









### OVERVIEW

We are an established distributor and retailer of lifestyle comfort footwear products of international brands, including Clarks , Josef Seibel , The Flexx  and Yokono  in Hong Kong, Taiwan and Macau. With an operating history of over 38 years in Hong Kong, we have developed and maintained strong and successful relationships with our suppliers of international branded footwear products.

During the Track Record Period, we were the exclusive distributor in Hong Kong, Taiwan and Macau for most of our licensed brands, including Clarks, Josef Seibel, The Flexx and Yokono, and our exclusive distributorship extends to the PRC or other Asia countries for several licensed footwear brands, including Josef Seibel and Yokono. As at the Latest Practicable Date, whilst the authorised territories under our distributorship agreements included other Asian countries, we had Retail Outlets in Hong Kong, Taiwan and Macau only. Under the distributorship and/ or franchise agreements, we are not required to pay any fees to any of our existing suppliers for obtaining or renewing our distributorship or franchise. With reference to the minimum purchase requirements, it is mutually understood between our suppliers and us that the actual purchase quantities are negotiable if necessary. During the Track Record Period, we were able to meet all minimum purchase and minimum new outlet requirements in Hong Kong and Taiwan. Our licensed brands provide us with an array of international brands of footwear and a comprehensive product range to capture the ever changing footwear market in Hong Kong, Taiwan and Macau. Apart from distribution to wholesale customers, we are also a retailer of our licensed footwear brands through our self-operated Retail Outlets network under the trade names S.Culture , shoe mart  and SCOOPS , and individual licensed brands, such as Clarks, Clarks Originals  and Josef Seibel.

We have extensive sales channels through our network of Retail Outlets in Hong Kong, Taiwan and Macau. As at the Latest Practicable Date, we had a total of 98 Retail Outlets comprising 30 self-rented shops and 21 concessions in Hong Kong, eight self-rented shops and 37 concessions in Taiwan and two self-rented shops in Macau. During the three years ended 31 December 2012, revenue from our Retail Outlets accounted for approximately 83.4%, 85.4% and 87.5% of our total revenue, respectively. In addition to our Retail Outlets channel, we also sell our products to wholesale customers, such as footwear retail chain stores and department stores. Our revenue is recognised when products have been delivered to our wholesale customers and their unsold goods cannot be returned to us. As at 31 December 2010, 31 December 2011 and 31 December 2012, we had 90, 82 and 79 wholesale customers, respectively, and the revenue from our wholesale customers accounted for approximately 16.6%, 14.6% and 12.5% of our total revenue, respectively.

We strategically located our Retail Outlets and continuously search for suitable locations for new Retail Outlets that meet our strict selection criteria for business expansion. For concessions within department stores and shopping malls, we have maintained solid business relationships with department stores and shopping malls in Hong Kong and Taiwan. We have been invited by these department stores and shopping malls as anchor tenant when they opened new stores or when lettable floor space had

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become vacated. Our strategic choice of location of all Retail Outlets (which are directly operated by our staff) enables us to implement brand positioning strategies and manage inventory effectively with the benefit of first-hand knowledge on customer preference.

We do not possess any manufacturing capacity and all of our products were end products supplied to us by suppliers who are Independent Third Parties. We believe that our asset-light business model enables us to focus our resources and efforts on brand promotion, sales management and business expansion, with the maintenance of a flexible cost structure.

Leveraging on our established licensed footwear brands, extensive Retail Outlets and strong relationship with our suppliers and department stores, we seek to expand our Retail Outlets to cover additional geographical areas, and in particular, the PRC market. We will also seek to expand the range of our footwear products and better cater to a wider and more diverse customer base by continuing to roll out new footwear products.

Our Group's revenue increased from approximately HK\$365.8 million during the year ended 31 December 2010 to approximately HK\$505.3 million during the year ended 31 December 2012, representing a CAGR of approximately 17.5%.

### COMPETITIVE STRENGTHS

Our Directors consider that our Group has the following strengths:

#### **Established business relationships with C&J Clark and Josef Seibel GmbH**

We have well-established and stable business relationships with our major suppliers of footwear products of international brands. We have established business relationship with C&J Clark since 1974 and have been the retailer and exclusive distributor of C&J Clark in Hong Kong, Taiwan and Macau uninterruptedly since 1997. We have been authorised by Josef Seibel GmbH to act as its retailer and exclusive distributor in Hong Kong, Taiwan, Macau, the PRC, Thailand and Malaysia for more than five years (though we only operated our business in Hong Kong, Taiwan and Macau during our operating history and as at the Latest Practicable Date).

As at the Latest Practicable Date, we had entered into a distributorship agreement and an international franchise agreement with C&J Clark which granted us exclusive distribution rights and rights to open Retail Outlets under its brands, subject to the terms of the agreements, respectively, both for a term of five years and will expire on 31 December 2017. In addition, as at the Latest Practicable Date, we had entered into a distributorship agreement with Josef Seibel GmbH for a term of ten years which will expire on 31 December 2022. Our Group has established specialty Retail Outlets for both Clarks and Josef Seibel branded footwear products to raise the public awareness to the brands and carried these brands in our multi-branded Retail Outlets in prime locations and department stores to reach out to a wider customer base. Our Directors believe that our long established business relationships with C&J Clark and Josef Seibel GmbH, and our licensed rights for Clarks and Josef Seibel brands in the abovementioned regions allow us to manage and develop the brands with long term brand-building strategies.

### **A proven track record of successful brand introduction and commercialisation**

Our success is mainly attributable to our ability to identify segments of the Hong Kong, Taiwan and Macau footwear market with growth potential. Through our operational experience of 38 years, we have accumulated the industry know-how and expertise for the efficient and successful operation of the complete branding process, from brand development to consumer behaviour. Being distributors of lifestyle comfort footwear products of international brands, such as Clarks and Josef Seibel, we have benefited from existing market recognition and goodwill carried by these brands. Our Directors believe that the recognition of these names by our customers allows us to position products of these brands with premium pricing. We have established a platform which combines our competitive strength in brand introduction with comprehensive functional capabilities including logistic arrangements, inventory control, human resources, distribution and sales management.

Our Directors believe that the careful positioning and management of each brand and sales channel, and the offering of products which highlights each brand's unique style and image, have enabled us to capture an increasing market share and helped us maximise our revenue while avoiding competition among our brands. Our experience in brand positioning and management has also enabled us to respond faster to the rapidly changing footwear market, such that we are able to source and launch new brands and footwear products to the market to capture new opportunities.

### **Extensive sales network with strategic coverage in Hong Kong and Taiwan**

As at the Latest Practicable Date, our Group's footwear products were sold through our established sales network where we had 98 Retail Outlets comprising 51 Retail Outlets in Hong Kong, 45 Retail Outlets in Taiwan and two Retail Outlets in Macau. In addition, we also had 77 wholesale customers comprising 50 wholesale customers in Hong Kong and 27 wholesale customers in Taiwan as at the Latest Practicable Date. In both Hong Kong and Taiwan, we are able to secure prime retail locations for most of our Retail Outlets. They are generally situated in shopping districts, department stores or shopping malls with high consumer traffic that attracts a steady flow of customers. In Taiwan, our Retail Outlets covered some of the major cities, such as Taipei, Taichung and Kaohsiung. Our wholesale customers also have their own sales network, which enhance the public awareness of our products and complement our sales network.

### **Experienced management team**

We have an experienced management team led by Mr. Chu, our Vice Chairman and executive Director, who has over 38 years of experience in the footwear industry and possesses extensive experience and expertise in trading and footwear retail and wholesale business. In addition, each of Mr. Dominic Chu and Mr. Haeta Chu has over 10 years of experience in the footwear industry and business management, respectively. Under the leadership of Mr. Chu, our Group has grown since its establishment in 1974. As at 31 December 2010, 2011 and 2012, our Group operated a total number of 82, 89 and 102 Retail Outlets in the region of Hong Kong, Taiwan and Macau, respectively. Apart from retail business, our management team also has a solid relationship with our

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wholesale customers in Hong Kong and Taiwan. As at 31 December 2010, 31 December 2011 and 31 December 2012, our Group had a total of 90, 82 and 79 wholesale customers in Hong Kong and Taiwan, respectively. Our Directors believe that, with the support of our Group's management team, we will be able to improve our footwear retail and wholesale markets in Hong Kong, Taiwan and Macau.

### BUSINESS STRATEGIES

Our objectives are to maintain and strengthen our position as an established retailer of lifestyle comfort footwear of international brands with headquarter based in Hong Kong, and to maximise shareholder value through the following strategies:

#### Expand our retail network

##### *Hong Kong and Taiwan*

We believe expansion of our existing retail network is crucial to increasing our market share and coverage. We plan to expand our retail network by increasing the number of Retail Outlets, thereby enabling us to further penetrate into our existing markets. We intend to open an addition of approximately 8, 11 and 16 Retail Outlets in Hong Kong and Taiwan in each of the years ending 31 December 2013, 2014 and 2015. We intend to improve the layout of the Retail Outlets, increase the area of Retail Outlet and sales per square metre, and enhance the quality of service in our Retail Outlets.

The table below sets forth the number of Retail Outlets that we currently intend to open in Hong Kong and Taiwan (subject to further changes according to local sales results and economic conditions), and the expected average expenditure for a typical self-rented shop or concession in the years ending 31 December 2013, 2014 and 2015, respectively.

|                                    | For the year ending 31 December |                                   |          |                          |                                   |           |                          |                                   |           |
|------------------------------------|---------------------------------|-----------------------------------|----------|--------------------------|-----------------------------------|-----------|--------------------------|-----------------------------------|-----------|
|                                    | 2013                            |                                   |          | 2014                     |                                   |           | 2015                     |                                   |           |
|                                    | Number of<br>concessions        | Number of<br>self-rented<br>shops | Total    | Number of<br>concessions | Number of<br>self-rented<br>shops | Total     | Number of<br>concessions | Number of<br>self-rented<br>shops | Total     |
| Number of Retail Outlets:          |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
| Hong Kong                          | 1                               | 3                                 | 4        | 1                        | 3                                 | 4         | 2                        | 4                                 | 6         |
| Taiwan                             | 4                               | —                                 | 4        | 7                        | —                                 | 7         | 10                       | —                                 | 10        |
| <b>Total</b>                       | <b>5</b>                        | <b>3</b>                          | <b>8</b> | <b>8</b>                 | <b>3</b>                          | <b>11</b> | <b>12</b>                | <b>4</b>                          | <b>16</b> |
| Estimated expenditure per          |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
| Retail Outlet                      |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
| (HK\$ million) <sup>(Note 1)</sup> |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
| Hong Kong                          | 0.4                             | 0.8                               |          | 0.4                      | 0.9                               |           | 0.4                      | 0.9                               |           |
| Taiwan                             | 0.3                             | N/A                               |          | 0.3                      | N/A                               |           | 0.3                      | N/A                               |           |
| Approximate expected               |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
| average payback                    |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
| period per comparable              |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
| Retail Outlet                      |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
| (years) <sup>(Note 2)</sup>        | 1                               | 1.5                               |          | 1                        | 1.5                               |           | 1                        | 1.5                               |           |
| Approximate expected               |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
| average breakeven                  |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
| period per comparable              |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
| Retail Outlet                      |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
| (months) <sup>(Note 2)</sup>       | 2 to 6                          | 6 to 9                            |          | 2 to 6                   | 6 to 9                            |           | 2 to 6                   | 6 to 9                            |           |

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*Notes:*

1. The expected expenditure per Retail Outlet included fitting-out costs and initial inventories required for the opening of such Retail Outlet.
2. Approximate expected average payback and breakeven periods per comparable Retail Outlets are based on historical data and management's experience on the comparable Retail Outlets.

The total planned expenditure for our network expansion in Hong Kong and Taiwan is expected to be approximately HK\$4.0 million, HK\$5.2 million and HK\$7.9 million for each of the three years ending 31 December 2013, 2014 and 2015, respectively. Our Directors believe that the net proceeds from the Global Offering will be sufficient to cover all costs of our current expansion plan.

### ***The PRC***

We also believe expansion is necessary to capitalise on the increasing spending power of our potential customers in the PRC. We intend to introduce our Josef Seibel branded footwear products in Shanghai, the PRC, by establishing around four Retail Outlets in the year ending 31 December 2013, and to expand our retail network to other provinces or cities in the PRC, such as Nanjing and Beijing, by establishing an addition of 12 and 15 Retail Outlets in the years ending 31 December 2014 and 2015, respectively. We believe that such provinces and cities have a growing population of middle-class consumers with growing demand for lifestyle comfort footwear products.

