The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial information, including the notes thereto, as set forth in the Accountant's Report included as Appendix I to this prospectus. Our consolidated financial information have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which may differ in material aspects from generally accepted accounting principles in other jurisdictions.

This following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results and timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

OVERVIEW

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

We sell our products domestically in the PRC and export to countries including the United States, Canada, Germany, France, Finland, Taiwan and Hong Kong. Products sold in the PRC are all under our Allen (亚伦) brand and our overseas sales are all made on an ODM/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, and from approximately RMB397.5 million for the six months ended 30 June 2012 to approximately RMB493.9 million for the six months ended 30 June 2013. During the Track Record Period, our PRC sales accounted for the majority of our total revenue. For the three years ended 31 December 2012 and the six months ended 30 June 2012 and 2013, our PRC sales accounted for approximately 83.1%, 83.7%, 86.8%, 89.5% and 91.3% of our total revenue, respectively, and our overseas sales accounted for approximately 16.9%, 16.3%, 13.2%, 10.5% and 8.7% of our total revenue, respectively. Revenue derived from our PRC sales increased throughout the Track Record Period was primarily due to our strategy in focusing the development of the PRC market as sales made under our own brand generally have a higher profit margin.

Throughout the Track Record Period, our revenue of electric fireplaces increased from approximately RMB192.2 million in 2010 to RMB243.1 million in 2011 and further to approximately RMB436.9 million in 2012, and from approximately RMB149.8 million for the six months ended 30 June 2012 to RMB255.4 million for the six months ended 30 June 2013. Our revenue of home decor products slightly increased from approximately RMB559.6 million in 2010 to approximately RMB560.9 million in 2011, and decreased to approximately RMB532.2 million in 2012. Our revenue of home decor products continued its decreasing trend from approximately RMB247.7 million for the six months ended 30 June 2012 to approximately RMB238.5 million for the six months ended 30 June 2013. The increase in revenue derived from the sale of our electric fireplaces, which generally has a higher profit margin, during the Track Record Period was primarily due to our increased allocation of resources to develop and promote our electric fireplaces and brand.

BASIS OF PRESENTATION

For the purpose of this section, the consolidated statements of comprehensive income, consolidated statements of cash flows and consolidated statements of changes in equity of our Group for each of the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013 have been prepared using the financial information of the companies engaged in the business of manufacturing and selling of home decoration products and electric fireplaces primarily in the PRC, under the common control of Mr. Chen Fanglin and now comprising our Group as if the current group structure had been in existence throughout each of the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013. The consolidated statements of financial position of our Group as at 31 December 2010, 2011 and 2012 and 30 June 2013 have been prepared to present the assets and liabilities of the companies now comprising our Group at these dates, as if the group structure had been in existence as at these dates. The net assets and results of our Group were consolidated using the existing book values from Mr. Chen Fanglin's perspective.

BASIS OF PREPARATION

We have prepared the financial information in accordance with the HKFRSs and has been prepared under the historical cost convention. Our financial information incorporates the financial statements of our Company and entities controlled by our Company. Control is achieved when our Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Apart from the business combination under common control, we also uses the acquisition method of accounting for business combination based on the fair value of the assets transferred, the liabilities incurred and the equity interests issued by our Group.

All intra-group transactions, balances, income and expenses on transactions are eliminated. Profits and losses resulting from intra-group transactions that are recognised in assets are also eliminated. Where necessary, accounting policies of subsidiaries have been adjusted to ensure consistency with the policies adopted by our Group.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations and our financial condition have been and will continue to be principally affected by a number of factors, many of which may not be within our control, including those set out below.

Our ability to enhance existing products and design and develop new products to keep up with the changes in consumer preferences and tastes

The creative home furnishing industry is rapidly evolving and undergoing continuous development. Our success to date, including the growth of our revenue from approximately RMB751.8 million in 2010 to approximately RMB804.1 million in 2011, and further to approximately RMB969.0 million in 2012 and from RMB397.5 million for the six months ended 30 June 2012 to approximately RMB493.9 million for the six months ended 30 June 2013, as well as our profit from approximately

RMB218.3 million in 2011 to approximately RMB261.6 million in 2012 and from approximately RMB95.1 million for the six months ended 30 June 2012 to approximately RMB129.5 million for the six months ended 30 June 2013, is largely attributable to our ability to design and develop new electric fireplaces or home decor products and enhance our existing products. If we fail to design and develop products with acceptable quality or lag behind our competitors in improving our product quality or product range, our results of operation and financial condition may be adversely affected.

Our growth is strengthened by the expansion of our product offerings which depends on consumers' demand and market preferences in the PRC for home furnishing products. The level of consumer demand is dependent on the economic environment of the PRC, the level of household disposable income and the consumption preferences of our target customers. The increase in overall consumption in the PRC is expected to lead to an increase in the purchase of home furnishing products. Home furnishing products are consumer products which are affected by consumers' preferences and tastes. We need to keep up with changes in consumer preferences and tastes in order to maintain our market share and profitability. Our ability to assess and react to changes in consumer demand, preferences and taste will directly affect our business and results of operations.

Changes in the economic conditions of the PRC may affect the level of demand for our products

Any change in the market demand levels for electric fireplaces and home decor products in the PRC may have a material effect on our financial condition and results of operation. We are affected by changes in the economic conditions of the PRC as we intend to further promote our Allen (亚伦) brand and expand our electric fireplace business in the PRC market and thus increase our revenue to be derived from the PRC in the coming years. For the three years ended 31 December 2012 and the six months ended 30 June 2012 and 2013, our revenue derived from the PRC accounted for approximately 83.1%, 83.7%, 86.8%, 89.5% and 91.3%, of our total revenue, respectively. Further, our PRC sales had a higher gross profit margin than our overseas sales. The table below sets forth the gross profit margin of our PRC and overseas sales over the Track Record Period:

	Year ended 31 December			**Six months ended 30 June**	
	2010	**2011**	**2012**	**2012**	**2013**
				(Unaudited)	
PRC sales	44.1%	43.5%	46.6%	45.5%	47.7%
Overseas sales	36.9%	29.2%	28.4%	20.0%	22.9%

The PRC economy has grown rapidly in recent years. According to the Frost & Sullivan Report, the total sales value of the creative home furnishing market in the PRC is expected to reach approximately RMB1,478.9 billion in 2016 and grow at a CAGR of 18.5% from 2013 to 2016. The increase in the purchasing power of consumer and the development of the real estate industry in the PRC are expected to fuel the demand for creative home furnishing products, and this may positively affect our results of operations.

Our Directors expect that our results of operations will continue to be materially affected by the economic conditions and development of the property market in the PRC. Any future slowdown or decline in the economy or consumer spending, particularly on electric fireplaces and home decor products, in the PRC may adversely affect our business and results of operations.

We may be subject to price fluctuation of raw materials used in our production

Our major raw materials are polyresin, marble and wood for our operation. Our cost of raw materials represents a substantial portion of our total cost of sales. For the three years ended 31 December 2012 and the six months ended 30 June 2012 and 2013, total cost of raw materials used accounted for approximately 73.2%, 71.8%, 71.7%, 68.2% and 73.5% of our total cost of sales, respectively. The prices of most of our raw materials generally follow the price trends of, and vary with, market conditions. Supplies of these raw materials may also be subject to a variety of factors that are beyond our control, including but not limited to market shortages, suppliers' business interruptions, government control, unavailability of long-term supply contracts, weather conditions and overall economic conditions, all of which may have an impact on their respective market prices from time to time. In the future, there may be periods of time when we are unable to pass our cost increases on to customers in a timely manner to avoid adverse impacts on our margins. For example, there is a potential time lag between when prices for raw materials increase under our purchase orders and when we can implement a corresponding increase in price under our sales orders with our customers. Such cost increases may also increase our working capital needs, which will reduce our liquidity and cash flow.

The following table sets out our average purchase prices of major raw materials during the Track Record Period:

	Year ended 31 December			**Six months ended 30 June**	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Polyresin	10.6/kg	10.6/kg	10.3/kg	10.3/kg	10.3/kg
Marble *(note 1)*	2,352/piece	2,384/piece	2,531/piece	2,351/piece	2,500/piece
Wood *(note 2)*					
– Wood slab	*(note 3)*	64.6/piece	47.3/piece	53.1/piece	37.2/piece
– Solid wood	*(note 3)*	3,555/m^3	2,001/m^3	1,950/m^3	2,177/ m^3

Notes:

1. The average purchase price of marble refers to the average purchase price of marble frame/piece.

2. The average purchase price of wood slabs was lower for the six months ended 30 June 2013 as compared to that for the six months ended 30 June 2012, which was primarily due to our purchases of more lower-priced wood slabs in 2013. The average purchase price of solid wood was higher for the six months ended 30 June 2013 as compared to that for the six months ended 30 June 2012, which was mainly due to our purchases of more higher-priced solid wood in 2013. The average purchase price of wood slabs and solid wood was lower for the year ended 31 December 2012 as compared to that for the year ended 31 December 2011, which was primarily due to our purchases of more lower-priced wood slabs and solid wood in 2012.

3. Prior to 2011, we purchased wood frames from our suppliers and we commenced to manufacture wood frames for our electric fireplaces in early 2011 after our relocation to the Luojiang Production Facilities. The average unit purchase price of wood frames in 2010 was approximately RMB946/piece.

For illustration purposes only, a sensitivity analysis of our net profits with reference of the price fluctuation of our major raw materials, being polyresin, marble and wood, during the Track Record Period is set out as follows. The following table demonstrates how the hypothetical effects of increase or decrease in the major raw materials prices affect our net profit, assuming we are not able to pass on such changes to our customers while all other factors remain unchanged:

	Hypothetical increase/decrease of 10% in price of polyresin	**Hypothetical increase/decrease of 20% in price of polyresin**	**Hypothetical increase/decrease of 30% in price of polyresin**
	RMB'000	*RMB'000*	*RMB'000*
Decrease/increase in our net profit:			
Year ended 31 December 2010	6,894	13,788	20,682
Year ended 31 December 2011	6,572	13,144	19,716
Year ended 31 December 2012	5,555	11,110	16,665
Six months ended 30 June 2012 (Unaudited)	2,679	5,358	8,037
Six months ended 30 June 2013	2,285	4,570	6,855
Year ending 31 December 2013 (Forecast)	5,675	11,350	17,025

	Hypothetical increase/decrease of 10% in price of marble	**Hypothetical increase/decrease of 20% in price of marble**	**Hypothetical increase/decrease of 30% in price of marble**
	RMB'000	*RMB'000*	*RMB'000*
Decrease/increase in our net profit:			
Year ended 31 December 2010	4,050	8,100	12,150
Year ended 31 December 2011	4,136	8,272	12,408
Year ended 31 December 2012	4,729	9,458	14,187
Six months ended 30 June 2012 (Unaudited)	1,626	3,252	4,878
Six months ended 30 June 2013	2,008	4,016	6,024
Year ending 31 December 2013 (Forecast)	4,403	8,806	13,209

	Hypothetical increase/decrease of 10% in price of wood	**Hypothetical increase/decrease of 20% in price of wood**	**Hypothetical increase/decrease of 30% in price of wood**	**Hypothetical increase/decrease of 40% in price of wood**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Decrease/increase in our net profit:				
Year ended 31 December 2010	1,943	3,886	5,829	7,772
Year ended 31 December 2011	746	1,492	2,238	2,984
Year ended 31 December 2012	1,980	3,960	5,940	7,920
Six months ended 30 June 2012 (Unaudited)	474	948	1,422	1,896
Six months ended 30 June 2013	1,758	3,516	5,274	7,032
Year ending 31 December 2013 (Forecast)	3,854	7,708	11,562	15,416

Direct labour costs

We experienced an increase in direct labour costs during the Track Record Period due to general increase in wages. The total amount of wages we incurred accounted for approximately 13.1%, 14.7%, 14.9%, 14.7% and 16.7% of our total cost of sales for the three years ended 31 December 2012 and the six months ended 30 June 2012 and 2013, respectively. Our operational results and conditions may be adversely affected should we fail to control our direct labour costs.

Our ability to maintain and enhance our brand recognition

Our financial condition and results of operations will be affected by our ability to maintain and enhance recognition and awareness of our brand. We believe that our Allen (亚伦) brand is one of the most important contributors to our success to date. For the three years ended 31 December 2012 and the six months ended 30 June 2012 and 2013, revenue derived from the sales under our Allen (亚伦) brand accounted for approximately 83.1%, 83.7%, 86.8%, 89.5% and 91.3% of our total revenue, respectively. We rely on our brand to promote ourselves to existing and prospective customers. Our marketing and promotion strategies to improve our brand recognition and positioning including various media channels such as industry magazine advertisements, billboards, the internet and participations in trade exhibitions. We intend to increase our advertising and promotion expenses to further strengthen the recognition of our brand and help secure our market position.

