for back-up purposes in the event there is malfunction of production facilities or sudden increase of sales orders. Our Group has been operating based on such 20% back-up ratio throughout the Track Record Period.
3. In arriving at the average utilisation rate, we have taken into account the following assumptions:
  - (a) Gao Man United, Liu Wu Handbag and our Group would be able to recruit sufficient manpower to operate the flat-headed sewing machines from time to time; and

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- (b) the flat-headed sewing machines are our major production tools for manufacturing of handbags while the post bed sewing machines are used for ancillary purposes only and excluded from the calculation of average utilisation rate.
4. The decrease in the annual total number of flat-headed sewing machines available for production in Gao Bu Processing Factory in 2010 was due to the disposal of obsolete sewing machines by our Group during that year.
5. During the Track Record Period, the utilisation rate in each of Gao Bu Processing Factory and Liu Wu Processing Factory varied in accordance with the changes in production volume of each factory over the period. Our utilisation rate dropped in 2009 as our sales decreased as a result of the global financial crisis and significant economic downturn in late 2008. Our utilisation rate in Gao Bu Processing Factory increased in 2010 as our total sales improved in the following year amid the gradual global economic recovery, while our utilisation rate in Liu Wu Processing Factory dropped slightly as the factory was producing less quantity but higher value products in 2010.
6. Additional machineries will be purchased by our Group if further expansion of production capacity is required as and when appropriate.

Details of actual production volume of Gao Bu Processing Factory, Liu Wu Processing Factory and Lee Wai Factory during the Track Record Period are set out below:

|                           | <b>For the year ended 31 December</b> |                      |                      |
|---------------------------|---------------------------------------|----------------------|----------------------|
|                           | <b>2008</b>                           | <b>2009</b>          | <b>2010</b>          |
|                           | <i>('000 pieces)</i>                  | <i>('000 pieces)</i> | <i>('000 pieces)</i> |
| Gao Bu Processing Factory | 17,498                                | 10,167               | 12,910               |
| Liu Wu Processing Factory | 3,654                                 | 2,504                | 2,174                |
| Lee Wai Factory           | –                                     | –                    | 15                   |

*Note:* The different complexity and style of our products are not reflected in the above table.

### ***Processing arrangements***

Gao Bu Processing Factory and Liu Wu Processing Factory are currently operated by Gao Man United and Liu Wu Handbag as the processing agents under the Gao Bu Processing Agreement and the Liu Wu Processing Agreement respectively. Gao Man United and Liu Wu Handbag have worked with us since 1984 and 1988 respectively and we have a good working relationship with them.

### ***The PRC Processing Agreements***

The Gao Bu Processing Agreement was first entered into in 1984 for an initial term of one year and was subsequently renewed from time to time, the existing Gao Bu Processing Agreement was entered into on 10 December 2009 for a term of 10 years up to 31 May 2020.

The Liu Wu Processing Agreement was first entered into in 1988 for an initial term of five years and the agreement was subsequently renewed from time to time, the existing Liu Wu Processing Agreement was entered into on 23 March 2010 for a term of 10 years up to 4 October 2020.

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Supplemental and renewal agreements to the PRC Processing Agreements had been entered into between the parties thereto from time to time to cater for, among other things, the renewal of the PRC Processing Agreements and adjustment to the processing fees. Other than that, there is no material change in the terms of the PRC Processing Agreements. The PRC Processing Agreements (including the supplements and renewals from time to time) become valid from the date of approval from the relevant government authority.

The PRC Processing Agreements (including the supplemental and renewal agreements to the PRC Processing Agreements) were approved by 東莞縣對外經濟工作委員會 (Dongguan City External Economic Working Committee\*) (now known as 東莞市對外貿易經濟合作局 (Dongguan Foreign Trade & Economic Cooperation Bureau) or Dongguan Foreign Trade & Economic Cooperation Bureau (as the case may be), which, as confirmed by our PRC Legal Advisers, is/was the ultimate government authority in Dongguan City to approve such processing agreements.

Our Directors believe that, in view of the long established relationship with Gao Man United and Liu Wu Handbag and barring any unforeseen circumstances, the PRC Processing Agreements will be renewed upon expiration.

During the Track Record Period, there was no material interruption of operations as a result of disputes between our Group and either Gao Man United or Liu Wu Handbag or other uncertainties and contingencies.

Set out below is a summary of the particulars of the current arrangement under the PRC Processing Agreements:

*Date:*

- (1) The Gao Bu Processing Agreement

10 May 1984 (as supplemented and renewed from time to time)

- (2) The Liu Wu Processing Agreement

4 October 1988 (as supplemented and renewed from time to time)

*Duration:*

- (1) The Gao Bu Processing Agreement

From 10 May 1984 for an initial term of one year, which was subsequently supplemented and renewed, with the existing Gao Bu Processing Agreement entered into on 10 December 2009 for a term of 10 years up to 31 May 2020.

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(2) The Liu Wu Processing Agreement

From 4 October 1988 for an initial term of five years, which was subsequently supplemented and renewed, with the existing Liu Wu Processing Agreement entered into on 23 March 2010 for a term of 10 years up to 4 October 2020.

*Parties:*

(1) The Gao Bu Processing Agreement

The parties to the existing Gao Bu Processing Agreement are set out below:

- (a) the processing agent, being Gao Man United, an Independent Third Party and has no other past or present relationship with our Group save for being a party to the Gao Bu Processing Agreement;
- (b) the legal owner of Gao Man United as confirmed by our PRC Legal Advisers, being Gaopeng Enterprise, an Independent Third Party and has no other past or present relationship with our Group save for being a party to the Gao Bu Processing Agreement;
- (c) the foreign party, being LM Company, our wholly-owned subsidiary; and
- (d) the business agent, being Gaopeng Enterprise.

(2) The Liu Wu Processing Agreement

The parties to the existing Liu Wu Processing Agreement are set out below:

- (a) the processing agent, being Liu Wu Handbag, an Independent Third Party and has no other past or present relationship with our Group save for being a party to the Liu Wu Processing Agreement;
- (b) the legal owner of Liu Wu Handbag as confirmed by our PRC Legal Advisers, being Shijie Company, an Independent Third Party and has no other past or present relationship with our Group save for being a party to the Liu Wu Processing Agreement;
- (c) the foreign party, being LM Handbag Manufacturing, our wholly-owned subsidiary; and
- (d) the business agent, being Shijie Company.

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*Primary responsibilities of the contracting parties:*

The responsibilities of the respective contracting parties to the PRC Processing Agreements are as follows:

- (a) the processing agent, being Gao Man United or Liu Wu Handbag (as appropriate), shall provide factory premises, labour and electricity for production of our products;
- (b) the foreign party, being LM Company or LM Handbag Manufacturing (as appropriate), shall provide raw materials, ancillary materials and packaging materials, machinery and equipment (for the PRC Processing Factories' use, and the ownership of the machinery and equipment belongs to our Group), certain relevant technical staff to install equipment, and technical support and guidance and pay a processing fee (subject to a minimum amount) to Gao Man United or Liu Wu Handbag (as appropriate) for the manufacture of handbags; and
- (c) the business agent, being Gaopeng Enterprise or Shijie Company (as appropriate), representing the PRC government, shall handle all the supplemental agreements to the PRC Processing Agreements and to submit them to the relevant PRC local government for necessary regulatory approvals after their written endorsements. As confirmed by Gao Man United and Liu Wu Handbag, the business agent of the respective PRC Processing Agreement, Gaopeng Enterprise or Shijie Company, had not actively participated in the respective operation of Gao Bu Processing Factory and Liu Wu Processing Factory. Further, Gao Man United, Liu Wu Handbag and our Group confirmed that no fee had been paid to such business agents during the Track Record Period.

In practice, our Group places production orders to the PRC Processing Factories and the PRC Processing Factories provide processing services to us and manufacture the handbag products in accordance with the production orders' requirements, title of the raw materials and the finished products belongs to our Group until our finished products have cleared the PRC customs for export and have delivered to our customers' engaged freight forwarders in the PRC or Hong Kong for shipment. Title of the goods is passed to our customers upon delivery of such goods to their freight forwarders in the PRC or Hong Kong.

As confirmed by our PRC Legal Advisers, the legal liabilities of the respective contracting parties to the PRC Processing Agreements are as follows:

- (a) the legal liabilities arising from accidents or non-compliance during the production process are to be borne by Gao Man United or Liu Wu Handbag (as appropriate); and
- (b) our Group is responsible to purchase comprehensive insurances and pay relevant insurance premiums for the transit of raw materials and finished goods, and fire insurance for production facilities and inventory in the factory premises.

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The PRC Processing Agreements do not provide any terms on tax liability, our PRC Legal Advisers confirmed that the respective contracting parties to the PRC Processing Agreements shall bear tax liability in accordance with the relevant tax laws and regulation, in particular:

- (a) Gao Man United and Liu Wu Handbag shall bear relevant tax liabilities in relation to their respective revenue pursuant to Circular 403 and Circular 37; and
- (b) our Group has no PRC tax liability regarding the contract processing arrangements in the PRC pursuant to Circular 403 and Circular 37.

Our PRC Legal Advisers confirmed that Circular 403 and Circular 37 are applicable to our Group's contract processing arrangements and the fact that the factory premises are provided by our Group, rather than by the processing agents in accordance with the relevant PRC Processing Agreements, will not affect our Group's PRC tax position as mentioned above.

Gao Bu Processing Factory is currently located at Shao Tan Village of Gao Bu Town, occupying a gross floor area of approximately 85,012.97 sq.m.. For the first few years of the processing arrangement, Gao Man United had provided our Group with the factory premises owned by it, labour and electricity for production. In the 1990s, our Group considered that most of the factory premises provided by Gao Man United were no longer used due to disrepair. Our Group decided to provide new and different factory premises for the use of Gao Bu Processing Factory at nil consideration so as to facilitate our production. As at the Latest Practicable Date, all the factory premises used by Gao Bu Processing Factory were owned and provided by our Group.

Liu Wu Processing Factory is currently located at Liu Wu Management Area of Shi Jie Town, occupying a gross floor area of approximately 22,634.44 sq.m. which is mainly for production purpose. Since entering into of the Liu Wu Processing Agreement, all the factory premises used by Liu Wu Processing Factory were owned and provided by our Group.

Our PRC Legal Advisers confirmed that there is no mandatory requirement under the PRC laws or regulations in relation to the contract processing arrangement in the PRC as to whether the responsibility of providing factory premises falls on the processing agent or foreign parties to a contract processing arrangement. There are no laws or regulations prohibiting the foreign party to a processing agreement to provide factory premises at nil consideration, and the use of such factory premises by the processing agent will not invalidate such processing agreement. Our PRC Legal Advisers also confirmed that no approval or registration from the PRC governmental authority is required for such provision of factory premises.

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### *Renewal and termination:*

For renewal or termination of the PRC Processing Agreements, either party to the PRC Processing Agreements shall negotiate and confirm with each other six months prior to the proposed renewal and termination. In the event one party terminates the relevant PRC Processing Agreement unilaterally, such party shall compensate for the loss of the other parties.

### *Processing fee:*

#### (1) The Gao Bu Processing Agreement

The existing Gao Bu Processing Agreement provides for an annual processing fee in the sum of HK\$9.6 million per annum (which in fact is a minimum amount) for the year commencing from 1 June 2010, which is subject to an annual increment of 10%. The minimum processing fee is calculated principally on the average salary and wages of the personnel provided by Gao Man United (26 working days per month; and 8 hours per working day). Such annual processing fee payable to Gao Man United set out in the Gao Bu Processing Agreement has been arrived at through mutual negotiation between Gao Man United and our Group.

#### (2) The Liu Wu Processing Agreement

The existing Liu Wu Processing Agreement provides for an annual processing fee in the sum of HK\$10 million (which in fact is a minimum amount) for the year commencing from 5 October 2010, which is subject to an annual increment of 10%. The minimum processing fee is calculated principally on the average salary and wages of the personnel provided by Liu Wu Handbag (26 working days per month; and 8 hours per working day). Such annual processing fee payable to Liu Wu Handbag set out in the Liu Wu Processing Agreement has been arrived at through mutual negotiation between Liu Wu Handbag and our Group.

In fact, the processing fees payable by our Group mainly represent the labour cost and the actual utility cost incurred by Gao Bu Processing Factory and Liu Wu Processing Factory. We pay processing fees to Gao Man United and Liu Wu Handbag for the provision of processing services which are negotiated on an order-by-order basis with reference to the type of goods involved, their specifications and the complexity of the processing procedures involved. The other costs to be borne by our Group also include travelling and accommodation expenses of technical personnel sent by our Group to the PRC Processing Factories, and transportation costs of returned products, raw materials and finished products. In case the actual processing fees reported by Gao Man United and Liu Wu Handbag substantially deviate from the agreed processing fees, it is the practice of our Group to review and verify the additional expenses incurred and may refuse to pay any unreasonable additional expenses to Gao Man United and Liu Wu Handbag. During the Track Record Period, there has not been any material dispute between our Group and Gao Man United or Liu Wu Handbag on the amounts of processing fees payable.

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For each of the three years ended 31 December 2010, we paid approximately HK\$92.1 million, HK\$73.6 million and HK\$93.5 million respectively as processing fees to Gao Man United, representing approximately 10.2%, 10.1% and 11.0% of our turnover respectively and approximately 13.7%, 14.5% and 15.1% of our cost of sales respectively.

For each of the three years ended 31 December 2010, we paid approximately HK\$52.4 million, HK\$53.2 million and HK\$65.3 million respectively as processing fees to Liu Wu Handbag, representing approximately 5.8%, 7.3% and 7.6% of our turnover respectively and approximately 7.8%, 10.5% and 10.5% of our cost of sales respectively.

### *Lee Wai Factory*

Gao Bu Processing Factory and Liu Wu Processing Factory are operated under the PRC Processing Agreements, according to the relevant PRC laws and regulations and as confirmed by our PRC Legal Advisers, products manufactured under a contract processing arrangement are required to be exported outside PRC. With the view to expand our business in the PRC market, we set up Lee Wai Factory, a wholly foreign-owned enterprise in the PRC, in September 2009 and production in Lee Wai Factory commenced since January 2010. For the year ended 31 December 2010, sales generated from our facilities at Lee Wai Factory was about HK\$1.4 million and which represented about 0.2% of our total revenue for the same period. The insignificant contribution of Lee Wai Factory to our revenue in the year ended 31 December 2010 was due to the fact that Lee Wai Factory was newly set up in September 2009 and commenced its production since January 2010, and it involved mainly in product development functions to cope with the demand of new clients and the PRC market which is an under-developed market for our Group. Since the beginning of 2011, our Group has added two more new customers for Dongguan Lee Wai.

Lee Wai Factory is located at Shao Tan Village of Gao Bu Town, occupying a gross floor area of approximately 1,660.71 sq.m.. Lee Wai Factory currently has one workshop and as at 31 December 2010, it had over 100 personnel.

The products manufactured at Lee Wai Factory were sold in the PRC market. We plan to expand our business in the PRC market by expanding our sales to existing customers or potential customers in the PRC, which we consider no significant capital outlay should be incurred. If significant amount of capital is required, Lee Wai Handbag Manufacturing Company Limited, being Dongguan Lee Wai's parent company, will consider increasing its capital investment in Dongguan Lee Wai.

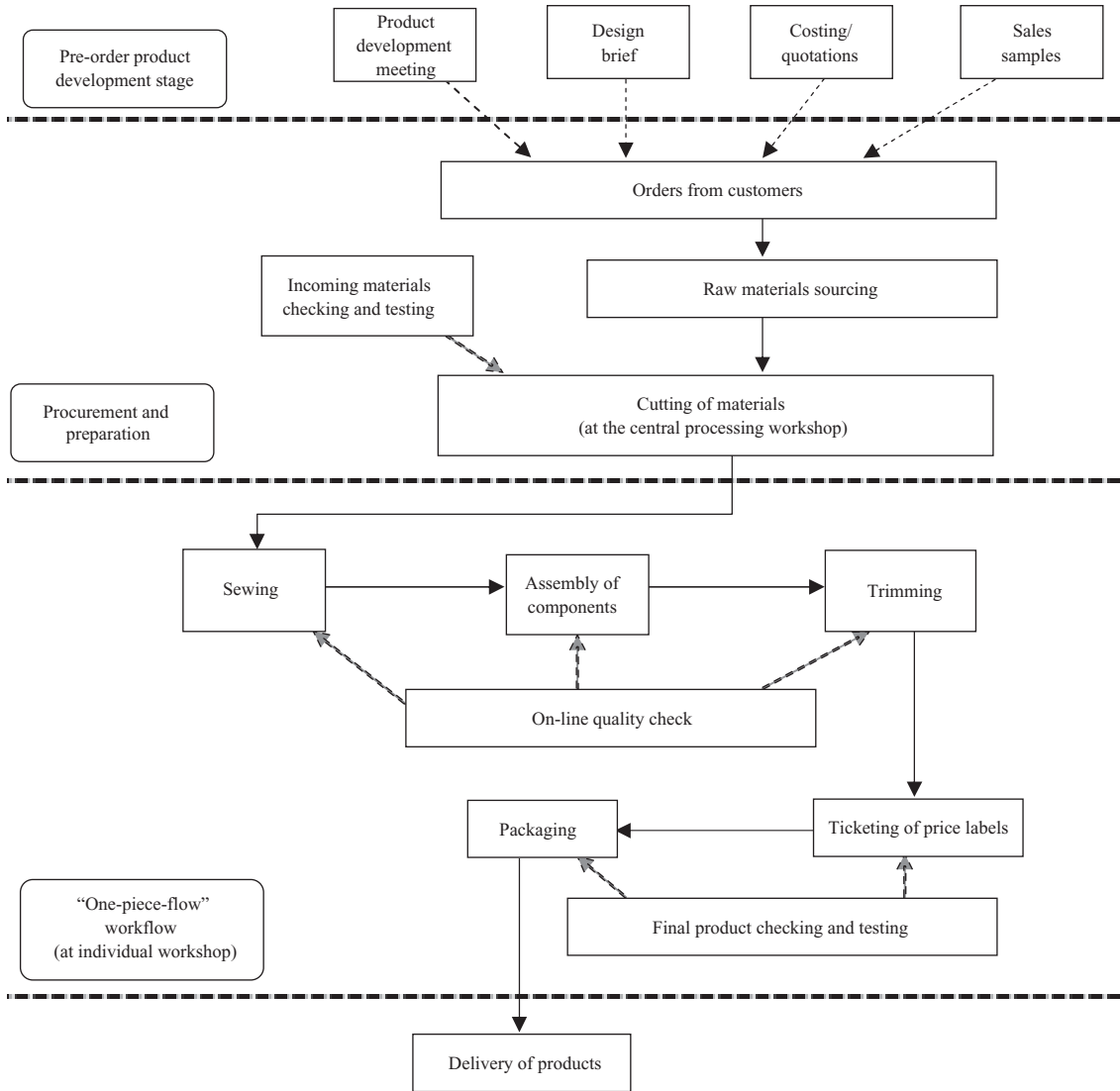
As confirmed by our PRC Legal Advisers, as at the Latest Practicable Date, Dongguan Lee Wai had obtained all necessary licences, certificates, approvals and permits for the production of our existing products. The abovementioned licences, certificates, approvals and permits that were obtained refer to the government licences, approvals and permits that Dongguan Lee Wai has obtained from the relevant government authorities for its establishment as our wholly-foreign-owned subsidiary in the PRC for the handbag manufacturing business and the other licences and permits, including the tax registration, that are generally required for companies to operate their businesses in the PRC.

### **Production process**

Both the PRC Processing Factories and Lee Wai Factory have adopted vertical integration in the production process. Our materials required for production are generally inspected prior to acceptance. Some of the materials will be cut or assembled at the central processing workshop in our production facilities; and then they will be passed down to the workshops for sewing according to the relevant specifications. Since 2008, Gao Bu Processing Factory has been gradually adopting the “one-piece-flow” workflow in some of its workshops; and in these workshops most of the materials required for production will be prepared and production, quality inspection and packing of finished products will be carried out in the same workshop. This production method is aimed to minimise the time for semi-finished products to be assembled and transferred from one workshop to another. As different stages of the production process will be carried out in the same workshop, our quality assurance personnel can also monitor the whole production process and to identify and deal with questions arising from production more easily.

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Set out below is a flow chart which illustrates the steps typically involved in the manufacturing process of our handbag products:



- - - - -> carried out by our merchandising and marketing team
- > carried out in our workshops
- - - - -> carried out by our quality control team

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We currently have three production facilities in China with 26 workshops and the number of workers in each workshop varies from approximately 50 workers to more than 200 workers depending on the size or function of the workshop, the types and complexity of the products and semi-finished products to be produced in the workshop and the number of production processes involved.

The personnel in the PRC Processing Factories and Lee Wai Factory normally work eight hours a day and they usually work five days a week and they may be required to work overtime when production requirements demand.

The operation flow of production is carefully planned to increase production efficiency. For each of the three years ended 31 December 2010, the normal production time for our products, from the time orders were confirmed to the time the products leave the factory, was normally two months. The PRC Processing Factories and Lee Wai Factory are using automated production equipment, such as computerised sewing machines, to attain high efficiency and better control of the consistency of the quality of our products.

Since 2008 and 2010, Gao Bu Processing Factory and Lee Wai Factory have designated personnel to undertake industrial engineering functions respectively with the aim to improve our production efficiency and since 2008, Gao Bu Processing Factory has been gradually adopting the “one-piece-flow” workflow in some of its production workshops. In “traditional” workflow, workers in a workshop will produce a particular part of the product; semi-finished products will be kept in warehouse or transferred to another stage of production in another workshop. “One-piece flow” is one of the production methods adopted in the manufacturing sectors where goods are manufactured one at a time on each step, and flowed through the manufacturing system as a single unit. The goal is to attain an optimally balanced production line with minimised waste, reduced cost, on-time and defect-free production. In the “one-piece-flow” workflow, personnel of our industrial engineering team will set up the number of work stations and workers required according to the styles of products to be manufactured and they will also monitor the time required for manufacturing a product. Workers in a workshop are organised into different work stations according to the types of work required and finished products will be lastly packed in the same workshop.

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### RAW MATERIALS, MATERIALS PURCHASED AND SUPPLIERS

#### PURCHASING

The materials used by us for the manufacture of handbags include PVC, PU, leather, nylon, cotton fabrics, metals and various types of textile materials. The following table illustrates the amount of raw materials purchased by our Group during the Track Record Period.

| Materials        | For the year ended 31 December |                           |                      |                           |                      |                           |
|------------------|--------------------------------|---------------------------|----------------------|---------------------------|----------------------|---------------------------|
|                  | 2008                           |                           | 2009                 |                           | 2010                 |                           |
|                  | (amount)<br>HK\$'000           | (total<br>purchases)<br>% | (amount)<br>HK\$'000 | (total<br>purchases)<br>% | (amount)<br>HK\$'000 | (total<br>purchases)<br>% |
| PVC              | 40,675                         | 9.7                       | 18,610               | 6.3                       | 22,554               | 5.9                       |
| PU/nylon/leather | 68,101                         | 16.3                      | 59,259               | 20.1                      | 85,632               | 22.3                      |
| Cotton fabrics   | 116,806                        | 28.0                      | 87,158               | 29.5                      | 86,339               | 22.5                      |
| Metals           | 80,553                         | 19.3                      | 67,242               | 22.8                      | 98,536               | 25.7                      |
| Others           | 111,135                        | 26.7                      | 62,917               | 21.3                      | 90,229               | 23.6                      |
| <b>Total</b>     | <b>417,270</b>                 | <b>100.0</b>              | <b>295,186</b>       | <b>100.0</b>              | <b>383,290</b>       | <b>100.0</b>              |

For the year ended 31 December 2010, about 40.7% and 41.9% of our purchases were denominated in Hong Kong dollars and RMB respectively while the rest were denominated in other currencies such as USD, EUR and British pound sterling.

|              | For the year ended 31 December |              |                |              |                |              |
|--------------|--------------------------------|--------------|----------------|--------------|----------------|--------------|
|              | 2008                           |              | 2009           |              | 2010           |              |
|              | HK\$'000                       | %            | HK\$'000       | %            | HK\$'000       | %            |
| HK dollars   | 178,200                        | 42.7         | 128,597        | 43.6         | 155,958        | 40.7         |
| RMB          | 178,943                        | 42.9         | 127,665        | 43.2         | 160,425        | 41.9         |
| Others       | 60,127                         | 14.4         | 38,924         | 13.2         | 66,907         | 17.4         |
| <b>Total</b> | <b>417,270</b>                 | <b>100.0</b> | <b>295,186</b> | <b>100.0</b> | <b>383,290</b> | <b>100.0</b> |

The purchases by us are usually made on an open account basis. During the three years ended 31 December 2010, the credit period for open accounts extended to us by our suppliers was in the range from 30 days to 90 days. The average trade payable turnover days for each of the three years ended 31 December 2010 were 47, 59 and 49 days respectively.

In order to obtain competitive prices from suppliers and to avoid reliance on any single source of supply, we normally have more than one source of supply for each of our principal materials and components. For each of the three years ended 31 December 2010, our five largest suppliers accounted for approximately 15.7%, 18.3% and 15.7% of our total purchases respectively and the largest supplier accounted for approximately 5.5%, 7.5% and

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4.6% of our total purchases respectively. Our five largest suppliers during the Track Record Period were mainly located in Hong Kong and the PRC, and were mostly manufacturing and trading companies.

Over half of our top ten suppliers have been dealing with us for more than 5 years. During the Track Record Period, we have not experienced any material difficulties in sourcing materials or components for our production. Since most of the principal raw materials used in our production are readily available in the market, we have not entered into any long-term supply contracts with our suppliers. It is our practice to maintain a stock level of certain raw materials that are common and required for production of most of our products. Other than those common materials, we normally source our raw materials for use in production when we receive orders from our customers; we believe that this will minimise excessive or obsolete raw materials.

None of our Directors, their respective associates or, so far as our Directors are aware, our existing Shareholders had any interest in any of our top five suppliers during the Track Record Period.

### **INVENTORY CONTROL**

It is our practice to maintain an inventory level of certain raw materials that are common and required for production of most of our products and other than these common materials, we normally source our raw materials for use in production when we receive orders from our customers. We do not set any optimal inventory level. In 2007, we began to implement ERP system in the management of our inventories and related procurement procedures.

The ERP system strengthens our ability to ensure that our inventory records are up-to-date and are properly and accurately kept for the purpose of monitoring the quantity and movements of inventories. When we are negotiating with our customers on a proposed contract, we will record in our ERP system the quantity and types of materials required for production and the system will assist our personnel to calculate the related costing. Our procurement team will source the materials required at the price and in the quantity as shown in the system. We believe that this will enable us to follow the procurement orders closely and avoid excessive or obsolete materials. Materials used in the production processes are also closely monitored and recorded, personnel in the workshop will collect materials required according to the production schedules and this can reduce waste of raw materials in the production processes.

We also carry out inventory counts annually and the results are reconciled with the computerised inventory records; and our inventories are locked in the warehouses and are guarded. Only authorised personnel are allowed access to these areas.

For each of the three years ended 31 December 2010, the average inventory turnover days were 51 days, 57 days and 45 days respectively. It is our policy to make provisions for obsolete, excessive and slow-moving stocks when the relevant stocks, other than the materials that are common and required in most of our production processes, are generally over two years. For each of the three years ended 31 December 2010, we made provisions

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(written back) for obsolete, excessive and damaged inventory of approximately HK\$2.6 million, HK\$5.3 million and HK\$(3.1) million respectively. The provision of HK\$5.3 million made in 2009 was due to our careful consideration of raw materials inventory which were considered to be excessive at the time after the global financial crisis in 2008. The written-back of inventory provision of approximately HK\$3.1 million in the year ended 31 December 2010 was mainly due to the usage of those idle raw materials in our warehouse as a result of receiving new re-orders from certain of our customers in the year ended 31 December 2010 for certain styles of handbags that had been previously sold by us. According to our books and records, there was no material loss or damage to inventories during the Track Record Period.

### QUALITY CONTROL AND ASSURANCE

We believe that the quality of our products has contributed significantly to our success and the same quality control measures have been adopted in each of Gao Bu Processing Factory, Liu Wu Processing Factory and Lee Wai Factory. The quality control measures adopted by us begin with the inspection of raw materials and components before they are accepted. Various tests, such as tests on tension and endurance on the materials and components will be carried out. Materials or components that do not satisfy our quality requirements will be returned to our suppliers.

We have on-line quality assurance personnel in each of the production workshops, they will monitor each stage of the production process and they will carry out visual inspection of semi-finished products to check, for example, whether there are slip-stitches and whether the sewings are done in accordance with the specified pattern, and they will also check the products on a random basis. For certain products, such as bags for babies, it will be placed into a needle detector machine to ensure that no broken needle is left on the products. When they identify any quality matters in the production process, they will arrange the products to be reworked or rejected. Our finished products will generally be inspected again before they are packed for delivery. Some of our customers may have their specific acceptance procedures and we are required to engage independent quality control companies to conduct quality control inspections on our products and prepare relevant inspection reports for them. These customers cover all types of customers other than importers and those inspection reports generally cover areas such as fiber content and color of handbags. Our Group will be responsible for compensating for defective products or products failing to meet customers' specifications. During the Track Record Period, nature of product deficiencies identified included wrong labeling, mildewed products and handbag zip or handle defects which we considered should be minor deficiencies incurred mainly due to quality of raw materials. For each of the three years ended 31 December 2010, special discounts and trade compensation paid to our customers in relation to product quality amounted to approximately HK\$6.1 million, HK\$3.4 million and HK\$7.5 million respectively. Our Directors consider that the special discounts and trade compensation were not material to our Group when compared to our revenue, gross profit and net profit during the same periods. We did not request the processing agents to compensate for product defects as our Directors consider that the defects were mainly not resulted from manufacturing process and the amounts involved were not significant.

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At as the Latest Practicable Date, we had over 40 quality assurance personnel (including personnel provided by the processing agents) in the three production facilities in China.

During the Track Record Period, we had not received any significant complaints about the quality of our products from our customers.

### **PRODUCT DEVELOPMENT**

We pay particular attention to product development and we believe our strength in product development enables us to broaden our product offerings to our customers and strengthens our customer base. We have a product development team of over 370 personnel (including personnel provided by the processing agents).

Our product development team works closely with our marketing and merchandising as well as production personnel. Our product development team, through marketing and merchandising team, understands customer's specifications and requirements and takes feedbacks from customers for modifications to the initial design. Our product development team from time to time communicates with our marketing and merchandising personnel to discuss on products developments. They also work closely with the production department to fine-tune the manufacturing process and they also produce samples of new products in the sample workshops.

We believe that our involvement in the product development stage strengthens our relationship with our customers and ensures that quality of our products meets our customers' demands.

### **MERCHANDISING, MARKETING AND CUSTOMER SERVICES**

We have a broad and diversified base of customers mostly located in the U.S. and Europe. Our customers include brand owners or brand carriers, department stores and megastores; and some of our products are also sold to importers, including an overseas trading firm which sells products to wholesalers, distributors and retailers.

The major markets of our products are the U.S., which accounted for approximately 51.0%, 49.2% and 53.6% of our turnover for each of the three years ended 31 December 2010 respectively, and Europe, which accounted for approximately 36.3%, 34.2% and 27.5% of our turnover for the same periods respectively. Apart from the U.S. and Europe, we also sell our products to Canada and other countries including countries in South America and Asia.

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The following table sets forth the breakdown of our revenue from customers and our gross profit margin by geographical locations during the Track Record Period:

|                          | For the year ended 31 December |  |                           |                |  |                           |                |  |                           |
|--------------------------|--------------------------------|--|---------------------------|----------------|--|---------------------------|----------------|--|---------------------------|
|                          | 2008                           |  |                           | 2009           |  |                           | 2010           |  |                           |
|                          | Revenue                        | Approximate<br>percentage<br>of total<br>revenue | Gross<br>profit<br>margin | Revenue        | Approximate<br>percentage<br>of total<br>revenue | Gross<br>profit<br>margin | Revenue        | Approximate<br>percentage<br>of total<br>revenue | Gross<br>profit<br>margin |
| <i>HK\$'000</i>          | %                              | %  | <i>HK\$'000</i>           | %              | %  | <i>HK\$'000</i>           | %              | %  |                           |
| U.S.                     | 459,601                        | 51.0   | 23.2                      | 357,700        | 49.2   | 29.5                      | 457,729        | 53.6   | 27.6                      |
| Europe                   | 326,893                        | 36.3   | 29.9                      | 248,781        | 34.2   | 33.0                      | 234,542        | 27.5   | 28.2                      |
| Others ( <i>Note 1</i> ) | 114,746                        | 12.7   | 21.3                      | 121,074        | 16.6   | 27.4                      | 161,268        | 18.9   | 25.4                      |
| <b>Total</b>             | <b>901,240</b>                 | <b>100.0</b>                                     | <b>25.4</b>               | <b>727,555</b> | <b>100.0</b>                                     | <b>30.3</b>               | <b>853,539</b> | <b>100.0</b>                                     | <b>27.3</b>               |

*Notes:*

- Others include Canada, Brazil, Japan, Taiwan, Hong Kong, China, Korea, Australia, Thailand and other countries in South America and Asia.
- The global financial crisis in late 2008 has led to a significant economic downturn and contraction in consumer spending especially in the U.S. and Europe. As a result, our sales to the U.S. and Europe experienced a decline from the year ended 31 December 2008 to the same period in 2009. Our sales to the U.S. improved for the year ended 31 December 2010 amid the gradual U.S. economic recovery. Due to the decline in customers' orders in Europe, our sales to Europe continued to decline for the year ended 31 December 2010.

During the Track Record Period, most of our sales were mainly settled in USD and EUR and some of our customers also settled in Hong Kong dollars and RMB. For each of the three years ended 31 December 2010, approximately 89.3%, 86.5% and 90.1% of our sales were settled in USD respectively, and approximately 9.6%, 12.0% and 9.0% of our sales were settled in EUR respectively. When we have accounts receivables in EUR, we may enter into foreign exchange forward contract(s) in EUR to minimise the risk in currency fluctuations.

Most of the sales of our products are usually made with credit terms ranging from 14 to 90 days.

We adopt a tight credit control policy and assess the potential customers' credit quality by investigating its historical credit record, then we will determine the credit period to be allowed for such customer; and we normally do not grant credit periods of more than 90 days to our customers. For each of the three years ended 31 December 2010, the average trade receivables turnover days were 49 days, 59 days and 56 days respectively. For each of the three years ended 31 December 2010, the amount of bad debts recorded by us was insignificant and amounted to HK\$1.4 million, HK\$0.3 million and HK\$0.2 million respectively. It is the practice of our Group to make specific provision for each receivable which was regarded as doubtful in its collectability. No general provision has been made.

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For each of the three years ended 31 December 2010, the number of our customers amounted to 79, 69 and 66 respectively, all of which are Independent Third Parties. For each of the three years ended 31 December 2010, sales to our largest customer accounted for approximately 17.0%, 14.5% and 16.7% respectively of our total turnover. For the same periods, turnover attributable to our five largest customers accounted for approximately 47.1%, 54.2% and 53.0% of our total turnover respectively. Our five largest customers during the Track Record Periods were mainly located in the U.S. and Europe, and were mostly brand owners or brand carriers.

Our Group adopts similar sales terms and cost-plus pricing policy among different customer categories. However, the gross profits margin varies among different customers depending on the volume and the styles of handbag products for each sale order. For sales return policy, if our customer requests for goods return asserting the quality problems of our products, we will require our customer to provide photos or send back the defective products showing the quality problems to verify the case. Since most of our products are delivered to customer overseas, after verifying the case, we will try to avoid any physical goods to be returned to minimise the transportation costs by persuading our customers to accept the goods with special discounts or compensations on the invoiced amount granted by our Group. For each of the three years ended 31 December 2010, the amount of trade compensation amounted to approximately HK\$6.1 million, HK\$3.4 million and HK\$7.5 million. During the Track Record Period, the special discounts and trade compensation were resulted from product claims from our customers mainly related to minor quality problem of our products. During the Track Record Period, there was no significant sales return to our Group.

We have not entered into long-term contracts with our major customers as we sell handbag products with a variety of different styles to our customers. Our Directors believe that it is a common practice in the handbag industry for buyers to negotiate and place their sales orders on an order-by order basis. A majority of our top ten customers during the Track Record Period had working relationship with us for more than five years. We consider that we have a good business relationship with our major customers.

None of our Directors, their respective associates or, so far as our Directors are aware, our existing Shareholders had any interest in any of our top five customers during the Track Record Period.

### **Merchandising staff**

As at the Latest Practicable Date, we had a merchandising team of over 150 personnel of which more than 100 personnel was provided by the processing agents in the PRC.

Our merchandising personnel communicates with our customers to understand their needs and requirements and also meets with potential customers to explore cooperation opportunities with them from time to time. We will introduce our Group, our products, our production facilities and our competitive strengths to our potential customers. Our merchandising personnel also works with our product development team and procurement team on product development and samples as well as product costing. When a sale order is

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confirmed, our merchandising personnel will keep track on the production processes and delivery logistics of that order and they will act as a coordinator between our customers and our production and logistics team.

We believe that our ability to provide timely and quality services to our customers is a key contributor to our success and our ability to maintain a long term business relationship with our customers. We place much importance on the quality of services and support that we provide to our customers.

### COMPETITION

The U.S. and European markets are the largest markets for our products. For each of the three years ended 31 December 2010, sales of our products to our customers in the U.S. and Europe accounted for approximately 51.0% and 36.3%, 49.2% and 34.2%, and 53.6% and 27.5%, respectively of our total turnover. Our customers are mostly brand owners or brand carriers and they accounted for approximately 81.1%, 72.2% and 78.7% of our total turnover for each of the three years ended 31 December 2010 respectively. We believe that competition of handbag products industry in the U.S. and European market is keen and highly fragmented with numerous players selling and distributing a wide range of products with varying quality and price range and they source products from various countries, including China and other Asian and middle-east countries.

In addition, the handbag industry is also affected by the global economic conditions and consumers' purchasing power will be weaker when there is a downturn in the economy. We believe that competition has become more intense since the global financial crisis in 2008 as the purchasing power of consumers in the U.S. and Europe has remained weak. We compete with manufacturers of handbag products in China as well as other countries from which our customers will source their products.

Our Directors believe that competition in the handbag industry is based upon various factors including quality of the products, product innovation, product development, customer service and price. We believe that our experienced management team, our long-standing history and good reputation in the industry, our ability to produce products with different materials and styles, stringent quality control policies; good and stable business relationship with our customers and our customer services offer us competitive advantages over our competitors.

We continuously improve our efficiency and productivity. We adopt new workflow and ERP system which aim to improve our production efficiency. We will also aim at manufacturing products with a higher value which we believe will help improve profitability.

### ENVIRONMENTAL ISSUES

There are no environmental protection laws or regulations in the PRC specifically applicable to handbag manufacturers in the PRC. In general, we are required to abide by the Environmental Protection Law of the PRC (中華人民共和國環境保護法) (the “**Environmental Protection Law**”) which took effect on 26 December 1989, pursuant to which we should establish a system for environmental protection and take effective measures to prevent

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pollution caused by production, construction work or other activities. According to the Environmental Protection Law, where the construction of a project may cause any pollution to the environment, an environmental impact evaluation must be performed to determine the preventive and remedial measures to be adopted, and relevant environmental protection administration approval shall be obtained. Enterprises discharging pollutants must report to and register such discharge with relevant environmental protection administration departments. Enterprises discharging pollutants in excess of prescribed national or local discharge standards shall be responsible for paying a sewage discharge fee for exceeding the standard and eliminating and controlling pollution. Depending on the circumstances and the extent of the pollution, the relevant environmental protection administration departments may impose various types of penalties on persons or enterprises who are in violation of the Environmental Protection Law. Penalties include issuance of a warning notice; imposition of a fine; determination of a time limit for rectification; issuance of an order to reinstall and resume operation of environmental protection facilities which have been dismantled or left unused; issuance of an order to suspend production or to suspend and close the business; imposition of administrative sanctions or investigation and establishment of criminal liabilities against the personnel in charge. In addition, in cases where the pollution causes damage to others, civil indemnification to victims shall be required.

The main raw materials of our Group's products are PVC, PU, leather, nylon, cotton fabrics, metals and various types of textile materials which are purchased from outside suppliers and our Group does not produce such raw materials. During our Group's production of handbags, sewing is the major step which only involves the operation of sewing and related machines by the workers, and accordingly, there is minimal waste discharge, noise, water or air pollution. The only waste which will be produced from our production process are scraps of raw materials, which will be collected by Independent Third Parties. During the Track Record Period, the annual costs that we spent on compliance with the applicable environmental laws and regulations were approximately RMB105,000 for the four months ended 31 December 2008 (such waste discharge fee was charged by the relevant government authority since September 2008) and approximately RMB148,000 and RMB158,000 for each of the two years ended 31 December 2010 respectively, for paying the government's waste discharge fees. Such waste discharge fee were paid by Gao Man United and reimbursed by our Group as part of the processing fee. Our Directors expect that we will continue to incur costs of similar amounts for compliance with such laws and regulations in the future. As at the Latest Practicable Date, our Directors were not aware of any material administrative sanctions, penalties or punishments had been imposed upon the PRC Processing Factories and us for the violation of any environmental laws or regulations.

As confirmed by our PRC Legal Advisers, under the contract processing arrangements, it is the processing agents' responsibility to bear relevant costs and responsibility relating to environmental protection related matters. In fact, it is our practice to reimburse such environmental protection cost to the processing agents as part of the processing fee. Our Directors believe that the arrangement in reimbursing the environmental protection costs incurred by the processing agent is a common market practice.

Dongguan Lee Wai, Gao Man United and Liu Wu Handbag have duly registered with the environmental protection authorities.

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Pursuant to the confirmation issued by the Dongguan Environmental Protection Bureau Gaobu Branch (東莞市環境保護局高埗分局) dated 17 January 2011, Dongguan Lee Wai has complied with all relevant environmental laws and regulations since its incorporation. Pursuant to the confirmation issued by the Dongguan Environmental Protection Bureau Gaobu Branch (東莞市環境保護局高埗分局) dated 17 January 2011, Gao Man United has complied with the relevant environmental laws and regulations during the Track Record Period. Pursuant to the confirmation issued by the Dongguan Environmental Protection Bureau (東莞市環境保護局石碣分局) dated 20 January 2011, Liu Wu Handbag has not been sanctioned due to breach of the relevant environmental laws and regulations during the Track Record Period. As advised by our PRC Legal Advisers, we are not liable for any non-compliance with environmental protection laws and regulations arising from the production under the PRC Processing Agreements.

### LEGAL PROCEEDINGS

From time to time, we may be involved in litigation or other legal proceedings in the ordinary course of our businesses. We are not aware of any material legal or administrative proceedings currently existing or pending against us. We have not been involved in any material intellectual property rights dispute or claims in relation to our product development or manufacturing.

Our Directors also confirmed that, to the best of their belief and based on relevant legal advisers' opinion, we are not aware of any non-compliance with any applicable laws and regulations in those jurisdictions where we had operations during the Track Record Period.

### PROPERTIES

#### **Our owned properties**

We currently own properties in the PRC and in Thailand. The properties in the PRC are used as offices, workshops, warehouses, staff quarters and ancillary facilities. Our properties in Thailand were used for production purpose from 1998 to 2001. Since July 2001, our production facilities (where no plant, machinery or equipment was housed as at the Latest Practicable Date) in Thailand have become dormant.

#### ***PRC***

We currently own the land use rights certificates to seven parcels of land with an aggregate site area of approximately 62,211 sq.m. in the PRC, on which our offices, workshops, warehouses, staff quarters and ancillary facilities have been erected for our business activities and operations in the PRC. The total gross floor area of such buildings is approximately 66,949.52 sq.m.. Our PRC Legal Advisers confirmed that, as at the Latest Practicable Date, we had obtained all necessary land use rights certificates and building ownership rights certificates for the abovementioned properties in the PRC.

