
BUSINESS

OVERVIEW

We are principally engaged in the design, development, manufacture and sale of electric fireplaces and home decor products. Our electric fireplaces and home decor products are designed and developed with an aim to be both functional and visually appealing to users.

Electric fireplaces are heaters powered by electricity and mimic the appearance of burning coal, wood or natural gas. Our electric fireplaces have added convenience giving users the option to use the “flame only” setting where they give the visual effect of a burning flame as creative home decoration or can be used additionally as heaters. Our electric fireplaces are divided into two categories: (i) framed electric fireplaces and (ii) non-framed electric fireplaces. Framed electric fireplaces are further categorised into three series according to the materials of their frames or mantels: (i) inorganic series; (ii) wood series and (iii) natural stone series. Our home decor products include gardening decorations (e.g. fountains, waterfalls and patio furniture such as tables and stools) and indoor crafts (e.g. mini-figurines, vases, photo frames and sculptures), which are offered under three series: (i) polyresin series; (ii) porcelain series and (iii) inorganic series.

We were established in 1993 to principally engage in the export of porcelain products. Our Quangan Production Facilities were established in 2002. In 2005, we commenced to design, develop, manufacture and sell our home decor products under our Allen (亞倫) brand. Our Allen (亞倫) brand was accredited as a Well-known Trademark of the PRC (中國馳名商標) in respect of our home decor products by the SAIC in 2011, an Electric Fireplace Leading Brand in China (中國電壁爐市場領軍品牌) by the China Industrial Association of Industrial Economics Research Centre (中國產業報協會產業經濟調研中心) and China Competitiveness Forum Summit Organising Committee (中國競爭力論壇峰會活動組委會) in 2011 and were recognised as a Famous Trademark of Fujian Province (福建省著名商標) by the Administration for Industry and Commerce of Fujian Province in respect of our electric fireplaces in 2012. We were also accredited as a Well-known Enterprise of Fujian Province (福建省企業知名字號) by the Administration for Industry and Commerce of Fujian Province in 2010. In recognition of our strong technical and quality control capabilities of electric fireplaces, we have been selected by the China Association for Engineering Construction Standardisation (中國工程建設標準化協會) as the only electric fireplace manufacturer in the PRC to be involved in the process of developing and compiling the industry regulation standard of electric fireplaces in the PRC with the China Institute of Building Standard Design and Research (中國建築標準設計研究院). We have completed a preliminary draft regulation standard and is in the process of collecting views and comments from relevant parties and industry experts.

Our business model and products

Our products are principally sold in the PRC under our Allen (亞倫) brand which accounted for over 80% of our total revenue during the Track Record Period. We also sell a portion of our products on ODM/OEM basis to our overseas customers. During the Track Record Period, we exported our products to countries such as the United States, Canada, Germany, France, Australia, Taiwan and Japan. For our ODM sales, we design, develop, manufacture and sell our products at our ODM customers’ requests. For our OEM sales, we manufacture and sell our products according to the design and specifications provided by our OEM customers. Our products sold to our ODM/OEM customers are either under the brands of our ODM/OEM customers or under no specific brands. We sell our products directly to our customers which principally include trading entities and retail companies.

Design and development

We believe that our design and development capabilities are crucial to our success. We place great emphasis on our design and development by offering a diversified range of products to our customers. Our product design and development comprises artistic design and technical feasibility. As of 30 June 2013, our design and technical team consisted of 120 staff. As of 31 December 2010, 2011 and 2012 and 30 June 2013, we offered over 140, 150, 160 and 190 models of electric fireplaces and 2,100, 2,900, 3,500 and 4,000 pieces of home decor products available for selection by customers, respectively.

Production

We manufacture our products at our two production facilities: Luojiang Production Facilities and Quangang Production Facilities. The Luojiang Production Facilities are principally used for the manufacturing and assembly of our electric fireplaces and wood frames of our electric fireplaces. The Quangang Production Facilities are principally used for the manufacturing of our home decor products and inorganic frames of our electric fireplaces. We believe that our sizable production facilities provide us with economies of scale and allow us to allocate production capacity to manufacture products for the sales under our Allen (亞倫) brand, which have a higher gross profit margin in comparison to our sales made on an ODM and OEM basis.

Our revenue increased from approximately RMB751.8 million in 2010 to approximately RMB804.1 million in 2011 and further to approximately RMB969.0 million in 2012. For the six months ended 30 June 2013, our revenue reached approximately RMB493.9 million compared to approximately RMB397.5 million for the six months ended 30 June 2012.

OUR COMPETITIVE STRENGTHS

We believe we have the following competitive strengths:

Our Allen (亞倫) brand is well recognised in the industry

We strive to build and maintain our brand and reputation in the PRC branded electric fireplace market and home decor product market.

Our Allen (亞倫) brand was accredited as a Famous Trademark of Fujian Province (福建省著名商標) by the Administration for Industry and Commerce of Fujian Province in respect of our electric fireplaces in 2012, a Well-known Trademark of the PRC (中國馳名商標) in respect of home decor products by the SAIC in 2011 and an Electric Fireplace Leading Brand in China (中國電壁爐市場領軍品牌) by the China Industrial Association of Industrial Economics Research Centre (中國產業報協會產業經濟調研中心) and China Competitiveness Forum Summit Organising Committee (中國競爭力論壇峰會活動組委會) in 2011. We were also accredited as China's Top Ten Energy Saving Building Application of New Technology (中國建築節能減排十大應用新技術) in 2010 and 2011 China Building Energy-Saving Innovative Recommended Brand (2011年中國建築節能減排創新技術推薦品牌) by the China Green Building Industry and Technology Innovation Strategy Alliance (中國建築節能減排產業聯盟) and China Urban Housing Industry Council (中國城市住宅產業理事會). For other various awards and certifications received by us, please refer to the paragraph headed "Awards and certifications" in this section. We believe that our capabilities in designing and developing our products have allowed us to differentiate our Allen (亞倫) brand from those of our competitors and have helped increase our brand recognition.

We are one of the leading branded electric fireplace manufacturers in the PRC

With our experience in the electric fireplace industry, our design and development capabilities and focus on quality control and product safety, we believe that we have established a leading market position in the PRC. According to the Frost & Sullivan Report, we ranked first capturing approximately 11.1% of the market share of the branded electric fireplace market in terms of revenue in 2012 in the PRC. In terms of the overall electric fireplace market in the PRC, we ranked third capturing approximately 2.6% of the total market share of the overall electric fireplace market in the PRC in terms of revenue in 2012. According to the Frost & Sullivan Report, the total sales value of electric fireplaces will grow at a CAGR of approximately 13.0% from 2013 to 2016. We believe our leading market position in the electric fireplace industry will enable us to take advantage of the future growth of the electric fireplace industry in the PRC and continue to enhance our brand and reputation.

We were selected in 2011 by the China Association for Engineering Construction Standardisation (中國工程建設標準化協會) as the only electric fireplace manufacturer in the PRC to be involved in the process of developing and compiling the industry regulation and standard of electric fireplaces in the PRC in recognition of our leading market position in the PRC.

We have the capabilities in product design and development

To maintain competitiveness in the market, we believe that it is crucial to offer trendy and a diversified range of products and upgrade existing products to adapt to market trends and be at the forefront of product design and development. As such, we believe that our strong product design and development capabilities are crucial to our growth and to sustain our competitiveness. Our product designers are responsible for the artistic design of our products, and our technical staff are responsible for the assessment of technical feasibility of our products from various aspects such as functionality, safety standard and production technology. As of 30 June 2013, our design and technical team consisted of 120 staff.

Through our design and development centre located in our production facilities in Quanzhou, Fujian Province, the PRC, we design and develop our electric fireplaces and home decor products to cater for the preferences of our targeted customers and offer a diversified range of products to the market. In 2012, we developed and launched electric fireplaces with infrared heating technology that are more energy efficient. In addition to designing and developing home decor products for everyday use, our design team designs and develops products with seasonal themes and for various occasions and celebrations, such as Easter, Halloween and Christmas. As of 31 December 2010, 2011 and 2012 and 30 June 2013, we offered over 140, 150, 160 and 190 models of electric fireplaces and over 2,100, 2,900, 3,500 and 4,000 pieces of home decor products for selection by customers, respectively.

We have the ability to apply our registered patents to develop and improve our products. Our registered patents are used in the production of the imitated flame of our electric fireplaces. As of the Latest Practicable Date, we owned 36 patents in the PRC.

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Our product design and development capabilities are further strengthened through cooperation with universities and technology enterprise. We entered into a cooperation agreement with a university in Fuzhou, Fujian Province to further develop electric fireplaces with infrared heating technology. We also entered into another cooperation agreement with the University of Shanghai for Science and Technology (上海理工大學) to develop electric fireplaces with air purification and cooling functions. Details of such cooperations are set out in the paragraph headed “Product design and development capabilities” of this section.

We focus on quality control and product safety

We place emphasis on the quality and safety of our products. Our electric fireplaces are required to comply with the safety and quality standards under the China Compulsory Certification (中國強制性認證) administered by the Certification and Accreditation Administration of the PRC (國家認證認可監督管理委員會), and our home decor products are required to pass the tests of hazardous substances upon requests of our certain overseas customers. We also submit our electric fireplace samples for verification of compliance with certain industry and safety standards. Our electric fireplaces bear the “ETL” and “CSA” marks as proof of product compliance with the safety standards in North America and Canada, respectively. In addition, our electric fireplaces also carry the “CE” and “GS” marks to show that they meet the safety standards required for electric fireplaces sold in Europe and Germany, respectively. As a result of our stringent quality and safety control policies, we have obtained the ISO 9001 and the ISO 14001 certifications. We believe that our continuous implementation of strict quality control and safety standards will assure the quality of our products and help to maintain our reputation.

In recognition of our technical and quality control capabilities, we were selected in 2011 by the China Association for Engineering Construction Standardisation (中國工程建設標準化協會) as the only electric fireplace manufacturer in the PRC to be involved in the process of developing and compiling the industry regulation and standard of electric fireplaces in the PRC. As such, we believe we are in a better position to fulfil industry regulations and standards of electric fireplaces in the PRC in the future.

We have established long-term business relationships with our major customers

We have established strong business relationships with some of our major customers. Our Directors believe that one of our strengths is our ability to secure and maintain long-term business relationships with our major customers.

As of 30 June 2013, our top five customers had maintained business relationships with us for an average of five years. We believe that our stable product quality and our ability to deliver a wide range of products to our customers have enabled us to earn recurring business from our major customers. We also believe that with a stable customer base, we are well positioned to implement our expansion plans.

Our Directors believe that the key to maintain long-term business relationships with our customers is our understanding of their needs and concerns about changing market trends. This understanding enables us to anticipate market trends and preference and to provide our customers with new products to meet their demands and needs.

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We offer a wide range of products

As a result of our capabilities to design and develop new products, we are able to offer a wide range of products to our customers to cater for different preferences and to meet various requirements. Our electric fireplaces are generally sold with frames or as non-framed in various sizes. Our electric fireplaces can be fitted with frames or mantels made from inorganic materials, wood and natural stone such as marble. To cater for the diverse preferences of customers, we offer frames or mantels in various styles such as European, American, Chinese, Mediterranean, classical, baroque, rococo, country rustic, postmodern and modern styles. Our non-framed or stand-alone electric fireplaces include portable models or wall-mounted models. These non-framed fireplaces are offered in various colours and styles to complement the surroundings and to satisfy the different needs and tastes of the users. Our electric fireplaces can run on a “flame only” setting as home decoration or be used as heaters as well. As of 30 June 2013, we offered more than 190 models of electric fireplaces for selection by customers.

The home decor products we offer include gardening decorations and indoor crafts in a variety of sizes, styles and designs. Our home decor products are generally made from polyresin, porcelain and inorganic materials. Gardening decoration items are used for garden, yard and landscape enhancement, including fountains, waterfalls, figurines, statue, seasonal ornaments and outdoor sculptures, and indoor crafts include seasonal decoration items, mini-figurines, crafts and sculptures. As of 30 June 2013, we offered more than 4,000 pieces of home decor products for selection by customers.

We have an experienced and dedicated management team with extensive industry experience

We have an experienced management team that has extensive experience and is familiar with the creative home furnishing industry in China. Our management team is led by our chairman and an executive Director of our Company, Mr. Chen Fanglin, who has more than 20 years of experience in the creative home furnishing industry and has been responsible for the overall strategic and business direction of our Group.

Our other executive Directors, Mr. Chen Hongming and Mr. Shen Jianzhong, also have more than 15 years of experience and knowledge in the creative home furnishing industry. In particular, we have a very dedicated management team and our executive Directors have been working with our Group for more than 15 years. We believe that our executive Directors and our senior management team are instrumental to our success. Our growth and development have been largely attributable to the extensive experience of our executive Directors and senior management team.

OUR BUSINESS STRATEGIES

Our principal objective is to become a leading electric fireplace and home decor product manufacturer in the PRC. We intend to achieve our objective by implementing the following strategies:

Enhance our brand recognition and promote our brand awareness in the PRC

We will continue to market our Allen (亚伦) brand through our dedicated marketing and sales team. We intend to enhance recognition of our Allen (亚伦) brand through further employment of various media channels such as advertising in industry magazines, billboards and the internet and participating in trade exhibitions. We may also engage brand ambassadors or spokespersons. We target to develop and build our Allen (亚伦) brand as a notation for creative home furnishing products with artistic design and practical functionality to provide a comfortable home environment and living atmosphere and culture.

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We will continue to enhance our Allen (亞倫) brand and corporate image by encouraging more trading entity customers to operate their showrooms under our brand in strategic locations including the southwestern and northwestern parts of the PRC in accordance with our corporate plans. Details of this cooperation are set out in the paragraph headed “Sales and marketing — Our customers” in this section.

Strengthen our product design and development capabilities and optimise our product offerings

We believe that product design and development in response to market trends are crucial to our success. We will continue to strengthen our design and development capabilities. We will continue to recruit experienced staff to further develop our design and development capabilities of electric fireplaces and home decor products. Our sales team will continue to work closely with our design and technical team on exchange of market trends and customers’ preferences to more effectively incorporate customers’ feedback into our product development. We cooperated with a university in Fuzhou, Fujian Province to enhance our electric fireplaces with infrared heating technology and we successfully launched a new model of infrared electric fireplace to the market in June 2013. We also entered into a cooperation agreement with the University of Shanghai for Science and Technology (上海理工大學) in June 2013 to develop multi-functional electric fireplaces with air purification and air cooling functions. Details are set out in the paragraph headed “Production design and development capabilities” in this section. Other than the cooperation agreements entered into with a university in Fuzhou, Fujian Province and the University of Shanghai for Science and Technology (上海理工大學), we did not enter into any other cooperation agreements with other institutions as of the Latest Practicable Date.

It is our target to focus on our design and development initiatives to expand our product range and product use. Traditionally, electric fireplaces are generally used in the living rooms and bedrooms as a heat source in cold weather. We will explore and research the possibilities of expanding the use of electric fireplaces in other aspects in our daily life, such as using them in conference rooms, meeting rooms and other functional spaces, and develop electric fireplaces with air purification and cooling functions. We also target to design, develop and manufacture products which cultivate a comfortable and quality lifestyle and home culture and reflect the furnishing styles of end users. In order to further cultivate a comfortable and quality lifestyle for end users, we also aim to develop products that promote health and enhance the quality of our surroundings. Our goal is to offer more home decor products that have added functionality such as air purifying, cooling and vaporising and offer products with visual effects that can alter and vary according to customers’ preference.

With the increasing awareness of ecological concern, we will also continue to place efforts on our design and development to develop and improve our products with environment-friendly materials and energy efficiency features. We will continue to upgrade our design and development capability and equipment by expanding our laboratory and upgrading testing equipment.

We intend to utilise approximately HK\$41.9 million or approximately 6.0% of our 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 strengthen our technical expertise and know-how to ensure continuous improvement of the functionality features of our products by recruiting more experts for our technical team, further cooperation with academic or professional institutions and enhancing our self-developed products. We expect to utilise approximately HK\$6.0 million on recruiting experts for our technical team, approximately HK\$6.0 million on purchase of new raw materials for the design and development of our products, approximately HK\$8.0 million on acquiring new machinery and testing equipment, approximately HK\$19.0 million on further cooperation with academic or professional institutions and approximately HK\$2.9 million on relevant product certification testing.

Increase market share and penetration in the PRC

According to the Frost & Sullivan Report, the PRC creative furnishing markets will continue to grow with a CAGR of 18.5% from 2013 to 2016. We plan to continue focusing on the PRC market in the near future and we will place more resources and efforts to enhance our market penetration in the PRC to capture the potential growth.

We will continue to provide a comprehensive range of quality products to and strengthen our relationship with our existing customers. We will also continue to develop and explore new customers through offering new products and improving our current products.

At present, our sales in the PRC mainly focus on the coastal regions, such as Fujian Province, Guangdong Province, Beijing, Shanghai, Jiangsu Province and Zhejiang Province, and southwestern China, such as Sichuan Province and Chongqing.

We aim to further increase our market share and penetration by actively increasing the exposure of our Allen (亚伦) brand through developing our relationships with our existing trading entity customers and exploring new customers in the southwestern and northwestern parts of the PRC, including Tibet, Xinjiang and Yunnan. We also intend to cooperate with selected trading entity customers to establish seven creative home furnishing concept shops in major cities in the PRC. These creative home furnishing concept shops will be managed by our trading entity customers and we will be responsible for the rent, furnishing and decoration and supplying our products to be shown at these shops.

Each of these creative home furnishing concept shops is intended to occupy an area of approximately 2,000 square metres to exclusively showcase our products which, in general, will be significantly larger than the showrooms operated by some of our existing trading entity customers. We also intend to showcase a wider range of products in the creative home furnishing concept shops with an aim to imitate the home environment so that customers can have a first hand experience of our products. We aim to target property developers and companies involved in large-scale and new property construction and refurbishing projects which we believe are a primarily different group of customers for us. We do not expect the creative home furnishing concept shops to maintain a large amount of inventory as we currently intend to sell our products to these trading entity customers on an order by order basis. These trading entity customers are to onward sell the products they purchase from us at selling prices not lower than those recommended by us. There are no profit-sharing arrangements between us and these trading entity customers.