Product mix

Our products are categorised into two segments: electric fireplaces and home decor products, which have different gross profit margins, levels of demand and selling prices. For the three years ended 31 December 2012 and the six months ended 30 June 2012 and 2013, our gross profit margin for the sales of our electric fireplaces was 48.9%, 45.8%, 49.2%, 48.1% and 50.7%, respectively, and our gross profit margin for the sales of our home decor products was 40.8%, 39.2%, 40.1%, 39.7% and 40.1%, respectively. Sales of our electric fireplaces generally have higher gross profit margin than sales of our home decor products. We expect the contribution of sales of our electric fireplaces to our profit will continue to grow at a rate faster than that of our home decor products. If our product mix changes or we are unable to response to the market demands and preferences, our results may be affected.

Competition

The China creative home furnishing market is competitive and the industry is highly fragmented. The creative home decor products market is considered to be mature. Our competitors may have greater financial resources than we do, as well as stronger brand names, consumer recognition, business relationships, and geographic presence than we do. Competition could affect our market share, pricing, and profitability.

Generally, market players in the electric fireplace industry are competing in aspects of quality of products, brand recognition and energy efficiency. As such, the technology and design and development capabilities are generally the important factors in distinguishing high-end and low-end electric fireplace products. For the electric fireplace market, we mainly compete with other PRC enterprises engaging in the production of branded 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.

Our results of operations will continue to be affected by our ability to maintain our competitive advantages and effectively compete with other industry players in the PRC.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of our consolidated financial information and related notes requires us to make judgements, estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses, and related disclosure of contingent assets and liabilities. We have based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Our management has discussed the development, selection and disclosure of these estimates with our Directors. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial information. We believe that the following critical accounting policies are the most sensitive and are those that require the more significant estimates and assumptions used in the preparation of our consolidated financial information. We also have other policies that we consider to be significant accounting policies, which are set forth in Note 2 of the Accountant's Report as set out in Appendix I to this prospectus. We review and, where necessary revise our estimates and underlying assumptions on an ongoing basis.

Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of our activities. Revenue is shown net of value added tax and after eliminating sales within the Group.

We recognise revenue from the sale of electric fireplaces and/or home decor products when the electric fireplaces and/or home decor products are delivered to our customers. Delivery of the electric fireplaces and/or home decor products to our customers in the PRC occurs when our PRC customers pick up the electric fireplaces and/or home decor products from the destination point. Delivery of the electric fireplaces and/or home decor products to our overseas customers occurs when we deliver the products to the port and execute a bill of lading for free on board shipping.

We recognise interest income on a time-proportion basis using the effective interest method.

Depreciation and useful lives

Items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets. Our management reviews the estimated useful lives and residual values of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

These estimates are based on the current market condition and historical experience of selling products of similar nature, which could change significantly as a result of actions of our competitors in response to changes in market conditions. Our management reassesses these estimations at the reporting dates to ensure our inventories are shown at the lower of cost and net realisable value.

We monitor our inventory records through periodic reviews and physical inspections with a view to prevent risks of inventory obsolescence. Our procurement department and sales and marketing department conduct periodic reviews on our inventory level to ensure sufficient supply to meet our production needs. We generally maintain inventory level of around two weeks for certain raw materials commonly used in our production process. Our finance department also performs monthly reconciliations with the warehousing department to ensure accuracy and consistency between the two records. Any damaged or unusable inventory items would be considered obsolescent and relevant inventory provision would be considered. In cases that the cost of inventory is higher than the net realisable value of the inventory, i.e. the market value of the inventory, provision would be made.

Impairment of trade receivables

Our management determines the impairment of trade receivables on a regular basis. This estimate is based on the credit history of our customers and current market conditions. If the financial conditions of the customers were to deteriorate, actual write-off would be higher than estimated. Our management reassesses the impairment of trade receivables at the end of each reporting periods.

We do not have a general policy on provisions for impairment losses of trade receivables but would consider the need for a specific write-down of trade receivables on a case-by-case basis.

Impairment losses in respect of trade receivables are recorded using an allowance account unless we are satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

Income taxes and deferred income taxes

Significant judgement is required in determining the provision for income taxes and deferred income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred income tax provision in the period in which such determination is made.

Deferred income tax liabilities have not been established for withholding tax that would be payable on certain profits of PRC subsidiaries to be repatriated and distributed by way of dividends as the Directors consider that the timing of the reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the future.

RESULTS OF OPERATIONS

The table below sets out selected financial information for the periods indicated.

	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)	
Revenue	751,819	804,072	969,026	397,529	493,891
Cost of sales	(429,299)	(472,842)	(540,829)	(227,208)	(268,758)
Gross profit	322,520	331,230	428,197	170,321	225,133
Other income	597	1,883	2,613	1,569	1,652
Selling and distribution costs	(33,941)	(48,687)	(53,504)	(27,215)	(25,164)
Administrative expenses	(25,388)	(29,502)	(42,995)	(17,905)	(34,958)
Operating profit	263,788	254,924	334,311	126,770	166,663
Finance costs	(1,303)	(1,687)	(2,992)	(1,058)	(2,428)
Profit before income tax	262,485	253,237	331,319	125,712	164,235
Income tax expense	(43,542)	(34,976)	(69,690)	(30,632)	(34,697)
Profit and total comprehensive income for the year/period attributable to equity holders of the Company	218,943	218,261	261,629	95,080	129,538
Dividends	128,250	166,000	54,400	54,400	91,754

PRINCIPAL INCOME STATEMENT ITEMS

Revenue

Our revenue is generated from the sale of electric fireplaces and home decor products. The following table provides a breakdown of our revenue by product 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	
	RMB'000	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*	*RMB'000*	*% of total revenue*
							(Unaudited)			
Electric fireplaces										
Framed electric fireplaces										
– wood series	57,972	7.7	73,164	9.1	171,475	17.7	53,266	13.4	122,608	24.8
– natural stone series	106,549	14.2	105,188	13.1	127,805	13.2	42,915	10.8	55,862	11.3
– inorganic series	26,256	3.5	51,517	6.4	112,119	11.6	37,953	9.5	53,486	10.8
Non-framed electric fireplace	1,453	0.2	13,258	1.6	25,459	2.6	15,662	4.0	23,408	4.8
Sub-total:	192,230	25.6	243,127	30.2	436,858	45.1	149,796	37.7	255,364	51.7
Home decor products										
– polyresin series	317,583	42.2	343,912	42.8	342,989	35.4	160,901	40.5	136,923	27.7
– porcelain series	133,105	17.7	116,141	14.4	108,178	11.2	43,430	10.9	60,315	12.2
– inorganic series	108,901	14.5	100,892	12.6	81,001	8.3	43,402	10.9	41,289	8.4
Sub-total:	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 principally engage in the design, develop, manufacture and sale of electric fireplaces and home decor products. Our electric fireplaces are divided into two categories: framed electric fireplaces and non-framed electric fireplaces. We offer three series of our framed electric fireplaces: wood series, natural stone series and inorganic series. Our home decor products include a wide range of products from gardening decoration items to indoor crafts for decorating and accessorising the surroundings. We offer three series of our home decor products: polyresin series, porcelain series and inorganic series. Our revenue increased during the Track Record Period which was primarily due to our expansion of PRC sales, changes in product mix and enhanced production capabilities.

The following table sets forth the revenue and sales volume breakdown by product segments in the PRC and overseas during the Track Record Period.

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	*unit*	*RMB'000*	*unit*	*RMB'000*	*unit*	*RMB'000*	*unit*	*RMB'000*	*unit*
							(Unaudited)			
Electric Fireplaces										
PRC Sales										
Framed electric fireplace										
– wood series	54,300	21,281	54,245	22,918	151,703	46,040	53,266	19,608	119,572	34,766
– natural stone series	106,549	19,677	105,188	19,826	127,805	21,985	42,915	8,133	55,862	9,378
– inorganic series	20,103	13,192	35,994	24,996	81,120	62,628	32,424	23,378	47,214	36,242
Non-framed electric fireplace	1,453	3,407	13,258	31,224	25,332	58,067	15,662	36,739	22,270	49,855
Sub-total:	182,405	57,557	208,685	98,964	385,960	188,720	144,267	87,858	244,918	130,241
Overseas Sales										
Framed electric fireplace										
– wood series	3,672	1,327	18,919	9,786	19,772	12,264	–	–	3,036	2,421
– natural stone series	–	–	–	–	–	–	–	–	–	–
– inorganic series	6,153	4,238	15,523	13,891	30,999	33,313	5,529	5,811	6,272	7,512
Non-framed electric fireplace	–	–	–	–	127	360	–	–	1,138	2,816
Sub-total:	9,825	5,565	34,442	23,677	50,898	45,937	5,529	5,811	10,446	12,749
Electric fireplaces – Total:	**192,230**	**63,122**	**243,127**	**122,641**	**436,858**	**234,657**	**149,796**	**93,669**	**255,364**	**142,990**

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	*piece ('000)*	*RMB'000*	*piece ('000)*	*RMB'000*	*piece ('000)*	*RMB'000*	*piece ('000)*	*RMB'000*	*piece ('000)*
							(Unaudited)			
Home Decor Products										
PRC Sales										
– polyresin series	223,947	37,295	273,154	12,943	273,657	4,816	127,097	2,617	110,777	1,108
– porcelain series	123,971	19,125	102,240	9,188	103,857	6,126	41,466	3,556	56,543	3,023
– inorganic series	94,242	1,037	88,844	753	77,486	583	42,780	297	38,914	365
Sub-total:	442,160	57,457	464,238	22,884	455,000	11,525	211,343	6,470	206,234	4,496
Overseas Sales										
– polyresin series	93,636	17,240	70,758	7,100	69,332	2,186	33,804	1,311	26,146	1,066
– porcelain series	9,134	1,163	13,901	1,445	4,321	437	1,964	209	3,772	193
– inorganic series	14,659	185	12,048	127	3,515	32	622	10	2,375	24
Sub-total:	117,429	18,588	96,707	8,672	77,168	2,655	36,390	1,530	32,293	1,283
Home decor products – Total:	**559,589**	**76,045**	**560,945**	**31,556**	**532,168**	**14,180**	**247,733**	**8,000**	**238,527**	**5,779**
Total:	**751,819**		**804,072**		**969,026**		**397,529**		**493,891**	

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, and from approximately RMB397.5 million for the six months ended 30 June 2012 to approximately RMB493.9 million for the six months ended 30 June 2013.

Throughout the Track Record Period, our revenue derived from the sales of electric fireplaces increased from approximately RMB192.2 million in 2010, to approximately RMB243.1 million in 2011 and further to approximately RMB436.9 million in 2012, and from approximately RMB149.8 million for the six months ended 30 June 2012 to RMB255.4 million for the six months ended 30 June 2013.

Our revenue derived from the sale of home decor products slightly increased from approximately RMB559.6 million in 2010 to approximately RMB560.9 million in 2011, and decreased to approximately RMB532.2 million in 2012. Our revenue derived from the sales of home decor products decrease from approximately RMB247.7 million for the six months ended 30 June 2012 to RMB238.5 million for the six months ended 30 June 2013.

The increase in our revenue derived from the sales of our electric fireplaces and the decrease in our revenue derived from the sale of our home decor products throughout the Track Record Period was primarily due to the increase in the sales volume of our electric fireplaces as a result of our increased allocation of resources in the electric fireplace segment which generally had an overall higher gross profit margin than our home decor products.

Electric fireplace

PRC sales of wood series — The revenue for 2010 was approximately RMB54.3 million and remained at a similar level at approximately RMB54.2 million in 2011 and increased to RMB151.7 million in 2012, and from approximately RMB53.3 million for the six months ended 30 June 2012 to approximately RMB119.6 million for the six months ended 30 June 2013. The increase was primarily due to the increase in our production capability as a result of relocation to our Luojiang Production Facilities in early 2011 which allowed us to design and manufacture the wood frames and/or mantels of our wood series electric fireplaces and therefore offered a wider range of products to satisfy our customers' preferences, which led to an increase in our sales volume as well as the average selling price of the wood series electric fireplaces. Prior to early 2011, we procured wood frames from Independent Third Parties.

PRC sales of natural stone series — The decrease in revenue from approximately RMB106.6 million in 2010 to approximately RMB105.2 million in 2011 was mainly due to an decrease in average unit price of this series from approximately RMB5,415 per unit in 2010 to approximately RMB5,306 per unit in 2011. The revenue increased from approximately RMB105.2 million in 2011 to approximately RMB127.8 million in 2012 which was primarily due to the increase in the average selling price of approximately RMB5,306 per unit in 2011 to approximately RMB5,813 per unit in 2012. The increase in the average selling price was primarily due to customers' preferences for natural stone series of higher selling prices.

