You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making any investment decisions in relation to our Company. You should pay particular attention to the fact that we conduct our operations in the PRC, the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. Our business, financial condition, results of operations or growth prospects could be materially and adversely affected by any of these risks and uncertainties. The market price of the Shares could significantly decrease due to any of these risks and uncertainties and you may lose all or part of your investment. In addition, we are also subject to other risks and uncertainties that are not currently known to us or which currently deem to be immaterial. Such risks and uncertainties could also have a material adverse effect on our business, financial condition, results of operations, profitability and future prospects. For more information concerning the PRC and certain related matters discussed below, please refer to the section headed "Summary of Principal Legal and Regulatory Provisions" in this prospectus.

RISKS RELATED TO OUR BUSINESS

Our success depends on the market recognition of our brand and we could be adversely affected by negative publicity

We rely heavily on the market recognition of our Allen (亚伦) brand. We have a well-established operating history and strong brand recognition. Our Directors believe that our business growth in our production and sales of our products depend heavily on the public perception of our brand and we anticipate that we will continue to rely on our brand in our future business. For the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2013, the gross profit margin for our domestic sales, which were primarily made under our Allen (亚伦) brand, was approximately 44.1%, 43.5%, 46.6% and 47.7%, respectively. For the same year/periods, the gross profit margin for our overseas sales, which were made on ODM/OEM basis under either the brand name of our ODM/OEM customers or on no specific brand basis, was approximately 36.9%, 29.2%, 28.4% and 22.9%, respectively. Our spending on advertising and promotion expenses amounted to RMB11.3 million, RMB16.6 million, RMB17.7 million and RMB8.6 million, respectively for each of same year/periods. Furthermore, we plan to spend approximately HK$48.9 million (assuming an Offer Price of HK$2.075 per Offer Share, being the mid-point of the indicative Offer Price range of HK$1.80 to HK$2.35 and the Over-allotment Option is not exercised), representing approximately 7.0% of the net proceeds from the Global Offering, to promote our Allen (亚伦) brand through advertising in various media (such as television, the internet, billboards and magazines) and engage brand ambassadors or spokespersons. If we fail to promote our brand or to maintain or enhance the brand recognition and awareness amongst our customers, or if we are subject to events or negative allegations affecting our brand image or publicly perceived position of our brand, our business, our operating results and our financial condition could be adversely affected. In addition, we do not have control over the daily sales activities of our customers including those which have been operating their showrooms under our brand in the PRC. As such, any acts, wrongdoings or non-compliance of any rules and regulations by our customers may harm our business reputation and image. We cannot assure you that there will be no unauthorised acts and wrongdoings committed by our customers. In such event, our brand name, business reputation and operating results could be adversely affected.

Our expansion of the production facilities, in particular our Anhui Production Facilities, may not be as successful as we have planned or such expansion may result in over-capacity, significant increase in our cost of sales, depreciation and may affect our operations, financial conditions and the demand for our electric fireplaces and our revenue and profit may not increase proportionally to our increased capacity

To support our growing operations, we are currently in the process of expanding our existing production facilities and we plan to construct new production facilities in Anhui Province, China, the capital expenditure of which is estimated to be approximately RMB554.5 million, and approximately 54.1% is expected to be funded by the net proceeds from the Global Offering (assuming an Offer Price of HK$2.075 per Offer Share, being the mid-point of the indicative Offer Price range of HK$1.80 to HK$2.35 and the Over-allotment Option is not exercised). The Anhui Production Facilities involves the installation of approximately RMB150.0 million in new production machinery and equipment and establishment of new production lines. Upon its expected completion by end of 2015, the Anhui Production Facilities is expected to increase our production capacity for electric fireplaces by approximately 300,000 units per year. In addition, we are currently expanding our production capacity by constructing the Expanded Luojiang Production Facilities which is expected to increase our production capacity by approximately 50,000 units per year upon its completion in mid-2014. The completion of the above new production facilities may significantly increase our existing effective production capacity for electric fireplaces from approximately 277,500 units as of 31 December 2012. Our production capacity expansion plans described above may involve the following risks:

- Our actual production volume may vary depending on the demand and sales orders of different types of fireplaces to be received from our customers which in turn may be affected by market trend, customers' preferences or other factors which are beyond our control. The demand for our electric fireplaces as well as the sales orders to be received and the revenue and profits to be generated may not increase in line with our increase in production capacity and we cannot assure you that there will not be over-capacity.

- In addition, we expect to incur increased costs, such as direct labour costs (as a result of additional production staff) and depreciation costs (as a result of our significant investment in land, buildings, machinery and equipment), in connection with the expansion of our Anhui Production Facilities.

- We cannot assure you that our production capacity expansion plans will be successfully implemented without delay or at all. Any failure or delay in implementing any part of these plans may result in a lack of production capacity to support our growth and market expansion, which in turn could materially and adversely affect our business, financial condition and results of operations.

Our efforts in product enhancement and new product development, in particular our electric fireplaces, may not succeed and this may affect our business and operating results

The home furnishing industry is rapidly evolving and undergoes continuous development. Our success relies significantly on our ability to develop new home furnishing products and improve the quality of our existing products, in particular our electric fireplaces, which had primarily fueled the growth of our revenue and accounted for approximately 25.6%, 30.2%, 45.1% and 51.7% of our total revenue for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2013, respectively. If we fail to develop appropriate products with acceptable quality or lag behind our competitors in improving our product quality or product range, we may not be able to maintain our leading position and our operating results and prospects could be adversely affected. If we fail to accurately assess the market trends, anticipate market developments and direct our efforts to relevant product development projects or the demand for our electric fireplaces decrease significantly, our business, operating results and financial condition could be adversely affected. The unavailability and insufficiency of capital for product development projects and any areas where our employees' experience may be lacking could all affect our development plans.

Revenue from our home decor products business segment recorded a decrease for 2012 and the six months ended 30 June 2013 from the corresponding previous year/period and there is no assurance that revenue derived from our home decor products will not continue to decrease

For the two years ended 31 December 2011 and 2012, segment revenue from our home decor products amounted to approximately RMB560.9 million and RMB532.2 million, respectively, representing a decrease of approximately 5.1%. For the six months ended 30 June 2012 and 2013, segment revenue from our home decor products amounted to approximately RMB247.7 million and RMB238.5 million, respectively, representing a decrease of 3.7%.

Our home decor products are principally sold in the PRC and we also sell a portion of our home decor products to overseas markets for our ODM and OEM customers overseas. There can be no assurance that the revenue from our home decor products business segment will not continue to decrease in the future. Market volatility, adverse economic conditions or failure to outperform our competitors or the market may reduce our revenue and adversely affect our business, financial condition and results of operations.

We may experience difficulties in expanding our market share in the PRC at the current rate and any changes of policies and consumer's preferences may have an adverse impact on our business and financial conditions

We derived a significant portion of our revenue from our sales in the PRC during the Track Record Period. For the three years ended 31 December 2012, our PRC sales accounted for approximately 83.1%, 83.7% and 86.8% of our total revenue, respectively. For the six months ended 30 June 2013, our PRC sales accounted for approximately 91.3% as compared to approximately 89.5% for the six months ended 30 June 2012. As our market expansion in the PRC may require additional management, financial and human resources, and subject to a number of risks including but not limited to the future development of the PRC economy, the PRC real estate market and policies and the per capita spending on creative furnishing products, we cannot assure you that we will be able to maintain our current market share or continue to develop new customers in other regions of the domestic market in the PRC. In addition, any changes in consumers' preferences and our failure to timely respond to such changes may lead to a reduction in demand for our products and adversely affect our financial conditions.

