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## INDUSTRY OVERVIEW

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*We have extracted and derived the information in the section below, in part, from various government or official sources that are publicly available and the commissioned report from Frost & Sullivan. See “Sources of information” below. Unless otherwise specified, information concerning the Chinese and North American creative furnishing industry is derived from the market research report by Frost & Sullivan. We believe that the sources of the information 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 or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us, the Sole Sponsor, the Sole Global Coordinator, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, employees or advisers, or any party involved in the Global Offering and no representation is given as to its accuracy.*

### SOURCES OF INFORMATION

In connection with the Global Offering, we commissioned Frost & Sullivan to conduct an analysis on the creative furnishing market to provide prospective investors with necessary information on the relevant industry. The research report entitled “Final Report for Chinese and North America Creative Furnishing Market Study” was commissioned by us for the purposes of preparing this prospectus. The fee payable to Frost & Sullivan for the preparation and use of the Frost & Sullivan Report is RMB1,100,000.

### ABOUT FROST & SULLIVAN

Frost & Sullivan is an independent global market research and consulting company founded in 1961 and based in the United States. Its services include technology research, market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy.

### RESEARCH METHODOLOGY

The methodology used in the Frost & Sullivan Report can be described as follows:

- Analyse the market to identify past problems faced by industry participants competing in the market, the key challenges they confront now and the opportunities that may arise.
- Conduct primary research obtained from various sources including data obtained directly from industry participants and secondary research.
- Design the data collection process and implement the secondary research phase; sources may include relevant Frost & Sullivan syndicated publications, trade journals, government statistics, on-line database/internet searches, Frost & Sullivan’s in-house data and library, relevant annual reports and industry publications.
- Calculate market forecasts and market sizes by interviewing industry competitors and deriving each company’s annual shipments or revenues from the defined market.

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### ASSUMPTION FOR GROWTH AND FORECAST

Forecast data was projected on the basis of historical data analyses with reference to macroeconomic data as well as specific industry-related drivers, such as drivers of Chinese creative furnishing and consumer expenditure. Frost & Sullivan developed its forecasts on the following bases and assumptions:

- That the social, economic and political environments being examined remain stable during the forecast period, which ensures the sustained and steady development of the furnishing market in China and North America;
- That the Chinese creative furnishing market is expected to grow in line with the PRC's overall economic growth, over the forecast period; and
- Frost & Sullivan has considered related industry key drivers that are likely to drive the creative furnishing market in the forecast period, including development of cultural and creative industry, domestic market demand driven by increasing purchasing power, expanding market demand driven by development of real estate and demand for multi-functional products with flexibility and portability.

The research may be affected by the accuracy of these assumptions and the choice of these parameters.

### MACROECONOMIC ENVIRONMENT ANALYSIS

#### Overview of the PRC economy

China has become the second largest economy in the world in 2012 in terms of nominal GDP of approximately RMB51,932.2 billion. Although not entirely immune to the global economic downturn, China has experienced significant less impact from the recent global financial crisis and a quicker recovery than many other countries in the world. China's per capita GDP has also grown over the past five years, with relatively slower growth from 2009 due to the financial crisis. In 2012, the per capita GDP reached approximately RMB38,353.5, an increase from approximately RMB23,647.6 in 2008, representing a CAGR of approximately 12.9% in the same period.

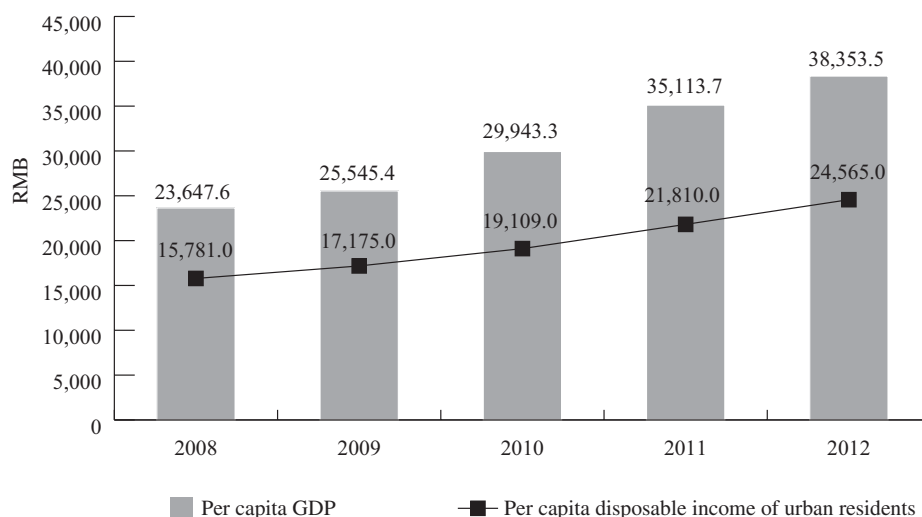
Together with the continuous growth in economy and urbanisation, the average income level of residents in China has increased continuously in recent years. As shown in the diagram below, from 2008 to 2012, the per capita disposable income of urban residents increased from approximately RMB15,781.0 to approximately RMB24,565.0, with a CAGR of approximately 11.7%. The growth of per capita disposable income of urban residents has demonstrated positive effect on the purchasing power of Chinese residents.

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The following diagram sets forth the per capita GDP and per capita disposable income of urban residents in China from 2008 to 2012:



Source: IMF, National Bureau of Statistics of the PRC and Frost & Sullivan

### Rapid Increase of Urbanisation

The rapid economic development of China had resulted in an influx of migrants from rural to urban areas contributing to an increasing trend towards urbanisation. From 2008 to 2012, the urbanisation rate in China increased from approximately 47.0% to 52.6%, reflecting an increase of approximately 5.6 percentage points.

