You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our H Shares. You should pay particular attention to the fact that we are a PRC company, that substantially all of our business is conducted in the PRC and that we are governed by a legal and regulatory environment which in some respects may differ from those in other countries. There are risks associated with investing in our H Shares not typical of investment in the capital stock of companies incorporated and/or engaging business in Hong Kong or the United States. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our H Shares could decline owing to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, please see "Regulations" and "Appendix V – Summary of Principal Legal and Regulatory Provisions" to this prospectus. Additional risks and uncertainties not presently known to us or which we currently deem immaterial may arise or become material in the future and may have a material adverse effect on us.

RISKS RELATING TO OUR BUSINESS

Failure to successfully promote our brand or maintain our goodwill may materially and adversely affect our business and results of operations

Brand image is a key factor in a consumer's decision to purchase footwear and menswear products. We market our products under three brands, Fuguiniao, FGN and AnyWalk. We generate the majority of our turnover from the sales of our Fuguiniao brand of footwear and menswear products, which amounted to approximately RMB681.5 million, RMB1,230.2 million, RMB1,394.8 million and RMB694.9 million and RMB830.2 million, representing approximately 63.7%, 74.5%, 72.2% and 76.9% and 76.5%, of our total turnover for the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2012 and 2013, respectively. Our financial success heavily depends, and will continue to depend, on our Fuguiniao brand image. Moving forward, if we are unsuccessful in continuing to promote the image of our Fuguiniao brand or our other ancillary brands, or fail to maintain the goodwill of such brands among our targeted consumer groups, market perception and consumer acceptance of such brands may be eroded, in which case our business, financial condition and results of operations may be materially and adversely affected.

Our success depends on the success of our distributors

We primarily sell our products in China through our distributors, who in turn sell our products to consumers through retail outlets, which they operate, or which are operated by third-party retailers. As at 30 June 2013, we sold our products to our end customers through 3,195 retail outlets across 31 provinces, autonomous regions and municipalities in the PRC, 1,259 of which were owned and operated by our distributors and 1,702 were owned and operated by third-party retailers. For the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2012 and 2013, sales to our distributors accounted for approximately 57.3%, 73.2%, 72.1% and 76.9% and 71.0% of our turnover, respectively. For the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2012 and 2013, sales to our top five distributors accounted for 35.8%, 37.1%, 32.8% and 40.8% and 17.9%, respectively, of our turnover. Sales to our largest distributor accounted for 26.1%, 25.8% and 18.0% and 24.4% and 4.6%, of our turnover for the same time periods, respectively. Our largest distributor during the Track Record Period, which consisted of eight companies, was owned by Mr. Lam Wo Sze, one of our Directors, who transferred his interests in said distributor to several Independent Third Parties in 2012. See “Business – Major and Related Customers” for further details.

Our distributors have expanded their distribution networks by authorising third-party retailers to open and operate retail outlets within each distributor’s Distribution Region. The number of retail outlets operated by our distributors and third-party retailers increased from 1,815 as at 31 December 2010 to 2,961 as at 30 June 2013. However, there is no assurance that such a growth rate can be maintained. If our distributors do not continue to open new retail outlets, either by themselves or through third-party retailers, or are otherwise unsuccessful in selling our products, our results of operations may be materially and adversely affected.

A majority of the retail outlets operated by our distributors and third-party retailers are located in prime locations in major cities or in large department stores. The location and ease of access to these retail outlets will determine the prominence of our display and the customer traffic flow to our merchandise. In addition, much of the goodwill we enjoy with our consumers stems from our association with major department stores within which our distributors and third-party retailers maintain their outlets. With the recent increase in rent of commercial properties in major cities in China, our distributors and third-party retailers may not be able to secure and maintain ideal locations for their retail outlets or the retail space in the relevant department stores on commercially reasonable terms, if at all. In such event, our results of operations may be materially and adversely affected.

Furthermore, sales levels may fluctuate for each distributor and third-party retailer at each retail outlet. The number of retail outlets through which our distributors and third-party retailers can distribute our products may also vary from time to time. This may increase the level of volatility in our results of operations and create difficulties for us in terms of production planning.

We rely on a small number of distributors for the sale of our products and our failure to renew distributorship agreements with our major distributors or any breach of such distributorship agreements by them may materially and adversely affect our results of operation

As at 30 June 2013, we had 60 distributors in the PRC, each of whom is responsible for establishing a sales network in their Distribution Region. We rely on these existing and potential distributors to assist us in exploring new markets to sell our branded products and in identifying potential third-party retailers and locations for new retail outlets. We believe that this distributorship model allows us to achieve market penetration and extend our geographical coverage with shorter ramp-up time and less capital outlay. We have working relationships of ten years or more with 22 of our distributors, with the longest relationship extending for 22 years. However, there is no assurance that we will always be able to maintain our relationships with these distributors or that we will be successful in attracting new quality distributors, if necessary, to maintain or expand our branded product business.

We generally enter into agreements with our distributors with a term of one-year, which can be renewed annually at the discretion of the parties. There is no assurance that we will be able to renew our distributorship agreements at all or on terms that are favorable to us, or that the distributors will always fulfill their annual purchase commitments as set out in the distributorship agreement in time or at all. In addition, there is no assurance that our distributors will not breach their distributorship agreements or will comply with their obligations thereunder, including with respect to our retail policies. If the distributorship agreements cannot be renewed or if our distributors breach any of the terms thereunder, we may not be able to continue to expand our branded product business and our results of operations may be materially and adversely affected.

Our ability to monitor not only the performance of our distributors and third-party retailers but also the quality of service provided by sales staff at retail outlets is limited

We largely rely on our distributors to adhere to all of our operational and management policies and all sales staff working at the retail outlets to provide appropriate service. We have a set of policy documents on sales management and marketing promotion. However, it is difficult for us to monitor the day-to-day operations of our distributors to ensure compliance with our policies. No assurance can be given that our distributors will comply with our requirements, or that we will be able to identify and correct all cases of non-compliance by our distributors in a timely manner, if at all. Failure by our distributors to adhere to our policies may have an adverse impact on our brands' images and may adversely affect our results of operations.

In addition, upon our approval, our distributors are permitted to enter into retail distribution agreements with third-party retailers. However, we have no direct contractual relationship with these third-party retailers. Third-party retailers are required to perform in accordance with the terms of the distributorship agreements entered into between us and our distributors and to obey our retail outlets' management rules. Additionally, our distributors are required to conduct regular on-site inspections at retail outlets operated by third-party retailers. However, we cannot assure you that the third-party retailers will comply with all of our requirements, or that we or our distributors will be able to identify and correct all cases of non-compliance by third-party retailers in a timely manner or at all.

Furthermore, as we do not have a direct contractual relationship with any of the individual sales staff of the retail outlets, we have limited control over them. As such, we have no direct mechanism to control the way our products are marketed or sold at various retail outlets. No assurance can be given that appropriate sales methods or means which are consistent with the respective images of our brands will be employed or that our system for monitoring the performance of the sales staffs of the retail outlets will be sufficient to enable us to identify all incidents of non-compliance with our policies or inappropriate service. Poor or inappropriate service may result in damage to the respective images of our brands and to our reputation.