Our business, financial condition and results of operations may be affected by the loss of key customers

Our sales to our five largest customers in aggregate accounted for approximately 29.5%, 25.3%, 24.3% and 26.1% of our revenue for the three years ended 31 December 2012 and the six months ended 30 June 2013, respectively. We also heavily relied on sales to our trading entity customers during the Track Record Period. During the three years ended 31 December 2012 and the six months ended 30 June 2013, our sales to trading entity customers accounted for approximately 81.3%, 81.1%, 85.9% and 88.0% of our total revenue, respectively. In particular, sales to our trading entity customers which have entered into framework agreements with us accounted for approximately 23.8%, 43.4%, 50.1% and 50.6% of our total revenue for each of the three years ended 31 December 2012 and the six months ended 30 June 2013, respectively. It is important for us to maintain close and mutually beneficial relationship with our key domestic and international customers. Our revenue is also subject to our customers' business, product quality, sales strategy, industry conditions and the overall economic market environments. We cannot assure you that our customers, particularly, our trading entity customers, may continue to purchase from us at current levels, or at all, become insolvent or otherwise default on payments under such orders, or fail to take delivery of our products in accordance with the sales orders, or purchase similar products from our competitors. Any significant reduction of sales to or loss of any of our key customers could materially and adversely affect our business, financial condition and results of operations.

We may be unable to sustain our profit margins if we do not succeed in the implementation of our business strategies or if the market demand for our products decrease

For the three years ended 31 December 2012 and the six months ended 30 June 2013, our gross profit margin was approximately 42.9%, 41.2%, 44.2% and 45.6%, respectively, and our net profit margin was approximately 29.1%, 27.1%, 27.0% and 26.2%, respectively. Our ability to sustain our profit margin in the future depends on a variety of factors, including successful implementation of our expansion plan and business strategies, market demand for our products, our ability to response to market preference, efficient utilisation of our management and financial resources and ability to recruit and retain suitable skilled personnel. Failure to do so will affect our gross profit margin and net profit margin adversely.

We may not be successful in maintaining our current market position or implementing our market expansion plan and such failure may affect our business and financial performance

We intend to maintain our current market position and continue to expand into new markets, including both domestic and the overseas markets, through extending our sales and marketing network and establishing new production facilities. In this respect, we plan to invest approximately HK$175.0 million (equivalent to approximately RMB140.0 million) and approximately 63.9% is expected to be funded by the net proceed from the Global Offering representing approximately 16.0% of net proceeds from the Global Offering (assuming an Offer Price of HK$2.075 per Offer Share, being the mid-point of the indicative Offer Price range of HK$1.80 to HK$2.35 and the Over-allotment Option is not exercised), to establish seven creative home furnishing concept shops in major cities in the PRC by 2016, for the showcase of our products and to enable end consumers to experience our products in an upmarket environment. We also plan to invest approximately HK$51.0 million, representing approximately 7.3% of net proceeds from the Global Offering to further expand our overseas sales network and design and development team. As a result, we are subject to all of the risks that are specific to the local creative home furnishing markets and the risks inherent in the unforeseen costs and expenses, challenges, complications, and delays encountered in connection with our market expansion plan.

Our maintenance of current market position and market expansion may be hindered by risks including but not limited to cultural differences, instability or changes in the political, regulatory or economic environment, lack of understanding of the local business environment, financial and management system or legal system, differences in legal burdens in complying with local laws and regulations, differences in the licencing regime, the tendering regime, and payment practices, stringent product liability and warranty requirements, potentially adverse tax consequences, competition within the local market and volatility in currency exchange rates.

Maintaining our current market position and implementing our market expansion plan has resulted in, and will continue to result in, substantial demands on our resources. Managing our expansion will require, among other things:

- continued enhancement of our design and development capabilities;
- successful hiring and training of personnel;
- increased marketing and service activities;
- management of our sales network;
- sufficient liquidity;
- effective and efficient financial and management control; and
- effective cost and quality control.

There is no assurance that we will be able to successfully maintain or expand our market coverage or grow our business successfully after deploying our management and financial resources, particularly in the overseas markets. Any failure in maintaining our current market position or implementing our market expansion plan could materially and adversely affect our business, financial condition and results of operations.

We face increasing competition in the creative home furnishing industry and failure to compete efficiently could materially and adversely affect our business

We operate in a competitive industry in which our competitors include a number of international and China-based companies that provide products and services similar to ours. Some of our China-based and international competitors may have stronger brand names, greater access to capital, longer operating histories, longer or more established relationships with their customers, and greater marketing and other resources than we do. Due to the evolving markets in which we compete, additional competitors with significant market presence and financial resources may enter those markets, and thereby intensify the competition. These competitors may be able to reduce our market share by adopting more aggressive pricing policies than we can or by developing technology and services that gain wider market acceptance than our products do. Existing and potential competitors may also develop relationships with our customers in a manner that could significantly harm our ability to sell and market. If we fail to maintain or improve our market position or fail to respond successfully to changes in the competitive landscape, our business, profit margins, financial condition and results of operations may be materially and adversely affected.

Our electric fireplaces may be subject to certain product safety and quality requirements and standards and failure to meet these requirements and standards may adversely affect our business and financial conditions

To ensure that our electric fireplaces can be manufactured, sold and placed on the market in certain jurisdictions, our electric fireplaces must be assessed and marked in accordance with product safety and quality requirements and standards. For instance, our electric fireplaces sold in the PRC are required to obtain the China Compulsory Certification marks and our electric fireplace products sold in Europe must carry the CE mark to show conformity with the European Union safety, health and environmental protection requirements. From November 2011 to March 2012, we did not have our China Compulsory Certificates for our electric fireplaces in the PRC updated due to the relocation of our production facilities, further details of which are set out in the section headed "Business — Legal compliance and proceedings" of this prospectus. During the period from 14 November 2011 to 31 December 2011, our revenue generated from the sales of our electric fireplaces in the PRC was approximately RMB43.6 million whereas our gross profit generated from such sales was estimated to be RMB20.9 million. Our revenue generated from the sales of our electric fireplaces in the PRC was approximately RMB50.3 million whereas our gross profit generated from such sales was estimated to be RMB22.2 million during the period of 1 January 2012 to 28 March 2012. There can be no assurance that new products developed by us in the future can meet or that our existing products will continue to meet the required existing product safety and quality requirements and standards. In addition, if the existing product safety and quality requirements and standards become more stringent, we cannot assure you that our products can meet such requirements and standards. Our inability to obtain the required safety markings for our electric fireplaces could have an adverse impact on our business, results of operations, financial condition or prospects.