### Retail Sales of Consumer Goods in China

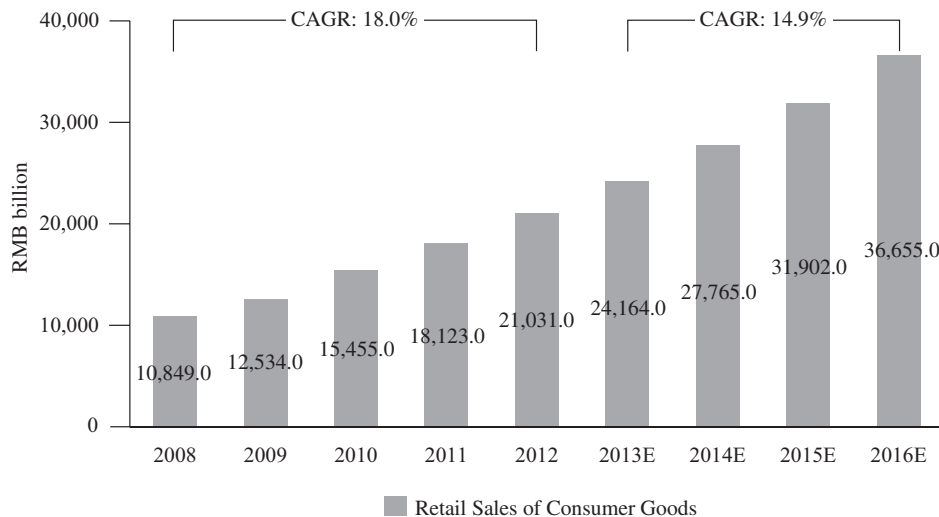
Driven by ongoing urbanisation and the increasing purchasing power of residents in the PRC, the retail sales of consumer goods have undergone rapid development in the recent years. The total retail sales of consumer goods in China increased from approximately RMB10,849.0 billion in 2008 to approximately RMB21,031.0 billion in 2012, representing a CAGR of approximately 18.0% over the same period. Frost & Sullivan expects that the retail sales of consumer goods in China will increase to RMB36,655.0 billion in 2016, with a CAGR of approximately 14.9% from 2013 to 2016.

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The following diagram sets forth the actual and forecast retail sales of consumer goods in China from 2008 to 2016:



Source: National Bureau of Statistics of the PRC and Frost & Sullivan

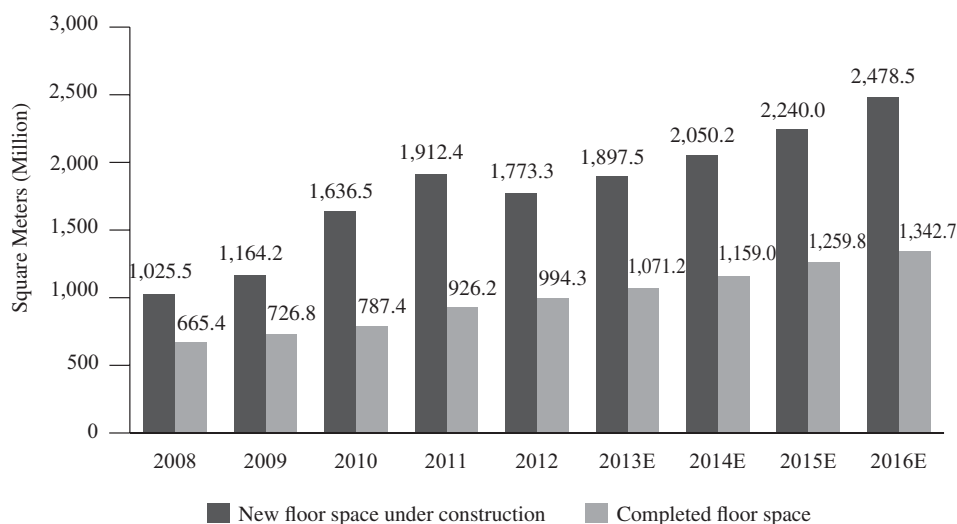
### Real Estate Development in China

The rapid development of the PRC real estate contributed to the growth of the home furnishing industry. It is expected that the area of floor space under construction by property developers in China will continue to rise from approximately 1,897.5 million square metres in 2013 to approximately 2,478.5 million square metres in 2016, representing CAGR of approximately 9.3% over the same period.

In terms of completed floor space, from 2008 to 2012, the area of completed floor space experienced a CAGR of approximately 10.6% from approximately 665.4 million square metres in 2008 to approximately 994.3 million square metres in 2012. Frost & Sullivan forecast that the completed floor space will reach approximately 1,342.7 million square metres by 2016 from approximately 1,071.2 million square metres in 2013, representing a CAGR of approximately 7.8%.

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The following diagram sets forth the actual and forecast area of floor space under construction and completed in China from 2008 to 2016:



Source: National Bureau of Statistics of the PRC and Frost & Sullivan

### Refurnishing rate in the PRC

The refurnishing rate of residential housing is expected to increase in China. Many Chinese residents who purchase second hand housing may choose to refurnish their homes thereby generating a demand for decorative home products. The refurnishing rate in the PRC increased from approximately 11.0% to approximately 23.6%, representing an increase of approximately 12.6 percentage points.

The table below sets forth the historical refurnishing rate in the PRC from 2008 to 2012:

	2008	2009	2010	2011	2012
Refurnishing rate	11.0%	18.7%	18.3%	20.8%	23.6%

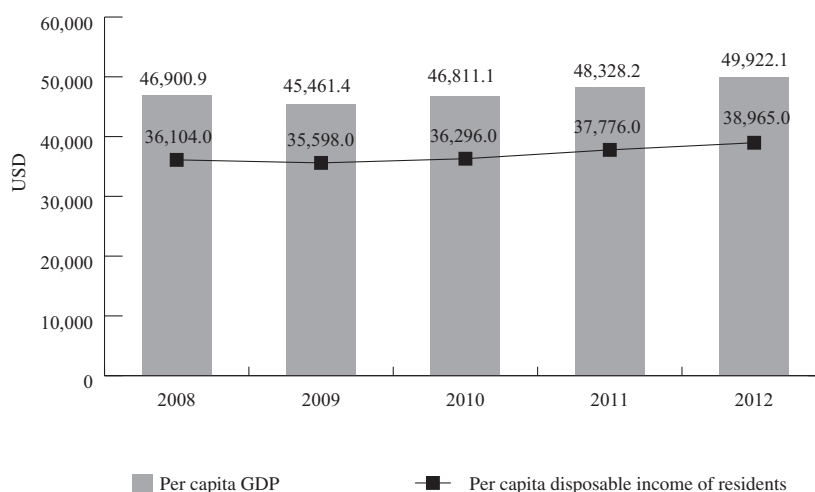
Source: Frost & Sullivan

### Overview of the U.S. economy

The per capita GDP reached USD49,922.1 in 2012 from USD46,900.9 in 2008, representing a CAGR of approximately 1.6% over the same period. The U.S. economy has recovered at a slower pace throughout 2012 with improved housing market, and corporate earnings. From 2008 to 2012, the U.S. per capita disposable income of residents increased from USD36,104.0 to USD38,965.0, representing a CAGR of 1.9%.