PRC sales of inorganic series — The revenue increased from approximately RMB20.1 million in 2010 to approximately RMB36.0 million in 2011, and further to approximately RMB81.1 million in 2012, and from approximately RMB32.4 million for the six months ended 30 June 2012 to approximately RMB47.2 million for the six months ended 30 June 2013. The increase was primarily due to increase in our sales volume as well as a wide range of products which we offered in this series. The increase in sales volume of our inorganic series of electric fireplaces was primarily driven by the increase in market demand for this series due to customer preferences as we offer more styles of inorganic electric fireplaces and wide market acceptance with a lower average selling price compared with the other two series.

PRC sales of non-framed series — The revenue increased from approximately RMB1.5 million in 2010 to approximately RMB13.3 million in 2011 was primarily due to the increase in sales volume of our "noble series" (小貴族系列) electric fireplaces. The revenue further increased to approximately RMB25.3 million in 2012, which was primarily due to the continuing growth in sales volume of our "noble series" (小貴族系列) electric fireplaces and the launch of wall-mounted electric fireplaces during the year. The increase of revenue from approximately RMB15.7 million for the six months ended 30 June 2012 to approximately RMB22.3 million for the six months ended 30 June 2013 was primarily due to the same reasons.

Overseas sales of wood series — The revenue increased from approximately RMB3.7 million in 2010 to approximately RMB18.9 million in 2011, which was primarily due to the increase in our production capabilities as explained above.

Home decor products

The revenue of our home decor products grew slightly from 2010 to 2011 and was on the decreasing trend from 2011 onwards. For the PRC sales of our home decor products, the revenue increased slightly from approximately RMB442.2 million in 2010 to approximately RMB464.2 million in 2011 and then decreased slightly to approximately RMB455.0 million in 2012. For the six months ended 30 June 2012, the revenue was approximately RMB211.3 million and decreased to approximately RMB206.2 million for the six months ended 30 June 2013. Such fluctuations were mainly driven by the decrease in sales volume (in terms of pieces) and offset by the effect from increase in average selling price per piece. To our best knowledge and belief, the increase in average selling price per piece was mainly due to the products sold in 2011 and 2012 which were generally larger or heavier in size which led to a general increase in average selling price per piece.

For overseas sales of our home decor products, the revenue decreased from approximately RMB117.4 million in 2010 to approximately RMB96.7 million in 2011 and further to approximately RMB77.2 million in 2012. For the six months ended 30 June 2012, the revenue was approximately RMB36.4 million and decreased to approximately RMB32.3 million for the six months ended 30 June 2013. The decrease was mainly due to our increased allocation of resources to promote and develop our electric fireplaces in the PRC market during the relevant year/period.

Breakdown by regions

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (Unaudited)	*%*	*RMB'000*	*%*
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)										
– 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.

During the Track Record Period, our PRC sales recorded an increasing trend while our overseas sales recorded a decreasing trend. All of our PRC sales of electric fireplaces and home decor products are made under our Allen (亚伦) brand and our overseas sales are made on an ODM/OEM basis.

For the three years ended 31 December 2012 and the six months ended 30 June 2012 and 2013, our PRC sales accounted for approximately 83.1%, 83.7%, 86.8% , 89.5% and 91.3% of our total revenue, respectively, while our overseas sales accounted for approximately 16.9%, 16.3%, 13.2%, 10.5% and 8.7% of our total revenue, respectively. The increase in our PRC sales throughout the Track Record Period was primarily due to the increase in our sale volumes of electric fireplaces in the PRC market from 57,557 units in 2010 to 98,964 units in 2011 and further to 188,720 units in 2012, and from 87,858 units for the six months ended 30 June 2012 to 130,241 units for the six months ended 30 June 2013. The increase was in line with our strategy in allocating more resources to develop the PRC market which generally has a higher gross profit margin than that of the overseas market. Our Directors believe that the financial crisis in U.S. and Europe over the past few years was the major reason which caused the weaker demand and put pressure on the average selling prices of our products in overseas markets when compared with the PRC market. Factors including the increase in our production capabilities as a result of relocation of our production facilities to Luojiang Production Facilities in early 2011, allocation of more resources to develop the PRC market and promotion of our electric fireplace products and brand recognition attributed to the increase in our PRC sales over the Track Record Period.

Revenue breakdown by customers

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (Unaudited)	*%*	*RMB'000*	*%*
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	–	–	–	–	563	0.1	4	–	144	–
Total:	751,819	100.0	804,072	100.0	969,026	100.0	397,529	100.0	493,891	100.0

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

For the three years ended 31 December 2012 and the six months ended 30 June 2012 and 2013, our revenue to trading entities accounted for approximately 81.3%, 81.1%, 85.9%, 85.1% and 88.0% of our total revenue, respectively, while our revenue to the retail companies accounted for approximately 18.7%, 18.9%, 14.0%, 14.9% and 12.0% of our total revenue, respectively.

A large portion of our products are sold to trading entities located in the PRC. Our revenue to trading entities was on the increasing trend during the Track Record Period. Our revenue to our trading entity customers increased from approximately RMB611.2 million for the year ended 31 December 2010 to approximately RMB652.1 million for the year ended 31 December 2011, further increased to approximately RMB832.7 million for the year ended 31 December 2012. Our revenue to trading entities increased from approximately RMB338.1 million for the six months ended 30 June 2012 to approximately RMB434.5 million for the six months ended 30 June 2013. The increase was in line with the increase in number of trading entity customers from 61 as of 31 December 2010 to 76 as of 31 December 2011 and further to 115 as of 31 December 2012. The number of trading entity customers as of 30 June 2013 was 103. Such growth was mainly driven by the increasing recognition of our products and brand in the market and our increased allocation of more resources to promote our electric fireplace products and PRC market.

Our revenue to our retail company customers increased from approximately RMB140.7 million for the year ended 31 December 2010 to approximately RMB152.0 million for the year ended 31 December 2011, further decreased to approximately RMB135.8 million for the year ended 31 December 2012. The decrease of our revenue to retail company customers was in line with our strategy to develop trading entity customers in the PRC which we believe, have higher gross profit margins and are more profitable.

Pricing

The following table shows the highest, lowest unit price and average unit selling price (all excluding value-added tax) of our products:

	Year ended 31 December 2010				2011				2012				Six months ended 30 June 2012				2013			
	Highest selling price (RMB)	Lowest selling price (RMB)	Average price per unit/ piece (RMB)	Average price per tonne (RMB)	Highest selling price (RMB)	Lowest selling price (RMB)	Average price per unit/ piece (RMB)	Average price per tonne (RMB)	Highest selling price (RMB)	Lowest selling price (RMB)	Average price per unit/ piece (RMB)	Average price per tonne (RMB)	Highest selling price (RMB)	Lowest selling price (RMB)	Average price per unit/ piece (RMB)	Average price per tonne (RMB)	Highest selling price (RMB)	Lowest selling price (RMB)	Average price per unit/ piece (RMB)	Average price per tonne (RMB)
Electric fireplace																				
Framed electric fireplace																				
Wood series	3,807	1,823	2,564	N/A	3,806	1,218	2,237	N/A	6,880	1,249	2,941	N/A	6,880	1,823	2,717	N/A	6,880	855	3,297	N/A
Natural stone series	6,712	3,983	5,415	N/A	6,712	3,838	5,306	N/A	14,444	3,838	5,813	N/A	14,444	3,838	5,277	N/A	14,444	3,838	5,957	N/A
Inorganic series	3,778	1,078	1,506	N/A	1,704	882	1,325	N/A	1,704	317	1,169	N/A	1,704	502	1,300	N/A	1,709	317	1,222	N/A
Non-framed electric fireplace	427	427	427	N/A	768	406	425	N/A	923	354	436	N/A	923	406	426	N/A	769	352	444	N/A
Home decor products																				
Polyresin series	1,217	0.5	5.8	15,303	1,003	0.7	17.2	18,487	3,328	1.1	49.0	18,354	742	1.6	41.0	18,657	3,025	0.5	63.0	20,024
Porcelain series	91	0.5	6.6	8,220	165	0.3	10.9	10,068	243	0.2	16.5	10,742	27	0.2	11.5	9,570	209	0.8	18.8	13,112
Inorganic series	556	4.7	89.1	8,376	506	5.0	114.7	9,443	527	10.1	131.7	9,289	452	21.4	141.4	9,708	452	9.9	106.1	9,266

Notes:

1. We offer a diversified range of electric fireplaces. The selling prices of the electric fireplaces are affected by a variety of factors and varies with sizes, styles and popularity and preferences of the products.

2. The home decor products we offer include a comprehensive range of products ranging from indoor mini-figurines, seasonal ornaments to outdoor fountains and gardening crafts and sculptures of different sizes with a diversified selling price range, and the average unit selling price may not be representative as to the prices of the home decor products.

3. As the average selling price per piece of our home decor products may not be representative, we included the average price of home decor products in terms of tonnes for reference and indicative purposes only, which show a relative stable trend over the periods.

4. The fluctuation of the average selling price of the inorganic series of our electric fireplaces during the Track Record Period was primarily due to the diversity in terms of size and types with wide range of selling prices in this series.

5. The increase in the average selling price per tonne for our home decor products during the Track Record Period was primarily due to the transfer to the selling prices of (i) the increase in purchase price of raw materials and direct labour costs; and (ii) the increased number of accessories that were required for larger sized home decor products developed during the Track Record Period.

6. The increase in average selling price may not directly affect the gross profit margins for our home decor products because the selling prices of our home decor products are, to a large extent, driven by size and types of the products.

A sensitivity analysis of our net profit with reference to the average selling prices of our products during the Track Record Period is set forth below. The movement of average selling prices of our products used in the below analysis represents 5%, 10%, 15% and the maximum fluctuation of the average selling prices of our products during the Track Record Period:

	Hypothetical increase/ decrease of 5% in average selling price of electric fireplaces	**Hypothetical increase/ decrease of 10% in average selling price of electric fireplaces**	**Hypothetical increase/ decrease of 15% in average selling price of electric fireplaces**	**Hypothetical increase/ decrease of 21% in average selling price of electric fireplaces**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Increase/decrease of our net profits				
Year ended 31 December 2010	8,410	16,820	25,230	35,322
Year ended 31 December 2011	10,637	21,274	31,911	44,675
Year ended 31 December 2012	18,566	37,132	55,698	77,977
Six months ended 30 June 2012 (Unaudited)	6,366	12,732	19,098	26,737
Six months ended 30 June 2013	10,853	21,706	32,559	45,583
Year ending 31 December 2013 (Forecast)	28,842	57,684	86,526	121,137

	Hypothetical increase/ decrease of 5% in average selling price of home decor products	**Hypothetical increase/ decrease of 10% in average selling price of home decor products**	**Hypothetical increase/ decrease of 15% in average selling price of home decor products**	**Hypothetical increase/ decrease of 33% in average selling price of home decor products**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Increase/decrease of our net profits				
Year ended 31 December 2010	24,482	48,964	73,446	161,581
Year ended 31 December 2011	24,541	49,082	73,623	161,971
Year ended 31 December 2012	19,956	39,912	59,868	131,710
Six months ended 30 June 2012 (Unaudited)	9,290	18,580	27,870	61,314
Six months ended 30 June 2013	8,944	17,888	26,832	59,030
Year ending 31 December 2013 (Forecast)	19,179	38,358	57,537	126,579

Cost of sales

Our cost of sales comprises the direct cost associated with the manufacturing of our products. It consists mainly of cost of raw materials used, direct labour costs, electricity and utilities, depreciation, packaging and other consumables and other manufacturing costs.