Any failure to maintain an effective quality control system and any breakdown at our production facilities could have a material and adverse effect on our business, financial condition and results of operations

We focus on the consistency of the quality of our products as product quality is essential to the success of our business. The quality of our products is dependent on the effectiveness of our quality control system, which in turn depends on a number of factors, including the design of the system, the quality control training programme, and our ability to ensure that our employees adhere to our quality control policies and guidelines. Any failure of our quality control system could result in the production of defective or substandard products, which in turn may impair our reputation, result in delays in the delivery of our products and the need to replace defective or substandard products, which could have a material and adverse impact on our business, financial condition and results of operations.

Furthermore, smooth and consistent daily operations of our production facilities are highly crucial to our business. Regular repair and maintenance programmes for our production facilities are scheduled by our production departments. Machinery maintenance for our kilns is scheduled to take place during the Chinese New Year for about two weeks to ensure no production disruption and in accordance with our internal standards. We also conduct periodic testing and upgrading of our production machinery and equipment to ensure efficiency and in accordance with our internal standards. During the Track Record Period, there had been no material breakdown at our production facilities. However, we cannot assure you that there will be no sudden malfunction or stoppage of our production facilities during our daily operations and if any breakdown or malfunctions of machinery happened, our business, financial condition and results of operations could be adversely impacted.

We rely heavily on our senior management team and key personnel and the loss of any of their services could affect our business

Our future success is dependent on the ongoing efforts of our senior management and key personnel. We rely on our management team comprising our executive Directors and senior management as set out in the section headed "Directors, senior management and staff" of this prospectus, for their extensive knowledge of and experience in China's creative home furnishing industry as well as their deep understanding of the Chinese creative home furnishing market, business environment and regulatory regime. We have entered into service agreements with each of our Directors for an initial term of three years commencing from the Listing Date. However, if any member of the senior management team ceases to be involved in the management of our Group in the future and we fail to find or employ other suitable candidates to replace them in a timely manner, our operations, profitability and prospects may be negatively impacted. There can be no assurance that we are able to maintain these key members of our management team in future. In case we lose the services of any of these key members of our management team, our business prospects, financial condition and results of operations may be adversely affected.

We rely on a few major suppliers for our principal raw materials and their discontinuity to supply to us may affect our business and financial conditions

For the three years ended 31 December 2012 and the six months ended 30 June 2013, our five largest suppliers accounted for approximately 42.3%, 29.8%, 28.7% and 33.7% of our total purchases, respectively, and purchases from our largest supplier accounted for approximately 17.3%, 7.8%, 9.8% and 10.3% of our total purchases, respectively. We have not entered into long-term agreements with our suppliers. We procure the supply of raw materials that we require in accordance with our sales orders. The future relationship between us and our suppliers and the willingness and capability of our suppliers to supply raw materials to us will be critical to our business and operations. If our existing suppliers do not continue to supply us with the raw materials at favourable or similar prices or at all, our production could be affected, and our business, operating results and financial condition could also be adversely affected.

We may be subject to price fluctuation of raw materials used in our production and increase in the prices of our raw materials may affect our operations, reduce our liquidity and cash flow

We purchase large amount of raw materials such as polyresin, marble frames, and wood for our operation. Our cost of raw materials represents a substantial portion of our total cost of sales. For the three years ended 31 December 2012, total cost of our raw materials used accounted for approximately 73.2%, 71.8% and 71.7% of our total cost of sales, respectively. For the six months ended 30 June 2013, total cost of our raw materials accounted for approximately 73.5% of our total cost of sales compared to approximately 68.2% for the six months ended 30 June 2012. The prices of most of our raw materials generally follow the price trends of, and vary with, market conditions. Supplies of these raw materials may also be subject to a variety of factors that are beyond our control, including but not limited to market shortages, suppliers' business interruptions, government control, weather conditions and overall economic conditions, all of which may have an impact on their respective market prices from time to time. In the future, there may be periods of time when we are unable to pass our cost increases on to customers in a timely manner to avoid adverse impacts on our profit margins. For example, there is a potential time lag between when prices for raw materials increase under our purchase orders and when we can implement a corresponding increase in price under our sales orders with our customers. In addition, when raw material costs increase rapidly and such costs are passed along to customers as product price increases, the credit risks associated with certain customers can be compounded and demand may decrease. Our business prospects, financial condition and results of operations may be adversely affected by the increase and volatility of these costs. Such cost increases may also increase our working capital needs, which could reduce our liquidity and cash flow.

Failure to collect our trade receivables in a timely manner may affect our financial condition and results of operations

We may not be able to collect our trade receivables in a timely manner and some of customers may delay payments due to various reasons beyond our control. We generally grant a credit period of 60 to 90 days to our customers. During the Track Record Period, our trade receivables turnover days range from approximately 54 to 103 days. As of 31 December 2011 and 2012 and 30 June 2013, trade receivables of approximately RMB56.4 million, RMB42.1 million and RMB82.9 million, respectively, were past due but not impaired. These mainly relate to a number of independent customers for whom there is no recent history of default. We are thus exposed to the risk that customers may delay or even be unable to pay us when the payments are due. These may put our cash flow and working capital under pressure. In addition, defaults in customers' payments can materially and adversely affect our results of operations and reduce our financial resources that would otherwise be available to fund other expenditures. As our business grow in the future, we cannot assure you that payments from customers will be made in a timely manner or that delays or defaults in payments will not affect our financial condition and results of operations.

We may experience a shortage of labour or our labour costs may continue to increase and this may affect our operations and financial condition

Our production process is labour-intensive. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our employee benefit expenses amounted to approximately RMB69.1 million, RMB81.8 million, RMB96.7 million and RMB53.6 million, respectively. As we expand our production capacity and increase our production, our need for production personnel may increase. Moreover, labour costs have increased in the PRC in recent years. We cannot assure you that we will not experience any shortage of labour for our production needs or that the costs of labour in the PRC will not continue to increase in the future. If we experience a shortage of labour, we may not be able to maintain our production volume. If labour costs continue to increase in the PRC, our production costs will increase and we may not be able to pass these increases to our customers due to competitive pricing pressures. Accordingly, if we experience a shortage of labour or our labour costs continue to increase, our business prospects, financial condition and results of operations may be adversely affected.

We may be subject to certain risks, such as political and economic instability and fluctuations in currency rates of foreign currencies, associated with selling our products to overseas ODM/OEM customers

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, our revenue generated on ODM/OEM basis, which primarily represented our overseas sales, accounted for approximately 16.9%, 16.3%, 13.2% and 8.7% of our total revenue, respectively. We generally sell our products to our overseas ODM/OEM customers based on sales orders, which are subject to the requirements agreed between us and our ODM/OEM customers. If our customers are not able to maintain their existing level of orders, it could have a material adverse effect on us. To the extent that we do not maintain our existing level of business with our customers, we will need to attract new customers or secure new business with existing customers. If we are not able to do so, our business, results of operations and financial condition may be adversely affected.

Overseas sales are subject to various risks, including political and economic instability, the imposition of foreign tariffs and other trade barriers, fluctuations in currency rates of foreign currencies against RMB, the impact of foreign government regulations and the effects of income and withholding taxes, governmental expropriation and differences in business practices. We may incur increased costs and experience delays or disruptions in product deliveries and payments in connection with overseas sales that could cause loss of revenues and earnings. Unfavourable changes in the political, regulatory and business climate could have a material adverse effect on our sales, financial condition, profitability or cash flows.