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The following diagram sets forth the per capita GDP of the U.S. and per capita disposable income of U.S. residents from 2008 to 2012:



Source: IMF, U.S. Bureau of Economic Analysis and Frost & Sullivan

### Trend of Fluctuation of USD and RMB

The exchange rate of RMB against the US dollar remained stable at 8.28 RMB/USD during 2001 to 2004 with the fixed exchange rate regime. On 21 July 2005, China launched the RMB exchange rate mechanism reform and moved into a managed floating exchange rate regime. After that, the RMB exchange rate has become more flexible and fluctuated from 8.19 RMB/USD in 2005 to 6.31 RMB/USD in 2012. The appreciation of RMB has brought some challenges to China's export business, but it has also exerted some positive impacts on China's foreign trade. The following table sets forth the trend of fluctuation of USD and RMB from 2001 to 2012:

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
8.28	8.28	8.28	8.28	8.19	7.97	7.60	6.95	6.83	6.77	6.46	6.31

Source: The People's Bank of China and Frost & Sullivan

## THE CREATIVE FURNISHING MARKET

### An introduction to creative furnishing products

Creative furnishing products are home decor products with novel and distinctive designs for decorative and functional purposes. These products are movable and tangible goods placed in the living rooms, dining rooms, kitchens, family rooms, bedrooms, bathrooms, recreation rooms, hallways, gardens, etc. and feature technological creativity, economic creativity and cultural creativity to satisfy the different needs of the consumers.

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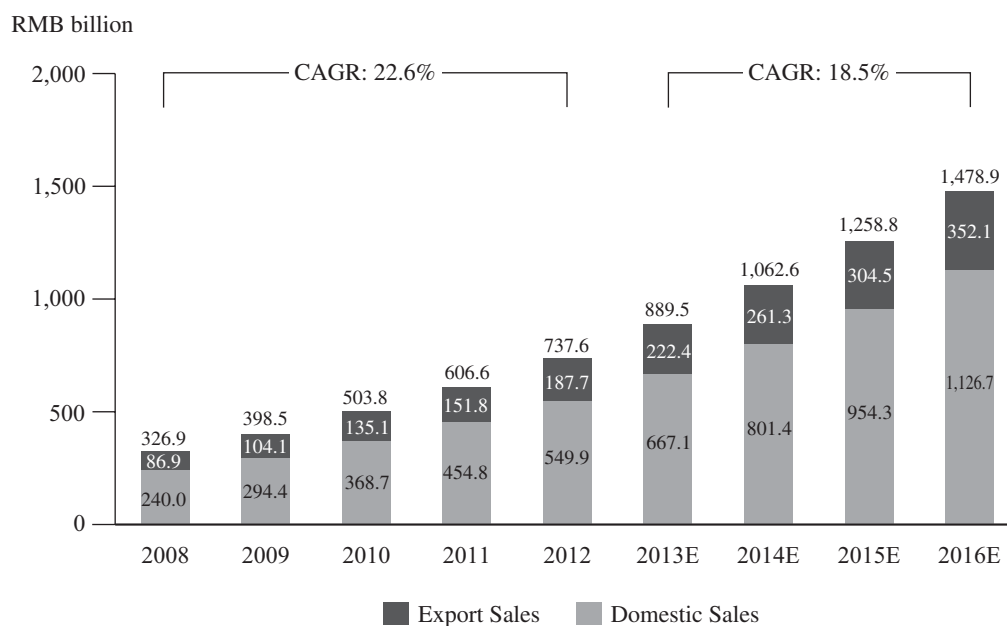
The creative furnishing market represents a new concept from redefining the traditional decoration industry, handicrafts, textiles, collectibles, appliances and other fittings. Creative furnishing products are designed to reflect the personal tastes and preferences of consumers according to their living habits, hobbies, size and shape of their living space and the overall comprehensive designs and plans.

### Overview of the PRC creative furnishing market

The total sales value of the creative furnishing market increased from approximately RMB326.9 billion in 2008 to approximately RMB737.6 billion in 2012, representing a CAGR of approximately 22.6% over the same period. The emerging creative furnishing market is primarily driven by the development of the real estate industry, the increasing purchasing power of consumer and the increased acceptance of creative-styled furnishing especially with the influence from the western culture.

By 2016, Frost & Sullivan expects that the total sales value of the creative furnishing market in China will reach approximately RMB1,478.9 billion, with a CAGR of approximately 18.5% from 2013 to 2016. It is forecast that the export sales will increase to approximately RMB352.1 billion in 2016 from approximately RMB222.4 billion in 2013, representing a CAGR of approximately 16.6% in the same period. The domestic sales is expected to grow at a CAGR of approximately 19.1% from 2013 to 2016.

The following illustrates the total actual and forecast sales value of the creative furnishing market by export and domestic sales in China from 2008 to 2016:



Source: Frost & Sullivan

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### **Factors affecting the growth and development of the creative furnishing market in the PRC**

The demand for higher standard of living condition has extended from a material level to a spiritual level and from a larger living space to distinctive interior design. The real estate market has experienced a rapid development for the last decade, due to the increasing population and urbanisation process. The demand for decorative and functional home products has increased along with the increase in home renovation. With the development of high-end real estate market, the demand for luxury interior decoration has also been on the rise. Creative furnishing items can satisfy the needs of consumers for higher standard and quality of living and creative furnishing items are popular in residential spaces apartments in addition to commercial usages in hotels and entertaining establishments. Purchasing power is determined by the level of disposable income. Statistics showed that the average disposable income for urban residents has increased by over 50% during the past five years.

With the increasing purchasing power and level of disposable income, consumers are able to purchase creative furnishing items to reflect their individual styles and designs of their surrounds.

### **ELECTRIC FIREPLACE MARKET**

#### **An introduction to electric fireplace**

Electric fireplaces are heaters powered by electricity and mimic the burning of coal, wood or natural gas. The electric fireplace has added conveniences giving users the option to use the “flame only” setting or can be used additionally as a source of heat. Generally, the energy input of electric fireplaces ranges from 0.75 kilowatt to 2.0 kilowatt and can heat an area of under 400 square feet or approximately 37.0 square metres. Electric fireplaces can be classified by their size:

- Framed electric fireplace typically has a fireplace core embedded in or installable in a frame made from wood, stone, etc, and has dimensions of more than 100 cm in width and 80 cm in height; and
- Non-framed electric fireplace typically has dimensions of no more than 60 cm in width and 80 cm in height and are generally in the form of a panel heater or electric fire stove.