The main purpose of these creative home furnishing concept shops is to promote our brand and products to property developers involved in large-scale and new property construction and refurbishing projects. As the target customers of the creative home furnishing concept shops differ from the target customers of existing showrooms, we are of the view that competition among the creative home furnishing concept shops and the existing showrooms will be minimal. Nevertheless, we will consider the proximity with existing showrooms as well as the availability of large-scale and new property construction and refurbishing projects nearby when deciding the location for establishing the creative home furnishing concept shops in order to minimise any potential competition between them. In this regard, it is our current intention to cooperate with only one trading entity customer in each target city to establish our creative home furnishing concept shops. We will periodically review our pricing and sales policies in these aspects and may adopt alternative strategies based on the actual results of operations of these concept shops.

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We target to establish creative home furnishing concept shops in Beijing and Shanghai in 2014, and Guangzhou and Chengdu in 2015 and Chongqing, Fuzhou and Changsha in 2016. Depending on the results and acceptance of our creative home furnishing concept shops, we may establish additional similar concept shops in other cities in the PRC. We expect to incur furnishing expenses and our rental expenses will also increase upon the establishment of these creative home furnishing concept shops, which will in turn increase our administrative expenses. However, as we believe that our revenue will continue to grow, we expect that our expenses in relation to the establishment of the creative home furnishing concept shops to have a slight negative impact on our future profit margin. We also expect our cash outflows from operating and investing activities to increase for payment of operating expenses, furnishing and decoration and fulfilment of our products for these creative home furnishing concept shops. The estimated expenditure for establishing the creative home furnishing concept shops is approximately HK\$175.0 million (equivalent to approximately RMB140.0 million), of which approximately HK\$111.8 million or approximately 16.0% of the total estimated net proceeds from the Global Offering (assuming an Offer Price of HK\$2.075 per Share, being the mid-point of the indicative Offer Price range of HK\$1.80 to HK\$2.35 and the Over-allotment is not exercised) will be used. We will finance the shortfall with funds generated internally and/or from bank borrowings. A summary of the operation of creative home furnishing concept shops and existing showrooms are set forth below:

	Creative home furnishing concept shops	Showrooms currently operated by existing trading entity customers as of the Latest Practicable Date
Geographical location	Beijing, Shanghai, Guangzhou, Chengdu, Chongqing, Fuzhou and Changsha	Fujian, Guangdong, Sichuan, Anhui, Henan, Zhejiang, Shaanxi, Jiangxi, Jiangsu, Liaoning, Hunan Provinces and Chongqing, Shanghai and Beijing
Store size	Approximately 2,000 square metres	Less than 500 square metres
Target customers	Property developers and companies involved in large-scale property construction and refurbishing projects	Decoration engineering companies, property construction companies and retailers of home decoration materials
Product types	Wide range of products determined by us	Selected products determined by our trading entity customers

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	Creative home furnishing concept shops	Showrooms currently operated by existing trading entity customers as of the Latest Practicable Date
Pricing	Pricing policy as determined by our trading entity customers but our customers are not allowed to sell our products at prices lower than the prices recommended by us	Pricing policy as determined by our trading entity customers but our customers are not allowed to sell our products at prices lower than the prices recommended by us
Geographical exclusivity	We intend to establish only one creative home furnishing concept shop in each of the selected location above and we will take into account the proximity with existing showrooms when deciding on the location of the creative home furnishing concept shops in order to minimise any potential competition	There is no geographical exclusivity of showrooms but we take into account the proximity with existing showrooms and the creative home furnishing concept shops when deciding whether to cooperate with trading entity customers in establishing new showrooms in order to minimise any potential competition
Operational costs	We will bear the set-up costs, decoration, first and ongoing rent. Other operational costs are expected to be borne by our trading entity customers	Operational costs are borne by our trading entity customers
Product liability	Pursuant to the relevant laws and regulations of the PRC, we may be exposed to product liability claims and be subject to tortious liabilities for any damages caused by defects of our products	Pursuant to the relevant laws and regulations of the PRC, we may be exposed to product liability claims and be subject to tortious liabilities for any damages caused by defects of our products

We believe that the cooperation with trading entity customers to establish creative home furnishing concept shops will allow our products to be showcased and enable end consumers to experience our products in an upmarket environment. As of the Latest Practicable Date, we did not commence such cooperation plan nor did we enter into any framework agreements with our trading entity customers in relation to the establishment of the creative home furnishing concept shops.

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Increase our production capacity

As of 31 December 2012, the estimated effective annual production capacity of electric fireplaces for our Luojiang Production Facilities was approximately 277,500 units. In order to meet the expected increasing demand of our customers and to increase our production efficiency, we plan to continue upgrading our existing production facilities for electric fireplaces through modification or replacing some of the workstations in our production lines, upgrading our existing production equipment and installing additional production lines in our production facilities. We believe such investment will further enhance our profitability and allow us to benefit from larger operational scale.

According to the Frost & Sullivan Report, the total sales value of electric fireplaces is expected to grow at a CAGR of approximately 13.0% from approximately RMB19.6 billion in 2013 to approximately RMB28.3 billion in 2016. As such, we anticipate that there will be a growth in the demand by end-consumers for our electric fireplaces. The sales of electric fireplaces are expected to increase due to the development of high-end real estate, increasing disposable income and high acceptance of western culture. For the six months ended 30 June 2013, the utilisation rate of our Luojiang Production Facilities reached approximately 92.1% and our Directors believe that our expansion plans will enable us to cope with expected increase in future demands given the high utilisation rate of our existing production facilities for electric fireplaces. We plan to expand our production capacity by adding new production facilities in Anhui Province, the PRC to meet the increasing demand for electric fireplaces. The Anhui Production Facilities is estimated to occupy a total gross floor area of approximately 137,000 square metres and will be mainly dedicated for the manufacturing of electric fireplaces. We estimate that the maximum annual production capacity of electric fireplaces at the Anhui Production Facilities will be approximately 300,000 units. The Anhui Production Facilities will be equipped with a showroom, office building and design and development centre, staff dormitory and a logistic centre.

We target to construct the Anhui Production Facilities in three phases. We anticipate the construction of the first phase will commence in December 2013 and be completed by mid-2014. The construction of the second phase is expected to commence in mid-2014 and will be completed by first quarter of 2015. We expect the third phase of the Anhui Production Facilities to commence construction in the second quarter of 2015 and will be completed by end of 2015. Details of our Anhui Production Facilities are set forth in the paragraph headed “Production facilities — Anhui Production Facilities” of this section.

We are also currently expanding our production capacity by constructing the Expanded Production Facilities adjacent to the existing Luojiang Production Facilities. We expect that the Expanded Luojiang Production Facilities will increase our production capacity of electric fireplaces by approximately 50,000 units per year. The construction of the Expanded Luojiang Production Facilities is expected to be completed in mid-2014 and the capital expenditure estimated for the Expanded Luojiang Production Facilities will be approximately RMB65.0 million, which will be funded by our internal resources and this amount has been included in the projected capital expenditures as set forth in the section headed “Financial Information — Capital expenditures” in this prospectus. Details of our Expanded Luojiang Production Facilities are set forth in the paragraph headed “Production facilities — Expanded Luojiang Production Facilities” in this section.

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Promote our brand and brand awareness in the overseas market

We plan to promote our brand in the overseas market, particularly in North America. At present, we sell a portion of our products to overseas customers on an ODM/OEM basis. We plan to sell products in the overseas market under our own brand in the future. To this end, we will continue to develop our overseas sales through our existing customers and to explore other overseas sales channels. We aim to establish an overseas sales team in order to provide our overseas customers with dedicated points of contact and to cater for our overseas expansion plan. We also target to establish an overseas design and development team to enhance our design and development capabilities tailored for overseas market and preferences.

OUR BUSINESS MODEL

We are engaged in the design, development, manufacture and sale of electric fireplaces and home decor products.

Our products are sold under our Allen (亚伦) brand in the PRC and we also sell a portion of our products on ODM/OEM basis to our overseas customers. During the Track Record Period, we exported our products to overseas countries including the United States, Canada, Germany, France, Australia, Taiwan and Japan. For our ODM sales, we design, develop, manufacture and sell our products at our ODM customers' requests. For our OEM sales, we manufacture and sell our products according to the design and specifications provided by our OEM customers. Our products sold to our ODM/OEM customers are either under the brands of our ODM/OEM customers or under no specific brands.

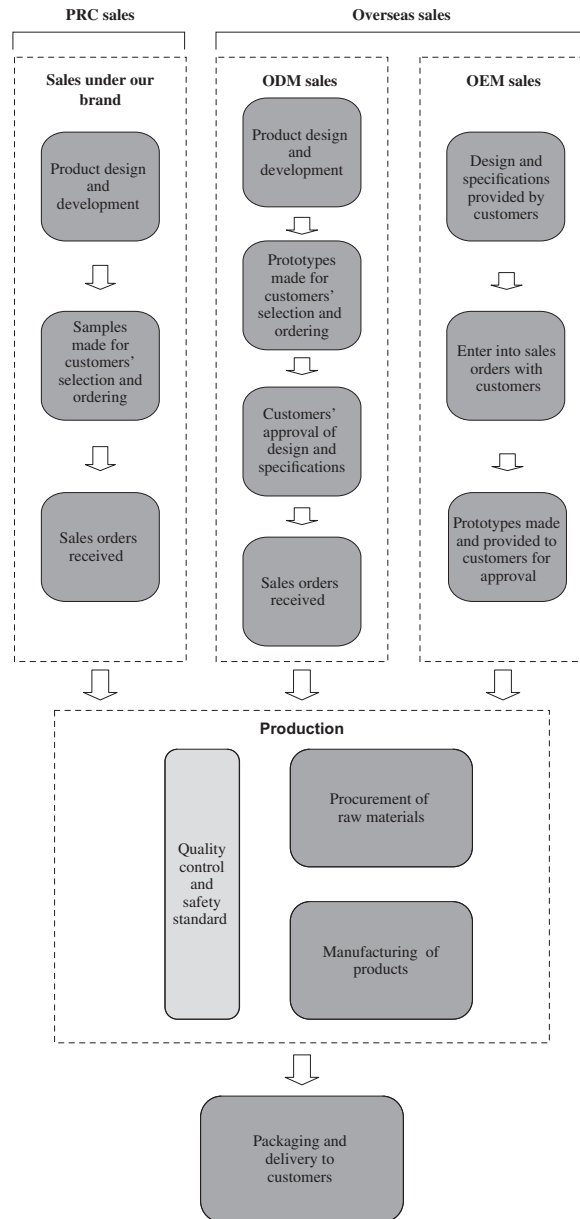
The table below sets forth the breakdown of our revenue derived from the sales under our Allen (亚伦) brand in the PRC and in the overseas on an ODM/OEM basis during the Track Record Period (with comparative figures for the six months ended 30 June 2012):

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
PRC sales										
(Our Allen										
(亚伦) brand)	624,565	83.1	672,923	83.7	840,960	86.8	355,610	89.5	451,152	91.3
Overseas sales										
(on ODM/OEM										
basis)	127,254	16.9	131,149	16.3	128,066	13.2	41,919	10.5	42,739	8.7
Total:	<u>751,819</u>	<u>100.0</u>	<u>804,072</u>	<u>100.0</u>	<u>969,026</u>	<u>100.0</u>	<u>397,529</u>	<u>100.0</u>	<u>493,891</u>	<u>100.0</u>

Note: Almost all of our overseas sales were made on ODM basis.

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Our business model can be summarised as follows:



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Sales under our brand

For products that we sell under our Allen (亚伦) brand in the PRC, our design team prepares design that are assessed by our technical team for manufacturing feasibility, safety and quality issues. We then make samples for customers' selection and ordering. After evaluation and refinements, the design will be finalised. After we receive sales orders from our customers, we proceed to manufacture the products. Our technical team also prepares a report on the raw materials and consumables required to manufacture the products and such raw materials and consumables will be procured by our procurement team. Quality control and safety standards are conducted throughout the production process and the finished products are packaged and delivered to our customers. Sales under our Allen (亚伦) brand had been our major business model during the Track Record Period and will continue to be our major business model in the future.

ODM sales

For products that we sell to our ODM customers, our design team prepares design that are assessed by our technical team for manufacturing feasibility, safety and quality issues. We then make prototypes for customers' selection and ordering. The ODM customers will place sales orders with us after approving the design and specifications. Upon the receipt of sales orders, we proceed to manufacture the products for our ODM customers. Depending on the request of our ODM customers, our products can be sold under the brands of our ODM customers or under no specific brand. Our ODM customers may also provide us with specific requirements for production, which may be related to the compliance with relevant safety and quality standards and restrictions on hazardous materials, packaging and labelling requirements. Our ODM customers may send personnel to our production facilities to inspect the products to ensure that the products comply with their requests and specifications. The finished products are then packaged and delivered to them.

OEM sales

Our OEM customers provide us with the design and specifications of the products and we enter into sales orders with our OEM customers. Based on the design and specifications provided by our OEM customers, we produce prototypes which are provided to our OEM customers for approval. After obtaining confirmation from our OEM customers on the prototypes, we commence production of the products which are then packaged and delivered to them.

OUR PRODUCTS

We market our products under our Allen (亚伦) brand in the PRC. We have positioned and targeted our brand at the mid-to-high end of PRC creative home furnishing market focusing on providing products with both appealing design and functionality. We also aim to provide customers with quality and safe products.

BUSINESS

The following table provides a breakdown of our revenue by business segments during the Track Record Period (with comparative figures for the six months ended 30 June 2012):

	Year ended 31 December						Six months ended 30 June			
	2010	2011		2012			2012	2013		
		<i>% of</i>	<i>% of</i>	<i>% of</i>	<i>% of</i>		<i>% of</i>	<i>% of</i>	<i>% of</i>	
	<i>RMB'000</i>	<i>total</i>	<i>total</i>	<i>total</i>	<i>total</i>		<i>total</i>	<i>total</i>	<i>total</i>	
		<i>revenue</i>	<i>revenue</i>	<i>revenue</i>	<i>revenue</i>		<i>revenue</i>	<i>revenue</i>	<i>revenue</i>	
							(Unaudited)			
Electric fireplaces	192,230	25.6	243,127	30.2	436,858	45.1	149,796	37.7	255,364	51.7
Home decor products	559,589	74.4	560,945	69.8	532,168	54.9	247,733	62.3	238,527	48.3
Total:	751,819	100.0	804,072	100.0	969,026	100.0	397,529	100.0	493,891	100.0






We were principally engaged in the export of porcelain products from 1993 and we commenced to design, develop, manufacture and sell our home decor products under our Allen (亚伦) brand since 2005. Our Directors are of the view that this business segment is relatively mature and our revenue derived from this business segment was relatively stable during the Track Record Period. In 2008, we commenced to sell electric fireplaces and thereafter our revenue derived from this business segment has been growing at a faster rate than that of the home decor product segment. We expect that the electric fireplace business will become the major business segment for us in the future.

Our electric fireplaces

Our electric fireplaces are heaters powered by electricity and mimic the appearance of burning coal, wood or natural gas. Our electric fireplaces serve both functional and decorative purposes. Our electric fireplaces can run on a “flame only” setting which provides the visual effect of a burning flame as creative home decoration, or be used as heaters as well. We offer electric fireplaces in various sizes ranging from approximately 42 cm x 23 cm x 50 cm to up to approximately 220 cm x 50 cm x 161 cm and can heat an indoor area of up to 40 square metres.

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Our electric fireplaces are generally classified into framed electric fireplaces, which are further classified into three series based on the materials of the frames or mantels, and non-framed electric fireplaces. Set forth below are some of our electric fireplaces:

Product	Product Style	Product Series
	Classical	Framed – Inorganic
	Country rustic	Framed – Inorganic
	Postmodern	Framed – Wood
	Chinese	Framed – Wood
	Mediterranean	Framed – Wood

BUSINESS

Product



European

Framed – Wood



Classical

Framed – Wood



Baroque

Framed – Wood



Rococo

Framed – Wood



American

Framed – Wood



Modern

Framed – Natural stone

BUSINESS

Product

Product Style

Product Series



Postmodern

Framed – Natural stone



Mediterranean

Framed – Natural stone



European

Framed – Natural stone



Classical

Framed – Natural stone



Modern

Non-framed



Modern

Non-framed

Framed electric fireplaces

Our framed electric fireplace typically has a fireplace core installed in a frame or mantel made from inorganic materials, wood or natural stone such as marble. To cater for the diverse preferences of our customers, we offer frames or mantels in various sizes and styles such as European, American, Chinese, Mediterranean, classical, baroque, rococo, country rustic, postmodern and modern styles.

We categorise our framed electric fireplaces into three series based on the materials of the frames or mantels: (i) inorganic series; (ii) wood series; and (iii) natural stone series. Our electric fireplaces are principally sold in the PRC under our Allen (亚伦) brand. Save for marble frames which are sourced from third party suppliers on an order-by-order basis, the wood and inorganic frames of our framed electric fireplaces are manufactured by us in our production facilities.

Inorganic series

The frames or mantels of this series of electric fireplaces are made of inorganic materials, including fibre glass, in various artistic designs and styles.

Wood series

The frames or mantels of this series of electric fireplaces are made of wood in various artistic designs and styles.

Natural stone series

The frames or mantels of this series of electric fireplaces are made of natural stone such as marble in a variety of artistic designs and styles.

Non-framed electric fireplaces

Our non-framed electric fireplaces include portable models or wall-mounted models. Our non-framed electric fireplaces are typically stand-alone electric fireplaces and are generally offered in various colours, sizes and styles to complement the surroundings and to satisfy the different tastes of our customers.