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As at the Latest Practicable Date, we also had the land use rights to three parcels of land (the “**Three Shao Tan Village Land**”) with an aggregate site area of approximately 28,286.80 sq.m. in the PRC, such land use rights are subject to the following land use rights transfer contracts:

- (a) pursuant to a land use rights transfer contract entered into between 東莞市高埗鎮對外經濟發展公司 (Dongguan City Gao Bu Town Foreign Economic Development Company\*) (the “Transferor”) and LM Company on 28 April 2001, the land use rights of a parcel of land located at Shao Tan Village, Gao Bu Town, with a site area of approximately 4.24 mu (approximately 2,826.68 sq.m.) were transferred to LM Company at a consideration of RMB508,800. According to such contract, the term is for 50 years commencing from 1 July 2001 and expiring on 30 June 2051. LM Company has to pay an annual land management fee of RMB3,730 per mu during the term which will be subject to an increase of 8% every 5 years;
- (b) pursuant to a land use rights transfer contract entered into between Transferor and LM Company on 28 March 2003, the land use rights of a parcel of land located at Shao Tan Village, Gao Bu Town, with a site area of approximately 25.90 mu (approximately 17,266.75 sq.m.) and the building use rights of the building erected thereon with a total gross floor area of approximately 18,326.70 sq.m. were transferred to LM Company at a total consideration of RMB10,438,680. According to such contract, the term is for 50 years commencing from 1 January 2003 and expiring on 31 December 2052. LM Company has to pay an annual land management fee of RMB3,730 per mu during the term which will be subject to an increase of 8% every 5 years.
- (c) Pursuant to a land use rights transfer contract entered into between Transferor and LM Company on 9 April 2004, the land use rights of a parcel of land located at Shao Tan Village, Gao Bu Town, with a site area of approximately 12.29 mu (approximately 8,193.37 sq.m.) and the building use rights of the building erected thereon with a total gross floor area of approximately 6,584.80 sq.m. were transferred to LM Company at a total consideration of RMB4,216,720. According to such contract, the term is for 50 years commencing from 1 July 2004 and expiring on 30 June 2054. LM Company has to pay an annual land management fee of RMB3,730 per mu during the term which will be subject to an increase of 8% every 5 years.

The total gross floor area of the 12 buildings erected on the Three Shao Tan Village Land is approximately 42,358.6 sq.m.. As at the Latest Practicable Date, the Three Shao Tan Village Land was provided by our Group for the operation of Gao Bu Processing Factory.

Our Group has not obtained all necessary land use right certificates and building ownership certificates for the Three Shao Tan Village Land. This was due to the Transferor’s failure to get the mortgage on the Three Shao Tan Village released when the Transferor assigned the Three Shao Tan Village Land to us in 2001, 2003 and 2004 respectively. Our Group has fully paid the assignment consideration to the Transferor in accordance with the land use rights transfer contract for the Three Shao Tan Village Land in 2001, 2003 and 2004 respectively and the annual land management fee for the three years ended 31

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December 2010. The Transferor transferred the Three Shao Tan Village Land to LM Company for our Group' use without lodging the formal registration procedures for the assignments to the relevant government authorities despite repeatedly requests from our Group. Until 2006, the Transferor had paid off all the mortgage loans and the mortgage on Three Shao Tan Village Land was released. Only until then, our Group was entitled to apply for the necessary land use right certificate and related building ownership certificates for the Three Shao Tan Village Land and the structures erected thereon.

Our Group intended to apply for the necessary land use right certificate and related building ownership certificates for the Three Shao Tan Village Land and the structures erected thereon through LM Company. However, in July 2006, the Ministry of Housing and Urban-Rural Development, the Ministry of Commerce and four other relevant government authorities of the PRC jointly issued 《關於規範房地產市場外資准入和管理的意見》 (“Advice on Regulating the Access and Management of the Foreign Capital to the Real Estate Market”\*) (**“2006 Advice”**). The 2006 Advice prohibits foreign enterprise without branch or representative institution in the PRC to purchase real estates in the PRC. Our PRC Legal Advisers confirmed that LM Company, as a non-PRC enterprise, could no longer serve as the legal owner of the Three Shao Tan Village Land. At that time, no appropriate entity within our Group is entitled to apply for the relevant certificates for the Three Shao Tan Village Land and the structures erected thereon. Since the 2006 Advice does not prohibit a foreign-invested enterprise in the PRC to purchase real estates, Dongguan Lee Wai, as a wholly-foreign owned PRC enterprise under the same group, could take up LM Company's place to serve as the legal owner of the Three Shao Tan Village Land and initiate the application for the necessary land use right certificate for the Three Shao Tan Village Land. Our PRC Legal Advisers confirmed that the 2006 Advice does not affect the legal titles of LM Company to the existing land use rights certificates and building ownership rights certificates which had been obtained by our Group before the 2006 Advice released.

As confirmed by our Directors, most of the application documents for the land use rights certificates of the Three Shao Tan Village Land are available pending a formal letter from the original land use rights owner (i.e. a collectively-owned entity). Such letter is being reviewed by the representative of that collectively-owned entity who was newly elected in April 2011. Hence, as advised by our PRC Legal Advisers, the application for the land use rights certificates of the Three Shao Tan Village Land could only be submitted after signing of such letter.

As confirmed by our Directors, Dongguan Lee Wai will lodge its application for the land use rights certificates and building ownership rights certificates of the Three Shao Tan Village Land under 《東莞市推動產業結構調整和轉型升級實施“三舊”改造土地管理暫行辦法》 (“The interim measures of “Three Olds” for the land management reform implemented by the Dongguan City to promote the structural adjustment and transformation of the property”\*), and should accordingly submit the necessary documents to the relevant governmental authority for application.

Our Directors expect that Dongguan Lee Wai will obtain the land use rights certificates for the Three Shao Tan Village Land in around June 2011.

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After obtaining the land use rights certificates for the Three Shao Tan Village Land, Dongguan Lee Wai will apply for the building ownership rights certificates of the Three Shao Tan Village Land. Our Directors expect that Dongguan Lee Wai will receive the reply from the relevant governmental authority concerning the relevant information to be filed for the purpose of applying for the building ownership rights certificates of the Three Shao Tan Village Land in around July 2011. Our Directors expect that Dongguan Lee Wai will obtain the building ownership right certificate for the Three Shao Tan Village Land in around September 2011.

Our Directors consider the possibility that we will not be granted such land use rights certificates and the building ownership rights certificates is low as we have occupied the Three Shao Tan Village Land for over six years and as at the Latest Practicable Date, our Directors were not aware of any material dispute in relation to the beneficial ownership of such land and buildings.

As advised by our PRC Legal Advisers, upon submission of the necessary documents, there should be no legal obstacles for Dongguan Lee Wai to obtain the land use rights certificates and building ownership rights certificates of the Three Shao Tan Village Land. Our Company will keep our Shareholders updated on the status of our application for land use rights certificate and building ownership rights certificates regarding the Three Shao Tan Village Land in our interim and annual reports.

The production capacity of the Three Shao Tan Village Land represented approximately 31% of our entire production capacity for the year ended 31 December 2010, which is calculated based on the total number of flat-headed sewing machines operated in the workshops situated in the Three Shao Tan Village Land and the total number of flat-headed sewing machines available for production to our entire Group.

Given that the utilisation rate for the production facilities of our Group for the year ended 31 December 2010 was only approximately 70%, as a contingency plan, we will and we are not aware of any difficulties to re-allocate the sewing and other related machines located in the Three Shao Tan Village Land to other owned production workshops in the same area. Accordingly, our Directors and the Sponsor consider that the production would not be significantly interrupted due to the Three Shao Tan Village Land and is not aware of any material adverse effect on our Group's normal business operations.

### *Thailand*

As at the Latest Practicable Date, we also owned a parcel of land with a site area of approximately 64,776 sq.m. in Thailand. Under the laws of Thailand, a majority foreign-owned company is not normally permitted to own land in Thailand. The BOI may grant a majority foreign-owned company special permission to own land on which to operate a factory for a BOI-promoted project. The land and factory premises are supposed to be sold within one year of termination of the BOI-promoted activities. If the owner fails to sell the land within one year, there is no sanction against the owner, but the Land Office becomes empowered to sell the property on the owner's behalf. Unless we receive a notice or directions from the Land Office for forced sale of our Thailand properties, our Thailand properties are freely transferable in the market. As advised by Bamrung Savicha Apisakdi

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Law Associates, our Thailand legal advisers, the Land Office rarely exercise its power to sell the property in practice. We had not received such notice or directions from the Land Office as at the Latest Practicable Date. Normally the owner of the land continues to hold the land beyond the one-year period until a buyer at a suitable price can be located. There is no stated maximum time beyond which the owner can own the property. As confirmed by our Thailand legal advisers, there is no legal consequence for (i) failure to sell our Thailand properties or (ii) keeping our Thailand properties other than the empowerment of the Land Office to sell our Thailand properties after the initial one-year period has expired. Since we have suspended the operation of our factory in Thailand in 2001, the land is no longer conducting BOI-promoted activities. The BOI had also been informed of our suspension of operations in Thailand. We are most likely under a continuing obligation to sell our Thailand properties to a buyer at a suitable price. We have contacted real estate agents with the intent to sell our Thailand properties. As at the Latest Practicable Date, no appropriate purchaser had been identified and it is the intention of the management to retain our Thailand properties until a buyer who can offer a price that can satisfy our Group's capital appreciation objective. Our Directors are optimistic about the Thailand property market. As at 31 December 2010, the net book value of our Thailand properties was approximately HK\$26.3 million. The likely selling price was not available. As advised by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, which has carried out their valuation taking into account the legal opinion of our Thailand legal advisers on the property interest, the market value is carried out on the basis that our Thailand properties can be freely transferable in the market. As no notice or directions from the Land Office for forced sale of our Thailand properties has been received, our Thailand properties can be freely transferred in the market as at the date of valuation and therefore any write down on the market value is considered not necessary in the valuation. On this basis, our Directors, after seeking for professional advice from the reporting accountants, are of the view that no write-down of value is considered necessary. The Sponsor, having considered the view of Jones Lang LaSalle Sallmanns Limited, the above advice from the reporting accountants, and that the difference in capital value of our Thailand properties based on the valuation prepared by the Jones Lang LaSalle Sallmanns Limited of approximately HK\$25.9 million as at 28 February 2011 and the net book value of our Thailand properties of HK\$26.3 million as at 31 December 2010 was solely resulted from the difference in exchange rate for the two dates and the net book value in Baht was the same, concur with the view of our Directors that no write-down of value is necessary.

While we are supposed to dispose our Thailand properties within one year of cessation of its operation in Thailand in 2001, according to the legal opinion obtained from our Thailand legal advisers, there is no sanction against us if we fail to sell our Thailand properties within the one-year period and in practice, we can continue to hold our Thailand properties beyond the one-year period until a buyer at a suitable price can be located. In addition, there is no stated maximum time beyond which we can own our Thailand properties and there is no legal consequence for failure to sell our Thailand properties other than the empowerment of the Land Office to sell our Thailand properties on our behalf after the initial one year period has expired. Since our cessation of operations in Thailand in 2001, the Land Office has not exercised such empowerment and according to the legal opinion, the Land Office rarely does so in practice. Therefore, our Directors intend, and are of the opinion that we are able, to continue to hold our Thailand properties for capital appreciation purpose. On this basis, the reporting accountants concurs that the Thailand

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properties could be classified as investment properties according to our accounting policies which conform with Hong Kong Financial Reporting Standards (“HKFRSs”), investment properties are properties held to earn rentals and/or capital appreciation.

### **Our leased properties**

We have currently leased two premises in Hong Kong to support our business operations, including (i) a property with a gross area of approximately 16,198 sq.ft. for industrial, warehouse and ancillary office and (ii) a residential unit with a gross area of approximately 639 sq.ft. to act as staff quarter. The first lease amounts to a continuing connected transaction, further details of which were disclosed in the section headed “Continuing connected transactions” in this document. The second lease is entered into with an Independent Third Party. For all our leases, we have occupied the leased premises in accordance with the purposes stated in the respective tenancy agreements. Further details regarding the buildings or units that we occupy and the terms of the respective tenancy agreements are set out in Appendix III to this document.

### **INSURANCE**

We currently maintain insurance policies for our offices and vehicles. We have also taken out insurances covering public liability relating to third party bodily injury and property damage arising from accidents for our Hong Kong office. We maintain product liability insurance policy which has worldwide coverage for all of our products, the insured amount of which is determined with reference to our estimated annual sales. We are not aware of any material product liability claims during the Track Record Period.

Social insurance is provided for our PRC employees in Dongguan Lee Wai including insurance for retirement, sickness and injury as required by the PRC social security regulations, we believe that the coverage is sufficient for our operation. As at the Latest Practicable Date, we were not subject to any insurance claims which was material to us. Dongguan City Human Resources Bureau (東莞市人力資源局) confirmed that Dongguan Lee Wai has complied with the relevant regulations in respect of the labour laws and regulation as at 17 January 2011. We have also taken out insurances for our employees in Hong Kong as required by the relevant Hong Kong laws.

### **WORKFORCE**

#### **Personnel**

As at 31 December 2010, we had a workforce of over 5,600 personnel for our operations, out of whom about 5,400 personnel was provided by the processing agents in the PRC.

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The following is a breakdown of our workforce by functions:

| Function                                       | Number of<br>personnel | Number of<br>personnel provided<br>by the processing<br>agents |
|--|------------------------|--|
| Procurement                                    | 8                      | 50   |
| Product development                            | 8                      | 366  |
| Production                                     | 172                    | 4,538  |
| Merchandising and marketing                    | 45                     | 109  |
| Logistics                                      | 4                      | 98   |
| Administration, finance and human<br>resources | 24                     | 241  |
| <b>Total:</b>                                  | <b><u>261</u></b>      | <b><u>5,402</u></b>  |

Under the terms of the relevant PRC Processing Agreements, Gao Man United and Liu Wu Handbag, the processing agents, are responsible for providing us, among other things, labour. As advised by our PRC Legal Advisers, it is common and legal for a processing agent to provide production workers under processing arrangement. As there is no employment contract entered into between the personnel provided by the processing agents and our Group, we do not have any responsibilities or liabilities under the PRC laws and regulations for the personnel provided by the processing agents.

Our management participates in the performance evaluation of our workforce and conduct salary reviews. We adhere strictly to statutory employment standards. The PRC Processing Factories and Lee Wai Factory maintain appropriate internal standards and workplace practices. Certain customers imposes compliance standards in relation to the employment practices on our PRC Processing Factories, among which, on training, complaint system, non-discrimination, freedom of association and collective bargaining, wages and benefits, hours of work and disciplinary practices; and they carry out factory audit or factory monitoring visit and reflect their findings in the corrective action plan reports. To the best knowledge and belief of our Directors, the processing agents complied with such employment standards reasonably requested by our relevant customers in all material aspects during the Track Record Period.

We maintain good working relationships with our workforce. It is also our policy to provide them with proper training, and competitive compensation and incentives. Through the expansion of business, we provide promotion prospects and career development opportunities for our workforce. Although we are not obliged to provide welfare to the personnel of the processing agents, we have constructed dormitory and recreation centres, including library and day-care centres for the benefit of the personnel in the PRC Processing Factories. Our Directors believe that the working environment and benefits provided to our workforce have contributed to building good staff relations and retention. As at the Latest Practicable Date, we had not experienced any material strikes or any disputes with our workforce which would have any material adverse impact on our business.

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According to the Regulations on the Administration of Housing Fund (住房公積金管理條例) which was effective on 3 April 1999 and revised on 24 March 2002, and the Management Guidance on Administration of Housing Fund Payment in Dongguan (東莞市住房公積金繳存管理辦法) promulgated on 1 December 2007, PRC companies shall go through housing fund registration with the local housing fund administration centre and open housing fund accounts for its employees in a bank. A company may be ordered to comply with the rules in relation to the abovementioned registration and accounts opening by the relevant authorities. If a company fails to comply with the requirements within the prescribed time limit, a penalty ranging from RMB10,000 to RMB50,000 would be imposed. Where a company fails to pay up housing funds within the time limit, the housing fund administration center will order it to make payment within a certain period of time, and if the company still fails to do so, the housing fund administration center may apply to the court for enforcement of the unpaid amount.

According to our PRC Legal Advisers and as confirmed by our Directors, it is the current practice in Dongguan that the relevant government authorities focus on the housing fund account establishment of the major enterprises in Dongguan, and as at the Latest Practicable Date, Dongguan Lee Wai was not considered as a major enterprise locally.

During the period from its establishment and upto May 2011, Dongguan Lee Wai had not registered with the relevant authorities, did not establish a housing fund account with the banks and did not contribute to the housing fund within the prescribed time limit. However, Dongguan Lee Wai registered with the housing fund centre and established a housing fund account with the bank on 3 May 2011, and will contribute housing fund for its employees in accordance with the relevant regulations. In respect of the housing fund for May 2011, Dongguan Lee Wai has made the relevant contribution in May 2011 in accordance with the relevant regulations. Based on the salary level as at March 2011, our Directors expected that the maximum outstanding housing fund from date of establishment of Dongguan Lee Wai until April 2011 amounted to not more than RMB40,000. According to our PRC Legal Advisers, Dongguan Lee Wai was not penalised by the relevant housing fund authorities in Dongguan as at the Latest Practicable Date, and our PRC Legal Advisers expected that Dongguan Lee Wai would not be penalised.

### **INTELLECTUAL PROPERTY RIGHTS**

As at the Latest Practicable Date, we owned the rights to one registered trademark in Hong Kong, two registered trademarks in France, two registered trademarks in Germany and one registered trademark in Japan and four registered domain names. Our Directors are not aware of any material infringement or intellectual property rights incident during the Track Record Period. Further details of our intellectual property rights are set out in the paragraph headed "Intellectual property rights of our Group" in Appendix V to this document.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### DIRECTORS

Our Board consists of seven Directors, including four executive Directors and three independent non-executive Directors.

The information of our Directors is set out as follows:

| Name                        | Age | Position/Title   |
|-----------------------------|-----|--|
| Wai Siu Kee (衛少琦)           | 67  | Chairman, Chief Executive Officer and executive Director |
| Kung Phong (龔鈺)             | 39  | Executive Director                                       |
| Lee Man Ching (李文禎)         | 37  | Executive Director                                       |
| Poon Lai Ming (潘麗明)         | 55  | Executive Director                                       |
| Heng Victor Ja Wei (邢家維)    | 34  | Independent non-executive Director                       |
| So Wing Keung (蘇永強)         | 59  | Independent non-executive Director                       |
| Tsang Hin Man Terence (曾憲文) | 48  | Independent non-executive Director                       |

### Family relationship

Mr. Lee Man Yan, an executive director of LM, and Ms. Lee Man Ching, our executive Director, are the son and daughter respectively of Mr. Lee Wan Keung and Ms. Wai Siu Kee, our chairman, chief executive officer and executive Director. Therefore, Mr. Lee Man Yan and Ms. Lee Man Ching are brother and sister of each other. Mr. Kung Phong, our executive Director, is the spouse of Ms. Lee Man Ching, and accordingly, Mr. Kung Phong is the son-in-law of Mr. Lee Wan Keung and Ms. Wai Siu Kee, and the brother-in-law of Mr. Lee Man Yan. Both Mr. Lee Wan Keung and Mr. Lee Man Yan are our Controlling Shareholders.

### Executive Directors

**Ms. Wai Siu Kee** (衛少琦), aged 67, is our chairman and chief executive officer and was appointed as our executive Director on 4 January 2011. Ms. Wai Siu Kee is one of the founders of our Group and has more than 34 years of experience in the handbag manufacturing industry. She is responsible for the development of corporate strategies, corporate planning and overall management of our Group and in particular the marketing and development of the business of our Group. She was also a director of LM Handbag Manufacturing, LM Company, LM Luggage, Lee & Man Handbag (Thailand) Company Limited, LM Development, LM Management and Lee Wai Handbag Manufacturing Company Limited as at the Latest Practicable Date. Ms. Wai Siu Kee has been the chairman and an executive director of LM since 22 August 2001 and remained as the chairman and an executive director of LM as at the Latest Practicable Date. Ms. Wai Siu Kee was also a director of Full Gold, one of our Controlling Shareholders, as at the Latest Practicable Date.

**Mr. Kung Phong** (龔鈺), aged 39, was appointed as our executive Director on 4 January 2011. He joined the LM Group in 2008 as assistant general manager and was appointed as an executive director of LM in August 2008. He has over 11 years of experience in business development as well as extensive knowledge in sales and marketing.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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He is responsible for the management and development of the business of our Group. Mr. Kung is also the legal representative of Dongguan Lee Wai. Mr. Kung has been appointed as an executive director of LM in August 2008 remained so as at the Latest Practicable Date. It is expected that Mr. Kung will resign from his directorship of LM upon Listing.

From 1999 to 2008, Mr. Kung founded Zebra Strategic Outsource Solution Ltd which carried on the business of software development for local small and medium enterprises and provision of business-to-business service to banking and finance companies, including executive search, payroll outsourcing and various staff solutions, and acted as the director, responsible for overseeing the business development, in-house operations, accounts and human resources activities.

**Ms. Lee Man Ching** (李文禎), aged 37, was appointed as our executive Director on 18 May 2011. She first joined the LM Group in 1998 as merchandiser and has over 12 years of experience in sales and marketing. During the period from 2001 to 2007, Ms. Lee worked in Typhoon Games (Hong Kong) Limited which was engaged in the business of game developing and publishing as sales and marketing director. Since 2007, Ms. Lee has acted as the director of sales of our then Group. She is responsible for the merchandising and marketing functions of our Group. Ms. Lee obtained a bachelor's degree in home economics with first class standing from the University of British Columbia in 1997. Ms. Lee was also a director of LM Handbag Manufacturing, LM Company, LM Luggage, LM Development, LM Management, Lee Wai Handbag Manufacturing Company Limited and Well Known Associates Limited as at the Latest Practicable Date.

**Ms. Poon Lai Ming** (潘麗明), aged 55, was appointed as our executive Director on 18 May 2011. She joined the LM Group in 1976 as senior manager and has over 34 years of experience in the handbag industry. She is responsible to provide operational advisory services to Liu Wu Processing Factory. Ms. Poon has been appointed as an executive director of LM on 22 August 2001 and remained so as at the Latest Practicable Date. It is expected that Ms. Poon will resign from her directorship of LM upon Listing. Ms. Poon was a director of LM Handbag Manufacturing as at the Latest Practicable Date.

### **Independent non-executive Directors**

**Mr. Heng Victor Ja Wei** (邢家維), aged 34, was appointed as our independent non-executive Director on 18 May 2011. Mr. Heng is a partner of Morison Heng, Certified Public Accountants. He holds a master of science degree of the Imperial College of Science, Technology and Medicine, the University of London. He was admitted as a member of The Association of Chartered Certified Accountants in 2006 and a member of The Hong Kong Institute of Certified Public Accountants in 2007. Other than directorship in our Company, since 4 March 2009, Mr. Heng has also been an independent non-executive director of China Fire Safety Enterprise Group Limited (Stock Code: 0445) whose shares are listed on the Main Board. Mr. Heng has been an independent non-executive director of LM since 30 June 2010 and remained an independent non-executive director of LM as at the Latest Practicable Date.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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**Mr. So Wing Keung** (蘇永強), aged 59, was appointed as our independent non-executive Director on 18 May 2011. Mr. So has been acting as the managing director of Sweda Limited since 1982. Mr. So obtained a master's degree in materials engineering from the Yanshan University. Currently, Mr. So is the president of Hong Kong Watch Manufacturers Association, an alternate member of the General Committee of Federation of Hong Kong Industries, an executive committee member of Hong Kong Electronic Industries Association and the vice-president of The Mirror. Mr. So is also a member of Chinese People's Political Consultative Committee of Hunan (政協湖南省委員會).

**Mr. Tsang Hin Man Terence** (曾憲文), aged 48, was appointed as our independent non-executive Director on 18 May 2011. Mr. Tsang has been admitted as a solicitor in Hong Kong since 1993 and he is currently the sole proprietor of Tsang & Co., H.M.. Mr. Tsang obtained a bachelor's degree in science from the University College London, the University of London in 1986. He also holds a bachelor's degree in law from the Polytechnic of Central London (now known as the University of Westminster).

Save as disclosed above, each of our Directors (i) did not hold other positions in our Company or other members of our Group as at the Latest Practicable Date; (ii) had no other relationship with any Directors, senior management or substantial or controlling shareholders of our Company as at the Latest Practicable Date; (iii) did not hold any other directorships in listed public companies in the three years prior to the Latest Practicable Date. Each of our Directors confirms that he/she is not interested in any business which competes, or is likely to compete, either directly or indirectly, with the business carried out by our Group. As at the Latest Practicable Date each of our Directors did not have any interest in our Shares within the meaning of Part XV of the SFO.

Save as disclosed herein, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of our Directors that needs to be brought to the attention of our Shareholders and there was no information relating to our Directors that is required to be disclosed pursuant to Rules 13.51(2)(h) to (v) of the Listing Rules as at the Latest Practicable Date.

### SENIOR MANAGEMENT

**Mr. Ng Yu Hung** (伍于鴻), aged 56, is our senior manager. He joined the LM Group in 1977 as senior manager. He has over 33 years of experience in the handbag industry. He is responsible for the marketing and development of our business in the European market. Mr. Ng Yu Hung is the brother of Mr. Ng Yu Kuen, one of our senior management staff. Mr. Ng Yu Hung was a director of LM Handbag Manufacturing as at the Latest Practicable Date.

**Ms. Tai Miu Fong** (戴妙芳), aged 46, is our senior manager. She joined the LM Group in 2003 as senior manager and has over 15 years of experience in administration, human resources, management, marketing and development. Prior to joining our Group, Ms. Tai worked in MTV Network International as executive assistant and was later promoted as office manager from 1995 to 1997. From 1997 to 1998, she joined SK Global Hong Kong Limited as human resources manager. She is responsible for the sales and marketing of our business in the United States and European market.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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**Ms. Yu Siu Mui** (余小梅), aged 40, is our senior manager. She joined the LM Group in 2001 as merchandiser. She graduated from the Chinese University of Hong Kong with a bachelor's degree in business administration in 1994. She has over nine years of experience in marketing and development. She is responsible for the sales and marketing of our business in the United States and European market.

**Ms. Tsui Chin Wai, Jennifer** (徐展慧), aged 46, is our merchandising manager. She joined the LM Group in 1990 as export assistant. She graduated from the State University of New York with a master's degree in business administration in 1989. In 1990, Ms. Tsui obtained a Bachelor's degree in science, majoring in applied chemistry from the Hong Kong Baptist College (now known as Hong Kong Baptist University). She is responsible for the sales and marketing of our business in the European market.

**Mr. Chan Kam Bun** (陳鑫彬), aged 62, is our manager. He joined the LM Group in 1996 as manager and has over 14 years of experience in the handbag business. He is responsible to co-ordinate the production activity in Gao Bu Processing Factory. Mr. Chan was a director of Lee & Man Handbag (Thailand) Company Limited as at the Latest Practicable Date.

**Mr. Ng Yu Kuen** (伍于權), aged 54, is our senior manager. Prior to joining our Group, Mr. Ng Yu Kuen worked in Lee & Man Paper Products Co., Ltd. as manager from 1983 to 2007. He joined the LM Group in 2009 as merchandising manager and has over 20 years of experience in administration and management. He is responsible to co-ordinate the production activity in Liu Wu Processing Factory. Mr. Ng Yu Kuen is the brother of Mr. Ng Yu Hung, one of our senior management staff.

**Ms. Wong Yuk Ling Janita** (黃玉玲), aged 29, is our associate accounting manager. She joined the LM Group in 2010 as assistant accounting manager and has over five years of experience in the field of accounting and auditing. Prior to joining our Group, Ms. Wong worked in Grant Thornton from 2007 to 2010 as accountant and later was promoted to assistant manager in 2010. She obtained a bachelor's degree in commerce (accounting) from the Macquarie University, Australia in 2004. She is a member of the Association of Chartered Certified Accountants. She is responsible for our accounting functions.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### COMPANY SECRETARY

**Ms. Wong Yuet Ming** (王月明) CPA, aged 46, was appointed as our company secretary on 18 May 2011. She joined the LM Group in 2004 as the financial controller and has also acted as the company secretary of LM since 2007. Ms. Wong has over 21 years of experience in the field of auditing and accounting. She worked as accounting manager or finance and administration manager in various companies prior to joining the LM Group. Ms. Wong graduated from the Soochow University, Taipei, Republic of China with a bachelor's degree of business administration in accounting in 1987 and she holds a master's degree in business administration from the University of Surrey, United Kingdom. She was admitted as a fellow member of the Association of Chartered Certified Accountants in 2002 and an associate member of the Hong Kong Society of Accountants (now known as Hong Kong Institute of Certified Public Accountants) in 1996. She is responsible for managing and overseeing compliance and reporting obligations of our Group. It is expected that Ms. Wong will be appointed as an executive director of LM upon Listing and remain as the company secretary of both LM and our Company after Listing.

### STAFF

We maintain good working relations with our staff. We have not experienced any significant problems with the recruitment and retention of experienced employees. In addition, we have not suffered from any material disruption of our normal business operations as a result of labour disputes or strikes.

### Benefits

As required by the employment laws in Hong Kong, our Group participates in the mandatory provident fund scheme to provide retirement benefits for our Hong Kong staff. Our Hong Kong staff is also entitled to medical welfare and discretionary bonus provided by our Group.

As required by the PRC regulations on social insurance, Dongguan Lee Wai participates in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance.

### Compensation

The aggregate amounts of remuneration of our Directors for each of the three years ended 31 December 2010 were approximately HK\$2.4 million, HK\$2.9 million and HK\$2.7 million respectively. Details of the arrangement for remuneration are set out in Note 10 to the Accountants' Report in Appendix I to this document. Under such arrangement and pursuant to our Directors' service agreements and letters of appointment referred to in the paragraph headed "Particulars of Directors' service contracts" under the section headed "Statutory and general information" as set out in Appendix V to this document, the aggregate amount of directors' fee and other emoluments payable to our Directors for the year ending 31 December 2011 is estimated to be approximately HK\$2.8 million, excluding any discretionary bonuses.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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Our Directors and senior management receive compensation in the form of salaries, benefits in kind and/or discretionary bonuses relating to the performance of our Group. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation packages of our Directors and senior management.

After the Listing, our remuneration committee will review and determine the remuneration and compensation packages of our Directors and senior management with reference to salaries paid by comparable companies, time commitment and responsibilities of our Directors and performance of our Group.

During the Track Record Period, no remuneration was paid by us to, or received by, our Directors as an inducement to join or upon joining us.

### **BOARD COMMITTEES**

#### **Audit committee**

Our Company established an audit committee on 18 May 2011 with written terms of reference in compliance with Rule 3.21 and the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of our audit committee are mainly to make recommendations to our Board on the appointment and removal of the external auditor, review financial statements and materials and provide advice in respect of financial reporting and oversee the internal control procedures of our Company. At present, our audit committee comprises Mr. Heng Victor Ja Wei, Mr. So Wing Keung and Mr. Tsang Hin Man Terence, all being independent non-executive Directors. Mr. Heng Victor Ja Wei is the chairman of our audit committee.

#### **Remuneration committee**

Our Company established a remuneration committee on 18 May 2011 with written terms of reference in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The primary functions of our remuneration committee are to make recommendations to our Board on the overall remuneration policy and structure relating to all Directors and senior management of our Group, review performance based remuneration and ensure none of our Directors determines their own remuneration. At present, our remuneration committee comprises Mr. Heng Victor Ja Wei, Mr. So Wing Keung and Mr. Tsang Hin Man Terence, all being independent non-executive Directors. Mr. Heng Victor Ja Wei is the chairman of our remuneration committee.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### COMPLIANCE ADVISER

We have appointed CIMB as our compliance adviser on 18 May 2011 pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us, among others, at the following circumstances:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (3) where our business activities, developments or results deviate from any forecast, estimate, or other information in this document; and
- (4) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The term of appointment of our compliance adviser shall commence on the Listing Date and end on the date of despatch of our annual report in respect of our financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

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## RELATIONSHIP WITH THE LM GROUP

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### BACKGROUND INFORMATION OF THE LM GROUP

LM was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 27 July 2001, the shares of which have been listed on the Main Board since 16 January 2002. As at the Latest Practicable Date, LM was the sole shareholder of our Company. Immediately upon completion of the Distribution, LM will no longer be interested in the issued share capital of our Company. The Introduction constitutes a deemed disposal of LM's equity interest in its subsidiary under Rule 14.29 of the Listing Rules and a major transaction for LM under Chapter 14 of the Listing Rules and will be subject to reporting, announcement and shareholders' approval requirements under the Listing Rules. Upon completion of the Distribution, our Company will cease to be a subsidiary of LM. The approval from the LM Shareholders will be sought at the EGM to be held on 13 June 2011.

On 5 January 2011, LM submitted a proposal for the Spin-off to the Stock Exchange pursuant to Practice Note 15 to the Listing Rules. Our Directors expect that, immediately following completion of the Distribution, the Remaining LM Group will be principally engaged in the manufacture and sale of chloro-alkali chemical products which consist of dichloromethane, chloroform, and other ancillary products such as hydrogen peroxide and sodium hydroxide, whereas our Group will focus on the manufacture and sale of handbags. The Spin-off is aiming to allow separate platforms for the two businesses of the LM Group with clear delineation. The board of directors of LM believes that the Spin-off will bring about a number of benefits to both LM and our Company:

- (i) LM and our Company are believed to have different growth paths and different business strategies and the Spin-off will allow separate platforms for the businesses of the two groups;
- (ii) the Spin-off will create two groups of companies and will offer investors with an opportunity to participate in the future development of both the Remaining LM Group as well as our Group and flexibility to invest in both or either of the groups;
- (iii) the Spin-off will be by way of a distribution in specie whereby upon Listing, all our Shares will be held by the LM Qualifying Shareholders and the Independent Third Party(ies) who purchased our Shares which the LM Excluded Shareholders shall be entitled to under the Distribution. The LM Excluded Shareholders will also be entitled to receive the net proceeds from the disposal of such Shares to which they are entitled under the Distribution. LM will thus be able to return value to the LM Shareholders in the form of liquid securities or cash;
- (iv) the Spin-off will enable the management team of LM to continue to focus on building the core businesses of the Remaining LM Group (i.e. the manufacture and sale of chloro-alkali chemical products which consist of dichloromethane, chloroform, and other ancillary products such as hydrogen peroxide and sodium hydroxide), thereby enhancing the decision-making process and its responsiveness to market changes;

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## RELATIONSHIP WITH THE LM GROUP

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- (v) the Spin-off will provide a mechanism to attract and motivate our Group's management directly in line with the financial performance of our Group on a standalone basis;
- (vi) the Spin-off is expected to improve the operational and financial transparency of our Group and provide the investors, the market and rating agencies with greater clarity on the businesses as well as the respective financial status of the Remaining LM Group and our Group; and
- (vii) the Spin-off will provide separate fundraising platforms for the Remaining LM Group and our Group with respect to their respective operations and future expansion.

Before the Distribution, the major businesses of the LM Group are (i) the manufacture and sale of handbags; and (ii) the manufacture and sale of chloro-alkali chemical products which consist of dichloromethane, chloroform, and other ancillary products such as hydrogen peroxide and sodium hydroxide. Both businesses in the LM Group continued to develop stably with clear delineation. Through the Spin-off without any fund raising exercise, the Remaining LM Group and our Group can be clearly delineated into two separate business models so that they could further their businesses under independent platforms while there will be no dilution of the LM Qualifying Shareholders' attributable interest in the two distinct groups. As there is no fund raising and therefore, the LM Qualifying Shareholders will have the same attributable interest in both groups before and immediately after Listing. Upon completion of the Distribution, the Remaining LM Group will be principally engaged in the manufacture and sale of chloro-alkali chemical products which consist of dichloromethane, chloroform, and other ancillary products such as hydrogen peroxide and sodium hydroxide. For each of the three years ended 31 December 2010, our Group's net profit amounted to approximately HK\$102.3 million, HK\$106.9 million and HK\$102.2 million respectively. Our Group's net profit for each of the three years ended 31 December 2010 represented approximately 125.4%, 45.7% and 22.3% of the net profit of the LM Group during the corresponding periods.

Before the Distribution, our Group is an integral part of the LM Group but we are operating independently from the Remaining LM Group. Our Group does not have any significant business relationship with the Remaining LM Group.

### INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Mr. Lee Man Yan, one of our Controlling Shareholders, had been acting as an executive director of LM during the Track Record Period and will remain as an executive Director of LM after Listing. Mr. Lee Man Yan has concentrated on the overall planning, management and daily operation of the chemical business of the LM Group since LM's setting up of its chemical business in 2005 and did not have any role in our Group during the Track Record Period. It is expected that the same arrangement will remain after Listing.

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## RELATIONSHIP WITH THE LM GROUP

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Mr. Lee Man Yan is (i) the son of Ms. Wai Siu Kee, our executive Director, and Mr. Lee Wan Keung, one of our Controlling Shareholders; (ii) the brother of Ms. Lee Man Ching, our executive Director; and (iii) the brother-in-law of Mr. Kung Phong, our executive Director. Save as disclosed, Mr. Lee Man Yan does not have any other relationship with our Company or our Directors.

Mr. Lee Wan Keung, one of our Controlling Shareholders, is the father of Ms. Lee Man Ching, our executive Director, and the father-in-law of Mr. Kung Phong, our executive Director. Mr. Lee Wan Keung is also the father of Mr. Lee Man Yan, one of our Controlling Shareholders. Except being one of our Controlling Shareholders, a founder of our Group and a director of Lee & Man Handbag (Thailand) Company Limited, Mr. Lee Wan Keung did not have any role in our Group during the Track Record Period. It is expected that the same arrangement will remain after Listing. Save as disclosed, Mr. Lee Wan Keung does not have any other relationship with our Company or our Directors.

Lee & Man Paper Manufacturing Limited (“**LM Paper**”) is a company listed on the Main Board (Stock Code: 2314) and is an associate of Mr. Lee Wan Keung by virtue of the fact that Mr. Lee Wan Keung indirectly holds approximately 53.18% interest in LM Paper through Gold Best Holdings Ltd.. Mr. Lee Wan Keung is also an executive director and the chairman of LM Paper. LM Paper is principally engaged in the production and sale of paper and pulp products, whereas our Group will focus on the manufacture and sale of handbags upon Listing. By the nature of the products and services provided by LM Paper and our Group, there is a clear delineation between the businesses of LM Paper and our Group, hence it is unlikely for LM Paper and our Group to have either direct or indirect business competition.

Save as disclosed above, our Company, our Controlling Shareholders and our Directors do not have any relationship with LM Paper, except for the family interest of Mr. Lee Man Yan, one of our Controlling Shareholders, Ms. Lee Man Ching, our executive Director, and Mr. Kung Phong, our executive Director (by virtue of Mr. Lee Wan Keung’s relationship with LM Paper.)

Both Mr. Lee Man Yan and Mr. Lee Wan Keung confirm that they are not, individually or collectively, interested in any business which competes, or is likely to compete, either directly or indirectly, with the business carried out by our Group.

### INDEPENDENCE FROM THE LM GROUP

It is expected that upon completion of the Distribution, our Group will cease to be a subsidiary of LM which demonstrates the independence of our Group from the Remaining LM Group and the delineation of the business operations of the two groups. In addition, our Directors consider that our Group is capable of carrying on its business independently of the Remaining LM Group after Listing based on the following particulars:

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## RELATIONSHIP WITH THE LM GROUP

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### Management independence

As at the Latest Practicable Date, our Board had seven members, comprising four executive Directors and three independent non-executive Directors while the board of directors of LM had four executive directors and three independent non-executive directors.

The following table sets out the overlapping Directors and the company secretary of LM and our Company immediately before Listing and upon Listing:

| <b>Our Company immediately upon Listing</b> | <b>LM immediately before Listing</b>      | <b>LM immediately upon Listing</b>  |
|---|---|---|
| <b>Executive Director</b>                   | <b>Executive director</b>                 | <b>Executive director</b>   |
| Ms. Wai Siu Kee <i>(Note 1)</i>             | Ms. Wai Siu Kee <i>(Note 1)</i>           | Ms. Wai Siu Kee <i>(Note 1)</i><br><br>Ms. Wong Yuet Ming <i>(Note 2)</i> |
| <b>Independent non-executive Director</b>   | <b>Independent non-executive director</b> | <b>Independent non-executive director</b>                                 |
| Mr. Heng Victor Ja Wei <i>(Note 1)</i>      | Mr. Heng Victor Ja Wei <i>(Note 1)</i>    | Mr. Heng Victor Ja Wei <i>(Note 1)</i>                                    |
| <b>Company secretary</b>                    | <b>Company secretary</b>                  | <b>Company secretary</b>  |
| Ms. Wong Yuet Ming <i>(Note 2)</i>          | Ms. Wong Yuet Ming <i>(Note 2)</i>        | Ms. Wong Yuet Ming <i>(Note 2)</i>  |

*Notes:*

- Ms. Wai Siu Kee and Mr. Heng Victor Ja Wei, each being our executive Director and independent non-executive Director respectively, have been acting as an executive director and independent non-executive director of LM immediately before Listing, and they are expected to remain to hold the same respective position in LM upon Listing.
- Ms. Wong Yuet Ming, our company secretary, have been acting as a senior management of LM immediately before Listing. It is expected Ms. Wong will act as an executive Director of LM and the company secretary of both LM and our Company upon Listing.

Ms. Wai Siu Kee, our executive Director, our chairman and our chief executive officer, is an executive director and the chairman of LM and will remain as an executive director and the chairman of LM after Listing. Ms. Wai Siu Kee had been concentrated on strategic planning, overseeing the overall management of our Group since her appointment as an executive director and the chairman of LM in 2001. She will serve the same functions after Listing and will not be involved in the day-to-day operation of and running of business of our Group after Listing. It is also expected that Ms. Wai Siu Kee will be responsible for overall management of the Remaining LM Group without involving in its day-to-day operation after Listing. It is expected that Ms. Wai Siu Kee will allocate her time and other resources as to approximately 50% for strategic planning, overseeing the overall operation and general management of our Group and as to approximately 50% for the overall management of the Remaining LM Group; and our Directors believe that such arrangement will not affect the discharge of duties and responsibilities to our Group or the Remaining

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## RELATIONSHIP WITH THE LM GROUP

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LM Group. Other than Ms. Wai Siu Kee, who will be the common chairman and executive director of both our Company and LM, all of the other three executive Directors will be independent from LM and they are expected to be involved in daily management decision of our Group.

Mr. Kung Phong and Ms. Poon Lai Ming, each being our executive Director, had been acting as an executive director of LM since 2008 and 2001 respectively. However, both of them had not been involved in the management of the LM Group other than the business and operation of our Group during the Track Record Period. It is expected that each of Mr. Kung Phong and Ms. Poon Lai Ming will resign from his/her directorship in LM upon Listing.

Furthermore, Mr. Heng Victor Ja Wei, our independent non-executive Director, is also an independent non-executive director of LM. Mr. Heng did not participate in the day-to-day operation of the LM Group (including our Group) before Listing and will not participate in such work in both the Remaining LM Group and our Group after Listing. Accordingly, it is expected that there will not be any conflict of interest arising as a result of Mr. Heng's dual role. Given the non-executive nature of Mr. Heng's directorship in both our Company and LM, it is expected that Mr. Heng will have sufficient time and resources to serve on the board of directors of LM and our Board without affecting his discharge of duties and responsibilities to the two groups.

Ms. Lee Man Ching, Mr. Ng Yu Hung, Ms. Tsui Chin Wai Jennifer, Ms. Tai Miu Fong and Mr. Chan Kam Bun have extensive experience in the handbag industry and have been acting as directors and/or senior management members of various subsidiaries of our Company during the Track Record Period. The above personnel were regarded as senior management personnel of the LM Group in its annual reports for the three years ended 31 December 2010.

Ms. Wong Yuet Ming was the company secretary of LM during the Track Record Period and will remain as the company secretary for both our Company and LM and will become an executive director of LM upon Listing. It is expected that Ms. Wong Yuet Ming will allocate her time as to approximately 30% for her role as company secretary of both LM and our Company and as to approximately 70% for her role as executive director of LM. To discharge her duties as company secretary, Ms. Wong Yuet Ming will lead two separate company secretarial personnel to carry out the daily general secretarial work for each of LM and our Company while Ms. Wong Yuet Ming will be mainly responsible for overseeing compliance and reporting obligations of LM and our Group. To discharge her duties as executive director of LM, Ms. Wong Yuet Ming will be responsible for giving advice in financial aspect when the Remaining LM Group makes strategic plan and decision without involving day-to-day operation of the business of the Remaining LM Group. It is expected that such arrangement will not affect the discharge of Ms. Wong Yuet Ming's duties and responsibilities to our Group or the Remaining LM Group. Other than having Ms. Wong Yuet Ming as a proposed executive director of LM and the company secretary of both LM and our Company, there is no overlapping senior management staff between the Remaining LM Group and our Group. Our Company has its own team of staff to carry out its own finance, administration and operation independent of LM.