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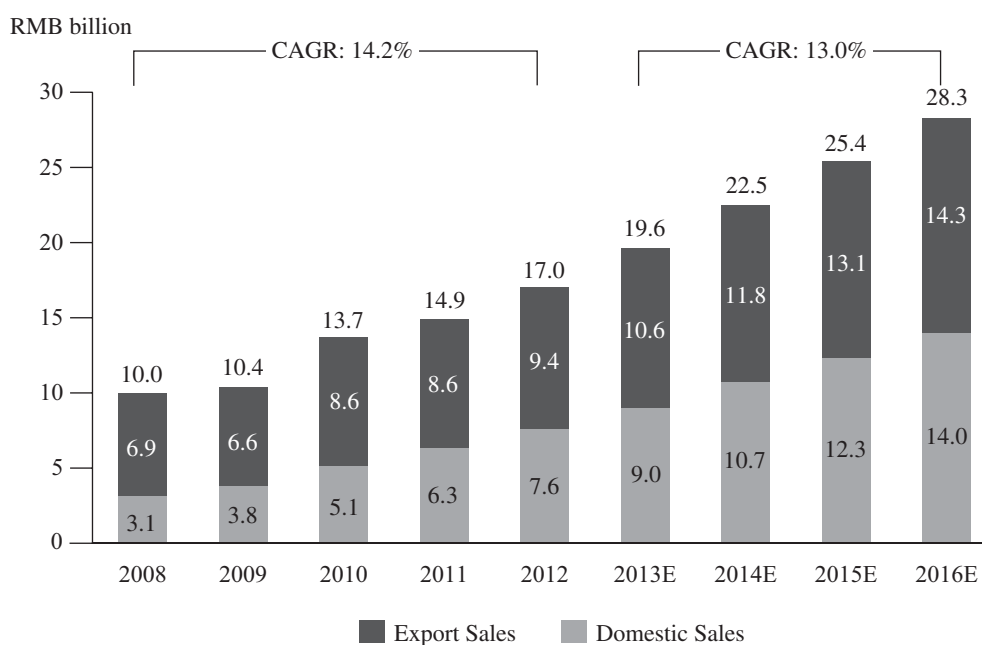
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### Overview of the PRC electric fireplace market

The total sales value of electric fireplaces increased from approximately RMB10.0 billion in 2008 to approximately RMB17.0 billion in 2012, representing a CAGR of approximately 14.2%. Export sales from 2008 to 2012 increased with a CAGR of approximately 8.0% while domestic sales experienced a rapid growth from approximately RMB3.1 billion in 2008 to approximately RMB7.6 billion in 2012, representing a CAGR of approximately 25.1% in the same period. The rapid growth in domestic sales was attributable to the development of high-end real estate, increasing disposable income, rising demand and a high acceptance of western culture.

As shown in the diagram below, Frost & Sullivan expects that the total sales value of electric fireplaces will grow at a CAGR of approximately 13.0% from approximately RMB19.6 billion in 2013 to approximately RMB28.3 billion in 2016. Export sales of electric fireplaces is forecast to reach approximately RMB14.3 billion in 2016 from RMB10.6 billion in 2013, representing a CAGR of approximately 10.5%. In terms of domestic sales, it is expected that the sales will increase at a CAGR of approximately 15.9% from 2013 to 2016.



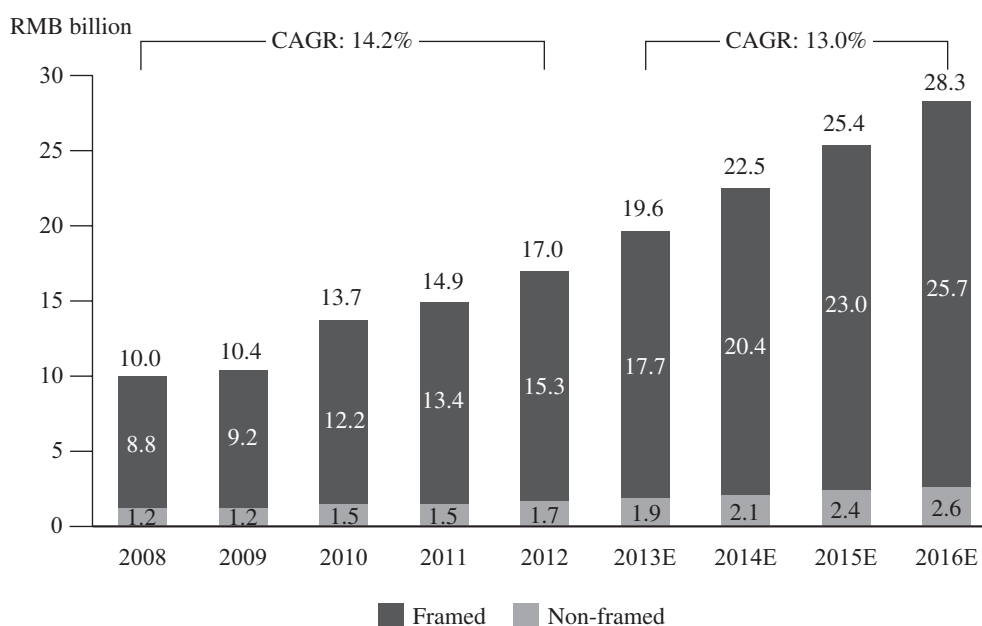
Source: Frost & Sullivan

## INDUSTRY OVERVIEW

### Analysis of PRC electric fireplaces by product line

The electric fireplace market can be segmented into framed electric fireplace and non-framed electric fireplace. The sales value of framed electric fireplaces increased from approximately RMB8.8 billion in 2008 to approximately RMB15.3 billion in 2012, representing a CAGR of approximately 14.8%. The sales value of non-framed electric fireplaces increased from approximately RMB1.2 billion in 2008 to approximately RMB1.7 billion in 2012, representing a CAGR of approximately 9.1%. The sales of framed electric fireplaces accounted for a majority of the market due to its high cost efficiency, practicality and decorative function.

As shown in the diagram below, Frost & Sullivan expects that the sales value of framed electric fireplaces will increase to approximately RMB25.7 billion in 2016, with a CAGR of approximately 13.2% from 2013 to 2016 and the sales value of non-framed electric fireplaces is estimated to grow at a CAGR of approximately 11.0% from 2013 to 2016.



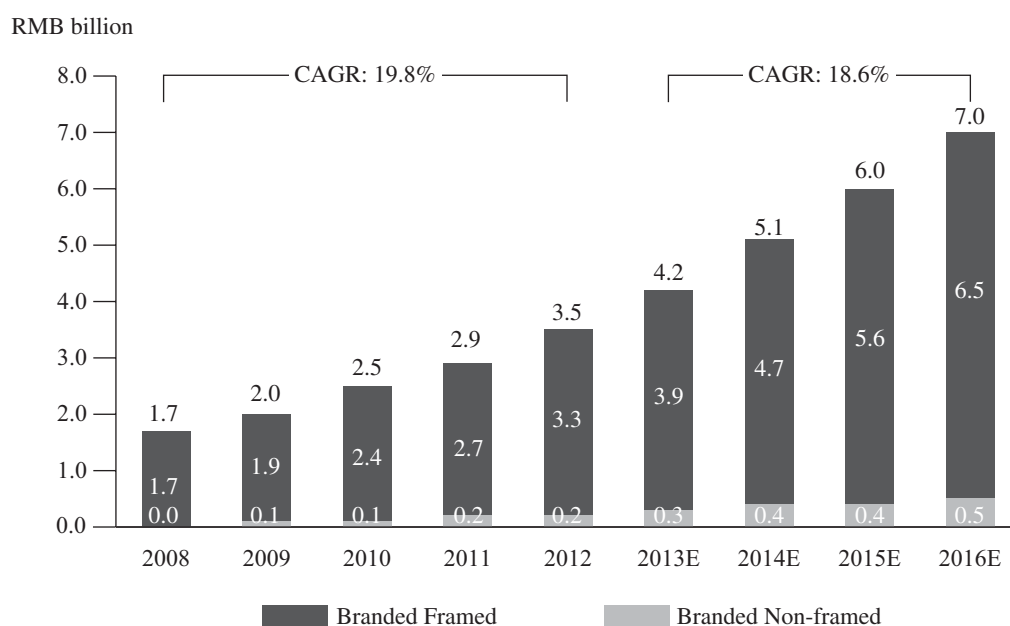
Source: Frost & Sullivan

Note: Framed electric fireplaces include fireplace cores sold with frames and fireplace cores installable in frames.