We may be exposed to claims in respect of product quality and safety standard made by the end-consumers of our products and infringement of third party intellectual property rights

We face an inherent risk of exposure to product liability claims in the event that the use of our products results in health or safety issues or damages. The end-consumers of our products may have the right to bring an action under tort and we may also be subject to tortious liabilities for any damages caused by defects of our products. According to the Tort Law of the PRC (中華人民共和國侵權責任法) which was promulgated by the Standing Committee of the NPC on 26 December 2009 and became effective since 1 July 2010, if financial damages or physical injuries are incurred to an individual due to substandard product quality, the manufacturer of the product and the seller shall assume civil liability in accordance with the laws.

According to the terms of sales with our customers, there is no restriction on the overseas sales of our customers in relation to our products. As such, our trading entity customers may further sell our products overseas provided that they have the right to export and their compliance with relevant PRC export laws and regulation, and we, as the manufacturer and designer of the products, may be liable for infringement of third party intellectual property rights for these onward sales made by our trading entity customers.

There is no assurance that we would not be named as a defendant in a lawsuit or proceedings brought by end consumers in respect of our products. A successful claim against us in respect of our products or a material recall of our products may result in (i) legal costs incurred in connection with such claim or other adverse allegations or rectifying such defects; (ii) deterioration of our brand and corporate image; and (iii) material adverse effect our sales, results of operation and financial condition.

We have limited insurance coverage and may incur significant losses resulting from product liability claims or business interruptions

We are exposed to risks associated with product liability claims if the use of our electric fireplaces or home decor products results in damage or injury. With respect to our products sold in the PRC, we maintain product liability insurance coverage in the total amount of RMB1.0 million, limited to RMB100,000 for each claim. We do not maintain insurance coverage in respect of our overseas sales and infringement of third party intellectual property rights for onward sales made by our trading entity customers. Currently, there are no applicable industry tests or regulatory requirements for home decor products. We cannot assure you that future changes of the rules and regulations in the PRC and the overseas jurisdictions in which we export to in relation to our products will not impose costly compliance requirements on us or otherwise subject us to future liabilities. We cannot assure you that product liability claims against us will not arise in the future, whether due to product malfunctions, defects or other causes, which may or may not exceed our insurance coverage. As a result, any dispute regarding the quality of our products may give rise to claims against us for losses and damages. Any such claims, regardless of whether they are ultimately successful, could cause us to incur litigation costs, harm our business reputation and disrupt our operations. If any such claims were ultimately successful, we could be required to pay substantial damages, which could materially and adversely affect our business, financial condition and results of operations.

We maintain property insurance, but do not maintain business interruption insurance. In the event that we suffer a loss to any of our property in an amount that exceeds our insurance coverage, we may not be able to recover such amount exceeding our insurance coverage. In addition, any business disruption or natural disaster claim could result in our incurring substantial costs and diversion of resources, which would have an adverse effect on our business and results of operations.

Our sales of electric fireplaces may be affected by seasonality

We believe that there is a seasonal pattern in the purchasing of our electric fireplaces by consumers. Specifically, peak season for our business is normally in the second half of the year.

Any reduction in the sales of our electric fireplaces during the peak season may have an adverse material impact on our sales and performance. We may be exposed to risks associated with such seasonal factors and the fluctuation of demand of our electric fireplaces. Should there be any adverse change of market condition during the peak season, our profitability may be adversely affected.

We may not be able to enjoy the various benefits including preferential income tax treatment associated with the accreditation as a High and New Technology Enterprise

Fujian Allen was accredited as a High and New Technology Enterprise and obtained the High and New Technology Enterprise Certificate in July 2010 for an initial period of three years from July 2010 to July 2013, and enjoyed the preferential income tax rate in the years of 2010, 2011 and 2012 subject to the fulfilment of relevant requirements. Fujian Allen has been publicly notified that it has fulfilled the relevant requirements to be continuously accredited as a High and New Technology Enterprise in September 2013. Under the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) (the "**PRC EIT Law**") and its relevant regulations, High and New Technology Enterprises are conferred with a preferential income tax rate of 15% (reduced from the unified enterprise income tax rate of 25% under the PRC EIT Law). Following the accreditation as a High and New Technology Enterprise, we are required to submit our financial statements together with details of our research and development activities and other technological innovation activities to the local tax authority and other relevant authorities for annual review to continue to enjoy the 15% preferential tax treatment. If we successfully pass the extension review, our accreditation will be renewed on a three year basis. As advised by our PRC Legal Adviser, if we fail the annual review or the extension review and cannot obtain approval from the local tax authority to renew our accreditation as a High and New Technology Enterprise, we will not be entitled to enjoy the preferential tax treatment, as well as other benefits conferred under the accreditation.

Certain properties that we own in the PRC may be subject to legal irregularities and we may be subject to fines and rectification orders

Our production facilities are located at Luojiang District, Quanzhou, Fujian, the PRC and Quangang District, Quanzhou, Fujian, the PRC. We currently own the land on which our production facilities are situated on and we have obtained the land use rights certificate from the PRC Government relating to the land. In addition, we did not obtain construction project planning permit in relation to some of our properties. According to the Urban and Rural Planning Law of the PRC (中華人民共和國城鄉規劃法), if a construction project proceeded without obtaining the relevant planning permit or the construction project violated the provisions of the planning permit, the competent department of the local people's government urban and rural planning at or above the county level shall order the construction to cease. If measures can be taken to eliminate the impact on the implementation of urban and rural planning, the governmental department shall order the offender to rectify the situation within a certain time limit and impose a penalty of 5% to 10% of the construction cost. If it is impossible to take measures to eliminate the impact, the department shall order the offender to demolish the building or structure within a certain time limit or forfeit the building or structure and confiscate any illegal gain, and may also impose a penalty not more than 10% of the construction cost. Under the provisions of the Construction Law of the PRC (中華人民共和國建築法) and Measures for the Administration of Construction Permits for Construction Projects (建築工程施工許可管理辦法), any unauthorised construction made without obtaining the relevant construction permits may be ordered to take corrective measures in accordance with the plans and a fine between RMB5,000 to RMB30,000 may be imposed. Certain properties which are located at Licheng District, Quanzhou, Fujian, the PRC and Quangang District, Quanzhou, Fujian, the PRC, which have a total gross floor area of approximately 23,167.67 square metres and 2,647.00 square metres, respectively, have been leased to and used by third parties for commercial purpose. According to the property ownership certificate, such properties shall be used for industrial purpose. As advised by our PRC legal advisers, according to relevant PRC laws and regulations, the change of the usage of the property shall be approved by the competent PRC government authorities and the granting fees of land use right shall be adjusted. The competent land authority may order the land user to rectify the situation within a time limit and refusal of such rectification may result in administrative penalty. Thus, if we are unable to obtain an approval on the change of usage, we may be ordered to rectify the situation by competent authorities. Please refer to the section headed "Business – Legal compliances and proceedings" of this prospectus for further details on the above.