BUSINESS

The table below sets forth the breakdown of the revenue of our electric fireplaces during the Track Record Period (with comparative figures for the six months ended 30 June 2012):

	For the year ended 31 December						For the six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Framed electric fireplaces										
Wood series	57,972	30.2	73,164	30.1	171,475	39.2	53,266	35.6	122,608	48.0
Natural stone series	106,549	55.4	105,188	43.3	127,805	29.3	42,915	28.6	55,862	21.9
Inorganic series	26,256	13.7	51,517	21.2	112,119	25.7	37,953	25.3	53,486	20.9
Non-framed electric fireplaces	1,453	0.7	13,258	5.4	25,459	5.8	15,662	10.5	23,408	9.2
Total:	192,230	100.0	243,127	100.0	436,858	100.0	149,796	100.0	255,364	100.0

The following table sets forth the sales volume of our electric fireplaces during the Track Record Period (with comparative figures for the six months ended 30 June 2012):

	For the year ended 31 December			For the six months ended 30 June	
	2010	2011	2012	2012	2013
	unit	unit	unit	unit	unit
Framed electric fireplaces					
Wood series	22,608	32,704	58,304	19,608	37,187
Natural stone series	19,677	19,826	21,985	8,133	9,378
Inorganic series	17,430	38,887	95,941	29,189	43,754
Non-framed electric fireplaces	3,407	31,224	58,427	36,739	52,671
	63,122	122,641	234,657	93,669	142,990





Home decor products

Our home decor products are products with artistic design which are mainly designed to decorate and accessorise the surroundings. Our home decor products are generally replaceable, movable and are typically placed in the gardens, living rooms, bedrooms, family rooms, kitchens and washrooms to create a comfortable and quality living environment that reflect the personal tastes of the owner. We offer home decor products that are suited for everyday use and/or used for various occasions and seasonal celebrations, such as Easter, Halloween and Christmas. Our home decor products are offered in assorted sizes ranging from mini-figurines to indoor crafts and decoration items such as vases, photo frames and sculptures to larger-sized products including fountains, waterfalls and patio furniture such as tables and stools for outdoor use. Our home decor products are categorised under three series: (i) polyresin series;

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(ii) porcelain series; and (iii) inorganic series. Our home decor products are principally sold in the PRC under our Allen (亚伦) brand. We also sell a portion of our home decor products to overseas markets for our ODM and OEM customers.

Set forth below are some of our home decor products:

Product	Description	Product Series
	Tabletop fountain	Polyresin
	Outdoor fountain	Polyresin
	Outdoor fountain	Polyresin
	Indoor fountain	Polyresin

BUSINESS

Product

Description

Product Series



Indoor fountain

Polyresin



Indoor crafts

Polyresin



Picture frames

Polyresin



Water globes

Polyresin



Figurine

Inorganic



Statues

Inorganic

BUSINESS

Product

Description

Product Series



Patio furniture

Inorganic



Flora pots

Inorganic



Flora pots

Inorganic



Vases

Porcelain



Indoor crafts

Porcelain



Seasonal ornaments
(Christmas)

Porcelain

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Product	Description	Product Series
	Seasonal ornaments (Halloween)	Porcelain
	Seasonal ornaments (Easter)	Porcelain
	Indoor crafts with air humidifying function	Porcelain

Polyresin series

This series of home decor products are made of polyresin, a synthetic resin that becomes flexible when heated. Products in this series include both outdoor gardening decoration products and indoor crafts. The outdoor decoration products in this series consist of fountains, waterfalls, figurine, statues, outdoor sculptures and flora pots used for garden, yard and landscape enhancement and decoration. Indoor crafts in this series consist of sculptures, seasonal ornaments and decorations and mini-figurines. The home decor products in the polyresin series range in various sizes from mini-figurines and seasonal ornaments used for indoor decoration purposes to statues and fountains for outdoor garden furnishing.

Porcelain series

The home decor products in this series are made of ceramics. Products in this series generally consist a wide range of creative design indoor crafts and decoration items, such as vases, candle stands, photo frames, figurines, sculptures, seasonal ornaments and decorations, utensils and washroom wares. Our porcelain home decor products are offered in different sizes to complement and furnish the surroundings of the users.

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Inorganic series

The home decor products of the inorganic series are generally made of fibre glass. Products in this series comprise of a broad type of indoor crafts and outdoor garden decoration products such as indoor/outdoor sculptures, fountains, figurines and patio furniture such as tables and stools for outdoor use.

The table below sets forth the breakdown of the revenue of our home decor products during the Track Record Period (with comparative figures for the six months ended 30 June 2012):

	For the year ended 31 December						For the six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
							(Unaudited)			
Polyresin series	317,583	56.7	343,912	61.3	342,989	64.5	160,901	65.0	136,923	57.4
Porcelain series	133,105	23.8	116,141	20.7	108,178	20.3	43,430	17.5	60,315	25.3
Inorganic series	108,901	19.5	100,892	18.0	81,001	15.2	43,402	17.5	41,289	17.3
Total:	559,589	100.0	560,945	100.0	532,168	100.0	247,733	100.0	238,527	100.0

The following table sets forth the sales volume of our three series of home decor products during the Track Record Period (with comparative figures for the six months ended 30 June 2012):

	For the year ended 31 December						For the six months ended 30 June			
	2010		2011		2012		2012		2013	
	piece		piece		piece		piece		piece	
	('000)	tonne	('000)	tonne	('000)	tonne	('000)	tonne	('000)	tonne
Polyresin series	54,535	20,753	20,043	18,602	7,002	18,687	3,928	8,624	2,174	6,838
Porcelain series	20,288	16,192	10,633	11,536	6,563	10,071	3,765	4,538	3,216	4,600
Inorganic series	1,222	13,002	880	10,684	615	8,719	307	4,472	389	4,456
Total:	76,045	49,947	31,556	40,822	14,180	37,477	8,000	17,634	5,779	15,894

Note: Sales of our home decor products were made in terms of pieces and the inclusion of sales volume in tonnes is for reference only.

PRODUCT DESIGN AND DEVELOPMENT CAPABILITIES

We place great emphasis on our design and development by offering a diversified range of products to our customers. We regularly conduct design and development of our products, focusing on offering high quality and stylish products to our customers.

Our product design and development are performed by two teams: our design team and technical team. Our design team is responsible for the artistic and visual design of the products, and our technical team is responsible for manufacturing and technical feasibility, safety assessments and quality control of the products. As of 30 June 2013, our design and technical team consisted of 120 staff.

Product design and development

Our product design and development process can be divided into three phases: (i) market assessment, obtain customer feedback and preferences; (ii) product drawing and visual design; and (iii) manufacturing and technical feasibility.

Market assessment, feedback and preferences

We have adopted a pro-active approach to consistently create new and varied designs to cater for the preferences of our targeted customers based on the market information collected as described below:

- *Obtaining feedback and preferences from our customers.* Our sales team communicates with our customers on a regular basis to collect their feedback on our products. Our sales team passes these feedback and information to our product designers and technical team to enable them to better understand the requirements and preferences of our customers and the market. The information will be set out in a development recommendation report prepared by the sales team and our technical team will conduct assessments on manufacturing and technical feasibility, safety and quality issues and budget. Our design and development staff will design new products and improve the existing products in response to the feedbacks of the customers.
- *Obtaining market information and trends.* Through our participation in trade exhibitions such as the Canton Fair (中國進出口商品交易會) and the China International Building Decorations and Building Materials (中國(北京)國際建築及材料博覽會), our design team will obtain information on market trends.
- *Collection of information from other sources.* Our product design and development staff also research various professional websites and publications to keep abreast with the up-to-date market information.

Product drawing and visual design

Based on the information collected from various sources, our designers formulate the artistic design of our products. For our electric fireplaces, our design team focuses on the artistic and visual design of the frames and the overall appearance of the products. For our home decor products, our design team focuses on the design with an aim to fit the customers' preferences. Our product design team also projects market trends and preferences and aims to develop new products for our customers.

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We also strive to improve our existing products regularly, in terms of artistic appearance and functionality. We target to extend the usage and forms of our products, such as manufacturing electric fireplaces with modern and simple design but of smaller sizes and lighter weight for mounting on walls.

Manufacturing and technical feasibility

Upon completion of the artistic design, our technical team assesses the manufacturing and technical feasibility of the products, including ensuring compliance with the relevant safety and quality standards. Samples or prototypes are produced in this phase. Both teams work closely to test the samples or prototypes and refine the design until it passes the relevant tests. The samples or prototypes are also shown to customers for selections, approvals and ordering. Our design and technical teams work closely to customise the prototypes/samples according to the customers' requirements. Our technical team also prepares a report on the raw materials and/or consumables required to manufacture the product. We then proceed to the procurement and the production of the products upon completion of this stage.

Compilation of industry standard in the PRC

In recognition of our strong technical and quality control capabilities, we were selected by the China Association for Engineering Construction Standardisation (中國工程建設標準化協會) in 2011 as the only electric fireplace manufacturer in the PRC to be involved in the drafting and compilation of the industry standard for electric fireplaces in the PRC with the China Institute of Building Standard Design and Research (中國建築標準設計研究院). The China Institute of Building Standard Design and Research (中國建築標準設計研究院) is currently the sole comprehensive enterprise for scientific research, design and technical service, covering national standards and code compilation and administration, national design drawing compilation and administration and conducting studies in various fields in the PRC, such as the construction field, building products application certificate of building products and building energy-saving technology. It also undertakes a number of research projects in the above fields for state and ministries in the PRC.

Cooperation with universities and technology enterprise

We aim to further strengthen our product design and development capabilities by cooperating with various universities and technology enterprise.

University of Shanghai for Science and Technology (上海理工大學)

We entered into a cooperation agreement with a validity period of one year with the University of Shanghai for Science and Technology (上海理工大學) in June 2013 to develop multi-functional electric fireplaces with air purification and air cooling functions. The cooperation agreement provides that the development of electric fireplaces with air purification and cooling functions must meet the specifications set out in the cooperation agreement and that all intellectual property rights, including design data, testing reports and any prototypes developed under the cooperation agreement shall belong solely to us. Pursuant to the cooperation agreement, we agreed to pay the University of Shanghai for Science and Technology (上海理工大學) an aggregate amount of RMB20.0 million, of which RMB3.0 million was paid on 17 June 2013 by our internal resources and the remaining balance will be financed by our internal resources, and shall be paid in instalments upon completion of the specified requirements. Further, all information and data relating to technology shall be kept confidential by all parties pursuant to the cooperation agreement.

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Our cooperation with a university in Fuzhou, Fujian Province

We entered into a cooperation agreement with a university in Fuzhou, Fujian Province in September 2012, pursuant to which both parties agreed to cooperate in the development of electric fireplaces. Our cooperation with the university aims to enhance our electric fireplaces with infrared heating technology. The university agreed to review our new electric fireplace proposals and provide technical support to upgrade and improve our electric fireplaces and is also responsible for providing relevant technical training and guidance to us. Pursuant to the cooperation agreement, the intellectual property rights created with respect to the new products shall solely belong to us. We successfully enhanced and launched a new model of infrared electric fireplaces in June 2013, which are more energy efficient. We paid an amount of RMB5.0 million to this university and our cooperation with this university ceased on 30 September 2013.

Technology enterprise

In January 2013, we entered into a cooperation agreement with a technology enterprise in the PRC for the design and development of mini portable electric fireplaces. We have agreed to pay to the technology enterprise an aggregate amount of RMB300,000, which shall be paid in instalments upon the completion of the specified requirements under the cooperation agreement and all information, including research results, processes and other technology information shall be kept confidential. Pursuant to the cooperation agreement, we have the right to register the intellectual property rights in respect of any resulting technology. The cooperation agreement is valid until December 2013.

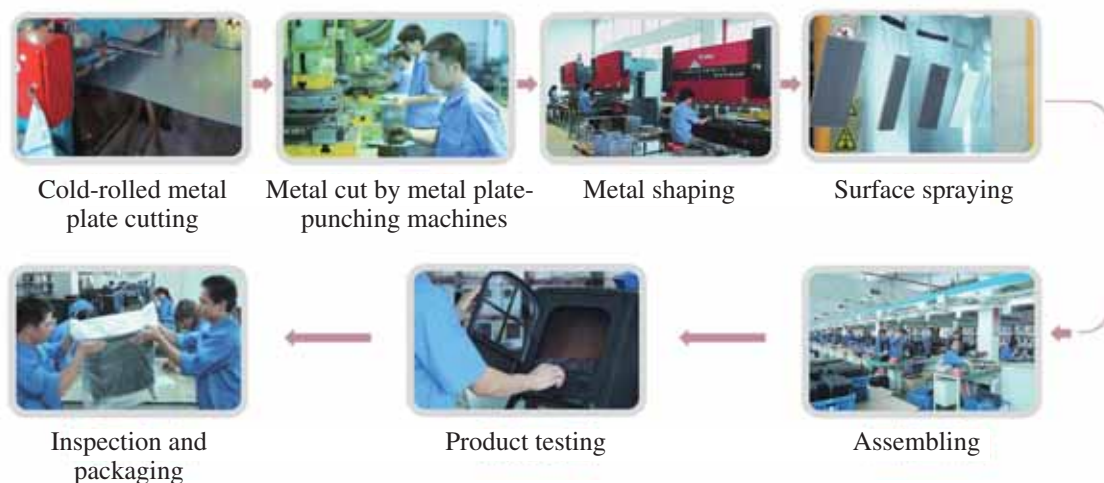
OUR PRODUCTION PROCESS

Generally, our production process is labour intensive. Our electric fireplaces are assembled and tested by our production and quality control staff. Since our home decor products involve craftsmanship, most of the production process (except for the heating and firing process of our porcelain series products) of our home decor products are carried out manually.

All our products are manufactured in our own production facilities. We had not outsourced any production process during the Track Record Period except for purchasing certain parts, electronic components and frames or mantels from third parties.

The diagrams below set forth the typical production process of our products:

Electric fireplace



The major raw materials used in the manufacturing of our electric fireplaces primarily consist of marble frames, wood for frames or mantels and cold-rolled steel plates. The key production process for our electric fireplace includes the following steps: The cold-rolled metal plates are cut according to the size and specification of the specific electric fireplace model. The metal plates are then further cut and shaped to the required shape by metal plate-punching and shaping machines and the surface is sprayed with powder coating. During the assembly process, various parts and components including electronic modules are assembled. Framed electric fireplaces are fitted with the respective inorganic, wood or natural stone frames. We conduct sample inspections on finished products before packaging for delivery. The average production lead time (being the time required to complete the above production process) is approximately seven days. Generally, the time from the confirmation of the sales order to delivery of our products is approximately two to three months.

Home decor products — Polyresin series



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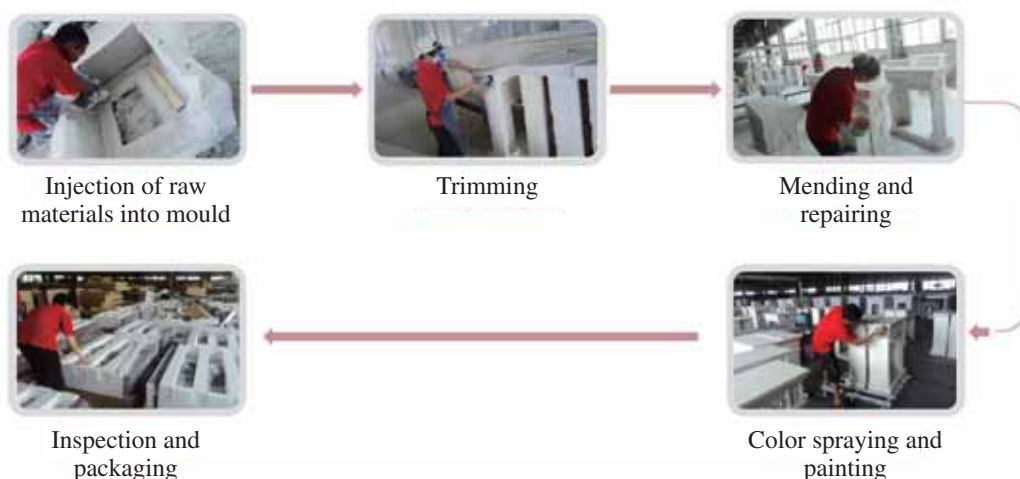
The major raw materials used in the manufacturing of our polyresin series home decor products primarily consist of polyresin and calcium powder. The key production process for our polyresin series home decor products includes the following steps: The mould of the individual product is first made according to the product design. Then, polyresin are mixed forming a mixture known as “pulp” which in turn is injected into the moulds where the products are cast. Thereafter, the products are trimmed and mended and manually sprayed and painted. We conduct sample inspections on finished products before packaging for delivery. The average production lead time (being the time required to complete the above production process) is approximately seven days. Generally, the time from the confirmation of the sales order to delivery of the products is approximately two to three months.

Home decor products — Porcelain series



The major raw materials used in the manufacturing of our porcelain series home decor products primarily consist of dolomite or clay. After the mould of the product is made, the clay mixture is injected into the mould where the products are cast. The products are then heated in a kiln and afterwards manually painted. After painting, the products are put inside a kiln for re-firing. Thereafter, the products are sprayed with glaze and then re-fired in a kiln. We conduct sample inspections on finished products before packaging for delivery. The average production lead time (being the time required to complete the above production process) is approximately seven days. Generally, the time from the confirmation of the sales order to delivery of our products is approximately two to three months.

Home decor products — Inorganic series



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The major raw material used in the manufacturing of our inorganic series home decor products consists of magnesium oxide (氧化鎂). The mould of the individual product is first made according to the product design. Then, raw materials are mixed and injected into the moulds where the products are cast. Pulp fibres are pasted and brushed on the surface of the products and the products are trimmed and mended according to the design. Thereafter, the products are manually sprayed and painted. We conduct sample inspections on finished products before packaging for delivery. The average production lead time (being the time required to complete the above production process) is approximately 14 days. Generally, the time from the confirmation of the sales order to delivery of our products is approximately two to three months.

PRODUCTION FACILITIES

As of the Latest Practicable Date, we had two production facilities located in Fujian Province, the PRC. We had a total of 1,979 production staff as of 30 June 2013.