The table below sets forth the components of our cost of sales and the components as a percentage of total cost of sales for the periods indicated:

	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)			
Raw materials used	314,290	73.2	339,728	71.8	387,587	71.7	155,029	68.2	197,492	73.5
Direct labour costs	56,086	13.1	69,457	14.7	80,618	14.9	33,324	14.7	44,820	16.7
Packaging and consumables used	36,877	8.6	40,399	8.5	43,021	8.0	17,594	7.7	22,359	8.3
Electricity and utilities	5,627	1.3	6,630	1.4	8,447	1.6	3,510	1.5	4,473	1.7
Depreciation	3,763	0.9	6,285	1.3	6,786	1.3	3,352	1.5	3,474	1.3
Other manufacturing costs	11,852	2.7	17,977	3.9	18,513	3.3	8,494	3.8	9,091	3.3
Changes in inventories of finished goods and work in progress	804	0.2	(7,634)	-1.6	(4,143)	-0.8	5,905	2.6	(12,951)	-4.8
	429,299	100.0	472,842	100.0	540,829	100.0	227,208	100.0	268,758	100.0

The following table sets forth the cost of sales breakdown by product segments 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)			
Electric Fireplaces										
Frame electric fireplaces										
– wood series	29,695	30.2	36,281	27.5	72,848	32.8	22,475	28.9	52,980	42.1
– natural stone series	53,714	54.6	56,711	43.0	64,838	29.2	22,737	29.3	27,380	21.8
– inorganic series	13,814	14.1	28,765	21.8	65,499	29.5	20,868	26.9	29,190	23.2
Non-framed electric fireplaces	1,067	1.1	10,086	7.7	18,616	8.5	11,637	14.9	16,303	12.9
Electric fireplaces – Total:	98,290	100.0	131,843	100.0	221,801	100.0	77,717	100.0	125,853	100.0
Home Decor Products										
– polyresin series	195,863	59.2	214,050	62.8	211,042	66.2	100,601	67.3	83,366	58.3
– porcelain series	77,175	23.3	71,083	20.8	67,552	21.2	26,265	17.6	37,222	26.0
– inorganic series	57,971	17.5	55,866	16.4	40,434	12.6	22,625	15.1	22,317	15.7
Home decor products – Total:	331,009	100.0	340,999	100.0	319,028	100.0	149,491	100.0	142,905	100.0
Total:	429,299		472,842		540,829		227,208		268,758	

Our cost of sales increased from approximately RMB429.3 million for the year ended 31 December 2010, to approximately RMB472.8 million for the year ended 31 December 2011 and further to approximately RMB540.8 million for the year ended 31 December 2012. Our cost of sales increased from approximately RMB227.2 million for the six months ended 30 June 2012 to approximately RMB268.8 million for the six months ended 30 June 2013. The increase was broadly in line with the increase in our revenue over the same period and mainly attributable to the increase in the raw materials and packaging and other consumables purchased by us resulting from increase in our sales volume. Our direct labour costs were also increased during the period mainly due to the general increase in the wages of our staff.

Gross profit and gross profit margins

Gross profit and gross profit margins by products

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(Unaudited)			
Electric fireplaces										
Framed electric fireplace										
Wood series	28,277	48.8	36,883	50.4	98,627	57.5	30,791	57.8	69,628	56.8
Natural stone series	52,835	49.6	48,477	46.1	62,967	49.3	20,178	47.0	28,482	51.0
Inorganic series	12,442	47.4	22,752	44.2	46,620	41.6	17,085	45.0	24,296	45.4
Non-framed electric fireplaces	386	26.6	3,172	23.9	6,843	26.9	4,025	25.7	7,105	30.4
Sub-total:	93,940	48.9	111,284	45.8	215,057	49.2	72,079	48.1	129,511	50.7
Home decor products										
Polyresin series	121,720	38.3	129,862	37.8	131,947	38.5	60,300	37.5	53,557	39.1
Porcelain series	55,930	42.0	45,058	38.8	40,626	37.6	17,165	39.5	23,093	38.3
Inorganic series	50,930	46.8	45,026	44.6	40,567	50.1	20,777	47.9	18,972	45.9
Sub-total:	228,580	40.8	219,946	39.2	213,140	40.1	98,242	39.7	95,622	40.1
Total:	322,520	42.9	331,230	41.2	428,197	44.2	170,321	42.8	225,133	45.6

Gross profit and gross profit margin by regions

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(Unaudited)			
PRC sales (our Allen (亚伦) brand)	275,526	44.1	292,977	43.5	391,874	46.6	161,928	45.5	215,345	47.7
Overseas sales (on ODM/OEM basis)	46,994	36.9	38,253	29.2	36,323	28.4	8,393	20.0	9,788	22.9
Total:	322,520	42.9	331,230	41.2	428,197	44.2	170,321	42.8	225,133	45.6

Gross profit and gross profit margin by customers

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000*	*%*
							(Unaudited)			
Trading entities	265,820	43.5	273,683	42.0	375,785	45.1	150,039	44.4	200,219	46.1
Retail companies	56,700	40.3	57,547	37.9	52,148	38.4	20,280	34.1	24,845	41.9
Others	–	–	–	–	264	46.9	2	50.0	69	47.9
Total:	322,520	42.9	331,230	41.2	428,197	44.2	170,321	42.8	225,133	45.6

Gross profit

Our overall gross profit increased from approximately RMB322.5 million in 2010 to approximately RMB331.2 million to 2011 and further increased to approximately RMB428.2 million in 2012, and from approximately RMB170.3 million for the six months ended 30 June 2012 to approximately RMB225.1 million for the six months ended 30 June 2013. The increase was mainly driven by the increase in sales volume of electric fireplaces under our brand and offset by the slight decrease in gross profit from sales of home decor products due to decrease in sales volume.

Our continuing increase in gross profit of our electric fireplaces throughout the Track Record Period from approximately RMB93.9 million in 2010 to approximately RMB111.3 million to 2011 and further increased to approximately RMB215.1 million in 2012, and from approximately RMB72.1 million for the six months ended 30 June 2012 to approximately RMB129.5 million for the six months ended 30 June 2013 was principally due to the increase of our sales volume of framed electric fireplaces during the same period as a result of our efforts in the promotion of our electric fireplaces in the domestic market as well as our improved production capabilities after our relocation to Luojiang Production Facilities.

The gross profit of our home decor products decreased throughout the Track Record Period from approximately RMB228.6 million in 2010 to approximately RMB219.9 million in 2011, further to approximately RMB213.1 million in 2012, and from approximately RMB98.2 million for the six months ended 30 June 2012 to approximately RMB95.6 million for the six months ended 30 June 2013. The decrease was primarily due to the decrease in our sales volume of home decor products due to the weaker demand from overseas markets and also our allocation of resources to develop the PRC market for electric fireplaces.

The gross profit of our PRC sales increased throughout the Track Record Period from approximately RMB275.5 million in 2010 to approximately RMB293.0 million in 2011, further to approximately RMB391.9 million in 2012, and from approximately RMB161.9 million for the six months ended 30 June 2012 to approximately RMB215.3 million for the six months ended 30 June 2013. The increase was primarily due to the increase in the sales volumes in the PRC market as a result of our allocation of resources in developing the PRC market where sales of products were all made under our own brand while all our overseas sales were made on an ODM/OEM basis, which generally have a lower profit margin than sales under our own brand.

The gross profit of our overseas sales generally decreased throughout the Track Record Period from approximately RMB47.0 million in 2010 to approximately RMB38.3 million in 2011, further to approximately RMB36.3 million in 2012, and increase from approximately RMB8.4 million for the six months ended 30 June 2012 to approximately RMB9.8 million for the six months ended 30 June 2013 was primarily due to the decrease in our sales volumes in the overseas market due to the reason as stated in the above.

The gross profit of our sales to our trading entity customers increased throughout the Track Record Period from approximately RMB265.8 million in 2010 to approximately RMB273.7 million in 2011, further to approximately RMB375.8 million in 2012, and from approximately RMB150.0 million for the six months ended 30 June 2012 to approximately RMB200.2 million for the six months ended 30 June 2013 was primarily due to the increase in our sales volume and number of our trading entity customers in the PRC as explained above. During the Track Record Period, a large portion of our sales were made to our trading entity customers located in the PRC. The gross profit of our sales to our trading entity customers generally increased throughout the Track Record Period.

Gross profit margin

Our overall gross profit margin decreased from approximately 42.9% in 2010 to approximately 41.2% in 2011 primarily due to the decrease in the gross profit margin of our inorganic series electric fireplaces from approximately 47.4% in 2010 to approximately 44.2% in 2011 and the decrease of the gross profit margin of our inorganic series home decor products from approximately 46.8% in 2010 to approximately 44.6% in 2011.

Our overall gross profit margin improved from approximately 41.2% in 2011 to approximately 44.2% in 2012, and increased from approximately 42.8% for the six months 30 June 2012 to approximately 45.6% for the six months ended 30 June 2013 principally due to the continuing improvement of the gross profit margin of our electric fireplaces as a result of production efficiency, the increase in average unit selling price of our natural stone series electric fireplaces and wood series electric fireplaces due to market demand and increased variety of products we offered.

The gross profit margin of our natural stone series electric fireplaces decreased from approximately 49.6% in 2010 to approximately 46.1% in 2011 primarily due to higher sales volume of older models in this series in 2011, which generally had a lower gross profit margin.

The gross profit margin of our wood series electric fireplaces increased from approximately 48.8% in 2010 to approximately 50.4% in 2011, and further to approximately 57.5% in 2012 primarily due to the decrease to the average purchase price of wood during the same period. Also, our relocation to Luojiang Production Facilities enabled us to manufacture wood frames for our electric fireplaces which also contributed to our improved average selling price in 2012. The gross profit margin of our wood series electric fireplaces for the six months ended 30 June 2012 and 2013 remained relatively steady.

The gross profit margin of our inorganic series electric fireplace was on a decreasing trend from approximately 47.4% in 2010 to approximately 44.2% in 2011 and further to approximately 41.6% in 2012. This was primarily due to the increase in overseas sales of our inorganic series electric fireplace from approximately RMB6.2 million 2010 to approximately RMB15.5 million in 2011, and further to approximately RMB31.0 million in 2012. The average selling price of our overseas sales of inorganic series electric fireplaces generally was lower than the average selling price of our PRC sales for the same series and therefore had an downward impact on the overall gross profit margin of our inorganic series electric fireplaces. The gross profit margin of our inorganic series electric fireplaces for the six months ended 30 June 2012 and 2013 remained relatively steady.

The gross profit margin of our non-framed electric fireplaces decreased from approximately 26.6% in 2010 to approximately 23.9% in 2011 which was primarily due to the sales of older models of "noble series" (小貴族系列) in this series in 2011, which generally had a lower gross profit margin. The gross profit margin of our non-framed electric fireplaces increased from approximately 23.9% in 2011 to approximately 26.9% in 2012 was primarily due to the launch of wall-mounted electric fireplaces in 2011, which contributed to a higher gross profit margin 2012.

The gross profit margin of our polyresin series home decor products fluctuated slightly throughout the Track Record Period.

The gross profit margin of our porcelain series home decor products decreased from approximately 42.0% in 2010 to approximately 38.8% in 2011 primarily due to (i) increase in overseas sales, which generally has a lower gross profit margin than that of PRC sales, from approximately RMB9.1 million in 2010 to approximately RMB13.9 million; and (ii) certain customers which placed large sale orders of our porcelain series home decor products in 2010 significantly reduced their sale orders in 2011. The gross profit margin of our porcelain series home decor products remained relatively steady for 2012 and the six months ended 30 June 2012 and 2013.

The gross profit margin of our inorganic series home decor products decreased from approximately 46.8% in 2010 to approximately 44.6% in 2011 primarily due to the general increase in the average purchase price of major raw materials used for production of this series products. The gross profit margin of our inorganic series home decor products increased from approximately 44.6% in 2011 to approximately 50.1% in 2012 which was primarily due to the decrease in overseas sales of this series from approximately RMB12.0 million in 2011 to approximately RMB3.5 million in 2012.

Other income

Other income mainly represents bank interest income generated from our bank deposits and rental income received from Independent Third Party in relation to their leases of our properties located in Quangang, Fujian. The following table sets forth the breakdown of our other income 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* (Unaudited)	*RMB'000*
Rental income	–	257	219	110	141
Interest income	576	1,316	2,394	1,459	1,511
Others	21	310	–	–	–
	597	1,883	2,613	1,569	1,652

Our increase in other income during the Track Record Period was primarily due to the interest income from the increase in our bank balance during the Track Record Period.

Selling and distribution costs

Selling and distribution costs mainly represents delivery expenses and advertising and promotion expenses.

The table below sets forth the components of our selling and distribution costs during the period indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* (Unaudited)	*%*	*RMB'000*	*%*
Delivery expenses	13,738	40.5	21,488	44.1	26,655	49.8	12,723	46.7	11,724	46.6
Advertising and promotion expenses	11,309	33.3	16,590	34.1	17,664	33.0	10,295	37.8	8,571	34.1
Salary expense	2,183	6.4	2,471	5.1	2,830	5.3	1,242	4.6	1,615	6.4
Entertainment and travelling expenses	2,395	7.1	3,548	7.3	1,654	3.1	864	3.2	1,270	5.0
Exhibition expenses	1,983	5.8	2,217	4.6	2,324	4.4	1,223	4.5	1,050	4.2
Port surcharges	2,293	6.8	2,264	4.7	2,032	3.8	785	2.9	357	1.4
Depreciation	40	0.1	45	0.0	61	0.1	34	0.1	35	0.1
Others	–	–	64	0.1	284	0.5	49	0.2	542	2.2
	33,941	100.0	48,687	100.0	53,504	100.0	27,215	100.0	25,164	100.0

The majority of delivery expenses are incurred for the delivery of our products to specified locations of our domestic customers and to specified ports in the PRC for export to overseas customers. Custom port surcharges are mainly incurred in relation to our Group's overseas sales.