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The table below sets forth the number of Retail Outlets that we currently intend to open in the PRC (subject to further changes according to local sales results and economic conditions), and the expected average expenditure for a typical self-rented shop or concession in the years ending 31 December 2013, 2014 and 2015, respectively:

|   | For the year ending 31 December |                                   |          |                          |                                   |           |                          |                                   |           |
|---|---------------------------------|-----------------------------------|----------|--------------------------|-----------------------------------|-----------|--------------------------|-----------------------------------|-----------|
|   | 2013                            |                                   |          | 2014                     |                                   |           | 2015                     |                                   |           |
|   | Number of<br>concessions        | Number of<br>self-rented<br>shops | Total    | Number of<br>concessions | Number of<br>self-rented<br>shops | Total     | Number of<br>concessions | Number of<br>self-rented<br>shops | Total     |
| Number of Retail Outlets:   |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
| Shanghai  | 4                               | —                                 | 4        | 7                        | —                                 | 7         | 7                        | —                                 | 7         |
| Nanjing   | —                               | —                                 | —        | 3                        | —                                 | 3         | 2                        | —                                 | 2         |
| Beijing   | —                               | —                                 | —        | 1                        | —                                 | 1         | 4                        | —                                 | 4         |
| Others  | —                               | —                                 | —        | 1                        | —                                 | 1         | 2                        | —                                 | 2         |
| <b>The PRC</b>  | <b>4</b>                        | <b>—</b>                          | <b>4</b> | <b>12</b>                | <b>—</b>                          | <b>12</b> | <b>15</b>                | <b>—</b>                          | <b>15</b> |
| Estimated expenditure per Retail Outlet (HK\$ million) <sup>(Note 1)</sup>                              |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
| The PRC   | 0.3                             | N/A                               |          | 0.3                      | N/A                               |           | 0.4                      | N/A                               |           |
| Approximate expected average payback period per comparable Retail Outlet (years) <sup>(Note 2)</sup>    |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
|   | 1                               | N/A                               |          | 1                        | N/A                               |           | 1                        | N/A                               |           |
| Approximate expected average breakeven period per comparable Retail Outlet (months) <sup>(Note 2)</sup> |                                 |                                   |          |                          |                                   |           |                          |                                   |           |
|   | 2 to 6                          | N/A                               |          | 2 to 6                   | N/A                               |           | 2 to 6                   | N/A                               |           |

### Notes:

1. The expected expenditure per Retail Outlet included fitting-out costs and initial inventories required for the opening of such Retail Outlet.
2. Approximate expected average payback and breakeven periods per comparable Retail Outlets are based on historical data and management's experience on the comparable Retail Outlets.

With the international recognition and goodwill carried by the Josef Seibel brand, it would differentiate us from the local footwear products retailers. It would allow us to capture the huge customer base and penetrate into the retail and wholesale footwear market in the region.

Under the latest distributorship agreement entered into between C&J Clark and us in August 2012, we are authorised to sell to the duty free shop, an Independent Third Party, in Hainan province, the PRC. We intend to do so by the end of 2013. Accordingly, we did not record any sales in the PRC during Track Record Period. Apart from our Group, C&J Clark has established its sales network in the PRC through distributor(s) and franchisee(s), which to the best knowledge of our Directors are Independent Third Parties.

The estimated average expenditure per new Retail Outlet in the PRC for specialty Retail Outlet under the Josef Seibel brand, taken into account the fitting-out costs and initial inventories required for the opening of such Retail Outlet, would be approximately HK\$0.3 million per concession.

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To prepare for our business expansion into the PRC, we have recruited a general manager, who has more than 15 years of experience in business development including the PRC market, to oversee our PRC operations. Our management team together with our general manager have, from time to time, conducted researches for our entry to PRC market and in particular market acceptance of Josef Seibel branded footwear products. Such researches have made references to official materials published by governmental bodies, reports issued by professional institutions and other information available online and in the market. In addition, we have also engaged qualified PRC lawyers to ensure compliance with the applicable laws, rules and regulations.

From the operational perspective, while we maintain similar retail business model by selling and distributing the footwear products in concessions, we will recruit approximately two to three experienced staff for each new Retail Outlet and thus we could benefit from their experience in the PRC retail and footwear industry. Daily management of the Retail Outlets is delegated to their managers who report to our chief executive officer from time to time. Our management and staff in Hong Kong will be responsible for business strategies, overseeing the merchandise planning and allocation, inventory management and distribution, and marketing for the PRC Retail Outlets.

The total planned expenditure for our network expansion in the PRC is expected to be HK\$1.2 million, HK\$4.0 million and HK\$5.4 million for each of the three years ending 31 December 2013, 2014 and 2015, respectively. Our Directors believe that the net proceeds from the Global Offering will be sufficient to cover the costs of our current expansion plan.

Our Directors consider that there will be sufficient demand for our new Retail Outlets planned to be opened in the PRC, based on (i) the historical growth in revenue attributable to the sales of Josef Seibel branded footwear products of our Group at CAGR of approximately 77.2% during the Track Record Period which mainly due to the brand's acceptance by the PRC visitors in Hong Kong and Taiwan; (ii) the estimation that the retail market as a whole in the PRC will grow at CAGR of approximately 9.1% from 2012 to 2017 in terms of sales value according to Euromonitor. Please refer to the section headed "Industry Overview — The PRC — Fast Growing Retail Sales in the PRC" in this prospectus for further details; (iii) our Directors' estimation of the demand for lifestyle comfort footwear products of international brands for 2013 to 2015; and (iv) the enhanced marketing, sales and promotion strategies, such as promoting our brands in social networking websites, set out following this section, which will further strengthen our brand image and recognition.

The major considerations of our expansion plan are (i) the population density, potential growth of customer and performance of competitors around the target location; and (ii) weights of the rentals against the sales projection of the next three years of such Retail Outlets at target location.

The key operating cost component of our expansion plan is rental expenses. Our Group manages the operating costs by (i) closing down Retail Outlet when it is not profitable or the lease/concession agreement of which cannot be renewed with favourable

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terms upon its expiry, (ii) opening concessions of “turnover based” rents instead of self-rented shops of high fixed rental charge to reduce rental pressure during business downturn; and (iii) imposing stringent cost saving measures such as reducing staff costs.

The major factors of our Group’s expansion plan which will affect our cash flows and liquidity position are capital expenditures and rental expenses. The total expected cash outflow for opening four Retail Outlets in the PRC in financial year 2013 is HK\$1.2 million which is not significant to our Group’s liquidity position. Moreover, the expected average breakeven periods of these new Retail Outlets are two to six months which is not expected to cause significant impact to our Group’s cash flows and liquidity position. In light of the above, our Directors are of the view that the expansion plan of our Group will not cause adverse material impact on our cash flow and liquidity position.

The actual number, location and timing of new Retail Outlet openings and timing for the launch of any additional services in any period will be affected by a number of factors and subject to a number of uncertainties. We may make necessary adjustments to the number, location and timing of planned openings of Retail Outlets, in order to optimise our liquidity status, depending on the then existing market conditions, expected payback and breakeven periods, and necessary costs of preparation for the relevant Retail Outlets. Please refer to the sections headed “Risk Factors — Risks Relating to Our Business — If our expansion plan proves to be unsuccessful, or if we fail to obtain sufficient funding for our expansion plans, our business and growth prospects may be adversely affected” and “Risk Factors — Risks Relating to Our Business — Our planned expansion into new markets in the PRC may not be successful” in this prospectus.

### **Enhance our marketing and promotion strategies**

We focus on growing the market share of our footwear business in Hong Kong and Taiwan. As an established retailer of lifestyle comfort footwear products in Hong Kong and Taiwan, we believe that our success is to a large extent dependent on our extensive retail network. To strengthen our position as a market leader, we intend to focus our marketing efforts on promoting the public awareness of our brands and footwear products.

We plan to concentrate our advertising and promotional efforts to further develop our brands. We plan to enhance our brands image by adopting a multi-channel advertising strategy. In addition to traditional advertising channels such as printed media advertising, we intend to increase our television advertising on free or paid television networks. We intend to enhance internet advertising such as promoting our brands in social networking websites which we believe will help us gain access to a wider customer base. We also intend to participate in industry and trade shows to promote our brands and products in order to increase the recognition of our brand management and sales network management as well as attracting potential new wholesale customers.

### **Improve the same store sales growth of our Retail Outlets**

In order to improve the same store sales growth of our Retail Outlets, we plan to (i) increase the average purchase price per customer per visit; (ii) increase the conversion ratio of consumers out of the total number of visitors at our Retail Outlets; and (iii)



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maintain our loyal customer base. We plan to recruit, train and maintain high quality sales and customer service representatives. We intend to revisit the positioning and image of our brands, and conduct whole-scale upgrade of the interior design and decoration of our Retail Outlets every two to three years and regularly change our product display. To maintain and expand our loyal customer base, we plan to expand our VIP member program by targeting specific groups, such as professional associations, university alumni associations, etc, and the enhancement of bonus schemes and birthday offers and the continuance of text message services informing loyal customers of new products, events or promotional periods.

### **Diversify and expand our brand portfolio and product offerings**

We will continue to leverage on our established position in the footwear industry, extensive retail network and significant marketing experience as a foundation for promoting some new international footwear brands and new product lines under our licensed brands that we might introduce in the future.

For instance, we will introduce women footwear products of a new international brand in mid 2013. We will optimise our product mix by increasing sales of footwear products with competitive prices in order to reach a wider market base and raise our profile. The summer footwear line of products are designed for the younger generation. We believe that the diversifying and expanding of our brand portfolio and product offerings will strengthen our reputation as an established retailer of lifestyle comfort footwear products.

### **Continue to attract and retain talented and experienced personnel**

We believe that our success depends upon our ability to hire and cultivate experienced, motivated and well trained members of our management team, as well as employees at all levels with appropriate expertise and dedication to us. We intend to recruit sales staff or talented personnel, who will bring fresh perspectives to our business and culture. Experienced sales staff is also vital to our continuing growth as a retail enterprise. We will continue to offer to our staff competitive compensation packages, a dynamic entrepreneurial and caring corporate culture and the opportunity for staff to grow with our business. We will also continue to invest in training programs for our staff.

**Investment in information technology and logistic infrastructure**

We intend to continue investing in our infrastructure and information systems to improve our operating performance. We believe continued investment in information systems will enhance our operating efficiency in areas such as merchandise planning and allocation, inventory management, distribution, labour management and POS performance.

The ability to swiftly distribute products to our Retail Outlets and accurately monitor the level and location of our inventory are vital to our business. Our management information systems and logistics have enabled us to better administer and maneuver our footwear products. All of our Retail Outlets are linked with our POS system which allows us to capture extensive sales and inventory data on a timely basis. To monitor the progress and status of product turnover, we are integrating our Hong Kong, Taiwan and Macau POS system. We believe that the logistics and management information system will enable our management to receive information with respect to movements of our products at all of our Retail Outlets and at our warehouses, thereby allowing us to more efficiently plan for our logistics arrangements. Our improved management information system should allow us to reduce logistics bottlenecks and improve the overall efficiency of our supply chain.

### BRANDS AND PRODUCTS

The details of major brands operated by our Group and the salient terms of their agreements is set out in the following:



#### Brand description

- Clarks is an international renowned footwear brand owned by C&J Clark with a history of over 188 years and originated from the United Kingdom
- Clarks offers a wide range of functional and comfortable footwear products for men, women and children. A new technology, namely, “Clarks Plus”, targets to maximise foot comfort with a dual density cushioning system
- The ultimate holding company of C&J Clark is C&J Clark Limited. C&J Clark Limited, together with its subsidiaries, (the “**C&J Clark Group**”) is principally engaged in shoe manufacturing, retailing and wholesaling, and related trades. Based on C&J Clark Limited’s annual report and financial statements for the year ended 31 January 2013, which are publicly available and have been prepared under the UK GAAP, the directors of the C&J Clark Group have a reasonable expectation that the C&J Clark Group have adequate resources to continue in operational existence for the foreseeable future. C&J Clark Group is a profit making company. For the year ended 31 January 2013, (i) the turnover of the C&J Clark Group increased by approximately 4.6% and amounted to approximately GBP1,463.9 million; (ii) the profit of the C&J Clark Group for the financial year increased by approximately 5.6% and amounted to approximately GBP81.9 million; and (iii) the cash flow from operating activities of the C&J Clark Group amounted to GBP107.2 million (2012: GBP68.0 million). Furthermore, as at 31 January 2013, (i) the cash at bank and in hand of the C&J Clark Group amounted to GBP84.5 million (2012: GBP108.9 million); and (ii) the net assets of the C&J Clark Group amounted to GBP471.2 million (2012: GBP424.2 million).