Luojiang Production Facilities

Our Luojiang Production Facilities are located at Luojiang District, Quanzhou, Fujian Province, the PRC with a total gross floor area of approximately 40,561.1 square metres, which was established in early 2011. Our Luojiang Production Facilities are principally used for the manufacturing and assembly of our electric fireplaces and wood frames of our electric fireplaces. Prior to establishing the Luojiang Production Facilities, we used the Wan An Production Facilities located at Wan An of Luojiang District, Quanzhou, Fujian Province, the PRC for the manufacturing of our electric fireplaces. In 2008, the land on which the Wan An Production Facilities was located was subject to reclamation by the PRC government. As such, we relocated to our existing Luojiang Production Facilities with larger gross floor area and improved production capabilities in 2011.

	For the year ended 31 December			For the six months ended
	2010	2011	2012	30 June 2013
Effective designed capacity (<i>units</i>)				
(<i>Notes 1 and 2</i>)	226,200	268,950	277,500	132,275
Actual production volume (<i>units</i>)	63,263	154,313	239,908	147,330
Converted actual production volume				
(<i>units</i>) (<i>Note 3</i>)	61,473	123,888	208,843	121,806
Effective utilisation rate (<i>Note 4</i>)	27.2%	46.1%	75.3%	92.1%

Notes:

1. The effective designed capacity is estimated and actual production volume is calculated based on the manufacturing of the core of our electric fireplaces for our framed electric fireplaces and taking into account the difference in the manufacturing requirement for our non-framed electric fireplaces.
2. The effective designed capacity and effective utilisation rate in 2010 is estimated based on the Wan An Production Facilities.

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The effective designed capacity is estimated based on the designed capacity of the metal plate pressing and punching machine per hour multiplied by 12 working hours per day multiplied by 300 working days per year or 143 working days per first six-month period, taking into account the required maintenance time during the year, and divided by the number of metal plates that requires pressing and punching for each of the core of our electric fireplaces.

3. The converted actual production volume is calculated based on the manufacturing of the core of our electric fireplaces for our framed electric fireplaces and taking into account of the difference in the manufacturing requirement for our non-framed electric fireplaces and for the purpose of this prospectus, it is assumed that framed electric fireplaces are used as standardisation for all our electric fireplaces.
4. Effective utilisation rate is calculated by dividing the converted actual production volume by the effective designed capacity which is calculated based on the assumptions as disclosed above. The increase in the effective utilisation rate during the Track Record Period was primarily due to the increased sales and market demand of our electric fireplaces.

Expanded Luojiang Production Facilities

We are currently expanding our production capacity by constructing our Expanded Luojiang Production Facilities, which are adjacent to the existing Luojiang Production Facilities located at Luojiang District, Quanzhou, Fujian Province, the PRC. The Expanded Luojiang Production Facilities have a total site area of approximately 19,033 square metres and are expected to increase our production capacity of electric fireplaces by approximately 50,000 units per year. We expect that the construction of the Expanded Luojiang Production Facilities to be completed in mid-2014 and the capital expenditure for the Expanded Luojiang Production Facilities will be approximately RMB65.0 million, which will be funded by our internal resources. We expect to incur approximately RMB19.0 million for the purchase of the land, approximately RMB21.0 million for the construction of the production facilities building and dormitory and approximately RMB25.0 million for the purchase of production machinery and equipment. As of 30 June 2013, we incurred approximately RMB9.3 million on the Expanded Luojiang Production Facilities, which was mainly utilised for the purchase of the land.

Quangang Production Facilities

Our Quangang Production Facilities are located at Quangang District, Quanzhou, Fujian Province, the PRC with a total gross floor area of approximately 77,870.7 square metres, which were established in 2002. Our Quangang Production Facilities are principally used for the production of our home decor products and the inorganic frames of our electric fireplaces. Due to the different production processes involved in the three series of home decor products and the inorganic frames of our electric fireplaces, we have separate production facilities at our Quangang Production Facilities dedicated to manufacture products made from the different types of raw materials.

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Polyresin production facilities

As of 30 June 2013, our polyresin production facilities were equipped with 20 pulp mixing machines. The following table sets forth the utilisation rate of our polyresin production facilities:

	For the year ended 31 December			For the six months ended 30 June
	2010	2011	2012	2013
Effective designed capacity (<i>tonnes</i>)				
(<i>Note 1</i>)	36,000	36,000	36,000	17,160
Actual production volume (<i>tonnes</i>)	14,607	15,639	15,446	6,542
Effective utilisation rate (<i>Note 2</i>)	40.6%	43.4%	42.9%	38.1%

Notes:

1. The effective designed capacity is estimated based on the designed capacity of the pulp mixing machines per hour multiplied by 12 working hours per day multiplied by 300 working days per year or 143 working days per first six-month period, taking into account the required maintenance time during the year.
2. Effective utilisation rate is calculated by dividing the actual production volume by the effective designed capacity. The fluctuation in the effective utilisation rate of the polyresin production facilities was mainly due to (i) the increase in allocation of our resources in developing and promoting sales of our electric fireplaces during the Track Record Period; and (ii) the changes in general sales and market demand of our polyresin home decor products.

Porcelain production facilities

As at 30 June 2013, our porcelain production facilities were equipped with 1 set of grouting system. The following table sets forth the utilisation rate of our porcelain production facilities:

	For the year ended 31 December			For the six months ended 30 June
	2010	2011	2012	2013
Effective designed capacity (<i>tonnes</i>)				
(<i>Note 1</i>)	18,000	18,000	18,000	8,580
Actual production volume (<i>tonnes</i>)	13,129	10,880	9,494	4,422
Effective utilisation rate (<i>Note 2</i>)	72.9%	60.4%	52.7%	51.5%

Notes:

1. The effective designed capacity is estimated based on the designed capacity of the grouting system per hour multiplied by 12 working hours per day multiplied by 300 working days per year or 143 working days per first six-month period, taking into account the required maintenance time during the year.

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2. Effective utilisation rate is calculated by dividing the actual production volume by the effective designed capacity. The fluctuation in the effective utilisation rate of the porcelain production facilities was mainly due to (i) the increase in allocation of our resources in developing and promoting sales of our electric fireplaces during the Track Record Period and (ii) the changes in general sales and market demand of our porcelain home decor products.

Inorganic production facilities

As of 30 June 2013, our inorganic production facilities were equipped with 9 mixing machines. The following table sets forth the utilisation rate of our inorganic production facilities:

	For the year ended 31 December			For the six months ended 30 June
	2010	2011	2012	2013
Effective designed capacity (<i>tonnes</i>)				
(<i>Note 1</i>)	16,200	16,200	16,200	7,722
Actual production volume (<i>tonnes</i>)	13,125	12,764	13,362	6,540
Effective utilisation rate (<i>Note 2</i>)	81.0%	78.8%	82.5%	84.7%

Notes:

1. The effective designed capacity is estimated based on the designed capacity of the raw materials mixing machines per hour multiplied by 12 working hours per day multiplied by 300 working days per year or 143 working days per first six-month period, taking into account the required maintenance time during the year.
2. Effective utilisation rate is calculated by dividing the actual production volume by the effective designed capacity. The fluctuation in the effective utilisation rate of the inorganic production facilities was mainly due to (i) the increase in allocation of our resources in developing and promoting sales of our electric fireplaces during the Track Record Period and (ii) the changes in general sales and market demand of our inorganic home decor products but despite the general decline in the sales of our inorganic home decor products in 2011, we experienced a growth in the demand of inorganic electric fireplaces in 2012 and the six months ended 30 June 2013 which contributed to the increase in the effective utilisation rate of the inorganic production facilities for the year ended 31 December 2012 and the six months ended 30 June 2013.

The relatively lower utilisation rate of our Quangang Production Facilities was primarily due to the following:

- (i) the increase of our allocation of resources to develop and promote our sales of electric fireplaces during the Track Record Period which generally has a higher gross profit margin than our home decor products;
- (ii) our actual monthly production volumes varied substantially depending on the sales orders received and we generally allow a buffer for our production capacity to cope with higher production volume needs; and

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- (iii) our Directors consider that it would require additional resources and skilled labours to further develop and accommodate our sales of home decor products. In addition, due to the level of craftsmanship involved in the manufacturing of our home decor products which are carried out manually, particularly in the painting and mending processes in our production, if we are to increase the utilisation rate of our Quangang Production Facilities, our Directors consider that the labour costs involved in employing additional skilled labourers may affect our profit margin of home decor products.

Anhui Production Facilities

We continue to expand our production facilities to cater for our further development. Our Anhui Production Facilities is our new production facilities which is located in central China at Bengbu Hi-tech Industrial Zone, Bengbu, Anhui Province, the PRC. Our Directors believe that the Anhui Production Facilities will provide us with a gateway to the other areas of the PRC, and a location where the cost of direct labour is relatively lower. The Anhui Production Facilities is estimated to occupy a total gross floor area of approximately 137,000 square metres and will be primarily dedicated for the manufacturing of electric fireplaces.

We expect that the maximum annual production capacity at the Anhui Production Facilities will be approximately 300,000 units. The construction of the first phase of our Anhui Production Facilities is estimated to commence in December 2013 with an annual production capacity of approximately 100,000 electric fireplaces and be completed by mid-2014. The second phase with an annual production capacity of approximately 100,000 electric fireplaces is expected to commence construction in mid-2014 and will be completed by first quarter of 2015. We expect the third phase of our Anhui Production Facilities with an annual production capacity of approximately 100,000 electric fireplaces to commence construction in the second quarter of 2015 and will be completed by end of 2015.

We will apply our experience in the establishment and operation of our existing production facilities to the expansion plan of our Anhui Production Facilities. We plan to initially allocate experienced employees from our existing production facilities to manage the production, quality assurance, procurement and logistics, finance and administration functions of our Anhui Production Facilities in order to train the newly recruited local employees to manage our Anhui Production Facilities. We will also focus on sourcing raw materials needed for production at our Anhui Production Facilities, such as wood and cold-rolled metal plates, from local suppliers to take advantage of close proximity and to shorten delivery time. Our Directors believe that local supplies for our raw materials are readily available as our raw materials are not uncommonly used. We will leverage on our existing customers and develop new customers through sales and marketing efforts such as increasing advertising campaigns in Anhui Province and in nearby regions. A quality control system will be implemented at our Anhui Production Facilities which will be in line with the current quality control system at our existing production facilities. We strive to establish a comprehensive quality control system at our Anhui Production Facilities and implement quality control measures through our manufacturing process with an aim to meet recognised standards and requirements such as those of ISO 9001. We will also apply for certification under the China Compulsory Certification mark for our electric fireplaces manufactured at our Anhui Production Facilities. We will continue to market our Allen (亚伦) brand in various media channels and through participation in trade exhibitions to further develop and strengthen our brand recognition.

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Our Anhui Production Facilities will be equipped with a showroom, office building and design and development centre, staff dormitory and a logistic centre.

It is expected that the total capital expenditure required for our Anhui Production Facilities will be approximately RMB554.5 million. The table below sets forth the breakdown of the capital expenditure expected to be used for our Anhui Production Facilities:

	<i>RMB'000</i>	<i>RMB'000</i>
Land		115,500
Production facilities building		120,000
Staff dormitory		44,000
Office building and design and development centre		30,000
Showroom		40,000
Logistics centre		35,000
Design and development equipment		20,000
Production machinery and equipment		
<i>Production of wood frames and mantels:</i>		
Woodworking equipment	26,000	
Paint equipment	23,000	
Testing equipment	7,000	
Packaging equipment	2,000	
Other equipment (transformer, forklifts, etc.)	8,000	
<i>Production of electric fireplace core:</i>		
Assembly equipment	7,000	
Spraying equipment	6,000	
Metal plate processing equipment	57,000	
Welding equipment	2,000	
Conveyance equipment	6,000	
Testing equipment	4,000	
Ancillary production equipment	2,000	
	<hr/>	
<i>Subtotal</i>		<hr/> 150,000
 Total		 <hr/> <hr/> 554,500

In addition to the increase in production capacity, we also expect to increase our production capabilities and efficiency at our Anhui Production Facilities. We aim to increase our production capabilities and efficiency by installing automated production machinery and equipment for certain production process. In addition, we plan to install production machinery and equipment that will enable us to manufacture wood frames and mantels for our electric fireplaces that are high-end and larger in size.

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The new production machinery and equipment expected to be purchased in relation to our Anhui Production Facilities for the production of our electric fireplaces and wood frames are intended to consist of automated painting and spraying equipment, which we believe will enhance the application of the relevant surface paint or spray. We will also establish production lines for the production of our electric fireplace cores with processes, such as the spraying process and the shaping process, which we believe will increase our production efficiency. Our production process for wood frames and mantels will also be automated which will enhance our production efficiency. We believe that the new automated systems and production lines will reduce our direct labour costs and increase production efficiency at our Anhui Production Facilities. With the increasing standards and awareness of environmental protection in the PRC, our Anhui Production Facilities will be equipped with systems such as ventilation and temperature regulating systems that meet high environmental protection standards. In addition, we plan to further enhance the quality and safety of our productions by installing testing equipment and machinery and adding testing chambers for our products. We aim to offer electric fireplaces that meet national and international quality and safety standards. As such, we believe that our expansion plans for our Anhui Production Facilities will not only increase our production capacity, production capabilities and efficiency but also our quality and safety standard of products.

Given that a substantial amount of our capital expenditure will be invested in land, buildings and machinery and equipment, we expect that the implementation of our Anhui Production Facilities expansion plan will lead to an increase in depreciation which will be charged as cost of sales, administrative expenses and selling and distribution costs. During the construction period of our Anhui Production Facilities, we expect to incur significant cash outflow from investing activities. Furthermore, we also intend to finance part of the expansion plans through drawdown of additional banking facilities which may increase our cash flow from financing activities and bank interest expenses and payments. Upon the operation of our Anhui Production Facilities, we also expect our procurement of raw materials, utilities, administrative and other expenses to increase. We may need to hire additional employees for the production, management and other functions of our Anhui Production Facilities and our labour costs are expected to increase accordingly.

Our revenue from the sales of electric fireplaces, in particular to customers outside Fujian Province, are expected to contribute a larger portion to our total revenue. We expect this would have a positive impact on our overall gross profit margin as the gross profit margin from sales of electric fireplaces are relatively higher than those of home decor products and the selling prices of our products are generally determined without taking into consideration on the origin of production. However, at the same time, our overall revenue and profit margins will be more susceptible to the fluctuations of the sales volume, selling prices and gross profit margin of electric fireplaces. We expect that the increase of the aforesaid expenses will lead to an increase of our operation cash outflow. Nonetheless, we will strive to maintain a balanced cash flow from operating activities as we expect to have increased sales following our operation of the Anhui Production Facilities as we believe that the Anhui Production Facilities will provide us with a gateway to other regions of the PRC enabling us to reach and access a wider customer base as well as increased production capacity of electric fireplaces to satisfy expected market demands.

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No capital had been spent on our Anhui Production Facilities as of the Latest Practicable Date. We believe that the proceeds from the Global Offering earmarked for our Anhui Production Facilities will be sufficient to meet the majority of the costs in connection therewith, including the land costs and costs for purchase of equipment. We plan to use approximately HK\$375.1 million, approximately 53.7% of the total estimated net proceeds from the Global Offering (assuming an Offer Price of HK\$2.075 per 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) for the expansion of our Anhui Production Facilities. We will finance the shortfall with funds generated internally and/or from bank borrowings.

Major production machinery and equipment

Our production facilities are equipped with production machinery and equipment, including metal plate pressing and punching machines, metal shaping equipment and kilns. In general, our key production machinery and equipment have useful lives of approximately 10 years. Based on our experience, the useful lives may be extended with appropriate repair and maintenance. As of 30 June 2013, the average lives of our key production machinery and equipment for our electric fireplaces is approximately 2.7 years and the average lives of our key production machinery and equipment for our home decor is approximately 5.7 years. We expect to continue to upgrade our machinery and equipment to manage efficiency and increased production demands in the future.

Repair and maintenance

Our key production facilities generally operate around 12 hours a day. We generally conduct daily maintenance check and simple repairment of our key production machinery and equipment for both of our electric fireplaces and home decor products. Our major machinery maintenance for kilns is typically scheduled to take place during the Chinese New Year for approximately 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 in accordance with our internal standards to ensure efficiency. We formulate our repair and maintenance internal standards taking into account technical, engineering and other specific requirements and procedures set out in our operation manual for the relevant machinery and the relevant ISO standards. These measures are in place to avoid unexpected stoppage and maximise our production efficiency. During the Track Record Period, we did not experience any unexpected stoppage of operations as a result of failure of our production facilities.

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RAW MATERIALS AND MAJOR SUPPLIERS

Principal raw materials

The raw materials used in the production of our electric fireplaces primarily include marble frames, wood for the frames of the electric fireplaces and cold-rolled steel plates. The raw materials used in the production of our home decor products primarily include polyresin, clay and magnesium oxide.

The table below sets out the breakdown of our total purchase of raw materials during the Track Record Period:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Polyresin (樹脂)	78,788	21.9	77,283	20.2	74,123	16.9	35,382	18.2	31,034	13.6
Wood	22,195	6.2	8,864	2.3	26,020	5.9	6,678	3.4	26,982	11.9
Marble frames	46,279	12.8	47,268	12.3	55,619	12.7	19,004	9.8	23,430	10.3
Packing materials	25,557	7.1	29,640	7.7	34,095	7.8	13,405	6.9	18,643	8.2
Electronic components	11,491	3.2	22,234	5.8	28,289	6.4	9,866	5.1	18,255	8.0
Binding material (基料)	28,862	8.0	27,442	7.2	29,808	6.8	13,423	6.9	14,488	6.4
Paint	6,859	1.9	6,775	1.8	14,531	3.3	6,327	3.3	8,986	3.9
Cold-rolled steel plates (冷軋板)	2,036	0.6	6,351	1.7	9,718	2.2	2,459	1.3	6,841	3.0
Light powder (輕粉)	3,509	1.0	11,726	3.1	9,986	2.3	5,006	2.6	4,331	1.9
Dolomite (重質白雲土) or clay	14,426	4.0	12,471	3.3	8,911	2.0	4,452	2.3	4,278	1.9
Magnesium oxide (氧化鎂)	3,073	0.9	5,771	1.5	6,767	1.5	3,027	1.6	3,408	1.5
Calcium (重鈣粉)	3,982	1.1	3,974	1.0	3,671	0.8	1,830	0.9	1,764	0.8
Magnesium chloride (氯化鎂)	3,001	0.8	2,923	0.7	3,480	0.8	1,582	0.8	1,655	0.7
Others (Note)	110,373	30.5	120,727	31.4	134,203	30.6	71,502	36.9	63,531	27.9
Total:	360,431	100.0	383,449	100.0	439,221	100.0	193,943	100.0	227,626	100.0

Note: Others include water pumps, PVC tubes and other miscellaneous parts.