We may control the risk of non-compliance and poor or inappropriate service by deciding not to renew or by terminating our distributorship agreements with the relevant distributor upon discovery of a problem. However, we cannot assure you that we will always be able to identify problems and take remedial actions in a timely manner, if at all. In the event that we fail to do so, the image of our brands and our reputation may suffer, which may in turn have an adverse effect on our business, results of operations and financial condition.

Failure to anticipate and respond in a timely manner to changes in consumer preferences and fashion trends in China

We operate in an industry that is subject to rapid changes in consumer tastes and preferences and fashion trends that are difficult to predict. The success and popularity of our products depends on our ability to anticipate, identify and respond to changes in consumer tastes and preferences and to design marketable and appealing products accordingly. As a result, design and development efforts are crucial to our success and competitiveness. We rely on our vertically integrated business model to identify and anticipate market changes and our strong design and development capability to rapidly adjust our product offering. If we misjudge fashion trends and consumer preferences, or fail to anticipate or respond to higher consumer demand for design and quality, our sales and operating profits may decrease. Similarly, if we fail to appreciate or underestimate the extent of any anticipated increase in consumer demand for our products, we may experience a loss of sales opportunities, which may also have an adverse impact on our goodwill, corporate image and profitability.

Our multi-brand strategy and any of our future plans to launch new brands may not be successful

We offer a wide range of footwear, business casual menswear and leather accessories through our three brands, Fuguiniao, FGN and AnyWalk. Our comprehensive brand portfolio aims to target various consumer segments in the PRC by offering products with a wide range of retail prices generally ranging from RMB50 to RMB2,800. Within each target consumer group, we also offer a diverse range of footwear styles for many occasions, including formal, business and casual occasions. As we believe that our multi-brand strategy facilitates a wide and diverse source of turnover from different consumer groups, we plan to expand our brand portfolio so as to further broaden our retail base and increase our turnover sources. Maintenance of our existing brands and the launch and development of each new brand involves considerable time and resource commitments. Lack of resources or management focus may damage our brand image and thus have adverse impact on our profitability and results of operation.

A period-to-period comparison of our Track Record Period may not be meaningful and our historical financial performance should not be treated as indicative of our future financial performance

Beginning in 2004, we licensed the right to sell business casual menswear products under the Fuguiniao brand to an Independent Third Party. In May 2011, we started to sell Fuguiniao branded menswear products ourselves and recorded turnover generated from such sales. For more details on this expansion of our business operations, please see the section headed "History and Corporate Structure" in this prospectus. Primarily as a result of this new business, our turnover grew by 54.3% for the year ended 31 December 2011 compared to the year ended 31 December 2010, 17.0% for the year ended 31 December 2012 compared to the year ended 31 December 2011 and 20.1% for the six months ended 30 June 2013 compared to the six months ended 30 June 2012. As our turnover growth in 2011, 2012 and the first half of 2013 was largely attributable to our commencement of sales of our business casual menswear products under the Fuguiniao brand by ourselves, a period-to-period comparison of our Track Record Period may not be meaningful.

In addition, due to the limited operating history of our footwear business and menswear business, there may not be an adequate basis upon which to evaluate our future operating results and prospects. Furthermore, we may have limited insight into the trends and factors that may adversely affect our financial condition and results of operations. Our historical financial performance is therefore not indicative of our future financial performance and should not be used as a basis for assessing our annual growth rates in the future.

Change of our main production site may adversely affect our business

Our Group entered into lease agreements with Shishi Fuguiniao on 1 November 2013 for the leasing of all office buildings and manufacturing space built on the Old Land owned by Shishi Fuguiniao. For details of such lease agreements, please refer to the section headed "Connected Transactions" in the prospectus. According to the Shishi City Urban Master Plan (2011-2030) issued by the Shishi Housing and Urban-Rural Development Bureau on 7 September 2012, the Old Land has been re-classified as commercial use land and is not allowed to be used for industrial purposes. Shishi Fuguiniao is required to move the production facilities off the Old Land by the end of 2016. Based on our communication with Shishi municipal government, Shishi municipal government has promised to provide Shishi Fuguiniao the New Land to which Shishi Fuguiniao can relocate the production facilities by the end of 2016 and we have the right to use the existing plants on the Old Land before the new plants are built and put into use. Please refer to the paragraph headed "Production – Relocation plan" under the section headed "Business" in the prospectus. Shishi Fuguiniao has also undertaken to our Group to (i) build the new plants on the New Land according to the specifications provided by us, (ii) lease the new plants to our Group at prevailing market rate once such plants have been built on the New Land and put to use and that our Company has the right to renew the lease agreements at prevailing market rate (iii) indemnify any expenses and losses (including any loss of turnover) incurred by our Group in connection with the relocation, which will be in the amount of approximately RMB1.20 million as estimated by our Group; and (iv) renew such lease agreements under similar terms with Shishi Fuguiniao upon expiration of the existing lease agreements.

Shishi Fuguiniao has not yet, as at the Latest Practicable Date, received any further notice regarding particulars of such potential New Land, including its location, area or timing of entry. Furthermore, Shishi Fuguiniao will need to obtain the New Land through bid-inviting, listing or auction process as required under PRC laws. Therefore, we cannot assure you that Shishi Fuguiniao will be able to obtain the New Land or the New Land will be suitable for our production at a reasonable cost or at all. Since we currently use the facilities located on the Old Land to produce approximately 50% of our products, failure to either relocate our production facilities to the New Land or engage a sufficient number of subcontractors to manufacture products for us during the period of the relocation could adversely affect our production and operation. In addition, relocation may also be time consuming and our results of operation may be adversely affected.

We may not be able to maintain our growth or manage our expansion effectively

We experienced rapid growth during the Track Record Period. From 31 December 2010 to 30 June 2013, the number of retail outlets selling our products grew from 1,820 to 3,195. Our turnover grew from RMB1,070.1 million in 2010 to RMB1,932.1 million in 2012 at a CAGR of approximately 34.4%. Comparing the six months ended 30 June 2013 with six months ended 30 June 2012, our turnover grew by 20.1% from RMB903.1 million to RMB1,084.4 million. Our future turnover growth depends on various factors, including:

- continued market demand for our products;
- our ability and effectiveness in researching and developing attractive brands, models and product lines for our targeted markets and responding to changing customer preferences and market demands;
- our ability to attract new distributors and cooperate with authorised distributors to open more retail outlets;

- our ability to increase sales at our existing proprietary outlets and open new proprietary outlets;

- customers' acceptance of the style or model of new footwear and menswear products that we will be launching into the market;

- sufficient and timely supply of raw materials, semi-finished products and finished products;

- our ability to effectively control cannibalisation among our different brands and adjacent retail outlets during our expansion;

- our ability to maintain or increase retail prices of our products;

- our ability to attract and retain key personnel;

- our ability to systematically manage and control our costs and supply and distribution chains within an enlarged operation;

- our ability to manage production capacity and inventory levels; and

- our ability to further enhance brand recognition and conduct successful marketing activities in an efficient manner.

As many factors affecting our future growth are beyond our control, we may not be able to achieve our historical growth rate.

In addition, as part of our growth strategy, we have adopted an expansion plan pursuant to which we aim to add to our distribution network 1,200 to 1,300 retail outlets to be operated by our distributors and 300 to 400 proprietary outlets to be operated directly by ourselves by the end of 2015. Our expansion plan was formulated on the basis of existing market and operating conditions, our estimated production capacity and forecasted customer demand. These assumptions may not prove accurate and are subject to change. Accordingly, we cannot guarantee we will be able to add the anticipated number of retail outlets to our distribution network or maintain the expected balance between distributor operated retail outlets and proprietary retail outlets as set forth in our expansion plan. If we are unable to successfully implement our expansion plan or manage our growth effectively, our business, results of operation and financial condition would be materially and adversely affected.