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### **Salient terms of the distributorship agreement**

- Rights: exclusive right to purchase footwear from C&J Clark for resale in authorised territories (with nil consideration)
- Authorised territories: Hong Kong, Taiwan and Macau
- Additional rights: to sell Clarks products to the duty free shop in Hainan province
- Current term: 1 July 2012 to 31 December 2017
- We need to satisfy certain minimum purchase requirement for the year 2013, with an incremental percentage of approximately 6%, 5%, 5% and 4% for each of the year from 2014 to 2017, respectively.
- We need to open three Retail Outlets for each of the year during the term of the agreement *(Note)*

### **Salient terms of the international franchise agreement**

- Rights: exclusive right to open and operate Clarks Retail Outlets in the authorised territories
- Authorised territories: Hong Kong, Taiwan and Macau
- Current term: 1 July 2012 to 31 December 2017. We have the right to require an extension of the rights for a further five years, until 31 December 2023, provided that we have substantially observed and performed the provisions of the agreement, including meeting the minimum purchase requirement
- We need to satisfy certain minimum purchase requirement for the year 2013, with an incremental percentage of approximately 6%, 5%, 5% and 4% for each of the year from 2014 to 2017, respectively
- We need to open three Retail Outlets for each of the year during the term of the agreement

#### *Note:*

As of 31 December 2011, the number of newly opened specialty Retail Outlet of Clarks and Clarks Originals had already exceeded the aggregate minimum new outlet requirements stipulated under the agreements for the years 2011 and 2012.

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**Termination provisions of the distributorship agreement**

C&J Clark may terminate the agreement on 12 months' written notice to us in the following circumstances:

- if we are in breach of any term of the agreement and fails to remedy the breach having been given a reasonable time in which to do so; or
- if we fail to place the minimum purchase requirement or fails to open the new Clarks Retail Outlets in any year; or
- if C&J Clark is of the opinion that we are not creating adequate sales coverage throughout the authorised territories or not holding adequate stock to service customers promptly provided that instead of terminating the agreement C&J Clark may in these circumstances convert this exclusive distributorship into a non-exclusive distributorship for the authorised territories; or
- if there is a significant change in the controlling shareholding or ownership or control of our Group which in the reasonable opinion of C&J Clark is likely to adversely affect the business' generated by the agreement; or
- if we without prior written consent of C&J Clark purchase products for resale or wholesale in the authorised territories from any other footwear company or offer for sale in the authorised territories any terms of footwear incorporating any features of the Clarks SKUs or which in C&J Clark's reasonable opinion are similar to or may be confused with the Clarks SKUs.

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### **Termination provisions of the international franchise agreement**

If our Group:

- fails to open its first Clarks Retail Outlet within the period of six months from the date of the agreement (i.e. by 9 February 2013) unless C&J Clark is satisfied that the reasons are outside our control; or
- fails to make payment of any sums owing by us to C&J Clark within 30 days of written notification being provided to us by C&J Clark that such sum is outstanding; or
- brings the trade name “Clarks” into disrepute; or
- commits an act of bankruptcy, becomes insolvent or makes a proposal to its creditors, or if a petition in bankruptcy or liquidation is filed against our Group, or if a receiving order is made against our Group, or our Group takes or attempts to take advantage of any law now or hereafter in effect for the relief of debtors, or if a receiver or other custodian (permanent or temporary) of any assets of our Group or of any shares in the capital of our Group is appointed by private instrument or by court order, or if execution or similar process is levied against any such assets or shares, or if distress or other analogous process is made against any of our Group’s assets; or
- assigns or purports to assign the agreement or any of the rights granted by the agreement otherwise than in accordance with the terms of the agreement; or
- is convicted of a criminal offence or act involving dishonesty; or
- fails to comply with the minimum new outlet requirement and/or the minimum purchase requirement in any year unless C&J Clark agrees, at its entire discretion, to waive its rights because the reasons for failure are beyond our control; or

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- neglects or fails to perform or observe any of the other agreements or conditions on its part to be performed or observed under the agreement and fails to remedy such default neglect or failure (where capable of remedy) to C&J Clark's satisfaction within 30 days after written notice of the default from C&J Clark provided however that in the case of persistent default neglect or failure our Group shall not be entitled to any period of grace within which to remedy any default neglect or failure.

Then C&J Clark may terminate the agreement by giving written notice to our Group and all rights, including our rights under the international franchise agreement, of our Group shall cease at that time and the termination process (including the sell-down of remaining inventories and termination or surrender of shop leases) shall commence immediately. It is mutually understood between C&J Clark and our Directors that the entire termination process shall take approximately 12 months.

If the default is in relation to minimum new outlet requirement and/or minimum purchase requirement C&J Clark may convert such right to non-exclusive in the authorised territories.

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### **History with our Group**

We have a long established business relationship with C&J Clark for over 20 years, during which we had not failed to perform up to the satisfaction of C&J Clark or committed any material breach of the agreements. In view of the strong relationship and our past record, our Directors believe that we will continue to perform the franchise agreement and distributorship agreement by meeting the development and minimum purchase requirement and other terms of the agreements to the satisfaction of C&J Clark. When approaching the expiry of the distributorship and international franchise agreements entered into between our Group and C&J Clark in 2017, we will discuss with C&J Clark to renew the relevant agreements. The renewal of our exclusive distribution rights granted under the relevant agreement is subject to negotiation with C&J Clark. C&J Clark may only grant distribution rights to our Group. However, the Sole Sponsor has obtained written confirmation from one member of senior management of the C&J Clark Group that there would be no major obstacles in renewing the agreements, including the exclusive distribution rights, given the fact that the Group has been complying with the major terms and conditions set out in the previous and current agreements, which the Group is expected to continue doing so before their expiry in 2017 and in light of our well-established relationship with the C&J Clark group since 1974.

Nonetheless, in the event that any of our agreements with C&J Clark is not being renewed, the whole termination process (including the sell-down of remaining inventories and termination or surrender of shop leases) will take up to a year to complete in an orderly manner.

### **Suggested retail price of Clarks branded footwear**

Generally ranged from HK\$300 to HK\$4,200 in the year 2012





**Josef Seibel** Josef Seibel  
The European Comfort Shoe

**Brand description**

- Josef Seibel brand was originated from Germany and is one of Europe's longest established shoe manufacturers producing shoes since 1886
- Josef Seibel brand is owned by Josef Seibel GmbH which produces extensive, stylish ranges of shoes, sandals, boots and clogs for women and men. Josef Seibel has developed footwear technologies, such as Air Massage Footbed (氣流按摩鞋墊) and Top Dry Tex (快速乾爽技術), which aim to increase the level of comfort of its products

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|   |   |
|---|---|
| <b>Salient terms of the distribution agreement</b>  | <ul style="list-style-type: none"><li>● Rights: exclusive right to sell and market Josef Seibel branded products in the authorised territories (with nil consideration). We were also given the right to customise, source and finalise Josef Seibel branded products in the PRC for the authorised territories and the right to use the trademarks “Josef Seibel”, “The European Comfort Shoe”, “Airmassage” and “Airped”</li><li>● Authorised territories: Hong Kong, Taiwan, Macau, the PRC, Thailand and Malaysia (though we have not yet commenced any sale of Josef Seibel branded footwear products in the PRC, Thailand and Malaysia as at the Latest Practicable Date)</li><li>● Current term: 1 December 2012 to 31 December 2022</li></ul> |
| <b>Major termination provisions of the distribution agreement</b>                             | Josef Seibel GmbH has the right to terminate the agreement by giving a 12 months’ written notice if: (i) we are in breach of any material terms of the agreement and fail to rectify within 60 days of written notice given by Josef Seibel GmbH; or (ii) there is a material change in our management and we fail to rectify the situation within 60 days of written notice given by Josef Seibel GmbH   |
| <b>History with our Group</b>   | Josef Seibel GmbH has been supplying footwear products to us since 2004 under normal commercial purchase arrangements. We entered into a formal distribution agreement with Josef Seibel GmbH in 2004 for a term of five years and was further extended for another five years and 10 years in 2007 and 2012, respectively  |
| <b>Suggested retail price of Josef Seibel branded footwear</b>                                | Generally ranged from HK\$500 to HK\$1,900 in the year 2012   |
| <b>Particulars of business plan with Josef Seibel</b> <i>(Note)</i>                           |   |
| <b>Suggested purchase requirement (in pairs of footwear)</b>                                  | No suggested minimum purchase requirement   |
| <b>Suggested minimum cumulative total number of outlets opened by end of year requirement</b> | Suggested to maintain the minimum number of Retail Outlets at (i) 17, 20, 22 and 25 in Hong Kong; and (ii) 11, 15, 25 and 30 in Taiwan, from 2012 to 2015, respectively   |

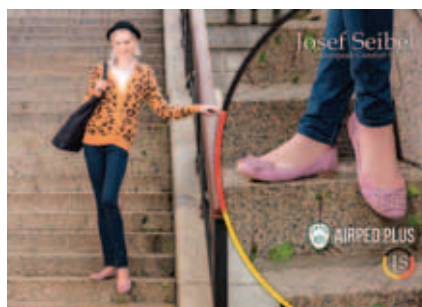
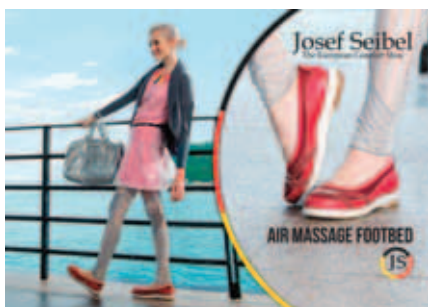
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*Note:*

No minimum purchase requirement or minimum new outlet requirement is stipulated under the agreements entered into between our Group and Josef Seibel. With reference to our Group's business plan agreed with Josef Seibel, there are non-legally binding terms on suggested purchase requirement and suggested minimum cumulative total number of outlets opened by end of year.



### The Flexx <sup>The FLEXX</sup>

#### Brand description

- The Flexx is an international renowned footwear originated from the Italy

#### Salient terms of the agent and distribution agreement

- Rights: exclusive right to sell and market The Flexx branded footwear products in authorised territories (with nil consideration)
- Authorised territories: Hong Kong, Taiwan, Macau and the PRC
- Current term: 1 October 2010 to 31 December 2015
- We are required to satisfy the minimum purchase requirement of:
  - (i) certain amount fixed for 2012 with an incremental percentage of approximately 100%, 30%, 30% from 2013 to 2015, respectively, in Hong Kong and Taiwan; and

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- (ii) certain amount fixed for 2012 with an incremental percentage of approximately 300%, 87.5% and 233% from 2013 to 2015, respectively, in the PRC <sup>(Note)</sup>

**Major termination provision of the agent and distribution agreement**

Pursuant to agent and distribution agreement, Ka & Ka shall have the right to terminate the agreement by written notice, if we fail to meet the minimum purchase requirement and subsequently fail to rectify the situation in a timely manner

**History with our Group**

The Flexx has been supplying footwear to us since 2010 under normal commercial purchase arrangements. We entered into a formal distribution agreement with The Flexx in 2010 for a term of five years

**Suggested retail price of The Flexx branded footwear**

Generally ranged from HK\$700 to HK\$2,000 in the year 2012

*Note:*

Our Group has not commenced any business in the PRC as at 31 December 2012. Upon discussion with The Flexx, a waiver from strict compliance with the minimum purchase requirement in the PRC for the year ended 31 December 2012 was granted to us. We may introduce The Flexx to the PRC market via wholesale channels in the year 2013.



**Yokono and Yokono K** 

**Brand description**

Yokono brand was originated from Spain, which mainly focuses in producing causal and walking shoes

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### **Salient terms of the distribution agreement**

- Rights: an exclusive right to sell and distribute Yokono and Yokono K branded products in the authorised territories (with nil consideration)
- Authorised territories: Hong Kong, Taiwan, Macau and the PRC
- Current term: 1 January 2012 to 31 December 2015
- We are required to satisfy the minimum purchase requirement of certain amount fixed for 2013 with an incremental percentage of approximately 50% and 33% for each of the year from 2014 to 2015, respectively

### **Major termination provision of the distribution agreement**

Yukon S.L. has the right to terminate distribution agreement by giving written notice if we fail to satisfy the minimum purchase requirement and fail to obtain content from Yukon S.L.

### **History with our Group**

We entered into a formal distribution agreement with Yukon S.L. in 2012 for a term of three years

### **Suggested retail price of Yokono branded products**

Generally ranged from HK\$450 to HK\$2,000 in the year 2012



### **Streetcars streetcars COMFORT FOOTWEAR U.S.A.**

#### **Brand description**

- Streetcars brand was originated from United States and is owned by the Streetcars, Inc., which mainly focuses in producing leisure footwear for men

#### **Salient terms of the distribution agreement**

- Rights: to sell and distribute Streetcars products within the exclusive territories and non-exclusive territories (with nil consideration)

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- Exclusive territories: Hong Kong and Macau
- Non-exclusive territories: Malaysia, Singapore, Taiwan, Indonesia and PRC
- Current term: 13 October 2008 to 13 October 2013
- We are required to satisfy the minimum purchase requirement of certain amount fixed for 2009 with an incremental percentage of approximately 73%, 51%, 26% and 24% for each of the year from 2010 to 2013, respectively *(Note)*

### **Major termination provisions of the distribution agreement**

Pursuant to the distributorship agreement, the agreement shall be terminable or shall terminate, if:

- we breach of any terms and conditions of the agreement and fail to remedy within 30 days
- we cease to operate as a business by filing or petition for dissolution, insolvency or bankruptcy
- we fail to make payment as required under the agreement
- we undergo any merger, consolidation or a change of ownership

### **History with our Group**

We entered into a formal distribution agreement with Streetcars in 2004 for a term of four years which was subsequently renewed in 2008

### **Suggested retail price of Streetcars branded products**

Generally between from HK\$300 to HK\$700 in the year 2012

#### *Note:*

Due to the business strategies of Streetcars, Inc. for its operation in Asia Pacific, a waiver from strict compliance of all minimum purchase requirements during the contractual term was granted to us.