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### Analysis of branded electric fireplaces in the PRC

Branded electric fireplaces refers to framed electric fireplaces and non-framed electric fireplaces sold under brands in the PRC. The total sales value of branded electric fireplaces increased from approximately RMB1.7 billion in 2008 to approximately RMB3.5 billion in 2012, with a CAGR of approximately 19.8% over the same period, and it is forecast that the total sales will reach approximately RMB7.0 billion in 2016, with a CAGR of approximately 18.6% from 2013 to 2016. The following diagram sets forth the actual and forecast total sales value of branded electric fireplaces in the PRC from 2008 to 2016:



Source: Frost & Sullivan

Note: Framed electric fireplaces include fireplace cores sold with frames and fireplace cores installable in frames.

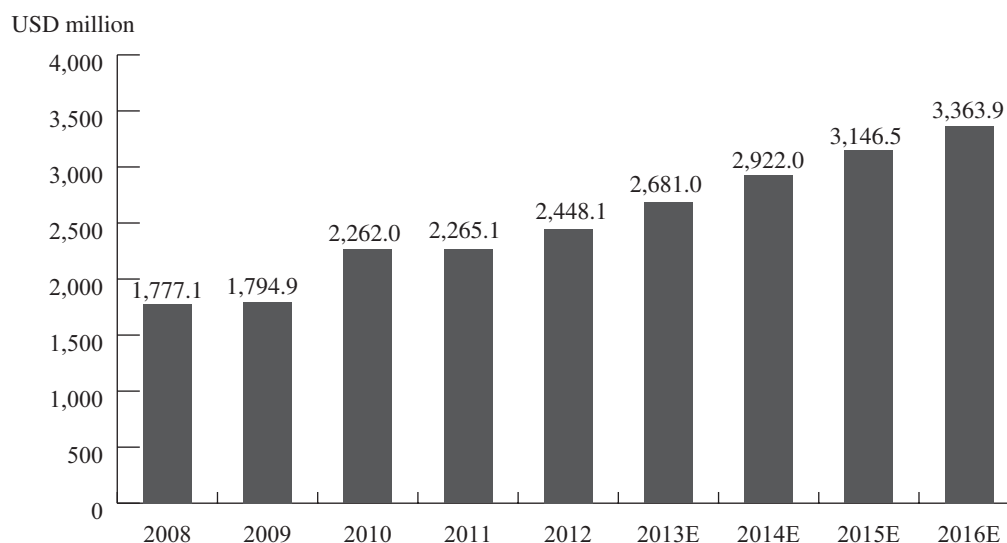
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### Overview of the North American electric fireplace market

The total retail sales value of electric fireplaces in North America increased from approximately USD1,777.1 million in 2008 to approximately USD2,448.1 million in 2012, with a CAGR of approximately 8.3%. The growth rate is relatively stable regardless of the large fluctuation in the North American real estate market because there is a stable demand in the market for mobile and wall-mounted electric fireplace and demand for electric fireplace for decorative purposes. It is forecast that the retail sales value of electric fireplaces will reach approximately USD3,363.9 million in 2016, with a CAGR of approximately 7.9% from 2013 to 2016. The following diagram sets forth the actual and forecast total retail sales value of electric fireplaces in North America from 2008 to 2016:



Source: Frost & Sullivan

Note: North American market refers to the U.S. and Canada

### Penetration rate of home electric fireplaces in the PRC and North America

In 2012, the penetration rate of home electric fireplaces was approximately 0.8% in the PRC compared to 8.3% in North America according to the Frost & Sullivan Report. Penetration rate refers to the sales volume of electric fireplaces in residential application divided by the number of residential properties. The higher penetration rate of home electric fireplaces in North America is due to the fact that the habit of using fireplaces originated from western culture for centuries. With the increasing awareness of environmental protection, electric fireplaces have gained market acceptance. With the higher acceptance of western culture in the PRC and the increasing purchasing power of residents, creative furnishing products, such as electric fireplaces, have gained popularity. Therefore, the low penetration rate of home electric fireplaces in the PRC indicates a large potential electric fireplace market in the PRC.

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According to the Frost & Sullivan Report, the penetration rate of electric fireplaces used at home in 2012 was approximately 0.75% in southern China and approximately 0.90% in northern China<sup>1</sup>. The sales of electric fireplaces in the PRC are mainly determined by the purchasing power and the acceptance of western culture of the consumers in the region. As electric fireplaces in the PRC serve more of a decoration purpose rather than a functional purpose, factors such as weather and electricity supply do not have significant impact on the sales of electric fireplaces. In addition, the penetration rate of electric fireplaces used at home was higher for villas, high-end apartments and luxury homes that are larger in floor space in the PRC as these properties are more likely to be decorated in western style than other types of residential properties<sup>2</sup>. In 2012, the penetration rate of electric fireplaces used at home was approximately 8.30% for villas, high-end apartments and luxury homes and 0.18% for other types of residential properties.

### **Competitive landscape of the PRC electric fireplace industry**

There were about 500 to 600 manufacturers engaged in the electric fireplaces market in the PRC in 2012, 50 to 100 of them are branded manufacturers and the rest are engaged in component production or OEM business. In terms of the overall electric fireplace industry in the PRC, the top five PRC electric fireplace manufacturers accounted for approximately 13.6% of the market share in terms of revenue in 2012. In terms of sales volume, the top five PRC electric fireplace manufacturers sold over 1.5 million units of electric fireplaces in 2012. Our Group ranked third and captured approximately 2.6% of the total market share of the overall electric fireplace industry in the PRC in terms of revenue in 2012.

The top five PRC electric fireplace manufacturers accounted for approximately 24.1% of the market share in terms of revenue of the branded electric fireplace market in 2012 in the PRC. We captured approximately 11.1% of the market share of the branded electric fireplace market in 2012 in the PRC. Sales of foreign branded electric fireplace accounted for less than 5.0% of the branded integrated market in 2012 in the PRC. Most of the electric fireplace manufacturers in the PRC are engaged in OEM business or in the manufacturing of electric heating appliances, components and other electrical heating appliances such as electric fireplaces, heater, hot water boiler, induction cooker, etc.