We may not be able to manage our manufacturing capabilities to efficiently divide our production capacity among our branded products and OEM/ODM products

We manufacture most of our branded footwear products while outsourcing the remaining portion and all of our menswear and leather accessory products to subcontractors. We also produce footwear products for third-party brands on an OEM/ODM basis. In general, we receive OEM/ODM orders prior to receiving orders for our branded products. We strive to maximise our production efficiency through flexibly dividing our manufacturing capacity among different types of production in accordance with rapid change of market demands and trends. However, we may not be able to anticipate the market change accurately or at all. There is no assurance that uncharacteristically large orders from our OEM/ODM customers in the future (or higher profit margin of OEM/ODM products) will not cut into the production capacity of our branded products. In such an event, we may not have enough production capacity for our branded products. If we are not able to secure additional capacity from our subcontractors in a reasonable amount of time or at all, production and sales of our branded products may be adversely affected.

Given that we are not the exclusive vendor for our OEM/ODM customers and we do not have guaranteed orders, we may lose some or all of them in the future

For the year ended 31 December 2010, 2011 and 2012, the turnover generated from our design and manufacture of footwear for third-party brands on an OEM or ODM basis constituted 36.1%, 24.2% and 19.9%, respectively, of our total turnover. We generally do not have long-term purchase commitments from our OEM/ODM customers and our sales are made on the basis of individual purchase orders. We believe that the quality of our products and services have attracted our OEM/ODM customers to purchase from us. However, we are not the exclusive vendor for these customers and we do not have guaranteed orders from them. There is no assurance that these customers will not purchase from other suppliers whom they perceive offer equal or superior products or services, or whom offer lower prices than us. In such event, our business, financial condition and results of operations may be materially and adversely affected.

If we are unable to obtain sufficient quantities of quality raw materials in a timely manner or at acceptable prices, our production schedules could be delayed

We are dependent on outside suppliers for all of our raw material needs and are subject to the prices charged by our suppliers. The primary raw material we use in our production process is leather. Other major raw materials include fabrics, heels, glue, outsoles, insoles, nails, ornaments and zippers. To maintain operations, we must obtain from our suppliers, sufficient quantities of reasonably priced, quality raw materials in a timely manner. Unfavorable fluctuations in the price, quality and availability of these raw materials could have a negative effect on our profit margins and our ability to meet the demands of our customers.

If the supply of our raw materials is substantially reduced or if there are significant increases in prices, we may incur additional costs for sufficient quantities of raw materials in order to maintain our production schedules, thereby decreasing our profit margin. We may not be able to defray these cost increases onto our customers due to competitive pressures. In addition, if we cannot identify alternative sources of raw materials when needed, or obtain sufficient raw materials when required, the resulting loss of production volume could lead to a stock shortage for the supply to our distributors and our proprietary retail outlets, which could harm our reputation and financial performance. Furthermore, if our suppliers fail to meet our quality standards, the quality of our products may be adversely affected, which may lead to complaints, negative publicity or product liability claims against us.

We may experience a shortage of labour or our labour costs may increase

Footwear and menswear manufacturing is labor intensive. Direct labor costs accounted for approximately 14.9%, 14.9%, 15.3% and 16.4% and 15.0% of our cost of sales of in-house production for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively. We cannot assure you that we will not experience any shortage of labor or that the cost of labor in China will not increase in the future. If we experience a shortage of labor, we may not be able to maintain our production volume. If labor costs increase in China, our production costs will increase and we may not be able to defray these increases onto our customers due to competitive pricing pressures. Accordingly, if we experience a shortage of labor or our labor costs increase, our financial condition and results of operations could be adversely affected.

We depend on subcontractors to manufacture a portion of our products

We engage subcontractors to manufacture a portion of our products according to our specifications. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, approximately 22.6%, 35.6%, 45.1% and 46.1% and 47.9% of our total cost of sales were attributable to subcontracting costs, respectively. Due to our dependence on these subcontractors, we face several significant risks, including, but not limited to:

- difficulty in securing sufficient production capacity at a reasonable cost or at all; and

- limited control over delivery schedules, quality assurance and control, manufacturing yields and production costs.

The ability of a subcontractor to manufacture our products is limited by its production capacity. We generally do not require our subcontractors to allocate a fixed amount of production capacity to us, and we do not have any long-term agreements with any subcontractors, meaning we typically place orders on an individual basis, depending on the purchase orders from our customers. It is possible that other customers of our subcontractors are of a larger scale and are better financed than we are, or have long-term agreements with our subcontractors. Accordingly, our subcontractors may allocate their production capacities to these customers during times of production capacity shortages. Any shortfall in such available production capacity could significantly affect our ability to deliver our products in a timely fashion, which may result in a loss of turnover and may damage our relationships with our customers. In addition, if the cost of subcontracting increases and we are unable to pass on such higher costs to our customers, our profit margins may be significantly reduced, thereby adversely affecting our financial condition and results of operations. We cannot assure you that such quality control is sufficient for us to identify all defects of such semi-finished or finished products, or that such products will have the same quality as those we manufacture ourselves. Any quality problems related to our subcontractors, if undetected, may adversely affect our business and reputation.

Unauthorised use of our intellectual property rights and the sale of counterfeit products of our licensed brands could result in an erosion of goodwill and loss of sales

We believe that our trademarks and other intellectual property rights are crucial to our success. Our principal intellectual property rights include the trademarks associated with our Fuguiniao, FGN and AnyWalk brands, as well as patents for certain technologies. We are in the process of applying for the registration of trademarks for a number of logos. The success of these applications depends on a number of factors. We cannot guarantee that we will be successful in registering all of our trademarks currently undergoing the application processes or the trademarks which we may develop in the future. Furthermore, we depend, to a significant extent, on PRC laws to protect our trademarks, patents or other intellectual property rights. In the 1990s, we encountered instances of counterfeit products sold in certain locations in the PRC. We do not believe any of these instances, however, significantly affected our business and operations. There is no assurance that third parties will not infringe on our intellectual property rights, such as through the production and sales of counterfeit products. There is no assurance that we will always be able to identify cases of infringement or potential infringement of our intellectual property rights. If there are counterfeits of our branded products on the market, the image of our brands and our reputation with regards to quality may be adversely affected. Further, our efforts in enforcing or defending our intellectual property rights may not be adequate, and enforcing or defending such rights may require significant attention from our management team and may be costly. The outcome of any legal actions to protect our intellectual property rights may be uncertain. If we are unable to adequately protect or safeguard our intellectual property rights, our business, financial condition and results of operations and prospects may be adversely affected.