Procurement planning

Our procurement staff is responsible for the sourcing and purchasing of raw materials, other consumables and parts and components for our production needs. We purchase raw materials, consumables and parts and components on a centralised procurement basis to better manage our procurement process and to increase our bargaining power.

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We formulate our procurement plan and budget based on our sales orders. We generally maintain inventory level of around two weeks for certain raw materials commonly used in our production process to support our production needs. It is our policy that when we anticipate an increase in the raw material prices or a shortage of supply, we adjust our procurement plans accordingly to minimise our exposure to the fluctuations in prices and supply. During the Track Record Period, we experienced fluctuations of polyresin prices due to the fluctuation of crude oil prices.

Please refer to the section headed “Financial Information — Key factors affecting our results of operations — We may be subject to price fluctuation of raw materials used in our production” in this prospectus.

Our suppliers

We sourced all our raw materials, consumables and packaging materials from the PRC during the Track Record Period. Owing to location proximity and the advantage of shorter delivery time, approximately 68.8%, 64.7%, 72.5% and 71.7% of our purchases of raw materials were made from suppliers located in Fujian Province, the PRC for the three years ended 31 December 2012 and the six months ended 30 June 2013, respectively.

As of 30 June 2013, we had 231 qualified suppliers. For each type of our major raw materials and consumables, we generally have at least two suppliers to ensure a stable supply. As of 30 June 2013, four of our top five suppliers established business relationships with us for more than two years and one of the suppliers had business relationship with us for more than six years. To the best knowledge and belief of our Directors, our top five suppliers are principally engaged in the business of selling building materials, electronic equipment, hardware and crafts. Our suppliers generally grant us a credit term ranging from 30 to 90 days. During the Track Record Period, we principally settled payments with our suppliers in RMB by bank transfers and bills payable. All of our suppliers are Independent Third Parties.

We adopt strict procedures in selecting our suppliers. We may conduct on-site inspections of our suppliers, and review their background information and corporate documents, including their business licences. We also assess the suppliers based on their scale of operation, quality control system, prices, financial position and services provided. Having met our selection criteria, the supplier will become our qualified supplier. We also conduct evaluation of our suppliers on an annual basis, which include the stability and schedule of supply, production facilities, quality control system and the validity of their relevant licences.

During the Track Record Period, we did not experience any material disruption, dispute, shortage or delay in relation to the supply of our raw materials and other consumables and parts and components.

For the three years ended 31 December 2012 and the six months ended 30 June 2013, our purchases from 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. None of our Directors, their respective associates or any shareholders who, to the knowledge of our Directors, owns more than 5% of our share capital has any interest in any of these five largest suppliers.

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SALES AND MARKETING

The table below sets forth the breakdown of our sales to domestic and overseas customers during the Track Record Period (with comparative figures for the six months ended 30 June 2012):

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
PRC sales	624,565	83.1	672,923	83.7	840,960	86.8	355,610	89.5	451,152	91.3
Overseas sales										
– North America (note 1)	101,152	13.5	81,255	10.1	93,741	9.7	27,088	6.8	23,592	4.8
– European countries (note 2)	13,106	1.7	22,965	2.9	23,664	2.4	9,820	2.4	14,511	3.0
– Others (note 3)	12,996	1.7	26,929	3.3	10,661	1.1	5,011	1.3	4,636	0.9
Sub-total:	127,254	16.9	131,149	16.3	128,066	13.2	41,919	10.5	42,739	8.7
Total:	751,819	100.0	804,072	100.0	969,026	100.0	397,529	100.0	493,891	100.0

Notes:

1. Includes the U.S. and Canada.
2. Mainly includes the United Kingdom, Ireland, Holland, Norway, Belgium, Denmark, Spain, Sweden, France, Germany and Finland.
3. Mainly includes Hong Kong, Taiwan, Australia, Japan, Chile and Russia.

PRC sales

We derived a significant portion of our revenue from PRC sales. 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% of our total revenue as compared with approximately 89.5% of our total revenue for the six months ended 30 June 2012. All our PRC sales are sold under our Allen (亚伦) brand.

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The following table sets forth the breakdown of our sales to PRC customers by our sales region during the Track Record Period with comparative figures for the six months ended 30 June 2012:

	For the year ended 31 December						For the six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Eastern China										
(note 1)	329,218	52.7	363,164	54.0	462,779	55.0	196,624	55.3	261,913	58.1
Southwestern China										
(note 2)	122,233	19.6	128,511	19.1	174,705	20.8	73,680	20.7	82,047	18.2
Northern China										
(note 3)	108,547	17.4	106,689	15.9	121,264	14.4	48,566	13.7	60,498	13.4
Northeastern China										
(note 4)	38,455	6.2	49,217	7.3	52,244	6.2	22,709	6.4	27,352	6.1
Central China										
(note 5)	22,731	3.6	21,757	3.2	29,968	3.6	14,031	3.9	19,342	4.2
Northwestern China										
(note 6)	3,381	0.5	3,585	0.5	–	–	–	–	–	–
Total:	624,565	100.0	672,923	100.0	840,960	100.0	355,610	100.0	451,152	100.0

Notes:

1. Eastern China includes Fujian Province, Shanghai, Jiangsu Province and Zhejiang Province.
2. Southwestern China includes Chongqing, Sichuan Province, Guangdong Province and Yunnan Province.
3. Northern China includes Beijing, Shanxi Province, Gansu Province, Inner Mongolia, Shandong Province, Hebei Province and Tianjin.
4. Northeastern China includes Jilin Province, Heilongjiang Province and Liaoning Province.
5. Central China includes Jiangxi Province, Henan Province, Anhui Province and Hunan Province.
6. Northwestern China includes Xinjiang.

Overseas sales

We generally sell a portion of our products to overseas customers in countries such as the United States, Germany, the United Kingdom, Canada, France, Australia, Taiwan and Japan, on an ODM/OEM basis under the brands of our ODM/OEM customers or no specific brands. For the three years ended 31 December 2012, our overseas sales accounted for approximately 16.9%, 16.3% and 13.2% of our total revenue, respectively. For the six months ended 30 June 2013, our overseas sales accounted for approximately 8.7% of our total revenue as compared with approximately 10.5% of our total revenue for the six months ended 30 June 2012. Almost all of our overseas sales were made on ODM basis.

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Upon specific requests of our customers, we may be required to comply with relevant product safety and quality standards with respect to the manufacturing of products, such as the safety and hazardous materials used in the production and packaging and labelling requirements.

Our products sold to overseas market are transported under FOB (free on board) basis. Under such arrangement, we are responsible for arranging the delivery of our products from our production facilities to specified ports in the PRC. As confirmed by our PRC Legal Adviser, according to the International Commercial Terms (INCOTERMS) issued by the International Chamber of Commerce (ICC), the risks of loss or damage of goods transported under FOB basis pass to the buyer when the goods are on board of the vessel, and the buyer bears all costs from that moment onwards.

Our ODM and OEM sales

For details on our ODM and OEM sales under our business model, please refer to the paragraphs headed “Our business model — ODM sales” and “Our business model — OEM sales” in this section, respectively. Our Directors believe that our ODM business brings us overseas management experience, which we believe will improve our management efficiency and product quality. We consider that our OEM business as an supplementary to our business model and we do not have any current plans to further expand our OEM business.

Our customers

During the Track Record Period, we sold our products directly to our customers. We recognise revenue from the sale of our products when they are delivered to our customers. Our customers include trading entities, retail companies and individuals, all of which are Independent Third Parties.

The table below sets forth our revenue breakdown by customers during the Track Record Period (with comparative figures for the six months ended 30 June 2012):

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(Unaudited)									
Trading entities	611,153	81.3	652,091	81.1	832,711	85.9	338,111	85.1	434,459	88.0
Retail companies	140,666	18.7	151,981	18.9	135,752	14.0	59,414	14.9	59,288	12.0
Others (note)	—	—	—	—	563	0.1	4	—	144	—
Total:	<u>751,819</u>	<u>100.0</u>	<u>804,072</u>	<u>100.0</u>	<u>969,026</u>	<u>100.0</u>	<u>397,529</u>	<u>100.0</u>	<u>493,891</u>	<u>100.0</u>

Note: Others refer to sales to individuals that were made on an occasional basis.

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For the three years ended 31 December 2012 and the six months ended 30 June 2013, sales to our five largest customers accounted for approximately 29.5%, 25.3%, 24.3% and 26.1% of our total revenue, respectively, and sales to our largest customer accounted for approximately 8.1%, 6.1%, 6.0% and 7.0% of our total revenue, respectively. None of our Directors, their associates or any shareholders who, to the knowledge of our Directors, owns more than 5% of our share capital has any interest in any of these five largest customers.

Trading entities

Our products are mostly sold to companies in the PRC and overseas with a small portion sold to individuals. During the Track Record Period, the majority of our trading entity customers are based in the PRC. As of 30 June 2013, we had 103 trading entity customers. To the best knowledge of our Directors, (i) our trading entity customers further sell our products to their customers including decoration engineering companies, property construction companies and retailers of home decoration materials; (ii) majority of our trading entity customers are principally engaged in the trading business and some of them are also engaged in landscape design and refurnishing and they purchase our products after they receive purchase orders from their own customers and (iii) our trading entity customers generally do not maintain inventory of our products.

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. To the best knowledge of our Directors, our trading entity customers further sell our products to customers primarily in the PRC and our trading entity customers may also sell a small portion of our products to their overseas customers predominantly in North America and Europe where our own customers are also located in. Through the communication between our sales staff and our customers, we may also gather more information on the onward sales of our trading entity customers including the general location of their overseas customers in order to prevent infringement of third party intellectual property rights. We will also procure our trading entity customers to ensure that their onward sales of our products comply with the relevant safety requirements and standards in the jurisdiction they export to. We only maintain insurance on products sold in the PRC and not on products sold overseas. For details on the risks relating to product liability claims, please refer to the section headed “Risk Factors — Risks related to our business — 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” in this prospectus.

While we are not able to totally eliminate the possibility of any product liability and intellectual property rights infringement claims, we have strictly followed and produced our products in accordance with the relevant safety requirements and standards in the jurisdiction our products are sold and exported. Our designers are required to produce and create the designs of our products on their own. We also collect from the market and closely communicate with our trading entity customers on any negative feedbacks and potential claims in relation to product liability and infringement of third party intellectual property rights, and will promptly take appropriate rectification actions as far as practicable.

To the best knowledge of our Directors, we were not subject to any product liability or intellectual property infringement claims in the countries where our products were exported to and also in relation to those onward sales made by our trading entity customers during the Track Record Period and up to the Latest Practicable Date.

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Framework agreements entered with certain of our trading entity customers

In order to further promote and enhance our Allen (亚伦) brand, we encourage some of our major trading entity customers to open showrooms under our Allen (亚伦) brand and these showrooms are generally with an area of less than 500 square metres. Under the framework agreements entered into with these trading entity customers, we grant to them the right to sell our products in a designated region on a non-exclusive basis for a period of three years. We are not involved in the operation of these showrooms and our trading entity customer are responsible for all expenses in relation to the establishment and furnishing of the showrooms. In order to maintain a consistent image, these showrooms are to be decorated in accordance with our design specifications. Pursuant to the framework agreements, the trading entity customers are prohibited from operating showrooms that sell any products that compete with our products. A penalty may be imposed on the trading entity customers if there is any breach or occurrence of prohibited activity. These customers generally purchase both our electric fireplace and home decor products and we will provide product knowledge training to the staff of these customers.

No minimum purchase amount is stipulated in the framework agreements and, to the best knowledge of our Directors, our trading entity customers generally purchase from us on an order by order basis. To maintain a consistent pricing policy, our customers are not allowed to sell our products lower than the prices recommended by us. Our customers are generally allowed to formulate their own marketing and promotion policies for our products. We do not accept return of our products unless the requests for return of our products are due to quality problems. The title and risk of our products are passed to our customers upon delivery of the goods.

Our trading entity customers are responsible to provide after-sale services to their own customers. Subject to the relevant purchase receipts of end customers and warranty documents provided by our trading entity customers, we generally assist in purchasing the parts and components for replacements, and our trading entity customers and their own customers are responsible for such replacement fees.

We conduct review of the usage of our brand and adherence to the terms of the framework agreements by our trading entity customers. Should there be any non-compliance on the part of our trading entity customers, we will give them a warning and will withdraw their rights to open showrooms under our brand and cease to sell them our products if they fail to rectify the wrongdoings. Pursuant to the framework agreements, we will also conduct marketing and promotion activities to promote our brand in order to support our trading entity customers.

In the event that our customers fail to pay for our products timely, we are entitled to terminate the agreement, request for a return of our products and claim for all damages. The framework agreements do not expressly provide for any profit sharing arrangement or termination without cause. Other than the penalty that may be imposed on the trading entity customers for prohibited activities, there are no other penalty clauses for breach of the framework agreements.

We believe that the framework agreements allow our customers to establish showrooms under our Allen (亚伦) brand to showcase our products which will promote our brand recognition and our corporate image. Apart from the obligations relating to the decoration of showrooms in accordance with our design specifications and selling our products at prices not lower than our recommended prices, we are not involved in any sales of our products by our customers. We also do not control their daily sales activities. As of 30 June 2013, we entered into 20 framework agreements with our trading entity customers located in Fujian, Guangdong, Sichuan, Anhui, Henan, Zhejiang, Shaanxi, Jiangxi, Jiangsu, Liaoning, Hunan Provinces and Chongqing, Shanghai and Beijing. During the Track Record Period, there was one trading entity customer that did not renew the framework agreement with us upon its expiry.

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Our PRC Legal Adviser has confirmed that these framework agreements are valid and legally binding on the parties to the agreements and are enforceable under the PRC laws within the term of validity.

Retail companies

We sell our products to retail companies in the PRC and overseas. As of 30 June 2013, we had 15 retail company customers and majority of these retail customers are based in overseas. Our retail company customers generally operate department stores, supermarkets or hypermarkets that sell building materials or home decor products. Our retail company customers are principally engaged in the retail business, and they further sell our products to the end users through their own retail networks.

The following table sets forth the number and movement of each type of our customers during the Track Record Period:

	Trading entities (note 1)	Retail companies (note 1)	Others (note 2)
As of 1 January 2010	37	11	–
Addition during the year	24	10	–
Reduction during the year	–	–	–
As of 31 December 2010	<u>61</u>	<u>21</u>	<u>–</u>
As of 1 January 2011	61	21	–
Addition during the year	15	3	–
Reduction during the year	–	–	–
As of 31 December 2011	<u>76</u>	<u>24</u>	<u>–</u>
As of 1 January 2012	76	24	–
Addition during the year	50	5	14
Reduction during the year	(11)	(1)	–
As of 31 December 2012	<u>115</u>	<u>28</u>	<u>14</u>
As of 1 January 2013	115	28	14
Addition during the period	19	–	2
Reduction during the period	(31)	(13)	(13)
As of 30 June 2013	<u>103</u>	<u>15</u>	<u>3</u>

Notes:

1. We generally sell our products on an order-by-order basis, and hence do not enter into any long-term framework agreements with our customers. The reduction of customers in 2012 and 2013 was mainly due to customers that did not place recurring orders with us during the relevant year/period for reasons, to our best knowledge and belief, including the commercial consideration of these customers and/or the availability of alternative suppliers other than us. We confirm that the reduction of customers in 2012 and 2013 were not due to material commercial disputes.

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2. Others refer to sales to individuals that were made on an occasional basis.
3. Customers of branches or group companies of the same group are counted as one customer.

Sales strategy

Our sales and marketing team is responsible for developing new customers and maintaining relationship with existing customers. As of 30 June 2013, our sales and marketing team comprised 40 staff and is headquartered in Luojiang Production Facilities. During the Track Record Period, we sold directly to our customers. Our sales staff communicate with our customers on a regular basis and obtain their feedback on the quality, preferences and requirements of our products. Based on these information, our design and development team develops and improves our products to meet customers' demands and expand our customer base.

Marketing and promoting

We market our products as quality products with artistic designs. We aim to develop products that are both functional and visually appealing to customers to supplement and reflect their furnishing styles. Our goal is to offer home decor products with added functionality and in order to further cultivate a comfortable lifestyle. We also aim to develop products that enhance the quality of living and our surroundings.

We will continue to market our Allen (亚伦) brand through our dedicated sales and marketing team. During the Track Record Period, we promoted our Allen (亚伦) brand in various media channels such as advertising in trade magazines, billboards and participating in trade exhibitions such as the Canton Fair (中國進出口商品交易會) and the China International Building Decorations and Building Materials (中國(北京)國際建築及材料博覽會). We intend to strengthen market recognition of our Allen (亚伦) brand to enhance our corporate profile through continuous employment of various media channels. We will also further promote our Allen (亚伦) brand by establishing online sales channels, such as opening online shop(s) on popular internet trading platforms. Such online shop(s) is/are expected to serve the primary function of online advertising and display of our products. In addition, we may also provide specialty products that are available exclusively through our such sales channels. We target to develop and build our Allen (亚伦) brand as a notation for home products with creative design and functionality to provide a comfortable home and living atmosphere and culture.