Our failure to make appropriate contributions for housing provident fund and social insurance fund for all employees may be subject to fines and penalties under the relevant PRC laws and regulations

Prior to June 2013, China Allen, Fujian Allen and Quanzhou Allen did not register with the relevant authority or maintain accounts with a designated bank in respect of the housing provident fund, or make any contributions to the housing provident fund. For the three years ended 31 December 2010, 2011 and 2012, and the six months ended 30 June 2013, the amount of outstanding housing provident fund contribution was approximately RMB3.1 million, RMB3.7 million, RMB4.4 million, and RMB2.4 million, respectively. Under the Regulations on Management of the Housing Provident Fund (住房公積金管理條例), if an employer fails to register and make contribution of housing provident fund for its employees, the relevant housing provident fund authority is entitled to order the employer to pay such outstanding housing provident fund contributions within a prescribed time limit. If the employer fails to do so within such prescribed time limit, a fine in the range of RMB10,000 to RMB50,000 will be imposed. The housing provident fund authority may also order the employer to pay the outstanding housing fund within a prescribed time limit. If it fails to do so within such prescribed time limit, the housing provident fund authority may seek an order for payment from the relevant PRC court.

China Allen, Fujian Allen and Quanzhou Allen made social insurance contribution based on the minimum base salary of employees in accordance with the Measures for the Collection and Payment of Social Insurance Funds in Fujian Province (福建省社會保險費徵繳辦法) promulgated on 7 December 2000 by People's Government of Fujian Province (福建省人民政府) and implemented on 1 January 2001, the directives issued by the Quanzhou local social security authorities and not based on the previous year's average monthly wage. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, the additional amounts of social insurance fund contribution that would have been made if we had contributed to the social insurance fund in accordance with the applicable national administrative regulations were approximately RMB11.3 million, RMB11.3 million, RMB13.1 million, and RMB8.8 million, respectively. According to the Social Insurance Law of the PRC (中華人民共和國社會保險法) , which came into force on 1 July 2011, employers are required to make contributions to, and employees are required to participate in, all social insurance schemes promulgated at the national level. Prior to the implementation of the Social Insurance Law of the PRC (中華人民共和國社會保險法), which came into force on 1 July 2011, under the PRC laws including the Interim Regulations on the Collection and Payment of Social Insurance Funds (社會保險費徵繳暫行條例) effective from 22 January 1999 and Regulation on Work-Related Injury Insurance (工傷保險條例) effective from 1 January 2004 and amended on 20 December 2010, a fine ranging from RMB1,000 to RMB5,000 or in case of material breach, a fine ranging from RMB5,000 to RMB10,000, will be imposed on the management and other persons with direct responsibilities of the employer for non-compliances that occurred prior to 1 July 2011. The social insurance authorities are also entitled to order the employer to pay the outstanding social insurance within or without a time limit and impose a daily late charge of 0.05% and a fine ranging from one to three times of the outstanding amount for work-related injury insurance and a daily late charge of 0.2% for the other four types of social insurance if the employer fails to rectify the breach of social insurance contribution. Since 1 July 2011, for non-compliances that occurred after 1 July 2011, according to Social Insurance Law of the PRC, the social insurance authorities are entitled to order the employer to pay the outstanding social insurance fund (including pension, medical, work injury, unemployment and maternity insurance), and impose a daily late charge of 0.05% and a fine ranging from one to three times of the outstanding social insurance. As such, we may be required to pay the outstanding housing provident fund and social insurance fund contributions and any related fines or penalties imposed on us may affect our financial condition and results of operation.

We may not be able to prevent others from unauthorised use of our intellectual property, which could harm our business and competitive position

Our future success depends in part upon our proprietary technology. We consider that our Allen (亚伦) brand, the designs of our products, our trademarks, patents and similar intellectual property rights are critical to our success. As of the Latest Practicable Date, we hold a total of 36 patents granted by the State Intellectual Property Office of the PRC. In addition, we have 20 registered trademarks in the PRC and we are in the process of applying for three trademarks in the PRC. We seek to protect our patents and other intellectual property rights through a combination of patents, registered trademarks, trade secrets and confidentiality agreements. It is possible that any patents held by us may be invalidated, circumvented, or challenged. There can be no assurance that such patents or registered trademarks will provide us with competitive advantages or adequately safeguard our proprietary rights. Existing patents are granted for prescribed time periods and will expire at various times in the future. Registered trademarks are valid for ten years according to China intellectual property laws and must be renewed within certain prescribed period. Trade secrets are difficult to protect, and our trade secrets may be leaked or otherwise become known or be independently discovered by competitors. Confidentiality agreements may be breached, and we may not have adequate remedies for any breach.

It is often difficult to create and enforce intellectual property rights in China. Even where adequate laws exist, it may not be possible to obtain swift and equitable enforcement of such laws, or to obtain enforcement of a judgement or an arbitration award by a court of another jurisdiction, and accordingly, we may not be able to effectively protect our intellectual property rights or enforce agreements in China. Policing any unauthorised use of our intellectual property is difficult and costly and the steps we have taken may be inadequate to prevent the misappropriation of our intellectual property.

Third parties may claim that we are infringing their intellectual property, and we could suffer significant litigation expenses or licencing expenses or be prevented from selling certain of our products if these claims are successful

We may from time to time receive claims of infringement or otherwise become aware of potentially relevant patents or other intellectual property rights held by other parties. Third parties may claim that we are infringing or contributing to the infringement of their intellectual property rights. We may be required to obtain licences for such patents and if we need to licence any such patents, we could be required to pay royalties on certain of our products. There can be no assurance that if we are required to obtain patent licences to develop and sell our products, we will be able to obtain such patent licences on commercially reasonable terms or at all. Our inability to obtain these patent licences on commercially reasonable terms or at all could have a material adverse impact on our business, results of operations, financial condition or prospects.

Any litigation regarding patents or other intellectual property could be costly and time consuming and could divert our management and key personnel from our business operations. In addition, any intellectual property litigation involves significant risks. If there is a successful claim of intellectual property infringement against us, we might be required to pay substantial damages to the party claiming infringement, refrain from further sale of our products, develop non-infringing technology or enter into costly licence agreements on an on-going basis. However, we may not be able to obtain royalty or licence agreements on terms acceptable to us or at all. Any intellectual property litigation or successful claim could have a material adverse effect on our business, results of operations or financial condition.

We outsource the delivery of our products to logistics service providers and our customers may not be able to claim for loss or damage to our products during delivery

During the Track Record Period, we outsourced the delivery of our products to logistics service providers. Our delivery cost in engaging third party logistic service providers accounted for approximately 1.8%, 2.7%, 2.8% and 2.4% of our total revenue for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. The logistics service providers are responsible for any loss or damage to our products during delivery and are responsible for the insurance coverage in respect of our products delivered by them. There is no assurance that the logistics service providers have sufficient insurance coverage for our products delivered by them, if at all. As such, our customers may have liability claims against us if there is loss or damage to our products during delivery and the logistics service providers do not have any or sufficient insurance coverage. Any such claims, regardless of whether they are ultimately successful, could cause us to incur litigation costs, harm our business reputation and disrupt our operations. If any such claims are ultimately successful, we could be required to pay substantial damages, which could materially and adversely affect our business, financial condition and results of operation.