For 2010, 2011, 2012 and the six months ended 30 June 2013, our delivery expenses represented approximately 1.8%, 2.7%, 2.8% and 2.4% of our total revenue, respectively, while our advertising and promotion expenses represented approximately 1.5%, 2.1%, 1.8% and 1.7% of our total revenue, respectively.

Administrative expenses

The table below sets forth the components of our administrative expenses:

	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)			
Product design and development expenses *(note 1)*	11,477	45.2	8,098	27.4	13,547	31.5	5,036	28.1	9,872	28.2
Staff costs	4,205	16.6	5,330	18.1	5,536	12.9	3,375	18.8	4,983	14.3
Professional service fees in respect of listing preparation	–	–	–	–	2,718	6.3	1,209	6.8	4,464	12.8
Depreciation	1,317	5.2	1,463	5.0	3,753	8.7	1,755	9.8	2,898	8.3
Other taxes and levies	1,971	7.8	2,449	8.3	3,303	7.7	1,623	9.1	1,947	5.6
Bad debts direct written-off	–	–	–	–	1,309	3.0	–	–	1,930	5.5
Electricity and utilities	1,066	4.2	2,860	9.7	3,683	8.6	1,519	8.5	1,799	5.1
Net foreign exchange loss/(gain)	1,255	4.9	1,878	6.4	606	1.4	(49)	-0.3	1,484	4.2
Amortisation	2,033	8.0	2,394	8.1	2,631	6.1	1,319	7.4	1,311	3.8
Entertainment and travelling expenses	968	3.8	1,629	5.5	625	1.5	295	1.6	1,020	2.9
Office expenses	851	3.4	1,112	3.8	1,119	2.6	517	2.9	734	2.1
Legal and professional fee	90	0.3	30	0.1	86	0.2	30	0.2	315	0.9
Loss on disposal of property, plant and equipment	–	–	626	2.1	3,131	7.3	1,045	5.8	35	0.1
Factory relocation expenses	–	–	315	1.1	194	0.5	–	–	–	–
Others *(note 2)*	155	0.6	1,318	4.4	754	1.7	231	1.3	2,166	6.2
	25,388	100.0	29,502	100.0	42,995	100.0	17,905	100.0	34,958	100.0

Notes:

1. The product design and development expenses included staff costs of employees in the design and technical team, which amounted to approximately RMB6.9 million, RMB4.8 million, RMB7.9 million, RMB3.0 million and RMB2.3 million in the corresponding period respectively. For the six months ended 30 June 2013, approximately RMB5.0 million was made to a university in Fuzhou, Fujian Province pursuant to our cooperation agreement.

   The decrease of product design and development expenses from approximately RMB11.5 million in 2010 to approximately RMB8.1 million in 2011 was primarily due to (i) the decrease of design and technical staff from 115 in 2010 to 108 in 2011; and (ii) the decrease in cost of raw materials used for product design and development from approximately RMB4.6 million in 2010 to approximately RMB3.3 million in 2011.

2. Others include repair and maintenance expenses.

Finance costs

Finance costs mainly represent interest expense on bank borrowings (less interest capitalised). Our finance costs in general fluctuated according to the balance of bank borrowings from RMB92.0 million, RMB50.0 million, RMB61.0 million to RMB64.4 million as at 31 December 2010, 2011 and 2012, and as at 30 June 2013. In 2010, the interest expense in relation to a bank borrowing of RMB50.0 million which was drawn on behalf of a related company was borne by the relevant related company.

Income tax expenses

The income tax expenses represents the PRC enterprise income tax of our PRC subsidiaries and withholding tax on unremitted profits of our PRC subsidiaries.

Our three PRC subsidiaries, China Allen, Fujian Allen and Quanzhou Allen, are entitled to a five-year tax holiday from the first tax profitable year, with two years of exemption from PRC enterprise income tax followed by a 50% reduction for the subsequent three years. As approved by the relevant tax authority, the tax holiday began from 2007.

Fujian Allen was qualified as a High and New Technology Enterprise in 2010. Under the PRC enterprise income tax law and as approved by the tax authority, a preferential tax rate of 15% PRC enterprise income tax rate was levied on Fujian Allen. Following the accreditation as a High and New Technology Enterprise, we are required to submit our financial statements together with details of our research and development activities, such as the number of our research and development staff and capital expenditures, and other technological innovation activities to the tax authority and other relevant authorities for annual review to continue to enjoy the 15% preferential tax treatment. This High and New Technology Enterprise status expired in July 2013 and Fujian Allen has been publicly notified that it has fulfilled the relevant requirements to be continuously accredited as a High and New Technology Enterprise in September 2013.

The applicable income tax rate for China Allen and Quanzhou Allen was 12.5% for the two years ended 31 December 2011, and 25% for the year ended 31 December 2012 and the six months ended 30 June 2012 and 2013. The applicable income tax rate for Fujian Allen was 12.5% for the two years ended 31 December 2011, and 15% for the year ended 31 December 2012 and the six months ended 30 June 2012 and 2013.

Our management are of the view that undistributed earnings totaled nil, RMB179.9 million, RMB346.6 million and RMB436.4 million as of 31 December 2010, 2011, 2012 and 30 June 2013, respectively, are for re-investment in the PRC and not for distribution. Accordingly, as of 31 December 2010, 2011 and 2012 and 30 June 2013, deferred income tax liabilities of nil, RMB9.0 million and RMB17.3 million and RMB21.8 million have not been recognised respectively, for the withholding tax that would be payable on the undistributed profits of subsidiaries in the PRC.

Our income tax expenses for the years ended 31 December 2010, 2011, 2012 and for the six months ended 30 June 2012 and 2013 was RMB43.5 million, RMB35.0 million, RMB69.7 million, RMB30.6 million and RMB34.7 million, respectively. Our effective tax rate for the same periods was 16.6%, 13.8%, 21.0%, 24.4% and 21.1%, respectively. Our effective tax rates were lower than the prevailing statutory tax rate for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2012 and 2013 primarily due to the preferential tax rate granted to China Allen, Fujian Allen and Quanzhou Allen.

Our Directors confirm that we have paid all relevant income taxes and that we are not aware of any disputes and/or unresolved tax issues raised by any relevant PRC tax authorities.

Dividends

We declared dividends of approximately RMB128.3 million, RMB166.0 million and RMB54.4 million for the three years ended 31 December 2012, respectively. For the six months ended 30 June 2012 and 2013, we declared dividends of approximately RMB54.4 million and RMB91.8 million, respectively.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six months ended 30 June 2013 compared to six months ended 30 June 2012

Revenue

Our revenue increased by approximately 24.3% from approximately RMB397.5 million for the six months ended 30 June 2012 to approximately RMB493.9 million for the six months ended 30 June 2013. The increase is primarily due to the increase in the sales of our electric fireplaces.

Electric fireplace segment

Our revenue derived from sales of electric fireplaces increased by approximately 70.5% from approximately RMB149.8 million for the six months ended 30 June 2012 to approximately RMB255.4 million for the six months ended 30 June 2013. The increase in revenue was mainly attributable to the increase in our sales volume of electric fireplace of 93,669 units for the six months ended 30 June 2012 to 142,990 units for the six months ended 30 June 2013 driven by the increasing market demand for our electric fireplaces as a result of our promotion of electric fireplaces under our Allen (亚伦) brand.

Home decor product segment

Our revenue derived from sales of home decor products slightly decreased by approximately 3.7% from approximately RMB247.7 million for the six months ended 30 June 2012 to approximately RMB238.5 million for the six months ended 30 June 2013, which was primarily due to the decrease in sales volume of home decor products from approximately 8.0 million pieces to approximately 5.8 million pieces over the same corresponding period as we have placed more resources to develop and promote our sales of electric fireplaces in the PRC market. Our sales volume in terms of total weight of our products however decreased to a lesser extent from 17,634 tonnes to 15,894 tonnes as we sold more larger or heavier products under the inorganic series in the six months ended 30 June 2013.

Cost of sales

The increase in our cost of sales by approximately 18.3% from approximately RMB227.2 million for the six months ended 30 June 2012 to approximately RMB268.8 million for the six months ended 30 June 2013 was principally due to the (i) increase in the cost of raw materials used, net of changes in inventories of finished goods and work in progress and packaging and consumables used resulting from the increase in our sales and production volume of our electric fireplaces and (ii) the increase in direct labour costs due to general increase in wages of our staff.

Gross profit and gross profit margin

The increase in our gross profit was mainly attributable to an increase in the gross profit of our framed electric fireplaces. The total gross profit margin increased by approximately 2.8% from approximately 42.8% for the six months ended 30 June 2012 to approximately 45.6% for the six months ended 30 June 2013. The increase in the gross profit margin was principally due to the increase in sales of our electric fireplaces.

Electric fireplace segment

The gross profit of our electric fireplaces increased from approximately RMB72.1 million for the six months ended 30 June 2012 to approximately RMB129.5 million for the six months ended 30 June 2013 primarily due to the increase in PRC sales of our wood series electric fireplaces from approximately RMB53.3 million to approximately RMB119.6 million for the corresponding period respectively. This was mainly driven by the increase in sales volume from 19,608 units and 34,766 units for the corresponding period as a result of (i) market demand and acceptance of this series of products; (ii) increased product portfolio offered by us; (iii) our continuing efforts in the promotion of our brand in the PRC and (iv) the increase in the average selling prices of our products.

The gross profit margin of our electric fireplaces increased by approximately 2.6% from approximately 48.1% for the six months ended 30 June 2012 to approximately 50.7% for the six months ended 30 June 2013 primarily due (i) the increase in the average selling prices of our products and (ii) significant decrease in the cost of wood slabs which is one of the major raw materials for the production of our wood series electric fireplaces.

Home decor product segment

The gross profit of our home decor products decreased by approximately 2.6% from approximately RMB98.2 million for the six months ended 30 June 2012 to approximately RMB95.6 million for the six months ended 30 June 2013 primarily due to the decrease in sales volume as we have placed more efforts in promoting our electric fireplaces in the PRC markets.

The gross profit margin of our home decor products increased from approximately 39.7% for the six months ended 30 June 2012 to approximately 40.1% for the six months ended 30 June 2013 primarily due to the increase in gross profit margin of our polyresin series home decor products offset by the decrease in gross profit margin of our inorganic series home decor products.

Other income

Our other income remained relatively steady at approximately RMB1.6 million for the six months ended 30 June 2012 and approximately RMB1.7 million for the six months ended 30 June 2013.

Selling and distribution costs

Our selling and distribution costs decreased slightly by approximately 7.4% from approximately RMB27.2 million for the six months ended 30 June 2012 to approximately RMB25.2 million for the six months ended 30 June 2013, which was mainly due to (i) increase in sales to customers located in the nearby region such as Fujian Province, which consequently reduced the delivery expenses, and (ii) the decrease in our advertising and promotion expenses for internet search engines.

Administrative expenses

Our administrative expenses increased by approximately 95.5% from approximately RMB17.9 million for the six months ended 30 June 2012 to approximately RMB35.0 million for the six months ended 30 June 2013, which was mainly due to (i) the increase in the product design and development expenses from approximately RMB5.0 million for the six months ended 30 June 2012 to approximately RMB9.9 million for the six months ended 30 June 2013; and (ii) increase in staff costs due to general increase in staff wages; (iii) the professional fee in respect of the Listing and (iv) bad debts written off for certain individual customers with payment due dates over 180 days.

Finance costs

Our finance costs increased by approximately 118.2% from approximately RMB1.1 million for the six months ended 30 June 2012 to approximately RMB2.4 million for the six months ended 30 June 2013. The increase was mainly due to the interest on bank borrowings drawn in relation to the construction of a building which was completed in 2012 and was no longer capitalised in 2013.

Income tax expenses

Our income tax expenses increased slightly by approximately 13.4% from approximately RMB30.6 million for the six months ended 30 June 2012 to approximately RMB34.7 million for the six months ended 30 June 2013, which was mainly attributable to the increase in our profit.

Profit before income tax

Profit before income tax increased by approximately 30.6% from approximately RMB125.7 million for the six months ended 30 June 2012 to approximately RMB164.2 million for the six months ended 30 June 2013 primarily as a result of the factors described above.