We also prepare and regularly update our product catalogues and brochures featuring our new products. Such catalogues and brochures are distributed to our existing customers as well as to potential customers.

After-sales services

Our sales staff communicate with our customers to collect their feedback on the quality, preferences, improvements and market demands of our products. Our sales team exchanges this information collected with the product design and development team with an aim to develop new products and improve our existing products.

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We generally provide product warranty for our electric fireplaces for a period of one year. For further details of our legal obligation on product liability, please refer to the section headed “Summary of Principal Legal and Regulatory Provisions” in this prospectus. Under the arrangement with our customers, our customers are responsible for providing repairs and servicing to end-users and we provide a service hotline for end-users to contact us should they have further issues or concerns. We also provide after-sales training on our electric fireplaces to new customers in relation to the installation, basic maintenance and other product knowledge. The customers are responsible for providing after-sales services to their own customers. While we typically allow our customers to exchange defective products, we generally do not accept return of non-defective products from our customers.

During the Track Record Period, we did not incur any warranty expense, make any provision for warranty or receive any customer complaints and request for product exchange owing to product quality and defects which were material to our business.

Pricing strategy

Our pricing strategy takes into account various factors including market prices, raw material costs, production costs, packaging requirements, effect of exchange rate for overseas sales and our business plans and objectives. We generally price our home decor products at cost plus profit margin basis. For our electric fireplaces, we also price them at cost plus profit margin basis but there is less flexibility in adjusting for raw material costs. Fluctuations in the price of our raw materials may also affect our production cost. We continuously monitor the price movements of our raw materials and adjust the prices of our products accordingly.

For the prices of our products including highest, lowest unit prices and average selling prices, please refer to the section headed “Financial Information — Principal income statement items — Pricing” in this prospectus.

Credit period and payments

Our sales managers, sales director and financial director are responsible for assessing the credit risk of our new customers to determine their credit period and credit limit (if any). We have adopted credit approval and assessment procedures for our customers. At the beginning of each year, our sales department will evaluate our customers’ payment records and the evaluation results are submitted for review by our sales director and financial director. Before delivery of our products to customers who have not yet fully paid for the products, our head of finance department or finance controller will review such customer’s credit limit. If the purchase amount exceeds the credit limit of such customer, additional approval are sought from our sales director and chief executive and factors including the financial status, payment history and market position of such customer may be considered before approvals are given. Our sales team also reconciles the receivable balance with the transaction amounts of respective customers and provide report on receivables to our sales managers on a monthly basis.

We generally grant an average credit period of 60 days to our domestic customers and an average credit period of 90 days to our overseas customers based on factors such as their scale of operations, business relationship with us and historical payment records. We may, however, consider extend the credit period for certain customers on a case-by-case basis. Our domestic customers generally settle our payments by bank transfer in RMB. Our overseas customers mainly settle our payments in U.S. dollars by

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way of bank transfer. During the Track Record Period, the payment received by us in U.S. dollars accounted for approximately 12.0%, 16.3%, 11.2% and 8.8%, respectively, of the total payments we received. We have not adopted any arrangement to hedge any fluctuation in the foreign currency in relation to our overseas sales during the Track Record Period.

Delivery and logistics

Delivery of our products to our domestic customers are made by road transit. We have appointed third party logistic service providers to deliver our products from our production facilities to locations specified by our domestic customers. Pursuant to the agreements entered with the third party logistic service providers, the logistics service providers are responsible for any product damage caused during delivery. During the Track Record Period, 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, respectively.

Products sold to overseas customers are principally delivered on free on board (FOB) basis. We are responsible for arranging the transportation from our production facilities to a specified port in the PRC and as confirmed by our PRC Legal Adviser, according to the International Commercial Terms (INCOTERMS) issued by the International Chamber of Commerce (ICC), the risks of loss or damage of goods transported under FOB basis pass to the buyer when the goods are on board of the vessel, and the buyer bears all costs from that moment onwards. We outsource to third party logistics service providers to deliver our products from our production facilities to the port of shipment. Pursuant to the logistics agreements, the third party logistics service providers are responsible for all damage and loss caused in the course of delivery to the port of shipment.

We did not experience any material disruption or damage to our products in the delivery of our products during the Track Record Period.

Seasonality of sales of our electric fireplaces

We generally observe a seasonal pattern in the purchasing of our electric fireplaces by our customers. Specifically, peak season for our electric fireplaces fall in the second half of the year as we believe consumers purchase electric fireplaces in anticipation of the cold weather and Chinese consumers also prefer to finish furnishing their homes before the Chinese New Year. As such, decoration engineering companies and property construction companies generally order more electric fireplaces from us in the second half of the year. Despite this seasonality pattern, we do not particularly offer any discount sales during the low season. As such, there is not much difference in the selling prices and profit margins of our electric fireplaces during the peak season and low season.

INVENTORY MANAGEMENT

Our inventory comprises mainly of raw materials, work in progress and finished products. We have designated staff to track raw materials and finished products to systematically manage our inventory and conduct stock count on our inventory twice a year.

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Raw materials

We closely monitor our inventory of raw materials and our raw materials are generally maintained on a first-in-first-out basis. We have also taken the following measures to reduce the risk of inventory obsolescence: (i) conduct quality and quantity checks on the materials before acceptance for storage; (ii) timely adjustments to our procurement plans in case of any changes in the market conditions which affects our sales plan; and (iii) monitor our inventory records through regular reviews and physical inspections. In addition, our procurement staff work closely with our technical team and production staff to formulate our procurement plan and budget.

Some of our raw materials, such as polyresin and clay, are placed in our storage facilities with specific temperature and humidity. Some of our raw materials comprise of hazardous chemicals and substances, and we place these raw materials in separate warehouses for the purpose of managing and safeguarding the raw materials in a standardised and safe manner.

Finished goods

As we manufacture our products after receipt of sales orders, we generally do not maintain a high level of inventory for finished goods.

QUALITY CONTROL

We emphasise quality control over our products and have implemented a comprehensive quality control system. As of 30 June 2013, we had 34 staff responsible for quality control. We have implemented quality control measures throughout our manufacturing process. Our quality control managers are in charge of the overall quality control of our production. They are mandated to identify any quality control issues and provide solutions to the production team to address the quality control issues. Our production team with our quality control staff are tasked with examination and quality control of our products at each key stage of production to ensure that the quality of our products is satisfactory. Members of our production team and quality control staff are trained by the technical team to detect certain quality control issues. During the Track Record Period, the average defective rate of quality control tests was approximately 2%.

Raw materials inspection

We conduct sample inspections of the raw materials we purchase to ensure the quality of raw materials. We have adopted the “Incoming Quality Control” standard in inspecting our raw materials. Our quality control team conduct sample tests on the raw materials and parts and components we purchase from our suppliers. Defective or sub-standard raw materials and consumerables will be returned to our suppliers, and only qualified raw materials will be used for production. In respect of our procurement of wood materials, our staff inspects the relevant valid licence of our suppliers for sales and trading of wood materials and lumber. We also conduct annual evaluations on our wood material suppliers to ensure that their relevant permits are valid and the results of the evaluations are submitted to procurement managers for review.

Production process inspection

Our quality control team and production team verify and examine each key production stage to ensure conformity with specific quality control standards.

Safety and performance tests are also conducted throughout the production process and on the finished products before packaging. In the production of our home decor products, quality control is conducted manually by our production team and quality control staff in each stage of production and on the finished goods to ensure the quality of the craftsmanship.

The finished products must pass AQL (Accepted Quality Limit) inspection before packaging. Due to the fragility of some of our finished products, they are packaged in accordance with specific packaging standards and requirements. Before our products are delivered to customers, sample checks will also be conducted.

To ensure that our electric fireplace products comply with the relevant standards, we send sample products to third party testing centres, including those testing centres operated by multi-national groups specialising in product safety quality inspection to examine whether our products can satisfy the relevant standards. Our electric fireplaces bear the “ETL” and “CSA” marks as proof of product compliance with the safety standards in North America and Canada, respectively. In addition, our electric fireplaces also carry the “CE” and “GS” marks to show that they meet the safety standards required for products sold in Europe and Germany, respectively. Our electric fireplace products sold in the PRC are required to comply with the safety and quality standards under the China Compulsory Certification (中國強制性認證) administered by the Certification and Accreditation Administration of the PRC (國家認證認可監督管理委員會), and our home decor products are required to pass the tests of hazardous substances upon requests of our certain overseas customers. We are in the process of applying our electric fireplaces to be recognised as a State-Designated Product Exempted from Quality Inspection (國家免檢產品).

To our best knowledge and belief, our products have complied with all relevant product safety and quality laws in the PRC and countries to which we exported as we have obtained the applicable and relevant certifications in relation to the product quality and safety standards of our products with respect to the PRC and the countries to which we export to. We were not aware of any claims by the end-consumers of our products in relation to any defects and safety of our products during the Track Record Period.

In recognition of our quality control management system, we have obtained the ISO 9001 certification.

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AWARDS AND CERTIFICATIONS

Awards

The following table sets forth the major awards received by us:

Date of grant	Award/Certification	Issuing authority/institution
September 2009	Advanced Private Enterprise (先進民營企業)	Department of Human Resources and Society Securities (人力資源和社會保障部), All China Federation of Trade Unions (中華全國總工會) and China Federation of Industry (中華全國工商業聯合會)
December 2010	Well-known Enterprise of Fujian Province (福建省企業知名字號)	Administration of Industry and Commerce of Fujian Province (福建省工商行政管理局)
December 2010	China Industry Leading Enterprise (中國工業行業排頭兵企業)	China Industry News (中國工業報社)
April 2011	Electric Fireplace Leading Brand in China (中國電壁爐市場領軍品牌)	China Industrial Association of Industrial Economics Research Centre (中國產業報協會產業經濟調研中心) and China Competitiveness Forum Summit Organising Committee (中國競爭力論壇峰會活動組委會)
August 2011	2011 China Light Industry Exhibition Excellence Award (2011年中國輕工精品展精品獎) (in respect of our “noble series” (小貴族系列) electric fireplaces)	China National Light Industry Council (中國輕工業聯合會) and China Gift Association (中國禮儀用品工業協會)
November 2011	Well-known Trademark of the PRC (中國馳名商標) (in respect of our home decor products)	State Administration for Industry and Commerce (國家工商行政管理總局)
December 2011	Fujian Famous International Brand (福建國際知名品牌)	Fujian Provincial Department of Foreign Trade and Economic Cooperation (福建省對外貿易經濟合作廳)
December 2011	Fujian Famous Export Brand for Priority Cultivation and Development (福建省重點培育和發展的國際知名品牌)	Fujian Provincial Department of Foreign Trade and Economic Cooperation (福建省對外貿易經濟合作廳)

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Date of grant	Award/Certification	Issuing authority/institution
February 2012	2011 China Building Energy-saving Innovative Recommended Brand (2011中國建設節能減排創新技術推薦品牌)	China Building Energy Saving Industry Alliance (中國建築節能減排產業聯盟) and China Urban Housing Industry Council (中國城市住宅產業理事會)
December 2012	Famous Trademark of Fujian Province (福建省著名商標) (in respect of our electric fireplaces)	Administration for Industry and Commerce of Fujian Province (福建省工商行政管理局)

Certifications

The following table sets forth the major certifications received by us:

Date of grant	Recipient	Certification	Issuing authority/organisation	Period of validity	Relevance	Criteria of assessment
14 June 2011	Fujian Allen (Electric Fireplace Model No. EA1101, EA1102, EA1103)	“ETL” Authorisation to Mark	Intertek Testing Service NA Inc.	N/A	Proof of product compliance with North American safety standards	Assessed in accordance with accepted national standards
22 December 2011	Fujian Allen (Fireplace Model No. EA0015, EA1105, EL0015, EL1105)	Certificate of Conformity (CE)	SGS-CSTC	N/A	Mandatory conformity marking for certain products sold in the European Union	Assessed in accordance with applicable product directives
10 January 2012	Fujian Allen (Electric Fireplace Model No. EA0015)	Certificate of Conformity (CE)	SGS-CSTC	N/A	Mandatory conformity marking for certain products sold in the European Union	Assessed in accordance with applicable product directives

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Date of grant	Recipient	Certification	Issuing authority/ organisation	Period of validity	Relevance	Criteria of assessment
28 March 2012	Fujian Allen (Indoor heater (Electric Fireplace) Model No. EA0056A, EA0061A, EA0062A, EA0057A, EA0058A, EA1106A, EA1106B, EA1106C, EA1106D)	China Compulsory Certification	China Quality Certification Centre	28 March 2012 to 28 March 2017	Compulsory safety mark for certain domestically manufactured and imported products in the PRC	Assessed in accordance with relevant standards set forth by the Certification and Accreditation Administration of the PRC
5 June 2012	Fujian Allen (Electric Fireplace Model No. EA1118A, EA1118B)	“ETL” Authorisation to Mark	Intertek Testing Service NA Inc.	N/A	Proof of product compliance with North American safety standards	Assessed in accordance with accepted national standards
21 June 2012	Fujian Allen (Fireplace Model No. EA0001, EA0002, EA0003, EA0045, EA0046, EA1101, EA1102, EA1103, EA0068, EA1102RC, EA0029, EA0030)	Certificate of Conformity (CE)	SGS-CSTC	N/A	Mandatory conformity marking for certain products sold in the European Union	Assessed in accordance with applicable product directives
22 June 2012	Fujian Allen (Electric Fireplace Model No. EA0015 (83035000), EA0015P)	“ETL” Authorisation to Mark	Intertek Testing Service NA Inc.	N/A	Proof of product compliance with North American safety standards	Assessed in accordance with accepted national standards

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Date of grant	Recipient	Certification	Issuing authority/ organisation	Period of validity	Relevance	Criteria of assessment
24 August 2012	Fujian Allen (Electric Fireplace Model No. EA0107)	“ETL” Authorisation to Mark	Intertek Testing Service NA Inc.	N/A	Proof of product compliance with North American safety standards	Assessed in accordance with accepted national standards
4 September 2013	Fujian Allen (Indoor heater (Electric Fireplace) Model No. EA0015, EA1105, EL0015, EL1105)	China Compulsory Certification	China Quality Certification Centre	4 September 2013 to 4 September 2018	Compulsory safety mark for certain domestically manufactured and imported products in the PRC	Assessed in accordance with relevant standards set forth by the Certification and Accreditation Administration of the PRC

COMPETITION

Generally, market players in the electric fireplace industry are competing in aspects of quality of products, brand recognition and energy efficiency. According to the Frost & Sullivan Report, the ability to produce electric fireplaces with artificial flame so realistic that it can substitute traditional fireplaces burning coal, wood or natural gas is essential for an electric fireplace. As such the technology and design capabilities are important factors in distinguishing high-end and low-end products.

For the electric fireplace market, we mainly compete with other PRC enterprises engaging in the production of electric fireplaces. Some of these enterprises have been established for more than 10 years and they have a wide domestic sales network and are widely recognised in the overseas markets. We believe that we compete favourably with other manufacturers of electric fireplaces based on our brand recognition, our ability to offer framed electric fireplaces in a variety of different styles, and our focus on the safety and quality control of our electric fireplaces. For further information on the competitive landscape of the electric fireplace market in the PRC, please refer to the section headed “Industry Overview — Competitive landscape of the PRC electric fireplace industry” in this prospectus.

According to the Frost & Sullivan Report, manufacturers of home decor products compete in aspects of designs, creativity, brand recognition and customisation services. The gardening decoration and indoor crafts market is highly fragmented with low entry barriers.

For the home decor products market, we are positioned in the first tier market (first tier market includes manufacturers with revenue over RMB100.0 million) according to the Frost & Sullivan Report. The first tier market accounts for approximately 5.0% of the PRC market share in terms of revenue in 2012. In the PRC, our main competitors are PRC enterprises in the gardening decoration and indoor crafts industry. However, we believe that we compete favourably with them based on our capabilities in design and creativity, our ability to offer a wide and diversified range of products and ability to manufacture

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decoration items with quality craftsmanship. Please refer to the section headed “Industry Overview — Gardening decoration and indoor crafts market — Competitive landscape of PRC gardening decoration and indoor crafts industry” in this prospectus for further information on the competitive landscape of the home decor products market in the PRC.

INTELLECTUAL PROPERTY

We regard the goodwill residing in our Allen (亚伦) brand as our valuable asset. We believe that our trademarks and other intellectual property rights are critical to our success. We rely on a combination of laws and regulations including but not limited to patent, copyright and trademark laws, as well as confidentiality agreements signed by our senior management and key staff to protect our intellectual property rights. For details of our intellectual property rights, please refer to the section headed “Statutory and General Information — Intellectual property rights of our Group” in Appendix VI to this prospectus.

During the Track Record Period and up to the Latest Practicable Date, we were not aware of any intellectual property rights infringement that had a material impact on us. We may be subject to claims from third parties claiming that we are infringing on their intellectual property rights. For further details relating to such third parties claims, please refer to the section headed “Risk Factors — Risks related to our business — 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” in this prospectus.

PROPERTIES

As of 31 October 2013, our production facilities, proprietary outlets, office buildings, residential units and other ancillary facilities occupied a total site area of approximately 223,869.8 square metres with a total gross floor area of approximately 150,203.6 square metres. For further details about our properties, please refer to the section headed “Property Valuation Report” in Appendix IV to this prospectus.

Land use rights

As of 31 October 2013, we owned 9 parcels of land with a total site area of 223,869.8 square metres in Quanzhou City, Fujian Province, the PRC mainly for our production facilities. We have obtained land use rights certificates for all such land. Please refer to the paragraph headed “Legal compliances and proceedings” in this section for further details relating to the usage under our land use rights.

Buildings

As of 31 October 2013, we owned or occupied 32 buildings or units with a total gross floor area of approximately 150,203.6 square metres. We have obtained building ownership certificates to all such buildings except for certain buildings or structures with a total gross floor area of approximately 26,714.5 square metres. Please refer to the paragraph headed “Legal compliances and proceedings” in this section for further details relating to the permits, approvals and certificates of 19 buildings.