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## RELATIONSHIP WITH THE LM GROUP

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Save as disclosed above, no other directors or senior management of our Group had any role in the LM Group during the Track Record Period other than the business and operation of our Group. It is expected that all the executive Directors, except Ms. Wai Siu Kee, will not have any executive role or involvement in the Remaining LM Group after Listing. Save as disclosed above, it is also expected that there will be no overlapping of senior management between the Remaining LM Group and our Group after Listing. Our Directors are of the view that there is no overlapping management function between our Group and the Remaining LM Group and our Group is capable of maintaining management independence.

Moreover, should potential conflict of interests between the overlapping directors' roles arise, the interested Directors with potential conflict of interests shall abstain from voting at the relevant board meetings of LM, our Company or the relevant subsidiaries of our Company, where appropriate, in respect of such transactions or matters with potential conflict of interests, and they shall not be counted in the quorum of the relevant board meetings. For our Company, board decisions in respect of such matters or transactions with potential conflict of interests will be decided by the independent non-executive Directors as well as our executive Directors with no involvement in the Remaining LM Group.

In the event that there are conflicting family interest of Ms. Lee Man Ching and Mr. Kung Phong, he/she shall disclose his/her interests to our Board and where, pursuant to the applicable provisions in the Articles, should he/she have a material interest in the matter, he/she may not vote on the resolutions of our Board approving the same and shall not be counted in the quorum for the voting as required under the Listing Rules. According to the Articles, the quorum necessary for the transaction of business at a meeting of our Board shall be two Directors, hence, a relevant board meeting could be convened and attended by disinterested Directors who have no material interest in the matter to deliberate on the matters. In addition, our Company has an independent senior management team to carry out the business decisions of our Group independently.

Based on the above reasons, our Directors are of the view that our Directors and the senior management of our Group are able to function independently from the Remaining LM Group and potential conflict of interests can be avoided and where it arises, can be resolved.

### **Operational independence**

The core businesses of the Remaining LM Group and our Group, by their very nature, are separate and distinct businesses which are independently operated in distinct markets. Our Directors expect that, immediately following completion of the Distribution, the Remaining LM Group will remain to be engaged principally in the manufacture and sale of chloro-alkali chemical products which consist of dichloromethane, chloroform, and other ancillary products such as hydrogen peroxide and sodium hydroxide, whereas our Group will focus on the manufacture and sale of handbags. By the nature of the products and services provided by our Group and the Remaining LM Group, there is a clear delineation between the business retained by the Remaining LM Group and the business of our Group and there will not be any overlapping of businesses.

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## RELATIONSHIP WITH THE LM GROUP

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The production bases of our Group are principally located in Dongguan, while those of the Remaining LM Group are located in Changshu, the PRC. The production bases of our Group and of the Remaining LM Group are clearly delineated.

On 18 May 2011, Lee & Man Realty Investment Limited and LM Management entered into a tenancy agreement, among others, for the principal place of business of our Group in Hong Kong. Details of which were set out in the section headed “Continuing connected transactions” in this document. Our Directors are of the opinion that there is a ready supply of similar office premises available in the market and a suitable replacement can be obtained on a timely and commercially viable basis at market rent from other independent third party suppliers. Hence, our Directors believe that such arrangement will not materially affect the operational independence of our Group.

The principal raw materials for manufacturing of handbags include PVC, PU, leather, nylon, cotton fabrics, metals and various types of textile materials while the principal raw materials for manufacturing of chloro-alkali chemical products include salt and methanol. Further, products/services of our Group are mainly sold/provided to brand owners or brand carriers, department stores and megastores while products of the Remaining LM Group are mainly sold to users of its chloro-alkali chemical products which include fluorochemical manufacturers. As the respective principal raw materials, production base, products and customers of the Remaining LM Group and our Group are different or can be clearly delineated, our Directors are of the view that there will not be any actual or potential competition between the respective businesses of the Remaining LM Group and our Group.

To ensure the independence of the operation and business of our Group from the Remaining LM Group: (a) our Group has its own production, merchandising and marketing, product development, logistics, procurement and administration, finance and human resources teams which have been operated and is expected to continue to operate separately and independently of the Remaining LM Group; and (b) there is no ongoing connected transactions between the Remaining LM Group and our Group and it is currently expected that there will not be any significant connected transactions between the two groups after Listing. Should we notice any connected transactions between the Remaining LM Group and our Group arises, our Group will comply with the relevant requirements under Chapter 14A of the Listing Rules.

### **Financial independence**

Our Group has an independent financial system and finance team which are responsible for its own treasury functions despite members of our Group were subsidiaries of LM during the Track Record Period.

Balances between the LM Group and our Group were non-trade in nature. During the Track Record Period, amounts due from the Remaining LM Group to our Group amounted to approximately HK\$280 million and HK\$163 million as at 31 December 2008 and 2009 respectively.

The above non-trade balance between our Group and the LM Group was settled in full during the year ended 31 December 2010.

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## **RELATIONSHIP WITH THE LM GROUP**

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During the Track Record Period, all of the outstanding banking facilities of our Group were, among other terms, guaranteed by LM. The outstanding balances of such banking facilities of our Group amounted to HK\$188.8 million, HK\$150.3 million and HK\$125.9 million as at 31 December 2008, 2009 and 2010 respectively. Agreements in principle for the release of such guarantees to be replaced by other security and/or corporate guarantees to be provided by our Group upon Listing have been obtained from the relevant banks.

During the Track Record Period, members of our Group were subsidiaries of LM despite that their operations were carried out individually at company level. The financials of such operating companies are consolidated at the group level. Our Group has its own financial system and internal control procedures which are independent from that of the Remaining LM Group.

On the basis above, our Directors are of the view that the financial system of our Group is independent from the Remaining LM Group, and our Group will not have any outstanding balances with, and guarantees from or to, the Remaining LM Group upon Listing.

### **Administrative independence**

Our Group has its own administration, finance and human resources team of staff to carry out its own administrative and operation functions which is independent of that of the Remaining LM Group and without requiring any substantial support from the Remaining LM Group or its associates. Our Group has our own capabilities and personnel to perform all essential administrative functions, including financial and accounting management, invoicing and billing, and human resources. Each of the Remaining LM Group and our Group will be managed and operated by its own board of directors and senior management separately and independently and in the interests of its shareholders.

Our Directors are of the view, and the Sponsor concurs, that there is no undue reliance by our Group on the Remaining LM Group in any aspect of its operations based on the reasons stated above.

### **CORPORATE GOVERNANCE MEASURES TO AVOID CONFLICT OF INTERESTS**

Our Directors recognise the importance of incorporating elements of good corporate governance in management conducive to the protection of the interests of our Shareholders. In particular, the following corporate governance measures in relation to managing potential conflict of interests between our Group and the Remaining LM Group are taken:

- (a) our Directors or, if appropriate, the disinterested Directors will be responsible for deciding and given authority to decide, without attendance by any Directors with beneficial or conflict interests in the new business opportunity, whether or not to take up a new business opportunity which relates to the manufacture and sale of handbags and is referred to our Group by the Remaining LM Group. For this purpose, the disinterested Directors may, from time to time, engage external professional advisers as they may consider necessary to advise them on the issues which relate to the above matters;

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## RELATIONSHIP WITH THE LM GROUP

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- (b) any transaction (if any) between (or proposed to be made between) our Group and connected persons will be required to comply with Chapter 14A of the Listing Rules, including, where applicable, the announcement, reporting and independent shareholders' approval requirements and with those conditions imposed by the Stock Exchange for the granting of waiver from strict compliance with the relevant requirements under the Listing Rules; and
- (c) in the event that there is conflict of interests in the operations of our Group and the Remaining LM Group and its associates, and in respect of any proposed contracts or arrangements between our Group and the Remaining LM Group and its associates, any Director who is considered to be interested in a particular matter or the subject matter, he/she shall disclose his/her interests to our Board. Pursuant to the Articles, should a Director have any material interests in the matter, he/she may not vote on the resolutions of our Board approving the same and shall not be counted in the quorum of the relevant Board meeting. A relevant board meeting attended by disinterested Directors who have no material interest in the matter shall be held to deliberate on the matters.

On the basis that all Directors (except Ms. Wai Siu Kee and Mr. Heng Victor Ja Wei), and senior management of our Group (except Ms. Wong Yuet Ming) do not hold any position in the Remaining LM Group, and that each of our executive Directors and senior management has extensive and relevant experience in the handbag business, our Directors are of the view that our Board will have the expertise to transact business which may potentially involve conflict of interests between the Remaining LM Group and our Group objectively, impartially and in the best interest of our Company and our Shareholders as a whole. Besides, conflict of interests of any overlapping Directors will not affect the business operations of our Group as the daily business operations of our Group are operated and implemented by employees of our Group under the strategic directions of our Board, or as the case may be, the experienced and disinterested Board.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Remaining LM Group and our Group and to protect the interests of our Shareholders, in particular, our minority Shareholders.

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## CONTINUING CONNECTED TRANSACTIONS

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### RELATIONSHIP BETWEEN OUR GROUP AND THE CONNECTED PERSONS

#### (1) Lee & Man Realty Investment Limited (“L&M Realty”)

Mr. Lee Wan Keung owns nine ordinary shares and two non-voting deferred shares of L&M Realty while Mr. Lee Man Yan owns one ordinary share of L&M Realty, which amounted to all issued share capital of L&M Realty. To the best knowledge of our Directors, L&M Realty is principally engaging in property investment.

Mr. Lee Wan Keung and Mr. Lee Man Yan, each being our Controlling Shareholder, will become a connected person of our Company under Rule 14A.11(1) of the Listing Rules.

L&M Realty is an associate of Mr. Lee Wan Keung and is accordingly a connected person of our Company under Rule 14A.11(4) of the Listing Rules.

Mr. Kung Phong and Ms. Lee Man Ching, the son-in-law and the daughter of Mr. Lee Wan Keung, each being our executive Director, will become connected persons of our Company under Rule 14A.11(1) of the Listing Rules upon Listing.

By virtue of the fact that Mr. Lee Wan Keung is entitled to exercise more than 50% or more of the voting power at any general meeting of L&M Realty, L&M Realty will also become a connected person of our Company under Rule 14A.11(4)(b)(ii) and/or Rule 14A.11(4)(c)(ii) of the Listing Rules upon Listing.

Under the Listing Rules, for so long as either Mr. Lee Wan Keung, Mr. Kung Phong or Ms. Lee Man Ching remains a connected person of our Company, the following transactions between L&M Realty and our Group would constitute continuing connected transactions upon Listing.

#### (2) Capital Nation Investments Limited (“Capital Nation”)

Capital Nation is a company beneficially owned by Ms. Lee Rosanna Man Lai.

As mentioned above, Mr. Lee Wan Keung, Mr. Lee Man Yan, Mr. Kung Phong and Ms. Lee Man Ching will each become a connected person of our Company under Rule 14A.11(1) of the Listing Rules upon Listing.

Ms. Lee Rosanna Man Lai, being the daughter of Mr. Lee Wan Keung, the sister of both Ms. Lee Man Ching and Mr. Lee Man Yan, will become an associate of Mr. Lee Wan Keung, Ms. Lee Man Ching and Mr. Lee Man Yan and will also become a connected person of our Company under Rule 14A.11(4)(b)(i) of the Listing Rules.

Ms. Lee Rosanna Man Lai is also the sister-in-law of Mr. Kung Phong, she will become an associate of Mr. Kung Phong and will also become a connected person of our Company under Rule 14A.11(4)(c)(i) of the Listing Rules.

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## CONTINUING CONNECTED TRANSACTIONS

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As Capital Nation is beneficially owned by Ms. Lee Rosanna Man Lai, it is an associate of Ms. Lee Rosanna Man Lai and will also become a connected person of our Company under Rule 14A.11(4)(b)(ii) and/or Rule 14A.11(4)(c)(ii) of the Listing Rules upon Listing.

Neither Ms. Lee Rosanna Man Lai nor Capital Nation has any direct relationship with LM Paper except Ms. Lee Rosanna Man Lai's family interest in LM Paper (by virtue of the fact that Mr. Lee Wan Keung, being an executive director, the chairman and controlling shareholder of LM Paper through his interest in Gold Best Holdings Ltd.).

Under the Listing Rules, for so long as either Mr. Lee Wan Keung, Mr. Lee Man Yan, Mr. Kung Phong or Ms. Lee Man Ching remains a connected person of our Company, the following transactions between Capital Nation and our Group would constitute continuing connected transactions upon Listing.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following continuing connected transactions will constitute non-exempt continuing connected transactions for our Company under Chapter 14A of the Listing Rules.

#### (1) Tenancy Agreement

##### *Principal terms*

On 18 May 2011, L&M Realty and LM Management (as confirmed by Lee & Man Paper Mfg. (H.K.) Limited (formerly known as Lee & Man Paper Manufacturing Company Limited) ("**LM Paper Mfg**"), the registered owner of Property I (as defined below) and a subsidiary of LM Paper) entered into a tenancy agreement (the "**Tenancy Agreement**") for a term from 1 January 2011 to 31 December 2013. LM Management shall have an option to renew the Tenancy Agreement for a further term of three years at the then market rent and on the same terms and conditions of the Tenancy Agreement (other than the option to renew) by serving not less than three months' written notice on L&M Realty prior to the expiry of the term of the Tenancy Agreement. Pursuant to the Tenancy Agreement, L&M Realty let to our Group portion of 5th Floor ("**Property I**") and the whole of 8th Floor ("**Property II**", collectively, "**Properties**"), Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong with floor areas of 3,238 sq.ft. and 12,960 sq.ft. respectively at an aggregate monthly rent of HK\$129,584 (at a rate of HK\$8 per sq.ft.) as industrial, warehouse and ancillary office. Further, any member of our Group is permitted to use and occupy the Properties or any part thereof throughout the term of the Tenancy Agreement. The agreement shall be terminated if LM Management gives L&M Realty not less than six months' prior written notice to this effect. Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has reviewed the terms of the Tenancy Agreement and is of the opinion that the rent payable by LM Management under the Tenancy Agreement is fair and reasonable and consistent with prevailing market rates for similar premises in similar locations as at the date of the Tenancy Agreement.

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## CONTINUING CONNECTED TRANSACTIONS

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### *Reason for the transactions*

The Properties have been used by our Group as our operation base in Hong Kong since 2001. Upon Listing, the Properties would continue to be used for the same purpose. Our Directors, after taking into account the view of the independent property valuer that the rent payable by LM Management under the Tenancy Agreement is fair and reasonable and consistent with prevailing market rates for similar premises in similar locations as at the date of the Tenancy Agreement, considers that entering into the Tenancy Agreement could provide our Group a constant and established operation base in Hong Kong without the need to acquire the relevant property; and therefore it is in the best interest of our Group not to acquire the Properties to avoid unnecessary capital expenditure, but to lease the Properties as our operation base in Hong Kong.

### *Historical figures*

During the Track Record Period, LM Paper Mfg (the registered owner of Property I) and L&M Realty (the registered owner of Property II and beneficial owner of the Properties) had granted a licence to LM Management to use the Properties for an annual consideration of approximately HK\$0.84 million, HK\$0.83 million and HK\$1.56 million for each of the three years ended 31 December 2010 respectively.

### *Expected annual caps*

Our Directors estimate that the annual transaction amount for the rent under the Tenancy Agreement for each of the three years ending 31 December 2013 will not exceed the annual caps of HK\$2 million. In determining the annual caps, our Directors have considered the prevailing market prices of the Properties under the Tenancy Agreement.

### *Listing Rules implications*

The transactions contemplated under the Tenancy Agreement constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon Listing.

Given that the highest of the applicable percentage ratios (other than profits ratio) of the transactions contemplated under the Tenancy Agreement is less than 5%, the transactions are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

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## CONTINUING CONNECTED TRANSACTIONS

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### (2) Paper Products Master Agreement

#### *Background*

During the Track Record Period, our Group has purchased corrugated cardboard and carton boxes (“**Paper Products**”) from Capital Nation on a non-exclusive basis for packaging use. The historical transaction amounts for the purchases of Paper Products from Capital Nation were approximately HK\$9.997 million, HK\$4.09 million and HK\$4.09 million for each of the three years ended 31 December 2010, respectively. The decrease in historical transaction amounts for the purchases of Paper Products from Capital Nation from 2008 to 2009 was mainly due to the increase in our purchase of Paper Products from other independent Paper Products suppliers since 2009.

#### *Principal terms*

A master sale and purchase agreement (the “**Paper Products Master Agreement**”) was entered into by Capital Nation and LM Development (on its own behalf and as trustee for the benefit of other members of our Group) on 18 May 2011, pursuant to which Capital Nation agreed to sell, and our Group agreed to purchase, Paper Products during the term of the Paper Products Master Agreement. The term of the Paper Products Master Agreement was from 1 January 2011 to 31 December 2013. LM Development shall have an option to renew the Paper Products Master Agreement for a further term of three years on the same terms and conditions of the Paper Products Master Agreement (other than the option to renew) by serving not less than three months’ written notice on Capital Nation prior to expiry of the term of the Paper Products Master Agreement. The agreement shall be terminated if either party gives the other not less than three months’ prior written notice and upon mutual agreement by both parties. The purchase price or consideration, the quantity and specifications of the Paper Products concerned, the time and place of delivery of the Paper Products concerned and other relevant matters will be negotiated by the parties with reference to the then prevailing market rates and in good faith which will be set out in the relevant purchase orders.

Pursuant to the Paper Products Master Agreement, the purchase price of the Paper Products concerned shall be determined by both parties (a) on normal commercial terms by reference to transactions of a similar nature at arm’s length basis and the Paper Products shall be sold at market rates or rates no less favourable to our Group than those available from Independent Third Parties or (b) where there is no available comparison, on terms that are fair and reasonable so far as our Group are concerned.

#### *Expected annual caps*

Our Directors estimate that the annual transaction amount for the purchases of Paper Products under the Paper Products Master Agreement for each of the three years ending 31 December 2013 will not exceed the annual caps of HK\$4 million. In determining the annual caps, our Directors have considered the historical transaction amount for the purchase of Paper Products for the year ended 31 December 2010.

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## CONTINUING CONNECTED TRANSACTIONS

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### *Listing Rules implications*

The transactions contemplated under the Paper Products Master Agreement constitute continuing connected transactions for our Company under Chapter 14A of the Listing Rules upon the Listing.

Given that the highest of the applicable percentage ratios (other than profits ratio) of the transactions contemplated under the Paper Products Master Agreement is less than 25% and each of the proposed annual caps for the three years ending 31 December 2013 is less than HK\$10,000,000, the transactions are subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules.

### **CONFIRMATION FROM OUR DIRECTORS**

Our Directors (including our independent non-executive Directors) are of the view that the non-exempt continuing connected transactions described above are fair and reasonable and in the best interests so far as our Shareholders as a whole are concerned, and all such non-exempt continuing connected transactions have been entered into and will be carried out in the ordinary and usual course of business of our Company on normal commercial terms. In addition, our Directors (including our independent non-executive Directors) consider the respective proposed annual caps for the non-exempt continuing connected transactions are fair and reasonable and in the interests of our Shareholders as a whole.

### **CONFIRMATION FROM THE SPONSOR**

The Sponsor is of the view that (i) the non-exempt continuing connected transactions described above have been entered into in the ordinary and usual course of business of our Company, on normal commercial terms, fair and reasonable and in the interests of our Shareholders as a whole, and (ii) the respective proposed annual caps for the non-exempt continuing connected transactions are fair and reasonable and in the interests of our Shareholders as a whole.

### **APPLICATION FOR WAIVER FROM STRICT COMPLIANCE OF THE LISTING RULES**

As the above non-exempt continuing connected transactions are expected to continue on a recurring basis and are expected to extend over a period of time, our Directors (including our independent non-executive Directors) consider that strict compliance with the announcement requirements would be impractical and in particular, would add unnecessary administrative costs to our Company. Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to our Company under Rule 14A.42(3) of the Listing Rules from compliance with the announcement requirements under Chapter 14A of the Listing Rules, subject to the confirmations from our Directors and the Sponsor stated above. We will comply with the relevant requirements under Chapter 14A of the Listing Rules, including, but not limited to, the proposed annual caps set out above, and will comply with the relevant rules of Chapter 14A of the Listing Rules (including shareholders' approval requirements as appropriate) if the waiver from the Stock Exchange expires or any of the respective proposed annual caps set out above are exceeded, or when the relevant

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## **CONTINUING CONNECTED TRANSACTIONS**

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agreement expires or is renewed or when any terms of the non-exempt continuing connected transactions are materially altered or our Company enters into new agreements with any connected persons.

Our Company confirms that we will comply with the applicable requirements under Chapter 14A of the Listing Rules as amended from time to time, and will immediately inform the Stock Exchange if there are any material changes to the aforesaid transactions.

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## PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

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### PERSONS HAVING NOTIFIABLE INTERESTS UNDER THE SFO

So far as our Directors are aware, immediately following completion of the Introduction, the following persons will have an interest or short position in our Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of our Group other than our Company:

#### Long and short positions in our Shares and underlying Shares

| Name of Shareholder    | Nature of interest                 | Number of securities held<br><i>(Note 1)</i> | Shareholding percentage<br><i>(%)</i> |
|------------------------|------------------------------------|--|---------------------------------------|
| Full Gold              | Beneficial owner                   | 618,750,000<br>Shares (L)                    | 75                                    |
| Mr. Lee Wan Keung      | Interest of controlled corporation | 618,750,000<br>Shares (L)<br><i>(Note 2)</i> | 75                                    |
| Mrs. Lee Wong Wai Kuen | Interest of spouse                 | 618,750,000<br>Shares (L)<br><i>(Note 3)</i> | 75                                    |
| Mr. Lee Man Yan        | Interest of controlled corporation | 618,750,000<br>Shares (L)<br><i>(Note 2)</i> | 75                                    |

*Notes:*

1. The letter "L" denotes the person/ corporation's long position in our Shares.
2. These Shares were held by Full Gold, which was owned as to 55% by Mr. Lee Wan Keung and 45% by Mr. Lee Man Yan.
3. Mrs. Lee Wong Wai Kuen is the spouse of Mr. Lee Wan Keung.

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## SHARE CAPITAL

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HK\$

**Authorised share capital:**

5,000,000,000 Shares 500,000,000

**Issued Shares immediately before the Listing:**

825,000,000 Shares 82,500,000

**Assumptions**

The above table takes no account of any Shares which may be allotted and issued upon the exercise of options which may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by our Company under the general mandates for the allotment and issue or repurchase of Shares granted to our Directors as referred to below or otherwise.

**Ranking**

Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme will rank equally with all of our Shares in issue on the date of allotment and issue of such Shares, and will qualify for all dividend or other distributions declared, made or paid on our Shares the record date of which falls on or after the date of allotment and issue of such Shares.

**Share Option Scheme**

Our Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in the paragraph headed “Share Option Scheme” in Appendix V to this document.

**General mandate to issue Shares**

Upon the Introduction becoming unconditional, our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- i. 20% of the aggregate nominal amount of our share capital in issue immediately following completion of the Introduction; and
- ii. the nominal amount of our share capital repurchased by our Company (if any) pursuant to the repurchase mandate (as referred to below).

Our Directors may, in addition to our Shares which they are authorised to issue under this mandate, allot, issue and deal in our Shares pursuant to a rights issue, scrip dividend scheme or similar arrangements providing for allotment of Shares in lieu of the whole or in part of any dividend in accordance with the Articles, or pursuant to the exercise of any options that may be granted under the Share Option Scheme.

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## SHARE CAPITAL

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This mandate will expire:

- at the conclusion of our next annual general meeting;
- on the date by which our next annual general meeting is required by the Articles or any applicable laws to be held; or
- when the authority given to our Directors is revoked or varied by an ordinary resolution of our Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, see sub-paragraph headed “Resolutions in writing of our sole Shareholder passed on 18 May 2011” in the paragraph headed “Further information about our Company and our subsidiaries” in Appendix V to this document.

### **General mandate to repurchase Shares**

Upon the Introduction becoming unconditional, our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal amount of not more than 10% of the total nominal amount of our share capital in issue immediately following completion of the Introduction. This mandate only relates to repurchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the sub-paragraph headed “Repurchase by our Company of our own securities” in the paragraph headed “Further information about our Company and our subsidiaries” in Appendix V to this document.

This mandate will expire:

- at the conclusion of our next annual general meeting;
- on the date by which our next annual general meeting is required by the Articles or any applicable laws to be held; or
- when the authority given to our Directors is revoked or varied by an ordinary resolution of our Shareholders in general meeting;

whichever is the earliest.

For further details of this general mandate, see sub-paragraph headed “Resolutions in writing of our sole Shareholder passed on 18 May 2011” in the paragraph headed “Further information about our Company and our subsidiaries” in Appendix V to this document.

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## SHARE CAPITAL

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### Undertakings to the Stock Exchange under the Listing Rules

#### (A) Undertaking by us

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that we will not issue any further Shares or securities convertible into our equity securities (whether or not of a class already listed) or enter into any agreement to such issue within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except pursuant to the circumstances provided under Rule 10.08 of the Listing Rules.

#### (B) Undertaking by our Controlling Shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of our Controlling Shareholders has undertaken to our Company and the Stock Exchange that:

- (a) each of them shall not and shall procure that his/its associates or companies controlled by each of them or his/its nominees or trustees (as the case may be) shall not, in the period commencing on the date of this document and ending on the date which is six months from the Listing Date (“**First Six-Month Period**”) dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares in respect of which they are shown by this document to be the beneficial owners (whether direct or indirect); and
- (b) in the period of six months immediately after the expiry of the First Six-Month Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of our Shares referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, our Controlling Shareholders would cease to be the controlling shareholders (as defined in the Listing Rules) of our Company.

Each of our Controlling Shareholders has also undertaken to our Company and the Stock Exchange that within the period commencing on the date by reference to which disclosure of its/his shareholding is made in this document and ending on the date which is 12 months from the Listing Date, each of them will:

- (a) when he/it pledges or charges any Shares beneficially owned by him/it in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge or charge together with the number of Shares so pledged or charged; and
- (b) when he/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform our Company in writing of such indications.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis in conjunction with our combined financial information, including the accompanying notes thereto, set out in Appendix I to this document. Our combined financial information has been prepared in accordance with HKFRSs. The following discussion and analysis also contain forward-looking statements that involve risks and uncertainties. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors including the factors set out in the section headed “Risk factors” in this document.*

### OVERVIEW

We are principally engaged in the manufacture and sale of handbags, which include ladies’ handbags, tote bags, cosmetics bags, children’s bags and backpacks. Currently, all of our handbag products are manufactured in the PRC. Our products are manufactured on an OEM basis for our customers. The major markets of our products are the U.S., which accounted for approximately 51.0%, 49.2% and 53.6% of our total revenue for each of the three years ended 31 December 2010 respectively, and Europe, which accounted for approximately 36.3%, 34.2% and 27.5% of our total revenue for the same periods respectively.

For further information about our business and operations, please refer to the section headed “Business” in this document.

### BASIS OF PREPARATION

Pursuant to the Reorganisation, as more fully described in the section headed “Reorganisation” in this document and in Appendix V to this document, our Company became the holding company of the companies now comprising our Group. Our financial information presents our results of operations, financial position and cash flows of the companies now comprising our Group and has been prepared as if the current group structure had been in existence at the beginning of the Track Record Period, or since the companies’ respective dates of incorporation or establishment, where there is a shorter period.

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## FINANCIAL INFORMATION

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### **KEY FACTORS AFFECTING FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF OUR GROUP**

Our Group's financial condition and results of operations have been, and will continue to be, affected by a number of factors, including those set out below.

#### **Level of demand for our products**

We rely on a few major customers. Our sales to our top five customers during the Track Record Period amounted to approximately HK\$424.6 million, HK\$394.0 million and HK\$451.9 million which accounted for approximately 47.1%, 54.2%, and 53.0%, respectively, of our total revenue for each of the three years ended 31 December 2010. Sales to our largest customer for each of the three years ended 31 December 2010 amounted to approximately HK\$152.8 million, HK\$105.4 million and HK\$142.2 million, respectively, representing approximately 17.0%, 14.5% and 16.7% of our total revenue, respectively.

We have not entered into long-term contracts with our major customers. However, a majority of our top ten customers during the Track Record Period have working relationship with us for more than five years. In the event that any of our major customers significantly reduce their purchases from us or our business relationship with them terminates, we may not be able to maintain the same sales volume. Furthermore, our Group's results of operation are also affected by the popularity of our customers' brands, which may decline for reasons of changes in consumer trends or preferences, a loss of goodwill and reputation of them or other reasons.

#### **Our customers' ability to successfully sell their products developed and sold by us**

Our customers sell the products sourced from us to retail customers. Consequently, our results of operations are directly affected by the success of our customers in their business. If our customers are unable to market and sell their products successfully or maintain their competitiveness due to lack of market acceptance or otherwise, they may not order new products or may decrease the quantity or purchase price of their orders, which could adversely affect our results of operations and revenue from such customers. Accordingly, our success depends on our customers' ability to successfully sell their products that are developed and sold by us.

#### **Cost of raw materials**

Cost of raw materials is a major component of our cost of sales, representing approximately 62.9%, 60.4% and 61.2% of our total cost of sales for each of the three years ended 31 December 2010. Fluctuation in the cost of our raw materials and our ability to pass on any increase in raw material costs to our customers will affect our total cost of sales and our gross profit margins. During the Track Record Period, the principal raw materials used in our manufacturing of handbag were PVC, PU, leather, nylon, cotton fabrics, metals and various types of textile materials. In general, the price of raw materials declined for the year ended 31 December 2009 as compared to the year ended 31 December 2008 and bounced back for the year ended 31 December 2010. The fluctuation in raw material costs,

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## FINANCIAL INFORMATION

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together with other factors, had led to the increase of gross profit margins from 25.4% for the year ended 31 December 2008 to 30.3% for the year ended 31 December 2009, and the subsequent decrease to 27.3% for the year ended 31 December 2010.

Although our Group's gross profit margin changed as a result of movement in raw material prices and other factors, such fluctuation was minimal. The greatest gross profit margin fluctuation during the Track Record Period was about 5% only. Our Group generally maintains its gross profit margin level by adopting a cost-plus pricing model and making recommendation to our customers on the product design as necessary to minimise impact of movement in raw material costs, based on our experience and industry knowledge.

### **Changes in the global economic condition, especially in the U.S. and Europe**

Changes in global market demand level for consumer goods may have a significant effect on our financial condition and results of operations. In particular, we would be affected by changes in the economic condition of the U.S. and Europe as these countries constitute the major proportion of our revenue. For each of three years ended 31 December 2010, sales of our products to customers in the U.S. and Europe amounted to approximately 51.0%, 49.2% and 53.6%; and 36.3%, 34.2% and 27.5% respectively of our total revenue. The global financial crisis in late 2008 has led to a significant economic downturn and contraction in consumer spending especially in the U.S. and Europe. As a result, our sales to the U.S. and Europe experienced a decline of approximately 22.2% and 23.9% respectively for the year ended 31 December 2009 when compared to the same period in 2008. Our total revenue dropped from approximately HK\$901.2 million for the year ended 31 December 2008 to HK\$727.6 million for the year ended 31 December 2009, representing a decline of approximately 19.3%. Our total sales had improved in the following year amid the gradual global economic recovery. There was an increase in sales of approximately 28.0% in the U.S. from the year ended 31 December 2009 to the year ended 31 December 2010. However, our sales to Europe had not shown any rebound.

### **Fluctuations in exchange rates**

Substantially all our payments are denominated in RMB and HK dollars and our revenue are mainly denominated in USD and EUR. When we have accounts receivables in EUR, we may enter into foreign exchange forward contract(s) in EUR in similar amount to minimise the risk in currency fluctuations. Save for such foreign exchange forward contracts, we did not engage in other hedging activities as at the Latest Practicable Date. If there is any material fluctuation in the exchange rates of one currency that we use to settle our payables against the other currency we received from our customers, and if we are unable to pass on the exchange risk to our customers or to mitigate such risk by our hedging activities, our results of operations and financial condition may be adversely affected.

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## FINANCIAL INFORMATION

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### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### Property, plant and equipment

Property, plant and equipment, including land and building held for use in production or supply of goods or services or for administrative purposes are stated in the combined statements of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent accumulated impairment loss.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Any surplus arising on revaluation of property, plant and equipment is recognised in other comprehensive income and accumulated in asset revaluation reserve, except to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent depreciation of the revalued assets, the attributable revaluation reserve is transferred to accumulated profits on a straight-line basis over the useful life of the assets, and, upon disposal and retirement, the remaining revaluation surplus attributable to that asset is transferred to accumulated profits.

Depreciation and amortisation is provided to write off the valuation of buildings and leasehold improvements over their estimated useful lives, using the straight-line method.

Depreciation is provided to write off the valuation of other property, plant and equipment over their estimated useful lives, using the reducing balance method.

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## FINANCIAL INFORMATION

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An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

### *Transfer from owner-occupied property to investment property carried at fair value*

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

### **Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year in which the item is derecognised.

### **Prepaid lease payments**

Prepaid lease payments are carried at cost and amortised over the lease term on a straight-line basis.

### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### *Our Group as Lessor*

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

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### *Our Group as Lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

### *Leasehold land and building*

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the combined statements of financial position and is amortised over the lease term on a straight-line basis.

### **Impairment losses**

At the end of the reporting period, our Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as revaluation increase under that other standard.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weight average method.

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### **Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance (the “MPF Scheme”) and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

For defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses which exceed 10% of the greater of the present value of the defined benefit obligations and the fair value of plan assets at the end of the previous reporting period are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the combined statements of financial position represents the present fair value of plan assets as adjusted for unrecognised actuarial gains and losses, and as reduced by the defined benefit obligation. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of our Group’s foreign operations are translated into the presentation currency of our Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

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### **Borrowing costs**

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the combined statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Our Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, except where our Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which our Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

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### **Financial instruments**

Financial assets and financial liabilities are recognised on the combined statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss (“FVTPL”)) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### **Financial assets**

Our Group’s financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from immediate holding company and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

### *Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each of reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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For financial assets, objective evidence of impairment could include:

- i. significant financial difficulty of the issuer or counterparty; or
- ii. default or delinquency in interest or principal payments; or
- iii. it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include our Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### **Financial liabilities and equity**

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Our Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

An equity instrument is any contract that evidences a residual interest in the assets of our Group after deducting all of its liabilities.

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### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities at FVTPL, of which the interest expense is included in net gains or losses.

### *Other financial liabilities*

Our Group's other financial liabilities mainly include trade and other payables, amount due to a related company and bank borrowings. They are subsequently measured at amortised cost, using the effective interest method.

### *Equity instruments*

Equity instruments issued by our Company are recorded at the proceeds received, net of direct issue cost.

### *Derivative financial instruments*

Derivatives that are not designated and effective as hedging instruments are classified as held for trading.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

### **Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and our Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. If our Group retains substantially all the risks and rewards of ownership of a transferred asset, our Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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### DISCUSSION OF CERTAIN INCOME STATEMENTS ITEMS

#### Revenue

Our revenue represented the amounts received and receivable for handbags manufactured and sold, net of discounts, returns, allowances and sales related taxes during the year.

The following table sets out our revenue for the periods indicated:

|         | <b>Year ended 31 December</b> |                 |                 |
|---------|-------------------------------|-----------------|-----------------|
|         | <b>2008</b>                   | <b>2009</b>     | <b>2010</b>     |
|         | <i>HK\$'000</i>               | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Revenue | <u>901,240</u>                | <u>727,555</u>  | <u>853,539</u>  |

The following table sets forth the breakdown of our revenue from our customers by geographical location for the periods indicated:

|                            | <b>Year ended 31 December</b> |                     |                       |                     |                       |                     |
|----------------------------|-------------------------------|---------------------|-----------------------|---------------------|-----------------------|---------------------|
|                            | <b>2008</b>                   |                     | <b>2009</b>           |                     | <b>2010</b>           |                     |
|                            | <i>HK\$'000</i>               | <i>%</i>            | <i>HK\$'000</i>       | <i>%</i>            | <i>HK\$'000</i>       | <i>%</i>            |
| North America              |                               |                     |                       |                     |                       |                     |
| – U.S.                     | 459,601                       | 51.0                | 357,700               | 49.2                | 457,729               | 53.6                |
| – Canada                   | <u>28,061</u>                 | <u>3.1</u>          | <u>26,557</u>         | <u>3.7</u>          | <u>31,927</u>         | <u>3.7</u>          |
| <i>Sub total</i>           | 487,662                       | 54.1                | 384,257               | 52.8                | 489,656               | 57.4                |
| Europe                     |                               |                     |                       |                     |                       |                     |
| – The Netherlands          | 82,299                        | 9.1                 | 87,332                | 12.0                | 76,782                | 9.0                 |
| – Italy                    | 49,891                        | 5.5                 | 57,283                | 7.9                 | 65,380                | 7.7                 |
| – The United Kingdom       | 120,433                       | 13.4                | 43,076                | 5.9                 | 47,967                | 5.6                 |
| – Germany                  | 33,259                        | 3.7                 | 15,726                | 2.2                 | 14,390                | 1.7                 |
| – Other European Countries | <u>41,011</u>                 | <u>4.6</u>          | <u>45,364</u>         | <u>6.2</u>          | <u>30,023</u>         | <u>3.5</u>          |
| <i>Sub total</i>           | 326,893                       | 36.3                | 248,781               | 34.2                | 234,542               | 27.5                |
| Asia                       |                               |                     |                       |                     |                       |                     |
| – Hong Kong                | 28,733                        | 3.2                 | 14,250                | 2.0                 | 19,461                | 2.3                 |
| – PRC                      | 2,305                         | 0.3                 | 7,314                 | 1.0                 | 12,392                | 1.5                 |
| – Other Asian countries    | <u>26,224</u>                 | <u>2.9</u>          | <u>44,650</u>         | <u>6.1</u>          | <u>68,232</u>         | <u>8.0</u>          |
| <i>Sub total</i>           | 57,262                        | 6.4                 | 66,214                | 9.1                 | 100,085               | 11.7                |
| Others ( <i>Note</i> )     | <u>29,423</u>                 | <u>3.2</u>          | <u>28,303</u>         | <u>3.9</u>          | <u>29,256</u>         | <u>3.4</u>          |
| <b>Total</b>               | <b><u>901,240</u></b>         | <b><u>100.0</u></b> | <b><u>727,555</u></b> | <b><u>100.0</u></b> | <b><u>853,539</u></b> | <b><u>100.0</u></b> |

*Note:* Others principally included South American countries.

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For the year ended 31 December 2008, our Group achieved a revenue of approximately HK\$901.2 million, and approximately 51.0% and 36.3% of our Group's revenue were derived from sales to customers in the U.S. and Europe respectively. The global financial crisis occurred in the fourth quarter of 2008 did not have significant effects on our Group's revenue as most of our orders for that year had been arranged or confirmed before the global financial crisis.

For the year ended 31 December 2009, our Group's revenue decreased by approximately 19.3% to approximately HK\$727.6 million as compared to the same period in 2008, and approximately 49.2% and 34.2% of our Group's revenue were derived from sales to customers in the U.S. and Europe respectively. The drop in revenue was due to the global financial crisis causing a continuing, sharp contraction of global consumers spending which in turn led to the decline in customers orders especially in our Group's U.S. and European markets.

For the year ended 31 December 2010, our Group recorded a revenue of approximately HK\$853.5 million, representing a 17.3% increase over the previous financial year. Approximately 53.6% and 27.5% of our Group's revenue were derived from sales to customers in the U.S. and Europe respectively. The growth in revenue was mainly attributable to the gradual recovery of consumer spending in our Group's major markets of the U.S., increase in sales to Asian countries and our Group's continuing efforts in providing design ideas of different collections of handbags targeted for different seasons and regions to its customers.

### Cost of sales

Our cost of sales primarily consisted of raw material costs, processing fees and other factory overheads and labour costs.

The following table sets out our cost of sales for the periods indicated:

|               | Year ended 31 December |                |                |
|---------------|------------------------|----------------|----------------|
|               | 2008                   | 2009           | 2010           |
|               | HK\$'000               | HK\$'000       | HK\$'000       |
| Cost of sales | <u>672,214</u>         | <u>506,926</u> | <u>620,264</u> |

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The following table sets out the breakdown of our cost of sales for the periods indicated:

|                         | <b>Year ended 31 December</b> |                   |                   |
|-------------------------|-------------------------------|-------------------|-------------------|
|                         | <b>2008</b>                   | <b>2009</b>       | <b>2010</b>       |
|                         | <i>HK\$'000</i>               | <i>HK\$'000</i>   | <i>HK\$'000</i>   |
| <b>Cost of sales</b>    |                               |                   |                   |
| Raw materials           | 422,613                       | 306,321           | 379,357           |
| Processing fees         | 144,566                       | 126,851           | 158,774           |
| Other factory overheads | 105,035                       | 73,207            | 78,182            |
| Other labour costs      | —                             | 547               | 3,951             |
|                         | <u>          </u>             | <u>          </u> | <u>          </u> |
| <b>Total</b>            | <u>672,214</u>                | <u>506,926</u>    | <u>620,264</u>    |

For each of the three years ended 31 December 2010, our Group's cost of sales was approximately HK\$672.2 million, HK\$506.9 million and HK\$620.3 million respectively. It was relatively stable and maintained at approximately 74.6%, 69.7% and 72.7%, respectively, of our Group's revenue for each of the relevant periods. Of these, the cost of raw materials was the largest cost component of our Group's cost of sales, representing approximately 62.9%, 60.4% and 61.2%, respectively, of our Group's costs of sales for each of the three years ended 31 December 2010.

During the Track Record Period, the major types of raw materials purchased by our Group included PVC, PU, leather, nylon, cotton fabrics, metals and various types of textile materials. In general, the price of raw materials declined for the year ended 31 December 2009 as compared to that for the year ended 31 December 2008 and bounced back for the year ended 31 December 2010.

Our Group generally adopts a cost-plus pricing model pursuant to which our Group will add a certain margin to the production costs of the product. Furthermore, our Group will discuss with our customer on the product design as necessary to facilitate the production and minimise production costs and raw material costs, based on our experience and industry knowledge. For example, if the price of a certain type of raw materials has increased greatly, our Group may recommend our customer to use other similar raw materials with a steady price trend as a substitute. Therefore, fluctuation of the cost of sales such as raw material costs have no material impact on our Group's profit margin. During the Track record period, our Group's net profit margin remained relatively stable at approximately 11.3%, 14.7% and 12.0% for each of the three years ended 31 December 2010. The small degree of fluctuation of net profit margin demonstrated that our Group had the ability to pass on the costs fluctuation to our customers.

As mentioned in the section headed "Business" in this document, our Group has entered into two processing agreements for the operation of Gao Bu Processing Factory and Liu Wu Processing Factory respectively and our Group paid an aggregate processing fees of approximately HK\$144.6 million, HK\$126.9 million and HK\$158.8 million respectively for each of the three years ended 31 December 2010 to the processing agents.



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The gross profit margin of our Group decreased from approximately 30.3% to 27.3% during the same period. The decrease was mainly attributable to the increase in direct labour costs and raw material costs as a result of the economic growth in China.

### Other income

Other income mainly consisted of sample and scrap sales and gain on fair value changes of investment properties.

The following table sets out the components of other income for the periods indicated:

|  | <b>Year ended 31 December</b> |                 |                 |
|--|-------------------------------|-----------------|-----------------|
|  | <b>2008</b>                   | <b>2009</b>     | <b>2010</b>     |
|  | <i>HK\$'000</i>               | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest income  | 251                           | 29              | 45              |
| Sales of scraps <i>(Note 1)</i>  | 3,379                         | 1,344           | 1,185           |
| Sales of samples   | 5,134                         | 3,911           | 5,642           |
| Management fee income  | 130                           | 16              | 16              |
| Rental income  | 186                           | –               | –               |
| Gain on expected return of defined benefit assets                              | 397                           | 398             | 288             |
| Gain on fair value changes on derivative financial instruments <i>(Note 2)</i> | –                             | 704             | 70              |
| Gain on fair value changes of investment properties                            | –                             | –               | 1,374           |
|  | <u>9,477</u>                  | <u>6,402</u>    | <u>8,620</u>    |

*Notes:*

1. Scraps consisted of obsolete raw materials.
2. Derivative financial instruments consisted of foreign exchange forward contracts held by our Group.

### Selling and distribution costs

Selling and distribution costs primarily consisted of outwards freight transportation, sampling charges, products testing charges and trade compensation. Over each of the three years ended 31 December 2010, our Group maintained a relatively stable selling and distribution costs at approximately 4.1%, 3.4% and 3.9% of our Group's total revenue respectively. For each of the three years ended 31 December 2010, the amount of bad debts was negligible and accounted for approximately 0.2%, 0.0% and 0.0% of our Group's total revenue respectively. The trade compensation, which referred to the actual payments and specific provisions for product claims, for the same periods was also of insignificant amount and was at approximately 0.7%, 0.5% and 0.9% of our Group's total revenue for each of the three years ended 31 December 2010 respectively. Furthermore, the percentage of freight

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and transportation costs to our Group's revenue dropped from 1.6% for the year ended 31 December 2008 to 1.2% for the same period in 2009 as a result of the decline in ocean freight rate after the financial crisis in late 2008.