We are exposed to environmental liabilities and may have to incur significant capital expenditure if additional or stricter laws and regulations are passed in relation to environmental protection

Under the relevant PRC environmental laws and regulations, the construction, expansion and operation of our production facilities are subject to certain environmental permits and other relevant PRC government environmental approvals. The failure to obtain such permits or approvals may subject us to fines and penalties imposed by the relevant PRC government and we may be required to suspend the use of production facilities or vacate the premises. In addition, as our production processes generate noise, waste water and other industrial wastes, we are also required to comply with applicable national and local environmental regulations. For the three years ended 31 December 2012 and the six months ended 30 June 2013, our cost of compliance with the applicable environmental protection laws and regulations was approximately RMB0.2 million, RMB0.4 million, RMB0.4 million and RMB0.2 million, respectively. If we fail to comply with present or future applicable environmental regulations, we may be required to pay substantial fines, suspend production or cease operations. Any failure by us to control the use or to restrict adequately the discharge of hazardous substances could subject us to potentially significant monetary damages and fines or suspensions in our business operations, which would have a material adverse effect on our business and results of operations.

In addition, we cannot assure you that future changes in PRC environmental protection laws and regulations will not impose costly compliance requirements on us or otherwise subject us to future liabilities. As China is experiencing substantial issues with environmental pollution, it is likely that the national, provincial and local governmental agencies will adopt regulations setting forth stricter pollution controls and requirements in the future. Any such regulation applicable to the manufacture of our products may require us to incur significant capital expenditure and increase our operating costs.

Our future investments may not be successful and such failure may affect our competitive position, results of operations and financial conditions

As part of our business strategy, we regularly evaluate investments in complementary businesses, services and technologies, and we expect that periodically we may make such investments in the future. If we identify appropriate opportunities, we may invest in technologies, businesses or assets that are strategically important to our business or form alliances with significant players in the industry to further expand our business. However, we may not be successful in identifying suitable opportunities or completing such transactions. Our competitors may be more effective in executing and closing acquisitions in competitive bid situations than us. Our ability to enter into investments may be restricted by, or subject to, various approvals under PRC law or may not otherwise be possible, may result in a possible dilutive issuance of our securities, or may require us to seek additional financing. Completed investments may also expose us to additional potential risks, including risks associated with unforeseen or hidden liabilities, the diversion of resources from our existing business, and the potential loss of, or harm to, relationships with our employees as a result of our integration of new businesses. Any of these factors may have an adverse effect on our competitive position, results of operations and financial condition.

Loans taken out by us from an independent bank but paid directly to a related company may be deemed as loans advancing activities between enterprises and subject to penalties

In 2010, loans taken out by us in the aggregate principal amount of RMB50.0 million were paid directly by the independent bank to a related company of our Group. As advised by our PRC Legal Adviser, this may probably be deemed as advance activities between enterprises and if so it did not comply with the Lending General Provisions (《貸款通則》) formulated by the PBOC in 1996, pursuant to which enterprises engaged in lending could be subject to a penalty between one to five times of the income generated from such activities. As of the Latest Practicable Date, such loans made by/to us had been fully repaid and we had not been fined or penalised by the relevant authorities in relation to such loan advancing activities. However, there is no assurance that the relevant authorities will not impose penalty in respect of such loan advancing activities. In such event, our results of operation and financial positions would be adversely affected.

Our ability to borrow funds may be adversely affected by global economic developments

As of 30 June 2013, we had approximately RMB64.4 million of outstanding borrowings which were due and payable within one year. Our ability to borrow additional funds will depend on many factors, some of which are beyond our control, including levels of investor confidence in the markets we operate in and any factors that may impact market conditions and market confidence in general. In addition, challenging market conditions may result in reduced liquidity, widening of credit spreads, lack of price transparency in credit markets, a reduction in available financing and a tightening of credit terms. The PRC government has in recent years adopted credit tightening policies. If we are unable to borrow funds from our current or other funding sources or the access to funds becomes more expensive, it may adversely impact our business, prospects, financial condition and results of operations.

RISKS RELATED TO OUR INDUSTRY

We are facing increasing competition in a highly fragmented industry, and if we cannot compete effectively, our financial condition and results of operations may be harmed

China's creative home furnishing industry is competitive and our continued success depends upon our ability to compete effectively in the future. The industry has historically been highly fragmented. According to the Frost & Sullivan Report, the total market share of the five largest manufacturers of electric fireplaces in China in 2012 accounted for approximately 13.6% of the total market share in terms of revenue. The creative home decor products market is considered to be mature. Our competitors may have greater financial resources than we do, as well as stronger brand names, consumer recognition, business relationships, and geographic presence than we do. Competition could affect our market share, pricing, and profitability. If we are unable to compete effectively and successfully at reasonable costs against our existing and future competitors in any of our business segments, our business prospects, financial condition and results of operations could be materially and adversely affected.

RISKS RELATED TO DOING BUSINESS IN CHINA

Adverse changes in political, economic and other policies of the Chinese government could have a material adverse effect on the overall economic growth of China, which could materially and adversely affect the growth of our business and our competitive position

The majority of our business operations are conducted in China. Accordingly, our business, financial condition, results of operations and prospects are affected significantly by economic, political and legal developments in China. Although the PRC economy has been transitioning from a planned economy to a more market-oriented economy since the late 1970s, the PRC government continues to exercise significant control over China's economic growth through direct allocation of resources, monetary and tax policies, and a host of other government policies such as those that encourage or restrict investment in certain industries by foreign investors, control the exchange between the Renminbi and foreign currencies, and regulate the growth of the general or specific market. While the Chinese economy has experienced significant growth in the past 30 years, growth has been uneven, both geographically and among various sectors of the economy.

Furthermore, the global capital and credit markets have been experiencing extreme volatility and disruption in recent periods. Declining residential real estate market in the United States and elsewhere, volatile oil prices and increased unemployment may contribute to global economic slowdown and/or a possible prolonged global recession, which may impair consumer confidence. The PRC, the economic condition of which is highly interdependent with the developments of the global economy, may be exposed to an increasingly volatile and fragile business environment. The various economic and policy measures enacted by the PRC government to forestall economic downturns or bolster China's economic growth could materially affect our business. Any adverse change in the economic conditions in China, in policies of the PRC government or in laws and regulations in China could have a material adverse effect on the overall economic growth of China and market demand for our products. Any economic slowdown and/or global recession may materially affect our business, financial condition and results of operations.

It may be difficult to effect service of process upon us or our Directors or executive officers who reside in mainland China or to enforce against them in mainland China any judgements obtained from non-PRC courts

We are incorporated in the Cayman Islands. Almost all of our executive Directors and executive officers reside within mainland China, and substantially all of our assets and substantially all of the assets of those persons are located within mainland China. Therefore, it may be difficult for investors to effect service of process upon us or those persons inside mainland China or to enforce against us or them in mainland China any judgements obtained from non-PRC courts.

China does not have treaties providing for the reciprocal recognition and enforcement of judgements of courts with the Cayman Islands and many other countries and regions. Therefore, recognition and enforcement in China of judgements of a court in any of these non-PRC jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

Our labour costs may increase with the enforcement of the Labour Contract Law and other labour-related regulations in China

The PRC Labour Contract Law (《中華人民共和國勞動合同法》) became effective and was implemented on 1 January 2008 (subsequently amended and implemented on 1 July 2013). This new labour law and its implementing rules have reinforced the protection for employees, who, under the existing PRC Labour Law, have certain rights, such as the right to have written labour contracts, the right to enter into labour contracts with no fixed terms under specific circumstances, the right to receive overtime wages when working overtime and the right to terminate or alter terms in the labour contracts. In addition, the Labour Contract Law and its implementing rules have amended the existing PRC Labour Law and added some clauses that could increase labour costs. As a result of the requirements imposed by the Labour Contract Law, our historical labour costs may not be indicative of our labour costs going forward.