We may not be able to fully and effectively compete against online footwear and apparel retailers in China

We primarily rely on our distributors to sell our products to consumers and do not have substantial operation to sell our products through direct channels such as online sales. The rapid technological development of the Internet has fundamentally changed traditional transaction patterns. As e-commerce has become more popular, consumers and businesses have increasingly engaged in online evaluation, selection and purchase of goods and services. This increase has been fueled by (i) consumers rapidly adopting online shopping practices, (ii) more traditional retailers embracing online shopping, and (iii) new technologies being introduced to enhance online shopping experiences. Recently, a number of large-scale online footwear and apparel retailers emerged and an increasing number of leading retailers are offering secured online ordering and home delivery services. Therefore, we may face competition from the online retailers. If we fail to cater to the development of e-commerce and cannot expand our online retail business efficiently and quickly compared to our competitors or at all, our market share may decrease and our results of operations may be adversely affected.

Our sales volume is sensitive to changes in consumer spending patterns, seasonality and change of weather patterns

In the footwear and menswear industry, consumer spending patterns are affected by various factors, including local economic conditions, uncertainties about future economic prospects, interest rates, taxation, and shifts in discretionary spending towards other goods and services. Consumer preferences and economic conditions may differ or change from time to time in each market in which we operate.

We experience seasonal fluctuations in our turnover generated from China as consumer spending patterns vary on a seasonal basis. We generally record higher sales during holidays and festivals, as compared with our sales in other periods in a financial year. In addition, we typically generate more turnover from sales of our winter and fall collections than spring and summer collection because the shoes and apparel we sell in fall and winter are priced higher than those we sell in spring and summer. As a result of these fluctuations, comparisons of sales and results of operations between different periods within a single financial year, or between different periods in different financial years cannot be relied on as indicators of our performance. Any change in spending patterns, consumer demands, market trends or timing of festival seasons may intensify such fluctuations and adversely or seasonally affect our business, financial condition and results of operations.

Weather patterns may also change consumer preferences. Usually, consumers tend to purchase lighter and thinner footwear and apparel products when the weather is relatively warm, and heavier and thicker footwear and apparel products when the weather is relatively cold. As such, if the weather is significantly different from what we have expected, we may not have suitable footwear and menswear products to meet consumers' demands. In the event of a severe unexpected change in weather patterns, we may not have time to plan our sales suitable for the season, and our business, financial condition and results of operations may be adversely affected.

We may be subject to penalties for our past loan advancing activities to our related parties

We have made loan advances to our related parties, including Shishi Fuguiniao, during the Track Record Period and have received in aggregate interest payments in connection with these loan advances in the amount of RMB24.5 million, RMB26.2 million and RMB10.3 million for the years ended 31 December 2010, 2011 and 2012, respectively. These loans have been fully repaid in August 2012 and we have not made any such advances since then. As advised by our PRC legal adviser, Zhong Lun Law Firm, such lending activities contravened certain provisions of the Lending General Provisions (貸款通則) promulgated by the PBOC in 1996. According to the Lending General Provisions, the maximum penalty that may be imposed on our Group by the PBOC for such contravention is a total fine in the amount between one time and five times the interests gained from such loans. There can be no assurance that the PBOC will not levy such a fine or other penalties. In addition, although our Controlling Shareholders have agreed to indemnify us for any such penalty, such indemnity may not be enforceable or the amount of the fine may exceed what the Controlling Shareholders are able to pay. Such a penalty may also adversely affect our financial condition, results of operations and reputation.

We may be requested to make up any unpaid contribution to the social security insurance and housing fund schemes during the Track Record Period

Pursuant to relevant PRC laws and regulations, we are required to contribute to social welfare schemes for all of our employees. Such schemes include social insurance contributions (including unemployment insurance, medical insurance, work-related insurance, pension insurance and maternity insurance). During the Track Record Period, we did not fully comply with the social insurance contributions requirements as we did not make full contributions for employees who participate in the new type of rural social pension insurance, employees for whom we are not able to pay unemployment insurance due to their participation in the new type of rural social pension insurance instead of social pension insurance, foreign staff and employees who participate in the new type of rural medical insurance.

As advised by Zhong Lun Law Firm, our PRC legal adviser, if we fail to pay the full amount of social insurance as scheduled, the relevant authorities may order us to make the social insurance payment or to make up the difference within a stipulated period and (i) in respect of any overdue social insurance incurred before 1 July 2011, if payment is not made within the stipulated period, levy a surcharge equal to 0.2% of the overdue social insurance for each day from the date on which the social insurance became overdue; and (ii) in respect of any overdue social insurance incurred on or after 1 July 2011, levy a surcharge equal to 0.05% of the overdue social insurance for each day from the date on which the social insurance became overdue. If payment is not made within the stipulated period, the relevant administration department may impose a fine of one to three times the amount of overdue social insurance on us. If we are required to pay the outstanding social security insurance fund and/or any late payment and/or penalty imposed by the social security bureau, our business reputation may be adversely affected. See "Business – Legal Proceedings and Non-Compliance" in this prospectus for more information.

We have no experience operating overseas and we may not be able to successfully expand our business internationally

We sell most of our men's and women's footwear products to overseas customers located in Europe and North America on an OEM or ODM basis. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, turnover generated from the sales of our footwear products to OEM/ODM customers accounted for 36.1%, 24.2%, 19.9% and 20.2% and 15.2%, respectively, of our total turnover. We currently have plans to expand our business overseas by, among others establishing and developing overseas sales channels, procuring raw materials globally and engaging international market promotion and advertising. See the section headed "Business – Our Business Strategies" for more details. However, other than our dealings with OEM/ODM customers, we have not established any sales or distribution channels nor have we operated our business overseas. There is no assurance that we will be able to successfully implement our strategy to expand our business internationally, or at all. Our failure to do so will have a material and adverse effect on our business and reputation.

We may not be able to establish an effective and fully-integrated information management system to accurately track and monitor the inventory levels of our distributors

We sell a large proportion of our branded products through our distributors. We require our distributors to provide us quarterly inventory reports so that we are able to monitor their inventory levels and allow them to place additional order with us. As at the Latest Practicable Date, we have not adopted any DRP system, which is generally used for planning orders within a supply chain, in the retail outlets operated by our distributors and third-party retailers. We plan to install a DRP system in phases to track inventory levels in a real-time environment and to forecast demand for our products at all retail outlets. However, there is no assurance that we will be able to procure the consent of all relevant distributors and/or third-party retailers required for the installation of the DRP system. Therefore we may not be able to install the DRP system at all of the retail outlets. For those retail outlets at which we are unable to install the DRP system, we can only rely on the information provided by our distributors. Furthermore, pending completion of the installation and linkage of the DRP system, we may not be able to ensure the accuracy of the data provided by the relevant distributors. As a result, we may not be able to accurately track the sales and inventory levels or to identify or prevent any excessive inventories building-up at all of the retail outlets. If our distributors, third-party retailers or the relevant staff at the retail outlets are unable to manage their respective inventory levels, their future orders of our products may become difficult to monitor or predict, which may increase the volatility in our results of operations and create difficulties for us in terms of production planning.

Our insurance coverage may not be sufficient to cover the risks relating to our operations and potential losses

Our operations are subject to hazards and risks that are typically associated with manufacturing operations which may cause significant injury or damage to person or property. We carry insurance to protect ourselves from a range of contingencies including, among others, risk of loss, theft of, and damage to, among others, property, plant and equipment, and inventory in all of our production facilities and warehouses. However, no assurance can be given that our insurance coverage will be able to cover all types of, or be sufficient to cover the full extent of any loss, theft, damage or injury to person or property for which we may be held liable.