### **Our purchases during the Track Record Period**

#### *Clarks*

For the three years ended 31 December 2010, 2011 and 2012, we purchased approximately 383,100 SKUs, 439,600 SKUs and 448,700 SKUs from C&J Clark which represented approximately 3%, 14% and 12% above the minimum purchase requirements for the same periods, respectively, stipulated under our relevant distributorship agreement and international franchise agreement with C&J Clark.

#### *Josef Seibel*

For the three years ended 31 December 2010, 2011 and 2012, we purchased approximately 54,000 SKUs, 88,000 SKUs and 162,900 SKUs from Josef Seibel GmbH, respectively.

#### *The Flexx*

For the year ended 31 December 2012, we purchased approximately 19,800 SKUs in Hong Kong and Taiwan from Ka & Ka which represented approximately 9% above the minimum purchase requirement for Hong Kong and Taiwan for 2012 stipulated under our distribution agreement with Ka & Ka.

#### *Yokono and Yokono K*

For the year ended 31 December 2012, we purchased approximately 5,500 SKUs from Yukon S.L. which represented approximately 9% above the minimum purchase requirement stipulated under our distribution agreement with Yukon S.L. for 2013.

## BUSINESS

### Streetcars

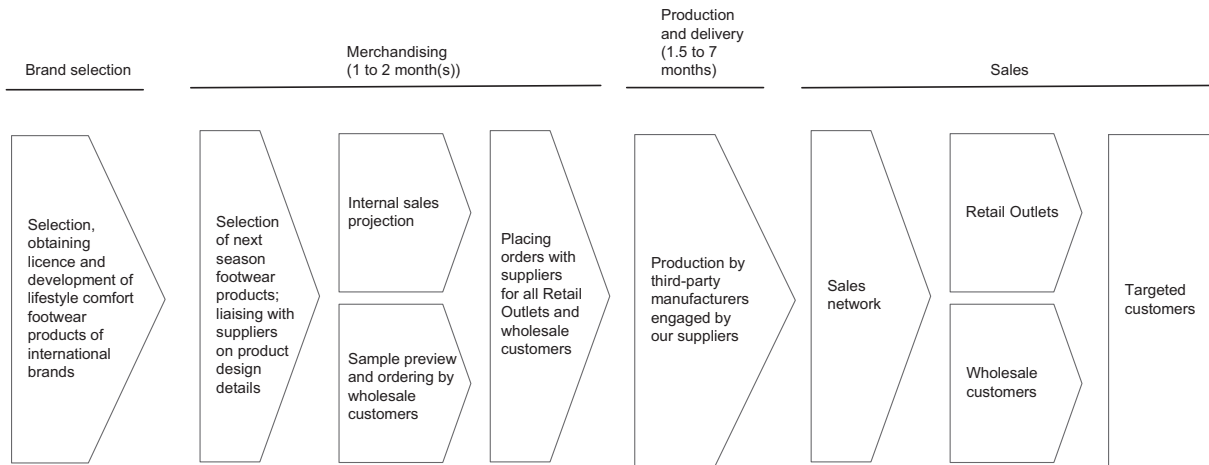
For the three years ended 31 December 2010, 2011 and 2012, we purchased approximately 19,400 SKUs, 14,600 SKUs and 21,100 SKUs from Streetcars, Inc., respectively.

Our Retail Outlets selling licensed brands have been recognised by the following award:

| Year of grant | Award/Certificate   | Awarding body               |
|---------------|---|-----------------------------|
| Since 2002    | Certification Mark upon "Retail Shops" Category under the Quality Tourism Services Scheme | The Hong Kong Tourism Board |

### OUR BUSINESS MODEL

The following diagram illustrates our asset-light business model that integrates our retail and wholesale businesses:



### Brand selection

For new brand, we would normally select them by (i) attending different international trade fairs; and (ii) our industry experience and connection in the footwear industry. Once our purchasing and logistics department shortlisted the potential brands, they would be put forward and approved by our management. Our representative would then approach the brands to discuss plans for business cooperation. Our management often adopts a prudent approach when introducing new brands or engaging new suppliers. We normally purchase a limited volume of footwear for one to two seasons to test the market. We would only enter into long term supply agreements of not less than three years with our suppliers of footwear products for exclusive or non-exclusive sale and distribution rights



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of products in our area of operation. When selecting a new brand, we mainly consider (i) the reputation and image of the brand; (ii) the design and quality of the products; and (iii) the number of SKUs available for selection.

We are not required to pay any fees to any of our existing suppliers in obtaining or renewing our distributorship or franchise.

### **Product selection**

Based on our market research on the upcoming footwear trend and our experience in the footwear industry, we are able to select the products with features and design that well suited for our markets. Our purchasing and logistics department, which is led by Mr. Haeta Chu who oversees our product selection process, works with our suppliers to provide feedbacks on product design prior to the launch of new products in the upcoming seasons for the Asian markets. For instance, our senior management was invited to attend to the head office of C&J Clark in London for product preview and offer comments on product designs for every upcoming season during the Track Record Period. Some designs of Josef Seibel branded products for distribution in Asia markets are finalised between our purchasing and logistics department and the PRC manufacturers engaged by Josef Seibel GmbH, which are Independent Third Parties. We select products based on our understanding of market trends from time to time and long-term brand positioning strategies.

### **Placing orders**

Once the products have been selected, our purchasing and logistics team, based on the internal sales forecasts (which were prepared according to previous year figures as well as projected market trends), would work out the internal ordering for our retail operation. We will also arrange our wholesale customers to preview the sample SKUs and obtain their feedback on the styles and number of SKUs to order. After that, we will finalise the total number of SKUs to be ordered with the suppliers for the upcoming seasons.

All of our products are supplied as finished products by our suppliers, which are all Independent Third Parties. Normally, from the placing of orders to our supplier to the delivery of the products to our warehouses would take approximately six weeks to seven months, depending on the SKUs and the size of orders.

### **Production and delivery**

Generally, our suppliers deliver products directly to our warehouse in Hong Kong. Our products are stored mainly in our central warehouses. We send the products from our Hong Kong warehouses to our warehouse in Taiwan and our Retail Outlets in Macau. Our warehouses are furnished with humidity and temperature control system to maintain the quality of our products. From our warehouses to Retail Outlets, we transport our products by our logistics team and other logistics companies engaged by our Group.

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### SALES NETWORK

We are more inclined to our footwear retail business. The split between our retail and wholesale businesses was approximately 87.5% and 12.5%, respectively, for the year ended 31 December 2012.

The following table sets out the revenue derived from our retail and wholesale businesses for each of the three years ended 31 December 2012:

|                  | Year ended 31 December |            |                |            |                |            |
|------------------|------------------------|------------|----------------|------------|----------------|------------|
|                  | 2010                   |            | 2011           |            | 2012           |            |
|                  | (HK\$'000)             | (%)        | (HK\$'000)     | (%)        | (HK\$'000)     | (%)        |
| <b>Hong Kong</b> |                        |            |                |            |                |            |
| Retail           | 274,231                | 75.0       | 312,499        | 66.1       | 339,830        | 67.3       |
| Wholesale        | 56,424                 | 15.4       | 57,335         | 12.2       | 53,686         | 10.6       |
| <b>Taiwan</b>    |                        |            |                |            |                |            |
| Retail           | 19,912                 | 5.4        | 76,797         | 16.3       | 87,354         | 17.3       |
| Wholesale        | 4,268                  | 1.2        | 11,470         | 2.4        | 9,635          | 1.9        |
| <b>Macau</b>     |                        |            |                |            |                |            |
| Retail           | 11,011                 | 3.0        | 14,342         | 3.0        | 14,784         | 2.9        |
| Wholesale        | —                      | —          | —              | —          | —              | —          |
| <b>Total</b>     | <u>365,846</u>         | <u>100</u> | <u>472,443</u> | <u>100</u> | <u>505,289</u> | <u>100</u> |

**Retail business**

As at the Latest Practicable Date, we had a total of 98 Retail Outlets, comprising 51 Retail Outlets located in Hong Kong, 45 Retail Outlets located in Taiwan and two Retail Outlets located in Macau. Our Retail Outlets were operated under two sales concepts: (i) multi-branded Retail Outlets; and (ii) specialty Retail Outlets, with the following trade names:

*Multi-branded Retail Outlets***S.Culture**  S.CULTURE

Concept: S.Culture are operated under the concept of selling trendy in-season of diversified range of footwear from different brands

Number of Retail Outlets: As at the Latest Practicable Date, we operated 57 Retail Outlets under the name of S.Culture, of which 22 were located in Hong Kong, 33 Retail Outlets were located in Taiwan and two were located in Macau

**shoe mart**  shoe mart

Concept: shoe mart are operated under the concept of selling diversified range of footwear from different brands of mostly previous seasons at a discounted price of approximately 50% of the suggested retail price. Generally, none of our Group's footwear products were sold below cost

Number of Retail Outlets: As at the Latest Practicable Dates, we operated 10 Retail Outlets under the name of shoe mart, all of which were located in Hong Kong

**SCOOPS** 

Concept: SCOOPS are operated under the concept of selling diversified range of footwear from different brands targeting at the younger population

Number of Retail Outlet: As at the Latest Practicable Date, we operated two Retail Outlets under the name of SCOOPS and all of which were located in Hong Kong

### *Specialty Retail Outlets*

The specialty Retail Outlets of our Group mainly offer products from a single licensed brand which is considered by our Group as popular and successful in the market and has the ability or potential for separate development as a stand-alone brand. Details of our specialty Retail Outlets are as follow:



Concept: Founded in the 1820s aiming to introduce more comfort materials to its footwear. The Retail Outlets operated under the name of Clarks offers only Clarks and Clarks Originals branded footwear products

Number of Retail Outlets: As at the Latest Practicable Date, we operated 18 Retail Outlets under the name of Clarks, of which seven were located in Hong Kong and the remaining 11 Retail Outlets were located in Taiwan (*Note*)



Concept: Founded in the 1940s aiming to revive and replicate iconic styles and inspire customers with new looks. The Retail Outlets operated under the name of Clarks Originals offers mainly Clarks Originals branded footwear products with a small mix of Clarks footwear products

Number of Retail Outlets: As at the Latest Practicable Date, we operated three Retail Outlets under the name of Clarks Originals, of which two were located in Hong Kong and one was located in Taiwan (*Note*)



Concept: The Retail Outlets operated under the name of Josef Seibel offers only Josef Seibel branded footwear products

Number of Retail Outlets: As at the Latest Practicable Date, we operated eight Retail Outlets under the name of Josef Seibel of which all were located in Hong Kong

*Note:*

As at the Latest Practicable Date, 11 out of the 20 Retail Outlets operating under the trade name of Clarks and Clarks Originals were subject to the restriction of selling Clarks branded footwear products only under their respective leases/concession agreements.

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The following table sets out our Group's turnover categorised by trade name of Retail Outlets for each of the three years ended 31 December 2012:

|                  | <b>Year ended 31 December</b> |             |                   |             |                   |             |
|------------------|-------------------------------|-------------|-------------------|-------------|-------------------|-------------|
|                  | <b>2010</b>                   |             | <b>2011</b>       |             | <b>2012</b>       |             |
|                  | <i>(HK\$'000)</i>             | <i>(%)</i>  | <i>(HK\$'000)</i> | <i>(%)</i>  | <i>(HK\$'000)</i> | <i>(%)</i>  |
| S.Culture        | 202,455                       | 66.3%       | 245,890           | 60.9%       | 258,261           | 58.5%       |
| Clarks           | 71,596                        | 23.5%       | 109,898           | 27.2%       | 119,507           | 27.0%       |
| Clarks Originals | 17,369                        | 5.7%        | 26,445            | 6.6%        | 24,447            | 5.5%        |
| Josef Seibel     | —                             | 0.0%        | 888               | 0.2%        | 10,106            | 2.3%        |
| shoe mart        | 12,748                        | 4.2%        | 19,413            | 4.8%        | 25,759            | 5.8%        |
| SCOOPS           | 986                           | 0.3%        | 1,104             | 0.3%        | 3,888             | 0.9%        |
| <b>Total</b>     | <u>305,154</u>                | <u>100%</u> | <u>403,638</u>    | <u>100%</u> | <u>441,968</u>    | <u>100%</u> |

### **Retail Outlets**

Our Retail Outlets generally can be classified into two categories: (i) self-rented shops; and (ii) concessions.