The following table sets out the components of our selling and distribution costs and as a percentage of revenue for the periods indicated:

|                                       | <b>Year ended 31 December</b> |                                   |                      |                                   |                      |                                   |
|---------------------------------------|-------------------------------|-----------------------------------|----------------------|-----------------------------------|----------------------|-----------------------------------|
|                                       | <b>2008</b>                   |                                   | <b>2009</b>          |                                   | <b>2010</b>          |                                   |
|                                       | <i>HK\$'000</i>               | <i>% of<br/>total<br/>revenue</i> | <i>HK\$'000</i>      | <i>% of<br/>total<br/>revenue</i> | <i>HK\$'000</i>      | <i>% of<br/>total<br/>revenue</i> |
| <b>Selling and distribution costs</b> |                               |                                   |                      |                                   |                      |                                   |
| Bad debts                             | 1,355                         | 0.2%                              | 255                  | 0.0%                              | 198                  | 0.0%                              |
| Declaration and postage               | 3,917                         | 0.4%                              | 2,907                | 0.4%                              | 3,125                | 0.4%                              |
| Freight and transportation            | 14,579                        | 1.6%                              | 8,644                | 1.2%                              | 11,103               | 1.3%                              |
| Sampling and testing                  | 8,118                         | 0.9%                              | 7,127                | 1.0%                              | 8,491                | 1.0%                              |
| Trade compensation                    | 6,141                         | 0.7%                              | 3,423                | 0.5%                              | 7,527                | 0.9%                              |
| Others                                | <u>2,954</u>                  | <u>0.3%</u>                       | <u>2,445</u>         | <u>0.3%</u>                       | <u>2,835</u>         | <u>0.3%</u>                       |
| <b>Total</b>                          | <u><u>37,064</u></u>          | <u><u>4.1%</u></u>                | <u><u>24,801</u></u> | <u><u>3.4%</u></u>                | <u><u>33,279</u></u> | <u><u>3.9%</u></u>                |

### **Administrative expenses**

Administrative expenses primarily consisted of salaries and allowances, entertainment and miscellaneous expenses arising from our operations, which included depreciation, bank charges and legal and professional fees.

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The following table sets out the components of our administrative expenses and as a percentage of revenue for the periods indicated:

|  | <b>Year ended 31 December</b> |                                   |                      |                                   |                      |                                   |
|--|-------------------------------|-----------------------------------|----------------------|-----------------------------------|----------------------|-----------------------------------|
|  | <b>2008</b>                   |                                   | <b>2009</b>          |                                   | <b>2010</b>          |                                   |
|  | <i>HK\$'000</i>               | <i>% of<br/>total<br/>revenue</i> | <i>HK\$'000</i>      | <i>% of<br/>total<br/>revenue</i> | <i>HK\$'000</i>      | <i>% of<br/>total<br/>revenue</i> |
| <b>Administrative expenses</b>           |                               |                                   |                      |                                   |                      |                                   |
| Bank charges                             | 2,754                         | 0.3%                              | 2,700                | 0.4%                              | 2,568                | 0.3%                              |
| Depreciation and amortisation            | 12,878                        | 1.4%                              | 13,679               | 1.9%                              | 14,726               | 1.7%                              |
| Directors' emoluments                    | 2,414                         | 0.3%                              | 2,889                | 0.4%                              | 2,723                | 0.3%                              |
| Entertainment                            | 7,825                         | 0.9%                              | 10,582               | 1.5%                              | 9,580                | 1.1%                              |
| Exchange loss                            | 6,570                         | 0.7%                              | 3,143                | 0.4%                              | 8,248                | 1.0%                              |
| Loss on derivative financial instruments | 846                           | 0.1%                              | 1,026                | 0.1%                              | –                    | 0.0%                              |
| Motor car running expenses               | 1,915                         | 0.2%                              | 1,545                | 0.2%                              | 1,931                | 0.2%                              |
| Printing and stationery                  | 1,181                         | 0.1%                              | 1,125                | 0.2%                              | 1,140                | 0.1%                              |
| Rent and rates                           | 1,186                         | 0.1%                              | 964                  | 0.1%                              | 1,663                | 0.2%                              |
| Salaries and allowances                  | 36,540                        | 4.1%                              | 35,319               | 4.9%                              | 43,599               | 5.1%                              |
| Staff benefit and welfare                | 1,063                         | 0.1%                              | 780                  | 0.1%                              | 1,091                | 0.1%                              |
| Telephone and fax                        | 1,251                         | 0.1%                              | 1,305                | 0.2%                              | 1,117                | 0.1%                              |
| Travelling expenses                      | 2,178                         | 0.2%                              | 1,131                | 0.2%                              | 1,326                | 0.2%                              |
| Other                                    | <u>8,067</u>                  | <u>0.9%</u>                       | <u>6,177</u>         | <u>0.8%</u>                       | <u>6,105</u>         | <u>0.7%</u>                       |
| <b>Total</b>                             | <b><u>86,668</u></b>          | <b><u>9.6%</u></b>                | <b><u>82,365</u></b> | <b><u>11.3%</u></b>               | <b><u>95,817</u></b> | <b><u>11.2%</u></b>               |

For each of the three years ended 31 December 2010, our Group maintained relatively consistent administrative costs at approximately 9.6%, 11.3% and 11.2% of our Group's total revenue respectively. The salaries and allowances expenses were the biggest component of our Group's total administrative expenses and they accounted for approximately 42.2%, 42.9% and 45.5% of our Group's total administrative costs for each of the three years ended 31 December 2010 respectively.

Our Group's salaries and allowances expenses for each of the three years ended 31 December 2010 were HK\$36.5 million, HK\$35.3 million and HK\$43.6 million respectively. The drop in salaries of approximately 3.3% for the year ended 31 December 2009 as compared to the salaries for the year ended 31 December 2008 was mainly due to the freeze of salaries and decline in bonus and allowances paid for the year ended 31 December 2009. The significant increase in salaries and allowances of 23.4% for the year ended 31 December 2010 as compared to the salaries and allowances for the year ended 31 December 2009 was mainly due to the increase of staff basic wages and allowances during the year ended 31 December 2010.

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Our Group's payments were mainly denominated in RMB and HK dollars while its sales revenue were mainly denominated in USD and EUR. The foreign exchange loss during the Track Record Period was resulted from the respective appreciation of RMB and depreciation of EUR against the HK dollars.

### **Finance costs**

Our finance costs represented interest expenses on bank borrowings.

Our Group's interest expenses reduced by approximately 12.6% from approximately HK\$2.7 million for the year ended 31 December 2008 to approximately HK\$2.4 million for the year ended 31 December 2009. The decrease in interest expenses was mainly due to the decrease in average bank loans for the year ended 31 December 2009.

Our Group's interest expenses further decreased by approximately 27.8%, as compared to the year ended 31 December 2009, to approximately HK\$1.7 million for the year ended 31 December 2010. Such decrease in interest expenses was mainly due to the decrease in average bank loans and the decrease in average interest rate during the year ended 31 December 2010.

### **Income tax expense**

Income tax expense represented the sum of the tax payable and deferred tax.

The tax payable for each of the three years ended 31 December 2010 was calculated using the respective year-end tax rate prevailing in relevant jurisdictions on the respective income before tax as adjusted for items of income and expense that was taxable or deductible in the relevant years and further adjusted for items that were never taxable or deductible. The HK Subsidiaries have been conducting their business through contract processing arrangements consistent with the requirements set out in the DIPN 21 and accordingly are entitled to a 50:50 preferential tax treatment allowed by DIPN 21.

While the HK Subsidiaries do not have a positive confirmation from the IRD regarding the 50:50 preferential tax treatment which is a normal case under the IRD's current practice, they have been filing their tax returns on this basis for more than a decade and currently there is no outstanding dispute with, nor unanswered queries from, the IRD regarding this tax filing basis. In the unlikely event that the IRD considers that the HK Subsidiaries are not entitled to the 50:50 preferential tax treatment, the theoretical exposure to Hong Kong profits tax during the Track Record Period was estimated to be not more than approximately HK\$30 million in aggregate, by applying 16.5% on the non-taxable profits claimed by the HK Subsidiaries under the 50:50 preferential treatment for the three years ended 31 December 2010, as if so happened under this hypothetical circumstance.

Our Directors, after seeking for professional advice from the reporting accountants, are of the view that the relevant profits of the HK Subsidiaries are entitled to the 50:50 preferential tax treatment under DIPN 21 and that the HK Subsidiaries have no PRC tax liability under the contract processing arrangements. While our Company does not know whether the IRD is aware of the fact that the factory premises are provided by the HK

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Subsidiaries, our Directors, after seeking for professional advice from the reporting accountants, believe that the above mentioned tax treatment of the HK Subsidiaries would not be affected by the fact that the factory premises are provided by our Group rather than the processing agents. Since the HK Subsidiaries have fulfilled all the criteria under DIPN 21, that is, the supply of raw materials and machinery without consideration and to provide technical and managerial know-how to the respective processing agents, the HK Subsidiaries are entitled to the 50:50 preferential tax treatment. In addition, on the basis that the HK Subsidiaries are entitled to the 50:50 preferential tax treatment, Circular 37 and Circular 403 should be applicable and hence, the profits of the HK Subsidiaries attributable to contract processing arrangements in China would not be subject to PRC enterprise income tax in the PRC. In the unlikely event that our Group is required to pay the PRC enterprise income tax, the theoretical PRC enterprise income tax exposure is estimated to be not more than approximately HK\$86 million in aggregate by applying 25% on the profit before tax of the HK Subsidiaries engaging in contract processing arrangements for the three years ended 31 December 2010, subject to tax credit under the tax treaties, as if so happened under this hypothetical circumstance.

Our PRC Legal Advisers confirmed that Circular 403 and Circular 37 are applicable to our Group and the fact that the factory premises are provided by our Group rather than by the processing agents in accordance with the PRC Processing Agreements will not affect the tax treatment to our Group as mentioned above.

The Gao Bu Processing Agreement was first entered into in 1984 and the Liu Wu Processing Agreement was first entered into in 1988 and were subsequently renewed from time to time. The existing Gao Bu Processing Agreement was entered into on 10 December 2009 and the existing Liu Wu Processing Agreement was entered into on 23 March 2010 and have been approved by the relevant governmental authorities; while such approvals were copied to, among others, the relevant tax bureau. Accordingly, our PRC Legal Advisers consider that the tax bureau should be fully aware of the nature of the contract processing arrangements and the income tax payable thereunder.

Our Group has a number of subsidiaries incorporated in Hong Kong. On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Accordingly, the applicable tax rate for subsidiaries incorporated in Hong Kong was 16.5% during the Track Record Period. In addition, according to the abovementioned 50:50 preferential tax treatment concessions by the IRD, certain profits of the HK Subsidiaries engaging in contract processing arrangements in China during the Track Record Period were not subject to Hong Kong profits tax.

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One of our subsidiaries, Dongguan Lee Wai, was incorporated in the PRC. On 16 March 2007, the PRC promulgated the Enterprise Income Tax Law by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued the Implementation Regulations of the Enterprise Income Tax Law (the “Implementation Regulations”). Under the Enterprise Income Tax Law and Implementation Regulations, the statutory tax rate of 25% was effective from 1 January 2008. Our Group’s PRC subsidiary had no assessable profit since its date of establishment.

Our Group may also have potential tax exposure in other jurisdictions including Thailand and the United States for its subsidiaries incorporated in these jurisdictions. For each of the three years ended 31 December 2010, the applicable tax rate for our subsidiary incorporated in Thailand was 30%, while the subsidiary incorporated in the United States was subject to tax rates ranging from approximately 15% to 39% dependent upon the amount of taxable income in each tax band of taxable income. But since our Thailand subsidiary is inactive and has no profits and our United States subsidiary only has minimal revenue, and accordingly no significant tax exposure in other jurisdictions is expected.

Deferred tax for each of the three years ended 31 December 2010 was recognised on temporary timing differences between the carrying amounts of assets and liabilities in our Group’s combined financial statements and the corresponding tax base used in the computation of taxable profit.

Under the Enterprise Income Tax Law, withholding tax is imposed on dividend declared in respect of profits earned by a PRC entity from 1 January 2008 onwards. No deferred taxation liability has been provided for our Group’s PRC subsidiary as our PRC subsidiary had no profits since its establishment in September 2009.

The effective tax rates of our Group for the years ended 31 December 2008, 2009 and 2010 were approximately 8.7%, 9.0% and 8.0%, respectively. The said effective tax rate was principally due to the 50:50 preferential tax concession allowed by DIPN 21 issued by the IRD for the HK Subsidiaries, which have been conducting their business through contract processing arrangements with the PRC Processing Factories. According to Circular 37, the PRC Processing Factories entering into contract processing arrangements with the HK Subsidiaries are regarded as the permanent establishment of the HK Subsidiaries in the PRC and hence, subject to PRC enterprise income tax on profits attributable to such permanent establishment. However, as mentioned in Circular 37 and Circular 403, which provide clarification on tax treatment for the HK-China Tax Arrangement and would not be considered as not applicable after the implementation of the Enterprise Income Tax Law, a Hong Kong entity entering into the contract processing arrangement would be considered to be having a permanent establishment in the PRC, but to the extent that the arrangement would be eligible to the 50:50 preferential tax treatment by the IRD, no PRC enterprise income tax would be assessed in the PRC to that Hong Kong entity. Circular 403 further confirms that the existing tax treatment that the PRC Processing Factories are subject to PRC enterprise income tax in respect of their sub-contracting fee income will continue.

Our Directors confirm that our Group has made all required tax filings under relevant tax laws and regulations in applicable jurisdictions, has paid all tax demanded and our Directors are not aware of any dispute or potential dispute with the relevant tax authorities.

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### Net profit and net profit margin

The following tables set out our Group's total net profit and net profit margin for the periods indicated:

|                   | <b>Year ended 31 December</b> |                 |                 |
|-------------------|-------------------------------|-----------------|-----------------|
|                   | <b>2008</b>                   | <b>2009</b>     | <b>2010</b>     |
|                   | <i>HK\$'000</i>               | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net profit        | <u>102,271</u>                | <u>106,936</u>  | <u>102,166</u>  |
|                   |                               |                 |                 |
|                   | <b>Year ended 31 December</b> |                 |                 |
|                   | <b>2008</b>                   | <b>2009</b>     | <b>2010</b>     |
| Net profit margin | <u>11.3%</u>                  | <u>14.7%</u>    | <u>12.0%</u>    |

The net profit increased from approximately HK\$102.3 million for the year ended 31 December 2008 to approximately HK\$106.9 million for the same period in 2009. The net profit dropped to approximately HK\$102.2 million for the year ended 31 December 2010.

During the Track Record Period, the net profit margin increased from approximately 11.3% to 12.0%, and the highest net profit margin of 14.7% was recorded for the year ended 31 December 2009. The changes in net profit margin were mainly due to the factors described above. In particular, as mentioned in the paragraph headed "Gross profit and gross profit margin", there was a decline in raw material prices as a result of the global financial crisis, leading to a lower cost of sales and higher profit margin for the year ended 31 December 2009. In the following financial year, the net profit margin decreased due to the increase in direct labour costs and raw material costs amid the economic growth in China. Furthermore, the general increase in net profit margin during the Track Record Period was also attributable to the continuous decrease in finance costs due to the decrease in average bank loans and average interest rate.

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### RESULTS OF OPERATIONS

Our combined statements of comprehensive income for the years ended 31 December 2008, 2009 and 2010 as set out below are derived from our combined financial statements included in Appendix I to this document.

|   | <b>Year ended 31 December</b> |                       |                       |
|---|-------------------------------|-----------------------|-----------------------|
|   | <b>2008</b>                   | <b>2009</b>           | <b>2010</b>           |
|   | <i>HK\$'000</i>               | <i>HK\$'000</i>       | <i>HK\$'000</i>       |
| <b>Revenue</b>  | 901,240                       | 727,555               | 853,539               |
| Cost of sales   | <u>(672,214)</u>              | <u>(506,926)</u>      | <u>(620,264)</u>      |
| Gross profit  | 229,026                       | 220,629               | 233,275               |
| Other income  | 9,477                         | 6,402                 | 8,620                 |
| Selling and distribution costs  | (37,064)                      | (24,801)              | (33,279)              |
| General and administrative expenses   | (86,668)                      | (82,365)              | (95,817)              |
| Finance costs   | <u>(2,707)</u>                | <u>(2,365)</u>        | <u>(1,707)</u>        |
| Profit before taxation  | 112,064                       | 117,500               | 111,092               |
| Income tax expense  | <u>(9,793)</u>                | <u>(10,564)</u>       | <u>(8,926)</u>        |
| <b>Profit for the year</b>  | <u><u>102,271</u></u>         | <u><u>106,936</u></u> | <u><u>102,166</u></u> |
| Other comprehensive income  |                               |                       |                       |
| Surplus arising on revaluation of property, plant and equipment                               | 15,767                        | 8,449                 | 14,431                |
| Recognition of deferred tax liability arising on revaluation of property, plant and equipment | (1,289)                       | (687)                 | (1,198)               |
| Effect of change in tax rate  | 160                           | –                     | –                     |
| Exchange difference arising from translation  | <u>(573)</u>                  | <u>731</u>            | <u>2,661</u>          |
| Other comprehensive income for the year   | <u>14,065</u>                 | <u>8,493</u>          | <u>15,894</u>         |
| Total comprehensive income for the year   | <u><u>116,336</u></u>         | <u><u>115,429</u></u> | <u><u>118,060</u></u> |

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### PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

#### Comparison of the years ended 31 December 2010 and 2009

##### *Revenue*

Our Group recorded an increase in revenue of approximately 17.3%, from approximately HK\$727.6 million for the year ended 31 December 2009 to approximately HK\$853.5 million for the year ended 31 December 2010. Such increase was mainly attributable to the recovery of consumer spending of our Group's U.S. market, the increase in sales to Asian countries and our Group's continuing efforts in providing design ideas of different collections of handbags targeted for different seasons and regions to its customers.

##### *Cost of sales*

The cost of sales of our Group increased from approximately HK\$506.9 million for the year ended 31 December 2009 to approximately HK\$620.3 million for the year ended 31 December 2010, showing an increase of approximately 22.4%. Furthermore, the percentage of cost of sales to the total revenue increased from approximately 69.7% to 72.7%. Such increase was mainly attributable to the increase in labour costs and raw material costs due to the economic growth in PRC for the year ended 31 December 2010.

##### *Gross profit and gross profit margin*

The gross profit of our Group increased by approximately 5.7% to approximately HK\$233.3 million alongside with the increase in revenue for the year ended 31 December 2010. The gross profit margin decreased from approximately 30.3% to 27.3% due to the increase of cost of sales as explained above.

##### *Other income*

The other income of our Group increased from approximately HK\$6.4 million for the year ended 31 December 2009 to approximately HK\$8.6 million for year ended 31 December 2010, representing an increase of HK\$2.2 million, or approximately 34.6%. The major factor contributing to such increase was the rise in sample sales which was consistent with the increase in revenue.

##### *Selling and distribution costs*

For each of two years ended 31 December 2010, our Group maintained a relatively stable selling and distribution costs at approximately 3.4% and 3.9% of our Group's total revenue respectively.

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### *Administrative expenses*

Administrative expenses increased by approximately HK\$13.5 million from approximately HK\$82.4 million for the year ended 31 December 2009 to approximately HK\$95.8 million for the year ended 31 December 2010, representing an increase of approximately 16.3%, primarily as a result of increase in salaries and allowances by approximately HK\$8.3 million for the year ended 31 December 2010.

### *Finance costs*

Our Group's interest expenses dropped by approximately 27.8% to approximately HK\$1.7 million for the year ended 31 December 2010 as compared to the same period in 2009. Such decrease in interest expenses was mainly due to the decrease in average bank loans and the decrease in average interest rate during the year ended 31 December 2010.

### *Profit before tax*

As a result of the foregoing, our Group recorded a relatively stable profit before tax of approximately HK\$117.5 million and HK\$111.1 million respectively for each of the two years ended 31 December 2010.

### *Income tax expense*

For each of the two years ended 31 December 2010, the income tax expense was approximately HK\$10.6 million and HK\$8.9 million respectively.

### *Profit after tax*

Our Group's profit after tax for the years ended 31 December 2009 and 2010 were approximately HK\$106.9 million and HK\$102.2 million respectively.

## **Comparison of the years ended 31 December 2009 and 2008**

### *Revenue*

For the year ended 31 December 2009, our Group's revenue dropped to approximately HK\$727.6 million, representing a decrease of approximately HK\$173.7 million, or approximately 19.3% from HK\$901.2 million for the year ended 31 December 2008. The decrease was primarily due to the global financial crisis in the fourth quarter of 2008. Since most of our orders for the year ended 31 December 2008 were already confirmed before the hit of the global financial crisis, its effect on our Group's revenue was realised for the year ended 31 December 2009. The global financial crisis had resulted in a significant reduction in global consumer spending and led to a corresponding decline in customer's orders especially in the U.S. and the United Kingdom. These two countries attributed an aggregate of 64.4% of our Group's revenue for the year ended 31 December 2008. Revenue generated from the U.S. and the United Kingdom has declined by 22.2% and 64.2% respectively for the year ended 31 December 2009 as compared to the same period in 2008.

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### *Cost of sales*

For each of the two years ended 31 December 2009, the cost of sales of our Group amounted to 74.6% and 69.7% of our Group's revenue respectively. The decline was mainly due to the decrease in the price of raw materials in the year ended 31 December 2009 as a result of the global financial crisis in the fourth quarter of 2008.

### *Gross profit and gross profit margin*

For each of the two years ended 31 December 2009, the gross profit of our Group was approximately HK\$229.0 million and HK\$220.6 million respectively. Although the gross profit was relatively stable for each of the two years ended 31 December 2009, the gross profit margin increased from approximately 25.4% to 30.3%. Such increase was mainly attributable to the decrease in the price of raw materials as a result of the global financial crisis in the fourth quarter of 2008.

### *Other income*

Other income of our Group decreased by approximately 32.4% from approximately HK\$9.5 million for the year ended 31 December 2008 to HK\$6.4 million for the year ended 31 December 2009. Such decrease was mainly attributable to the drop in sample and scrap sales of an aggregate of approximately HK\$3.3 million for the year ended 31 December 2009 which was in line with the drop in sales for the same period.

### *Selling and distribution costs*

For each of the two years ended 31 December 2009, our Group maintained a relatively stable selling and distribution costs at approximately 4.1% and 3.4% of our Group's total revenue respectively.

### *Administrative expenses*

The administrative expenses for each of the two years ended 31 December 2009 amounted to approximately HK\$86.7 million and HK\$82.4 million, or 9.6% and 11.3% of our Group's revenue, respectively, showing no significant fluctuation.

### *Finance costs*

Our Group's interest expenses reduced by approximately 12.6% from HK\$2.7 million for the year ended 31 December 2008 to HK\$2.4 million for the year ended 31 December 2009. The decrease in interest expenses was mainly due to the decrease in average bank loans for the year ended 31 December 2009.

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### *Profit before tax*

Profit before tax increased slightly by approximately 4.9% from approximately HK\$112.1 million for the year ended 31 December 2008 to approximately HK\$117.5 million for the year ended 31 December 2009, primarily attributable to (i) decrease in revenue due to the global financial crisis; and (ii) increase in gross profit margin during the year ended 31 December 2009.

### *Income tax expense*

For each of the two years ended 31 December 2009, the income tax expense was approximately HK\$9.8 million and HK\$10.6 million respectively.

### *Profit after tax*

As a result of the foregoing, our Group recorded a relatively stable profit after tax of approximately HK\$102.3 million and HK\$106.9 million respectively for each of the two years ended 31 December 2009.

## DISCUSSION OF CERTAIN STATEMENTS OF FINANCIAL POSITION ITEMS

### **Inventories**

Our inventories comprised raw materials, work in progress and finished goods. The amount of inventories as at 31 December 2008, 2009 and 2010 was approximately HK\$88.6 million, HK\$69.9 million and HK\$82.7 million respectively. The value of our inventories accounted for approximately 16.9%, 17.4%, and 28.2% of our total current assets as at 31 December 2008, 2009 and 2010, respectively.

The following table is a summary of our balance of inventories as at the dates indicated:

|                    | <b>As at 31 December</b> |                      |                      |
|--------------------|--------------------------|----------------------|----------------------|
|                    | <b>2008</b>              | <b>2009</b>          | <b>2010</b>          |
|                    | <i>HK\$'000</i>          | <i>HK\$'000</i>      | <i>HK\$'000</i>      |
| <b>Inventories</b> |                          |                      |                      |
| Raw materials      | 42,143                   | 31,007               | 34,940               |
| Work in progress   | 35,785                   | 31,803               | 37,209               |
| Finished goods     | <u>10,681</u>            | <u>7,094</u>         | <u>10,535</u>        |
| Total              | <u><u>88,609</u></u>     | <u><u>69,904</u></u> | <u><u>82,684</u></u> |

Inventories were stated at the lower of cost and net realisable value. Provision has been provided at the end of each reporting period to write off the costs of those raw materials (other than common raw materials) that were then over two years in our warehouse. The amount of such provision/(reversal) for the years ended 31 December 2008, 2009 and 2010 were approximately HK\$2.6 million, HK\$5.3 million and HK\$(3.1 million) respectively.

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The following table sets forth the movement of inventory provision balance:

|                             | <b>2008</b>           | <b>2009</b>           | <b>2010</b>           |
|-----------------------------|-----------------------|-----------------------|-----------------------|
|                             | <i>HK\$'000</i>       | <i>HK\$'000</i>       | <i>HK\$'000</i>       |
| As at 1 January             | (2,015)               | (4,653)               | (9,905)               |
| Provision made for the year | (2,638)               | (5,252)               | –                     |
| Reversal of provision       | <u>–</u>              | <u>–</u>              | <u>3,114</u>          |
| As at 31 December           | <u><u>(4,653)</u></u> | <u><u>(9,905)</u></u> | <u><u>(6,791)</u></u> |

As at 31 March 2011, being the latest practicable date such information was available to us, approximately HK\$65.0 million of our inventories as at 31 December 2010 had been consumed or sold.

The following table sets out our average inventory turnover days for the periods indicated:

|                                 | <b>Year ended 31 December</b> |                  |                  |
|---------------------------------|-------------------------------|------------------|------------------|
|                                 | <b>2008</b>                   | <b>2009</b>      | <b>2010</b>      |
| Average inventory turnover days | <u><u>51</u></u>              | <u><u>57</u></u> | <u><u>45</u></u> |

*Note:* Average inventory turnover days is calculated as the average of the beginning and ending inventory balances for the year, divided by the cost of sales for that year, multiplied by 365 days.

Save for the common raw materials which are usually kept for two months, our Group generally orders raw materials after it receives sales order from our customers. The production lead time is generally two months.

The average inventory turnover days increased from 51 days for the year ended 31 December 2008 to 57 days for the same period in 2009. Despite the drop of 21.1% in the inventory balance as at 31 December 2009, the average inventory turnover days for the year ended 31 December 2009 increased as the beginning inventory balance (i.e. the inventory balance as at 31 December 2008) was high and there was a drop in cost of sales resulting from decrease in sales during the global financial crisis. For the year ended 31 December 2010, the average inventory turnover days declined to 45 days, being the lowest in the Track Record Period. Our Directors believe that such decrease of the inventory turnover was mainly due to the better management of raw materials by adopting the ERP system.

### **Trade and other receivables**

Our trade and bills receivables included in the trade and other receivables primarily related to the amounts receivable for the sales of our handbag products in the normal course of business.

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The following table sets out the aging analysis of our trade and bills receivables as at the dates indicated:

|                   | <b>As at 31 December</b> |                    |                    |
|-------------------|--------------------------|--------------------|--------------------|
|                   | <b>2008</b>              | <b>2009</b>        | <b>2010</b>        |
|                   | <i>HK\$'000</i>          | <i>HK\$'000</i>    | <i>HK\$'000</i>    |
| Less than 30 days | 70,428                   | 67,836             | 110,755            |
| 31 – 60 days      | 31,860                   | 34,239             | 25,619             |
| 61 – 90 days      | 11,127                   | 12,970             | 4,317              |
| 90 – 120 days     | 490                      | 406                | 1,978              |
| Over 120 days     | <u>3,417</u>             | <u>1,037</u>       | <u>1,146</u>       |
| <br>Total         | <br><u>117,322</u>       | <br><u>116,488</u> | <br><u>143,815</u> |

For each of the three years ended 31 December 2010, most of the trade and bills receivables were within the normal credit terms of 14 to 90 days.

As at 31 March 2011, being the latest practicable date such information was available to us, approximately HK\$137.4 million of the trade and bills receivables as at 31 December 2010 had been settled.

The following table sets out our average trade receivables turnover days for the periods indicated:

|   | <b>Year ended 31 December</b> |             |             |
|---|-------------------------------|-------------|-------------|
|   | <b>2008</b>                   | <b>2009</b> | <b>2010</b> |
| Average trade receivables turnover days | <u>49</u>                     | <u>59</u>   | <u>56</u>   |

*Note:* Average trade receivables turnover days is calculated as the average of the beginning and ending trade and bills receivables for the year, divided by the revenue for that year, multiplied by 365 days.

Our Group's average trade receivables turnover days for each of the three years ended 31 December 2010 were 49 days, 59 days and 56 days respectively. This was in line with the credit terms of 14 to 90 days normally granted by our Group to our customers during the Track Record Period.

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### Movement in the allowance for doubtful debts

|   | <b>2008</b>     | <b>2009</b>     | <b>2010</b>     |
|---|-----------------|-----------------|-----------------|
|   | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| As at 1 January                             | –               | 1,355           | 246             |
| Impairment losses recognised on receivables | 1,355           | 255             | 204             |
| Amount written off as uncollectible         | –               | (1,364)         | (211)           |
| Amount recovered during the year            | –               | –               | (6)             |
|   | <u>–</u>        | <u>–</u>        | <u>(6)</u>      |
| As at 31 December                           | <u>1,355</u>    | <u>246</u>      | <u>233</u>      |

Before accepting any new customer, our Group assesses the potential customer's credit quality by investigating its historical credit record. During the Track Record Period, our Group provided allowance for doubtful debts of approximately HK\$1,355,000, HK\$255,000 and HK\$204,000 for the years ended 31 December 2008, 2009 and 2010 respectively for individual debts which were doubtful to be recovered under our management's credit review with reference to the credit terms of individual customers. It is the practice of our Group to make specific provision for each individual debt which was regarded as doubtful in its collectability. No general provision has been made.

Included in our Group's trade receivable balance were debtors with an aggregate carrying amount of approximately HK\$18,399,000, HK\$9,006,000 and HK\$7,977,000 which were then past due as at 31 December 2008, 2009 and 2010 respectively, but for which our Group had not provided for impairment losses, as there had not been a significant change in credit quality of the relevant customers and our Directors believe that the amounts are still collectable as there are continuing subsequent settlement after the end of the respective reporting period. Our Group did not hold any collateral over these receivables. Based on the above view of our Directors on our Group's policy for making allowance for doubtful debts and the amounts of past due receivables, the reporting accountants concur with the view of our Directors that the allowance for doubtful debts was sufficient.

### Ageing of trade receivables which were past due but not impaired

|                   | <b>As at 31 December</b> |                 |                 |
|-------------------|--------------------------|-----------------|-----------------|
|                   | <b>2008</b>              | <b>2009</b>     | <b>2010</b>     |
|                   | <i>HK\$'000</i>          | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Less than 30 days | 4,162                    | –               | –               |
| 31 – 60 days      | 8,465                    | 6,911           | 1,226           |
| 61 – 90 days      | 1,926                    | 652             | 4,282           |
| Over 90 days      | 3,846                    | 1,443           | 2,469           |
|                   | <u>3,846</u>             | <u>1,443</u>    | <u>2,469</u>    |
| Total             | <u>18,399</u>            | <u>9,006</u>    | <u>7,977</u>    |

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### Trade and other payables

Our trade payables included in trade and other payables primarily related to the amounts outstanding for trade purchases.

Set out below is the ageing analysis of our Group's trade payables, based on invoice date, as at the dates indicated:

|                   | <b>As at 31 December</b> |                      |                      |
|-------------------|--------------------------|----------------------|----------------------|
|                   | <b>2008</b>              | <b>2009</b>          | <b>2010</b>          |
|                   | <i>HK\$'000</i>          | <i>HK\$'000</i>      | <i>HK\$'000</i>      |
| Less than 30 days | 35,223                   | 37,574               | 26,583               |
| 31 – 60 days      | 25,314                   | 20,448               | 30,969               |
| 61 – 90 days      | 17,326                   | 21,111               | 25,765               |
| Over 90 days      | <u>3,853</u>             | <u>1,842</u>         | <u>2,697</u>         |
|                   | <u><u>81,716</u></u>     | <u><u>80,975</u></u> | <u><u>86,014</u></u> |

As at 31 March 2011, being the latest practicable date such information was available to us, all of the trade payables as at 31 December 2010 had been fully settled.

The following table sets out our average trade payables turnover days for periods indicated:

|                                      | <b>Year ended 31 December</b> |             |             |
|--------------------------------------|-------------------------------|-------------|-------------|
|                                      | <b>2008</b>                   | <b>2009</b> | <b>2010</b> |
| Average trade payables turnover days | <u>47</u>                     | <u>59</u>   | <u>49</u>   |

*Note:* Average trade payables turnover days is calculated as the average of the beginning and ending trade and bills payables for the year, divided by the cost of sales for that year, multiplied by 365 days.

Our Group's average trade payables turnover days were 47 days, 59 days and 49 days for each of the years ended 31 December 2008, 2009 and 2010, respectively. The average trade payable days increased from 47 days for the year ended 31 December 2008 to 59 days for the same period in 2009 as our Group requested its suppliers to extend the payment period in order to enhance our Group's financial liquidity after the global financial crisis in late 2008. This was in line with the credit terms of 30 to 90 days normally granted by our Group's suppliers to our Group during the Track Record Period.

### Other payables and accruals

Other payables and accruals principally comprised amounts outstanding for ongoing operating costs.

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Set out below is the breakdown of accruals and other payables as at the dates indicated.

|                             | As at 31 December        |                          |                          |
|-----------------------------|--------------------------|--------------------------|--------------------------|
|                             | 2008                     | 2009                     | 2010                     |
|                             | <i>HK\$'000</i>          | <i>HK\$'000</i>          | <i>HK\$'000</i>          |
| Other payables and accruals |                          |                          |                          |
| Accrued expense             | 29,255                   | 26,304                   | 36,193                   |
| Advanced receipts           | <u>975</u>               | <u>1,060</u>             | <u>1,292</u>             |
| <br>Total                   | <br><u><u>30,230</u></u> | <br><u><u>27,364</u></u> | <br><u><u>37,485</u></u> |

### **Amount due to a related company and amount due from LM**

As at 31 December 2008, 2009 and 2010, the amount due to a related company, which is beneficially owned by Ms. Lee Rosanna Man Lai who is a daughter of Mr. Lee Wan Keung, was approximately HK\$1.2 million, HK\$1.0 million and HK\$0.9 million respectively. The amount was unsecured, trade in nature, non-interest bearing, repayable on demand and aged within 90 days.

As at 31 December 2008 and 2009, the amount due from LM was approximately HK\$280.0 million and HK\$163.0 million respectively. The amount due from LM was unsecured, non-trade in nature, non-interest bearing and repayable on demand. The balance due from LM was fully settled by way of cash and dividend with an amount of approximately HK\$76.5 million and HK\$207.3 million, respectively, during the year ended 31 December 2010.

### **Derivative financial instruments**

Our derivative financial instruments represented the fair value of foreign exchange forward contracts held by our Group. It is our Group's policy to hedge against the exchange rate fluctuation of trade receivables in EUR against USD by entering into foreign exchange forward contracts. Our Group would generally enter into foreign exchange contracts to cover its expected income in EUR. When our Group enters into sales contract denominated in EUR, our finance department will review the amount of exchange forward contracts held by our Group and the latest currency trend of EUR and USD, and seek quotation from banks for exchange forward contracts as necessary. If our finance department, after taking into account of the above factors, considers that it is appropriate for our Group to enter into foreign exchange contracts, it will make relevant proposal to our Board. Board approval is required for entering into foreign exchange forward contract with amount over EUR 2 million. If the amount of foreign exchange forward contract is under EUR 2 million, approval from a Director is required. Our Group will not enter into foreign exchange forward contract which has a value greater than the expected income in EUR. During the Track Record Period, net exchange gain/(loss) arising from forward exchange contracts amounted to approximately HK\$(846,000), HK\$(322,000) and HK\$70,000 for each of the three years ended 31 December 2010. Please refer to note 19 to the Accountants' Report in Appendix I to this document for a more detailed discussion on our derivative financial

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instruments. The derivatives were measured at fair value at the end of each reporting period. As at 31 December 2008, 2009 and 2010, derivative financial instruments assets/(liabilities) amounted to HK\$(508,000), HK\$704,000 and HK\$(530,000) respectively. Save for the abovementioned foreign exchange contracts, our Group had not engaged in other hedging activities during the Track Record Period and up to to the Latest Practicable Date. As at the Latest Practicable Date, our Group held one foreign exchange forward contract for EUR/USD with total face value of EUR 170,000 which was not yet matured. The foreign exchange forward contract will mature on 22 July 2011 and the maximum loss which may arise as a result of unfavourable exchange rate movement is HK\$97,000. During the Track Record Period and up to the Latest Practicable Date, our Group had not and currently has no intention to enter into any derivative financial instrument contracts for purposes other than hedging purpose.

### LIQUIDITY AND CAPITAL RESOURCES

#### Working capital

We have historically met, and expect to continue to meet after Listing, our working capital needs primarily through cash generated from operating activities. Our Directors are of the opinion that, after taking into consideration the financial resources presently available to our Group including internally generated funds and the available banking facilities, our Group will have sufficient working capital for its operation requirements for at least 12 months from the date of this document.

Our Group generally financed its operations with internally generated cashflow and credit facilities provided by its principal bankers in Hong Kong. As at 31 December 2008, 2009 and 2010, our Group had relatively low ratios of interest-bearing borrowings to total assets of approximately 27.2%, 26.4% and 26.7%, respectively. Please refer to note 24 to the Accountants' Report in Appendix I to this document for a more detailed discussion on our interest-bearing bank borrowings.

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### Net current assets

The following table sets out details of our current assets and current liabilities as at the dates indicated:

|   | As at 31 December     |                       |                      | As at                |
|---|-----------------------|-----------------------|----------------------|----------------------|
|   | 2008                  | 2009                  | 2010                 | 31 March             |
|   | <i>HK\$'000</i>       | <i>HK\$'000</i>       | <i>HK\$'000</i>      | <i>HK\$'000</i>      |
|   |                       |                       |                      | (unaudited)          |
| <b>Current assets</b>                     |                       |                       |                      |                      |
| Inventories                               | 88,609                | 69,904                | 82,684               | 106,724              |
| Prepaid lease payments                    | 490                   | 490                   | 490                  | 368                  |
| Trade and other receivables               | 119,819               | 118,446               | 150,616              | 89,030               |
| Derivative financial instruments          | –                     | 704                   | –                    | –                    |
| Amount due from immediate holding company | 280,044               | 163,041               | –                    | –                    |
| Tax recoverable                           | –                     | –                     | 2,824                | 2,190                |
| Bank balances and cash                    | <u>34,777</u>         | <u>48,833</u>         | <u>56,290</u>        | <u>35,055</u>        |
|   | <u>523,739</u>        | <u>401,418</u>        | <u>292,904</u>       | <u>233,367</u>       |
| <b>Current liabilities</b>                |                       |                       |                      |                      |
| Trade and other payables                  | 111,946               | 108,339               | 123,499              | 74,747               |
| Derivative financial instruments          | 508                   | –                     | 530                  | 530                  |
| Amount due to a related company           | 1,170                 | 1,041                 | 926                  | 401                  |
| Taxation payable                          | 1,445                 | 3,585                 | 2,481                | 3,124                |
| Bank borrowings                           | <u>188,849</u>        | <u>150,345</u>        | <u>125,853</u>       | <u>100,693</u>       |
|   | <u>303,918</u>        | <u>263,310</u>        | <u>253,289</u>       | <u>179,495</u>       |
| Net current assets                        | <u><u>219,821</u></u> | <u><u>138,108</u></u> | <u><u>39,615</u></u> | <u><u>53,872</u></u> |

As shown in the table above, there was continuous decline in net current assets during the Track Record Period. Such decrease was mainly attributable to the distribution of dividend to the immediate holding company to set off the amount due from immediate holding company.

As at 31 December 2010, our Group had net current assets of approximately HK\$39.6 million. Our Group had settled its debts primarily through cash generated from its operations and the available unutilised banking facilities and accordingly, our Directors are of the opinion that as at the Latest Practicable Date, our Group had sufficient resources to meet its present debt repayment requirements.

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The net current assets of our Group increased from approximately HK\$39.6 million as at 31 December 2010 to approximately HK\$53.9 million as at 31 March 2011, being the latest practicable date such information was available to us. Our Group's unaudited current assets of approximately HK\$233.4 million as at 31 March 2011 mainly consisted of inventories and trade receivables.

### Cash flows

The following table shows the changes in cash flow of our Group for the periods indicated:

|  | Year ended 31 December |                 |                 |
|--|------------------------|-----------------|-----------------|
|  | 2008                   | 2009            | 2010            |
|  | <i>HK\$'000</i>        | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net cash generated from operating activities | <u>131,850</u>         | <u>139,394</u>  | <u>84,275</u>   |
| Net cash used in investing activities        | <u>(307,860)</u>       | <u>(86,817)</u> | <u>(52,394)</u> |
| Net cash from (used in) financing activities | <u>183,138</u>         | <u>(38,504)</u> | <u>(24,492)</u> |

### Operating activities

We derived our cash inflow from operating activities principally from the receipt of payments for the sale of our products. Our cash outflow from operating activities was principally for purchases of raw materials and packaging materials and expenses for sales and marketing activities.

The amount of net cash generated from operating activities had shown no major changes for each of the two years ended 31 December 2009. Nonetheless, such amount declined from approximately HK\$139.4 million for the year ended 31 December 2009 to HK\$84.3 million for the year ended 31 December 2010 by approximately 39.5%. The decrease in net cash generated from operating activities was mainly caused by the increase in inventories and trade and other receivables for the year ended 31 December 2010.

### Investing activities

During the Track Record Period, the cash outflow in investing activities mainly consisted of advances to immediate holding company and purchase of property, plant and equipment. On the other hand, the repayment from immediate holding company constituted the major cash inflow from investing activities.

The net cash used in investing activities had been decreasing from the year ended 31 December 2008 to the year ended 31 December 2010. The annual decline for each of the two years ended 31 December 2010 was approximately 71.8% and 39.7% respectively. The continuous decline in net cash used in investing activities was mainly attributable to the reduction of advances to immediate holding company and the increase in repayment from

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immediate holding company from approximately HK\$0.2 million for the year ended 31 December 2008 to HK\$76.5 million for the year ended 31 December 2010. As mentioned above, LM fully settled its amount due to our Group by way of cash and dividend for the year ended 31 December 2010. The repayment in cash of approximately HK\$76.5 million was the primary component of the cash inflow from investing activities.

### Financing activities

Cash from bank borrowings raised and cash used in repayment of bank borrowings determined the net cash from or used in financing activities. There was a constant decrease in cash inflow from bank borrowings during the Track Record Period. The net cash from financing activities was approximately HK\$183.1 million for the year ended 31 December 2008 but it declined to a negative figure of HK\$38.5 million, signaling a net cash outflow, for the year ended 31 December 2009. The net cash used in repayment of bank borrowings increased by approximately HK\$136.2 million from approximately HK\$2.6 million for the year ended 31 December 2008 to approximately HK\$138.8 million for the year ended 31 December 2009. As the amount of repayment of bank borrowings decreased, the net cash used in financing activities dropped slightly in the following year.

### Capital expenditures

The following table sets out our capital expenditures for the periods indicated:

|   | <b>Year ended 31 December</b> |                 |                 |
|---|-------------------------------|-----------------|-----------------|
|   | <b>2008</b>                   | <b>2009</b>     | <b>2010</b>     |
|   | <i>HK\$'000</i>               | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Capital expenditures in respect of acquisition of property, plant and equipment | <u>3,166</u>                  | <u>3,604</u>    | <u>7,269</u>    |

Our capital expenditures for the years ended 31 December 2008, 2009 and 2010 principally consisted of expenditures on the acquisition of plant and machinery. We expect that the capital expenditures of approximately HK\$6 million planned for the year ending 31 December 2011 would be primarily used for the same purpose.