Net profit

As a result of the above factors, our net profit increased by approximately 36.2% from approximately RMB95.1 million for the six months ended 30 June 2012 to approximately RMB129.5 million for the six months ended 30 June 2013.

Year ended 31 December 2012 compared with the year ended 31 December 2011

Revenue

Our revenue increased by approximately 20.5% from approximately RMB804.1 million in 2011 to approximately RMB969.0 million in 2012. The increase is primarily due to the increase in sales of electric fireplaces.

Electric fireplace segment

Our revenue derived from sales of electric fireplaces significantly increased by approximately 79.7% from approximately RMB243.1 million in 2011 to approximately RMB436.9 million in 2012, primarily due to the increase in our sales volume of electric fireplace of 122,641 units for the year ended 31 December 2011 to 234,657 units for the year ended 31 December 2012, which was principally driven by (i) the increase in market demand of our electric fireplace from our development of the PRC market; (ii) market recognition of our Allen (亚伦) brand through promotion and advertising; (iii) the benefit of enhanced production capabilities from the relocation to Luojiang Production Facilities in 2011 and (iv) an increase in our product mix and product portfolio in the PRC. In particular, the sales volume of our wood series electric fireplaces and inorganic series electric fireplaces increased from 32,704 units and 38,887 units, respectively, for the year ended 31 December 2011 to 58,304 units and 95,941 units, respectively, for the year ended 31 December 2012 as a result of better market demand and acceptance. The sales volume for our non-framed electric fireplaces also increased from 31,224 units in 2011 to 58,427 in 2012 driven by the sales of "noble series" (小貴族系列) and wall-mounted electric fireplaces.

Home decor products segment

Our revenue derived from sales of home decor products slightly decreased by approximately 5.1% from approximately RMB560.9 million in 2011 to approximately RMB532.2 million in 2012, which was primarily due to our efforts to promote our sales of electric fireplaces in the domestic market and the decrease in sales to the European markets as a result of the downturn of the European economy.

Cost of sales

Our cost of sales increased by approximately 14.4% from approximately RMB472.8 million in 2011 to approximately RMB540.8 million in 2012. The increase in the cost of sales was in line with our increase in revenue. The increase was principally due to the (i) increase in the cost of raw material used, resulting from the increase in our sales and production volume of our electric fireplaces and (ii) the increase in direct labour costs.

Gross profit and gross profit margin

Our gross profit increased by approximately 29.3% from approximately RMB331.2 million in 2011 to approximately RMB428.2 million in 2012, which was mainly attributable to an increase of the gross profit of our electric fireplace from approximately RMB111.3 million for the year ended 31 December 2011 to approximately RMB215.1 million for the year ended 31 December 2012. The increase was principally due to the general increase in sales volume and average unit selling price of our electric fireplaces as a result of (i) our continuing efforts in allocating our resources in developing the PRC market and promoting our electric fireplace products; (ii) increasing brand recognition and market demand for our electric fireplaces and (iii) the increased product mix and product portfolio offered by us.

Electric fireplace segment

The gross profit of our electric fireplaces increased from approximately RMB111.3 million in 2011 to approximately RMB215.1 million in 2012, which was primarily due to the increase in our sales volume of electric fireplaces for reasons stated above.

The gross profit margin of our electric fireplace increased by approximately 3.4% from approximately 45.8% for the year ended 31 December 2011 to approximately 49.2% for the year ended 31 December 2012 primarily due to (i) better production efficiency after our relocation to the Luojiang Production Facilities and (ii) decrease in average purchase cost of wood slabs and solid wood which are major raw materials for our wood series electric fireplaces.

Home decor products segment

The gross profit of our home decor products decreased by approximately 3.1% from approximately RMB219.9 million for the year ended 31 December 2011 to approximately RMB213.1 million for the year ended 31 December 2012 primarily due to the decrease in sales volume but partly offset by increase in average selling price of home decor products.

The gross profit margin of our home decor products remain relative steady from 2011 to 2012.

Other income

Our other income increased by approximately 36.8% from approximately RMB1.9 million in 2011 to approximately RMB2.6 million in 2012 primarily due to increase in interest income. Our interest income increased by 84.6% from approximately RMB1.3 million in 2011 to approximately RMB2.4 million in 2012 due to significant increase in cash and bank balances generated from our operations.

Selling and distribution costs

Our selling and distribution costs increased by approximately 9.9% from approximately RMB48.7 million in 2011 to RMB53.5 million in 2012 primarily due to increase in delivery expenses and advertising and promotion expenses.

Our delivery expenses increased by approximately 24.2% from approximately RMB21.5 million in 2011 to approximately RMB26.7 million in 2012 due to the increase in the sales volume of our products and the increase in the number of our trading entity and retail company customers. Our advertising and promotion expenses increased by approximately 6.6% from approximately RMB16.6 million in 2011 to approximately RMB17.7 million in 2012, which mainly related to the promotion of our Allen (亚伦) brand through advertisements by online platform and industry magazines.

Administrative expenses

Our administrative expenses increased by approximately 45.8% from approximately RMB29.5 million in 2011 to approximately RMB43.0 million in 2012 primarily due to (i) the depreciation of approximately RMB2.3 million on buildings located in Licheng and Luojiang in which their construction were completed during 2011 and 2012 and (ii) the increase in our product design and development expenses from approximately RMB8.1 million for the year ended 31 December 2011 to approximately RMB13.5 million for the year ended 31 December 2012. The increase in product design and development expenses was primarily due to the increase of our product design and technical staff from 108 in 2011 to 117 in 2012 and also the increased cost of raw materials.

Finance costs

Our finance costs increased significantly by approximately 76.5% from approximately RMB1.7 million in 2011 to approximately RMB3.0 million in 2012 primarily due to increase in bank borrowings from RMB50.0 million in 2011 to RMB61.0 million in 2012.

Income tax expenses

Our income tax expenses significantly increased by approximately 99.1% from approximately RMB35.0 million in 2011 to approximately RMB69.7 million in 2012 primarily due to expiry of PRC enterprise income tax holiday enjoyed by China Allen, Fujian Allen and Quanzhou Allen in 2011. In 2012, the applicable PRC enterprise income tax rate of China Allen and Quanzhou Allen was 25%, and, due to tax preference as a High and New Technology Enterprise, that of Fujian Allen was 15%.

Profit before income tax

Profit before income tax increased by approximately 30.8% from approximately RMB253.2 million in 2011 to approximately RMB331.3 million in 2012 primarily as a result of the factors described above.

Net profit

As a result of the above factors, our net profit increased by approximately 19.8% from approximately RMB218.3 million in 2011 to approximately RMB261.6 million in 2012.

Year ended 31 December 2011 compared with the year ended 31 December 2010

Revenue

Our revenue increased by approximately 7.0% from approximately RMB751.8 million in 2010 to approximately RMB804.1 million in 2011. The increase was primarily due to the increase in sales of electric fireplaces.

Electric fireplace segment

Our revenue derived from sales of electric fireplaces increased by approximately 26.5% from approximately RMB192.2 million in 2010 to approximately RMB243.1 million in 2011 primarily due to the increase in market demand of our electric fireplaces from our development of the PRC market and market recognition of our Allen (亚伦) brand through promotion and advertising. In 2011, we sold 122,641 units of electric fireplaces representing an increase of approximately 94.3% from 63,122 units of electric fireplaces sold in 2010. Such increase was mainly attributable to the increase in the number of units of non-framed electric fireplaces sold from 3,407 units in 2010 to 31,224 units in 2011 and the increase in the number of our inorganic series electric fireplaces sold from 17,430 units in 2010 to 38,887 units in 2011.

Home decor product segment

Our revenue derived from sales of home decor products slightly increased by approximately 0.2% from approximately RMB559.6 million in 2010 to approximately RMB560.9 million in 2011 primarily due to the increase in the average selling price of our home decor products offset by the decrease in sales volume as we had sold more products which were heavier in weight per unit but with higher unit selling prices for the polyresin series.

Cost of sales

Our cost of sales increased by approximately 10.1% from approximately RMB429.3 million in 2010 to approximately RMB472.8 million in 2011. The increase was principally due to the (i) increase in the raw materials used resulting from the increase in our sales and production volume of our electric fireplaces and (ii) the increase in direct labour costs.

Gross profit and gross profit margin

Our gross profit increased slightly by approximately 2.7% from approximately RMB322.5 million in 2010 to approximately RMB331.2 million in 2011, which was mainly attributable to an increase in the gross profit of our electric fireplaces from approximately RMB93.9 million for the year ended 31 December 2010 to approximately RMB111.3 million for the year ended 31 December 2011 principally due to increase in sales volume of our electric fireplace as explained above.

Electric fireplace segment

The gross profit of our electric fireplace segment increased from approximately RMB93.9 million in 2010 to approximately RMB111.3 million in 2011 primarily due to the above reasons.

The gross profit margin of our electric fireplace segment decreased from approximately 48.9% in 2010 to approximately 45.8% in 2011 primarily due to the decrease in the gross profit margins of our non-framed electric fireplaces from approximately 26.6% in 2010 to approximately 23.9% in 2011 and inorganic series electric fireplaces from approximately 47.4% in 2010 to approximately 44.2% in 2011 for the reasons stated above.

Home decor product segment

The gross profit of our home decor products decreased by approximately 3.8% from approximately RMB228.6 million for the year ended 31 December 2010 to approximately RMB219.9 million for the year ended 31 December 2011 primarily due to the decrease in sales volume of home decor product as we placed more efforts in developing and promoting our electric fireplaces in the PRC market.

The gross profit margin of our home decor products remain relative steady from 2010 to 2011.

Other income

Our other income increased by approximately 216.7% from approximately RMB0.6 million in 2010 to approximately RMB1.9 million in 2011 primarily due to the increase in interest income derived from bank balances from approximately RMB0.6 million in 2010 to approximately RMB1.3 million in 2011 and rental income received from Independent Third Party from nil in 2010 to approximately RMB0.3 million in 2011.

Selling and distribution costs

Our selling and distribution costs increased by approximately 43.7% from approximately RMB33.9 million in 2010 to approximately RMB48.7 million in 2011 primarily due to increase in delivery expenses and advertising and promotion expenses.

Our delivery expenses significantly increased by approximately 56.9% from approximately RMB13.7 million in 2010 to approximately RMB21.5 million in 2011 due to the increase in the sales our products to customers located in more distant provinces/cities (e.g. Chongqing, Liaoning Province and Jilin Province). Our advertising and promotion expenses significantly increased by approximately 46.9% from approximately RMB11.3 million in 2010 to approximately RMB16.6 million in 2011 due to our increased advertising spending on billboards in the PRC.

Administrative expenses

Our administrative expenses increased by approximately 16.1% from approximately RMB25.4 million in 2010 to approximately RMB29.5 million in 2011 primarily due to (i) increase of our electricity and utilities from approximately RMB1.1 million in 2010 to approximately RMB2.9 million in 2011 due to our relocation to the larger Luojiang Production Facilities; (ii) increase of entertainment and travelling expenses from approximately RMB1.0 million in 2010 to approximately RMB1.6 million in 2011 and (iii) factory relocation expenses of approximately nil in 2010 to approximately RMB0.3 million in 2011.

Finance costs

Our finance costs increased by approximately 30.8% from approximately RMB1.3 million in 2010 to approximately RMB1.7 million in 2011 despite that our bank borrowings decreased from approximately RMB92.0 million in 2010 to approximately RMB50.0 million in 2011 primarily due to the one-off bank borrowings of approximately RMB50.0 million drawn on behalf of a related company in October 2010 with the corresponding finance costs borne by the related company. Such borrowings were subsequently repaid by the related company to the bank directly during 2011.

Income tax expenses

Our income tax expenses decreased by approximately 19.5% from approximately RMB43.5 million in 2010 to approximately RMB35.0 million in 2011 primarily due to the reduction of withholding tax on undistributed earnings as the management intends to retain more earnings from the PRC subsidiaries for reinvestment purpose.

Profit before income tax

Profit before income tax decreased by approximately 3.5% from approximately RMB262.5 million in 2010 to approximately RMB253.2 million in 2011 primarily as a result of the factors described above.

Net profit

As a result of the above factors, our net profit slightly decreased by approximately 0.3% from approximately RMB218.9 million in 2010 to approximately RMB218.3 million in 2011.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity and capital resources have been, and are expected to continue to be, cash flow from operating activities and bank borrowings. Our principal uses of cash have been, and we expect will continue to be, for the funding of required working capital to support an increase in our scale of operations, purchase of property, plant and equipment and payments for the acquisition of land use rights and leasehold land.