#### *Self-rented shops*

Self-rented shops are the premises occupied by our Group by way of tenancy or leasing arrangements for conducting sales activities. We collect sale receipts by ourselves for each transaction. Save for one self-rented shop in Hong Kong, all self-rented shops of our Group are leased from the Independent Third Parties. For details, please refer to the section headed "Connected Transactions" in this prospectus. The terms of our leases generally range from one to five years.

#### *Concessions*

Concessions are the sales counters or sales areas operated or occupied by our Group in various department stores or shopping malls based on the concession agreements entered into between our Group and the relevant department stores or shopping malls. Our Group employs sales staff responsible for the daily operations of our concessions.

In Hong Kong and Taiwan, the duration of the concession agreements entered into between our Group and the relevant department stores or shopping malls generally ranges from six months to 24 months subject to renewal or extension upon expiration. Generally, the concession agreements in Hong Kong and Taiwan may be terminated by the operators of the department stores or shopping malls if our Group is in breach of terms of the agreement. During the Track Record Period, our Group had not experienced any early termination of the concession agreements as a result of any breach of the concession agreement.

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In both Hong Kong and Taiwan, the concession fees paid by our Group were generally equal to the higher of a minimum monthly charges or a certain percentage of the gross turnover of the monthly sales made by such concession.

In addition to rent and concession fee, the landlords and the operators of the department stores and shopping malls also charge us building management fees for common area maintenance.

The following table sets out the revenue categorised by revenue generated from sales made in self-rented shops and concessions for the three years ended 31 December 2012:

|                   | Year ended 31 December                  |                   |             |   |                   |             |   |                   |             |
|-------------------|---|-------------------|-------------|---|-------------------|-------------|---|-------------------|-------------|
|                   | 2010                                    |                   |             | 2011                                    |                   |             | 2012                                    |                   |             |
|                   | <i>Number<br/>of Retail<br/>Outlets</i> | <i>(HK\$'000)</i> | <i>(%)</i>  | <i>Number<br/>of Retail<br/>Outlets</i> | <i>(HK\$'000)</i> | <i>(%)</i>  | <i>Number<br/>of Retail<br/>Outlets</i> | <i>(HK\$'000)</i> | <i>(%)</i>  |
| Self-rented shops | 36                                      | 199,279           | 65.3%       | 40                                      | 239,515           | 59.3%       | 44                                      | 254,319           | 57.5%       |
| Concessions       | 46                                      | 105,875           | 34.7%       | 49                                      | 164,123           | 40.7%       | 58                                      | 187,649           | 42.5%       |
| <b>Total</b>      | <b>82</b>                               | <b>305,154</b>    | <b>100%</b> | <b>89</b>                               | <b>403,638</b>    | <b>100%</b> | <b>102</b>                              | <b>441,968</b>    | <b>100%</b> |

### *Opening and closure of our Retail Outlets*

During the Track Record Period, we observed and considered the following for opening and closing of Retail Outlets:

- when we consider opening a new Retail Outlet, we would (i) review on ease of access for our customer, population density, potential growth of customer, and vehicle traffic and proximity and performance of competitors nearby the target location in that area; and (ii) weigh the rental against the sales projection of the next three years of a particular Retail Outlet;
- we closed down some Retail Outlets when they were not profitable or, could not be renewed with favourable terms upon expiry of the lease. At times, due to the development plan of the shopping malls where our Retail Outlets located, the shopping malls did not renew the lease with us upon expiry; and
- during Track Record Period, we had nil in 2010, one lease agreement in 2011, and one lease agreement and one concession agreement in 2012 that were terminated before their respective expiry dates in Hong Kong, Taiwan and Macau. We do not incur any additional expenses from our early termination under these lease or concession agreements that would otherwise cause adverse financial effects to our business operations.

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The following table sets forth the breakdown and changes in the number of Retail Outlets during the Track Record Period (by location):

|                   | Number of Retail Outlets as at 31 December |           |          |           |           |           |           |           |          |            |          |          | As at the Latest Practicable Date |
|-------------------|--|-----------|----------|-----------|-----------|-----------|-----------|-----------|----------|------------|----------|----------|-----------------------------------|
|                   | 2009                                       | Opening   | Closure  | 2010      | Opening   | Closure   | 2011      | Opening   | Closure  | 2012       | Opening  | Closure  |                                   |
| Self-rented shops |  |           |          |           |           |           |           |           |          |            |          |          |                                   |
| — Hong Kong       | 27   | 4         | 4        | 27        | 8         | 6         | 29        | 6         | 2        | 33         | 1        | 4        | 30                                |
| — Taiwan          | 0  | 6         | 0        | 6         | 3         | 1         | 8         | 0         | 0        | 8          | 0        | 0        | 8                                 |
| — Macau           | 3  | 0         | 0        | 3         | 0         | 0         | 3         | 0         | 0        | 3          | 0        | 1        | 2                                 |
| <b>Subtotal</b>   | <b>30</b>                                  | <b>10</b> | <b>4</b> | <b>36</b> | <b>11</b> | <b>7</b>  | <b>40</b> | <b>6</b>  | <b>2</b> | <b>44</b>  | <b>1</b> | <b>5</b> | <b>40</b>                         |
| Concessions       |  |           |          |           |           |           |           |           |          |            |          |          |                                   |
| — Hong Kong       | 17   | 2         | 4        | 15        | 3         | 1         | 17        | 6         | 2        | 21         | 0        | 0        | 21                                |
| — Taiwan          | 0  | 31        | 0        | 31        | 4         | 3         | 32        | 5         | 0        | 37         | 0        | 0        | 37                                |
| — Macau           | 0  | 0         | 0        | 0         | 0         | 0         | 0         | 0         | 0        | 0          | 0        | 0        | 0                                 |
| <b>Subtotal</b>   | <b>17</b>                                  | <b>33</b> | <b>4</b> | <b>46</b> | <b>7</b>  | <b>4</b>  | <b>49</b> | <b>11</b> | <b>2</b> | <b>58</b>  | <b>0</b> | <b>0</b> | <b>58</b>                         |
| <b>Total</b>      | <b>47</b>                                  | <b>43</b> | <b>8</b> | <b>82</b> | <b>18</b> | <b>11</b> | <b>89</b> | <b>17</b> | <b>4</b> | <b>102</b> | <b>1</b> | <b>5</b> | <b>98</b>                         |

The following table sets forth the breakdown and changes in the number of Retail Outlets during the Track Record Period (by trade name):

|                  | Number of Retail Outlets as at 31 December |           |          |           |           |           |           |           |          |            |          |          | As at the Latest Practicable Date |
|------------------|--|-----------|----------|-----------|-----------|-----------|-----------|-----------|----------|------------|----------|----------|-----------------------------------|
|                  | 2009                                       | Opening   | Closure  | 2010      | Opening   | Closure   | 2011      | Opening   | Closure  | 2012       | Opening  | Closure  |                                   |
| S.Culture        | 30   | 32        | 5        | 57        | 7         | 9         | 55        | 7         | 2        | 60         | 0        | 3        | 57                                |
| Clarks           | 6  | 10        | 1        | 15        | 4         | 1         | 18        | 0         | 0        | 18         | 1        | 1        | 18                                |
| Clarks Originals | 2  | 1         | 0        | 3         | 1         | 0         | 4         | 0         | 0        | 4          | 0        | 1        | 3                                 |
| Josef Seibel     | 0  | 0         | 0        | 0         | 3         | 0         | 3         | 5         | 0        | 8          | 0        | 0        | 8                                 |
| shoe mart        | 8  | 0         | 2        | 6         | 3         | 1         | 8         | 3         | 1        | 10         | 0        | 0        | 10                                |
| SCOOPS           | 1  | 0         | 0        | 1         | 0         | 0         | 1         | 2         | 1        | 2          | 0        | 0        | 2                                 |
| <b>Total</b>     | <b>47</b>                                  | <b>43</b> | <b>8</b> | <b>82</b> | <b>18</b> | <b>11</b> | <b>89</b> | <b>17</b> | <b>4</b> | <b>102</b> | <b>1</b> | <b>5</b> | <b>98</b>                         |

The following table summarises the expiry dates of each lease/concession agreement as at the Latest Practicable Date (by location and its nature of rent charged<sup>(1)</sup>):

| Period that relevant expiry dates fall under | Self-rented shops |              |              | Concessions   |               |          |
|--|-------------------|--------------|--------------|---------------|---------------|----------|
|  | Hong Kong         | Taiwan       | Macau        | Hong Kong     | Taiwan        | Macau    |
| On or before 30 June 2013 <sup>(2)</sup>     | —                 | —            | —            | 3 (T)         | —             | —        |
| 1 July 2013–30 September 2013 <sup>(3)</sup> | 2 (F)             | 2 (F)        | —            | 2 (T)         | 22 (T)        | —        |
| 1 October 2013–31 December 2013              | 3 (T)             | 1 (F)        | —            | 4 (T)         | —             | —        |
| 1 January 2014–31 March 2014                 | 1 (F)             | 1 (F)        | 1 (F)        | 5 (T)         | 12 (T)        | —        |
|  | 2 (T)             | —            | —            | —             | —             | —        |
| 1 April 2014–30 June 2014                    | 2 (F)             | 2 (F)        | —            | 5 (T)         | 1 (T)         | —        |
|  | 2 (T)             | —            | —            | —             | —             | —        |
| 1 July 2014–30 September 2014                | 3 (F)             | —            | —            | —             | 1 (F)         | —        |
|  | 2 (T)             | —            | —            | —             | 1 (T)         | —        |
| 1 October 2014–31 December 2014              | 3 (F)             | 1 (F)        | —            | 1 (T)         | —             | —        |
|  | 1 (T)             | —            | —            | —             | —             | —        |
| 1 January 2015–30 June 2015                  | 2 (F)             | —            | —            | 1 (T)         | —             | —        |
|  | 3 (T)             | —            | —            | —             | —             | —        |
| 1 July 2015–31 December 2015                 | 3 (T)             | —            | —            | —             | —             | —        |
| 1 January 2016–31 December 2016              | 1 (T)             | 1 (F)        | 1 (T)        | —             | —             | —        |
| <b>Total</b>                                 | <b>13 (F)</b>     | <b>8 (F)</b> | <b>1 (F)</b> | <b>21 (T)</b> | <b>1 (F)</b>  | <b>—</b> |
|  | <b>17 (T)</b>     | <b>—</b>     | <b>1 (T)</b> | <b>—</b>      | <b>36 (T)</b> | <b>—</b> |

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*Notes:*

1. For presentation purpose under this table, the abbreviations “F” and “T” would be adopted for respectively “fixed” and “turnover based” rents as charged under these lease/concession agreements. “Turnover based” rents represent concession fees of a higher amount between a contingent rent as a percentage of revenue and a specified fixed rent, depending on the specific terms of the relevant concession agreements.
2. As at the Latest Practicable Date, we had renewed three of the lease and concession agreements.
3. As at the Latest Practicable Date, we had renewed six of the lease and concession agreements.

For the remaining leases and concessions which shall expire in 2013, we will consider whether to renew such leases and concessions based on the considerations set out under the section headed “Business — Sales Network — Retail Outlets — Opening and closure of our Retail Outlets”. We do not have any leases or concessions agreements that provide for an increase in rent during the remaining lease terms after the Track Record Period. The aggregate amount of fixed rent for concessions in 2013 is approximately HK\$22.4 million. Taking into account that (i) we had renewed most of our leases/concession agreements during the Track Record Period; and (ii) the renewal of our concession agreements is unconditional our Directors do not foresee any difficulty in renewing the remaining leases and concessions which shall expire in 2013.

### **Wholesale business**

As at the Latest Practicable Date, we had a total of 77 wholesale customers, comprising 50 wholesale customers in Hong Kong and 27 wholesale customers in Taiwan. Our wholesale customers are typically department stores or footwear retail chain stores with their own established local sales networks. We recognise our sales to wholesale customers when products have been delivered to our wholesale customers and their unsold goods cannot be returned to us. For the three years ended 31 December 2012, we generated through our wholesale customers sales of approximately HK\$60.7 million, HK\$68.8 million and HK\$63.3 million, respectively, representing approximately 16.6%, 14.6% and 12.5% of our total sales during the relevant years. To avoid competition between our Retail Outlets and the retail points of our wholesale customers, our Retail Outlets are located in different department stores or shopping malls where our wholesale customers’ retail points operate. We believe that by collaborating with the wholesale customers to sell our products, we are able to benefit from leveraging their own distribution channels and resources.

We had maintained business relationships with most of our wholesale customers during the Track Record Period and have been dealing with many of them for more than five years. Our Directors believe that in line with the usual industry practice, we do not enter into any long term sales agreements with our wholesale customers, while they are required to submit purchase orders to us for every season with all the specifications as to type, style and quantity of footwear products required. Although we do not have direct control over the pricing policy of our wholesale customers, we usually recommend a retail price to our wholesale customers. Our Directors believe that such arrangement is consistent with the market practice in Hong Kong and Taiwan.