We expect to fund our projected capital expenditures principally through cash generated from operating activities.

As we may incur additional capital expenditures from time to time when we pursue any new opportunities to expand our production capacities, actual expenditures may differ significantly from our current plans. Our planned capital expenditure projects may also change due to changes in business plans such as potential acquisitions, individual project progress, market conditions and outlook. Further, our ability to obtain sufficient funding for our planned capital expenditure projects in the future is subject to a variety of uncertainties, including our future results of operations, financial condition and cash flows, economic, political and other conditions in the PRC, Hong Kong and other jurisdictions in which we operate.

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### Capital commitments

The following table summarises our Group's capital commitments as at the dates indicated:

|  | As at 31 December |            |           |
|--|-------------------|------------|-----------|
|  | 2008              | 2009       | 2010      |
|  | HK\$'000          | HK\$'000   | HK\$'000  |
| Capital expenditure contracted for but not provided for in respect of the acquisition of property, plant and equipment | <u>103</u>        | <u>222</u> | <u>32</u> |

Our Group had no material capital commitments as at the Latest Practicable Date.

### Contingent liabilities

As at 31 December 2010, our Group had no material contingent liabilities. Our Group has not involved in any current material legal proceedings, nor is our Group aware of any pending or potential material legal proceedings involving our Group. We confirm that our Group had no material contingent liabilities since 31 December 2010 and up to the Latest Practicable Date.

## FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Our Group's financial risks include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out in detail in note 35b to the Accountants' Report in Appendix I to this document.

### Market risk

#### (i) Currency risk

Our Group mainly operates in Hong Kong and the PRC and the exposure in exchange rate risks mainly arises from fluctuations of foreign currencies, including EUR, HK dollars and RMB against the functional currency of the relevant group entities. Material transactions and balances that are not denominated in the functional currency of the relevant entities give rise to foreign currency exposure as follows:

- (i) EUR – in terms of revenue, bank balances and bank borrowings
- (ii) HK dollars and RMB – in terms of expenses, bank balances and capital expenditure.

Exchange rate fluctuations and market trend have always been the concern of our Group. As HK dollars are linked with USD, our Group does not have material exchange risk on this currency pair. Our Group entered into several foreign exchange forward contracts to partially hedge its currency risk.

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### *(ii) Interest rate risk*

Our Group's cash flow interest rate risks mainly relate to its variable rates borrowings. Our Group's bank balances also have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. Our Directors consider our Group's exposure to fair value interest rate risk in relation to its short term bank deposits is not significant as interest bearing bank balances are within short maturity periods.

Our Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. Our Directors monitor our Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arise.

### *(iii) Credit risk*

Our Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined statements of financial position. Our Group is also exposed to concentration of credit risk as a substantial portion of its receivables is generated from a limited number of customers. At 31 December 2010, the top five customers of our Group accounted for about 64% of our Group's trade receivables.

In order to minimise the credit risk, the management of our Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management reviews the recoverable amount of each individual trade debt at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, our Directors consider that our Group's credit risk is significantly reduced.

Our Group also has a significant credit exposure in relation to the amount due from its immediate holding company, LM. However, because of common directorship, our Group is in a position to regularly assess the financial strength of LM and to take timely action to safeguard its asset. As at 31 December 2010, the balance due from LM was fully settled.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

### **Liquidity risk**

In the management of our Group's liquidity risk, our Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance our Group's operations and mitigate the effects of fluctuation in cash flows. Our Group also has available banking facilities to meet its short-term working capital requirements. The management monitors the utilisation of bank borrowings and ensure compliance with loan covenants.

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### INDEBTEDNESS

The following table sets out our bank borrowings as at 31 December 2008, 2009 and 2010 by maturity date:

|  | <b>As at 31 December</b> |                 |                 |
|--|--------------------------|-----------------|-----------------|
|  | <b>2008</b>              | <b>2009</b>     | <b>2010</b>     |
|  | <i>HK\$'000</i>          | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year or on demand           | 188,849                  | 150,345         | 125,853         |
| In the second year                     | –                        | –               | –               |
| In the third to fifth years, inclusive | –                        | –               | –               |
| <br>                                   |                          |                 |                 |
| Total                                  | <u>188,849</u>           | <u>150,345</u>  | <u>125,853</u>  |

Our Group had settled its debts primarily through cash generated from its operations and the available unutilised banking facilities and accordingly, our Directors are of the opinion that as at the Latest Practicable Date our Group had sufficient resources to meet its present debt repayment requirements.

The following table sets out the range of interest rates of our bank borrowings for the periods indicated:

|                          | <b>Year ended 31 December</b> |                 |                 |
|--------------------------|-------------------------------|-----------------|-----------------|
|                          | <b>2008</b>                   | <b>2009</b>     | <b>2010</b>     |
|                          | <i>HK\$'000</i>               | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Ranges of interest rates | 0.6%-1.25%                    | 0.6%-1.5%       | 0.8%-1.25%      |
|                          | over HIBOR                    | over HIBOR      | over HIBOR      |
|                          | or LIBOR                      | or LIBOR        | or LIBOR        |

As at 31 March 2011, being the latest practicable date for determining our indebtedness, our Group had bank borrowings of approximately HK\$100.7 million which were due within one year or on demand. As at 31 March 2011, our Group had utilised approximately HK\$100.7 million of the banking facilities. All our banking facilities during the Track Record Period were supported by corporate guarantees provided by LM. It is expected that upon Listing, the corporate guarantees provided by LM will be released and replaced by corporate guarantees provided by our Company. During the Track Record Period, our Group's bank borrowings were for import and export trade facilities purposes and were variable rate borrowings with the interest rate ranged from 0.6% to 1.5% over HIBOR or LIBOR, none of them contained cross-default provision. Bank borrowings were denominated in the respective functional currency of the relevant group entities, Euro and Hong Kong dollars. The amount of bank borrowings decreased over the Track Record Period as a result of the LM's decrease in demand for borrowings or dividend distribution from our Company. Please refer to note 24 to the Accountants' Report in Appendix I to this document for a more detailed discussion on our Group's bank borrowings during the Track Record Period. We confirm that there had not been any material change in our indebtedness since 31 March 2011 and up to the Latest Practicable Date.

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Except as disclosed above, our Group did not have any 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 outstanding as at 31 March 2011. Furthermore, as at 31 March 2011, there were no material covenants relating to our outstanding bank borrowings that would prevent us from raising additional bank or other external financing.

### **OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS**

As at the Latest Practicable Date, our Group did not have any material off-balance sheet commitments and arrangements.

### **DIVIDEND POLICY**

For each of the three years ended 31 December 2008, 2009 and 2010, our Group paid dividend of approximately HK\$25.0 million, HK\$200.0 million, and HK\$207.3 million, respectively. The payment and the amount of any future dividend will depend on the results of our operations, cash flow, financial condition, statutory and regulatory restrictions on the payment of dividend, future prospects and other factors that we may consider relevant. The declaration, payment and amount of any future dividend will be subject to our discretion.

Dividend may be paid out of our Group's distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividend, such profits will not be available to be reinvested in our Group's operations. There is no assurance that our Group will be able to declare or distribute any dividend in the amount set out in any of our plans or at all. Our Group's dividend distribution record in the past may not be used as a reference or basis to determine the level of dividend that may be declared or paid by our Group in the future.

### **RELATED PARTY TRANSACTIONS**

With respect to the related parties transactions set out in note 32 to the Accountants' Report in Appendix I to this document, our Directors confirm that these transactions were conducted on normal commercial terms and/or that such terms were no less favourable to our Group than terms available to independent third parties and were fair and reasonable and in the interests of our Shareholders as a whole.

For a discussion of related party transactions, please refer to note 32 to the Accountants' Report as contained in Appendix I to this document in addition to the other transactions detailed elsewhere in this document.

### **DISTRIBUTABLE RESERVES**

As our Company was incorporated on 4 January 2011, we had no distributable reserves available for distribution to our Shareholders as at 31 December 2010.

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### PROPERTY INTERESTS AND PROPERTY VALUATION

We currently own a parcel of land with a site area of approximately 64,776 sq.m. in Thailand. Under the laws of Thailand, a majority foreign-owned company is not normally permitted to own land in Thailand. The BOI may grant a majority foreign-owned company special permission to own land on which to operate a factory for a BOI-promoted project. The land and factory premise are supposed to be sold within one year of termination of the BOI-promoted activities. If the owner fails to sell the land within one year, there is no sanction against the owner, but the Land Office becomes empowered to sell the property on the owner's behalf. Unless we receive a notice or directions from the Land Office for forced sale of our Thailand properties, our Thailand properties are freely transferable in the market. As advised by Bamrung Savicha Apisakdi Law Associates, our Thailand legal advisers, the Land Office rarely exercise its power to sell the property in practice. We had not received such notice or directions from the Land Office as at the Latest Practicable Date. Normally the owner of the land continues holding the land beyond the one year period until a buyer at a suitable price can be located. There is no stated maximum time beyond which the owner can own the property. As confirmed by Bamrung Savicha Apisakdi Law Associates, our Thailand legal advisers, there is no legal consequence for (i) failure to sell our Thailand properties or (ii) keeping our Thailand properties other than the empowerment of the Land Office to sell our Thailand properties after the initial one year period has expired. Since we have suspended the operation of our factory in Thailand in 2001, the land is no longer conducting BOI-promoted activities. The BOI had been informed of our suspension of operations in Thailand. Therefore, we are most likely under a continuing obligation to sell our Thailand properties to a buyer at a suitable price. We have contacted real estate agents with the intent to sell our Thailand properties. As at the Latest Practicable Date, no appropriate purchaser had been identified and it is the intention of the management to retain our Thailand properties until a buyer who can offer a price that can satisfy our Group's capital appreciation objective. Our Directors are optimistic about the Thailand property market. As at 31 December 2010, the net book value of our Thailand properties was approximately HK\$26.3 million. The likely selling price was not available. As advised by Jones Lang LaSalle Sallmanns Limited, an independent property valuer, which has carried out their valuation taking into account the legal opinion of our Thailand legal advisers on the property interest, the market value is carried out on the basis that our Thailand properties can be freely transferable in the market. As no notice or directions from the Land Office for forced sale of our Thailand properties has been received, our Thailand properties can be freely transferred in the market as at the date of valuation and therefore any write down on the market value is considered not necessary in the valuation. On this basis, our Directors after seeking for professional advice from the reporting accountants, are of the view that no write-down of value is considered necessary. The Sponsor having considered the view of Jones Lang LaSalle Sallmanns Limited, the above advice from the reporting accountants, and that the difference in capital value of our Thailand properties based on the valuation prepared by the Jones Lang LaSalle Sallmanns Limited of approximately HK\$25.9 million as at 28 February 2011 and the net book value of our Thailand properties of HK\$26.3 million as at 31 December 2010 was solely resulted from the difference in exchange rate for the two dates and the net book value in Baht was the same, concur with the view of our Directors that no write-down of value is necessary.

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As mentioned above, while we are supposed to dispose our Thailand properties within one year of cessation of its operation in Thailand in 2001, according to the legal opinion obtained from our Thailand legal advisers, there is no sanction against us if we fail to sell our Thailand properties within one year period and in practice, we can continue to hold our Thailand properties beyond the one year period until a buyer at a suitable price can be located. In addition, there is no stated maximum time beyond which we can own our Thailand properties and there is no legal consequence for failure to sell our Thailand properties other than the empowerment of the Land Office to sell our Thailand properties on our behalf after the initial one year period has expired. Since our cessation of operations in Thailand in 2001, the Land Office has not exercised such empowerment and according to the legal opinion, the Land Office rarely does so in practice. Therefore, our Directors intend, and are of the opinion that we are able, to continue to hold our Thailand properties for capital appreciation purpose. On this basis, our reporting accountants concurs that our Thailand properties could be classified as investment properties according to our accounting policies which conform with Hong Kong Financial Reporting Standards (“HKFRSs”), investment properties are properties held to earn rentals and/or capital appreciation.

Further details relating to our property interests are set out in Appendix III – Property Valuation to this document. Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued the properties owned and leased by us as at 28 February 2011. The text of their letters, summaries of values and valuation certificates are set out in Appendix III – Property Valuation to this document.

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A reconciliation of the net book value of the relevant property interests as at 31 December 2010 to their fair value as stated in Appendix III – Property Valuation to this document is as follows:

|  | <i>HK\$'000</i><br>(unaudited) |
|--|--------------------------------|
| Net book value of property interests of our Group as at 31 December 2010                   |                                |
| – Buildings  | 92,323                         |
| – Leasehold improvements   | 11,402                         |
| – Prepaid lease payments   | 18,250                         |
| – Investment properties  | <u>26,341</u>                  |
|  | 148,316                        |
| Less: property interests not included in the valuation <sup>(Note)</sup>                   | <u>(43,837)</u>                |
| Adjusted net book value of property interests as at 31 December 2010                       | 104,479                        |
| Depreciation/amortisation for the two months ended 28 February 2011                        | <u>(2,152)</u>                 |
| Adjusted net book value as at 28 February 2011   | 102,327                        |
| Valuation surplus as at 28 February 2011   | <u>16,755</u>                  |
| Valuation as at 28 February 2011 as per Appendix III – Property Valuation to this document | <u><u>119,082</u></u>          |

*Note:* These property interests represented those occupied by the Group in the PRC which are in the process of obtaining the title certificates as at 28 February 2011.

### DISCLOSURE REQUIRED UNDER THE LISTING RULES

As at the Latest Practicable Date, our Directors confirm that they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

### UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted combined net tangible assets of our Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Listing on the combined net tangible assets of our Group as at 31 December 2010 as if the Listing had taken place on that date.

This statement of unaudited pro forma adjusted combined net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of our Group. It is prepared based on

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## FINANCIAL INFORMATION

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the audited combined net assets of our Group as at 31 December 2010 as set out in the Accountants' Report, the text of which is set out in Appendix I to this document, and adjusted as described below.

|   | <b>Audited<br/>combined net<br/>tangible assets<br/>of our Group<br/>at 31 December<br/>2010</b> | <b>Estimated<br/>expenses<br/>relating to the<br/>Listing</b> | <b>Unaudited pro<br/>forma adjusted<br/>combined net<br/>tangible assets<br/>of our Group</b> | <b>Unaudited pro<br/>forma adjusted<br/>combined net<br/>tangible assets<br/>per Share</b> |
|---|--|---|---|--|
|   | <i>HK\$'000</i>  | <i>HK\$'000</i>   | <i>HK\$'000</i>   | <i>HK\$</i>  |
|   | <i>(note 1)</i>  | <i>(note 2)</i>   |   | <i>(note 3)</i>  |
| Based on 825,000,000<br>Shares in issue | 211,968  | (15,000)  | 196,968   | 0.24   |

*Notes:*

1. The audited combined net tangible assets of our Group as at 31 December 2010 represents our Group's combined net assets at that date and is extracted from the financial information contained in the Accountants' Report set out in Appendix I to this document.
2. Estimated expenses relating to the Listing mainly include professional fees for the Sponsor, our Company's legal advisors and the reporting accountants.
3. The unaudited pro forma net tangible assets per Share is based on 825,000,000 Shares in issue but without taking into account any Shares that may be issued upon exercise of any options that may be granted under the Share Option Scheme.

### **HISTORICAL EARNINGS PER SHARE**

The earnings per Share of our Group for the year ended 31 December 2010 was approximately HK\$0.124. For details of the calculation, please refer to note 13 to the Accountants' Report as set out in Appendix I to this document.

### **NO MATERIAL ADVERSE CHANGE**

Our Directors confirm that, up to the Latest Practicable Date, they were not aware of any material adverse change in the financial or trading position or prospects of our Group since 31 December 2010, and there was no known event since 31 December 2010 and up to the Latest Practicable Date which would materially affect the information shown in the Accountants' Report set out in Appendix I to this document.

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## FUTURE PLANS

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### **Enhance manufacturing capabilities and efficiency**

We will continue to improve our production efficiency and enhance our competitiveness and profitability. We target to apply the “one-piece-flow” workflow to our entire production facilities in the PRC Processing Factories and Lee Wai Factory and we will also continue to upgrade our production equipment and to identify other new production equipment (such as automated sewing machines) to enhance our production efficiency and capacity, reduce labour costs and energy consumption. We believe that the adoption of more efficient workflow and the continuous upgrades will improve our productivity and profitability. As at the Latest Practicable Date, we had not entered into any material contracts for acquisition of new production equipment.

### **Strengthen and expand customer base**

We will continue to build on our solid customer base and increase business volume with our existing customers and develop new clientele. We will communicate with our customers to understand their needs and requirements and will also meet with potential customers to explore cooperation opportunities with them from time to time. We will meet with potential customers to introduce to them our Group, our products and services and our competitive strengths to explore more potential customers. We believe that our long-standing and proven business track record in the handbag industry can help us source new customers. We will aim at manufacturing products with a higher value to enhance our profitability.

Our product development team produced more than 13,000, 12,000 and 11,000 new styles of handbags for each of the three years ended 31 December 2010 respectively. We will continuously strengthen our product development team. We intend to acquire more and better computerised equipment to enhance the efficiency of our product development team and to provide more new sample products for our customers to meet their requirements, so that better services and products can be offered to our existing customers and attract more potential customers. We will work closely with our existing customers to provide better and more customised services to them and further solidify our relationships with them.

### **Geographical expansion of market**

Sales of our products in the PRC market only accounted for approximately 0.3%, 1.0% and 1.5% of our total revenue for each of the three years ended 31 December 2010. Gao Bu Processing Factory and Liu Wu Processing Factory are operated under the PRC Processing Agreements. According to the relevant PRC laws and regulations and as confirmed by our PRC Legal Advisers, products manufactured under a contract processing arrangement are required to be exported outside PRC. In September 2009, we set up a wholly-owned subsidiary in China with the aim to expand our business in China. Sales of our products in the PRC market for the two years ended 31 December 2008 and 2009 comprised the export sales of our products to our customers outside PRC and after the PRC customs clearance, to the best knowledge and belief of our Directors, such products were subsequently re-imported back to the PRC market under the arrangement of our customers. Since the commencement of operation of our wholly-owned subsidiary in the PRC in around January 2010, sales of our products in the PRC market for the year ended 31 December 2010 also included our Group’s PRC domestic sales to our customers. We are developing and selling handbag

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## **FUTURE PLANS**

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products to certain brand owners doing business in China on an OEM basis and we plan to further expand our business with similar business model (i.e. manufacturing handbag products on an OEM basis for our customers) in China. We believe that with the growing GDP and retail sales market in China, there is a great potential for the growth of handbag products; and with our solid track record in the handbag industry, we would be able to expand our business in China.



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Deloitte Touche Tohmatsu  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

31 May 2011

The Directors  
Lee & Man Handbags Holding Limited  
CIMB Securities (HK) Limited

Dear Sirs,

We set out below our report on the financial information relating to Lee & Man Handbags Holding Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2010 (the “Track Record Period”) (the “Financial Information”) for inclusion in the listing document dated 31 May 2011 issued by the Company in connection with the listing by way of introduction of the entire issued share capital of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “listing document”).

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 4 January 2011. Pursuant to a group reorganisation, as more fully explained in the section headed “Reorganisation” in the listing document (the “Reorganisation”), the Company became a holding company of the Group on 18 May 2011.

At the date of this report, the Company has interests in the following subsidiaries:

| Name of company  | Place and date of incorporation/<br>establishment      | Issued and fully<br>paid share<br>capital/<br>registered capital     | Attributable equity<br>interest held by the Group |      |      | Date of<br>this<br>report | Principal activities                |
|--|--|--|---|------|------|---------------------------|-------------------------------------|
|  |  |  | At 31 December                                    |      |      |                           |                                     |
|  |  |  | 2008  | 2009 | 2010 |                           |                                     |
| <b>Directly owned</b>  |  |  |   |      |      |                           |                                     |
| Lee & Man Development<br>Company Limited (“LM<br>Development”) | British Virgin<br>Islands (“BVI”)<br>15 September 1992 | Ordinary US\$90  | 100%  | 100% | 100% | 100%                      | Investment holding                  |
| <b>Indirectly owned</b>  |  |  |   |      |      |                           |                                     |
| Lee & Man Company Limited                                      | Hong Kong<br>21 November 1978                          | Ordinary<br>HK\$1,000,000<br>Non-voting<br>deferred<br>HK\$1,000,000 | 100%  | 100% | 100% | 100%                      | Manufacture and<br>sale of handbags |

| Name of company  | Place and date of incorporation/ establishment                  | Issued and fully paid share capital/ registered capital         | Attributable equity interest held by the Group |      |      | Date of this report | Principal activities                                |
|--|---|---|--|------|------|---------------------|---|
|  |   |   | At 31 December                                 |      |      |                     |   |
|  |   |   | 2008   | 2009 | 2010 |                     |   |
| Lee & Man Handbag Manufacturing Company Limited                          | Hong Kong<br>20 August 1976                                     | Ordinary<br>HK\$10,000<br>Non-voting<br>deferred<br>HK\$500,000 | 100%   | 100% | 100% | 100%                | Manufacture and sale of handbags                    |
| Well Known Associates Limited  | BVI<br>2 August 2001  | Ordinary<br>US\$1   | 100%   | 100% | 100% | 100%                | Investment holding                                  |
| Catini Bags, Inc   | United States of America ("USA")<br>25 September 2001           | Ordinary<br>US\$1,000   | 100%   | 100% | 100% | 100%                | Trading of handbags                                 |
| Catini Bags (Hong Kong) Limited  | Hong Kong<br>7 November 2001                                    | Ordinary<br>HK\$2   | 100%   | 100% | 100% | 100%                | Dormant   |
| Lee & Man Management Company Limited                                     | Hong Kong<br>24 November 1992                                   | Ordinary<br>HK\$2   | 100%   | 100% | 100% | 100%                | Provision of management and administration services |
| Lee & Man Luggage Manufacturing Company Limited                          | Hong Kong<br>25 June 1992                                       | Ordinary<br>HK\$2   | 100%   | 100% | 100% | 100%                | Dormant   |
| Lee & Man Handbag (Thailand) Company Limited ("LM Handbag Thailand")     | Thailand<br>11 November 1997                                    | Ordinary<br>Baht 30,000,000                                     | 100%   | 100% | 100% | 100%                | Property holding in Thailand                        |
| Lee Wai Handbag Manufacturing Company Limited                            | Hong Kong<br>23 March 2009                                      | Ordinary<br>HK\$1   | N/A  | 100% | 100% | 100%                | Investment holding                                  |
| 東莞利偉手袋有限公司 Dongguan Lee Wai Handbag Co. Ltd* ("Dongguan Lee Wai") (note) | The People's Republic of China (the "PRC")<br>25 September 2009 | Registered<br>HK\$6,000,000                                     | N/A  | 100% | 100% | 100%                | Manufacture and sale of handbags                    |

\* For identification purposes only

note: Dongguan Lee Wai is registered in the form of a wholly-owned foreign investment enterprise.

All of the above subsidiaries are limited liability companies incorporated/established in their respective place of incorporation/establishment.

The statutory financial statements of all the subsidiaries incorporated in Hong Kong for the Track Record Period, or from the date of incorporation, if shorter, were audited by Deloitte Touche Tohmatsu, certified public accountants registered in Hong Kong.

The statutory financial statements of Dongguan Lee Wai for the period from 25 September 2009 (date of establishment) to 31 December 2009 and the year ended 31 December 2010 were audited by 東莞市德正會計師事務所有限公司 (Dongguan City Diligent Certified Public Accountants), certified public accountants registered in the PRC.

The statutory financial statements of LM Handbag Thailand for the Track Record Period were audited by Orawan-Jidapa Associate, certified public accountants registered in Thailand.

No statutory audited financial statements have been prepared for those subsidiaries which were incorporated in BVI or USA as there are no statutory audit requirements in these jurisdictions. Moreover, no statutory audited financial statements have been prepared for the Company which was only incorporated in the Cayman Islands on 4 January 2011.

For the purpose of this report, the directors of LM Development, an intermediate holding company of all the entities in the Group during the Track Record Period, have prepared consolidated financial statements of LM Development for the Track Record Period in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). Pursuant to the Reorganisation, which was completed on 18 May 2011 by interspersing the Company between LM Development and its shareholder, the Company became a holding company of the Group. We have undertaken an independent audit of the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in Note 2 of Section A below. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the listing document.

The Underlying Financial Statements are the responsibility of the directors of LM Development who approved their issue. The directors of the Company are responsible for the contents of the listing document in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 2 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2008, 2009, 2010, and of the combined results and cash flows of the Group for the respective year then ended.

## A. FINANCIAL INFORMATION

## COMBINED STATEMENTS OF COMPREHENSIVE INCOME

|   | Notes | Year ended 31 December |                  |                  |
|---|-------|------------------------|------------------|------------------|
|   |       | 2008                   | 2009             | 2010             |
|   |       | HK\$'000               | HK\$'000         | HK\$'000         |
| Revenue   | 6     | 901,240                | 727,555          | 853,539          |
| Cost of sales   |       | <u>(672,214)</u>       | <u>(506,926)</u> | <u>(620,264)</u> |
| Gross profit  |       | 229,026                | 220,629          | 233,275          |
| Other income  | 8     | 9,477                  | 6,402            | 8,620            |
| Selling and distribution costs  |       | (37,064)               | (24,801)         | (33,279)         |
| General and administrative expenses   |       | (86,668)               | (82,365)         | (95,817)         |
| Finance costs   |       | <u>(2,707)</u>         | <u>(2,365)</u>   | <u>(1,707)</u>   |
| Profit before tax   | 9     | 112,064                | 117,500          | 111,092          |
| Income tax expense  | 11    | <u>(9,793)</u>         | <u>(10,564)</u>  | <u>(8,926)</u>   |
| Profit for the year   |       | 102,271                | 106,936          | 102,166          |
| Other comprehensive income  |       |                        |                  |                  |
| Surplus arising on revaluation of property, plant and equipment                               |       | 15,767                 | 8,449            | 14,431           |
| Recognition of deferred tax liability arising on revaluation of property, plant and equipment |       | (1,289)                | (687)            | (1,198)          |
| Effect of change in tax rate  |       | 160                    | –                | –                |
| Exchange difference arising on translation  |       | <u>(573)</u>           | <u>731</u>       | <u>2,661</u>     |
| Other comprehensive income for the year   |       | <u>14,065</u>          | <u>8,493</u>     | <u>15,894</u>    |
| Total comprehensive income for the year   |       | <u>116,336</u>         | <u>115,429</u>   | <u>118,060</u>   |
| Earnings per share (HK cents)   | 13    | <u>12.4</u>            | <u>13.0</u>      | <u>12.4</u>      |

## COMBINED STATEMENTS OF FINANCIAL POSITION

|   | Notes | As at 31 December     |                       |                       |
|---|-------|-----------------------|-----------------------|-----------------------|
|   |       | 2008<br>HK\$'000      | 2009<br>HK\$'000      | 2010<br>HK\$'000      |
| <b>Non-current assets</b>   |       |                       |                       |                       |
| Property, plant and equipment                                     | 14    | 126,622               | 123,147               | 128,674               |
| Prepaid lease payments  | 15    | 18,740                | 18,250                | 17,760                |
| Investment properties   | 16    | 21,785                | 22,408                | 26,341                |
| Deposits paid for acquisition of<br>property, plant and equipment |       | 142                   | 451                   | 1,094                 |
| Defined benefit assets  | 31    | <u>3,852</u>          | <u>4,250</u>          | <u>4,538</u>          |
|   |       | <u>171,141</u>        | <u>168,506</u>        | <u>178,407</u>        |
| <b>Current assets</b>   |       |                       |                       |                       |
| Inventories   | 17    | 88,609                | 69,904                | 82,684                |
| Prepaid lease payments  | 15    | 490                   | 490                   | 490                   |
| Trade and other receivables                                       | 18    | 119,819               | 118,446               | 150,616               |
| Derivative financial instruments                                  | 19    | –                     | 704                   | –                     |
| Amount due from immediate holding<br>company                      | 20    | 280,044               | 163,041               | –                     |
| Tax recoverable   |       | –                     | –                     | 2,824                 |
| Bank balances and cash  | 21    | <u>34,777</u>         | <u>48,833</u>         | <u>56,290</u>         |
|   |       | <u>523,739</u>        | <u>401,418</u>        | <u>292,904</u>        |
| <b>Current liabilities</b>  |       |                       |                       |                       |
| Trade and other payables  | 22    | 111,946               | 108,339               | 123,499               |
| Derivative financial instruments                                  | 19    | 508                   | –                     | 530                   |
| Amount due to a related company                                   | 23    | 1,170                 | 1,041                 | 926                   |
| Tax payable   |       | 1,445                 | 3,585                 | 2,481                 |
| Bank borrowings   | 24    | <u>188,849</u>        | <u>150,345</u>        | <u>125,853</u>        |
|   |       | <u>303,918</u>        | <u>263,310</u>        | <u>253,289</u>        |
| <b>Net current assets</b>   |       | <u>219,821</u>        | <u>138,108</u>        | <u>39,615</u>         |
| <b>Total assets less current liabilities</b>                      |       | 390,962               | 306,614               | 218,022               |
| <b>Non-current liabilities</b>                                    |       |                       |                       |                       |
| Deferred taxation   | 25    | <u>5,197</u>          | <u>5,420</u>          | <u>6,054</u>          |
|   |       | <u>5,197</u>          | <u>5,420</u>          | <u>6,054</u>          |
| <b>Net assets</b>   |       | <u><u>385,765</u></u> | <u><u>301,194</u></u> | <u><u>211,968</u></u> |
| <b>Capital and reserves</b>                                       |       |                       |                       |                       |
| Share capital   | 26    | 1                     | 1                     | 1                     |
| Reserves  |       | <u>385,764</u>        | <u>301,193</u>        | <u>211,967</u>        |
| <b>Total equity</b>   |       | <u><u>385,765</u></u> | <u><u>301,194</u></u> | <u><u>211,968</u></u> |

## COMBINED STATEMENTS OF CHANGES IN EQUITY

|   | Share<br>capital<br>HK\$'000 | Asset<br>revaluation<br>reserve<br>HK\$'000 | Special<br>reserve<br>HK\$'000<br>(note i) | Translation<br>reserve<br>HK\$'000 | Accumulated<br>profits<br>HK\$'000 | Total<br>HK\$'000 |
|---|------------------------------|---|--|------------------------------------|------------------------------------|-------------------|
| At 1 January 2008   | 1                            | 51,767                                      | 29,372                                     | 3,310                              | 209,979                            | 294,429           |
| Profit for the year   | -                            | -   | -  | -                                  | 102,271                            | 102,271           |
| Other comprehensive income for the year   | -                            | 14,638                                      | -  | (573)                              | -                                  | 14,065            |
| Total comprehensive income for the year   | -                            | 14,638                                      | -  | (573)                              | 102,271                            | 116,336           |
| Realised upon depreciation of property, plant and equipment                                       | -                            | (3,559)                                     | -  | -                                  | 3,559                              | -                 |
| Realised upon disposal of property, plant and equipment   | -                            | (142)                                       | -  | -                                  | 142                                | -                 |
| Deferred tax liability reversed upon realisation of depreciation of property, plant and equipment | -                            | 275   | -  | -                                  | (275)                              | -                 |
| Deferred tax liability reversed upon realisation of disposal of property, plant and equipment     | -                            | 12  | -  | -                                  | (12)                               | -                 |
| Dividend recognised as distribution (note 12)   | -                            | -   | -  | -                                  | (25,000)                           | (25,000)          |
| At 31 December 2008   | 1                            | 62,991                                      | 29,372                                     | 2,737                              | 290,664                            | 385,765           |
| Profit for the year   | -                            | -   | -  | -                                  | 106,936                            | 106,936           |
| Other comprehensive income for the year   | -                            | 7,762                                       | -  | 731                                | -                                  | 8,493             |
| Total comprehensive income for the year   | -                            | 7,762                                       | -  | 731                                | 106,936                            | 115,429           |
| Realised upon depreciation of property, plant and equipment                                       | -                            | (5,110)                                     | -  | -                                  | 5,110                              | -                 |
| Realised upon disposal of property, plant and equipment   | -                            | (394)                                       | -  | -                                  | 394                                | -                 |
| Deferred tax liability reversed upon realisation of depreciation of property, plant and equipment | -                            | 416   | -  | -                                  | (416)                              | -                 |
| Deferred tax liability reversed upon realisation of disposal of property, plant and equipment     | -                            | 33  | -  | -                                  | (33)                               | -                 |
| Dividend recognised as distribution (note 12)   | -                            | -   | -  | -                                  | (200,000)                          | (200,000)         |
| At 31 December 2009   | 1                            | 65,698                                      | 29,372                                     | 3,468                              | 202,655                            | 301,194           |
| Profit for the year   | -                            | -   | -  | -                                  | 102,166                            | 102,166           |
| Other comprehensive income for the year   | -                            | 13,233                                      | -  | 2,661                              | -                                  | 15,894            |
| Total comprehensive income for the year   | -                            | 13,233                                      | -  | 2,661                              | 102,166                            | 118,060           |
| Realised upon depreciation of property, plant and equipment                                       | -                            | (5,885)                                     | -  | -                                  | 5,885                              | -                 |
| Realised upon disposal of property, plant and equipment   | -                            | (82)  | -  | -                                  | 82                                 | -                 |
| Deferred tax liability reversed upon realisation of depreciation of property, plant and equipment | -                            | 478   | -  | -                                  | (478)                              | -                 |
| Deferred tax liability reversed upon realisation of disposal of property, plant and equipment     | -                            | 7   | -  | -                                  | (7)                                | -                 |
| Dividend recognised as distribution (note 12)   | -                            | -   | -  | -                                  | (207,286)                          | (207,286)         |
| At 31 December 2010   | 1                            | 73,449                                      | 29,372                                     | 6,129                              | 103,017                            | 211,968           |

note:

- (i) This represents the difference between the nominal value of the share capital issued by LM Development and the nominal amount of the share capital of subsidiaries acquired by it pursuant to a group re-organisation in 1993.

## COMBINED STATEMENTS OF CASH FLOWS

|   | Year ended 31 December |                |               |
|---|------------------------|----------------|---------------|
|   | 2008                   | 2009           | 2010          |
|   | HK\$'000               | HK\$'000       | HK\$'000      |
| <b>OPERATING ACTIVITIES</b>                                     |                        |                |               |
| Profit before taxation  | 112,064                | 117,500        | 111,092       |
| Adjustments for:  |                        |                |               |
| Depreciation of property, plant and equipment                   | 14,493                 | 15,383         | 16,362        |
| Interest expenses   | 2,707                  | 2,365          | 1,707         |
| Release of prepaid lease payments                               | 490                    | 490            | 490           |
| Impairment losses recognised in respect of trade receivables    | 1,355                  | 255            | 204           |
| Loss on disposal of property, plant and equipment               | 158                    | 66             | 62            |
| Write-down of inventories                                       | 2,638                  | 5,252          | –             |
| Reversal of write-down of inventories                           | –                      | –              | (3,114)       |
| Changes in fair value of investment properties                  | 872                    | 125            | (1,374)       |
| Deficit arising on revaluation of property, plant and equipment | –                      | 15             | 65            |
| Fair value changes on derivative financial instruments          | 508                    | (704)          | (70)          |
| Interest income   | (251)                  | (29)           | (45)          |
| Operating cash flows before movements in working capital        | 135,034                | 140,718        | 125,379       |
| Decrease (increase) in inventories                              | 7,101                  | 13,453         | (9,666)       |
| Decrease (increase) in trade and other receivables              | 11,165                 | 1,118          | (32,374)      |
| Increase in defined benefit assets                              | (397)                  | (398)          | (288)         |
| (Decrease) increase in trade and other payables                 | (5,374)                | (3,607)        | 15,160        |
| (Decrease) increase in derivative financial instruments         | –                      | (508)          | 1,304         |
| Decrease in amount due to a related company                     | (317)                  | (129)          | (115)         |
| Cash generated from operations                                  | 147,212                | 150,647        | 99,400        |
| Hong Kong Profits Tax paid                                      | (12,655)               | (8,888)        | (13,418)      |
| Interest paid   | (2,707)                | (2,365)        | (1,707)       |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                       | <b>131,850</b>         | <b>139,394</b> | <b>84,275</b> |

|  | Year ended 31 December |                      |                      |
|--|------------------------|----------------------|----------------------|
|  | 2008                   | 2009                 | 2010                 |
|  | HK\$'000               | HK\$'000             | HK\$'000             |
| <b>INVESTING ACTIVITIES</b>                                    |                        |                      |                      |
| Repayment from immediate holding company                       | 200                    | –                    | 76,523               |
| Proceeds from disposal of property, plant and equipment        | 122                    | 64                   | 28                   |
| Interest received  | 251                    | 29                   | 45                   |
| Advances to immediate holding company                          | (305,244)              | (82,997)             | (120,768)            |
| Purchase of property, plant and equipment                      | (3,166)                | (3,604)              | (7,269)              |
| Deposits paid for acquisition of property, plant and equipment | <u>(23)</u>            | <u>(309)</u>         | <u>(953)</u>         |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                   | <u>(307,860)</u>       | <u>(86,817)</u>      | <u>(52,394)</u>      |
| <b>FINANCING ACTIVITIES</b>                                    |                        |                      |                      |
| Bank borrowings raised   | 185,762                | 100,344              | 75,853               |
| Repayment of bank borrowings                                   | <u>(2,624)</u>         | <u>(138,848)</u>     | <u>(100,345)</u>     |
| <b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>            | <u>183,138</u>         | <u>(38,504)</u>      | <u>(24,492)</u>      |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>               | 7,128                  | 14,073               | 7,389                |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>      | 27,656                 | 34,777               | 48,833               |
| <b>EFFECT OF CHANGES IN EXCHANGE RATE</b>                      | <u>(7)</u>             | <u>(17)</u>          | <u>68</u>            |
| <b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>            | <u><u>34,777</u></u>   | <u><u>48,833</u></u> | <u><u>56,290</u></u> |

## NOTES TO THE FINANCIAL INFORMATION

## 1. GENERAL

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its place of business is located at 8th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong.

The Company is an investment holding company. The Group is principally engaged in the manufacture and sale of handbags.

The Company's ultimate holding company is Fortune Star Tradings Limited ("Fortune Star"), a company incorporated in BVI. The Company's immediate holding company is Lee & Man Holding Limited ("LM"), a company incorporated in and registered as an exempted company with limited liability in the Cayman Islands and its shares are listed on the Stock Exchange.

The functional currency of the Company is United States dollars ("US\$"). The Financial Information is presented in Hong Kong dollars ("HK\$") because the Company intends to list its shares on the Stock Exchange and most of its potential investors are located in Hong Kong.

## 2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

Pursuant to the Reorganisation, which was completed on 18 May 2011 by interspersing the Company between LM Development and its shareholder, the Company became a holding company of the Group.

Because the Group was controlled by LM before and after the Reorganisation, the Financial Information has been prepared as if the Company had always been the holding company of the Group. The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows of the Group for the Track Record Period have been prepared as if the current group structure had been in existence throughout the Track Record Period, or since the respective dates of incorporation/establishment of the relevant entities now comprising the Group where this is a shorter period. The combined statements of financial position of the Group as at 31 December 2008, 2009 and 2010 have been prepared to present the assets and liabilities of the entities now comprising the Group which were in existence at those dates.

## 3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information, the Group has consistently adopted Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards ("HKFRSs"), amendments and Interpretations ("HK(IFRIC) – Int") issued by the HKICPA, which became effective for the Group's financial year beginning on 1 January 2010 consistently during the Track Record Period.

At the date of this report, the following new and revised standards, amendments and interpretations have been issued which are not yet effective during the Track Record Period:

|                                  |   |
|----------------------------------|---|
| HKFRSs (Amendments)              | Improvements to HKFRSs issued in 2010 except for the amendments to HKFRS 3 (Revised 2008), HKFRS 7, HKAS 1 and HKAS 28 <sup>1</sup> |
| HKFRS 1 (Amendments)             | Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters <sup>2</sup>   |
| HKFRS 1 (Amendments)             | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>3</sup>   |
| HKFRS 7 (Amendments)             | Disclosures – Transfers of Financial Assets <sup>3</sup>  |
| HKFRS 9                          | Financial Instruments <sup>4</sup>  |
| HKAS 12 (Amendments)             | Deferred Tax: Recovery of Underlying Assets <sup>5</sup>  |
| HKAS 24 (Revised 2009)           | Related Party Disclosures <sup>6</sup>  |
| HKAS 32 (Amendments)             | Classification of Rights Issues <sup>7</sup>  |
| HK (IFRIC) – Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement <sup>6</sup>   |
| HK (IFRIC) – Int 19              | Extinguishing Financial Liabilities with Equity Instruments <sup>2</sup>  |

- <sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
- <sup>2</sup> Effective for annual periods beginning on or after 1 July 2010.
- <sup>3</sup> Effective for annual periods beginning on or after 1 July 2011.
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2013.
- <sup>5</sup> Effective for annual periods beginning on or after 1 January 2012.
- <sup>6</sup> Effective for annual periods beginning on or after 1 January 2011.
- <sup>7</sup> Effective for annual periods beginning on or after 1 February 2010.

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss is presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that HKFRS 9 has no significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

The amendments to HKAS 12 titled *Deferred Tax: Recovery of Underlying Assets* mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property*. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances. The directors anticipate that the application of the amendments to HKAS 12 has no significant impact on deferred tax recognised for investment properties that are measured using the fair value model.

The Group has not early adopted these new and revised standards, amendments and interpretations in the preparation of the Financial Information.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the Financial Information.

#### 4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis except that property, plant and equipment, investment properties and financial instruments are measured at revalued amounts or fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The Financial Information has been prepared in accordance with the following accounting policies which conform to HKFRSs issued by the HKICPA. These policies have been consistently applied throughout the Track Record Period. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

#### **Basis of combination**

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the Track Record Period are included in the combined statements of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on combination.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### **Property, plant and equipment**

Property, plant and equipment, including land and building held for use in production or supply of goods or services or for administrative purposes are stated in the combined statements of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent accumulated impairment loss.

Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Any surplus arising on revaluation of property, plant and equipment is recognised in other comprehensive income and accumulated in asset revaluation reserve, except to the extent that it reverses a revaluation deficit of the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent depreciation of the revalued assets, the attributable revaluation reserve is transferred to accumulated profits on a straight-line basis over the useful life of the assets, and, upon disposal and retirement, the remaining revaluation surplus attributable to that asset is transferred to accumulated profits.

Depreciation and amortisation is provided to write off the valuation of buildings and leasehold improvements over their estimated useful lives, using the straight-line method.

Depreciation is provided to write off the valuation of other property, plant and equipment over their estimated useful lives, using the reducing balance method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

***Transfer from owner-occupied property to investment property carried at fair value***

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to accumulated profits.

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the year in which the item is derecognised.

**Prepaid lease payments**

Prepaid lease payments are carried at cost and amortised over the lease term on a straight-line basis.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as Lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

***The Group as Lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

***Leasehold land and building***

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the combined statements of financial position and is amortised over the lease term on a straight-line basis.

#### **Impairment losses**

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as revaluation increase under that other standard.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weight average method.

#### **Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance (the “MPF Scheme”) and state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

For defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses which exceed 10% of the greater of the present value of the defined benefit obligations and the fair value of plan assets at the end of the previous reporting period are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

The amount recognised in the combined statements of financial position represents the present fair value of plan assets as adjusted for unrecognised actuarial gains and losses, and as reduced by the defined benefit obligation. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

#### **Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each

reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

#### **Borrowing costs**

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the combined statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

**Financial instruments**

Financial assets and financial liabilities are recognised on the combined statements of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

The Group's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from immediate holding company and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each of reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### *Financial liabilities and equity instruments*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities at FVTPL, of which the interest expense is included in net gains or losses.

#### *Other financial liabilities*

The Group's other financial liabilities mainly include trade and other payables, amount due to a related company and bank borrowings. They are subsequently measured at amortised cost, using the effective interest method.

#### *Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue cost.

#### Derivative financial instruments

Derivatives that are not designated and effective as hedging instruments are classified as held for trading.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

#### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make various estimates based on past experience, expectations of the future and other information. The key sources of estimation uncertainty at the end of the reporting period that can significantly affect the carrying amounts of assets and liabilities recognised in the Financial Information within the next financial year are disclosed below.