Given our current credit status and the current availability of capital in China, we believe that we will not encounter any major difficulties in obtaining additional bank borrowings. We plan to fund our future business plans, capital expenditures and related expenses as described in this prospectus with cash from operating activities, the net proceeds from the Global Offering and through short-term and long-term indebtedness.

The following table is a summary of our consolidated statements of cash flows:

	Year ended 31 December			**Six months ended 30 June**	
	2010	**2011**	**2012**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Net cash generated from operating activities	193,584	148,152	293,954	131,939	82,412
Net cash (used in)/generated from investing activities	(251,634)	(168,339)	33,663	35,805	(19,611)
Net cash generated from/(used in) financing activities	35,662	8,000	10,951	(4,700)	(33,309)
Net (decrease)/increase in cash and cash equivalents	(22,388)	(12,187)	338,568	163,044	29,492
Cash and cash equivalents at beginning of year/period	42,037	18,652	5,227	5,227	343,794
Exchange losses on cash and cash equivalents	(997)	(1,238)	(1)	(3)	(10)
Cash and cash equivalents at end of the year/period	18,652	5,227	343,794	168,268	373,276

Cash flows from operating activities

Our cash generated from operating activities reflects profit before income tax, adjusted for (i) amortisation of land use right; (ii) loss on disposal of property, plant and equipment; (iii) depreciation of property, plant and equipment; (iv) interest income; (v) finance costs; (vi) foreign exchange losses on operating activities; (vii) bad debts direct written-off and (viii) net changes in working capital.

We had net cash generated from operating activities of approximately RMB82.4 million for the six months ended 30 June 2013 resulting from cash generated from operations of approximately RMB128.9 million offset by interest paid of approximately RMB2.4 million and income tax paid of approximately RMB44.1 million. Our cash generated from operating activities consisted of cash flows of approximately RMB176.3 million before net working capital outflows of approximately RMB47.4 million. The net working capital outflows were primarily due to increase in inventory of approximately RMB16.0 million, increase in prepayments and other receivables of approximately RMB0.9 million, decrease in trade and other payables of approximately RMB81.2 million offset by decrease in trade receivables of approximately RMB11.3 million and decrease in restricted bank deposits of approximately RMB39.4 million.

The increase in inventory was due to increase in sales orders received in June 2013 and increase in work in progress in relation to products to be delivered in July 2013. The increase in deposits, prepayments and other receivables was primarily due to the increase in prepayments made for advertising and promotion, the prepayments made pursuant to the cooperation agreement entered into with the University of Shanghai for Science and Technology (上海理工大學) and the increase in prepayments made for fees in relation to the Listing. The decrease in trade receivables and trade and other payables was due to the seasonality of our business with the second half of the year being the peak season of our electric fireplaces and that the balances of our trade receivables and trade and bills payables as of year end were usually higher than that as of 30 June of the same year. The decrease in restricted bank deposits was due to decrease in the guarantee deposits made to banks in relation to bills payable which also decreased during the period.

We had a net cash generated from operating activities of approximately RMB294.0 million for the year ended 31 December 2012 resulting from cash generated from operations of approximately RMB351.0 million offset by interest paid of approximately RMB4.1 million and income tax paid of approximately RMB52.9 million. Our cash generated from operating activities consisted of cash flows of approximately RMB350.2 million before net working capital inflows of approximately RMB0.8 million. The net working capital inflows were primarily due to increase in trade and other payables of approximately RMB169.6 million offset by increase in inventories of approximately RMB4.1 million, increase in trade receivables of approximately RMB87.2 million, increase in prepayments and other receivables of approximately RMB9.0 million, increase in restricted bank deposits of approximately RMB68.5 million and decrease in amounts due to related companies of approximately RMB0.1 million.

The increase in trade and other payables was primarily due to the increase in bills payable due to request of our suppliers to settle our payables by such instruments. The increase in inventories was due to the general increase in our sales orders for electric fireplaces in December 2012. The increase in trade receivables was due to the increase in sales while the increase in deposits, prepayments and other receivables was due to the prepayments made to a university in Fuzhou, Fujian Province pursuant to the cooperation agreement and the prepayments for leasehold improvement. The increase in restricted bank deposits was due to increase in deposits pledged with the banks for increased amount of bills payable drawn.

We had a net cash generated from operating activities of approximately RMB148.2 million for the year ended 31 December 2011 resulting from cash generated from operations of approximately RMB196.9 million offset by interest paid of approximately RMB3.4 million and income tax paid of approximately RMB45.4 million. Our cash generated from operating activities consisted of cash flows of approximately RMB266.3 million before net working capital outflows of approximately RMB69.4 million. The net working capital outflows were primarily due to increase in inventory of approximately RMB5.3 million, increase in trade receivables of approximately RMB58.7 million, increase in prepayments and other receivables of approximately RMB5.7 million, decrease in trade and other payables of approximately RMB6.8 million and offset by decrease in restricted bank deposits of approximately RMB7.0 million.

The increase in inventory was due to the increase in our sales orders for electric fireplaces in 2011. The increase in trade receivables as due to the increase in sales while the increase in deposits, prepayments and other receivables was primarily due to the increase in value-added tax export refund and the prepayments made for advertising. The decrease in trade and other payables was primarily due to decrease in purchases near year end to better plan for the coming lunar new year holidays in January 2012 and the decrease in restricted bank deposits was mainly due to our reduced usage of bills payable.

We had a net cash generated from operating activities of approximately RMB193.6 million for the year ended 31 December 2010 resulting from cash generated from operations of approximately RMB231.5 million offset by interest paid of approximately RMB2.6 million and income tax paid of approximately RMB35.3 million. Our cash generated from operating activities consisted of cash flows of approximately RMB271.6 million before net working capital outflows of approximately RMB40.1 million. The net working capital outflows were primarily due to increase in trade receivables of approximately RMB67.7 million, increase in restricted bank deposits of approximately RMB1.0 million and increase in amounts due to related companies of approximately RMB0.3 million offset by increase in trade and other payables of approximately RMB28.8 million and decrease in inventory of approximately RMB0.1 million.

The increase in trade and other payables was primarily due to increase in purchase of materials for production of electric fireplaces. The increase in trade receivables was due to increase in sales of electric fireplaces, while decrease in deposits, prepayments and other receivables was due to proceeds received from disposal made in 2009 of land use rights and property, plant and equipment of RMB4.3 million and the increase in restricted bank deposits was due to increase in required deposits pledged with the banks for bills payable drawn.

Cash flows from investing activities

Our cash outflows from investing activities during the Track Record Period mainly consisted of purchases of property, plant and equipment, prepayments of land use rights, short-term bank deposits and changes in amount due from/to a Controlling Shareholder. Our cash inflows from investing activities during the Track Record Period mainly consisted of proceeds from disposal of land use rights and property, plant and equipment and interest received.

We had a net cash outflow from investing activities of approximately RMB19.6 million for the six months ended 30 June 2013 primarily due to payment for purchases of property, plant and equipment of approximately RMB1.4 million, prepayments of land use rights for the Expanded Luojiang Production Facilities of approximately RMB9.3 million and decrease in amount due to a Controlling Shareholder of RMB10.4 million offset by interest received from bank deposits of approximately RMB1.5 million.

We had a net cash inflow from investing activities of approximately RMB33.7 million for the year ended 31 December 2012 primarily due to transfer of short-term bank deposits of approximately RMB35.6 million to restricted bank deposits in relation to more bills payable drawn during the year, interest received of approximately RMB2.4 million and increase in amount due to a Controlling Shareholder of approximately RMB7.2 million offset by payment for purchases of property, plant and equipment for our production facilities of approximately RMB11.6 million.

We had a net cash outflow from investing activities of approximately RMB168.3 million for the year ended 31 December 2011 primarily due to payment for purchases of property, plant and equipment for our production facilities of approximately RMB20.7 million, prepayments of land use rights for the Luojiang Production Facilities of approximately RMB2.5 million, addition to land use rights of approximately RMB3.6 million and increase in short-term bank deposits to earn additional interest of approximately RMB0.8 million and increase in amount due from a Controlling Shareholder of approximately RMB142.2 million offset by interest received from bank deposits of approximately RMB1.3 million.

We had a net cash outflow from investing activities of approximately RMB251.6 million for the year ended 31 December 2010 primarily due to payment for purchases of property, plant and equipment for the Luojiang Production Facilities of approximately RMB161.9 million, prepayments of land use rights for the Luojiang Production Facilities of approximately RMB10.1 million and increase in short-term bank deposits to earn more interests of approximately RMB34.8 million and increase in amount due from a Controlling Shareholder of approximately RMB49.7 million offset by proceeds from disposal of land use rights and property, plant and equipment of approximately RMB4.3 million and interest received from bank deposits of approximately RMB0.6 million.

Cash flows from financing activities

Our cash inflow from financing activities during the Track Record Period consisted of proceeds from borrowings and capital contribution from a Controlling Shareholder and our cash outflows from financial activities consisted of repayments of borrowings, changes in amount due from/to a Controlling Shareholder and dividends paid.

We had a net cash outflow from financing activities of approximately RMB33.3 million for the six months ended 30 June 2013 primarily due to dividends paid to equity holders of approximately RMB85.5 million and repayment of borrowings of approximately RMB6.6 million offset by capital contribution from a Controlling Shareholder of approximately RMB48.7 million.

We had a net cash inflow from financing activities of approximately RMB11.0 million for the year ended 31 December 2012 primarily due to proceeds from borrowings of approximately RMB64.0 million offset by repayment of borrowings of approximately RMB53.0 million.

We had a net cash inflow from financing activities of approximately RMB8.0 million for the year ended 31 December 2011, primarily due to proceeds from borrowings of approximately RMB50.0 million, offset by repayment of borrowings of approximately RMB42.0 million.

We had a net cash inflow from financing activities of approximately RMB35.7 million for the year ended 31 December 2010, primarily due to proceeds from borrowings of approximately RMB42.0 million and capital contribution from a Controlling Shareholder of approximately RMB44.7 million and offset by repayment of borrowings of approximately RMB51.0 million.

As of 31 October 2013, our cash balance (excluding restricted bank deposits) was approximately RMB509.6 million.

WORKING CAPITAL

Our Directors confirm that we have sufficient working capital for our present requirements, that is for at least the next 12 months from the date of this prospectus, taking into account the internal resources available to our Group, including the estimated net proceeds from the Global Offering, available banking facilities and cash flows from our operations.

INDEBTEDNESS

Borrowings

All of our borrowings were due within one year and were mainly denominated in RMB. The following table sets out our borrowings as of the dates indicated:

	As of 31 December			As of 30 June	As of 31 October
	2010	**2011**	**2012**	**2013**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current					
Secured bank borrowings	92,000	50,000	60,951	64,400	59,000

During the Track Record Period, our bank borrowings were primarily used for construction of new production facilities and as our general working capital except for an amount of RMB50.0 million which was drawn on behalf of a related company in 2010. Such amount was repaid during 2011. As of 31 October 2013, the amount of unutilised unrestricted banking facilities was approximately RMB148.1 million.

As of 31 December 2010, 2011 and 2012 and 30 June 2013, our borrowings were approximately their fair values, with an effective interest rate of 6.34%, 8.58% and 7.33% and 7.01%, respectively. Our borrowings were secured by certain property, plant and equipment, land use rights, our restricted bank deposits and guaranteed by the Controlling Shareholders and certain third parties.

The guarantee provided by our executive Director, Mr. Chen Fanglin, and other third parties for our borrowings will be released prior to the Listing. We believe that the release of guarantee provided by Mr. Chen Fanglin upon the Listing will not materially affect the terms of the relevant loans.

Below is an analysis of the assets we pledged as security for our bank borrowings as of the dates indicated:

	As of 31 December			As of 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Property, plant and equipment	26,964	25,705	206,903	203,115
Land use rights	37,032	36,138	60,084	59,344
Restricted bank deposits	–	–	5,260	5,000

For more information regarding the specific terms of our borrowings, including currency denominations and interest rates, please refer to "Appendix I — Accountant's Report — II. Notes to the financial information — 18. Borrowings" to this prospectus.

Except as described above, as of 31 October 2013, being the latest practicable date for determining our indebtedness, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

We did not experience any withdrawal of facilities, default in payment of bank borrowing or breach of financial covenants up to the Latest Practicable Date.

Our Directors confirmed that we had not experienced difficulties in meeting obligations during the Track Record Period and none of our Group's bank borrowings and facilities are subject to the fulfilment of covenants relating to financial ratio requirements or any other material covenants which would adversely affect our Group's ability to undertake additional debt or equity financings.

Our Directors confirm that there is no material change in our indebtedness position since 31 October 2013.