We also face exposure to product liability claims in the event that any of our products are alleged to have resulted in property damage, bodily injury or other adverse effects. Insurance coverage for product liability is not a requirement under PRC law. We do not have insurance coverage for product liability. As such, we may be exposed to product liability claims and may have to expend significant financial and managerial resources to defend such claims or to enter into settlement agreements. This may divert resources away from pursuing our business strategies and have an adverse impact on our results of operations financial condition, reputation and the image of our brands.

Our ability to meet the demand of and our contractual obligations to our customers as well as our ability to grow our business are all heavily dependent on the efficient, proper and uninterrupted operations of our facilities. Power failures or disruptions, the breakdown, failure or substandard performance of equipment, the destruction of buildings and other facilities due to fire or natural disasters such as hurricanes, severe winter storms, flood, droughts or earthquakes will severely affect our ability to continue our operations and may cause significant property damage and personal injuries. As at the Latest Practicable Date, we did not carry any business interruption insurance and our existing insurance policies may not be sufficient to compensate us for any losses arising from damage to our buildings, equipment and infrastructure. In addition, there are certain types of losses, such as those resulting from war, acts of terrorism, earthquakes, typhoons, flooding and other natural disasters, for which we cannot obtain insurance at a reasonable cost or at all. Any events and any losses or liabilities that are not covered by our current insurance policies may have a material adverse impact on our business, financial condition, results of operations and prospects.

Certain defects in title of our own properties and in our lease agreements relating to certain properties occupied by us in China may materially and adversely affect our ability to use such properties

As at the Latest Practicable Date, we leased 47 properties with a total gross floor area of 179,384.77 square meters in China, five of which the owners were not able to provide us with relevant title ownership certificates. As advised by our PRC legal adviser, lease agreements of such leased properties may not take effect and may be non-binding if the owners do not have valid ownership of these leased properties. Before our landlords obtain and/or provide the proper building ownership certificates, our rights to such properties may not be entirely protected. Any dispute or claim relating to the title of the buildings we lease may result in the requirement for us to relocate. We cannot assure you that we will not encounter any challenges by any third parties on the title to such property, which might adversely affect our current occupation, and there is no assurance that we will be able to secure alternative space for our business if we are required to relocate. If our landlord cannot obtain the relevant building's ownership certificates in a timely manner and our legal right to use or occupy the building is challenged, we may incur additional relocation costs and our business operation may be disrupted, any of which will have a material and adverse effect on our business, financial condition and results of operations.

We rely on our key personnel for our future growth

The Directors and our senior management implement our business plans and oversee our day-to-day operations. In addition, the creative efforts and innovation of our design team play a crucial role in determining whether our merchandise has the requisite market appeal for achieving a healthy sales volume. Our future development and expansion will rely on the continued dedication, skills and experience of such key personnel, in particular, Mr. Lam Wo Ping and other members of our senior management team as mentioned in the section entitled "Directors, Supervisors and Senior Management" in this prospectus.

Members of our key personnel may terminate their employment with us at will. There is no assurance that we can retain such key personnel for their future services, nor that we can assure that qualified personnel can be found to replace any potential loss of such key personnel, which could adversely affect our profitability and operations.

Our Controlling Shareholders have substantial control over us, and their interests may not be aligned with the interests of our other Shareholders

Immediately after the Global Offering, our Controlling Shareholders will directly and indirectly own an aggregate of approximately 65.85% of our Shares, if the Over-Allotment Option is not exercised, or approximately 63.47% of our Shares, if the Over-Allotment Option is exercised in full. The interests of our Controlling Shareholders may differ from the interests of our other Shareholders. Our Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to our Shareholders for approval, including mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. In cases where their interests are aligned and they vote together, our Controlling Shareholders will also have the power to either prevent or cause a change in control. To the extent the interests of our Controlling Shareholders conflict with the interest of other Shareholders, the interests of other Shareholders may be disadvantaged or harmed.

Our OEM/ODM export sales may fluctuate and may be restricted by anti-dumping measures or the imposition of tighter technical standards by the governments of our export destinations abroad

A significant portion of the products we produced for third-party footwear brand operators are exported overseas to regions including the North America, East Asia, Europe and Russia. Our OEM/ODM products are subject to the respective laws, regulations and industry standards in the jurisdictions where they are exported to. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, our total export sales turnover was approximately RMB356.8 million, RMB358.6 million, RMB353.6 million and RMB162.1 million and RMB163.8 million, respectively, which accounted for approximately 33.3%, 21.7%, 18.3% and 17.9% and 15.1% of our total turnover, respectively. For the six months ended 30 June 2013, our largest export destination was Italy. Our export sales fluctuated slightly during the Track Record Period due to factors such as the economic conditions of our export destinations, which are beyond our control.

In the past, the governments of some of our export destinations have adopted anti-dumping measures to exclude imported footwear in order to protect their local industry. A number of these countries and regions have also passed standards relating to security, hygiene, technology and the environment, some of which have had an impact on footwear exported from the PRC. There is no assurance that anti-dumping measures will not be adopted or that standards relating to security, hygiene, technology and the environment that affect our exports will not be further tightened in the future. To the best knowledge and information of our Directors, none of our products were subject to any anti-dumping measures and duties in each of the countries where our products were exported since 1 April 2011 when the EU lifted its anti-dumping measures. However, there is no assurance that our products will not be subject to any anti-dumping measures in the future and duties in any of the countries where our Group's products are or will be exported in the future. Should any of such events occur, our export sales may drop substantially and hence our financial condition, results of operations and prospects may be adversely affected.

Our ability to obtain additional financing may be limited

In pursuing our business strategies, we expect our working capital needs and our capital expenditure needs will increase significantly in the future. Our ability to raise additional capital will depend on the financial success of our current business and other factors including economic and market conditions, some of which are beyond our control. We cannot assure you that we will be able to raise the necessary capital in time and on reasonable terms or at all. Furthermore, if we opt for equity financing, this may also have a dilutive effect on our Shareholders. We may also require additional debt financing in the future, which may require us to enter into restrictive covenants that may limit the options we have available in the conduct of our future business operations. Servicing these future debts will also restrict our cash flow and consequently our business operations, results of operations and financial condition, may be adversely affected.

Our business may be adversely affected by claims by third parties for possible infringement of their intellectual property rights

Third parties, including our competitors, may claim that our products have infringed upon their intellectual property rights and initiate legal proceedings against us. If any legal proceeding against us for infringement of any third-party's intellectual property rights is successful, and if we are unable to obtain a licence for the usage of such intellectual property right on acceptable terms, or at all, or are unable to design around such intellectual property rights, we may be prohibited from manufacturing or selling products which are dependent on the usage of such intellectual property. In such case, we may experience a material adverse effect on our business and reputation. Additionally, this type of proceeding and its consequences could divert management's attention from our business. All of these consequences could have a material adverse effect on our business, financial condition, results of operations and prospects.

RISKS RELATING TO OUR INDUSTRY

The PRC footwear and menswear manufacturing industry is highly competitive

The PRC footwear and business casual menswear manufacturing industry is highly competitive and characterised by frequent introduction of new designs, short product life cycles, price sensitivity, and customers' focus on quality and timely delivery. We cannot assure you that we will be able to sustain our competitive position in the future. Furthermore, the industry has experienced rapid advances in casual and fashion footwear and business casual menswear designs and features. Our competitors, including large international brands, established local brands and new entrants, may have more resources with which to design and market their products as well as may offer better product development or manufacturing services and/or lower prices than we do, which may allow them to increase their market share at our expense. In addition, some of our competitors may be publicly-listed companies and therefore, may have better access to financings from international capital markets than we do. To the extent that we are not able to develop or incorporate new casual and fashion footwear and business casual menswear designs as timely as other manufacturers, our operating results may also be materially and adversely affected.