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ENVIRONMENTAL PROTECTION

We are subject to PRC environmental laws and regulations, which govern a broad range of environmental matters, including air pollution, noise, waste water and solid waste. We had implemented measures in the operation of our business to ensure our compliance with all applicable requirements under the PRC environmental laws and regulations during the Track Record Period and up to the Latest Practicable Date. Our environmental management system has been certified under ISO14001. 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. Based on the historical cost and the expected commencement of the Expanded Luojiang Production Facilities and the Anhui Production Facilities, we expect that our annual cost of compliance with applicable environmental laws and regulations will be approximately RMB0.5 million and RMB0.8 million for the years ended 31 December 2013 and 2014, respectively.

Our PRC Legal Adviser has confirmed that we comply with all relevant PRC environmental protection laws and regulations in order to conduct the business currently carried by us at our production facilities.

INSURANCE

We carry various insurance policies covering our properties, including our buildings, motor vehicles, fixed assets, machinery and equipment and finished goods. We also carry insurance coverage on product liability of our electronic fireplace products in the PRC but not for overseas. For details on the risks relating to product liability claims made by consumers, please refer to the section headed “Risk Factors — Risks related to our business — 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” in this prospectus.

For domestic sales and overseas sales, third party logistics providers generally carry insurance for the products in transit from our production facilities to the destinations specified by our domestic customers or ports of shipments. For our overseas sales which our products are sales on a FOB basis, our customers are responsible for arranging the insurance coverage on our products for the shipment.

We believe that our insurance coverage is adequate and is in line with the industry practice. During the Track Record Period and up to the Latest Practicable Date, we had not made or been the subject of any material product liability or insurance claims.

SAFETY CONTROL

We are subject to the PRC laws and regulations on labour, safety and work-related incidents. We provide safety protection to our staff working in our production facilities, such as protective gear and wear including hearing protection gear and face masks. We also provide safety-related training to our employees to increase their awareness of work safety. In order to ensure that we provide a safe working environment, we conduct safety inspections and hold safety inspection meetings on a monthly basis to eliminate potential safety hazard in the production process. We have obtained the OHSAS18001 certification in respect of our safety management systems.

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During the Track Record Period and through the Latest Practicable Date, we had complied with the PRC workplace safety regulatory requirements in all material respects and had not had any incidents or complaints which had materially and adversely affected our operations.

GOVERNMENT REGULATIONS

As of the Latest Practicable Date, our business operations in China were not subject to any special legislation or regulatory controls other than those generally applicable to companies and businesses operating in China. A summary of the relevant PRC laws and regulations has been set out in the section headed “Summary of Principal Legal and Regulatory Provisions — PRC Regulations” in this prospectus.

COMPLIANCE WITH APPLICABLE LAWS

As of the Latest Practicable Date, save as disclosed in the paragraph headed “Legal compliance and proceedings” in this section of this prospectus, our PRC Legal Adviser confirmed that each member of our Group had obtained the requisite governmental licences, permits and certification and renewals thereof which are necessary for its operations, and had complied, in all material aspects, with all applicable laws and regulations in the jurisdiction where it was operating.

LEGAL COMPLIANCE AND PROCEEDINGS

As of the Latest Practicable Date, there were no litigation or arbitration proceedings pending or threatened against us or any of our Directors which would have a material adverse effect on our financial condition or results of operations.

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Set out below are our non-compliance incidents during the Track Record Period:

Legal compliances and proceedings

No.	Non-compliance incident	Reason	Laws and Regulations concerning the punishment/penalty	Corrective actions and impact on our Group	Measures in place to prevent recurrence of the non-compliant incidents
1.	Prior to July 2013, China Allen, Fujian Allen and Quanzhou Allen did not register with the relevant authorities or maintain accounts with a designated bank in respect of the housing provident fund, or make any contributions to the housing provident fund for all of their employees.	During the Track Record Period, we did not fully comply with the relevant requirements under the Regulation on the Administration of Housing Provident Funds (住房公積金管理條例) (effective from 24 March 2002) because some employees came from rural areas (“migrant workers”) and these migrant workers did not have their household registration at the location of our Group. As the housing provident fund policy of the local government authorities varies, even if the migrant workers had registered and made housing provident fund contributions at the location of our Group, these workers might not be able to enjoy the benefit of the housing provident fund when they go back to their places of household registration. Employees also have responsibility to make their respective shares of contribution to the housing provident fund and as some employees are local workers and reside in their own home nearby, those employees have no intention and are unwilling to participate in the housing provident funds.	Under the Regulations on the Management of the Housing Provident Fund (住房公積金管理條例) (effective from 24 March 2002), 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 fund authority may seek an order for payment from the relevant PRC court.	In August 2013, China Allen, Fujian Allen and Quanzhou Allen obtained from the Housing Provident Fund Management Centre of Quanzhou (泉州市住房公積金管理中心), the competent and responsible authority for administering the housing provident fund related affairs in Quanzhou, written confirmations in respect of the unpaid contributions of housing provident fund. According to such confirmations, China Allen, Fujian Allen and Quanzhou Allen had not be subject to any investigation or administrative penalty by the Housing Provident Fund Management Centre of Quanzhou (泉州市住房公積金管理中心) as of the date of such confirmations. Also, (i) China Allen, Fujian Allen and Quanzhou Allen have registered with the Housing Provident Fund Management Center of Quanzhou (泉州市住房公積金管理中心) and maintained accounts in respect of the housing provident fund on 26 June 2013 and 27 June 2013; (ii) China Allen, Fujian Allen and Quanzhou Allen have made contribution to the housing provident fund for all employees since July 2013; (iii) the Housing Provident Fund Management Center of Quanzhou (泉州市住房公積金管理中心) will not require China Allen, Fujian Allen and Quanzhou Allen to make retrospective contribution payment nor will any penalty or other form of administrative penalties be imposed on China Allen, Fujian Allen and Quanzhou Allen for the contributions to the Housing Provident Fund; and (iv) China Allen, Fujian Allen and Quanzhou Allen have been in compliance with the relevant PRC laws and regulations regarding Housing Provident Fund since July 2013 and had not been subject to any investigation, query or administrative penalty by the Housing Provident Fund Management Center of Quanzhou (泉州市住房公積金管理中心) as of the date of such confirmations.	<div><div><div>1.</div><div>To ensure full participation from all our staff, we have established a policy requiring the general and administration department, which is also responsible for human resources matters, to obtain a consent from new staff to participate in the housing fund before he or she commences to work for us and his or her employment will not commence until the consent is signed by the new staff.</div></div><div><div>2.</div><div>We have appointed a PRC legal adviser (the “PRC Legal Consultant”) to provide legal advice and consultations on the relevant laws and regulations from time to time.</div></div><div><div>3.</div><div>The general and administration department will provide, on a monthly basis, an updated list of staff to the Regulatory Compliance Committee and such committee will review, on a monthly basis, if the housing provident fund accounts have been properly set up for all staff.</div></div><div><div>4.</div><div>The Regulatory Compliance Committee will consult our PRC Legal Consultant on the relevant laws and regulations from time to time.</div></div></div> <div>For further details on our Regulatory Compliance Committee, please refer to the paragraph headed “Internal control” in this section.</div>

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Non-compliance No. incident	Reason	Laws and Regulations concerning the punishment/penalty	Corrective actions and impact on our Group	Measures in place to prevent recurrence of the non-compliant incidents
			<p>For the 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.</p> <p>Our PRC Legal Adviser is of the view that the Housing Provident Fund Management Centre of Quanzhou (泉州市住房公积金管理中心) is competent to issue such confirmations and the possibility of the Housing Provident Fund Management Centre of Quanzhou (泉州市住房公积金管理中心) to impose any penalty on China Allen, Fujian Allen and Quanzhou Allen or require the repayment of the unpaid contributions is remote. Our PRC Legal Adviser further confirmed that such confirmations to be challenged by a higher authority is remote.</p> <p>No provision for these amounts was made during the Track Record Period as we have obtained the written confirmations from the competent authorities that the authority would not require us to make any contribution payment for the period from the establishment of China Allen, Fujian Allen and Quanzhou Allen to June 2013 and no penalty will be imposed.</p> <p>Mr. Chen Fanglin has undertaken to indemnify us for any losses, liabilities or damages suffered by us as a result of our failure to make housing provident fund contributions prior to the Listing Date.</p>	

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Non-compliance No. incident	Reason	Laws and Regulations concerning the punishment/penalty	Corrective actions and impact on our Group	Measures in place to prevent recurrence of the non-compliant incidents
<p>2. China Allen, Fujian Allen and Quanzhou Allen made social insurance fund 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, and the directives issued by the Quanzhou local social security authorities. China Allen, Fujian Allen and Quanzhou Allen did not make social insurance fund contributions based on the previous year's average monthly wage, which did not comply with the Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳辦法條例) and the Social Insurance Law of the PRC.</p>	<p>We previously considered that making social insurance contribution 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) would be adequate.</p>	<p>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, 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 happened prior to 1 July 2011. The social insurance authorities are also entitled to order the employer to pay the outstanding social insurance fund 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 fund contribution. Since 1 July 2011, for non-compliances that occurred after 1 July 2011, according to Social Insurance Law of the PRC (中華人民共和國社會保險法), 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 fund.</p>	<p>In August 2013, China Allen, Fujian Allen and Quanzhou Allen obtained from Human Resources and Social Security Bureau of Quanzhou Licheng District (泉州市鯉城區人力資源和社會保障局), Human Resources and Social Security Bureau of Luojiang District (洛江區人力資源和社會保障局) and Human Resources and Social Security Bureau of Quangan District (泉港區人力資源和社會保障局) the competent and responsible authorities for administering the social insurance fund related affairs, written confirmations in respect of the contributions of social insurance fund of China Allen, Fujian Allen and Quanzhou Allen. According to such written confirmations, Human Resources and Social Security Bureau of Quanzhou Licheng District (泉州市鯉城區人力資源和社會保障局), Human Resources and Social Security Bureau of Luojiang District (洛江區人力資源和社會保障局) and Human Resources and Social Security Bureau of Quangan District (泉港區人力資源和社會保障局) will not require China Allen, Fujian Allen and Quanzhou Allen to make retrospective contribution payment nor will any penalty or other form of administrative penalties be imposed on China Allen, Fujian Allen and Quanzhou Allen for the contributions to the social insurance fund. China Allen, Fujian Allen and Quanzhou Allen had not been subject to any investigation, query or administrative penalty by Human Resources and Social Security Bureau of Quanzhou Licheng District (泉州市鯉城區人力資源和社會保障局), Human Resources and Social Security Bureau of Luojiang District (洛江區人力資源和社會保障局) and Human Resources and Social Security Bureau of Quangan District (泉港區人力資源和社會保障局) as of the date of such confirmations.</p>	<ol style="list-style-type: none"> 1. We will make social insurance contributions in full and in accordance with the relevant laws and regulations. 2. Our general and administration department, will consult our PRC Legal Consultant on the relevant laws and regulations from time to time. 3. The Regulatory Compliance Committee will consult our PRC Legal Consultant on the relevant laws and regulations from time to time. 4. To ensure full compliance with the Social Insurance Law of the PRC (中華人民共和國社會保險法), we have established a policy requiring the general and administrative department, which is also responsible for human resources matters, to provide, on a monthly basis, an updated list of social insurance contribution to the Regulatory Compliance Committee and such committee will review, on a monthly basis if the social insurance fund contribution complies with the Social Insurance Law of the PRC (中華人民共和國社會保險法).

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Non-compliance No. incident	Reason	Laws and Regulations concerning the punishment/penalty	Corrective actions and impact on our Group	Measures in place to prevent recurrence of the non-compliant incidents
			<p>China Allen, Fujian Allen and Quanzhou Allen have made social insurance fund contributions in accordance with national administrative regulations since August 2013.</p> <p>Our PRC Legal Adviser is of the view that Human Resources and Social Security Bureau of Quanzhou Licheng District (泉州市鯉城區人力資源和社會保障局), Human Resources and Social Security Bureau of Luojiang District (洛江區人力資源和社會保障局) and Human Resources and Social Security Bureau of Quangang District (泉港區人力資源和社會保障局) are competent to issue such confirmations and the possibility that the relevant authorities impose any fine or administrative penalty on China Allen, Fujian Allen and Quanzhou Allen or require the repayment of unpaid contributions is remote. Our PRC Legal Adviser further confirmed that the possibility of such confirmations to be challenged by a higher authority is remote.</p> <p>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.</p> <p>No provision for these amounts was made during the Track Record Period as we obtained the written confirmations from the competent authorities confirming that the authorities would not require us to make repayments of the unpaid contributions and no penalty will be imposed.</p> <p>Mr. Chen Fanglin has also undertaken to indemnify us for any losses, liabilities or damages suffered by us as a result of our failure to make full social insurance fund contributions prior to the Listing Date.</p>	

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No.	Non-compliance incident	Reason	Laws and Regulations concerning the punishment/penalty	Corrective actions and impact on our Group	Measures in place to prevent recurrence of the non-compliant incidents
3.	<p>We did not obtain the construction works planning permit (建設工程規劃許可證) and construction works commencement permit (建築工程施工許可證) in relation to these structures situated on our Luojiang Production Facilities, Quangang Production Facilities and a parcel of land located at Huoju Community, Jiangnan Street, Licheng District, Quanzhou City, Fujian Province, the PRC referred to as properties no. 1, no. 3 and no. 4 in Group I of the Property Valuation Report as set out in Appendix IV to this prospectus, respectively.</p> <p>We have not obtained the Building Ownership Certificates (房屋所有權證) for these structures with an aggregate gross floor area of approximately 26,714.5 square metres.</p> <p>These structures are used as to 12,520 square metres for storage, 5,404.5 square metres for production, 4,280 square metres for ancillary services, 2,200 square metres as office, 210 square metres as retail services and 2,100 square metres are vacant.</p>	<p>We were not informed that we needed to obtain relevant construction works planning permit (建設工程規劃許可證) and construction works commencement permit (建築工程施工許可證) at that time.</p>	<p>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. The maximum amount of fine for the non-compliance (including the rental income received in respect of the properties) is estimated to be approximately RMB4.4 million. Under the provisions of the Construction Law of the PRC (中華人民共和國建築法), 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 if there were gains made in respect of the properties and a fine between RMB5,000 to RMB10,000 may be imposed if no gains were made in respect of the properties.</p>	<p>We are in the process of applying for the construction works planning permit (建設工程規劃許可證) and construction works commencement permit (建築工程施工許可證) and the Building Ownership Certificates (房屋所有權證) with the relevant PRC government authorities in relation to these structures situated on our Luojiang Production Facilities, Quangang Production Facilities and Licheng Property. According to the confirmations issued by the Quanzhou Urban Planning Bureau (泉州市城鄉規劃局) dated 8 August 2013, Housing and Construction Bureau of Quanzhou Municipality (泉州市住房和城鄉建設局) Housing dated 23 August 2013 and Construction Bureau of Luojiang District (泉州市洛江區住房和城鄉建設局) dated 15 August 2013 and Housing and Construction Bureau of Quangang District (泉州市泉港區住房和城鄉規劃建設局) dated 16 August 2013, we are entitled to construct and use these structures before the building ownership certificates for these structures are obtained and there is no legal impediments for us to obtain the construction works planning permit (建設工程規劃許可證), construction works commencement permit (建築工程施工許可證) and the Building Ownership Certificates (房屋所有權證) in relation to these structures and the competent authorities will not require us to demolish nor pay any penalties in relation to the above.</p> <p>Other than the structures used for production purposes, our Directors do not consider these structures to be crucial to our business operations.</p> <p>As of the Latest Practicable Date, we had not received any orders for demolition, forfeiture or payment of penalty for the above non-compliance and we are not aware of any safety issues that would materially affect the safety conditions of these structures.</p> <p>Our PRC Legal Adviser is of the view that Quanzhou Urban Planning Bureau (泉州市城鄉規劃局), Housing and Construction Bureau of Quanzhou (泉州市住房和城鄉建設局), Construction Bureau of Luojiang District (洛江區住房和城鄉建設局) and Housing and Construction Bureau of Quangang District (泉港區住房和城鄉規劃建設局) are competent to issue such confirmations and the above non-compliance incidences will not prevent these structures from being used by us and there are no legal impediments for us to obtain the relevant permits and the building ownership certificates and the possibility that we are subject to fines or administrative penalty of the relevant authorities is remote. Our PRC Legal Adviser further confirmed that the possibility of such confirmations to be challenged by a higher authority is remote. As of 4 December 2013, we have obtained the relevant permits and the building ownership certificates for these structures used for production purpose.</p>	<ol style="list-style-type: none"> We have set up a Regulatory Compliance Committee, which is led by Mr. Chen Hongming, our executive Director. The committee directly reports to the Board and is primarily responsible to ensure that our business operations and activities are in compliance with the relevant laws and regulations. For further details on our Regulatory Compliance Committee, please refer to the paragraph headed "Internal control" in this section. The Regulatory Compliance Committee will consult our PRC Legal Consultant on the relevant laws and regulations from time to time. <p>For further details on our Regulatory Compliance Committee, please refer to the paragraph headed "Internal control" in this section.</p>

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No.	Non-compliance incident	Reason	Laws and Regulations concerning the punishment/penalty	Corrective actions and impact on our Group	Measures in place to prevent recurrence of the non-compliant incidents
				<p>We expect to obtain the relevant permits and building ownership certificates for the structures used for other purposes (the “Non-production Premises”) within six months after the Listing. Before we obtain the relevant permits and building ownership certificates for the Non-production Premises, if we receive an order for demolition or forfeiture, we will re-locate the staff quarters, warehouses and offices to our other production facilities or production facilities with property title certificates in the proximity. We expect the re-location cost, the rental and other related costs will be not more than RMB1.0 million.</p> <p>Mr. Chen Fanglin has also undertaken to indemnify us for any losses, liabilities or damages suffered by us as a result of such defects.</p>	