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#### *Notes:*

1. Northern China: north of Qinling-Huaihe Line; southern China: south of Qinling-Huaihe Line
2. According to National Bureau of Statistics of PRC and the Frost & Sullivan Report, villas are defined as detached residential property with separate entrance and private yard, are usually two to three storeys high and are located in suburban areas. High-end apartments and luxury homes are defined as a mid-rise or high-rise residential buildings located in noble communities in urban areas usually with more than 150 square metres in floor area.

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The following table sets forth information on the major branded electric fireplace manufacturers in the PRC:

Company	Location	Approximate sales volume (unit)	Revenue in 2012 of branded electric fireplaces (RMB million)	Market share in terms of revenue in 2012 of branded electric fireplaces
Allen (China) Co., Ltd	Fujian	189,000	386.0	11.1%
Manufacturer A	Zhejiang	150,000	200.0	5.8%
Manufacturer B	Guangdong	67,500	120.0	3.5%
Manufacturer C	Zhejiang	60,000	66.0	1.9%
Manufacturer D	Sichuan	50,000	62.0	1.8%
Others	N/A	N/A	2,636.4	75.9%
			<u>3,470.4</u>	<u>100.0%</u>

Source: Frost & Sullivan

The following table sets forth the information on the major electric fireplace manufacturers in the PRC:

Company	Location	Approximate sales volume (unit)	Revenue in 2012 of electric fireplaces (RMB million)	Market Share in terms of revenue in 2012 of electric fireplaces
Manufacturer B	Guangdong	450,000	800.0	4.7%
Manufacturer A	Zhejiang	400,000	600.0	3.5%
Allen (China) Co., Ltd	Fujian	235,000	436.0	2.6%
Manufacturer E	Shanghai	220,000	250.0	1.5%
Manufacturer C	Zhejiang	200,000	220.0	1.3%
Others	N/A	N/A	14,658.9	86.4%
			<u>16,964.9</u>	<u>100.0%</u>

Source: Frost & Sullivan

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There are various entry barriers for the electric fireplace industry in PRC. Firstly, manufacturers must invest in the development of products for constant innovation and to meet various standards and qualification. In order to attract consumers, manufacturers are constantly improving on flame effects, adding more features, such as air purifier and humidifier to electric fireplaces and improving on its energy- and cost-efficiencies. Secondly, new market entrants need to establish brand recognition along with extended sales channels and solid market strategies in order to promote their brand. As the competition intensifies with increasing homogeneity of products, brand has become one of the most important determinants in the electric fireplace industry. Lastly, manufacturers may need to focus on building an effective distribution network in the ever developing domestic market.

### **GARDENING DECORATION AND INDOOR CRAFTS MARKET**

#### **An introduction to gardening decoration and indoor crafts**

Gardening decoration are products used for garden, yard and landscape enhancement and decoration. Examples of gardening decoration are fountains, waterfalls, figurines, statues, seasonal ornaments and decorations, outdoor sculptures, etc.

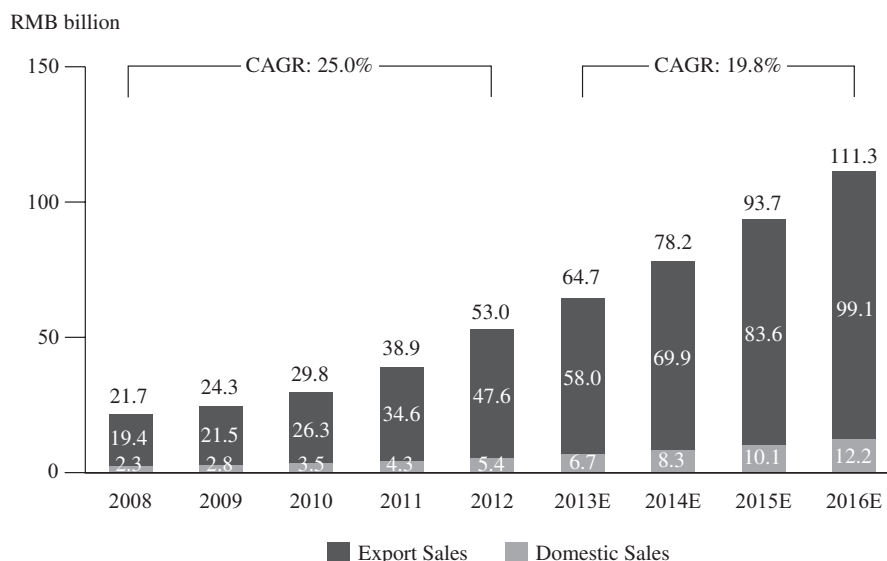
Indoor crafts are ornaments that are easy to replace and move, such as seasonal decoration, mini figurines, flower pots, etc.

#### **Overview of the PRC gardening decoration and indoor crafts industry**

The total sales value of gardening decoration and indoor crafts experienced a CAGR of approximately 25.0% from 2008 to 2012. The export sales of gardening decoration and indoor crafts rose from approximately RMB19.4 billion in 2008 to approximately RMB47.6 billion in 2012, with a CAGR of approximately 25.2%. The domestic sales of gardening decoration and indoor crafts reached approximately RMB5.4 billion in 2012, with a CAGR of 23.8% from 2008 to 2012.

The increased demand for both gardening decoration and indoor crafts is primarily due to the increase in export in recent years. However, with increasing purchasing power, higher acceptance of western culture and rapid development of real estate, the sales values of domestic gardening decoration and indoor crafts are expected to be on a rise. As illustrated by the diagram below, the growth of the total sales value of gardening decoration and indoor crafts is expected to reach approximately RMB111.3 billion in 2016, with a CAGR of approximately 19.8% from 2013 to 2016. The export sales of gardening decoration and indoor crafts is expected to reach approximately RMB99.1 billion in 2016 from approximately RMB58.0 billion in 2013, representing a CAGR of approximately 19.6% over the same period. In terms of domestic sales, the total sales value of gardening decoration and indoor crafts in the PRC is expected to reach RMB12.2 billion in 2016 from approximately RMB6.7 billion in 2013, representing a CAGR of approximately 22.1% over the same period.