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We typically sell our products on credit and grant most of our wholesale customers a credit terms ranging from 30 days to 60 days depending on a number of factors, such as their credit history and scale of operation. During the Track Record Period, we did not experience any material bad debts, nor experience any significant difficulties in collecting our trade receivables from our wholesale customers.

Other than business relationship described above, save for United Overseas Sundry Goods in Taiwan which was controlled by CN Fashion, there were no other relationships (including family or employment relationships) between us, our Directors, our substantial shareholders, our senior management or any of our or their associates on the one hand, and the wholesale customers or any of their respective associates, each of which is an Independent Third Party, on the other hand during the Track Record Period.

### PRICING AND DISCOUNT POLICY

Our profitability depends on the competitiveness of our products in terms of prices. The following factors are taken into consideration in determining the retail prices of our products:

- cost incurred from our orders to suppliers;
- retail prices of similar products in the market;
- market positioning of our products;
- features and designs of our products; and
- anticipated market trends and demand.

Our Group, as a distributor, can determine the retail or wholesale prices and no minimum selling prices would be set by the suppliers. Our standard pricing policy generally applies to all Retail Outlets across the same geographical region. For our wholesale customers, we usually offer a discounted rate to the suggested retail price. In our Retail Outlets, we offer discounts from time to time, and the range of discounts is formulated by our sales team and management in accordance with seasonality, inventory turnover rate and market trends. In addition to our above strategic sales, we would participate in promotional activities organised by department stores where our concessions are located.

### SALES RETURN POLICY AND WARRANTY

As our personnel in warehouses and Retail Outlets are responsible for conducting sample check on the quality of products before delivery or sales, we normally would not accept goods return unless due to manufacturing defects. Our sales team is trained to deal with any complaints that may arise from retail customers, including the verification of any alleged defects in our products. For our wholesale customers, on receiving notification of defective goods, and upon verification by our relevant staff that such damages or defects were as a result of manufacturing faults, we would arrange exchange

of products with the wholesale customers for the whole batch of damaged or defective products. We do not allow any return of unsold or obsolete products from our wholesale customers. Subsequently, we would inform the relevant supplier for the reimbursement of the same amount to us with or without delivering those damaged or defective products to the suppliers. In each of the three years ended 31 December 2012, the total amount of returned goods by our customers (wholesale and retail) was less than 0.5% of our total revenue. Based on past experience, our Directors consider that the level of goods return was insignificant and no provision on goods return had to be made during the Track Record Period.

### **MARKETING AND PROMOTION**

We have designed our marketing strategies and tactics tailored to our targeted customers who prefer international brands of lifestyle comfort. We pursue a direct in-store marketing strategy which focuses on in-store product presentation in a stylish, attractive and consistent manner. Through the use of consistent product displays, window displays and furnishings at our Retail Outlets, we seek to raise public awareness of the relevant brands. We believe that this in-store marketing approach is more cost-effective than non-specific mass promotion because we strategically position our Retail Outlets within department stores and shopping malls, that already capture the flow of our targeted customers. We also benefit from the reputation and marketing activities of the department stores and shopping malls in which we operate our Retail Outlets.

By the following promotional activities, we have strengthened the reputation of our brands:

- **Distribution of product catalogues**

To promote the latest designs from our seasonal collections, we print product catalogues and posters that are designed to attract customers to our Retail Outlets.

- **Seasonal promotions and discounts**

We offer discounts on selected merchandise for a limited promotional period. We also participate in promotional campaigns organised by department stores or shopping malls to take advantage of the higher number of consumers visiting the stores or malls.

- **Media advertising**

We advertise our products on billboards and in magazines to raise brand awareness among our targeted consumers.

- **VIP card programme**

We have launched a VIP card programme for some of our brands. Our VIP cardholders enjoy a discount for each purchase of products, and special discounts on selected dates for purchases of the brand.

### **SEASONALITY**

Our business is seasonal in nature due to customer spending patterns, with increased sales generally recorded during holiday periods or festive seasons. For example, we typically experience higher sales during the Christmas, the Chinese New Year, the New Year, the Labour Day and the National Day holiday week. Accordingly, we believe that it is not meaningful to rely on the comparison of revenue and results of operation across different periods of a given year as an indicator of our performance. Our sales and inventory levels are therefore affected by the corresponding changes in consumer behaviour due to seasonality effects.

### **SUPPLIERS**

Our major suppliers are our licensed brands and their respective manufacturers. For the three years ended 31 December 2010, 2011 and 2012, the aggregate purchases from our Group's five largest suppliers accounted for approximately 91.6%, 91.4% and 80.6% of our total purchases, respectively. For the relevant years, the purchases from our single largest supplier accounted for approximately 81.8%, 82.9% and 71.3% of our total purchases, respectively.

#### **Reliance on our largest supplier**

We consider that it is commercially beneficial to build up a close and long-term business relationships with our suppliers. For the three years ended 31 December 2010, 2011 and 2012, we had relied on the supply of footwear products from C&J Clark, which accounted for approximately 81.8%, 82.9% and 71.3% of our total purchases, respectively. Please refer to the section headed "Risk Factors — Risk Relating to Our Business — We rely on our distribution agreements with various suppliers, including C&J Clark, and Josef Seibel GmbH, in relation to our branded footwear products" in this prospectus. With our efforts to diversify our footwear supply during the Track Record Period, and in particular, the year ended 31 December 2012, our purchases from other licensed brands had increased.

While we endeavour to maintain our established business relationship with C&J Clark, we identify new brands and new product lines under our existing brands in the course of our brand and product selection process in order to expand our choice of suppliers and broaden our revenue stream. Notwithstanding that, We believe and anticipate the sales portion to be derived from branded footwear products other than Clarks branded footwear products will gradually increase through our diversified product mix and geographical expansion as, in addition to our new specialty Retail Outlets for Clarks branded footwear products, we also plan to open new specialty Retail Outlets for Josef Seibel and The Flexx branded footwear products and introduce new brands in 2013

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and 2014. During the Track Record Period, the aggregate sales generated by other licensed branded footwear products excluding sales of Clarks branded products increased from 5.9% to 15.5% of our total sales. Our Directors believe that our long and stable business relationship with C&J Clark will not deteriorate to an extent which will cause our agreements with C&J Clark be terminated. Notwithstanding that, in the event any of our agreements with C&J Clark has to be terminated, which will also lead to the termination of our exclusive distribution right, our Directors believe that our Group will have sufficient time to shift gradually our business focus to other branded footwear products after considering (i) the whole termination process (including the sell-down of remaining inventories and termination or surrender of shop leases) will take up to a year to complete in an orderly manner; (ii) the existing and projected number of multi-branded and specialty Retail Outlets that are carrying other branded footwear products; (iii) the required time for merchandising to production and delivery of other branded footwear products; (iv) the increasing revenue generated by the sales of other branded footwear products during the Track Record Period; and (v) the adequacy of supply of inventories from suppliers of other branded footwear, taking into account of their scales of production and sales worldwide, to replace the number of SKUs historically provided by C&J Clark. For details of our future plans, please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus.

To the best knowledge and belief of our Directors after making all reasonable enquiries, none of our Directors or any Shareholders of our Company, who owns more than 5% of the share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue, nor any of their respective associates, has any interest in any of the five largest suppliers of our Group for each of the three years ended 31 December 2012. During the Track Record Period, all suppliers of our Group were Independent Third Parties.

### CUSTOMERS

Our wholesale customers are typically local department stores or footwear retail chain stores. Our retail customers, are mainly members of the public or tourists in Hong Kong, Taiwan and Macau. During the Track Record Period, our sales to our five largest customers (including retail and wholesale customers) accounted for approximately 8.7%, 7.8% and 6.3% of our total revenue for the three years ended 31 December 2010, 2011 and 2012, respectively. For the three years ended 31 December 2010, 2011 and 2012, the sales to our single largest customer accounted for approximately 4.7%, 4.2% and 3.6%, of our revenue, respectively. During the Track Record Period, all customers of our Group were Independent Third Parties.

To the best knowledge and belief of our Directors after making all reasonable enquiries, none of our Directors or any Shareholders of our Company, who owns more than 5% of the share capital of our Company immediately following completion of the Global Offering and the Capitalisation Issue, nor any of their respective associates, has any interest in any of the five largest customers of our Group for each of the three years ended 31 December 2012.

**MANAGEMENT INFORMATION SYSTEM**

Our management information system is intended to improve efficiency in the management of our supply chain, sales, inventory control and logistics. Currently, our Retail Outlets are linked to our central headquarters through the POS system, which facilitates timely and accurate data management. This allows us to collect information regarding customer purchase and monitor customer preferences and make timely assessments on market trends. Our POS system also enables us to closely monitor inventory levels and transaction patterns at each of our Retail Outlets, providing vital information which we can use to facilitate responsive reallocation of stocks.

During the Track Record Period, we had not experienced any incidents of malfunction of any part of our management information system which materially affected our operations. To ensure that our performance and service standards keep pace with our expanding retail network, we plan to improve our system to manage the information flow along the supply chain, the Retail Outlets and the logistics centre.

**INVENTORY CONTROL AND LOGISTICS**

We utilise a computerised inventory management system which are installed in our Hong Kong headquarters. It allows us to track the inventory level and movement of our SKUs on a timely basis. Our inventory management system also records specific information in respect of our inventory such as stock description, prices and sales on an individual Retail Outlet. Each SKU in our Retail Outlets is coded with a unique bar code, and details of such items will be instantly displayed on the screen of our cashiers' counters when scanned through a barcode scanner. All information on checked out merchandise is stored in our information technology systems and available to our head office daily.

Reports regarding inventories movements and sales progress could be generated for management's review. Our Group is able to assess the purchasing patterns of our customers, identify the best or more popular items, review the sales performance and analyse sales by seasonal and geographical factors. Our Group is able to make informed decisions on issue regarding sales strategies, marketing and promotion, ordering and purchasing strategies effectively. In order to reduce the building up of aged inventory, we have established chain stores under the brand "shoe mart", which is operated using the concept of selling footwear products from different brands mostly of previous seasons at a discounted price of approximately 50% of the suggested retail price. Generally, none of our Group's footwear products were sold below cost. We would also conduct seasonal sales or promotional sales at all our Retail Outlets to reduce inventory and make room for new products. In some cases, when we noticed certain SKUs which were not turning as estimated, we would allow additional discount on these SKUs other than seasonal sales or promotional sales periods.

We also have internal protocols over every stages of the inventory cycle which consists of stock-in, stock-out, transfer between Retail Outlets, and physical inventory count and safeguarding of our inventories.

**Stock-in**

Generally, purchase order is made every six months. Once approved by our management, the purchasing and logistics department will send the purchase order summary (with consolidated number of SKUs required and shipping request) to our suppliers for placement of the purchase order.

When the goods arrive at the warehouse, the warehouse staff first cross check the carton, quantity and details of the goods with the supplier's delivery notes. The warehouse staff then match the purchase order with the delivered goods to ensure the correct goods have been delivered. For any discrepancy, the warehouse staff will inform the relevant staff in the purchasing and logistics department, where claims will be applied to suppliers for wrong or insufficient shipment. If the delivered goods are correct, the goods will be checked in to the warehouse by marking and scanning the goods to update the inventory record. After scanning the goods, a goods receipt list is generated and signed by the warehouse staff at the time of receipt.

**Stock-out**

For any goods to be shipped out from the warehouse, the shoe department will send sales order confirmation to the warehouse department to arrange for packing of the required goods. Manager of the warehouse department will approve the sales order confirmation and staff will approve the quantity and details of goods as shown on the packing list. Prior to the delivery of goods, they will double check using a bar code machine to ensure that the goods are ready to deliver to the wholesale customers or Retail Outlets. Meanwhile, a delivery note will be prepared for the shoe department, where the manager of the shoe department will approve the delivery document to ensure that the delivery quantity and details are in accordance with the sales order confirmation. Once confirmed, a sales invoice will be issued to the wholesale customers, but no sales invoice will be issued for our Retail Outlets.

Upon delivery and checking of the quantity and quality of the goods, the wholesale customer will sign or chop on the sales invoice to acknowledge receipt. For Retail Outlets, the shop manager or other staff will check the quantity and details of the goods delivered and sign on the goods delivery note for acknowledgement. For goods exporting to our Taiwan branches, the warehouse keeper will weigh the goods and use that weight as reference. Upon receipt of goods in Taiwan warehouses, our relevant personnel will weigh the goods again to ensure the quantities are accurate.

*Transfer between Retail Outlets*

In cases where a transfer of goods between Retail Outlets is required, the salesman from shop A will scan the barcode of the goods and generate the delivery notes from the POS system. The delivery notes will usually be approved by the shop manager. Upon receipt of the goods by shop B, the sales staff from shop B is required to sign on the delivery notes and update our POS system to acknowledge receipt.