As the Labour Contract Law and its implementing rules are relatively new, there remains certain uncertainty as to their interpretation and application by the PRC government. However, with the enforcement of the Labour Contract Law and other labour-related regulations in China, our labour costs may increase, which may materially and adversely affect our business and results of operations.

Our business may be affected if we operate in violation of the PRC Anti-Monopoly Law

The PRC Anti-Monopoly Law (中華人民共和國反壟斷法) became effective on 1 August 2008. The PRC Anti-Monopoly Law was enacted for the purpose of preventing and restraining monopolistic conducts, protecting fair competition in the market, enhancing economic efficiency, safeguarding the interests of consumers and social public interest, promoting the healthy development of the socialist market economy. Pursuant to the PRC Anti-Monopoly Law, monopoly agreements refer to agreements, decisions or other concerted actions which eliminate or restrict competition. Any of the following agreements among business operators (being a natural person, legal person, or other organisation that is in the engagement of commodities production or operation or service provision) and their trading parties are prohibited: (i) fixing the price of commodities for resale to a third party; (ii) restricting the minimum price of commodities for resale to a third party; or (iii) other monopoly agreements as determined by the Anti-monopoly Enforcement Authority under the State Council.

If the framework agreements entered by and between us and our trading entity customers are determined as monopoly agreements by the Anti-monopoly Enforcement Authority and in violation of the PRC Anti-Monopoly Law, we may be faced with administrative penalty and our business may be affected.

Uncertainties with respect to the PRC legal system could have a material adverse effect on us

The PRC legal system is a civil law system based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since the late 1970s, the PRC government has been building a comprehensive system of laws and regulations governing economic matters in general. The overall effect has been to significantly enhance the protections afforded to various forms of foreign investments in China. We conduct our business primarily through our subsidiaries established in China. These subsidiaries are generally subject to laws and regulations in China. However, since these laws and regulations are relatively new and the PRC legal system continues to rapidly evolve, the interpretations of many laws, regulations and rules are not always uniform and enforcement of these laws, regulations and rules involves uncertainties, which may limit legal protections available to us. In addition, some regulatory requirements issued by certain PRC government authorities may not be consistently applied by other government authorities (including local government authorities), thus making strict compliance with all regulatory requirements impractical, or in some circumstances impossible. For example, we may have to resort to administrative and court proceedings to enforce the legal protection that we enjoy either by law or contract. However, since PRC administrative and court authorities have discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to predict the outcome of administrative and court proceedings and the level of legal protection we enjoy than in more developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners, clients and suppliers. In addition, such uncertainties, including any inability to enforce our contracts, together with any development or interpretation of PRC law that is adverse to us, could materially and adversely affect our business and operations. Furthermore, intellectual property rights and confidentiality protections in China may not be as effective as in the United States or other more developed countries. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws. These uncertainties could limit the legal protections available to us and other foreign investors, including you. In addition, any litigation in China may be protracted and result in substantial costs and diversion of our resources and management attention.

Governmental control of currency conversion may limit our ability to use our revenues effectively and the ability of our PRC subsidiaries to obtain financing

The PRC government imposes control on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive a majority of our revenues in Renminbi, which as of the date of this prospectus is not a freely convertible currency. Restrictions on currency conversion imposed by the PRC government may limit our ability to use revenues generated in Renminbi to fund our expenditures denominated in foreign currencies or our business activities outside China. Under China's existing foreign exchange regulations, Renminbi may be freely converted into foreign currency for payments relating to current account transactions, which include, among other things, dividend payments and payments for the import of goods and services, by complying with certain procedural requirements. Our PRC subsidiaries may also retain foreign currency in their respective current account bank accounts for use in payment of international current account transactions. However, we cannot assure you that the PRC government will not take measures in the future to restrict access to foreign currencies for current account transactions.

We may be classified as a "resident enterprise" for PRC enterprise income tax purposes; such classification could result in unfavourable tax consequences to us and our non-PRC shareholders

We are a Cayman Islands holding company with a majority of our operations conducted through our operating subsidiaries in China. Under the PRC Corporate Income Tax Law that took effect on January 1, 2008, enterprises established outside China whose "de facto management bodies" are located in China are considered "resident enterprises" for PRC tax law purposes and will generally be subject to the uniform 25% enterprise income tax rate as to their global income. Under the implementation regulations issued by the State Council relating to the new PRC Corporate Income Tax Law, a "de facto management body" is defined as the body that has the significant and overall management control over the business, personnel, accounts and properties of an enterprise. In April 2009, the State Administration of Taxation promulgated a circular to clarify the definition of "de facto management bodies" for enterprises incorporated overseas with controlling shareholders being PRC enterprises. It, however, remains unclear how the tax authorities will treat an overseas enterprise invested or controlled by another overseas enterprise and ultimately controlled by a PRC individual resident as is in our case. Although we have not been, and are currently not, treated as a PRC resident enterprise by the relevant PRC tax authorities, substantially all of our management is currently based in China and will remain in China. As a result, we may be treated as a PRC resident enterprise for PRC enterprise income tax purposes and subject to the uniform 25% enterprise income tax as to our global income in the future. You should also read the risk factor entitled "Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under PRC tax laws" below. If we are treated as such a PRC resident enterprise under the PRC tax law, we could face adverse tax consequences.

Additionally, under Circular of the SAT on Strengthening the Administration of Enterprise Income Tax on Incomes from Equity Transfers of Non-Resident Enterprises ("**Circular Guoshuihan [2009] No. 698**") (關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (國稅函[2009]698號) issued by the SAT on 10 December 2009, even if we or our overseas subsidiaries are considered as non-PRC resident enterprises, we cannot provide any assurance that any direct or indirect transfer of our equity interests in our PRC subsidiaries via our overseas holding companies in the future will not be subject to examinations by our PRC subsidiaries' tax authorities and therefore will not be subject to a withholding tax of 10%. You should also read the risk factor entitled "Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under PRC tax laws" below.

Dividends payable by us to our foreign investors and gain on the sale of our Shares may become subject to withholding taxes under PRC tax laws

Under the new PRC Corporate Income Tax Law and its implementation regulations issued by the State Council, to the extent such dividends for earnings derived since 1 January 2008 are sourced within China and we are considered a "resident enterprise" for PRC tax law purposes, then PRC income tax at the rate of 10% is applicable to dividends payable by us to investors that are "non-resident enterprises" so long as any such "non-resident enterprise" investor does not have an establishment or place of business in China or, despite the existence of such establishment or place of business in China, the relevant income is not effectively connected with such establishment or place of business in China. A lower withholding tax rate may apply if such "non-resident enterprise" is incorporated in a jurisdiction that has entered into an income tax treaty or agreement with China that allows a lower withholding. Similarly, any gain realised on the transfer of the Shares by such "non-resident enterprise" investors is also subject to a 10% PRC income tax if such gain is regarded as income derived from sources within China and we are considered a "resident enterprise" in China. If we are required under the new tax law to withhold PRC income tax on our dividends payable to our foreign shareholders who are "non-resident enterprises", or if you are required to pay PRC income tax on the transfer of our Shares, the value of your investment in our Shares may be materially adversely affected. It is unclear whether, if we are considered a PRC "resident enterprise," holders of our Shares might be able to claim the benefit of income tax treaties or agreements entered into between China and other countries or regions.