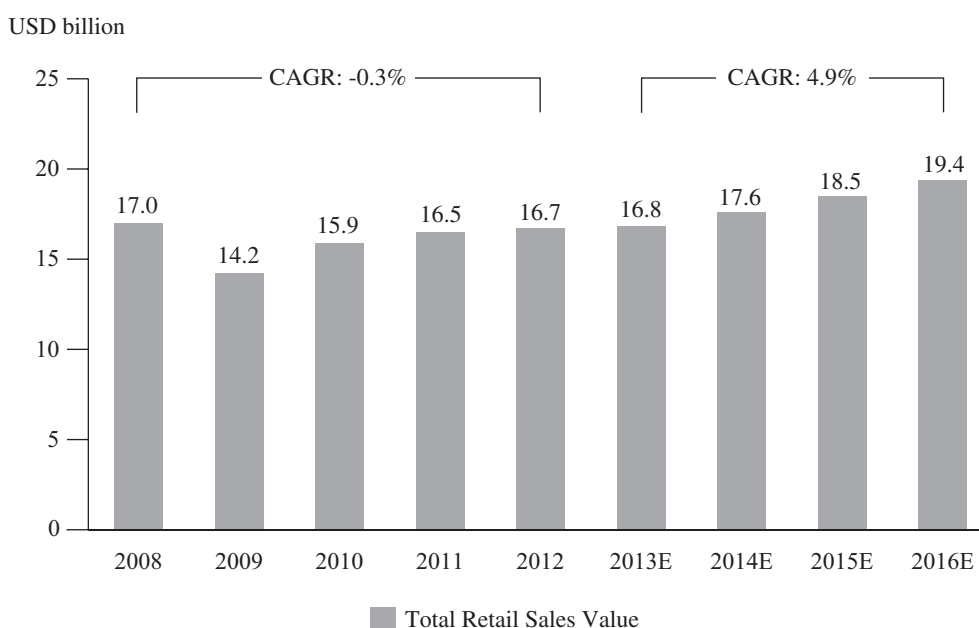
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Source: Frost & Sullivan

### Overview of the North American gardening decoration and indoor crafts market

The total retail sales value of gardening decoration and indoor crafts in North America decreased from approximately USD17.0 billion in 2008 to approximately USD16.7 billion in 2012, with a CAGR of approximately -0.3%. The retail sales market of gardening decoration and indoor crafts experienced a significant drop in 2009 as the depressed job market and sluggish housing market in North America resulted in a decreasing demand for home decor products. It is forecast that the retail sales value of gardening decoration and indoor crafts will reach approximately USD19.4 billion in 2016, with a CAGR of approximately 4.9% from 2013 to 2016. The following diagram sets forth the actual and forecast total sales value of gardening decoration and indoor crafts in North America from 2008 to 2016:



Source: Frost & Sullivan

Note: North American market refers to the U.S. and Canada



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### Competitive landscape of PRC gardening decoration and indoor crafts industry

The PRC gardening decoration and indoor crafts industry is highly fragmented with the top five manufacturers accounting for a total market share of approximately 2.1% and no individual manufacturer accounting for more than 1.0% of the market share in terms of revenue in 2012. There are approximately more than 4,000 manufacturers in the PRC gardening decoration and indoor crafts industry, approximately 80% of which are smaller scale manufacturers with less than RMB40.0 million in revenue in 2012. The PRC gardening decoration and indoor crafts industry players can be broadly classified into three tiers based on the amount of revenue in 2012.

- **First tier**

The first tier PRC gardening decoration and indoor crafts market includes approximately 10 to 15 manufacturers with revenues of more than RMB100.0 million, representing approximately 5.0% of the total market share in terms of revenue in 2012. According to the Frost & Sullivan Report, we are positioned in the first tier PRC gardening decoration and indoor crafts markets.
- **Second tier**

The second tier PRC gardening decoration and indoor crafts market includes approximately 100 to 200 manufacturers with revenues ranging from RMB40.0 million to RMB100.0 million, representing approximately 15.0% of the total market share in terms of revenue in 2012.
- **Third tier**

The third tier PRC gardening decoration and indoor crafts market includes more than 4,000 manufacturers with less than RMB40.0 million in revenue, which accounted for approximately 80.0% of the total market share in terms of revenue in 2012.

Competitiveness in the domestic gardening decoration and indoor crafts industry lies in (i) design capabilities; (ii) access to customers; (iii) patent; and (iv) production costs. Manufacturers of gardening decorations and indoor crafts must invest in product design in order to attract consumers and differentiate their products from those of their competitors. Many gardening decorations and indoor crafts manufacturers also export to overseas countries and they have to acquire access to overseas customers and maintain a long relationship with them. In addition, manufacturers often also have the capabilities to customise their products to meet different demands from customers. As the competition in the crafts industry is intense, manufacturers must patent their products to protect themselves from infringement of their intellectual properties. The manufacturing of gardening decorations and indoor crafts is labour-intensive and the process cannot be replaced by automated facilities in many situations. Costs of rising labour, raw materials and other manufacturing costs are also barriers to new market entrants.

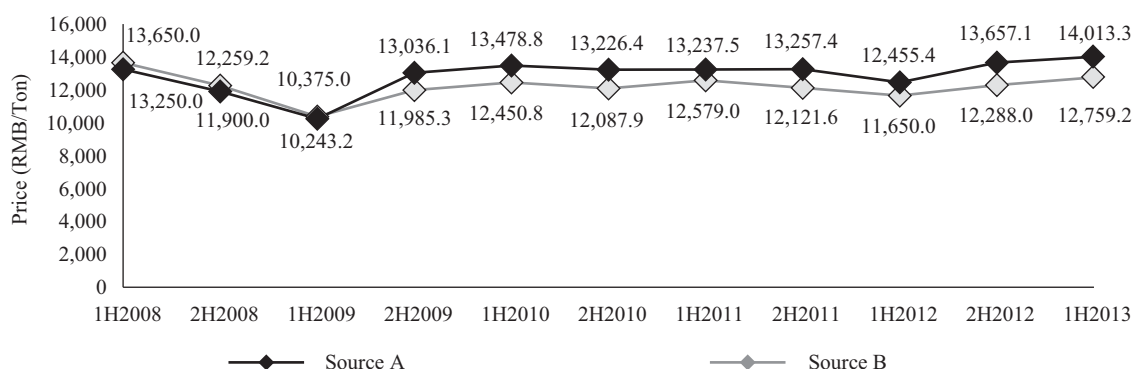
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### RAW MATERIALS

#### Historical prices of major raw materials

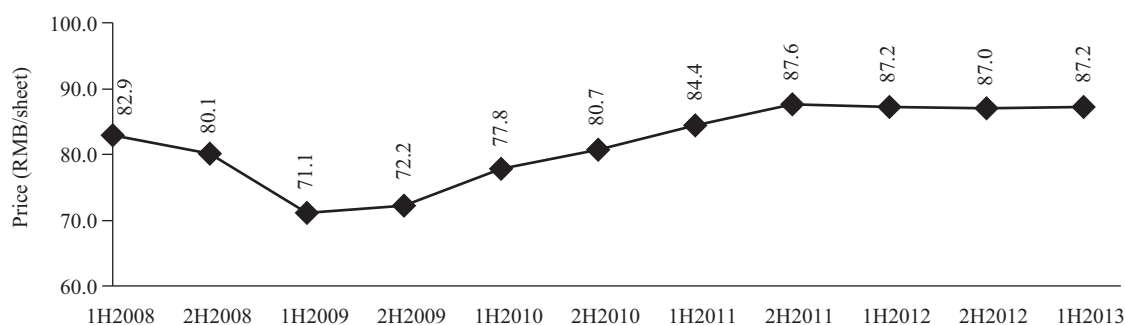
Unsaturated polyresin, wood, marble, clay and cold-rolled steel plates are often used as raw materials in the manufacturing of creative home furnishing products.