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### *Physical inventory count*

Prior to September 2012, our warehouses and each Retail Outlet carried out physical inventory count every March, July and November. After September 2012, our warehouses and each Retail Outlet would carry out physical inventory count every June and December. With our inventory management system, the head office in Hong Kong is able to monitor and keep track of the movement of the inventory and the sales progress in each location, and can more effectively adjust the inventories of each location to meet customer demand.

### *Safeguarding of inventory*

In order to safeguard our inventory, all inventory is stored in secured area. Security systems and CCTV surveillance are installed to prevent access of any unauthorised personnel to our warehouses.

### **Inventory turnover days**

The following table sets forth our average inventory turnover days for the periods indicated:

|  | <b>For the year ended 31 December</b> |             |             |
|--|---------------------------------------|-------------|-------------|
|  | <b>2010</b>                           | <b>2011</b> | <b>2012</b> |
| Average inventory turnover days <sup>(1)</sup>                   | 229.4                                 | 192.0       | 225.5       |
| Average inventory turnover days at Retail Outlets <sup>(2)</sup> | 187.0                                 | 180.8       | 188.5       |

#### *Notes:*

1. Average inventory turnover days equal to the average inventory divided by cost of goods sold and multiplied by 365 days. Average inventory equals inventory at the beginning of the year plus inventory at the end of the year divided by two.
2. Average inventory turnover days at Retail Outlets equal to the average inventory at Retail Outlets divided by the respective cost of goods sold multiplied by 365 days. Average inventory at Retail Outlets equal to average inventory at Retail Outlets at the beginning of the year plus inventory at the Retail Outlets at the end of the year divided by two.

Our Directors believe that our footwear products by nature are not fast-moving and have a relatively long product life cycle. Our inventory turnover days are in line with the industry norm.

We have not experienced, and our Directors believe that we will not experience, inadequate supply of products from C&J Clark after placing orders. Our Directors consider that there would not be material adverse impact to our business operations if C&J Clark fails to supply adequate products in the future as our management reviews our inventory

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level regularly and we maintain an inventory level of approximately six months which allows sufficient time for us to order from other footwear brands to replace such deficiency.

For detailed analysis on our inventory level, please refer to the section headed “Financial Information — Inventories” in this prospectus.

### *Provision for inventories*

At the end of each season, our management review the sales of each of the SKUs in order to identify and make provision for obsolete and slow-moving inventories of our footwear products on a case by case basis. As at 31 December 2010, 31 December 2011 and 31 December 2012, the provisions for obsolete inventories amounted to approximately HK\$1.8 million, HK\$7.0 million and HK\$2.4 million, respectively.

Our management manages slow moving inventories by performing assessment on allowance for inventories at the end of each reporting period. The assessment on allowance for inventories was performed by reviewing the marketability of each SKU. The marketability of each SKU was determined by our management with the consideration of factors including current year sales, subsequent sales and product design of the particular SKU under review matching with the current footwear market fashion trend. At the end of each reporting period, our management had generated stock lists containing each SKU from the POS system to perform such review. Allowance of inventories amounting to approximately HK\$1.8 million, HK\$7.0 million and HK\$2.4 million were made as at 31 December 2010, 2011 and 2012, respectively, as the management considered the marketability of the pertaining SKUs to be low.

During the Track Record Period, included in the inventory balance of approximately HK\$90.5 million as at 31 December 2010, approximately HK\$14.6 million and HK\$9.1 million were aged over one year but less than two years and over two years, respectively. Included in the inventory balance of HK\$94.5 million as at 31 December 2011, approximately HK\$10.7 million were those aged over one year but less than two years. Based on our management’s review, those aged over one year were still marketable with reference to the current year sales and subsequent sales, and the product designs of these SKUs matching with the current footwear fashion trend. Our Directors considered that no further allowance was necessary for these SKUs.

During the year ended 31 December 2012, allowance for inventories amounted to approximately HK\$4.6 million was reversed upon subsequent sales at or above their original costs plus direct selling expenses. Allowances for these SKUs had been made by our management during the year ended 31 December 2011 on the consideration that these SKUs had no marketability given their designs were not marketable as well as nil current year sales or subsequent sales were noted. However, inventories amounting to approximately HK\$4.6 million were mostly sold in warehouse sales held during the year ended 31 December 2012 at significantly lower selling prices than Retail Outlets, while warehouse sales are not regularly launched by our Group. For inventory balance of HK\$125.9 million as at 31 December 2012, approximately HK\$12.2 million were aged over one year but less than two years. Based on our management’s review, those aged



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over one year were still marketable with reference to the current year sales and subsequent sales, and the product design of these SKUs matching with the current footwear fashion trend. Our Directors considered that no further allowance was necessary for these SKUs.

Our Directors and the Sole Sponsor are of the view that the bases of the allowance made for inventories as that the end of the Track Record Period was considered reasonable and adequate. Our Directors also believe that our inventory management policies are effective.

### QUALITY CONTROL

We have implemented quality control procedures to ensure the quality of our footwear products. When there are products delivered to our warehouses, our staff of purchasing and logistics department would conduct sample checks. If the damaged or defective goods were discovered at our warehouse, the whole batch of damaged or defective goods of footwear products would not be despatched to our Retail Outlets or wholesale customers. Upon notifying and receiving confirmation from the relevant supplier for the damaged or defective footwear, the whole damaged or defective batch would be hole-punched and set aside to be destroyed. We would then liaise with the relevant supplier for the reimbursement for the whole batch of damaged or defective goods.

Our store personnel at each Retail Outlet would check the quality of our footwear products upon delivery and before selling to our customers. As at 31 December 2012, we did not have a separate quality control department. However, four members of our purchasing and logistics staff who possessed an average of over five years of relevant experience would inspect the quality of our products in our warehouses.

### CASH MANAGEMENT

Due to the nature of our Group's business, the sales generated by our Group are settled by cash, credit card or easy payment system (EPS).

#### *Concessions in department stores and shopping malls*

The sale receipts of our Group are generally collected by the operators of the department stores or, in Taiwan case, shopping malls on behalf of our Group. They will subsequently settled with our Group within one month after deducting rental fee and other expenses. Furthermore, the relevant department stores and shopping malls will issue a sales report to our Group on a monthly basis which enables our Group to cross check with the relevant monthly sales records maintained by our Group. Any discrepancies between our Group's sales records and that of the department stores or shopping malls are reconciled to ensure that the sales records maintained by our Group and the relevant department stores or shopping malls are consistent and correct. Revenue will be recognised when products are sold to the customers in the concessions.

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To minimise the possible default risks regarding the settlement of the sales proceeds by the operators of department stores and shopping malls, our Group usually selects reputable department stores and shopping malls to set up our concessions. During the Track Record Period, there was no material internal deficiencies in our cash management system, significant lost amount of cash by embezzlement, theft or robbery, or difficulty in collecting sales proceeds from the department stores or shopping malls.

### *Self-rented shops and some concessions*

Payment by our customers at our Retail Outlets which are self-rented shops and some concessions located in the shopping malls are handled by our sales staff at our own checkout counters. We reconcile our cash proceeds received from our sales against receipts recorded in our POS system in all of our Retail Outlets on a daily basis, and we deposit our cash proceeds with banks before the next business day.

Since large amount of cash is involved on a daily basis, we adopt a stringent internal control procedure for handling cash in our Retail Outlets. Our daily cash proceeds are only handled by a designated personnel, who is normally the manager of each Retail Outlet, and surveillance cameras are set up in nearly all of our Retail Outlets to monitor the activities around the cashier counters. Through a centralised computer system, we monitor and conduct daily checks on our cash proceeds against the records of deposit of cash from the bank and sales reports. Our Directors are of the view that there were no material internal deficiencies in our cash management system during the Track Record Period.

We have also purchased insurance against loss by theft or robbery for cash held at our Retail Outlets. As at the Latest Practicable Date, we had not experienced any significant loss of cash by theft or robbery.

## COMPETITION

The footwear retail industry is highly competitive. Competition in this sector may increase because there are few barriers to entry. Our Group faces competition from a large number of local and international footwear retailers. These competitors can either operate in the form of a small scale retail stores, concessions in a department store or shopping mall, in areas where our Group is operating or intends to operate.

The major competition is other international footwear retail chainstores which have larger resources and operating size as compared with our Group and have sales network offering similar type of footwear products at similar price with similar quality in location which our Group has sales operations as well. Furthermore, our Directors also consider that these competitors would continue to expand their own sales network, and to introduce new and innovative products and new brands to enlarge their existing market shares in the areas of our operation as well.

Our Group has an established retail network in Hong Kong, Taiwan and Macau which our Directors regard as an indicator of our Group's success in business operation. Besides, our Retail Outlets increase the public awareness, competitiveness and

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enhances customer loyalty to our Group's products in Hong Kong, Taiwan and Macau. In addition, our ability to offer quality and well known products under our authorised brands, such as Clarks and Josef Seibel, is also one of the competitive advantages of our Group. We believe that these factors offer our Group advantages over its competitors in securing competitive edge in retail and wholesale footwear market in Hong Kong, Taiwan and Macau. For details, please refer to the section headed "Industry Overview — Competitive Analysis" in this prospectus.

### INTELLECTUAL PROPERTY RIGHTS

As at the Latest Practicable Date, we owned a number of registered trademarks and had applied for certain trademarks. For details of all the registered trademarks or trademark applications of our Group, please refer to the section headed "B. Further Information About Our Business — 2. Intellectual Property Rights" in Appendix V to this prospectus.

Under the franchise agreements or distribution agreements, our suppliers of international branded footwear had authorised us to use their intellectual property rights in promoting or marketing of their footwear products in the authorised territories.

We recognise the importance of protecting and enforcing intellectual property rights. As at the Latest Practicable Date, we were not aware of any material infringement of the intellectual property rights of our licensed brands. We believe that we have taken reasonable steps to prevent any infringement of our intellectual property rights.

### EMPLOYEES

#### *Directors and staff remuneration*

We incurred staff costs of approximately HK\$60.9 million, HK\$85.2 million and HK\$82.2 million for the three years ended 31 December 2012, respectively. Our Directors' remuneration amounted to approximately HK\$8.5 million, HK\$16.5 million and HK\$7.2 million for the three years ended 31 December 2012, respectively. We review the performance of our employees annually and use such results in our annual salary review and promotion appraisal, in order to attract and retain talented employees.

#### *Welfare contribution*

Our Group operates a defined contribution mandatory provident fund retirement benefits scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) for all of our employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made in accordance with the Mandatory Provident Fund Schemes Ordinance and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of our Group in an independent administered fund. Our Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

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Pursuant to the applicable Taiwan laws and regulations, we are required to contribute to various mandatory benefits including labour insurance, health insurance and employee pension contribution for our employees in Taiwan.

Pursuant to the applicable Macau laws and regulations, we are required to contribute to the Macau Social Security Fund (Fundo de Segurança Social) and to transfer our liability for work related injuries to an insurance company authorised to operate in Macau.

### *Training and incentives for staff*

As at the Latest Practicable Date, we had 312 sales staff, of which 187 were located in Hong Kong, 114 were located in Taiwan and 11 located in Macau. In addition to the basic salaries, we motivate our sales staff with incentive commission. In general, the commission scheme comprises two parts: (i) commissions based on the total sales figures achieved by the relevant Retail Outlets above the relevant weekly and monthly sales targets set by the management; and (ii) extra bonus based on the special sales target set by the management from time to time.

Our Group provides training programs to our sales staff, which cover topics such as shop operations, sales skills, presentation skills, service standard and product knowledge. The regional managers or branch managers at our specialty Retail Outlets which carry Clarks branded products may also have the opportunities to train with C&J Clark's trainers as arranged by C&J Clark from time to time. Our Directors believe that, through these training programs, our Group is able to enhance the quality of the services of its sales personnel and their sales performance.

### *Labour and safety matters*

The health and safety is a major concern of our Group. We have implemented internal guidelines and reporting system for occupational health and safety related matters and trainings were provided on a regular basis to maintain or increase their awareness in this regard. Regarding the working environment for our sales personnel, most of the concessions are located in shopping malls or department stores in Hong Kong and Taiwan, and they all maintain good hygiene standard and a safe working environment for sales personnel and customers. Where appropriate, warning signs or notices are posted to draw the staff's attention of occupational safety especially when they are performing their duties in the warehouses or storage areas.

During the Track Record Period, our Group did not have any major safety incidents involving employees. We plan to continue adopting and improving the abovementioned measures so as to minimise the potential risk of injury or non-compliance with any relevant regulations in our areas of operation.

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### PROPERTY INTERESTS

As at the Latest Practicable Date, we owned five properties and one property in Hong Kong and Taiwan, respectively. Our owned properties are primarily used for office, workshop and car parking spaces purposes. The gross area of our self-owned properties ranges from approximately 1,330 sq.ft. to 7,282.58 sq.ft. for office purpose and approximately 2,436 sq.ft. to 12,376 sq.ft. for workshop purpose.