We are subject to the slowdown of the global economy

We were adversely affected by both the global financial crisis that occurred in late 2008 and early 2009 and the subsequent European sovereign debt crisis. We sell our OEM/ODM products to customers overseas, including those in Russia, Italy and Austria. The footwear industry is very sensitive to changes in the economy, as any shift in discretionary spending on consumer goods and services may have an adverse effect on the industry. Any recurrence of the global financial crisis may adversely affect the economies of China and other countries to which we export our products and could in turn adversely affect our business and results of operations. When confronted with times of such financial crisis, we may have to offer deep discounts for an extended period to attract customers and maintain our sales volume.

RISKS RELATING TO THE PRC

The PRC's political, economic and social conditions could affect our business, financial condition, results of operations and prospects

China's economy differs from the economies of most developed countries in many respects, including but not limited to structure, level of government involvement, level of development, growth rate, control of foreign exchange, and allocation of resources.

China's economy has been transitioning from a planned economy to a more market-oriented economy. For the past three decades, the PRC government has implemented economic reform measures to emphasise the utilisation of market forces in economic development. We cannot predict whether changes in China's political, economic and social conditions, as well as its laws, regulations and policies, will have any material adverse effect on our current or future business, financial condition and results of operations.

Changes in foreign exchange regulations and future movements in the exchange rate of the Renminbi may adversely affect our financial condition and results of operations and our ability to pay dividends

A substantial proportion of our turnover and expenses are denominated in Renminbi, which is currently not a freely convertible currency. Under the PRC's existing foreign exchange regulations, following the completion of the Global Offering, we will be able to undertake current account foreign exchange transactions, including payment of dividends in foreign currency without prior approval from the SAFE. However, we cannot assure you that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future.

In addition, foreign currency transactions under our capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of the SAFE. These limitations could affect our ability to obtain foreign exchange through debt or equity financing, or to obtain foreign exchange for capital expenditures.

We generate a portion of turnover in foreign currency in relation to our international sales. For the six months ended 30 June 2013, such foreign currency-denominated turnover, as determined by the currency on invoices issued to relevant customers, accounted for approximately 12.6% of our total turnover. We also purchase raw materials mainly for our OEM/ODM manufacturing in foreign currencies, primarily in U.S. dollars. As a result, our operations are exposed to fluctuations in exchange rates of the RMB against these foreign currencies. Although we have purchased foreign exchange hedging products, there is no assurance that such products are sufficient to cover our loss. The value of the Renminbi may fluctuate due to a number of factors. In 2005, the PRC government changed its policy of pegging the value of the RMB to the U.S. dollar. Under the current policy, the RMB is pegged against a basket of currencies, determined by the PBOC, against which it can rise or fall by as much as 1% each day. There remains significant international pressure on the PRC government to adopt a more flexible currency policy, which could result in a further appreciation of the RMB against the U.S. dollar or other foreign currency. However, we cannot predict if or when any further reforms of China's exchange rate system will occur. Fluctuations in the Renminbi value will affect the amount of our non-Renminbi debt service, if any, in Renminbi terms since we will have to convert Renminbi into non-Renminbi currencies to service our foreign debt, if any. Since our income and profits are denominated in Renminbi, any appreciation of Renminbi will also increase the value of, and any dividends payable on, our H Shares in foreign currency terms. Conversely, any depreciation of Renminbi will decrease the value of, and any dividends payable on, our H Shares in foreign currency terms.

The PRC legal system is still evolving and has inherent uncertainties that could limit the legal protections available to you

As we are a company incorporated under PRC law and substantially all of our businesses are conducted in China, our operations are principally governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be cited as reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with the aim of developing a comprehensive system of commercial laws. However, because these laws and regulations are still evolving, and because of the limited volume of published cases and their non-binding nature, the interpretation of PRC laws and regulations still involves a degree of uncertainty.

Substantial amendments to the PRC Company Law and the PRC Securities Law came into effect on 1 January 2006. As a result, the State Council and the CSRC may revise the Special Regulations and the Mandatory Provisions and adopt new rules and regulations to implement and reflect the amendments to the PRC Company Law and the PRC Securities Law. We cannot assure you that any revision of the current rules and regulations or the adoption of new rules and regulations by the State Council and the CSRC will not have a material adverse effect on the rights of holders of H Shares.

As a PRC company offering and listing its H Shares outside the PRC, we are subject to the Special Regulations and the Mandatory Provisions. Upon the listing of the H Shares on the Hong Kong Stock Exchange, the Listing Rules will become the principal basis for the protection of the rights of holders of H Shares. The Listing Rules impose particular standards of conduct and disclosure on our Company, our Directors and the Controlling Shareholders of our Company. As far as we are aware, China has not published any case report that involves a request by a holder of H shares of a PRC company to exercise his or her rights under any constitutional document of a PRC joint stock limited liability company, the PRC Company Law or any regulatory provisions of the PRC applicable to PRC joint stock limited liability companies.

It may be difficult to effect service of process upon us, our Directors or our executive officers that reside in the PRC or to enforce against them or us in the PRC any judgments obtained from non-PRC courts

The legal framework to which our Company is subject is materially different from the Companies Ordinance or corporate law in the United States and other jurisdictions with respect to certain areas, including the protection of minority shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework to which our Company is subject are also relatively undeveloped and untested. However, according to the PRC Company Law, shareholders may commence a derivative action against the directors, supervisors, officers or any third party on behalf of a company under certain circumstances.

On 14 July 2006, the Supreme People's Court of the PRC and the Government of Hong Kong signed the Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned (關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under such an arrangement, where any designated people's court in the PRC or any designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil and commercial case pursuant to a choice of court agreement in writing by the parties, any party concerned may apply to the relevant people's court in the PRC or Hong Kong court for recognition and enforcement of the judgment. Although this arrangement became effective on 1 August 2008, the outcome and effectiveness of any action brought under the arrangement may still be uncertain.

Our Articles of Association provides that disputes between holders of H Shares and our Company, our Directors, Supervisors or officers, arising out of the Articles of Association or any rights or obligations conferred or imposed upon by the PRC Company Law and related regulations concerning its affairs, such as the transfer of our Shares, are to be resolved through arbitration by arbitral committees in China or the Hong Kong International Arbitration Centre (香港國際仲裁中心), rather than by a court of law. In addition, on 18 June 1999, the Supreme People's Court of the PRC and the Government of Hong Kong signed the Arrangement Concerning Mutual Enforcement of Arbitral Awards between the Mainland and Hong Kong Special Administrative Region (關於內地與香港特別行政區法院相互執行仲裁裁判的安排). This arrangement, made in accordance with the spirit of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, was approved by the Supreme People's Court of the PRC and the Hong Kong Legislative Council and became effective on 1 February 2000. Under the arrangement, awards that are made by the PRC arbitral authorities recognised under the Arbitration Ordinance of Hong Kong can be enforced in Hong Kong, and awards made by Hong Kong arbitral authorities are also enforceable in the PRC. However, so far as we are aware, there has not been any published report of judicial enforcement in the PRC by a holder of H shares seeking to enforce an arbitral award made by the PRC arbitral authorities or Hong Kong arbitral authorities, and there are uncertainties as to the outcome of any action brought in the PRC to enforce an arbitral award made in favor of a holder of H shares. Accordingly, we are unable to predict the outcome of any such action.