Set forth below is the historical price of unsaturated polyresin in the PRC from 2008 to the first half of 2013:



Source: Wind information and Frost & Sullivan

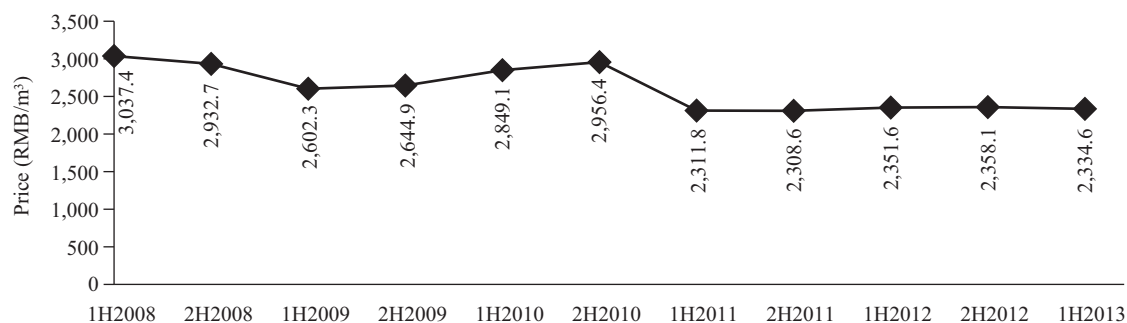
The table below sets forth the historical price of wood slabs (medium density fibreboard) in the PRC from 2008 to the first half of 2013:



Source: China Yuzhuprice and Frost & Sullivan

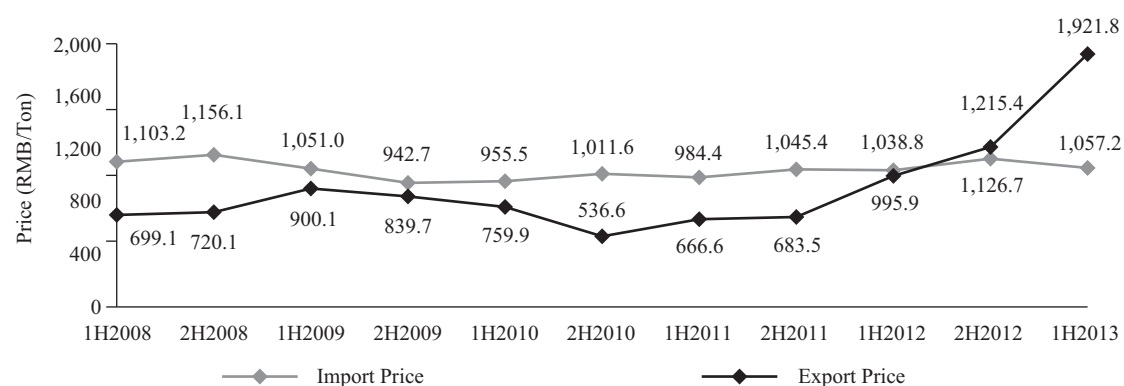
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The table below sets forth the historical price of solid wood from 2008 to the first half of 2013:



Source: China Yuzhuprice and Frost & Sullivan

The diagram below sets forth the historical price of marble in the PRC from 2008 to the first half of 2013:

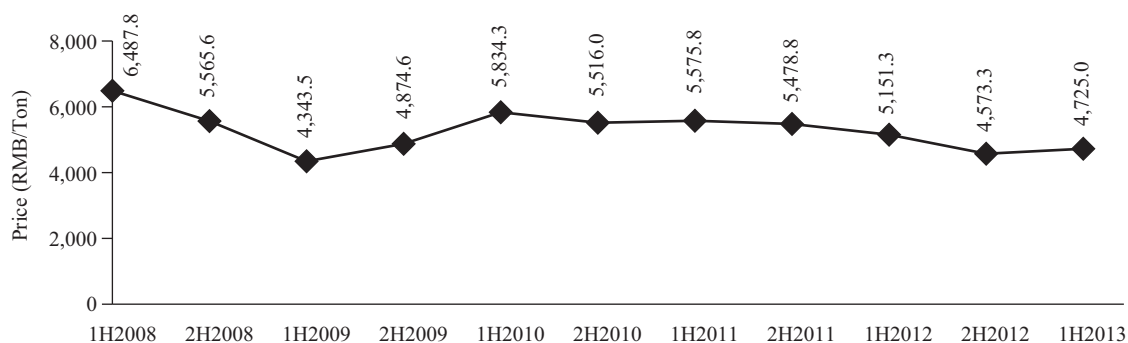


Source: Customs information and Frost & Sullivan

Note: Data is generated from HS Code 251511: Marble, Travertine (Crude or Roughly Trimmed)

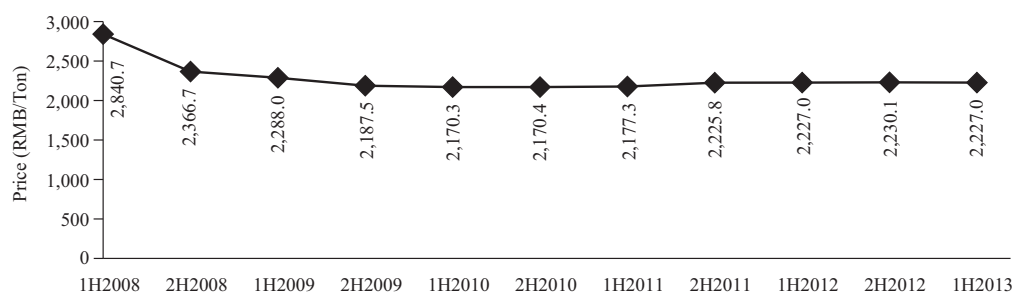
## INDUSTRY OVERVIEW

The diagram below sets forth the historical price of cold-rolled steel sheet (1 mm) in Guangzhou, the PRC from 2008 to the first half of 2013:



Source: Wind Information and Frost & Sullivan

The diagram below sets forth the historical price of clay from 2008 to the first half of 2013:



Source: Shanghai Chemical Industry Association and Frost & Sullivan