#### **Impairment losses on trade receivables**

The assessment of the impairment loss on trade receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness of each customer. If the financial conditions of the Group's customers were to deteriorate, resulting in an impairment to their ability to make payments, additional allowances may be required. Impairment is made based on the estimation of the future cash flow discounted at the original effective rate to calculate the present value. As at 31 December 2008, 2009 and 2010, the carrying value of trade receivables and bills receivable was approximately HK\$117,322,000, HK\$116,488,000 and HK\$143,815,000 respectively (net of allowance of approximately HK\$1,355,000, HK\$246,000 and HK\$233,000 respectively).

#### **Write-down of inventories**

Management reviews the inventories listing at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in operation (generally over 2 years). Allowance was made by reference to the latest market value for those inventories identified. Where the net realisable value is less than cost, a material write down may arise. As at 31 December 2008, 2009 and 2010, the carrying amount of inventories was approximately HK\$88,609,000, HK\$69,904,000 and HK\$82,684,000 respectively (net of allowance of approximately HK\$4,653,000, HK\$9,905,000 and HK\$6,791,000 respectively).

#### **Income taxes**

As at 31 December 2010, deferred tax asset in relation to unused tax losses of approximately HK\$31,834,000 (see note 25) was not recognised in the combined statements of financial position due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly

depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the expectation for future profit streams changes, a recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a recognition takes place.

## 6. REVENUE

Revenue represents revenue arising on the manufacture and sale of handbags during the Track Record Period.

## 7. SEGMENT INFORMATION

HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers ("CODMs"), being the executive directors of the Company, in order to allocate resources to segments and to assess their performance. The CODMs review the Group's profit as a whole, which is generated solely from the manufacture and sale of handbags and determined in accordance with the Group's accounting policies, for performance assessment. Therefore no separate segment information is prepared by the Group.

The Group's operations are located in Hong Kong, the PRC, the USA and Thailand. Sales to the largest customer contributed to 17.0%, 14.5% and 16.7% of the Group's total turnover for the year ended 31 December 2008, 2009 and 2010, respectively.

Revenue from customers from sales of handbags of the corresponding years contributing over 10% of the total sales of the Group are as follows:

|            | Year ended 31 December |          |          |
|------------|------------------------|----------|----------|
|            | 2008                   | 2009     | 2010     |
|            | HK\$'000               | HK\$'000 | HK\$'000 |
| Customer A | 152,785                | 103,665  | 142,214  |
| Customer B | N/A*                   | 105,426  | 88,267   |
| Customer C | N/A*                   | 87,332   | N/A*     |

\* The corresponding revenue did not contribute over 10% of the total sales of the Group.

The Group's investment properties are located in Thailand. The rest of the Group's non-current assets, other than defined benefit assets, are located in the PRC.

The Group's revenue from external customers by geographical locations during the Track Record Period is as follows:

|                          | Year ended 31 December |                |                |
|--------------------------|------------------------|----------------|----------------|
|                          | 2008                   | 2009           | 2010           |
|                          | HK\$'000               | HK\$'000       | HK\$'000       |
| Hong Kong                | 28,733                 | 14,250         | 19,461         |
| PRC                      | 2,305                  | 7,314          | 12,392         |
| USA                      | 459,601                | 357,700        | 457,729        |
| Canada                   | 28,061                 | 26,557         | 31,927         |
| The Netherlands          | 82,299                 | 87,332         | 76,782         |
| Italy                    | 49,891                 | 57,283         | 65,380         |
| The United Kingdom       | 120,433                | 43,076         | 47,967         |
| Germany                  | 33,259                 | 15,726         | 14,390         |
| Other European countries | 41,011                 | 45,364         | 30,023         |
| South American countries | 29,371                 | 27,499         | 28,914         |
| Other Asian countries    | 26,224                 | 44,650         | 68,232         |
| Others                   | 52                     | 804            | 342            |
|                          | <u>901,240</u>         | <u>727,555</u> | <u>853,539</u> |

## 8. OTHER INCOME

|  | Year ended 31 December |              |              |
|--|------------------------|--------------|--------------|
|  | 2008                   | 2009         | 2010         |
|  | HK\$'000               | HK\$'000     | HK\$'000     |
| Interest income  | 251                    | 29           | 45           |
| Sales of scraps  | 3,379                  | 1,344        | 1,185        |
| Sales of samples   | 5,134                  | 3,911        | 5,642        |
| Management fee income  | 130                    | 16           | 16           |
| Rental income  | 186                    | –            | –            |
| Gain on expected return of defined benefit assets              | 397                    | 398          | 288          |
| Gain on fair value changes on derivative financial instruments | –                      | 704          | 70           |
| Gain on fair value changes of investment properties            | –                      | –            | 1,374        |
|  | <u>9,477</u>           | <u>6,402</u> | <u>8,620</u> |

## 9. PROFIT BEFORE TAX

|   | Year ended 31 December |                |                |
|---|------------------------|----------------|----------------|
|   | 2008                   | 2009           | 2010           |
|   | HK\$'000               | HK\$'000       | HK\$'000       |
| Profit before tax has been arrived at after charging (crediting):   |                        |                |                |
| Directors' emoluments (note 10)   | 2,414                  | 2,889          | 2,723          |
| Other staff costs   | 166,768                | 150,744        | 191,977        |
| Retirement benefit scheme contributions (excluding directors)   | 942                    | 917            | 950            |
| Total staff costs   | <u>170,124</u>         | <u>154,550</u> | <u>195,650</u> |
| Amortisation of prepaid lease payments  | 490                    | 490            | 490            |
| Auditor's remuneration  | 472                    | 407            | 520            |
| Cost of inventories recognised as expenses  | 669,576                | 501,674        | 623,378        |
| Write-down of inventories   | 2,638                  | 5,252          | –              |
| Reversal of write-down of inventories   | –                      | –              | (3,114)        |
| Total cost of inventories recognised as expenses  | <u>672,214</u>         | <u>506,926</u> | <u>620,264</u> |
| Depreciation of property, plant and equipment   | 14,493                 | 15,383         | 16,362         |
| Exchange loss   | 6,570                  | 3,143          | 8,248          |
| Impairment losses recognised in respect of trade receivables (included in selling and distribution costs) | 1,355                  | 255            | 204            |
| Recovery of doubtful debt   | –                      | –              | (6)            |
| Loss on disposal of property, plant and equipment   | 158                    | 66             | 62             |
| Loss on fair value changes of investment properties   | 872                    | 125            | –              |
| Deficit arising on revaluation of property, plant and equipment   | –                      | 15             | 65             |
|   | <u>–</u>               | <u>15</u>      | <u>65</u>      |

## 10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

## Directors

Details of the emoluments paid by the Group to the directors of the Company for the Track Record Period are as follows:

|  | Year ended 31 December |              |              |
|--|------------------------|--------------|--------------|
|  | 2008                   | 2009         | 2010         |
|  | HK\$'000               | HK\$'000     | HK\$'000     |
| Fee                                      | –                      | –            | –            |
| Salaries and other benefits              | 2,320                  | 2,790        | 2,631        |
| Retirement benefit schemes contributions | 36                     | 41           | 34           |
| Performance related incentive payments   | 58                     | 58           | 58           |
|  | <u>2,414</u>           | <u>2,889</u> | <u>2,723</u> |
| Payable to:                              |                        |              |              |
| Executive directors:                     |                        |              |              |
| Wai Siu Kee*                             | 1,182                  | 1,175        | 1,170        |
| Kung Phong*                              | 202                    | 552          | 552          |
| Lee Man Ching                            | 264                    | 396          | 396          |
| Poon Lai Ming*                           | 766                    | 766          | 605          |
|  | <u>2,414</u>           | <u>2,889</u> | <u>2,723</u> |
| Independent non-executive directors:     |                        |              |              |
| Heng Victor Ja Wei*                      | –                      | –            | –            |
| So Wing Keung                            | –                      | –            | –            |
| Tsang Hin Man Terrence                   | –                      | –            | –            |
|  | <u>–</u>               | <u>–</u>     | <u>–</u>     |
|  | <u>2,414</u>           | <u>2,889</u> | <u>2,723</u> |

\* These directors are also the directors of LM at the date of this report.

Ms. Wai Siu Kee was the chairman of LM during the Track Record Period and all her emoluments were paid by the Group.

The performance related incentive payments were determined with regards to the Group's operating results, individual performance and comparable market statistics. No directors waived any emoluments during the Track Record Period.

**Employees**

Of the five individuals with the highest emoluments in the Group, two were directors of the Company for the year ended 31 December 2008, 2009 and 2010, respectively, whose emoluments are set out above. The emoluments of the remaining three individuals were as follows:

|  | Year ended 31 December |              |              |
|--|------------------------|--------------|--------------|
|  | 2008                   | 2009         | 2010         |
|  | HK\$'000               | HK\$'000     | HK\$'000     |
| Salaries and other benefits              | 2,706                  | 2,040        | 2,112        |
| Retirement benefit schemes contributions | 24                     | 36           | 36           |
| Performance related incentive payments   | 288                    | 339          | 280          |
|  | <u>3,018</u>           | <u>2,415</u> | <u>2,428</u> |

The emoluments were within the following bands:

|                                | Year ended 31 December |                     |                     |
|--------------------------------|------------------------|---------------------|---------------------|
|                                | 2008                   | 2009                | 2010                |
|                                | Number of employees    | Number of employees | Number of employees |
| HK\$Nil to HK\$1,000,000       | 2                      | 3                   | 3                   |
| HK\$1,000,001 to HK\$1,500,000 | 1                      | –                   | –                   |
|                                | <u>3</u>               | <u>3</u>            | <u>3</u>            |

During the Track Record Period, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

No other directors' emoluments were paid or payable for the Track Record Period.

## 11. INCOME TAX EXPENSE

|                                 | Year ended 31 December |               |              |
|---------------------------------|------------------------|---------------|--------------|
|                                 | 2008                   | 2009          | 2010         |
|                                 | HK\$'000               | HK\$'000      | HK\$'000     |
| The tax charge comprises:       |                        |               |              |
| Current tax:                    |                        |               |              |
| Hong Kong Profits Tax           | 9,906                  | 11,015        | 9,488        |
| Other jurisdictions income tax  | <u>25</u>              | <u>13</u>     | <u>2</u>     |
|                                 | <u>9,931</u>           | <u>11,028</u> | <u>9,490</u> |
| Under-provision in prior years: |                        |               |              |
| Hong Kong                       | 55                     | –             | –            |
| Other jurisdictions             | <u>10</u>              | <u>–</u>      | <u>–</u>     |
|                                 | <u>65</u>              | <u>–</u>      | <u>–</u>     |
| Deferred tax (note 25):         |                        |               |              |
| Current year                    | <u>(203)</u>           | <u>(464)</u>  | <u>(564)</u> |
|                                 | <u>9,793</u>           | <u>10,564</u> | <u>8,926</u> |

**Hong Kong**

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Accordingly, the applicable tax rate is 16.5% during the Track Record Period.

According to the 50:50 onshore/offshore arrangement between the Group and the Inland Revenue Department in Hong Kong, certain profits of the Group is not subject to tax.

**PRC**

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law (the "Implementation Regulations"). Under the New Law and Implementation Regulations, the statutory tax rate of 25% was effective from 1 January 2008.

The Group's PRC subsidiary had no assessable profit since its date of establishment.

**Other jurisdiction**

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The tax charge for the Track Record Period can be reconciled to the profit before tax per the combined statements of comprehensive income as follows:

|   | Year ended 31 December |          |          |
|---|------------------------|----------|----------|
|   | 2008                   | 2009     | 2010     |
|   | HK\$'000               | HK\$'000 | HK\$'000 |
| Profit before tax   | 112,064                | 117,500  | 111,092  |
| Applicable tax rate:  | 16.5%                  | 16.5%    | 16.5%    |
| Tax at the domestic income tax rate                                 | 18,491                 | 19,388   | 18,330   |
| Tax effect of expenses not deductible in determining taxable profit | 1,159                  | 200      | 83       |
| Tax effect of income not taxable in determining taxable profit      | (132)                  | (71)     | (272)    |
| Tax effect of tax losses not recognised                             | 393                    | 222      | 219      |
| Utilisation of tax losses previously not recognised                 | (80)                   | (75)     | (74)     |
| Tax effect of profit not subject to tax under 50:50 arrangement     | (10,103)               | (9,100)  | (9,360)  |
| Under-provision of profits tax in Hong Kong and other jurisdictions | 65                     | -        | -        |
| Tax charge for the year   | 9,793                  | 10,564   | 8,926    |

Details of deferred taxation during and at the end of the respective reporting period are set out in note 25.

## 12. DIVIDENDS

The Company did not declare nor pay any dividend during the Track Record Period. However, LM Development, the directly owned subsidiary, declared the following dividends to LM during the Track Record Period:

|   | Year ended 31 December |          |          |
|---|------------------------|----------|----------|
|   | 2008                   | 2009     | 2010     |
|   | HK\$'000               | HK\$'000 | HK\$'000 |
| Dividend recognised as distribution during the Track Record Period: |                        |          |          |
| Interim dividend for the year ended 31 December 2008                | 25,000                 | -        | -        |
| Interim dividend for the year ended 31 December 2009                | -                      | 200,000  | -        |
| Interim dividend for the year ended 31 December 2010                | -                      | -        | 207,286  |
|   | 25,000                 | 200,000  | 207,286  |

The rates of dividend declared and the number of shares ranking for distribution are not presented as combined results are presented and such information is not meaningful having regard to the purpose of this report.

**13. EARNINGS PER SHARE**

The calculation of the basic earnings per share for the Track Record Period is based on the following data:

|   | <b>Year ended 31 December</b> |                    |                    |
|---|-------------------------------|--------------------|--------------------|
|   | <b>2008</b>                   | <b>2009</b>        | <b>2010</b>        |
|   | <i>HK\$'000</i>               | <i>HK\$'000</i>    | <i>HK\$'000</i>    |
| Profit for the year for the purpose of basic earnings per share       | <u>102,271</u>                | <u>106,936</u>     | <u>102,166</u>     |
| Number of ordinary shares for the purpose of basic earnings per share | <u>825,000,000</u>            | <u>825,000,000</u> | <u>825,000,000</u> |

The number of ordinary shares for the purpose of calculating basic earnings per share for the Track Record Period is determined on the assumption that the Reorganisation as described more fully in the paragraph headed "Group reorganisation" in Appendix V to the listing document had been effective on 1 January 2008.

No diluted earnings per share are presented as there were no dilutive ordinary shares in issue during the Track Record Period.

## 14. PROPERTY, PLANT AND EQUIPMENT

|                                       | Buildings<br><i>HK\$'000</i> | Furniture,<br>fixtures and<br>equipment<br><i>HK\$'000</i> | Leasehold<br>improvements<br><i>HK\$'000</i> | Motor<br>vehicles<br><i>HK\$'000</i> | Plant and<br>machinery<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---------------------------------------|------------------------------|--|--|--------------------------------------|---|--------------------------|
| VALUATION/COST                        |                              |  |  |                                      |   |                          |
| At 1 January 2008                     | 110,817                      | 7,477  | 8,605  | 2,741                                | 14,170                                    | 143,810                  |
| Additions                             | –                            | 3,196  | –  | 156                                  | 1,689                                     | 5,041                    |
| Disposals                             | –                            | (12)   | –  | –                                    | (268)                                     | (280)                    |
| Transferred to investment<br>property | (23,223)                     | –  | –  | –                                    | –   | (23,223)                 |
| Adjustments arising on<br>revaluation | 4,627                        | (1,710)  | 403  | (437)                                | (1,609)                                   | 1,274                    |
| At 31 December 2008                   | 92,221                       | 8,951  | 9,008  | 2,460                                | 13,982                                    | 126,622                  |
| Additions                             | –                            | 883  | 317  | 581                                  | 1,823                                     | 3,604                    |
| Disposals                             | –                            | (53)   | –  | (28)                                 | (49)                                      | (130)                    |
| Adjustments arising on<br>revaluation | (2,539)                      | (1,729)  | 14   | (361)                                | (2,334)                                   | (6,949)                  |
| At 31 December 2009                   | 89,682                       | 8,052  | 9,339  | 2,652                                | 13,422                                    | 123,147                  |
| Currency realignment                  | –                            | 2  | 11   | –                                    | 21  | 34                       |
| Additions                             | –                            | 3,800  | 2,177  | 171                                  | 1,431                                     | 7,579                    |
| Disposals                             | –                            | (26)   | –  | (44)                                 | (20)                                      | (90)                     |
| Adjustments arising on<br>revaluation | 2,641                        | (1,992)  | (125)  | (597)                                | (1,923)                                   | (1,996)                  |
| At 31 December 2010                   | 92,323                       | 9,836  | 11,402                                       | 2,182                                | 12,931                                    | 128,674                  |
| DEPRECIATION                          |                              |  |  |                                      |   |                          |
| At 1 January 2008                     | –                            | –  | –  | –                                    | –   | –                        |
| Provided for the year                 | 7,754                        | 2,279  | 835  | 689                                  | 2,936                                     | 14,493                   |
| Eliminated on revaluation             | (7,754)                      | (2,279)  | (835)  | (689)                                | (2,936)                                   | (14,493)                 |
| At 31 December 2008                   | –                            | –  | –  | –                                    | –   | –                        |
| Provided for the year                 | 9,024                        | 1,841  | 938  | 693                                  | 2,887                                     | 15,383                   |
| Eliminated on revaluation             | (9,024)                      | (1,841)  | (938)  | (693)                                | (2,887)                                   | (15,383)                 |
| At 31 December 2009                   | –                            | –  | –  | –                                    | –   | –                        |
| Provided for the year                 | 9,821                        | 1,967  | 1,125  | 659                                  | 2,790                                     | 16,362                   |
| Eliminated on revaluation             | (9,821)                      | (1,967)  | (1,125)                                      | (659)                                | (2,790)                                   | (16,362)                 |
| At 31 December 2010                   | –                            | –  | –  | –                                    | –   | –                        |
| CARRYING VALUE                        |                              |  |  |                                      |   |                          |
| At 31 December 2008                   | 92,221                       | 8,951  | 9,008  | 2,460                                | 13,982                                    | 126,622                  |
| At 31 December 2009                   | 89,682                       | 8,052  | 9,339  | 2,652                                | 13,422                                    | 123,147                  |
| At 31 December 2010                   | 92,323                       | 9,836  | 11,402                                       | 2,182                                | 12,931                                    | 128,674                  |

The above items of property, plant and equipment are depreciated on a reducing balance method at the following rates per annum except that buildings and leasehold improvements are depreciated on a straight-line at the rate of 5% per annum:

|                                   |     |
|-----------------------------------|-----|
| Furniture, fixtures and equipment | 20% |
| Motor vehicles                    | 25% |
| Plant and machinery               | 20% |

The Group's property, plant and equipment were revalued as at the end of each reporting period by Jones Lang LaSalle Sallmanns Limited, an independent firm of professional property, plant and machinery valuers, on the fair market value in continued use basis. Its address is 6th Floor, Three Pacific Place, 1 Queen's Road East, Hong Kong.

The net surplus of approximately HK\$15,767,000, HK\$8,434,000 and HK\$14,366,000 for the years ended 31 December 2008, 2009 and 2010 respectively arising on the above revaluation was dealt with as follows:

- (i) a surplus of approximately HK\$15,767,000, HK\$8,449,000 and HK\$14,431,000 was credited to the asset revaluation reserve for the years ended 31 December 2008, 2009 and 2010, respectively; and
- (ii) a deficit of approximately HK\$15,000 and HK\$65,000 was dealt with in the profit or loss for the years ended 31 December 2009 and 2010 respectively.

The buildings are located in the PRC and the Group is in the process of obtaining the land use right certificates for HK\$39,775,000 of these buildings.

If the above property, plant and equipment had not been revalued, they would have been included in the Financial Information at historical cost less accumulated depreciation at the following amounts:

|                          | Buildings<br><i>HK\$ '000</i> | Furniture,<br>fixtures and<br>equipment<br><i>HK\$ '000</i> | Leasehold<br>improvements<br><i>HK\$ '000</i> | Motor<br>vehicles<br><i>HK\$ '000</i> | Plant and<br>machinery<br><i>HK\$ '000</i> | Total<br><i>HK\$ '000</i> |
|--------------------------|-------------------------------|---|---|---------------------------------------|--|---------------------------|
| At 31 December 2008:     |                               |   |   |                                       |  |                           |
| Cost                     | 97,051                        | 22,723  | 16,025  | 6,526                                 | 42,152                                     | 184,477                   |
| Accumulated depreciation | (49,020)                      | (17,304)  | (10,642)                                      | (5,532)                               | (34,917)                                   | (117,415)                 |
| Net book value           | 48,031                        | 5,419   | 5,383   | 994                                   | 7,235                                      | 67,062                    |
| At 31 December 2009:     |                               |   |   |                                       |  |                           |
| Cost                     | 97,051                        | 23,151  | 16,038  | 7,015                                 | 42,467                                     | 185,722                   |
| Accumulated depreciation | (53,872)                      | (18,826)  | (10,967)                                      | (6,042)                               | (35,357)                                   | (125,064)                 |
| Net book value           | 43,179                        | 4,325   | 5,071   | 973                                   | 7,110                                      | 60,658                    |
| At 31 December 2010:     |                               |   |   |                                       |  |                           |
| Cost                     | 97,051                        | 26,653  | 18,226  | 7,029                                 | 43,688                                     | 192,647                   |
| Accumulated depreciation | (58,725)                      | (20,850)  | (11,665)                                      | (6,348)                               | (37,250)                                   | (134,838)                 |
| Net book value           | 38,326                        | 5,803   | 6,561   | 681                                   | 6,438                                      | 57,809                    |

## 15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprise leasehold land in the PRC under medium-term lease.

|                                     | As at 31 December |                 |                 |
|-------------------------------------|-------------------|-----------------|-----------------|
|                                     | 2008              | 2009            | 2010            |
|                                     | <i>HK\$'000</i>   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Analysed for reporting purposes as: |                   |                 |                 |
| Current asset                       | 490               | 490             | 490             |
| Non-current asset                   | <u>18,740</u>     | <u>18,250</u>   | <u>17,760</u>   |
|                                     | <u>19,230</u>     | <u>18,740</u>   | <u>18,250</u>   |

The Group is in the process of obtaining the land use right certificates for HK\$4,062,000 of these land.

## 16. INVESTMENT PROPERTIES

|   | <i>HK\$'000</i> |
|---|-----------------|
| FAIR VALUE  |                 |
| Transfer from property, plant and equipment and at 1 January 2008 | 23,223          |
| Currency realignment  | (566)           |
| Decrease in fair value recognised in profit or loss               | <u>(872)</u>    |
| At 31 December 2008   | 21,785          |
| Currency realignment  | 748             |
| Decrease in fair value recognised in profit or loss               | <u>(125)</u>    |
| At 31 December 2009   | 22,408          |
| Currency realignment  | 2,559           |
| Increase in fair value recognised in profit or loss               | <u>1,374</u>    |
| At 31 December 2010   | <u>26,341</u>   |

The investment properties situated in Thailand were revalued as at 31 December 2008 and 18 December 2009 by Thai Property Appraisal Lynn Philips Co., Ltd. and as at 31 December 2010 by Jones Lang LaSalle Sallmanns Limited, independent firms of professional property valuer, on the basis of open market value in existing use. Their addresses are Room 121/47-48, 11th Floor, RS Tower, Ratchadaphisek Road, Din Daeng, Bangkok 10320 and 6th Floor, Three Pacific Place, 1 Queen's Road East, Hong Kong respectively. A deficit of approximately HK\$872,000 and HK\$125,000 and a surplus of approximately HK\$1,374,000 was dealt with in the profit or loss for the years ended 31 December 2008, 2009 and 2010 respectively. In the opinion of the directors, there was no material fluctuation on the valuation of the investment properties between 18 December 2009 and 31 December 2009.

The carrying value of investment properties shown above comprises:

|  | As at 31 December |                 |                 |
|--|-------------------|-----------------|-----------------|
|  | 2008              | 2009            | 2010            |
|  | <i>HK\$'000</i>   | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Freehold land in Thailand              | 9,001             | 9,422           | 12,598          |
| Buildings on freehold land in Thailand | <u>12,784</u>     | <u>12,986</u>   | <u>13,743</u>   |
|  | <u>21,785</u>     | <u>22,408</u>   | <u>26,341</u>   |

## 17. INVENTORIES

|                  | As at 31 December |               |               |
|------------------|-------------------|---------------|---------------|
|                  | 2008              | 2009          | 2010          |
|                  | HK\$'000          | HK\$'000      | HK\$'000      |
| Raw materials    | 42,143            | 31,007        | 34,940        |
| Work in progress | 35,785            | 31,803        | 37,209        |
| Finished goods   | 10,681            | 7,094         | 10,535        |
|                  | <u>88,609</u>     | <u>69,904</u> | <u>82,684</u> |

During the year ended 31 December 2010, there was an increase in the net realisable value of raw materials due to market shortage of the relevant raw materials. As a result, a reversal of write-down of inventories of approximately HK\$3,114,000 has been recognised and included in cost of sales.

## 18. TRADE AND OTHER RECEIVABLES

|  | As at 31 December |                |                |
|--|-------------------|----------------|----------------|
|  | 2008              | 2009           | 2010           |
|  | HK\$'000          | HK\$'000       | HK\$'000       |
| Trade receivables                          | 68,157            | 60,078         | 91,277         |
| Less: allowance for doubtful debts         | (1,355)           | (246)          | (233)          |
|  | <u>66,802</u>     | <u>59,832</u>  | <u>91,044</u>  |
| Bills receivables                          | 3,492             | 16,757         | 38,428         |
| Bills receivables discounted with recourse | 47,028            | 39,899         | 14,343         |
|  | <u>117,322</u>    | <u>116,488</u> | <u>143,815</u> |
| Prepayments and deposits                   | 1,317             | 1,063          | 5,810          |
| Other receivables                          | 1,180             | 895            | 991            |
|  | <u>119,819</u>    | <u>118,446</u> | <u>150,616</u> |

The Group generally allows its trade customers an average credit period ranged from 14-90 days.

As at 31 December 2008, 2009 and 2010, the balance of bills receivables included bills discounted with recourse of approximately HK\$47,028,000, HK\$39,899,000 and HK\$14,343,000 respectively.

Bills receivables discounted with recourse represent bills receivables already discounted to banks with recourse with a maturity period of 45 to 90 days. The Group retains all the risks and rewards of such bills and accordingly, the Group recognised the full amount of the discount proceeds as liabilities as set out in note 24.

The aged analysis of trade and bills receivables based on the invoice date is as follows:

|                              | As at 31 December |                |                |
|------------------------------|-------------------|----------------|----------------|
|                              | 2008              | 2009           | 2010           |
|                              | HK\$'000          | HK\$'000       | HK\$'000       |
| Trade and bills receivables: |                   |                |                |
| Less than 30 days            | 70,428            | 67,836         | 110,755        |
| 31 – 60 days                 | 31,860            | 34,239         | 25,619         |
| 61 – 90 days                 | 11,127            | 12,970         | 4,317          |
| 90 – 120 days                | 490               | 406            | 1,978          |
| Over 120 days                | 3,417             | 1,037          | 1,146          |
|                              | <u>117,322</u>    | <u>116,488</u> | <u>143,815</u> |

The following amounts of trade receivables, bills receivables and other receivables are denominated in currencies other than the functional currency of the relevant group entities.

|                   | As at 31 December |               |               |
|-------------------|-------------------|---------------|---------------|
|                   | 2008              | 2009          | 2010          |
|                   | HK\$'000          | HK\$'000      | HK\$'000      |
| Euro              | 2,782             | 15,029        | 12,791        |
| Renminbi ("RMB")  | 633               | 317           | 472           |
| Hong Kong dollars | 2,175             | 2,770         | 2,285         |
|                   | <u>5,590</u>      | <u>18,116</u> | <u>15,548</u> |

#### Movement in the allowance for doubtful debts

|   | 2008         | 2009       | 2010       |
|---|--------------|------------|------------|
|   | HK\$'000     | HK\$'000   | HK\$'000   |
| As at 1 January                             | –            | 1,355      | 246        |
| Impairment losses recognised on receivables | 1,355        | 255        | 204        |
| Amount written off as uncollectible         | –            | (1,364)    | (211)      |
| Amount recovered during the year            | –            | –          | (6)        |
| As at 31 December                           | <u>1,355</u> | <u>246</u> | <u>233</u> |

Before accepting any new customer, the Group assesses the potential customer's credit quality by investigating its historical credit record. During the Track Record Period, the Group provided allowance for doubtful debts of approximately HK\$1,355,000, HK\$255,000 and HK\$204,000 for the years ended 31 December 2008, 2009 and 2010 respectively for individual debts which are doubtful to be recovered under the management's credit review with reference to the credit terms of individual customers. It is the practice of the Group to make specific provision for individual debts which were regarded as doubtful in its collectability. No general provision will be made.

Included in the Group's trade receivables balance are debtors with an aggregate carrying amount of approximately HK\$18,399,000, HK\$9,006,000 and HK\$7,977,000 which were past due as at 31 December 2008, 2009 and 2010 respectively, but for which the Group has not provided for impairment loss, as there has not been a significant change in credit quality of the relevant customers and the Group believes that the amounts are still recoverable as there are continuing subsequent settlement. The Group does not hold any collateral over these balances.

#### Ageing of trade receivables which were past due but not impaired

|                   | As at 31 December |              |              |
|-------------------|-------------------|--------------|--------------|
|                   | 2008              | 2009         | 2010         |
|                   | HK\$'000          | HK\$'000     | HK\$'000     |
| Less than 30 days | 4,162             | –            | –            |
| 31 – 60 days      | 8,465             | 6,911        | 1,226        |
| 61 – 90 days      | 1,926             | 652          | 4,282        |
| Over 90 days      | 3,846             | 1,443        | 2,469        |
| Total             | <u>18,399</u>     | <u>9,006</u> | <u>7,977</u> |

**19. DERIVATIVE FINANCIAL INSTRUMENTS**

The amount represents the fair value of foreign exchange forward contracts held by the Group with terms stated as follows:

| <b>Notional amount</b>         | <b>Maturity</b> | <b>Exchange rate</b> |
|--------------------------------|-----------------|----------------------|
| <i>As at 31 December 2008:</i> |                 |                      |
| Sell EUR1,500,000              | 31.03.2009      | 1 EURO: 1.300 USD    |
| <i>As at 31 December 2009:</i> |                 |                      |
| Sell EUR927,288                | 27.01.2010      | 1 EURO: 1.50445 USD  |
| Sell EUR1,500,000              | 15.03.2010      | 1 EURO: 1.46195 USD  |
| <i>As at 31 December 2010:</i> |                 |                      |
| Sell EUR965,606                | 09.03.2011      | 1 EURO: 1.26600 USD  |

The derivatives were measured at fair value as at 31 December 2008, 2009 and 2010. They were used to hedge against the exchange rate fluctuation of Euro against USD.

**20. AMOUNT DUE FROM IMMEDIATE HOLDING COMPANY**

The amount due from LM was unsecured, non-trade in nature, non-interest bearing and repayable on demand.

The maximum amount due from LM during the Trade Record Period is as follows:

|                            | <b>Year ended 31 December</b> |                 |                 |
|----------------------------|-------------------------------|-----------------|-----------------|
|                            | <b>2008</b>                   | <b>2009</b>     | <b>2010</b>     |
|                            | <i>HK\$'000</i>               | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Maximum amount due from LM | <u>305,044</u>                | <u>363,041</u>  | <u>163,041</u>  |

The balance due from LM was fully settled during the year ended 31 December 2010.

**21. BANK BALANCES AND CASH**

Bank balances and cash of the Group comprise bank balances and cash held and short-term bank deposits.

All bank balances carry prevailing market rates. The range of effective interest rates at the following dates is as follows:

**As at 31 December**

|      |                         |
|------|-------------------------|
| 2008 | 1% per annum            |
| 2009 | 0.3% to 1% per annum    |
| 2010 | 0.2% to 1.02% per annum |

The following amounts of bank and cash are denominated in currencies other than the functional currency of the relevant group entities.

|                   | As at 31 December |               |               |
|-------------------|-------------------|---------------|---------------|
|                   | 2008              | 2009          | 2010          |
|                   | HK\$'000          | HK\$'000      | HK\$'000      |
| Euro              | 675               | 1,432         | 1,230         |
| RMB               | 1,606             | 2,576         | 2,258         |
| Hong Kong dollars | 25,604            | 28,344        | 35,908        |
|                   | <u>27,885</u>     | <u>32,352</u> | <u>39,396</u> |

## 22. TRADE AND OTHER PAYABLES

|                | As at 31 December |                |                |
|----------------|-------------------|----------------|----------------|
|                | 2008              | 2009           | 2010           |
|                | HK\$'000          | HK\$'000       | HK\$'000       |
| Trade payables | 81,716            | 80,975         | 86,014         |
| Accruals       | 29,255            | 26,304         | 36,193         |
| Other payables | 975               | 1,060          | 1,292          |
|                | <u>111,946</u>    | <u>108,339</u> | <u>123,499</u> |

The average credit period obtained for trade purchases is 30 to 90 days.

The aged analysis of trade payables at the end of the reporting period is as follows:

|                   | As at 31 December |               |               |
|-------------------|-------------------|---------------|---------------|
|                   | 2008              | 2009          | 2010          |
|                   | HK\$'000          | HK\$'000      | HK\$'000      |
| Less than 30 days | 35,223            | 37,574        | 26,583        |
| 31 – 60 days      | 25,314            | 20,448        | 30,969        |
| 61 – 90 days      | 17,326            | 21,111        | 25,765        |
| Over 90 days      | 3,853             | 1,842         | 2,697         |
|                   | <u>81,716</u>     | <u>80,975</u> | <u>86,014</u> |

The following amounts of trade and other payables are denominated in currencies other than the functional currency of the relevant group entities.

|                   | As at 31 December |               |               |
|-------------------|-------------------|---------------|---------------|
|                   | 2008              | 2009          | 2010          |
|                   | HK\$'000          | HK\$'000      | HK\$'000      |
| RMB               | 47,092            | 51,575        | 52,918        |
| Hong Kong dollars | 36,952            | 27,869        | 29,686        |
|                   | <u>84,044</u>     | <u>79,444</u> | <u>82,604</u> |

## 23. AMOUNT DUE TO A RELATED COMPANY

|   | As at 31 December |          |          |
|---|-------------------|----------|----------|
|   | 2008              | 2009     | 2010     |
|   | HK\$'000          | HK\$'000 | HK\$'000 |
| Capital Nation Investments Limited ("Capital Nation") | 1,170             | 1,041    | 926      |

Capital Nation is beneficially owned by Ms. Lee Rosanna Man Lai who is a daughter of Mr. Lee Wan Keung, the controlling shareholder of the Company's ultimate holding company. The amount is unsecured, trade in nature, non-interest bearing, repayable on demand and aged within 90 days.

## 24. BANK BORROWINGS

|  | As at 31 December |                |                |
|--|-------------------|----------------|----------------|
|  | 2008              | 2009           | 2010           |
|  | HK\$'000          | HK\$'000       | HK\$'000       |
| Bank loans                                       | 50,000            | 50,000         | 50,000         |
| Bank import loans                                | 91,821            | 60,446         | 61,510         |
| Advances drawn on bills discounted with recourse | 47,028            | 39,899         | 14,343         |
|  | <u>188,849</u>    | <u>150,345</u> | <u>125,853</u> |
| Analysed as:                                     |                   |                |                |
| – secured  | 47,028            | 39,899         | 14,343         |
| – unsecured                                      | 141,821           | 110,446        | 111,510        |
|  | <u>188,849</u>    | <u>150,345</u> | <u>125,853</u> |

Advances drawn on bills receivables discounted with recourse represent the Group's bank borrowings secured by bills discounted to banks with recourse as disclosed in note 18.

During the Track Record Period, all the Group's banking facilities were supported by corporate guarantees provided by LM. It is expected that upon listing of the Company's shares on the Stock Exchange, the corporate guarantees provided by LM will be released and replaced by corporate guarantees provided by the Company.

As at 31 December 2010, the Group had available banking facilities of approximately HK\$420,081,000 (2009: HK\$386,985,000, 2008: HK\$370,985,000) of which approximately HK\$125,853,000 (2009: HK\$150,345,000, 2008: HK\$188,849,000) was utilised.

All of the Group's borrowings are variable rate borrowings as at 31 December 2008, 2009 and 2010.

The ranges of effective interest rates on the Group's borrowings are as follows:

**Variable-rate borrowings:**

|      |                                   |
|------|-----------------------------------|
| 2008 | 0.6% to 1.25% over HIBOR or LIBOR |
| 2009 | 0.6% to 1.5% over HIBOR or LIBOR  |
| 2010 | 0.8% to 1.25% over HIBOR or LIBOR |

The following amounts of bank borrowings are denominated in currencies other than the functional currency of the relevant group entities.

|                   | As at 31 December |                |                |
|-------------------|-------------------|----------------|----------------|
|                   | 2008              | 2009           | 2010           |
|                   | HK\$'000          | HK\$'000       | HK\$'000       |
| Euro              | 7,781             | 5,457          | 1,232          |
| Hong Kong dollars | <u>139,499</u>    | <u>108,971</u> | <u>107,923</u> |
|                   | <u>147,280</u>    | <u>114,428</u> | <u>109,155</u> |

## 25. DEFERRED TAXATION

The following are the major categories of deferred tax liabilities recognised and movements thereon during the Track Record Period:

|                                      | Revaluation<br>of property,<br>plant and<br>equipment<br>HK\$'000 |
|--------------------------------------|---|
| At 1 January 2008                    | 4,271   |
| Effect of a change in tax rate       | (160)   |
| Credit to profit or loss             | (203)   |
| Charge to other comprehensive income | <u>1,289</u>  |
| At 31 December 2008                  | 5,197   |
| Credit to profit or loss             | (464)   |
| Charge to other comprehensive income | <u>687</u>  |
| At 31 December 2009                  | 5,420   |
| Credit to profit or loss             | (564)   |
| Charge to other comprehensive income | <u>1,198</u>  |
| At 31 December 2010                  | <u>6,054</u>  |

The Group had unutilised tax losses of approximately HK\$30,057,000, HK\$30,953,000 and HK\$31,834,000 as at 31 December 2008, 2009 and 2010, respectively, which are available to offset against future profits. No deferred tax asset has been recognised in respect of these unused tax losses due to the unpredictability of future profit streams. Tax losses of approximately HK\$30,814,000 as at 31 December 2010 may be carried forward indefinitely while the remaining tax losses of approximately HK\$1,020,000 from the PRC subsidiary may be carried forward for five years.

Under the New Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by a PRC entity from 1 January 2008 onwards. No deferred taxation liability has been provided for the Group's PRC subsidiary as the PRC subsidiary had no profits since its establishment in September 2009.

## 26. SHARE CAPITAL

For the purpose of the preparation of the combined statements of financial position, the balance of the share capital at the end of the respective reporting period represents the issued share capital of LM Development of HK\$698 (equivalent to US\$90), comprises 90 ordinary shares of US\$1 each.

**27. SHARE OPTION SCHEME**

The share option scheme of LM (the "LM Scheme") was adopted pursuant to a resolution passed on 14 December 2001 for the purpose of providing incentives to directors and eligible persons. The LM Scheme would remain in force for a period of 10 years from adoption of such scheme and expired on 13 December 2010.

Under the LM Scheme, the Board of Directors of LM (the "LM Directors") might at their discretion grant options to (i) any director, employee or consultant of LM or a company in which LM holds an equity interest or a subsidiary of such company ("Affiliate"); or (ii) any discretionary trust whose discretionary objects include any director, employee or consultant of LM or an Affiliate; or (iii) a company beneficially owned by any director, employee or consultant of LM or an Affiliate; or (iv) any customer, supplier or adviser as may be determined by the LM Directors from time to time to subscribe for the shares of LM (the "LM Shares").

Options granted must be taken up within 21 days of the date of grant. The maximum number of LM Shares in respect of which options might be granted under the LM Scheme shall not exceed 10% of the issued share capital of LM at any point in time. The maximum number of LM Shares in respect of which options might be granted to any individual in any 12-month period shall not exceed 1% of the LM Shares in issue on the last date of such 12-month period unless approval of the shareholders of LM was obtained in accordance with the Listing Rules.

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it could be exercised) as may be determined by the LM Directors (which shall be less than ten years from the date of issue of the relevant option). Options may be granted without initial payment. The exercise price was equal to the highest of (i) nominal value of the LM Shares; (ii) the closing price per share as stated in the Stock Exchange's daily quotations sheets on the date of the grant of the options; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant of the options.

No options were granted under the LM Scheme since its inception and during the years ended 31 December 2008 and 31 December 2009.

On 23 April 2010, 82,500,000 options were granted to a director of a fellow subsidiary of the Group within the LM Group.

**28. OPERATING LEASES**

|   | <b>Year ended 31 December</b> |                 |                 |
|---|-------------------------------|-----------------|-----------------|
|   | <b>2008</b>                   | <b>2009</b>     | <b>2010</b>     |
|   | <i>HK\$'000</i>               | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Minimum lease payments paid under operating leases<br>in respect of office premises during the year | <u>1,186</u>                  | <u>964</u>      | <u>1,663</u>    |

At the end of each reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

|                                       | <b>As at 31 December</b> |                 |                 |
|---------------------------------------|--------------------------|-----------------|-----------------|
|                                       | <b>2008</b>              | <b>2009</b>     | <b>2010</b>     |
|                                       | <i>HK\$'000</i>          | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year                       | 258                      | –               | –               |
| In the second to fifth year inclusive | <u>109</u>               | <u>–</u>        | <u>–</u>        |
|                                       | <u>367</u>               | <u>–</u>        | <u>–</u>        |

The commitments for operating lease payments represent rentals payable by the Group for office properties. Leases are negotiated for an average term of two years. Rentals are based on the terms specified in the lease agreements.

### 29. CAPITAL COMMITMENTS

|   | As at 31 December |          |          |
|---|-------------------|----------|----------|
|   | 2008              | 2009     | 2010     |
|   | HK\$'000          | HK\$'000 | HK\$'000 |
| Capital expenditure contracted for but not provided for in the Financial Information in respect of the acquisition of property, plant and equipment | 103               | 222      | 32       |

### 30. PLEDGE OF ASSETS

At the end of each reporting period, the carrying value of the Group's assets which were pledged to secure credit facilities granted to the Group are as follows:

|  | As at 31 December |          |          |
|--|-------------------|----------|----------|
|  | 2008              | 2009     | 2010     |
|  | HK\$'000          | HK\$'000 | HK\$'000 |
| Bills receivables discounted with recourse | 47,028            | 39,899   | 14,343   |

### 31. RETIREMENT BENEFIT SCHEMES

#### Defined benefit scheme

The Group is a member of a defined benefit scheme which was open to qualified employees of companies under the control of Fortune Star Tradings Limited, the ultimate holding company of LM. In December 2000, all the then existing members of the defined benefit scheme were enrolled into a MPF Scheme and their accrued benefits for the past services under the defined benefit scheme were frozen as at 30 November 2000. The defined benefit scheme was closed to new employees from December 2000 onwards.

Under the defined benefit scheme, employees are entitled to retirement benefits varying between 0 and 100% of their salary as at 30 November 2000 multiplied by the pensionable service up to 30 November 2000 on attainment of a retirement age of 55. No other post-retirement benefits are provided.

The actuarial valuation of the plan assets and the present value of the defined benefit obligation as at 31 December 2008, 2009 and 2010 was carried out by HSBC Life (International) Limited. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the Projected Unit Credit Method. Its address is 18th Floor, Tower 1, HSBC Centre, 1 Sham Mong Road, Kowloon, Hong Kong.

The main actuarial assumptions used were as follows:

|                                   | 2008      | 2009      | 2010      |
|-----------------------------------|-----------|-----------|-----------|
|                                   | Per annum | Per annum | Per annum |
| Discount rate                     | 0%        | 0%        | 0%        |
| Expected return on plan assets    | 4%        | 3%        | 3%        |
| Expected rate of salary increases | 0%        | 0%        | 0%        |

The actuarial valuation shows that the market value of plan assets as at 31 December 2008, 2009 and 2010 was HK\$10,403,000, HK\$9,936,000 and HK\$9,705,000 respectively and that the actuarial value of these assets represented 121%, 130% and 140% of the benefits that were accrued to members respectively.