In addition, PRC laws, rules and regulations applicable to companies listed overseas do not distinguish among minority and controlling shareholders in terms of their rights and protections. As such, our minority shareholders may not have the same protections afforded to them by companies incorporated under the laws of the United States and certain other jurisdictions.

Substantially all of our Directors, Supervisors and executive officers reside within the PRC. Substantially all of our assets and substantially all of the assets of our Directors, Supervisors and executive officers are located within the PRC. The PRC does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan and many other countries. Therefore, it may not be possible for investors to affect service of process upon us or those persons in the PRC or to enforce against them or us in the PRC any judgments obtained from non-PRC courts. In addition, recognition and enforcement in the PRC of judgments of a court of any other jurisdiction in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Payment of dividends is subject to restrictions under PRC law

Under PRC law and our Articles of Association, we may only pay dividends out of our distributable profits. Distributable profits are our net profits as determined in accordance with PRC GAAP or IFRS, whichever is lower, minus any recovery of accumulated losses and allocations to statutory and other reserves that we are required to make. As a result, we may not have sufficient or any distributable profits to enable us to make dividend distributions to our shareholders in the future, including periods for which our financial statements indicate that our operations have been profitable. Any distributable profits that are not distributed in a given year will be retained and available for distribution in subsequent years.

Moreover, because distributable profits are calculated differently under PRC GAAP from those under IFRS, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits as determined under IFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries for us to pay dividends. Any failure by our operating subsidiaries to pay dividends to us could have a negative impact on our cash flows and our ability to make dividend distributions to our shareholders in the future, including in those periods for which our financial statements indicate that our operations have been profitable.

Foreign individual holders of our H Shares are subject to PRC income tax and there are uncertainties as to the PRC tax obligations of foreign enterprises that are holders of our H Shares

Under current PRC tax laws, regulations and rules, foreign individuals and foreign enterprises that are not PRC residents are subject to different tax obligations with respect to the dividends paid by us or the gains realized upon the sale or other disposition of H Shares.

Pursuant to the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 45 (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) issued by the SAT on 28 June 2011, we are required to withhold taxes from dividend payments to non-PRC resident individual holders of H Shares at rates ranging from 5% to 20% (usually 10%), depending on the applicable tax treaty between the PRC and the jurisdiction in which the non-PRC resident individual holder of H Shares resides. Non-PRC resident individual holders of H Shares who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20% withholding tax on dividends received from us.

Under the PRC CIT Law and its implementation rules, for foreign enterprises that do not have offices or establishments in the PRC, or have offices or establishments in the PRC to which their income is not related, dividends paid by us and the gains realised by such foreign enterprises upon the sale or other disposition of H Shares are ordinarily subject to PRC corporate income tax at a rate of 10%, subject to a further reduction under a special arrangement or applicable treaty between the PRC and the jurisdiction of the relevant foreign enterprise's residence. In accordance with the Notice of the State Administration of Taxation on the Issues Concerning Withholding the Corporate Income Tax on the Dividends Paid by Chinese Resident Enterprises to H-share Holders Which Are Overseas Non-resident Enterprises (Guo Shui Han [2008] No. 897) (《關於中國居民企業向境外H股非居民企業股東派發股息代繳企業所得稅有關問題的通知》國稅函[2008]897號), which became effective on 6 November 2008, 10% withholding tax shall be imposed on dividends paid by Chinese resident enterprises to holders of H Shares that are overseas non-resident enterprises. These holders of H Shares may apply for tax refunds in accordance with applicable tax treaties or arrangements, if any. In addition, the PRC tax laws, rules and regulations may also change from time to time. If the tax rates stipulated in the 2008 Corporate Income Tax Law and the related implementation rules are amended, the value of your investment in our H Shares could be materially and adversely affected.

In addition, it is also unclear whether and how the PRC individual income tax and corporate income tax on gains realised by non-resident holders of H shares through the sale, or transfer by other means, of H shares will be collected by the PRC tax authorities in the future, although such tax has not been collected by the PRC tax authorities in practice. Considering these uncertainties, non-resident holders of our H Shares should be aware that they may be obligated to pay PRC income tax on the dividends and gains realised through sale or transfers of the H Shares. For additional information, please see "Appendix IV – Taxation and Foreign Exchange" to this prospectus.

Any change in our tax treatment, including an unfavorable change in preferential corporate tax rates in the PRC, may have a negative impact on our operating results

On 16 March 2007, the National People's Congress of the PRC promulgated the PRC EIT Law, which came into effect on 1 January 2008 and supersedes both the Foreign-invested Enterprise and Foreign Corporate Income Tax Law and the Provisional Regulations on Corporate Income Tax of the PRC. The PRC CIT Law consolidates the two separate tax regimes for domestic enterprises and foreign-invested enterprises and imposes a unified corporate income tax rate of 25% for both types of enterprise.

Under the PRC CIT Law, foreign-invested enterprises that enjoyed a preferential tax rate prior to the PRC CIT Law's promulgation will gradually transit to the new tax rate over five years starting on 1 January 2008. Foreign-invested enterprises that enjoyed a tax rate of 24% will have their tax rate increased to 25% in 2008. Enterprises which enjoyed a fixed period of tax exemption and reduction prior to the PRC CIT Law's promulgation will continue to enjoy such preferential tax treatment until the expiry of such prescribed period, and for those enterprises whose preferential tax treatment has not commenced before due to lack of profit, such preferential tax treatment will commence on 1 January 2008.

Under the previous tax regime, since Fujian Fuguiniao is a foreign-invested enterprise engaged in the manufacturing business, it is entitled to a corporate income tax exemption for two years commencing from the first profit-making year (after offsetting all tax losses carried forward from previous years), and a 50% tax reduction for the following three consecutive years. Under the PRC CIT Law, Fujian Fuguiniao enjoyed a full exemption from state corporate income tax in 2008 and 2009 and a 50% reduction of the phased-in corporate income tax rate of 25% for three years from 2010 to 2012, and will thereafter be subject to a 25% tax rate from 2012 onwards. In 2012, Fujian Fuguiniao did not meet the requirements of a productive foreign invested enterprise under the relevant PRC tax rules, and therefore, Fujian Fuguiniao could not enjoy the 50% reduction of tax rate.

In addition, we enjoyed a 15% export rebate rate, either by refund from relevant tax bureau, or by deduction from Value-added Tax payable, for the footwear products we exported during the Track Record Period. The turnover we generated from the sales of our products to our overseas OEM/ODM customers accounted for approximately 15.1% of our total turnover for the six months ended 30 June 2013. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, we received refund of export rebates of RMB14.4 million, RMB2.8 million, RMB Nil and RMB Nil and RMB Nil, respectively. However, we cannot assure you that such export rebate policy will not be abolished or amended in the future. If we cannot enjoy the export rebates, our profit in relation to such exported products will decrease. We cannot assure you that we could pass the additional expenses onto our OEM/ODM customers, or that if we try to, our cost competitiveness on the international market would not suffer. In such circumstance, our financial conditions and results of operations may be adversely affected.