Dividends paid to our Hong Kong subsidiary might not qualify for the reduced PRC withholding tax rate under the special arrangement between Hong Kong and the PRC

Under the Enterprise Income Tax Law, the profits of a foreign-invested enterprise that are distributed to its immediate holding company outside the PRC are subject to a withholding tax rate of 10%. Pursuant to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income (內地和香港特別行政區關於所得避免雙重徵稅和防止偷稅漏稅的安排) effective from 1 July 2007 in the Mainland, this rate is lowered to 5% if a Hong Kong resident enterprise owns more than 25% of the PRC company distributing the dividends. However, according to the Circular of the State Administration of Taxation on Printing and Issuing the Administrative Measures for Non-resident Individuals and Enterprises Regarding Favourable Treatment Under Taxation Treaties (國家稅務總局關於印發《非居民享受稅收協議待遇管理辦法(試行)》的通知), which was issued by the State Administration of Taxation and became effective on 1 October 2009, the 5% withholding tax rate does not automatically apply and approvals from competent local tax authorities are required before an enterprise can enjoy any benefits under the relevant taxation agreements or treaties. Moreover, according to the Notice of the State Administration of Taxation on the Issues Concerning the Application of the Dividend Clauses of Tax Agreements (國家稅務總局關於執行稅收協定股息條款有關問題的通知) issued by the State Administration of Taxation in February 2009, if the main purpose of an offshore arrangement is to obtain preferential tax treatment, the PRC tax authorities have the discretion to adjust the preferential tax rate for which an offshore entity would otherwise be eligible. There is no assurance that the PRC tax authorities will grant approvals on the 5% withholding tax rate on dividends paid by our PRC subsidiaries and received by our subsidiaries in Hong Kong.

Any catastrophe, including outbreaks of health pandemics and other extraordinary events, could severely disrupt our business operations

Our operations are vulnerable to interruption and damage from natural and other types of catastrophes, including earthquakes, tsunami, fire, floods, hail, windstorms, severe winter weather (including snow, freezing water, ice storms and blizzards), environmental accidents, power loss, communications failures, explosions, man-made events such as terrorist attacks, and similar events. Due to their nature, we cannot predict the incidence, timing and severity of catastrophes. In addition, changing climate conditions, primarily rising global temperatures, may be increasing, or may in the future increase, the frequency and severity of natural catastrophes. If any such catastrophe or extraordinary event were to occur in the future, our ability to operate our business could be seriously impaired. Such events could make it difficult or impossible for us to deliver our products and services to our customers and could decrease demand for our services. Our national footprint may expose us to potential catastrophes of all types in a broad geographic area in China. Because our property insurance only covers property damages caused by a limited number of numerated natural disasters and accidents and significant time could be required to resume our operations, our financial position and operating results could be materially and adversely affected in the event of any major catastrophic event.

In addition, our business could be materially and adversely affected by the outbreak of influenza A (H1N1), commonly referred to as "swine flu," avian influenza, severe acute respiratory syndrome, or SARS, or other pandemics. Any occurrence of these pandemic diseases or other adverse public health developments in China could severely disrupt our staffing and otherwise reduce the activity levels of our work force, causing a material and adverse effect on our business operations.

RISKS RELATED TO THE GLOBAL OFFERING

There has been no prior public market for our Shares, and the liquidity, market price and trading volume of our Shares may be volatile

Prior to the Global Offering, there was no public market for our Shares. The indicative range of the Offer Price was determined as a result of negotiations between the Sole Global Coordinator and our Company. The Offer Price may differ significantly from the market price for the Shares following the Global Offering. We have applied for the listing of and permission to deal in our Shares on the Stock Exchange. However, even if approved, being listed on the Stock Exchange does not guarantee that an active trading market for our Shares will develop following the Global Offering or that our Shares will always be listed and traded on the Stock Exchange. We cannot assure you that an active trading market will develop or be maintained following the completion of the Global Offering, or that the market price of our Shares will not decline below the Offer Price.

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenue, earnings and cash flows and announcements of new investments, strategic alliances and/or acquisitions, fluctuations in market prices for our products and services or fluctuations in market prices for comparable companies could cause the market price of our Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which our Shares will trade.

In addition, stock markets and the shares of other China-based companies listed on the Stock Exchange have experienced substantial price and volume fluctuations from time to time that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our Shares.

Investors for our Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future

As the Offer Price is higher than the net tangible asset value per Share of our Shares immediately prior to the Global Offering, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma combined net tangible book value of HK$1.07 per Share (assuming an Offer Price of HK$2.075, being mid-point of the Offer Price range of HK$1.80 to HK$2.35 per Share). If we issue additional Shares in the future, purchasers of our Offer Shares may experience further dilution in their ownership percentage.

We may need to raise additional funds in the future to finance expansion of or new developments relating to our existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company other than on a pro rata basis to the existing Shareholders, the percentage ownership of such Shareholders in our Company may be reduced or such new securities may confer rights and privileges that take priority over those conferred by our Offer Shares.

Future sales by our existing Shareholders of a substantial number of our Shares in the public market could materially and adversely affect the prevailing market price of our Shares

We cannot assure you that our existing Shareholders or our Controlling Shareholders will not dispose of their Shares following the expiration of their respective lock-up periods after completion of the Global Offering. We cannot predict the effect, if any, that any future sales of Shares by any Substantial Shareholder or Controlling Shareholder, or the availability of Shares for sale by any Substantial Shareholder or Controlling Shareholder may have on the market price of our Shares. Sales of substantial amounts of Shares by any Substantial Shareholder or Controlling Shareholder or the market perception that such sales may occur, could materially and adversely affect the prevailing market price of the Shares.

There are risks associated with forward-looking statements

This prospectus contains certain statements and information that are "forward-looking" and uses forward-looking terminology such as "expect", "believe", "plan", "project", "seek", "may", "would", "intend", "could", "anticipate", "estimate" and "will". Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future business, operations, liquidity and capital resources. Purchasers of our Shares are cautioned that any forward-looking statements are subject to uncertainties and that, although we believe the assumptions on which the forward-looking statements are based are reasonable, any or all of these assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this "Risk Factors" section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us that our plans or objectives will be achieved, and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements in this prospectus, whether as a results of new information, future events or otherwise.

Certain industry statistics contained in this prospectus are derived from various publicly available government or official sources and may not be accurate or reliable

Certain facts and statistics in this prospectus related to the PRC, its economy and the industries in which we operate within the PRC are derived from official government publications generally believed to be reliable. We believe that the sources of these facts and statistics are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. These facts and statistics have not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and therefore we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly replied upon. Further, we cannot assure you that they are stated with the same degree of accuracy as may exist elsewhere. In all cases, investors should give consideration as to how much weight or importance they should place on all such facts and statistics.