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No.	Non-compliance incident	Reason	Laws and Regulations concerning the punishment/penalty	Corrective actions and impact on our Group	Measures in place to prevent recurrence of the non-compliant incidents
4.	<p>China Allen has entered into rental agreements dated 7 February 2013, 15 November 2012 and 21 February 2013 with two individuals and Fujian Allen, pursuant to which China Allen has agreed to rent to the two individuals, who are both Independent Third Parties, and Fujian Allen the structures located on Luojiang Production Facilities used as warehouses, office and production purposes that were not granted the construction works planning permit (建設工程規劃許可證), construction works commencement permit (建築工程施工許可證) and Building Ownership Certificate (房屋所有權證) as referred to in paragraph 3 above (referred to as property no. 3 in Group I of the Property Valuation Report as set out in Appendix IV to this prospectus) of a gross floor area of 7,684.5 square metres.</p>	<p>We were not informed that we needed to obtain relevant construction works planning permit (建設工程規劃許可證) and construction works commencement permit (建築工程施工許可證) at that time and that such buildings or structures may not be rented.</p>	<p>According to Article 6 of the Commodity Rental Management Procedure (商品房屋租賃管理辦法) illegal and unauthorised structures may not be rented and the competent department may order corrective measures to be taken and a fine of not more than RMB5,000 may be imposed if there were no gains or if there were gains made in respect of the properties, a fine equal to one to three times the illegal income but not more than RMB30,000 may be imposed.</p> <p>According to the Interpretation of the Supreme Court relating to the Issues of the Hearing of the Town Rental Contract Disputes and the Application of Law (Fa Shi No. 11 of 2009) (最高人民法院關於審理城鎮房屋租賃合同糾紛案件具體應用法律若干問題的解釋(法釋[2009]11號), a lease contract will be recognised as invalid by the court if the leased property was not granted the construction works planning permit (建設工程規劃許可證). However, if the construction works planning permit (建設工程規劃許可證) was obtained or approval was obtained from the relevant government department before end of the hearing in the court of first instance, then the people's court shall determine the rental agreement to be valid.</p>	<p>Please refer to the corrective actions and impact on our Group in paragraph 3 above.</p> <p>As of the Latest Practicable Date, we had not received any orders for demolition, forfeiture or payment of penalty for the above non-compliance and we are not aware of any safety issues that would materially affect the safety conditions of these structures.</p> <p>Our PRC Legal Adviser is of the view that the above non-compliance will not prevent these structures from being used by us and there are no legal impediments for us to obtain the relevant certificates and permits and the possibility that we are subject to fines or administrative penalty of the relevant authorities is remote.</p> <p>As such, we believe that it would be unlikely that we will be requested to relocate by the relevant authorities. China Allen terminated the rental agreements dated 7 February 2013 and 15 November 2012 entered into with the two individuals in November 2013. In the event that we are not able to obtain the relevant certificates and permits before the Listing, the rental agreement with Fujian Allen will also be terminated. As of 4 December 2013, we have obtained the relevant certificates and permits for these structures used for production purpose.</p>	

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No.	Non-compliance incident	Reason	Laws and Regulations concerning the punishment/penalty	Corrective actions and impact on our Group	Measures in place to prevent recurrence of the non-compliant incidents
5.	<p>We have leased to Independent Third Parties our properties for usage different from that stipulated in the relevant land use rights certificates. On 15 August 2013, we entered into a rental agreement with an individual and a hotel management enterprise pursuant to which we have agreed to rent the property no. 2 in Group I of the Property Valuation Report as set out in Appendix IV to this prospectus (the "Licheng Property") with a gross floor area of approximately 23,167.7 square metres. The Licheng Property was originally used by us for production purpose. We also entered into rental agreements with 27 independent individuals between January 2011 and February 2013 in relation to the properties under Building Ownership Certificate of Quan Fang Quan Zeng Quan Gang Zi no. 004152 (泉房權證泉港字第004152號), being the property no. 4 in Group I of the Property Valuation Report as set out in Appendix IV to this prospectus with an aggregate gross floor area of approximately 2,647.0 square metres (the "Quanzhou Property"), for commercial usage. These properties were originally used by us as dormitories.</p>	<p>We were not aware that we were required to apply for a change of usage of these properties when we entered into the relevant rental agreements.</p>	<p>According to Article 80 of the Land Management Law (土地管理法), if the land is not used in accordance with the approved land usage, the competent department of the local people's government land administration department above the county level may order the return of the land and impose a fine. According to the Regulations on the Implementation of the Land Management Law (土地管理法實施條例), a fine between RMB10 to RMB30 per each square metres may be imposed for its unauthorised usage. The maximum amount of fine is estimated to be approximately RMB79,410. According to the requirements under the Approach for the Assignment and Transfer of Land Use of Fujian Province (福建省國有土地使用權出讓和轉讓辦法), if the land user amends the land use under the assignment or transfer of land subject to contract, the competent department at the city or county level responsible for land management shall order the correction to be made. If the correction is not made, the offender may be subject to penalty.</p>	<p>We have applied to the Quanzhou Urban and Rural Planning Bureau (泉州市城鄉規劃局) to change the land usage of the Licheng Property from industrial to commercial usage and the Quanzhou Licheng District People's Government (泉州市鯉城區人民政府) has agreed to conduct enquiries on the change of usage of the land and a review is currently being conducted on the matter.</p> <p>On 10 September 2013, the management committee of Quanzhou People's Government (泉州市人民政府三舊改造工作領導小組), which is in charge of the transformation matters of usage of land, approved the change of usage of the Licheng Property from industrial to commercial usage in principle.</p> <p>As we cannot ascertain the timeframe to obtain the approval on the change of usage of land for the Quanzhou Property, the rental agreements entered into by us with the 27 independent individuals in respect of the Quanzhou Property were terminated in November 2013. The Individual Third Parties were responsible for their own relocation. We currently have no plans to utilise the vacant Quanzhou Property.</p> <p>Mr. Chen Fanglin has undertaken to indemnify us for any losses, liabilities or damages suffered by us as a result of such defects.</p>	<ol style="list-style-type: none"> 1. We undertake that we will not enter into any rental agreement for commercial use before obtaining the approval from the relevant authorities on the change of usage of the land. 2. The Regulatory Compliance Committee will keep up to date with our application for the change of land usage and will consult with our PRC Legal Consultant on the relevant laws and regulations from time to time. <p>For further details on our Regulatory Compliance Committee, please refer to the paragraph headed "Internal control" in this section.</p>

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No.	Non-compliance incident	Reason	Laws and Regulations concerning the punishment/penalty	Corrective actions and impact on our Group	Measures in place to prevent recurrence of the non-compliant incidents
6.	We did not prepare any accounts for Allen International for the period from 1 February 2010 to 31 December 2012 (the “Non-compliance Period”).	As confirmed by our Directors, the non-compliance was due to inadvertent omission by the director of Allen International, Mr. Chen Fanglin, who is a resident of the PRC and has limited understanding of the relevant rules and regulations under Hong Kong law, and who had relied on the company secretary of Allen International, which is a company providing company secretarial services and will be replaced before the Listing.	According to Schedule 12 of the Companies Ordinance, if a director fails to take reasonable steps to comply with section 122 of the Companies Ordinance, the director shall be liable to a maximum fine of HK\$300,000 and imprisonment of 12 months.	<p>On 28 August 2013, Mr. Chen Fanglin applied to the Court of First Instance of the High Court of Hong Kong for an order to rectify the abovementioned non-compliance. On 27 November 2013, the requested orders were made by the Court of First Instance of the High Court of Hong Kong in respect of the application to the effect that the period specified in section 122(1A) of the Companies Ordinance for laying the consolidated accounts of Allen International and its subsidiaries at its annual general meeting for the Non-compliance Period be extended until 31 December 2013.</p> <p>On 28 November 2013, Allen International held a general meeting in accordance with the aforesaid court orders, at which the relevant consolidated accounts were laid. Based on the above, this non-compliance incident has been fully rectified and does not have any impact on the operation of our Group.</p>	<ol style="list-style-type: none"> Our Directors will ensure that financial statements of our Hong Kong subsidiary will be laid before their respective annual general meetings within the time specified in section 122(1A) of the Companies Ordinance by designating our chief financial officer and company secretary to (i) monitor the regulatory compliance regarding company secretarial matters and financial reporting in respect of our Hong Kong subsidiary and (ii) keep abreast of the regulatory requirements regarding financial reporting under the Hong Kong regime. We will engage a Hong Kong legal adviser to provide legal advice and to provide training to our Directors and management personnel on various compliance matters relating to us from time to time and as and when needed.
7.	<p>Failure to complete lease registration for some of our properties leased to our Group referred to as properties no. 3 in Group I of the Property Valuation Report as set out in Appendix IV to this prospectus, and to Independent Third Parties referred to as properties no. 2 and 4 in Group I of the Property Valuation Report as set out in Appendix IV to this prospectus.</p> <p>The properties leased to our Group are used as warehouse, office and production purposes. The properties leased to Independent Third Parties are intended to be used as a hotel, shops, office and residence.</p>	The non-compliance was due to our inadvertent omission to complete lease registrations.	The lessor and lessee are requested by the government authorities to register the lease agreements within the time limit, failing which a penalty between RMB1,000 and RMB10,000 will be imposed for each of the properties.	We have completed the lease registration for these leased properties in September 2013.	<ol style="list-style-type: none"> The Regulatory Compliance Committee will keep up to date with the progress of our lease registrations and will consult with our PRC Legal Consultant on the relevant laws and regulations from time to time. <p>For further details on our Regulatory Compliance Committee, please refer to the paragraph headed “Internal control” in this section.</p>

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No.	Non-compliance incident	Reason	Laws and Regulations concerning the punishment/penalty	Corrective actions and impact on our Group	Measures in place to prevent recurrence of the non-compliant incidents
8.	Loans in the aggregate principal amount of RMB50.0 million taken out by Fujian Allen was paid directly to Meiya Property Development Co., Ltd. (福建美亞房地產開發有限公司), a company controlled by Chen Fanglin, between May 2010 and May 2011 and this may be deemed as loan advancing activities between enterprises.	Our senior management team have a lack of understanding of the restriction on loan advancing activities in the PRC under the relevant laws and regulations.	As advised by our PRC Legal Adviser, pursuant to the Lending General Provisions (《貸款通則》), 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, all of the outstanding amount of such loans had been fully settled by the relevant third parties. Our Directors confirm that we did not receive any interest on such loans. As such, our PRC Legal Adviser is of the view that the possibility that we will be imposed any fine or penalty according to the foregoing provision is remote.	Our Directors confirm that we will not make any loans to related or third parties in the PRC.
9.	We did not update the China Compulsory Certification in respect of some of our products during the period from November 2011 to March 2012.	The non-compliance was due to our inadvertent omission to update our China Compulsory Certification after the relocation of our production facilities in 2011 to Luojiang Production Facilities as the authorised certification body is required to send inspector(s) to inspect and audit the manufacturing facilities for the products at the new Luojiang Production Facilities in 2011.	Pursuant to the Regulations on Compulsory Product Certification (強制性產品認證管理規定), products that do not meet the certification requirements cannot continue to be manufactured, sold, imported or used for other business activities from the date that the China Compulsory Product Certification is suspended or revoked (the “Non-compliance Period”). According to Article 67 of the PRC Certification Regulations (中華人民共和國認證認可條例), any unauthorised products that are manufactured, sold, imported or used for other business activities shall be subject to a fine in the range of RMB50,000 to RMB200,000 and any illegal income shall be confiscated.	On 6 September 2013, we have obtained a written confirmation from the Quality and Technical Supervision Bureau of Quanzhou 2nd District (泉州市品質技術監督管理局直屬二分局) that (i) the indoor heaters (electric fireplace) and related products manufactured by us during the Non-compliance Period had continued to meet certification requirements and standards; (ii) we can engage in normal business and manufacturing activities (including the manufacturing of indoor heaters (electric fireplaces) and related products); (iii) such products can be marked as certified, manufactured and sold; (iv) it will not impose any penalty on us in respect of the non-compliance and it will not affect any future application by us for the renewal of certification; and (v) the certifications currently obtained by us are valid and our products meet the product certification requirements and standards. As of the Latest Practicable Date, we have obtained the China Compulsory Certification required for our products. Mr. Chen Fanglin has undertaken to indemnify us for any losses, liabilities or damages suffered by us as a result of such defects.	<ol style="list-style-type: none"> 1. We have set up a Regulatory Compliance Committee, which is led by Mr. Chen Hongming, our executive Director. The committee directly reports to the Board and is primarily responsible to ensure that our business operations and activities are in compliance with the relevant laws and regulations. For further details on our Regulatory Compliance Committee, please refer to the paragraph headed “Internal control” in this section. 2. Mr. Zhang Pingxin, who is a member of our senior management team and is responsible for production management will closely monitor our compliance with safety and quality standards and to ensure that our information is updated. Mr. Zhang Pingxin will compile a report and will consult with the Regulatory Compliance Committee on any matters related to our product standards on a monthly basis.

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INTERNAL CONTROL

In order to continuously improve our corporate governance and to prevent recurrence of the non-compliance incidents, we intend to adopt or have adopted the following measures:

- We have established a regulatory compliance committee in August 2013, which is led by Mr. Chen Hongming, our executive Director, Mr. Shen Jianzhong, our executive Director and members of our senior management, namely Mr. Yang Dilin, Mr. Zhang Pingxin and Mr. Zheng Hebin (the “**Regulatory Compliance Committee**”). Mr. Shen Jianzhong is responsible for the human resources and administration management of our Group. Mr. Yang Dilin, Mr. Zhang Pingxin and Mr. Zheng Hebin are responsible for the day-to-day financial affairs of our Group, product management and product research and development, respectively. Please refer to the section headed “Directors, senior management and staff” for details on the experience and qualification of our Directors and senior management. Our Directors consider that one of the major reasons for the occurrence of the non-compliance incidents during the Track Record Period is the limited knowledge on the requirements under the relevant laws and regulations. In view of this, we have invited our PRC Legal Consultant as a member of our Regulatory Compliance Committee to provide us advice and proposals in relation to PRC laws and regulation. The PRC Legal Consultant is a qualified law firm established in the PRC with experience in advising on intellectual property rights, real estate, engineering and construction, corporate governance and commercial matters. The initial term of its appointment is for a term of one year commencing from 10 July 2013. The committee directly reports to the Board and is primarily responsible to review our business operations and activities on no less frequent than a quarterly basis and to ensure that they are in compliance with the relevant laws and regulations, including handling relevant procedures, such as business registration, property rental, property construction and maintenance and staff social welfare in accordance with the procedural requirements of the relevant authorities to ensure our compliance and seek legal advice when appropriate. We will also appoint Hong Kong legal advisers to provide advice on the requirements of Hong Kong laws after the Listing.
- Our senior management personnel have been briefed by the executive Directors on the importance of regulatory matters and will continue to monitor our compliance with relevant regulations and our management will work closely with our staff to implement actions required to ensure our compliance with relevant regulations.
- Our Directors attended and received training materials on directors’ duties under the Listing Rules in August 2013. Our Directors and senior management will continue to participate in continuous professional development to develop and refresh their knowledge, skills, and we will arrange trainings to be provided by our PRC and Hong Kong legal advisers and/or other accredited institutions on the legal requirements and Listing Rules to our Directors and senior management at least once within the first year after the Listing and on occasions where there are new rules and new appointments of Directors and senior management.

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- Our Group has improved the existing internal control framework by adopting a set of internal control manual and policies on 16 September 2013, including the corporate governance manual, which covers corporate governance, risk management, operations, legal matters, finance and audit. We have also implemented a set of internal control measures in respect of our existing and future construction of buildings and structures. A monthly review of the compliance of our buildings and structures with the relevant laws and regulations are conducted by our vice financial officer, who will report the findings of the review to our Regulatory Compliance Committee. For new buildings and structures, our vice financial officer conducts assessments on their compliance with the relevant laws and regulations prior to the commencement of construction to ensure that the relevant permits and certificates are obtained. We have established a policy requiring the general and administrative department, which is also responsible for human resources matters, to provide, on a monthly basis an updated list of social insurance contribution and staff to our Regulatory Compliance Committee, and such committee will review, on a monthly basis if the social insurance fund contribution complies with the relevant requirements and housing provident fund accounts have been properly set up for all staff.
- We have established a policy to keep details of our China Compulsory Certifications, including the products which the China Compulsory Certifications cover and their expiration date. Our Regulatory Compliance Committee will review the details on a monthly basis to ensure that the information is updated. Staff of our production department is required to check if the relevant China Compulsory Certification is valid before proceeding to formal production of our products.

On the basis of the internal control measures mentioned above, our Directors are of the view that we have taken all the reasonable steps to establish a proper internal control system as recommended by our internal control consultant to prevent future recurrence of these non-compliance incidences. In view of, among others, the enhanced internal control measures implemented, our Directors and the Sole Sponsor are of the view that our Group's internal control measures are adequate and effective under Rule 3A.15(5) of the Listing Rules.

Further, having considered the above non-compliance incidents of our Group and the above internal control measures and remedial actions taken by us, the Sole Sponsor is of the view that with regard to the above non-compliance incidents, there is no further matter that the Sole Sponsor would consider affecting the suitability of our Directors to become directors of an issuer under Rules 3.08 and 3.09 of the Listing Rules.

CONNECTED TRANSACTIONS

During the Track Record Period, other than transactions as set out in note 33 to the Accountant's Report in Appendix I to this prospectus, we did not enter into any other connected transactions. On 28 September 2013, we entered into a rental agreement with a connected person to lease from such connected person certain premises at a monthly rental of RMB72,000 for a term from 1 October 2013 to 30 September 2018. All of the percentage ratios (other than profit ratio) on an annual basis is less than 0.1% and therefore the rental agreement is exempted from the reporting, annual review, announcement and independent shareholders' approval requirements of the Listing Rules. As of the Latest Practicable Date, we did not have any connected transactions which will be continued or carried out by us after the Listing and which will be subject to reporting, announcement and shareholders' approvals requirements under the Listing Rules.