Inflation in the PRC could negatively affect our profitability and growth

Economic growth in the PRC has, in the past, been accompanied by periods of high inflation, and the PRC government has implemented various policies from time to time to control inflation. For example, the PRC government introduced measures in certain sectors to avoid overheating of the economy, including tighter bank lending policies and increases in bank interest rates. The effects of the stimulus measures implemented by the PRC government since the global economic crisis that unfolded in 2008 may have contributed to the occurrence of, and continuing increase in, inflation in China. If such inflation is allowed to proceed without mitigating measures by the PRC government, our costs of production and sales will likely increase, and our profitability may be materially reduced, as there is no assurance that we will be able to pass any cost increases onto our customers. If the PRC government implements new measures to control inflation, these measures may also slow economic activity and reduce demand for our products and services, thereby severely hampering our growth.

The national and regional economies in China and our prospects may be adversely affected by natural disasters, acts of God, and occurrence of epidemics

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics and other acts of God beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including the cities in which we operate, face the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, or SARS, H5N1 avian flu or the human swine flu, also known as Influenza A (H1N1). For instance, a serious earthquake and its successive aftershocks hit Sichuan Province in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. Past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. A recurrence of SARS or an outbreak of any other epidemics in China, such as the H5N1 avian flu or the human swine flu, especially in the cities in which we have operations or sales, may result in material disruptions to our production, marketing and sales, which in turn may adversely affect our business, financial condition and results of operations.

In March 2013, an outbreak of the A (H7N9) strain of avian influenza occurred in eastern China. It is possible that its outbreak will spread to other areas in China, including Fujian Province where our production facilities are located, and pose a threat to human health. In that case, the health of our employees might be affected, which would have an adverse effect on our production and our profitability, especially if large numbers of our employees must be quarantined. Furthermore, as we sell our products all over the PRC, any further spread of the influenza will adversely affect our marketing activities. For example, our promotional events and logistics might be hampered or slowed down considerably.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for our H Shares. The liquidity and market price of our H Shares following the Global Offering may be volatile

Prior to the Global Offering, there has been no public market for our H Shares. The initial Offer Price range issued to the public for our H Shares will be the result of negotiations between our Company and the Underwriters, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied to list and deal in our H Shares on the Hong Kong Stock Exchange. We cannot assure you that the Global Offering will result in the development of an active, liquid public trading market for our H Shares. In addition, the price and trading volumes of our H Shares may be volatile. Factors such as variations in our turnover, earnings and cash flows or other developments in our business or industries or the financial markets may affect the volume and the price at which our H Shares will trade.

Any possible conversion of our Domestic Shares into H Shares in the future could increase the supply of our H Shares in the market and negatively impact the market price of our H Shares

Subject to the approval of the CSRC, all of our Domestic Shares may be converted into H Shares in the future, and such converted Shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted Shares any requisite internal approval by Shareholders in a general meeting shall have been duly obtained and the approval from relevant PRC regulatory authorities shall have been obtained. However, the PRC Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of the listing. Therefore, upon obtaining the requisite approval, our Domestic Shares may be traded, after the conversion, in the form of H Shares on the Hong Kong Stock Exchange after one year of the Global Offering, which could further increase the supply of our H Shares in the market and negatively impact the market price of our H Shares.

Since there will be a gap of several days between pricing and trading of our Offer Shares, holders of our Offer Shares are subject to the risk that the price of our Offer Shares could fall during the period before trading of our Offer Shares begins

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, our H Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be five Hong Kong business days after the pricing date. As a result, investors may not be able to sell or otherwise deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to the risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments that could occur between the time of sale and the time trading begins.

Because the Offer Price is higher than the net tangible book value per share of our Company, the purchasers of our H Shares will incur immediate dilution

The initial public offering price of our H Shares is higher than the net tangible asset per share of the outstanding shares issued to our existing shareholders. Therefore, purchasers of our H Shares in the Global Offering will experience an immediate dilution in net tangible asset of HK$4.69 per H Share (assuming an Offer Price of HK$8.61 per H Share, being the mid-point of our indicative Offer Price range, and assuming the Over-allotment Option is not exercised), and our existing shareholders will receive an increase in the pro forma adjusted consolidated net tangible asset per share of their shares. In addition, holders of our H Shares may experience a dilution of their proportional interest in our Company if we raise additional capital in the future.

Dividends declared in the past may not be indicative of our dividend policy in the future

In 2010, 2011 and 2012, we declared dividend of RMB130.4 million, RMB130.7 million and RMB152.4 million, respectively. On 28 June 2013, we declared dividends in the amount of RMB200.0 million.

Although we have paid dividends in the past, we cannot assure you that our dividend policy will not change, and potential investors should be aware that the amount of dividends that were paid in the past should not be used as a reference or basis upon which future dividends will be determined. Whether dividends will be distributed and the amount to be distributed will depend on factors such as our profitability, financial condition, future prospects and cash requirements. Any declaration and payment, as well as amount of dividends, will be subject to our Articles of Association and PRC laws, including approval(s) of our Shareholders and/or our Directors. As a result of the foregoing, we cannot assure you that we will make any dividend payments on our H Shares in the future with reference to our historical dividends. See "Financial Information – Dividend Policy".

We have significant discretion as to how we will use the net proceeds of the Global Offering and you may not necessarily agree with how we use them

Our management may utilise the net proceeds of the Global Offering in ways you may not agree with or that do not yield favorable return to our Shareholders. We plan to use the net proceeds from the Global Offering to increase our existing sales channels, expand our business overseas, purchase relevant electronic equipment and software to improve our operations and to provide funding for working capital and general corporate purposes. For details of our use of proceeds, please see "Future Plans and Use of Proceeds". However, our management will have discretion as to the actual application of our net proceeds. You are entrusting your funds to our management, team, upon whose judgment you must depend to determine the specific uses for the net proceeds from the Global Offering.

Facts, forecasts and statistics contained in this prospectus with respect to the PRC, Hong Kong and other jurisdictions and their economies and footwear and menswear industries are derived from various official or third-party sources and may not be accurate, reliable, complete or up-to-date

Facts, forecasts and statistics in this prospectus relating to the PRC, Hong Kong, and other jurisdictions and their economies and footwear and menswear industries are derived from various official or third-party sources. While we have exercised reasonable care in compiling and reproducing these facts, forecasts and statistics, they have not been independently verified by us. We make no representation as to the accuracy of such facts, forecasts and statistics, which may not be consistent with other information compiled within or outside these jurisdictions and may not be complete or up-to-date. Moreover, the statistics in this prospectus may be inaccurate or less developed than statistics produced for other economies and should not be unduly relied upon.

Sales, or perceived sales, of substantial amounts of our H Shares in the public market could materially and adversely affect the prevailing market price of our H Shares

The H Shares held by our Controlling Shareholders are subject to certain lock-up periods falling six and 12 months after the date on which trading in our H Shares commences on the Stock Exchange, the details of which are set out in the section entitled "Underwriting" in this prospectus. We cannot assure you that our Controlling Shareholders will not dispose of any H Shares after such restrictions expire. Sales of substantial amounts of our H Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of our H Shares.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering, which may not be consistent with the information contained herein

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering. We have not authorised the disclosure of any information in the press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it. Accordingly, you are cautioned to make your investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.