The credit recognised in the profit or loss in respect of the defined benefit scheme is as follows:

|  | <b>2008</b><br><i>HK\$'000</i> | <b>2009</b><br><i>HK\$'000</i> | <b>2010</b><br><i>HK\$'000</i> |
|--|--------------------------------|--------------------------------|--------------------------------|
| Expected return on plan assets, being profit | <u>397</u>                     | <u>398</u>                     | <u>288</u>                     |

The amount included in the Financial Information arising from the Group's obligation in respect of its defined benefit retirement benefit plan is as follows:

|   | <b>2008</b><br><i>HK\$'000</i> | <b>2009</b><br><i>HK\$'000</i> | <b>2010</b><br><i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|--------------------------------|
| Present value of funded defined benefit obligations | 8,571                          | 7,622                          | 6,908                          |
| Fair value of plan assets                           | <u>(10,403)</u>                | <u>(9,936)</u>                 | <u>(9,705)</u>                 |
|   | (1,832)                        | (2,314)                        | (2,797)                        |
| Net actuarial losses not recognised                 | <u>(2,020)</u>                 | <u>(1,936)</u>                 | <u>(1,741)</u>                 |
| Defined benefit asset                               | <u><u>(3,852)</u></u>          | <u><u>(4,250)</u></u>          | <u><u>(4,538)</u></u>          |

Movements in the present value of the funded defined benefit obligations during the Track Record Period were as follows:

|                  | <b>2008</b><br><i>HK\$'000</i> | <b>2009</b><br><i>HK\$'000</i> | <b>2010</b><br><i>HK\$'000</i> |
|------------------|--------------------------------|--------------------------------|--------------------------------|
| At 1 January     | 7,188                          | 8,571                          | 7,622                          |
| Benefits paid    | –                              | (949)                          | (714)                          |
| Actuarial losses | <u>1,383</u>                   | <u>–</u>                       | <u>–</u>                       |
| At 31 December   | <u><u>8,571</u></u>            | <u><u>7,622</u></u>            | <u><u>6,908</u></u>            |

Movements in the fair value of the plan assets during the Track Record Period were as follows:

|                                | <b>2008</b><br><i>HK\$'000</i> | <b>2009</b><br><i>HK\$'000</i> | <b>2010</b><br><i>HK\$'000</i> |
|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| At 1 January                   | 9,908                          | 10,403                         | 9,936                          |
| Expected return on plan assets | 397                            | 398                            | 288                            |
| Benefit paid                   | –                              | (949)                          | (714)                          |
| Actuarial gains                | <u>98</u>                      | <u>84</u>                      | <u>195</u>                     |
| At 31 December                 | <u><u>10,403</u></u>           | <u><u>9,936</u></u>            | <u><u>9,705</u></u>            |

The major categories of plan assets at the end of the reporting period are as follows:

|                  | Fair value of plan assets |              |              |
|------------------|---------------------------|--------------|--------------|
|                  | 2008                      | 2009         | 2010         |
|                  | HK\$'000                  | HK\$'000     | HK\$'000     |
| Debt instruments | 10,101                    | 9,876        | 9,385        |
| Cash             | <u>302</u>                | <u>60</u>    | <u>320</u>   |
|                  | <u>10,403</u>             | <u>9,936</u> | <u>9,705</u> |

The overall expected rate of return is a weighted average of the expected returns of the various categories of plan assets held. The directors' assessment of the expected return is based on historical return trends and analysis predictions of the market for the asset in the next twelve months.

The plan assets do not include any equity shares in the Company or property held by the Group.

The history of experience adjustments is as follows:

|  | 2008            | 2009           | 2010           |
|--|-----------------|----------------|----------------|
|  | HK\$'000        | HK\$'000       | HK\$'000       |
| Present value of defined benefit obligations | 8,571           | 7,622          | 6,908          |
| Fair value of plan assets                    | <u>(10,403)</u> | <u>(9,936)</u> | <u>(9,705)</u> |
| Surplus                                      | (1,832)         | (2,314)        | (2,797)        |
| Actuarial losses on plan liabilities         | 1,383           | –              | –              |
| Actuarial gain on plan assets                | <u>(98)</u>     | <u>(84)</u>    | <u>(195)</u>   |

#### Defined contribution schemes

The Group also operates a MPF Scheme for all its qualifying employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes monthly the lower of HK\$1,000 or 5% of the relevant monthly payroll costs to the MPF Scheme, which contribution is matched by employees. The employees of the Group in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The Group is required to contribute certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

## 32. RELATED PARTY DISCLOSURES

## (a) Transactions

The Group had significant transactions with related parties during the Track Record Period as follows:

| Name of related party               | Relationship   | Nature of transactions                           | Year ended 31 December |                  |                  |
|-------------------------------------|--|--|------------------------|------------------|------------------|
|                                     |  |  | 2008<br>HK\$'000       | 2009<br>HK\$'000 | 2010<br>HK\$'000 |
| Lee & Man Chemical (H.K.) Limited   | Fellow subsidiary  | Management fee income received                   | 16                     | 16               | 16               |
| Capital Nation                      | A company beneficially owned by Ms. Lee Rosanna Man Lai, a daughter of Mr. Lee Wan Keung | Corrugated cardboard and carton boxes purchased* | 9,997                  | 4,093            | 4,089            |
|                                     |  | Management fee income received                   | 27                     | –                | –                |
| Lee & Man Manufacturing Co. Ltd.    | A company beneficially owned by Ms. Lee Marina Man Wai, sister of Ms. Lee Man Ching      | Management fee income received                   | 87                     | –                | –                |
|                                     |  | Licence fee received                             | 186                    | –                | –                |
| Lee & Man Realty Investment Limited | A company beneficially owned by Mr. Lee Wan Keung and Mr. Lee Man Yan                    | Licence fee paid*                                | 843                    | 828              | 1,555            |

\* The directors expect that these transactions will continue after the listing of the Company's shares on the Stock Exchange.

The Directors have confirmed that these related party transactions were conducted in the Group's ordinary and usual course of business and on normal commercial terms.

## (b) Balances

Details of balances with related parties at the end of each reporting period are set out in notes 20 and 23.

## (c) Guarantees

Details of guarantees provided by LM in support of the Group's banking facilities are set out in note 24.

**(d) Remuneration of directors and key management**

The remuneration of directors and other members of key management during the Track Record Period was as follows:

|                              | Year ended 31 December |              |              |
|------------------------------|------------------------|--------------|--------------|
|                              | 2008                   | 2009         | 2010         |
|                              | HK\$'000               | HK\$'000     | HK\$'000     |
| Short-term employee benefits | 5,371                  | 5,227        | 4,841        |
| Post-employment benefits     | 60                     | 77           | 70           |
|                              | <u>5,431</u>           | <u>5,304</u> | <u>4,911</u> |

**33. NON-CASH TRANSACTIONS**

During each of the years ended 31 December 2008 and 2010, purchases of property, plant and equipment of approximately HK\$1,875,000 and HK\$310,000, respectively were settled through transfer of deposits paid in the prior year.

During the years ended 31 December 2008, 2009 and 2010, interim dividends of HK\$25,000,000, HK\$200,000,000 and HK\$207,286,000 respectively, payable to the immediate holding company were settled by offsetting the amount due from immediate holding company.

**34. CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remained unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debt, which includes the bank borrowings disclosed in note 24, net of bank balances and cash, and equity attributable to owners of the Company, comprising issued share capital and various reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as issue of new debts.

**35. FINANCIAL INSTRUMENTS****35a. Categories of financial instruments**

|   | As at 31 December |          |            |
|---|-------------------|----------|------------|
|   | 2008              | 2009     | 2010       |
|   | HK\$'000          | HK\$'000 | HK\$'000   |
| <b>Financial assets</b>                                     |                   |          |            |
| Loans and receivables (including cash and cash equivalents) | 433,297           | 329,132  | 201,064    |
| Derivative financial instruments                            | –                 | 704      | –          |
| <b>Financial liabilities</b>                                |                   |          |            |
| Amortised cost  | 275,587           | 233,546  | 214,048    |
| Derivative financial instruments                            | <u>508</u>        | <u>–</u> | <u>530</u> |

**35b. Financial risk management objectives and policies**

The Group's major financial instruments include trade and other receivables, amount due from immediate holding company, bank balances, trade and other payables, amount due to a related company and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Market risk***(i) Currency risk*

The Group mainly operates in Hong Kong and the PRC and the exposure in exchange rate risks mainly arises from fluctuations of foreign currencies, including Euro, HK dollars and RMB against the functional currency of the relevant group entities. Material transactions and balances that are not denominated in the functional currency of the relevant entities give rise to foreign currency exposure as follows:

- (i) Euro – in terms of revenue, bank balances and bank borrowings
- (ii) HK dollars and Renminbi (“RMB”) – in terms of expenses, bank balances and capital expenditure.

Exchange rate fluctuations and market trend have always been the concern of the Group. As HK dollars are linked with US dollars, the Group does not have material exchange risk on this currency pair. The Group entered into several foreign exchange forward contracts to partially hedge its currency risk.

At the end of the reporting period, the carrying amount of the Group's monetary assets and liabilities (excluding those in HK\$ for entities with US dollars as functional currency) denominated in currencies other than the functional currency of the relevant group entities are as follows:

|                    | <b>At 31 December</b> |                   |                   |
|--------------------|-----------------------|-------------------|-------------------|
|                    | <b>2008</b>           | <b>2009</b>       | <b>2010</b>       |
|                    | <i>HK\$'000</i>       | <i>HK\$'000</i>   | <i>HK\$'000</i>   |
| <b>Assets</b>      |                       |                   |                   |
| Euro               | 3,457                 | 16,461            | 14,021            |
| RMB                | 2,239                 | 2,893             | 2,730             |
|                    | <u>          </u>     | <u>          </u> | <u>          </u> |
| <b>Liabilities</b> |                       |                   |                   |
| Euro               | 7,781                 | 5,457             | 1,232             |
| RMB                | 47,092                | 51,575            | 52,918            |
|                    | <u>          </u>     | <u>          </u> | <u>          </u> |

**Sensitivity analysis**

The following table details the Group's sensitivity to a 5% appreciation and depreciation in the functional currency of the relevant group entities against the above foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk and represents management's assessment of the reasonably possible change in foreign exchange rates.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items other than those denominated in HK dollars but held by entities whose functional currency is US dollars because HK dollars are linked to US dollars. The

sensitivity analysis adjusts their translation at the period end for a 5% change in foreign currency rates. A strengthening of the above foreign currencies against the functional currency of the relevant group entities would give rise to the following impact to profit before tax and vice versa.

|  | As at 31 December |           |             |
|--|-------------------|-----------|-------------|
|  | 2008              | 2009      | 2010        |
|  | HK\$'000          | HK\$'000  | HK\$'000    |
| <u>Monetary assets and liabilities:</u>  |                   |           |             |
| Increase (decrease) of profit before tax |                   |           |             |
| – Euro                                   | (216)             | 551       | 639         |
| – RMB                                    | (2,243)           | (2,434)   | (2,509)     |
| <u>Derivative financial instruments:</u> |                   |           |             |
| (Decrease) increase of profit before tax |                   |           |             |
| – Euro                                   | <u>(25)</u>       | <u>35</u> | <u>(27)</u> |

(ii) *Interest rate risk*

The Group's cash flow interest rate risks mainly relate to its variable rates borrowings (see note 24 for details of these borrowings). The Group's bank balances also have exposure to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances. The directors consider the Group's exposure to fair value interest rate risk in relation to its short term bank deposits is not significant as interest bearing bank balances are within short maturity periods.

The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risks. The directors monitor the Group's exposure on an ongoing basis and will consider hedging interest rate risk should the need arise.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates on its variable rate borrowings and bank balances at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout both years in the case of instruments that have floating rates. 10 basis point and 50 basis point increase or decrease are used by the management for the assessment of the possible change in interest rates of variable rate bank balances and variable rate borrowings, respectively.

If interest rates had been 10 basis point higher or lower and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2010 would increase or decrease by HK\$57,000 (2009: HK\$48,000, 2008: HK\$34,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate bank balances.

If interest rates had been 50 basis point higher or lower and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2010 would decrease or increase by HK\$630,000 (2009: HK\$752,000, 2008: HK\$944,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

*(iii) Credit risk*

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the combined statements of financial position. The Group is also exposed to concentration of credit risk as a substantial portion of its receivables is generated from a limited number of customers. At 31 December 2010, the top five customers of the Group accounted for about 64% (2009: 71%, 2008: 61%) of the Group's trade receivables.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the management reviews the recoverable amount of each individual trade debt at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group also has a significant credit exposure in relation to the amount due from its immediate holding company, LM. However, because of common directorship, the Group is in a position to regularly assess the financial strength of LM and to take timely action to safeguard its asset. As at 31 December 2010, the balance due from LM was fully settled.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

*Liquidity risk*

In the management of the Group's liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuation in cash flows. The Group also has available banking facilities as disclosed in note 24 to meet its short-term working capital requirements. The management monitors the utilisation of bank borrowings and ensure compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent the interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

*Liquidity table*

|  | Weighted<br>average<br>effective<br>interest<br>rate<br>% | On<br>demand<br>or 0-30<br>days<br>HK\$'000 | 31-60<br>days<br>HK\$'000 | 61-90<br>days<br>HK\$'000 | 91-365<br>days<br>HK\$'000 | Over<br>365 days<br>HK\$'000 | Total<br>undiscounted<br>cash<br>flows<br>HK\$'000 | Carrying<br>amount<br>HK\$'000 |
|--|---|---|---------------------------|---------------------------|----------------------------|------------------------------|--|--------------------------------|
| <i>As at 31 December 2008</i>                              |   |   |                           |                           |                            |                              |  |                                |
| <b>Non-derivative financial liabilities</b>                |   |   |                           |                           |                            |                              |  |                                |
| Non-interest bearing                                       | -   | 52,076                                      | 23,759                    | 10,481                    | 422                        | -                            | 86,738   | 86,738                         |
| Variable interest rate instruments                         | 2.16%   | 189,188                                     | -                         | -                         | -                          | -                            | 189,188  | 188,849                        |
|  |   | <u>241,264</u>                              | <u>23,759</u>             | <u>10,481</u>             | <u>422</u>                 | <u>-</u>                     | <u>275,926</u>                                     | <u>275,587</u>                 |
| <b>Derivative financial liabilities – gross settlement</b> |   |   |                           |                           |                            |                              |  |                                |
| Foreign exchange forward contracts                         |   |   |                           |                           |                            |                              |  |                                |
| - inflow   | -   | -   | -                         | (7,188)                   | -                          | -                            | (7,188)  | (7,188)                        |
| - outflow  | -   | -   | -                         | 7,696                     | -                          | -                            | 7,696  | 7,696                          |
|  |   | <u>-</u>                                    | <u>-</u>                  | <u>508</u>                | <u>-</u>                   | <u>-</u>                     | <u>508</u>   | <u>508</u>                     |
| <i>As at 31 December 2009</i>                              |   |   |                           |                           |                            |                              |  |                                |
| <b>Non-derivative financial liabilities</b>                |   |   |                           |                           |                            |                              |  |                                |
| Non-interest bearing                                       | -   | 43,711                                      | 25,458                    | 13,673                    | 359                        | -                            | 83,201   | 83,201                         |
| Variable interest rate instruments                         | 1.08%   | 150,480                                     | -                         | -                         | -                          | -                            | 150,480  | 150,345                        |
|  |   | <u>194,191</u>                              | <u>25,458</u>             | <u>13,673</u>             | <u>359</u>                 | <u>-</u>                     | <u>233,681</u>                                     | <u>233,546</u>                 |
| <b>Derivative financial assets – gross settlement</b>      |   |   |                           |                           |                            |                              |  |                                |
| Foreign exchange forward contracts                         |   |   |                           |                           |                            |                              |  |                                |
| - inflow   | -   | (10,882)                                    | -                         | (17,105)                  | -                          | -                            | (27,987)   | (27,987)                       |
| - outflow  | -   | 10,423                                      | -                         | 16,860                    | -                          | -                            | 27,283   | 27,283                         |
|  |   | <u>(459)</u>                                | <u>-</u>                  | <u>(245)</u>              | <u>-</u>                   | <u>-</u>                     | <u>(704)</u>                                       | <u>(704)</u>                   |
| <i>As at 31 December 2010</i>                              |   |   |                           |                           |                            |                              |  |                                |
| <b>Non-derivative financial liabilities</b>                |   |   |                           |                           |                            |                              |  |                                |
| Non-interest bearing                                       | -   | 52,144                                      | 18,518                    | 16,322                    | 1,211                      | -                            | 88,195   | 88,195                         |
| Variable interest rate instruments                         | 1.21%   | 125,980                                     | -                         | -                         | -                          | -                            | 125,980  | 125,853                        |
|  |   | <u>178,124</u>                              | <u>18,518</u>             | <u>16,322</u>             | <u>1,211</u>               | <u>-</u>                     | <u>214,175</u>                                     | <u>214,048</u>                 |
| <b>Derivative financial liabilities – gross settlement</b> |   |   |                           |                           |                            |                              |  |                                |
| Foreign exchange forward contracts                         |   |   |                           |                           |                            |                              |  |                                |
| - inflow   | -   | -   | -                         | (19)                      | -                          | -                            | (19)   | (19)                           |
| - outflow  | -   | -   | -                         | 549                       | -                          | -                            | 549  | 549                            |
|  |   | <u>-</u>                                    | <u>-</u>                  | <u>530</u>                | <u>-</u>                   | <u>-</u>                     | <u>530</u>   | <u>530</u>                     |



**B. DIRECTORS' REMUNERATION**

Save as disclosed in this report, no remuneration was paid or is payable by the Group to the Company's directors in respect of the Track Record Period.

**C. EVENTS AFTER THE REPORTING PERIOD**

The following events took place subsequent to 31 December 2010:

- a. The Company was incorporated as a limited liability company in the Cayman Islands on 4 January 2011. On the date of incorporation, 1 ordinary share of HK\$0.10 was issued and allotted nil paid, to Codan Trust Company (Cayman) Limited. The 1 nil-paid ordinary share of HK\$0.10 was transferred to LM on the same day. On 4 January 2011, a further 99,999 nil-paid ordinary shares of HK\$0.10 each were allotted and issued by the Company to LM;
- b. On 18 May 2011, the authorised capital of the Company was increased from HK\$100,000 to HK\$500,000,000 by the creation of additional 4,999,000,000 ordinary shares of HK\$0.10 each;
- c. On 18 May 2011, LM transferred the entire issued share capital of LM Development to the Company in exchange for which
  - (i) the Company issued and allotted a total of 824,900,000 ordinary shares of HK\$0.10 each to LM, credited as fully paid; and
  - (ii) the 100,000 nil-paid shares registered in the name of LM were credited as fully paid at par.
- d. On 18 May 2011, the board of directors of LM conditionally approved the payment of a special interim dividend to be satisfied by way of a distribution in specie of the entire issued share capital of the Company to the LM Shareholders on a pro rata basis (the "Distribution").
- e. Fortune Star, as the holding company of LM, has directed its entitlement to the Distribution to be made to Full Gold Trading Limited ("Full Gold") which is a limited liability company incorporated in BVI and is owned in the same manner as Fortune Star. Upon successful completion of the Distribution, Full Gold will become the Company's ultimate holding company.

**D. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the Group, the Company or any of its subsidiaries in respect of any period subsequent to 31 December 2010.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong

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## APPENDIX II      UNAUDITED PRO FORMA FINANCIAL INFORMATION

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*The information set forth in this appendix does not form part of the Accountants' Report from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this listing document, and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" and the "Accountants' Report" set forth in Appendix I to this listing document.*

### A. UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted combined net tangible assets of the Group is prepared in accordance with Rule 4.29 of the Listing Rules and is set out below to illustrate the effect of the Listing on the combined net tangible assets of the Group as at 31 December 2010 as if the Listing had taken place on that date.

This statement of unaudited pro forma adjusted combined net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group. It is prepared based on the audited combined net assets of the Group as at 31 December 2010 as set out in the Accountants' Report, the text of which is set out in Appendix I to this listing document, and adjusted as described below.

|   | <b>Audited<br/>combined net<br/>tangible assets<br/>of the Group at<br/>31 December<br/>2010<br/>HK\$'000<br/>(note 1)</b> | <b>Estimated<br/>expenses<br/>relating to the<br/>Listing<br/>HK\$'000<br/>(note 2)</b> | <b>Unaudited pro<br/>forma adjusted<br/>combined net<br/>tangible assets<br/>of the Group<br/>HK\$'000</b> | <b>Unaudited pro<br/>forma adjusted<br/>combined net<br/>tangible assets<br/>per Share<br/>HK\$<br/>(note 3)</b> |
|---|--|---|--|--|
| Based on 825,000,000<br>Shares in issue | 211,968  | (15,000)  | 196,968  | 0.24   |

*Notes:*

1. The audited combined net tangible assets of the Group as at 31 December 2010 represents the Group's combined net assets at that date and is extracted from the financial information contained in the Accountants' Report set out in Appendix I to this listing document.
2. Estimated expenses relating to the Listing mainly include professional fees for the Sponsor, the Company's legal advisors and the reporting accountants.
3. The unaudited pro forma net tangible assets per Share is based on 825,000,000 Shares in issue but without taking into account any Shares that may be issued upon exercise of any options that may be granted under the Share Option Scheme.

**B. ACCOUNTANTS' REPORT FROM THE REPORTING ACCOUNTANTS ON  
UNAUDITED PRO FORMA FINANCIAL INFORMATION**

*The following is the text of a report received from our reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this listing document, in respect of the unaudited pro forma financial information of the Group.*

**Deloitte.**  
**德勤**

德勤·關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL  
INFORMATION****TO THE DIRECTORS OF LEE & MAN HANDBAGS HOLDING LIMITED**

We report on the unaudited pro forma financial information of Lee & Man Handbags Holding Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information as to how the proposed listing by way of introduction of the entire issued share capital of the Company on the Main Board of The Stock Exchange of Hong Kong Limited might have affected the financial information presented, for inclusion in Appendix II to the listing document dated 31 May 2011 issued by the Company (the "listing document"). The basis of preparation of the unaudited pro forma financial information is set out on Appendix II to the listing document.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2010 or any future date.

**Opinion**

In our opinion:

- a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong, 31 May 2011

*The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this document received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 28 February 2011 of the property interests of our Group.*



Jones Lang LaSalle Sallmanns Limited  
6/F Three Pacific Place  
1 Queen's Road East Hong Kong  
tel +852 2169 6000 fax +852 2169 6001  
Licence No: C-030171

31 May 2011

The Board of Directors  
**Lee & Man Handbags Holding Limited**

Dear Sirs,

In accordance with your instructions to value the properties in which Lee & Man Handbags Holding Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), Thailand and Hong Kong, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 28 February 2011 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the buildings and structures of the properties in Groups I and II and the particular locations in which they are situated, there are unlikely to be relevant market comparable sales readily available. The property interests have therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimization." It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interests in Group III, which are leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards published by the Royal Institution of Chartered Surveyors; the HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificate, Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers – Goldsun Law Firm and Thailand legal advisers – Bamrung Suvicha Apisakdi Law Associates concerning the validity of the property interests in the PRC and Thailand respectively.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory and that no unexpected cost and delay will be incurred during construction. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong Dollars (HK\$). The exchange rates adopted in our valuations are approximately HK\$1 = RMB0.84 and HK\$1 = THB3.924.

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,  
for and on behalf of

**Jones Lang LaSalle Sallmanns Limited**

**Paul L. Brown**

*B.Sc. FRICS FHKIS*

*Chief Valuation Adviser*

**Eddie T.W. Yiu**

MRICS MHKIS RPS(GP)

*Associate Director*

*Note: Paul L. Brown is a Chartered Surveyor who has 28 years' experience in the valuation of properties in the PRC and 31 years of property valuation experience in Hong Kong and the United Kingdom as well as relevant experience in Thailand and certain countries in the Asia-Pacific region.*

*Eddie T.W. Yiu is a Chartered Surveyor who has 17 years' experience in the valuation of properties in Hong Kong and the PRC as well as relevant experience in the Asia-Pacific region..*

## SUMMARY OF VALUES

## Group I – Property interests held and occupied by the Group in the PRC

| No. | Property  | Capital value<br>in existing<br>state as at<br>28 February<br>2011<br>HK\$ | Interest<br>attributable<br>to the<br>Group | Capital value<br>attributable<br>to the<br>Group as at<br>28 February<br>2011<br>HK\$ |
|-----|---|--|---|---|
| 1.  | 9 parcels of land,<br>various buildings and structures<br>located at<br>Shao Tan Village<br>Gao Bu Management Area<br>Gao Bu Town<br>Dongguan City<br>Guangdong Province<br>The PRC | 64,944,000   | 100%  | 64,944,000  |
| 2.  | A parcel of land,<br>various buildings and structures<br>located at<br>Liu Wu Management Area<br>Shi Jie Town<br>Dongguan City<br>Guangdong Province<br>The PRC                     | 28,251,000   | 100%  | 28,251,000  |
|     | <b>Sub-total:</b>   | <u>93,195,000</u>  |   | <u>93,195,000</u>   |

## Group II – Property interest held for investment by the Group in Thailand

| No. | Property   | Capital value<br>in existing<br>state as at<br>28 February<br>2011<br><i>HK\$</i> | Interest<br>attributable<br>to the<br>Group | Capital value<br>attributable<br>to the<br>Group as at<br>28 February<br>2011<br><i>HK\$</i> |
|-----|--|---|---|--|
| 3.  | A parcel of land,<br>various buildings and structures<br>located at No.189<br>Chachoengsao-Nakornratchasima<br>Road<br>Lad-Takien Sub-District<br>Kabinburi District<br>Prachinburi Province<br>Thailand | 25,887,000  | 100%  | 25,887,000   |
|     | <b>Sub-total:</b>  | <u>25,887,000</u>   |   | <u>25,887,000</u>  |

## Group III – Property interests leased and occupied by the Group in Hong Kong

| No. Property   | Capital value<br>in existing<br>state as at<br>28 February<br>2011<br><i>HK\$</i> | Interest<br>attributable<br>to the<br>Group | Capital value<br>in existing state<br>as at<br>28 February<br>2011<br><i>HK\$</i> |
|--|---|---|---|
| 4. Portion of 5/F and<br>the whole of 8/F<br>Liven House<br>Nos. 61-63<br>King Yip Street<br>Kwun Tong<br>Kowloon<br>Hong Kong | No commercial<br>value  | 100%  | No commercial<br>value  |
| 5. Flat C on 12/F<br>Block 18<br>No.5 Laguna Street<br>Laguna City<br>Kwun Tong<br>Kowloon<br>Hong Kong                        | No commercial<br>value  | 100%  | No commercial<br>value  |
| <b>Sub-total:</b>  | <u>Nil</u>  |   | <u>Nil</u>  |
| <b>Grand total:</b>  | <u><u>119,082,000</u></u>   |   | <u><u>119,082,000</u></u>   |

## VALUATION CERTIFICATE

## Group I – Property interests held and occupied by the Group in the PRC

| No. | Property  | Description and tenure  | Particulars of occupancy  | Capital value in existing state as at 28 February 2011<br>HK\$           |
|-----|---|---|---|--|
| 1.  | 9 parcels of land, various buildings and structures located at Shao Tan Village Gao Bu Management Area Gao Bu Town Dongguan City Guangdong Province The PRC | <p>The property comprises 9 parcels of land with a total site area of approximately 68,798.80 sq.m. and 34 buildings and various ancillary structures erected thereon completed in various stages between 1987 and 2005.</p> <p>The buildings have a total gross floor area of approximately 86,673.68 sq.m.</p> <p>The buildings mainly include workshops, office building, dormitories, carparks and canteen, etc.</p> <p>The structures mainly include car sheds, roads and boundary walls, etc.</p> <p>The land use rights of 6 parcels of land with a total site area of approximately 40,512 sq.m. have been granted for common terms of 50 years expiring on 9 December 2046, 6 January 2047 and 10 April 2047 for industrial and ancillary facilities uses (as mentioned in Note 1). The remaining 3 parcels of land with a total site area of approximately 28,286.8 sq.m. are collectively-owned land (as mentioned in Note 2).</p> | The property is currently occupied by the Group for production, warehouse, dormitory and ancillary office purposes. | 64,944,000<br><br>100% interest attributable to the Group:<br>64,944,000 |

*Notes:*

- Pursuant to 6 State-owned Land Use Rights Certificates – Dong Fu Guo Yong (1997) Zi Di Te Nos. 83, 84, 85(I), 85(II), 86 and 97 issued by the People's Government of Dongguan City, the land use rights of 6 parcels of land with a total site area of approximately 40,512 sq.m. have been granted to Lee & Man Company Limited (理文洋行有限公司) for common terms of 50 years expiring on 9 December 2046, 6 January 2047 and 10 April 2047 for industrial and ancillary facilities uses.

2. The land use rights of the remaining portion of the land of the property are subject to the following 3 Land Use Rights Transfer Contracts:
  - a) Pursuant to a Land Use Rights Transfer Contract entered into between Dongguan City Gao Bu Town Foreign Economic Development Company (東莞市高埗鎮對外經濟發展公司) (the “Vendor”) and Lee & Man Company Limited (the “Purchaser”) on 28 April 2001, the land use rights of a parcel of land with a site area of approximately 4.24 mu (approximately 2,826.68 sq.m.) were transferred to the Purchaser at a consideration of RMB508,800. According to the contract, the land use term is for 50 years commencing from 1 July 2001 and expiring on 30 June 2051. The Purchaser has to pay an annual land management fee of RMB3,730 per mu during the term which will be subject to an increase of 8% every 5 years;
  - b) Pursuant to a Land Use Rights Transfer Contract entered into between the Vendor and the Purchaser on 28 March 2003, the land use rights of a parcel of land with a site area of approximately 25.90 mu (approximately 17,266.75 sq.m.) and the building use rights of the buildings erected thereon with a total gross floor area of approximately 18,326.70 sq.m. were transferred to the Purchaser at a total consideration of RMB10,438,680. According to the contract, the land use term is for 50 years commencing from 1 January 2003 and expiring on 31 December 2052. The Purchaser has to pay an annual land management fee of RMB3,730 per mu during the term which will be subject to an increase of 8% every 5 years;
  - c) Pursuant to a Land Use Rights Transfer Contract entered into between the Vendor and the Purchaser on 9 April 2004, the land use rights of a parcel of land with a site area of approximately 12.29 mu (approximately 8,193.37 sq.m.) and the building use rights of the buildings erected thereon with a total gross floor area of approximately 6,854.80 sq.m. were transferred to the Purchaser at a total consideration of RMB4,216,720. According to the contract, the land use term is for 50 years commencing from 1 July 2004 and expiring on 30 June 2054. The Purchaser has to pay an annual land management fee of RMB3,730 per mu during the term which will be subject to an increase of 8% every 5 years.

As advised by the Group, the consideration under the above 3 Land Use Rights Transfer Contracts has been fully settled and the Group is in the process of applying for the relevant State-owned Land Use Rights Certificates.

3. Lee & Man Company Limited is a wholly-owned subsidiary of the Company.
4. Pursuant to 23 Real Estate Title Certificates – Yue Fang Di Zheng Zi Di Nos. 0574668 to 0574670, 0574672 to 0574676, 0574685 to 0574691, 1003079, 1003081 to 1003085, 1820344 and 1492763, issued by the People’s Government of Dongguan City, the building ownership rights of 23 buildings with a total gross floor area of approximately 44,658.18 sq.m. are owned by Lee & Man Company Limited.
5. As advised by the Group and as per our site inspection, the building stated under Real Estate Title Certificate – Yue Fang Di Zheng Zi Di No. 0574686 with a gross floor area of approximately 343.1 sq.m. was demolished.
6. For the remaining 12 buildings with a total gross floor area of approximately 42,358.6 sq.m., we have not been provided with any title document.
7. In our valuation, we have not attributed any commercial value to the 3 parcels of land with a total site area of approximately 28,286.8 sq.m. as mentioned in note 2 and the 12 buildings with a total gross floor area of approximately 42,358.6 sq.m. as mentioned in note 6, which have not been granted with any proper title certificates. However, for reference purpose, we are of the opinion that the capital value of these land and buildings as at the date of valuation would be HK\$56,029,000 assuming all relevant Land Use Rights Certificates and Real Estate Title Certificates have been obtained and could be freely transferred.

8. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
- (a) The Group has obtained the relevant State-owned Land Use Rights Certificates of the land parcels as mentioned in note 1 and thus legally owns the land use rights of these land parcels and the land use rights are governed and protected by the PRC laws. Within the use terms as stipulated in the relevant State-owned Land Use Rights Certificates, the Group has the rights to transfer, lease and mortgage the land use rights of the land parcels as mentioned in note 1 to local and foreign persons or legal entities without paying any extra land grant premium or other payments apart from the legally prescribed taxes;
  - (b) The Group has obtained the relevant Real Estate Title Certificates of the buildings as mentioned in note 4 and thus legally owns the building ownership rights of these buildings. Within the use terms as stipulated in the relevant Land Use Rights Certificates, the Group has the rights to transfer, lease, mortgage or bestow those buildings together with the land on which they are erected to local and foreign organizations, companies or natural persons without paying any extra land grant premium or other payments apart from the legally prescribed taxes;
  - (c) The land and buildings of the property are neither subject to any mortgage or other rights or transfer nor subject to any sequestration or lawsuit and dispute which are unfavourable to the land and the buildings erected thereon; and
  - (d) Upon the Group submitting relevant prerequisite documents and information to the relevant government bureaus, there is no legal impediment for the Group to obtain the State-owned Land Use Rights Certificate for the land parcels as mentioned in note 2 and the Real Estate Title Certificates for the buildings as mentioned in note 6 erected on these land parcels.

## VALUATION CERTIFICATE

| No. | Property   | Description and tenure   | Particulars of occupancy  | Capital value in existing state as at 28 February 2011<br>HK\$           |
|-----|--|--|---|--|
| 2.  | A parcel of land, various buildings and structures located at Liu Wu Management Area Shi Jie Town Dongguan City Guangdong Province The PRC | <p>The property comprises a parcel of land with a site area of approximately 21,699 sq.m. and 20 buildings and various ancillary structures erected thereon completed in various stages between 1988 and 1991.</p> <p>The buildings have a total gross floor area of approximately 22,634.441 sq.m.</p> <p>The buildings mainly include workshops, warehouses, office building and dormitories, etc.</p> <p>The structures mainly include roads, boundary walls, car shed and playground, etc.</p> <p>The land use rights of the property have been granted for a term of 50 years commencing from 12 September 1996 and expiring on 11 September 2046 for industrial and ancillary facilities uses.</p> | The property is currently occupied by the Group for production, warehouse, dormitory and ancillary office purposes. | 28,251,000<br><br>100% interest attributable to the Group:<br>28,251,000 |

*Notes:*

1. Pursuant to a State-owned Land Use Rights Certificate – Dong Fu Guo Yong (1996) Zi Di Te No. 383 issued by the People's Government of Dongguan City on 9 February 1996, the land use rights of a parcel of land with a site area of approximately 21,699 sq.m. have been granted to Lee & Man Company Limited for a term of 50 years commencing from 12 September 1996 and expiring on 11 September 2046 for industrial and ancillary facilities uses.
2. Pursuant to 20 Real Estate Title Certificates – Yue Fang Di Zheng Zi Di Nos. 0800923 to 0800942, issued by the People's Government of Dongguan City, the land use rights and building ownership rights of 20 buildings with a total gross floor area of approximately 22,634.441 sq.m. are owned by Lee & Man Company Limited.
3. Lee & Man Company Limited is a wholly-owned subsidiary of the Company.

4. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, inter alia, the following:
  - (a) The Group has obtained the relevant State-owned Land Use Rights Certificate of the land parcel as mentioned in note 1 and thus legally owns the land use rights of this land parcel and the land use rights are governed and protected by the PRC laws. Within the use terms as stipulated in the relevant State-owned Land Use Rights Certificate, the Group has the rights to transfer, lease and mortgage the land use rights of the land parcel as mentioned in note 1 to local and foreign persons or legal entities without paying any extra land grant premium or other payments apart from the legally prescribed taxes;
  - (b) The Group has obtained the relevant Real Estate Title Certificates of the buildings as mentioned in note 2 and thus legally owns the building ownership rights of these buildings. Within the use term as stipulated in the relevant Land Use Rights Certificate, the Group has the rights to transfer, lease, mortgage or bestow those buildings together with the land on which they are erected to local and foreign organizations, companies or natural persons without paying any extra land grant premium or other payments apart from the legally prescribed taxes; and
  - (c) The land and buildings of the property are neither subject to any mortgage or other rights or transfer nor subject to any sequestration or lawsuit and dispute which are unfavourable to the land and the buildings erected thereon.

## VALUATION CERTIFICATE

## Group II – Property interest held for investment by the Group in Thailand

| No. | Property   | Description and tenure  | Particulars of occupancy                                    | Capital value in existing state as at 28 February 2011<br><i>HK\$</i>            |
|-----|--|---|---|--|
| 3.  | A parcel of land, various buildings and structures located at No.189 Chachoengsao-Nakornratchasima Road Lad-Takien Sub-District Kabinburi District Prachinburi Province Thailand | <p>The property comprises a parcel of land with a site area of approximately 64,776 sq.m. and 5 buildings and various ancillary structures erected thereon completed in various stages from mid-1990s to 2000.</p> <p>The buildings have a total floor area of approximately 9,617.5 sq.m.</p> <p>The buildings comprise a store/office building, a manufacturing building, a warehouse, a staff dormitory and a canteen.</p> <p>The structures mainly include basketball court, water storage tank, water treatment well and fence walls, etc.</p> | The property is currently vacant and unoccupied since 2001. | <p>25,887,000</p> <p>100% interest attributable to the Group:<br/>25,887,000</p> |

*Notes:*

1. The registered owner of the property is Lee & Man Handbag (Thailand) Company Limited (“LM Handbag Thailand”), a wholly-owned subsidiary of the Company.
2. The property is held under Land Title Deed No. 4623 in the Kabinburi District of Prachinburi Province, Thailand.
3. We have been provided with a legal opinion regarding the property interest by the Company’s Thailand legal advisers, which contains, inter alia, the following:
  - (a) LM Handbag Thailand is the lawful owner of the land under Land Title Deed No. 4623 in the Kabinburi District of Prachinburi Province, Thailand;
  - (b) LM Handbag Thailand’s ownership of the land is not subject to mortgage or other lien and is fully unencumbered subject to the qualification under note (c) below; and
  - (c) Under Thai law a majority foreign-owned company normally is not permitted to own land in Thailand. The Board of Investment of Thailand (“BOI”) may grant a majority foreign-owned company special permission to own land on which to operate a factory for a BOI-promoted project. The land and factory is supposed to be sold within one year of termination of the BOI-promoted activities. If the owner fails to sell the land within one year there is no sanction against the owner, but the Land Office becomes empowered to sell the property on the owner’s behalf. Unless LM Handbag Thailand receives a notice or directions from the Land Office for forced sale of the property, the property is freely transferable in the market. In practice, however, the Land Office rarely does so. According to LM Handbag Thailand, it has not

received such notice or directions from the Land Office until the date hereof. Normally the owner of the land continues holding the land beyond the one year period until a buyer at a suitable price can be located. There is no stated maximum time beyond which the owner can own the property. There is no legal consequence for failure to sell the property or keeping the property other than the empowerment of the Land Office to sell the property after the initial one year period has expired.

Since LM Handbag Thailand suspended the operation of the factory in 2001 it is no longer conducting its BOI-promoted activities. Therefore LM Handbag Thailand is most likely under a continuing obligation to sell the property to a buyer at a suitable price. We understand that the Company has contacted agents with the intent to sell the property.

## VALUATION CERTIFICATE

## Group III – Property interests leased and occupied by the Group in Hong Kong

| No. | Property   | Description and tenure   | Particulars of occupancy   | Capital value in existing state as at 28 February 2011<br>HK\$ |
|-----|--|--|--|--|
| 4.  | Portion of 5/F and the whole of 8/F Liven House Nos. 61-63 King Yip Street Kwun Tong Kowloon Hong Kong | <p>The property comprises portion of 5th floor and the whole of 8th floor of a 12-storey industrial building completed in 1978.</p> <p>The property has a total leased floor area of approximately 16,198 sq.ft.</p> <p>Pursuant to a Tenancy Agreement dated 18 May 2011, the property was leased to Lee &amp; Man Management Company Limited, a wholly-owned subsidiary of the Company, from Lee &amp; Man Realty Investment Limited, a connected party, for a term of 3 years commencing from 1 January 2011 and expiring on 31 December 2013 at a monthly rent of HK\$129,584 exclusive of rates, management fee and other outgoings, and with a tenant's option to renew the tenancy for a further term of 3 years at the then market rent.</p> | The property is currently occupied by the Group for industrial, warehouse and ancillary office purposes. | No commercial value  |

*Note:*

1. The registered owner of 5/F of the property is Lee & Man Paper Manufacturing Company Limited vide Memorial No. UB8346776 dated 28 February 2001. As advised by the Group, the beneficial owner of 5/F of the property is Lee & Man Realty Investment Limited, a connected party of the Company.
2. The registered owner of 8/F of the property is Lee & Man Magnetic Tapes (USA) Limited (the former name of Lee & Man Realty Investment Limited as advised by the Group), a connected party of the Company vide Memorial No. UB4282814 dated 25 November 1989.

## VALUATION CERTIFICATE

| No. | Property   | Description and tenure  | Particulars of occupancy   | Capital value in existing state as at 28 February 2011<br>HK\$ |
|-----|--|---|--|--|
| 5.  | Flat C on 12/F<br>Block 18<br>No.5 Laguna Street<br>Laguna City<br>Kwun Tong<br>Kowloon<br>Hong Kong | <p>The property comprises a residential unit on 12th floor of a 26-storey residential building completed in 1993.</p> <p>The property has a gross floor area of approximately 639 sq.ft.</p> <p>Pursuant to a Tenancy Agreement dated 23 February 2011, the property was leased to Lee &amp; Man Company Limited, a wholly-owned subsidiary of the Company, from an independent third party for a term of 2 years commencing from 1 March 2011 and expiring on 28 February 2013 at a monthly rent of HK\$11,000 inclusive of rates, Government rent and management fee but exclusive of water, electricity and gas charges.</p> | The property is currently occupied by the Group for residential purpose. | No commercial value  |

*Note:*

1. The registered owner of the property is Au Yeung Fu vide Memorial No. 10080300470155 dated 7 July 2010.

Set out below is a summary of certain provisions of the memorandum of association and the Articles of our Company and of certain aspects of Cayman Islands company law.

## 1. MEMORANDUM OF ASSOCIATION

The memorandum of association provides that our Company's objects are unrestricted. The objects of our Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the section headed "Documents available for inspection" specified in Appendix VI to this document. As an exempted company, our Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of our Company carried on outside the Cayman Islands.

## 2. ARTICLES OF ASSOCIATION

The Articles were adopted on 18 May 2011. The following is a summary of certain provisions of the Articles.

### (a) Directors

#### (i) *Power to allot and issue shares*

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as our Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as our Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of our Company or at the option of the holder. Where our Company purchases for redemption a redeemable share, purchases not made through the market by tender shall be limited to a maximum price as may from time to time be determined by our Company in general meeting, either generally or with regard to the specific purchases. If purchases are by tender, tenders shall be available to all members alike. No shares shall be issued to bearer. Our Directors may issue warrants or convertible securities or securities of similar nature conferring the right to subscribe for any class of shares or securities of our Company on such terms as they may from time to time determine.

All unissued shares in our Company shall be at the disposal of our Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

*(ii) Power to dispose of the assets of our Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of our Company or any of its subsidiaries although our Directors may exercise all powers and do all acts and things which may be exercised or done or approved by our Company and which are not required by the Articles or relevant statutes of the Cayman Islands to be exercised or done by our Company in general meeting.

*(iii) Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which our Director is contractually entitled) must be approved by our Company in general meeting.