As at the Latest Practicable Date, we leased 35, nine and two properties in Hong Kong, Taiwan and Macau, respectively. Our leased properties and properties to be rented are primarily used or will be used as retail shops, warehouses and offices, and their leased areas range from approximately 129 sq.ft. to 6,109 sq.ft. whereas the term of our leases ranges from approximately one year to five years.

### INSURANCE COVERAGE

Our insurance coverage includes employee insurance, property insurance and all risks insurance (which includes loss and theft of, and damage to property such as our inventories in our warehouse and retail shops). We review our insurance policies from time to time for adequacy in the breadth of coverage. Our Directors are of the view that our insurance coverage is in line with the general coverage in the industry and is adequate for our operations. As at the Latest Practicable Date, we had not made nor been the subject of any material insurance claims.

### REGULATORY COMPLIANCE

Save as disclosed in the section headed “Business — Non-compliance with the Companies Ordinance” in this prospectus and based on confirmations from our Hong Kong legal advisers, Taiwan legal advisers and Macau legal advisers, our Directors have confirmed that our Group has obtained all requisite licences, permits or certificates necessary to conduct our operations in Hong Kong, Taiwan and Macau and has complied with all applicable laws and regulations as set out in the section headed “Regulatory Overview” in this prospectus as at the Latest Practicable Date.

Besides, based on the advice of Jun He Law Offices, our PRC legal advisers, our Directors have also confirmed that our Group is not aware of any particular licensing, approval or registration requirements in the PRC which regulate our Group’s business, save for the setting up of a business entity and the obtaining of a business licence. As such, our Group does not expect there will be any legal impediment in obtaining the necessary approvals for its operation in the PRC.

### LEGAL PROCEEDINGS

As at the Latest Practicable Date, no member of our Group was engaged in any litigation, claim or arbitration of material importance and no litigation, claim or arbitration of material importance is known to our Directors to be pending or threatened against any

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member of our Group, that would have a material adverse effect on our results of operations or financial position. In particular, our Group had not been subject to any product liability claims.

### **NON-COMPLIANCE WITH THE COMPANIES ORDINANCE**

During the due diligence process for the purpose of the Listing, it was discovered that we had not fully complied with the statutory requirements in sections 57B, 107, 111, 119 and 122 of the Companies Ordinance (the “**Non-compliances**”).

The Non-compliances arose mainly because of a lack of professional advice from the past company secretaries and company auditors of our Hong Kong subsidiaries. Further, the directors of the relevant subsidiaries were not familiar with, and were not made aware of, the specific requirements of the Companies Ordinance during the material period. To avoid further non-compliances, we have taken additional measures to improve our corporate governance and internal controls to ensure full compliance with applicable rules and regulations. Please refer to the paragraph headed “Internal control measures to prevent occurrence of non-compliance matters after the Listing” below for further information.

Upon identification of the Non-compliances, our Group has taken steps to rectify the same where possible. Court applications were made to rectify all non-compliances with section 111 (which relate to the failure to hold annual general meetings) and section 122 (which relate to the failure to table audited accounts), save that certain non-compliances with section 122 have not been and cannot be rectified since the relevant accounts can no longer be found. As a result, most of the non-compliances with section 122 and all non-compliances with section 111 have been fully rectified.

However, non-compliances with sections 57B, 107 and 119 cannot be and have not been fully rectified. Our Hong Kong legal advisers have advised that unlike sections 111 and 122, there is no provision in the Companies Ordinance that confers jurisdiction on the court to order rectification of non-compliances with such sections.

According to the experience of our Hong Kong legal advisers, the Registrar of Companies in Hong Kong does not prosecute all cases of non-compliances with the Companies Ordinance. As at the Latest Practicable Date, there has not been any prosecution initiated against our Group or the then or current directors of our Hong Kong subsidiaries, nor has any of them been subject to any fine relating to the Non-compliances.

Besides, section 351A of the Companies Ordinance provides that an offence under the Companies Ordinance may be prosecuted only if the prosecution is initiated (amongst others) within 3 years after the commission of the offence. Therefore, Non-compliances committed in 2009 or earlier are time-barred unless those Non-compliances are continuous in nature.

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Pursuant to the Deed of Indemnity, KTS International has further agreed to indemnify our Group against any direct damages, loss and liabilities arising from any and all of the Non-compliances as disclosed in this prospectus. As such, our Directors consider that the Non-compliances will not have a material impact on our Group's operation.

The details of the Non-compliances are set out below.

### 1. Section 111 of the Companies Ordinance

Contrary to section 111 of the Companies Ordinance, each of Kong Tai Sundry Goods, Cobblers and Shoe Mart Company, respectively, failed to hold annual general meetings in certain years. Under section 111, the company and every officer who is in default shall be liable to a fine of HK\$50,000.

| Name of subsidiary    | Relevant year(s)                     | Rectification action  |
|-----------------------|--------------------------------------|---|
| Kong Tai Sundry Goods | 1974–1996 (except for 1986 and 1988) | Applications were made to the High Court of Hong Kong on 25 March 2013 for relief.  |
| Cobblers              | 2010                                 | With respect to Cobblers and Shoe Mart Company, court orders were granted on 15 April 2013 to call and hold general meetings of the companies respectively for the year 2010. |
| Shoe Mart Company     | 2010                                 |   |

With respect to Kong Tai Sundry Goods, an order was granted on 14 May 2013 to call and hold a general meeting for all the relevant years.

In accordance with the court orders, general meetings of the companies were duly convened and were deemed to be the annual general meetings of the relevant companies for each of the relevant years.

All non-compliances with section 111 have thus been fully rectified.

## 2. Section 122 of the Companies Ordinance

Contrary to section 122 of the Companies Ordinance, in certain years our Hong Kong subsidiaries failed to lay their audited accounts at their respective annual general meetings and/or failed to lay audited accounts made up to a date falling not more than nine months before the date of the annual general meeting. The maximum penalty in respect of each offence under section 122 is a fine of \$300,000 and 12 months' imprisonment.

| <b>Name of subsidiary</b> | <b>Relevant year(s)</b>    | <b>Rectification action</b>   |
|---------------------------|----------------------------|---|
| Kong Tai Sundry Goods     | 1974–1996, 2002, 2006–2009 | In relation to Kong Tai Sundry Goods, the audited accounts for the years 1974 to 1980, 1982 to 1984, and 1989 to 1990 can no longer be found or prepared due to lapse of time. The failure to lay those accounts cannot therefore be rectified.   |
| Grand Asian               | 1996–2009                  |   |
| Advertiser's Media        | 1997–2009                  |   |
| Cobblers                  | 2001–2010                  | With respect to Cobblers and Shoe Mart Company, applications were made to the High Court of Hong Kong on 25 March 2013 for an extension of time for laying all the relevant audited accounts. An application in relation to Kong Tai Sundry Goods was made on the same day for an extension of time for laying the relevant audited accounts where available. |
| Shoe Mart Company         | 2006–2010                  |   |

On 15 April 2013, orders were granted in relation to Cobblers and Shoe Mart Company to extend the time within which the accounts may be laid.

With respect to Grand Asian and Advertiser's Media, similar applications were made on 2 May 2013.

On 14 May 2013, orders were granted in relation to Kong Tai Sundry Goods and Advertiser's Media to table the relevant audited accounts at their respective general meetings. An order to the same effect was granted to Grand Asian on 30 May 2013.

In accordance with the court orders, save for the lost audited accounts of Kong Tai Sundry Goods, all relevant audited accounts were laid before the general meetings of the relevant companies respectively.

All non-compliances with section 122 have thus been fully rectified, save for the failure of Kong Tai Sundry Goods to lay the lost audited accounts. In any event, prosecution for failure to lay the lost accounts is time barred pursuant to section 351A of the Companies Ordinance.



### **3. Section 57B of the Companies Ordinance**

Contrary to section 57B of the Companies Ordinance, the directors of Advertiser's Media and Kong Tai Sundry Goods failed to obtain general mandate before allotting shares on a non-pro rata basis on certain occasions. The maximum penalty for each of the directors in default is HK\$50,000 and 6 months of imprisonment.

| <b>Name of subsidiary</b> | <b>Year(s) of occurrence</b> | <b>Status</b>   |
|---------------------------|------------------------------|---|
| Kong Tai Sundry Goods     | 1997, 2005                   | Not rectified but time barred pursuant to section 351A of the Companies Ordinance |
| Advertiser's Media        | 1996                         |   |

### **4. Section 107 of the Companies Ordinance**

Contrary to section 107 of the Companies Ordinance, the annual return of Kong Tai Sundry Goods in 1994 failed to state sufficient particulars relating to its members and share capital. If a company fails to comply with section 107, the company and every of its officer shall be liable to a fine of HK\$50,000 and a daily default fine of HK\$700.

Kong Tai Sundry Goods has filed an amended form of the said annual return with the Companies Registry in Hong Kong on 29 May 2013 but the filing does not fully rectify this non-compliance. This non-compliance will however be time barred pursuant to section 351A of the Companies Ordinance if the Registrar of Companies in Hong Kong does not initiate any prosecution within three years from 29 May 2013.

### **5. Section 119 of the Companies Ordinance**

Contrary to section 119 of the Companies Ordinance, our Hong Kong subsidiaries have failed to enter some of the minutes of their board meetings and/or general meetings in minute books. We understand from our Hong Kong legal advisers that our Hong Kong subsidiaries may be subject to criminal sanctions only in relation to section 119 non-compliances that occurred after the coming into effect of the Companies (Amendment) Ordinance 1990. If a company fails to comply with section 119, the company and every officer in default shall be liable to a fine of HK\$10,000 and a daily default fine of \$300. The following table sets forth the relevant section 119 non-compliances from 1990 onwards.

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| Name of subsidiary    | Years of occurrence                  | Status  |
|-----------------------|--------------------------------------|---|
| Kong Tai Sundry Goods | 1990, 1991, 1993,<br>1994, 1996–2008 | The relevant minutes of board meetings and/or general meetings cannot be found and thus rectification cannot be and has not been carried out. Prosecution of such non-compliances is time barred to the extent such non-compliances were committed more than three years ago and are not of a continuous nature. Although the Registrar of Companies in Hong Kong does have the right to impose fines, we are advised that the practical risk of our Hong Kong subsidiaries being prosecuted or penalised is low. |
| Grand Asian           | 1995–2008, 2011                      |   |
| Advertiser's Media    | 1998–2008                            |   |
| Cobblers              | 2001, 2004–2008                      |   |
| Shoe Mart Company     | 2007, 2008                           |   |

### INTERNAL CONTROL MEASURES TO PREVENT OCCURRENCE OF NON-COMPLIANCE MATTERS AFTER THE LISTING

In order to improve our corporate governance and to prevent recurrence of non-compliance in the future, our Group has adopted the following measures:

- (1) we will appoint RHB OSK Capital as our compliance adviser upon Listing to advise our Group on compliance matters in accordance with Rule 3A.19 of the Listing Rules;
- (2) our Directors and other members of the senior management of our Group attended trainings conducted by our Company's Hong Kong legal advisers on 23 February 2013 on the ongoing obligations, duties and responsibilities of directors of publicly listed companies under the Companies Ordinance, the Securities and Futures Ordinance and the Listing Rules;
- (3) an independent internal control adviser has been appointed to perform a detailed evaluation of the adequacy and effectiveness of our internal control system, and to recommend action plans for improvements in areas (which include compliance functions) under their review;
- (4) we have designated Mr. Chow Wing Hang, John (our Company Secretary) as our compliance officer to assist our Board to identify, assess and manage the risks associated with our operation from time to time to ensure due compliance of laws, rules and regulations applicable to our Group;
- (5) an audit committee with written terms of reference in accordance with Appendix 14 to the Listing Rules have been established since 11 June 2013 to review the internal control systems and procedures for compliance with the requirements of the Listing Rules and the Companies Ordinance;
- (6) our Company Secretary and compliance officer will act as the principal channel of communication between members of our Group and our Company in relation to legal, regulatory and financial reporting compliance matters of our Group as well as the chief coordinator to oversee the internal control procedures in

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general. Upon receipt of any queries or reports on legal, regulatory and financial reporting compliance matters, the Company Secretary and the compliance officer will look into the matter and, if considered appropriate, seek advice, guidance and recommendation from professional advisers and report to relevant members of our Group and/or our Board;

- (7) we will provide our Directors, senior management and employees involved with training, development programmes and/or updates regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time on a regular basis; and
- (8) we will appoint external Hong Kong legal advisers to advise us on compliance with the Listing Rules and the applicable Hong Kong laws and regulations.

Having considered the above, the Sole Sponsor is of the view that the Directors (i) took responsibility of our Group's past non-compliances by taking proactive and appropriate actions to stop and remedy the same and obtained confirmation from relevant authorities as to such rectifications (to the extent permissible) to ensure that previous non-compliance matters would not have any material adverse impact on our Group going forward; and (ii) have taken appropriate steps and measures, including engaging external professionals and forming internal committee, to ensure compliance with the requirements of the Listing Rules and other applicable rules and regulations in the regions where it operates, and hence our Group's internal control measures are effective.