*(iv) Loans and the giving of security for loans to Directors*

Where our Shares remain listed on the Stock Exchange or on a stock exchange in such other territory as our Directors may from time to time decide, our Company may not make, without the approval of, or ratification by, our Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred for any business of our Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80 per cent. of the fair market value of such residence nor 5 per cent. of the consolidated net asset value of our Company as shown in its latest audited accounts; provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence; or, (iii) of any amount to, or in respect of a liability of, a company in which our Company has an equity interest, and the amount of such loan, or the liability assumed by our Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

*(v) Financial assistance to purchase shares of our Company or its holdings company*

There are no provisions in the Articles relating to the giving by our Company of financial assistance for the purchase, subscription or other acquisition of shares of our Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

(vi) *Disclosure of interests in contracts with our Company or any of its subsidiaries*

A Director may hold any other office or place of profit with our Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as our Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as our Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by our Company or any other company in which our Company may be interested, and shall not be liable to account to our Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. Our Directors may also cause the voting power conferred by the shares in any other company held or owned by our Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing our Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of our Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with our Company or any other company in which our Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with our Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to our Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with our Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of our Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of our Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of our Directors approving any contract or arrangement in which he or any of his associate(s) is to

his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to our Director or his associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him for the benefit of our Company;
- (bb) any contract or arrangement for the giving by our Company of any security to a third party in respect of a debt or obligation of our Company or any company in which our Company has an interest for which our Director or his associate(s) has himself/themselves guaranteed or secured in whole or in part;
- (cc) any contract or arrangement by a Director or his associate(s) to subscribe for shares or debentures or other securities of our Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide our Director and his associate(s) any privilege not accorded to any other members or debenture or other securities holders or to the public;
- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by our Company for subscription or purchase where our Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;
- (ee) any contract or arrangement in which our Director or his associate(s) is/are interested by virtue only of his/their interest in shares or debentures or other securities of our Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
- (ff) any contract or arrangement concerning any company in which he or his associate(s) is/are interested directly or indirectly whether as an officer or an executive or a member, other than a company in which our Director or his associates owns five per cent. or more of the voting equity capital or voting rights of any class of shares of such company (or of any third company through which his interest is derived), excluding shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights, and excluding shares held directly or indirectly through our Company;

- (gg) any proposal or arrangement for the benefit of employees of our Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director, his associate(s) and employees of our Company or of any of its subsidiaries may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates to Directors, associate(s) of Directors and employees of our Company or any of its subsidiaries and does not give our Director or his associate(s) any privilege not accorded to the relevant class of officers of which our Director is a member and to whom such scheme or fund relates;
- (hh) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by our Company to, or for the benefit of, the employees of our Company or its subsidiaries under which our Director or his associate(s) may benefit; and
- (ii) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his associate(s), officer or employee pursuant to the Articles.

*(vii) Remuneration*

Our Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by our Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst our Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or office in our Company except in the case of sums paid in respect of Directors' fees. Our Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of our Company or in the discharge of their duties as Directors.

Our Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of our Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be

arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of our Company may be fixed from time to time by our Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as our Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

Our Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of our Company, or of any company which is a subsidiary of our Company, or is allied or associated with our Company or with any such subsidiary company, or who are or were at any time directors or officers of our Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in our Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of or upon at any time after his actual retirement.

*(viii) Retirement, appointment and removal*

At each annual general meeting, one-third of our Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years, the chairman of the Board and/or the managing director of our Company shall not, whilst holding such office, be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. Our Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

Our Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by an ordinary resolution of our Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and our Company). Subject to the statutes and the provisions of the Articles, our Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, our Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of our Company and shall then be eligible for re-election at the meeting.

Our Directors may from time to time entrust to and confer upon the chairman, deputy chairman, managing director, joint managing director, deputy managing director or executive director of our Company all or any of the powers of our Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as our Directors may from time to time make and impose. Our Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by our Directors.

*(ix) Borrowing powers*

Our Directors may from time to time at their discretion exercise all the powers of our Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of our Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. Our Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of our Company, whether outright or as collateral security for any debt, liability or obligation of our Company or of any third party.

*Note:* The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of our Company.

*(x) Qualification shares*

Directors of our Company are not required under the Articles to hold any qualification shares.

*(xi) Indemnity to Directors*

The Articles contain provisions that provide indemnity to, among other persons, our Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

**(b) Alterations to constitutive documents**

The memorandum of association of our Company may be altered by our Company in general meeting. The Articles may also be amended by our Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles and to change the name of our Company.

**(c) Alterations of capital**

Our Company may from time to time by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, our Company may issue certificates in respect of fractions of shares or such fractions may be sold by some person appointed by our Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to our Company for our Company's benefit; such purchaser will not be bound to see the application of the purchase money nor will his title to the shares be affected by any irregularity or invalidity in the proceedings relating to the sale;

- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions; or such restrictions which in the absence of such determination by our Company in general meeting, our Directors may determine provided always that where our Company issues shares which do not carry voting rights, the word “non-voting” shall appear in the designation of such shares and where the equity capital includes shares with different voting rights, the designation of each class of shares, other than those with the most favourable voting rights, must include the words “restricted voting” or “limited voting”;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;
- (v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as our Company has power to attach to unissued or new shares;
- (vi) change the currency of denomination of its share capital; and
- (vii) make provision for the issue and allotment of shares which do not carry any voting rights.

Our Company may by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law. Our Company may apply its share premium account in any manner permitted by law.

**(d) Variation of rights of existing shares or classes of shares**

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

**(e) Special resolutions – majority required**

For so long as any part of the issued capital of our Company remains listed on the Stock Exchange, a special resolution of our Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives, or by proxy, at a general meeting of which notice of not less than 21 clear days' and not less than ten (10) clear business days, specifying the intention to propose the resolution as a special resolution, has been duly given. However, at all times while any part of the issued capital of our Company remains listed on the Stock Exchange, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right, (or, in the case of an annual general meeting, by all members) a resolution may be proposed and passed as a special resolution at a meeting of which notice of not less than 21 clear days' and not less than ten (10) clear business days has been given.

**(f) Voting rights**

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). So long as the shares are listed on the Stock Exchange, where any member is, under the Listing Rules (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of our Company or at any meeting of any class of shareholders provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be deemed to have been duly authorised without further evidence of the

facts and shall be entitled to exercise the same rights and powers as if such person was the registered holder of our Shares held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorisation.

**(g) Requirements for annual general meetings**

For so long as any part of the issued capital of our Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year other than the year of our Company's incorporation and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of our Company are listed with the permission of our Company.

**(h) Accounts and audit**

Our Directors shall cause true accounts to be kept of the sums of money received and expended by our Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of our Company and of all other matters required by law or are necessary to give a true and fair view of the state of our Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal office of our Company or at such other place as our Directors think fit and shall always be open to the inspection of our Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of our Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by our Directors or by our Company in general meeting.

Our Directors shall from time to time cause to be prepared and laid before our Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in our Company are listed on the Stock Exchange, the accounts of our Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Financial Reporting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of our Company shall be signed on behalf of our Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before our Company at its annual general meeting, together with a copy of our Directors' report and a copy of the auditor's report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, our Company and every other person entitled to receive notices of general meetings of our Company under the Companies Law or of the Articles. Subject to due compliance with the Companies Law and the rules of the Stock Exchange, and to obtaining all necessary consents, if any, required thereunder and such consents being in full force and effect, such requirements shall be deemed satisfied in relation to any person by sending to the person in any manner not

prohibited by the Companies Law and instead of such copies, a summary financial statement derived from our Company's annual financial statements and the directors' report thereon, which shall be in the form and containing the information required by applicable laws and regulation, provided that any person who is otherwise entitled to the annual financial statements of our Company and the directors' report thereon may, if he so requires by notice in writing served on our Company, demand that our Company sends to him, in addition to a summary financial statement, a complete printed copy of our Company's annual financial statement and the directors' report thereon. If all or any of the shares or debentures of our Company are for the time being (with the consent of our Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

Auditor shall be appointed and their duties regulated in accordance with the Articles. Save as otherwise provided by such provisions the remuneration of the auditor shall be fixed by or on the authority of our Company at each annual general meeting, but in respect of any particular year, our Company in general meeting may delegate the fixing of such remuneration to our Directors.

**(i) Notices of meetings and business to be conducted thereat**

For so long as any part of the issued capital of our Company remains listed on the Stock Exchange, an annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings may be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice shall specify the place, the day and the hour of meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of that business.

**(j) Transfer of shares**

All transfers of shares must be effected by transfer in writing in the usual or common form or so long as any shares in our Company are listed on the Stock Exchange, such standard form prescribed by the Stock Exchange or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as our Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that our Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

Our Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless our Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

Our Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which our Company has a lien. Our Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If our Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with our Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

Our Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as our Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

**(k) Power for our Company to purchase its own shares**

The Articles provide that the power of our Company to purchase or otherwise acquire its shares is exercisable by our Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law, our Company's memorandum and articles of association, and where applicable, the rules of any stock exchange on which our Company's shares are listed and/or any competent regulatory authority.

**(l) Power of any subsidiary to own securities in our Company**

There are no provisions in the Articles relating to ownership of securities in our Company by a subsidiary.

**(m) Dividends and other methods of distribution**

Our Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by our Directors. Our Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. Our Directors may retain any dividends or other moneys payable on or in respect of a share upon which our Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. Our Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to our Company on account of calls, instalments or otherwise.

Whenever our Directors or our Company in general meeting have resolved that a dividend be paid or declared on the share capital of our Company, our Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as our Directors may think fit.

Our Company may also upon the recommendation of our Directors by an ordinary resolution resolve in respect of any particular dividend of our Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever our Directors or our Company in general meeting have resolved that a dividend be paid or declared our Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared may be invested or otherwise made use of by our Directors for the benefit of our Company until claimed and our Company shall not be constituted a trustee in respect thereof. All

dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by our Directors and, upon such forfeiture, shall revert to our Company and, in the case where any of the same are securities in our Company, may be re-allotted or re-issued for such consideration as our Directors think fit.

**(n) Proxies**

Any member of our Company entitled to attend and vote at a meeting of our Company or a meeting of the holders of any class of shares in our Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of our Company or at a class meeting. At any general meeting, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of our Company.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

**(o) Corporate representatives**

A corporate member of our Company entitled to attend and vote at a meeting of our Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

**(p) Calls on shares and forfeiture of shares**

Our Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20 per cent. per annum as our Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but our Directors may waive payment of such interest wholly or in part. Our Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon

any shares held by him, and in respect of all or any of the monies so advanced our Company may pay interest at such rate (if any) not exceeding 20 per cent. per annum as our Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, our Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of our Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to our Company all moneys which, at the date of forfeiture, were payable by him to our Company in respect of the shares together with (if our Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20 per cent. per annum as the Board may prescribe.

**(q) Inspection of register of members**

For so long as any part of the share capital is listed on the Stock Exchange, any member may inspect the principal or branch register of our Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respect as if our Company were incorporated under and is subject to the Companies Ordinance (Cap. 32) of the laws of Hong Kong.

**(r) Inspection of register of Directors**

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of our Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

**(s) Quorum for meetings and separate class meetings**

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a

separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding (or, in the case of a shareholder being a corporation, by its duly authorised representative) or representing by proxy not less than one-third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

**(t) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of our Company under Cayman Islands company law as summarised in paragraph 4(e) below.

**(u) Procedures on liquidation**

A resolution for a court or voluntary winding up of our Company must be passed by way of a special resolution.

If our Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If our Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of our Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

**(v) Untraceable members**

Our Company may sell the shares of any member if: (i) dividends or other distributions have been declared by our Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) our Company has published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of our Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) our Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) our Company has notified the stock exchange on which the ordinary share capital of our Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to our Company and upon the receipt of such net proceeds by our Company, our Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

**(w) Stock**

Our Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but our Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of our Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” and “member” therein shall include “stock” and “stockholder”.

**(x) Other provisions**

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which our Company may issue after the date of this document shall remain exercisable and our Company does any act which would result in the subscription price under such

warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

### **3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION**

Subject to the rights of our Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the memorandum of association of our Company may be altered by our Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of our Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of our Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than 21 clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of not less than 21 clear days' notice and not less than ten (10) clear business days notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95 per cent. in nominal value of the shares giving that right.

**4. CAYMAN ISLANDS COMPANY LAW**

Our Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

**(a) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

- (i) in paying distributions or dividends to members;
- (ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (iii) in redeeming or purchasing its shares as provided in the Companies Law; and
- (iv) in writing off (aa) the preliminary expenses of the company; or  
(bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

**(b) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are

restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

**(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries**

A company may, if authorised by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares. Purchases and redemptions may be effected out of the profits of the company, out of the share premium account or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of either or both of the profits of the company or the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the Company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

**(d) Dividends and distributions**

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

**(e) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

**(f) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(g) Accounting and auditing requirements**

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(h) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(i) Taxation**

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, our Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, our Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Caymans Islands or elsewhere and that dividends of our Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

**(j) Stamp duty**

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

**(k) Inspection of corporate records**

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

**(I) Winding up**

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles of association expires, or the event occurs on the occurrence of which the memorandum or articles of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

**FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES****1. Incorporation of our Company**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law on 4 January 2011 with an authorised share capital of HK\$100,000 divided into 1,000,000 Shares, of which one Share was allotted and issued nil-paid by our Company to Codan Trust Company (Cayman) Limited on 4 January 2011. The said one nil-paid Share was transferred to LM on the same day. On 4 January 2011, a further 99,999 nil-paid Shares were allotted and issued by our Company to LM. The 100,000 nil-paid Shares were subsequently paid up in the manner described in paragraph 4 below.

On 22 March 2011, the name of our Company changed from Heng Sing Holdings Limited (恆勝控股有限公司) to Lee & Man Handbags Holding Limited (理文手袋集團有限公司), which is our current company name.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant laws and regulations of the Cayman Islands and our constitution which comprises a memorandum of association and the Articles. A summary of the relevant laws and regulations of the Cayman Islands and of our Company's constitution is set out in Appendix IV to this document.

**2. Changes in share capital of our Company***(a) Increase in authorised share capital*

The authorised share capital of our Company was increased from HK\$100,000 to HK\$500,000,000 by the creation of 4,999,000,000 new Shares pursuant to a resolution passed by our sole Shareholder referred to in paragraph 3 below.

As at the Latest Practicable Date, our authorised share capital was HK\$500,000,000 divided into 5,000,000,000 Shares, of which 825,000,000 Shares were issued fully paid or credited as fully paid, and 4,175,000,000 Shares remained unissued. Other than pursuant to the exercise of the options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of our Company and, without the prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this paragraph and in the paragraphs headed "Incorporation of our Company", "Resolutions in writing of our sole Shareholder passed on 18 May 2011" and "Group reorganisation" of this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

*(b) Founder shares*

Our Company has no founder shares, management shares or deferred shares.

**3. Resolutions in writing of our sole Shareholder passed on 18 May 2011**

By resolutions in writing of our sole Shareholder passed on 18 May 2011:

- (a) we approved and adopted the Articles;
- (b) the authorised share capital of our Company was increased from HK\$100,000 to HK\$500,000,000 by the creation of 4,999,000,000 new Shares;
- (c) conditional on (aa) the Listing Committee granting listing of, and permission to deal in, our Shares in issue and any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme, on the Main Board; (bb) the LM Shareholders approving, among others, the Spin-off and the adoption of the Share Option Scheme at the EGM:
  - (i) the Introduction was approved and our Directors were authorised to (aa) implement the Introduction; and (bb) do all things and execute all documents in connection with or incidental to the Introduction with such amendments or modifications (if any) as our Directors may consider necessary or appropriate;
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the paragraph headed “Share Option Scheme” of this Appendix, were approved and adopted and our Directors were authorised to approve any amendments to the rules of the Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options which may be granted under the Share Option Scheme and to take all such steps as may be necessary, desirable or expedient to carry into effect the Share Option Scheme;
  - (iii) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the Articles, or upon the exercise of any options which may be granted under the Share Option Scheme, Shares with an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Introduction; and (bb) the nominal amount of the share capital of our Company which may be purchased by our Company pursuant to the authority granted to our Directors as referred to in sub-paragraph (v) below, until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to our Directors, whichever occurs first;

- (iv) a general unconditional mandate (the “**Repurchase Mandate**”) was given to our Directors to exercise all powers of our Company to purchase Shares on the Stock Exchange or other stock exchange on which the securities of our Company may be listed and recognised by the SFC and the Stock Exchange for this purpose, with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Introduction; until the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or any applicable law to be held, or the passing of an ordinary resolution by Shareholders revoking or varying the authority given to our Directors, whichever occurs first; and
- (v) the extension of the general mandate to allot, issue and deal with Shares pursuant to paragraph (iii) above to include the nominal amount of Shares which may be purchased or repurchased pursuant to paragraph (iv) above; and
- (d) the form and substance of each of the service agreements made between our executive Directors and our Company, and the form and substance of each of the appointment letters made between each of our independent non-executive Directors with our Company were approved.

#### 4. Group reorganisation

The companies comprising our Group underwent a reorganisation to rationalise our Group’s structure in preparation for the Listing, which involved the following:

- (a) On 26 October 2010, Full Gold was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, of which 55 shares and 45 shares were subscribed at par by each of Mr. Lee Wan Keung and Mr. Lee Man Yan respectively.
- (b) On 18 May 2011, the authorised share capital of our Company was increased from HK\$100,000 to HK\$500,000,000 by the creation of an additional 4,999,000,000 Shares.
- (c) On 18 May 2011, LM transferred the entire issued share capital of LM Development to our Company in consideration and in exchange for which:
  - (i) an aggregate number of 824,900,000 Shares were allotted and issued, credited as fully paid, to LM; and
  - (ii) the 100,000 nil-paid Shares which were registered in the name of LM were credited as fully paid at par.

**5. Changes in share capital of our subsidiaries**

Our subsidiaries are listed in the Accountants' Report set out in Appendix I to this document.

Save for the alterations described in paragraph 4 above, the following alterations in the share capital of our subsidiaries took place within the two years immediately preceding the date of this document:

- (a) Lee Wai Handbag Manufacturing Company Limited was incorporated in Hong Kong on 23 March 2009. It has an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which one share was issued to LM Development on the same day; and
- (b) Dongguan Lee Wai was established in the PRC on 25 September 2009 with a registered capital of HK\$6,000,000 and a total investment of HK\$8,000,000.

**6. Further information about our Group's PRC establishment**

Our Group has interest in the registered capital of a wholly foreign-owned enterprise in the PRC. A summary of the corporate information of this enterprise are set out as follows:

*Dongguan Lee Wai*

- (i) Name of the enterprise: 東莞利偉手袋有限公司  
(Dongguan Lee Wai Handbag Company Limited\*)
- (ii) Economic nature: Wholly foreign-owned enterprise
- (iii) Registered owner: Lee Wai Handbag Manufacturing Company Limited
- (iv) Total investment: HK\$8,000,000
- (v) Registered capital: HK\$6,000,000
- (vi) Attributable interest to our Group: 100%
- (vii) Term of operation: From 25 September 2009 to 25 September 2029
- (viii) Scope of business: production and sales of all kinds of handbags, wallets, briefcases, backpacks, luggage belts and accessories

## 7. Repurchase by our Company of our own securities

This paragraph includes information required by the Stock Exchange to be included in this document concerning the repurchase by us of our own securities.

### *(a) Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*Note:* Pursuant to a resolution in writing passed by our sole Shareholder on 18 May 2011, the Repurchase Mandate was given to our Directors authorising any repurchase by our Company of Shares on the Stock Exchange or any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Introduction but excluding any Shares which may be issued pursuant to the exercise of options under the Share Option Scheme, such mandate to expire at the conclusion of the next annual general meeting of our Company, or the date by which the next annual general meeting of our Company is required by the Articles or applicable Cayman Islands law to be held, or the passing of an ordinary resolution by Shareholders in general meeting revoking or varying the authority given to our Directors, whichever occurs first.

### *(b) Source of funds*

Repurchases must be paid out of funds legally available for the purpose in accordance with the Articles and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Under the Cayman Islands laws, any repurchases by us may be made out of our profits, our share premium account or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase or, if so authorised by the Articles and subject to the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of our Shares to be repurchased must be provided for out of either or both of our profits or from our share premium account or, if authorised by the Articles and subject to the Companies Law, out of capital.

### *(c) Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from our Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if our Directors believe that such repurchases will benefit our Company and our Shareholders.

*(d) Funding of repurchases*

In repurchasing securities, we may only apply funds legally available for such purpose in accordance with the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of our Group as disclosed in this document and taking into account our current working capital position, our Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of our Group as compared with the position disclosed in this document. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Group or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Group.

*(e) General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to our Company or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a Shareholder's proportionate interest in the voting rights of our Company is increased, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the Listing Rules).

No connected person of our Company has notified us that he/she/it has a present intention to sell Shares to our Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

## 8. Registration under Part XI of the Companies Ordinance

Our Company has established our head office and a principal place of business in Hong Kong for the purpose of registration under Part XI of the Companies Ordinance at 8th Floor, Liven House, 61-63 King Yip Street, Kwun Tong, Kowloon, Hong Kong. Our Company has been registered as an oversea company under Part XI of the Companies Ordinance. Ms. Wai Siu Kee, our chairman, chief executive officer and executive Director, and Ms. Wong Yuet Ming, our company secretary, have been appointed as the agents of our Company for the acceptance of service of process in Hong Kong.

## FURTHER INFORMATION ABOUT THE BUSINESS OF OUR COMPANY

### 9. Summary of material contract






The following contract (not being contract entered into in the ordinary course of business) had been entered into by the members of our Group within the two years preceding the date of this document and is or may be material:


- a share purchase agreement dated 18 May 2011 and entered into by our Company as purchaser and LM as vendor, pursuant to which our Company acquired the entire issued share capital of LM Development in consideration of and in exchange for which (i) an aggregate number of 824,900,000 Shares were allotted and issued, credited as fully paid, to LM; and (ii) the 100,000 nil-paid Shares which were registered in the name of LM were credited as fully paid at par.

### 10. Intellectual property rights of our Group

#### *Trademarks*

As at the Latest Practicable Date, our Group had the right to use the following trademarks:

| No. | Trademark   | Registered owner | Place of registration | Class          | Registration number | Duration of validity                      |
|-----|---|------------------|-----------------------|----------------|---------------------|---|
| 1.  |  | LM Company       | Hong Kong             | 18<br>(Note 1) | 199903851           | 20 March 1997 to<br>20 March 2014         |
| 2.  |  | LM Company       | France                | 18<br>(Note 1) | 1624252             | 30 October 1990 to<br>29 October 2020     |
| 3.  |  | LM Company       | France                | 18<br>(Note 1) | 1624253             | 30 October 1990 to<br>29 October 2020     |
| 4.  |  | LM Company       | Germany               | 18<br>(Note 1) | 1182021             | 18 September 1990 to<br>30 September 2020 |
| 5.  |  | LM Company       | Germany               | 18<br>(Note 1) | 1182022             | 18 September 1990 to<br>30 September 2020 |

| No. | Trademark   | Registered owner | Place of registration | Class          | Registration number | Duration of validity                  |
|-----|---|------------------|-----------------------|----------------|---------------------|---------------------------------------|
| 6.  |  | LM Company       | Japan                 | 18<br>(Note 1) | 4409068             | 25 December 1998 to<br>18 August 2020 |

*Note:*

- The specific goods under class 18 in respect of which these trademarks were applied for registration are leather and imitations of leather, and goods made of these materials and not included in other classes; animal skins, hides, trunks and travelling bags; umbrellas, parasols and walking sticks; whips; harness and saddler.

*Domain names*

As at the Latest Practicable Date, our Group had registered the following domain names:

| No. | Domain name        | Registrant                            | Registration date | Expiry date       |
|-----|--------------------|---------------------------------------|-------------------|-------------------|
| 1.  | leeman.com.hk      | LM Company                            | 18 December 1997  | Nil               |
| 2.  | leeman.hk          | LM Company                            | 21 May 2008       | 21 May 2013       |
| 3.  | catinibags.com.hk  | Catini Bags<br>(Hong Kong)<br>Limited | 23 September 2002 | 25 September 2011 |
| 4.  | leemanhandbags.com | LM Company                            | 13 May 2011       | 13 May 2012       |

**11. Connected transactions and related party transactions**

Save as disclosed in the section headed “Continuing connected transactions” of this document and in note 32 to the Accountants’ Report, the text of which is set out in Appendix I to this document, during the two years immediately preceding the date of this document, we have not engaged in any other material connected transactions or related party transactions.

## FURTHER INFORMATION ABOUT DIRECTORS AND SHAREHOLDERS

## 12. Directors

*(a) Disclosure of interests of Directors*

- (i) Ms. Wai Siu Kee is an executive director of LM, while Mr. Heng Victor Ja Wei is an independent non-executive director of LM.
- (ii) Save as disclosed in this document, none of our Directors or their associates was engaged in any dealings with our Group during the two years preceding the date of this document.

*(b) Particulars of Directors' service contracts**Executive Directors*

Each of our executive Directors has entered into a service contract with our Company pursuant to which they agreed to act as executive Directors for an initial term of three years with effect from 18 May 2011. The term of service shall be renewed and extended automatically by one year on the expiry of such initial term and on the expiry of every successive period of one year thereafter, unless either party has given at least three months' written notice of non-renewal before the expiry of the then existing term.

Each of our executive Directors is entitled to a basic salary as set out below. In addition, each of the executive Directors is also entitled to a discretionary management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of our Company may not exceed 10% of the audited combined or consolidated audited net profit of our Group (after taxation and minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of our Company. An executive Director may not vote on any resolution of our Directors regarding the amount of the management bonus payable to him/her. The current basic annual salaries of our executive Directors are as follows:

| <b>Name</b>       | <b>Annual salary<br/>(HK\$)</b> |
|-------------------|---------------------------------|
| Ms. Wai Siu Kee   | 1,170,000                       |
| Mr. Kung Phong    | 540,000                         |
| Ms. Lee Man Ching | 384,000                         |
| Ms. Poon Lai Ming | 360,000                         |

*Independent non-executive Directors*

Each of our independent non-executive Directors has been appointed for an initial term of one year commencing from 18 May 2011, unless terminated by not less than three months' notice in writing served by our independent non-executive Director or our Company expiring at the end of the initial term. Each of our independent non-executive Directors is entitled to a director's fee of HK\$120,000 per annum. Save for directors' fees, none of our independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as disclosed aforesaid, none of our Directors has or is proposed to have a service contract with our Company or any of our subsidiaries other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

**(c) *Remuneration of Directors***

- (i) The aggregate emoluments paid and benefits in kind granted by our Group to our Directors in respect of the financial year ended 31 December 2010 was approximately HK\$2.7 million.
- (ii) Under the arrangements currently in force, the aggregate emoluments (excluding discretionary bonus) payable by our Group to and benefits in kind receivable by our Directors (including our independent non-executive Directors) for the year ending 31 December 2011, are expected to be approximately HK\$2.8 million.
- (iii) None of our Directors or any past directors of any member of our Group has been paid any sum of money for each of the three years ended 31 December 2010 as (i) an inducement to join or upon joining our Company; or (ii) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group.
- (iv) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the three years ended 31 December 2010.

**(d) *Interests and short positions of our Directors in our Shares, underlying Shares or debentures of our Company and our associated corporations following the Introduction***

Immediately following completion of the Introduction and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme, there are no interests or short positions of our Directors in our Shares, underlying Shares or debentures of our Company and our associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and

the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to notify our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

### 13. Interest discloseable under the SFO and substantial shareholders

So far as our Directors are aware, immediately following completion of the Introduction, the following persons will have an interest or short position in our Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and who will be expected, directly or indirectly, to be interested in 10% or more of our Shares:

| Name of Shareholder    | Capacity/nature of interest        | Number and class of securities<br>(Note 1) | Percentage of shareholding |
|------------------------|------------------------------------|--|----------------------------|
| Full Gold              | Beneficial owner                   | 618,750,000 Shares (L)                     | 75%                        |
| Mr. Lee Wan Keung      | Interest of controlled corporation | 618,750,000 Shares (L)<br>(Note 2)         | 75%                        |
| Mrs. Lee Wong Wai Kuen | Interest of spouse                 | 618,750,000 Shares (L)<br>(Note 3)         | 75%                        |
| Mr. Lee Man Yan        | Interest of controlled corporation | 618,750,000 Shares (L)<br>(Note 2)         | 75%                        |

*Notes:*

1. The letter "L" denotes the corporation/individual's long position in our Shares.
2. These Shares were held by Full Gold, which was owned as to 55% by Mr. Lee Wan Keung and 45% by Mr. Lee Man Yan.
3. Mrs. Lee Wong Wai Kuen is the spouse of Mr. Lee Wan Keung.

### 14. Disclaimers

Save as disclosed in this document:

- (a) our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following the completion of the Introduction, have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any other member of our Group;

- (b) none of our Directors has any interest or short position in any of the shares, underlying shares or debentures of our Company or any associated corporations within the meaning of Part XV of the SFO, which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any of them is deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, in each case once our Shares are listed;
- (c) none of our Directors nor any of the parties listed in the paragraph 21 has been interested in the promotion of, or has any direct or indirect interest in any assets which have been, within the two years immediately preceding the date of this document, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any other member of our Group nor will any Director apply for our Shares either in his/her own name or in the name of a nominee;
- (d) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this document which is significant in relation to business of our Group; and
- (e) none of the parties listed in paragraph 21 below:
  - (i) is interested legally or beneficially in any securities of any member of our Group; or
  - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group.

## OTHER INFORMATION

### 15. Share Option Scheme

#### (a) Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by our sole Shareholder on 18 May 2011:

##### (i) *Purposes of the scheme*

The purpose of the Share Option Scheme is to enable us to grant options to selected participants as incentives or rewards for their contribution to us.

Our Directors consider the Share Option Scheme, with its broadened basis of participation, will enable us to reward the employees, our Directors and other selected participants for their contributions to us. Given that our Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by our Directors, it is expected that grantees of an option will make an effort to contribute to our development so as to bring about an increased market price of our Shares in order to capitalise on the benefits of the options granted.

(ii) *Who may join*

Our Directors (which expression shall, for the purpose of this paragraph 15, include a duly authorised committee thereof) may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (aa) any employee (the “**Eligible Employee**”) (whether full-time or part-time including any executive director but excluding any non-executive director) of our Company, any of our subsidiaries or any entity (the “**Invested Entity**”) in which our Group holds any equity interest;
- (bb) any non-executive directors (including independent non-executive directors) of our Company, any of our subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of our Group or any Invested Entity;
- (dd) any customer of any member of our Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to any member of our Group or any Invested Entity;
- (ff) any shareholder of any member of our Group or any Invested Entity or any holder of any securities issued by any member of our Group or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of our Group or any Invested Entity; and
- (hh) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of our Group,

and, for the purposes of the Share Option Scheme, the offer (the “**Offer**”) for the grant of an option (the “**Option**”) to subscribe for our Shares granted pursuant to the Share Option Scheme may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by our Company for the subscription of Shares or other securities of our Group to any person who fall within any of the above classes of participants shall not, by itself, unless our Directors otherwise determined, be construed as a grant of Option under the Share Option Scheme.

The eligibility of any of the above class of participants to an Offer shall be determined by our Directors from time to time on the basis of our Directors’ option as to his contribution to the development and growth of our Group.

*(iii) Maximum number of Shares*

- (aa) The maximum number of Shares which may be allotted and issued upon the exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other share option scheme adopted by our Group must not exceed 30% of the share capital of our Company in issue from time to time.
- (bb) The total number of Shares which may be allotted and issued upon exercise of all Options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of our Group) to be granted under the Share Option Scheme and any other share option scheme of our Group must not in aggregate exceed 10% of our Shares in issue at the time dealing in our Shares commence on the Stock Exchange (the “**General Scheme Limit**”).
- (cc) Subject to (aa) above but without prejudice to (dd) below, our Company may seek approval of our Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be allotted and issued upon exercise of all Options to be granted under the Share Option Scheme and any other share options scheme of our Group must not exceed 10% of our Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of our Group) previously granted under the Share Option Scheme and any other share option scheme of our Group will not be counted. The circular sent by our Company to our Shareholders shall contain, among other information, the information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(dd) Subject to (aa) above and without prejudice to (cc) above, our Company may seek separate Shareholders' approval in general meeting to grant Options under the Share Option Scheme beyond the General Scheme Limit or, if applicable, the extended limit referred to in (cc) above to participants specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a general description of the specified participants who may be granted such options, the number and terms of options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules.

*(iv) Maximum entitlement of each participant*

The total number of Shares issued and which may fall to be issued upon exercise of the Options and any other share option scheme of our Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of our Company for the time being (the "**Individual Limit**"). Any further grant of Options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to our Shareholders and our Shareholders' approval in general meeting of our Company with such participant and his associates abstaining from voting. In such event, our Company must send a circular to our Shareholders containing with disclosure in the identity of the participants, the number and terms of options to be granted (and options previously granted to such participants), and such other information required under Rule 17.02(2)(d) of the Listing Rules and the disclaimer required under Rule 17.02(4) of the Listing Rules. The number and terms (including the exercise price) of options to be granted to such participant must be fixed before Shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

*(v) Grant of options to connected persons*

- (aa) Any grant of Options to a director, chief executive or substantial shareholder of our Company or any of their respective associates (as defined under the Listing Rules) must be approved by independent non-executive Directors of our Company (excluding any independent non-executive Director who or whose associate is the grantee of the Options).
- (bb) Where any grant of Options to a substantial shareholder of our Company or an independent non-executive Director or any of their respective associates, would result in our Shares issued and to be issued

upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of our Shares in issue; and
- (ii) having an aggregate value, based on the closing price of our Shares at the offer date of each offer made to the participants, in excess of HK\$5 million;

such further grant of Options must be approved by our Shareholders in general meeting. Our Company must send a circular to our Shareholders. All connected persons of our Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of Options granted to a substantial shareholder of our Company or an independent non-executive Director or any of their respective associates must be approved by our Shareholders in general meeting.

*(vi) Time of acceptance and exercise of option*

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period (“**Option Period**”) to be determined and notified by our Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the offer date of the Option subject to the provisions for early termination thereof. Unless otherwise determined by our Directors and stated in the Offer to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

*(vii) Performance targets*

Unless our Directors otherwise determined and stated in the Offer to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercised.

*(viii) Subscription price for Shares and consideration for the option*

The subscription price for any Options under the Share Option Scheme will be a price at the discretion of our Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange’s daily quotations sheet for trade in one or more board lots of our Shares on the date of the Offer, which must be a business day; (ii) the average closing price of Shares

as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the Offer; and (iii) the nominal value of a Share.

An Offer shall have been accepted by a participant with a remittance in favour of our Company of \$1.00 by way of consideration for the grant thereof is received by our Company within such time as may be specified in the Offer (which shall not be later than 21 days from the date of Offer).

*(ix) Ranking of Shares*

(aa) Shares to be allotted and issued upon the exercise of an Option will be subject to all the provisions of the Articles and will rank *pari passu* in all respects with the then existing fully paid Shares in issue on the date on which the Option is duly exercised or, if that date falls on a day when the register of members of our Company is closed, the first day of the re-opening of the register of members (the "**Exercise Date**") and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted and issued upon the exercise of an Option shall not carry voting rights until the grantee has been duly entered on the register of members of our Company as the holder thereof.

(bb) Unless the context otherwise requires, references to "Shares" in this paragraph include references to shares in the ordinary equity share capital of our Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or reduction of the share capital of our Company from time to time.

*(x) Restrictions on the time of grant of options*

No Offer may be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (aa) the date of the Board meeting as such date is first notified to the Stock Exchange under the Listing Rules for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (bb) the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the announcement of the results, no Offer may be made.

Our Directors may not make an Offer to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in Shares pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by our Company.

*(xi) Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme is adopted.

*(xii) Rights on ceasing employment*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than his death, ill-health or retirement in accordance with his contract of employment or termination of his employment on one or more of the grounds referred to in sub-paragraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) shall lapse on the date of cessation or termination and will not be exercisable unless our Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as our Directors may determine following the date of such cessation or termination, which will be taken to be the last day on which the grantee was actually at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not.

*(xiii) Rights on death, ill-health or retirement*

If the grantee of an Option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the Option in full, his personal representative(s), or, as appropriate, the grantee may exercise the Option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation of employment which date shall be the last day on which the grantee was at work with our Group or the Invested Entity whether salary is paid in lieu of notice or not or such longer period as our Directors may determine.

*(xiv) Rights on dismissal*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason termination of his employment on the ground that he has been guilty of persistent or serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of our Directors does not bring the grantee or any member of our Group or the Invested Entity into disrepute), the Option Period shall automatically terminate and his Option will lapse automatically.

*(xv) Rights on breach of contract*

If our Directors shall at their absolute discretion determine that (aa) (1) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and any member of our Group or any Invested Entity on the other part; or (2) that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings or has made any arrangement or composition with his creditors generally; or (3) the grantee could no longer make any contribution to the growth and development of any member of our Group by reason of the cessation of its relations with our Group or by other reason whatsoever; and (bb) the Option shall lapse as a result of (1), (2) or (3) above; the Option Period shall automatically terminate and his Option will lapse automatically.

*(xvi) Rights on a general offer, a compromise or arrangement*

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of our Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, our Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the Options granted to them, Shareholders. If such offer becomes or is declared unconditional or such scheme of arrangement is formally proposed to Shareholders, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to our Company in exercise of his option at any time before the close of such offer (or any revised offer) or the record date for entitlements under such scheme of arrangement, as the case may be. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes or the relevant record date for entitlements under the scheme of arrangement, as the case may be.

*(xvii) Rights on winding up*

In the event of a resolution being proposed for the voluntary winding-up of our Company during the Option Period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to our Company at any time not less than two business days before the date on which such resolution is to be considered and/or passed, exercise his Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and our Company shall allot and issue to the grantee our Shares in respect of which such grantee has exercised his Option not less than one business day before the date on which such resolution is to be considered and/or passed whereupon the grantee shall accordingly be entitled, in respect of our Shares allotted and issued to him in the aforesaid

manner, to participate in the distribution of the assets of our Company available in liquidation *pari passu* with the holders of our Shares in issue on the day prior to the date of such resolution. Subject thereto, all Options then outstanding shall lapse and determine on the commencement of the winding-up of our Company.

*(xviii) Grantee being a company wholly owned by eligible participants*

If the grantee is a company wholly owned by one or more eligible participants:

- (i) sub-paragraphs (xii), (xiii), (xiv) and (xv) shall apply to the grantee and to the Options granted to such grantee, *mutatis mutandis*, as if such Options had been granted to the relevant eligible participant, and such Options shall accordingly lapse or fall to be exercisable after the event(s) referred to in sub-paragraphs (xii), (xiii), (xiv) and (xv) shall occur with respect to the relevant eligible participant; and
- (ii) the Options granted to the grantee shall lapse and determine on the date the grantee ceases to be wholly owned by the relevant eligible participant provided that our Directors may in their absolute discretion decide that such Options or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may impose.

*(xix) Adjustments to the subscription price*

In the event of a capitalisation of profits or reserves, rights issue, subdivision or consolidation of our Shares or reduction of the share capital of our Company whilst an Option remains exercisable, such corresponding alterations (if any) certified by the auditor for the time being or an independent financial adviser to our Company as fair and reasonable will be made to the number or nominal amount of Shares, the Subscription Price of any Option or the number of Shares comprised in an Option or which remains comprised in an Option, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of our Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; (iii) no adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and (iv) any adjustment must be made in compliance with the Listing Rules and such rules, codes and guidance notes and/or interpretation of the Listing Rules from time to time promulgated by the Stock Exchange. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditor or independent financial adviser must confirm to our Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

*(xx) Cancellation of options*

Any cancellation of options granted but not exercised must be subject to the prior written consent of the relevant grantee and the approval of our Directors.

When our Company cancels any option granted to a grantee but not exercised and issues new Option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued Options (excluding the Options so cancelled) within the General Scheme Limit or the new limits approved by our Shareholders pursuant sub-paragraphs (iii) (cc) and (dd) above.

*(xxi) Termination of the Share Option Scheme*

Our Company may by resolution in general meeting at any time terminate the operations of the Share Option Scheme and in such event no further Options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any Options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

*(xxii) Rights are personal to the grantee*

An option is personal to the grantee and shall not be transferable or assignable.

*(xxiii) Lapse of option*

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (aa) the expiry of the Option Period; and
- (bb) the expiry of the periods or dates referred to in paragraph (xii), (xiii), (xiv), (xv), (xvi), (xvii) and (xviii).

*(xxiv) Others*

- (aa) The Share Option Scheme is conditional on the Listing Committee granting the listing of and permission to deal in, such number of Shares to be allotted and issued by our Company pursuant to the exercise of any Options in accordance with the terms and conditions of the Share Option Scheme, such number being not less than that of the General Scheme Limit.

- (bb) The terms and conditions of the Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the options except with the prior sanction of a resolution of our Shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature must be approved by our Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (dd) The amended terms of the Share Option Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (ee) Any change to the authority of our Directors or the scheme administrators in relation to any alteration to the terms of the Share Option Scheme shall be approved by our Shareholders in general meeting.

**(b) Present status of the Share Option Scheme**

*(i) Approval of the Listing Committee and the LM Shareholders required*

The Share Option Scheme is conditional on the Listing Committee granting the listing of, and permission to deal in, such number of Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, such number being not less than that of the General Scheme Limit. The Share Option Scheme is also conditional upon the approval to be obtained at the EGM from the LM Shareholders.

*(ii) Application for approval*

Application has been made to the Listing Committee for the listing of and permission to deal in our Shares to be issued within the General Scheme Limit pursuant to the exercise of any options which may be granted under the Share Option Scheme.

*(iii) Grant of option*

As at the date of this document, no options have been granted or agreed to be granted under the Share Option Scheme.

*(iv) Value of options*

Our Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on

various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. Our Directors believe that any calculation of the value of options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to investors.

**16. Litigation**

No member of our Group is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against our Company, that would have a material adverse effect on our results of operations or financial condition of our Company.

**17. Preliminary expenses**

The preliminary expenses of our Company are estimated to be approximately US\$5,370 and are payable by our Company.

**18. Promoter**

- (a) Our Company does not have any promoter.
- (b) Within the two years preceding the date of this document, no amount or benefit has been paid or given to any promoters of our Company in connection with the Introduction or the related transactions described in this document.

**19. Estimated expenses in relation to the Introduction**

The Sponsor will receive a documentation fee. Such documentation fee and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Introduction, which are estimated to be approximately HK\$15 million, will be payable by our Company.

**20. Sponsor**

The Sponsor has made an application on behalf of our Company to the Listing Committee for listing of, and permission to deal in, our Shares in issue as mentioned in this document.

**21. Qualifications of experts**

The following are the qualifications of the experts who have given opinions or advice which are contained in this document:

| <b>Name</b>                             | <b>Qualification</b>   |
|---|--|
| CIMB Securities (HK) Limited            | Licensed corporation under the SFO to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities |
| Deloitte Touche Tohmatsu                | Certified Public Accountants   |
| Conyers Dill & Pearman                  | Cayman Islands attorneys-at-law  |
| Goldsun Law Firm                        | Qualified PRC lawyers  |
| Bamrung Savicha Apisakdi Law Associates | Thai lawyers   |
| Inderjit K. Sidhu, ESQ. LLC             | U.S. lawyers   |
| Jones Lang LaSalle Sallmanns Limited    | Professional property valuer   |

**22. Consents of experts**

Each of CIMB Securities (HK) Limited, Deloitte Touche Tohmatsu, Conyers Dill & Pearman, Goldsun Law Firm, Bamrung Suvicha Apisakdi Law Associates, Inderjit K. Sidhu, ESQ. LLC and Jones Lang LaSalle Sallmanns Limited has given and has not withdrawn their respective written consents to the issue of this document with the inclusion of their report and/or letter and/or opinion and/or summary of valuations and/or legal opinion (as the case may be) and the references to their names or summaries of opinions included herein in the form and context in which they respectively appear.

**23. Taxation of holders of Shares**

Dealings in Shares registered on our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of our Company, our Directors or the other parties involved in the Introduction can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their purchase, holding or disposal of or dealing in Shares.

Profits from dealings in our Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the value of our Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

#### 24. Miscellaneous

- (a) Save as disclosed in this document:
  - (i) within two years preceding the date of this document:
    - (aa) no share or loan capital of our Company or of any of our subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and
    - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
    - (cc) no commission has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure the subscriptions, for any shares in our Company or any of our subsidiaries;
  - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (b) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since 31 December 2010 (being the date to which the latest audited combined financial statements of our Group were made up);
- (c) our Directors confirm that there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this document; and
- (d) our Directors have been advised that no material liability for estate duty would be likely to fall upon any member of our Group.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of Chiu & Partners at 40/F., Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this document:

- (a) the memorandum of association of our Company and the Articles;
- (b) the Accountants' Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this document;
- (c) the Accountants' Report prepared by Deloitte Touche Tohmatsu on unaudited pro forma financial information, the text of which is set out in Appendix II to this document;
- (d) the audited financial statements of LM Development for each of the three financial years ended 31 December 2010;
- (e) the valuation report (including a letter, a summary of valuation and the valuation certificates) prepared by Jones Lang LaSalle Sallmanns Limited relating to the property interests of our Group, the text of which is set out in Appendix III to this document;
- (f) the Companies Law;
- (g) the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law as referred to in Appendix IV to this document;
- (h) the legal opinions prepared by the PRC Legal Advisers in respect of certain aspects of our Group and the property interests of our Group in the PRC;
- (i) the legal opinions prepared by the Thai legal advisers in respect of certain aspects of our Group and the property interests of our Group in Thailand;
- (j) the legal opinions prepared by the U.S. legal advisers in respect of certain aspects of our Group in the U.S.;
- (k) the material contract referred to in the sub-paragraph headed "Summary of material contract" under the paragraph headed "Further information about the business of our Company" in Appendix V to this document;
- (l) the service contracts referred to in the sub-paragraph headed "Particulars of Directors' service contracts" under the paragraph headed "Further information about Directors and Shareholders" in Appendix V to this document;
- (m) the rules of the Share Option Scheme; and
- (n) the written consents referred to in the sub-paragraph headed "Consents of experts" under the paragraph headed "Other information" in Appendix V to this document.