CONTINGENT LIABILITIES

As of 31 December 2010, 2011 and 2012 and 30 June 2013, we did not have any significant contingent liabilities and we confirm that as of the Latest Practicable Date, there had been no material contingent liabilities.

SUMMARY OF FINANCIAL RATIOS

	Notes	Year ended 31 December 2010	2011	2012	Six months ended 30 June 2012 (Unaudited)	2013
Return on equity (%)	*(1)*	40.2%	36.5%	32.5%	30.1%	29.3%
Return on total assets (%)	*(2)*	28.8%	28.8%	22.5%	22.4%	22.5%
Interest coverage ratio	*(3)*	202.4	151.1	111.7	119.8	68.6

		As of 31 December 2010	2011	2012	As of 30 June 2013
Gearing ratio (%)	*(4)*	16.9%	8.4%	8.1%	7.2%
Net debt to equity ratio (%)	*(5)*	13.5%	7.5%	N/A	N/A
Current ratio	*(6)*	1.8	2.2	2.1	2.8
Quick ratio	*(7)*	1.7	2.0	2.0	2.6

Notes:

(1) Return on equity is calculated based on our net profit/annualised profit attributable to our equity holders divided by our total equity as of the end of each reporting period.

(2) Return on total assets is calculated based on our net profit/annualised profit attributable to our equity holders divided by total assets as of the end of each reporting period.

(3) Interest coverage ratio is calculated based on our operating profit before finance costs and income tax divided by our finance costs during each reporting period.

(4) Gearing ratio is calculated based on our total debts (being our bank borrowings, amount due to related companies and amount due to a Controlling Shareholder) divided by our total equity as of the end of each reporting period.

(5) Net debt to equity ratio is calculated based on our net debt (i.e. total debts net of cash and cash equivalents) divided by our total equity as of the end of each reporting period.

(6) Current ratio is calculated based on our total current assets divided by our total current liabilities as of the end of each reporting period.

(7) Quick ratio is calculated based on our total current assets minus inventories divided by our total current liabilities as of the end of each reporting period.

Return on equity

Our return on equity decreased from approximately 40.2% for the year ended 31 December 2010 to approximately 36.5% for the year ended 31 December 2011, and to approximately 32.5% for the year ended 31 December 2012 and further to approximately 30.1% and 29.3% for the six months ended 30 June 2012 and 2013, respectively, which was primarily due to the increase in total equity resulting from the accumulation of profit for the year/period.

Return on total asset

Our return on total asset remained stable for the year ended 31 December 2010 and 2011 at approximately 28.8%. Our return on total asset decreased from approximately 28.8% for the year ended 31 December 2011 to approximately 22.5% for the year ended 31 December 2012 mainly due to the continuous increase in asset base resulting from the accumulation of profit during the year. Our return on total asset remained relatively stable at an annualised rate of approximately 22.5% for the six months ended 30 June 2013 as compared to approximately 22.4% for the six months ended 30 June 2012.

Interest coverage ratio

We did not rely heavily on bank borrowings to finance our operations during the Track Record Period. Our interest coverage ratio decreased from approximately 202.4 for the year ended 31 December 2010 to approximately 151.1 for the year ended 31 December 2011 and further decreased to approximately 111.7 for the year ended 31 December 2012, and approximately 119.8 and 68.6 for the six months ended 30 June 2012 and 2013, respectively, which was primarily due to the increase in our finance costs resulting from the increase in bank borrowings drawn for the construction of new production facilities.

Gearing ratio

Our gearing ratios decreased from approximately 16.9% as of 31 December 2010 to approximately 8.4% as of 31 December 2011 primarily due to the one-off bank borrowings of RMB50.0 million drawn on behalf of a related company in October 2010, which were subsequently repaid by the related company to the bank directly during 2011. Our gearing ratios were relatively stable and ranged from approximately 7.2% to approximately 8.4% as of 31 December 2011 and 2012 and 30 June 2013.

Net debt to equity ratio

Our net debt to equity ratio decreased from approximately 13.5% as of 31 December 2010 to approximately 7.5% as of 31 December 2011 primarily due to the above reason, which was offset by the decrease in cash and bank balance mainly used in capital expenditures, repayment of bank borrowings and payment of income tax. We recorded net cash positions as of 31 December 2012 and 30 June 2013.

Current ratio

Our current ratio remained stable as of 31 December 2010, 2011 and 2012 and ranged from approximately 1.8 to approximately 2.2. Our current ratio increased to approximately 2.8 as of 30 June 2013 primarily driven by the decrease in bills payable.

Quick ratio

Our quick ratio remained stable as of 31 December 2010, 2011 and 2012 and ranged from approximately 1.7 to approximately 2.0. Our quick ratio increased to approximately 2.6 as of 30 June 2013 primarily driven by the decrease in bills payable.

CAPITAL EXPENDITURES

Our capital expenditures primarily relate to our purchases of property, plant and equipment and land use rights. We have funded our historical capital expenditures through cash flows generated from operating activities, advance from a Controlling Shareholder and bank borrowings. The following table sets forth our capital expenditures for the periods indicated:

	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)	
Property, plant and equipment	163,228	26,714	10,874	1,423	1,156
Land use rights	10,832	25,435	–	–	–
Total:	174,060	52,149	10,874	1,423	1,156

Our total capital expenditure of approximately RMB174.1 million in 2010 was primarily related to the construction of the Luojiang Production Facilities. Our total capital expenditure significantly decreased by approximately 93.7% from approximately RMB174.1 million in 2010 to approximately RMB10.9 million in 2012. This decrease was primarily due to the establishment of the Luojiang Production Facilities which was completed in 2011.

Projected capital expenditures

The following table sets forth our projected capital expenditures for the periods indicated:

	Year ending 31 December	
	2013	**2014**
	RMB'000	*RMB'000*
Property, plant and equipment	25,300	269,400
Land use rights	76,294	57,750
Total:	101,594	327,150

Our planned capital expenditures primarily relate to our Anhui Production Facilities and Expanded Luojiang Production Facilities.

We plan to fund the planned capital expenditures outlined above through a combination of a portion of the net proceeds from the Global Offering, cash generated from operating activities and bank borrowings. For more details, please see the section headed "Future Plans and Use of Proceeds" in this prospectus. There is no guarantee that any of the planned capital expenditures will proceed as planned. As we continue to expand, we may incur additional capital expenditures. In future, we may consider debt or equity financing, depending on market conditions, our financial performance, our capital needs and other relevant factors.

COMMITMENTS

Capital commitments

Our capital commitments are primarily related to property, plant and equipment and land use rights. The following table set forth a summary of our capital commitments as of the dates indicated:

	As of 31 December			As of 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted but not provided for				
– Property, plant and equipment	19,178	8,328	771	8,608
– Land use rights	–	–	–	9,272
	19,178	8,328	771	17,880

Operating lease commitments

We lease offices and warehouses under non-cancellable operating lease agreements. The lease terms are between one and five years.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As of 31 December			As of 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
No later than 1 year	340	140	–	–
Later than 1 year and no later than 5 years	140	–	–	–
	480	140	–	–

NET CURRENT ASSETS

The following table sets out details of our current assets and liabilities of the dates indicated:

	As of 31 December			As of 30 June	As of 31 October
	2010	**2011**	**2012**	**2013**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current assets					
Inventories	18,029	23,317	27,369	43,412	37,548
Trade receivables	145,714	203,730	288,967	274,055	294,070
Deposits, prepayments and other receivables	1,851	7,535	16,499	17,384	10,536
Amount due from a related company	50,000	–	–	–	–
Amount due from a Controlling Shareholder	81,305	57,479	–	–	–
Restricted bank deposits	14,295	7,335	75,865	36,500	4,400
Short-term bank deposits	34,800	35,584	–	–	–
Cash and cash equivalents	18,652	5,227	343,794	373,276	509,596
	364,646	340,207	752,494	744,627	856,150
Current liabilities					
Trade and other payables	100,251	97,809	265,592	183,942	139,015
Amounts due to related companies	50	120	–	–	–
Amount due to a Controlling Shareholder	–	–	4,162	–	–
Bank borrowings	92,000	50,000	60,951	64,400	59,000
Current income tax liabilities	11,877	7,418	23,530	16,919	9,751
	204,178	155,347	354,235	265,261	207,766
Net current assets	160,468	184,860	398,259	479,366	648,384

As of 30 June 2013, our net current assets amounted to approximately RMB479.4 million, an increase of approximately RMB81.1 million or approximately 20.4% from approximately RMB398.3 million as of 31 December 2012. The increase was primarily due to decrease in our trade and other payables of approximately RMB81.7 million as a result of the settlement of the trade and other payables by the cash generated from operating activities.

Our increase in net current assets by approximately RMB213.4 million or approximately 115.4% from approximately RMB184.9 million in 2011 to approximately RMB398.3 million in 2012 was primarily due to the significant increase in cash and cash equivalents of approximately RMB338.6 million. The significant increase in cash and cash equivalents was due to the cash generated from our operations and increase in trade and bills payables of approximately RMB158.0 million.

Our net current assets of approximately RMB184.9 million as of 31 December 2011 increased from a net current assets of approximately RMB160.5 million as of 31 December 2010. The increase was primarily due to the increase in trade receivables by approximately RMB58.0 million from approximately RMB145.7 million in 2010 to approximately RMB203.7 million in 2011 and was offset by a decrease in amount due from a Controlling Shareholder from approximately RMB81.3 million in 2010 to RMB57.5 million in 2011.

FINANCIAL INSTRUMENTS

We have not entered into any financial instruments for hedging purposes.

OFF BALANCE SHEET TRANSACTIONS

We have not entered into any material off-balance sheet transactions or arrangements.

INVENTORY ANALYSIS

The following table sets out a summary of our inventory balance as at the end of each reporting period below for the periods indicated.

	As of 31 December			As of 30
	2010	**2011**	**2012**	**June 2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	8,378	6,032	5,941	9,033
Work in progress	6,872	4,413	7,902	19,899
Finished goods	2,779	12,872	13,526	14,480
	18,029	23,317	27,369	43,412

Our inventory balance had increased during the Track Record Period, which was mainly due to the increase in our sales and production volume for electric fireplaces during the same period.

The major raw materials used for our production are polyresin, marble and wood.

Our raw materials inventory balance was approximately RMB9.0 million as of 30 June 2013, which increased from approximately RMB5.9 million as of 31 December 2012. The increase was mainly due to the increase in sales and production volume of our electric fireplaces in June 2013 which required us to keep more commonly used inventory of our raw materials and the increase in our production capabilities as a result of relocation to our Luojiang Production Facilities in 2011. The increase of our raw material inventory as of 30 June 2013 was also due to maintaining more raw materials to meet the production needs in anticipation of higher sales in the second half of the year.

Our raw materials inventory balance decreased from approximately RMB8.4 million in 2010 to RMB6.0 million in 2011 primarily due to the 2012 Chinese New Year holiday falling earlier in the end of January 2012 and we generally manufacture more products before Chinese New Year, thus resulting in a lower raw materials inventory balance in 2011.

Our raw materials inventory balance decreased during the period from 2010 to 2012 from approximately RMB8.4 million as of 31 December 2010 to approximately RMB6.0 million as of 31 December 2011 and further to approximately RMB5.9 million as of 31 December 2012. Such decrease was in line with our increase in our inventory of finished goods.

Our work in progress increased from approximately RMB4.4 million as of 31 December 2011 to approximately RMB7.9 million as of 31 December 2012 and further to approximately RMB19.9 million as of 30 June 2013 was due to the increase in our production capabilities from the relocation of our Luojiang Production Facilities in 2011, and the decrease from approximately RMB6.9 million as of 31 December 2010 to approximately RMB4.4 million as of 31 December 2011 was primarily due to the 2012 Chinese New Year holiday falling earlier in end of January 2012 as explained above.

Our finished goods inventory was low at approximately RMB2.8 million in 2010 in anticipation of our plan to relocate our production facilities to Luojiang Production Facilities in early 2011. Our finished goods inventory remained on the increasing trend for the two years ended 31 December 2012 and the six months ended 30 June 2013 primarily due to the increase in our sales of electric fireplaces and increase in our production capabilities as a result of relocation to the Luojiang Production Facilities.

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

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
Average inventory turnover days *(note)*	15	16	17	24

Note: Average inventory turnover days equal the average inventory divided by cost of sales multiplied by 365 days for a year, or by 181 days for a six-month period. Average inventory is the inventory at the beginning of the period plus the inventory at the end of the period with the sum divided by two.

Our inventory level is principally determined on sales order basis and as such, the average turnover days were relatively stable for the three years ended 31 December 2012. The longer average turnover days for the six months ended 30 June 2013 was higher, which was primarily due to the need to maintain inventory to meet production needs in anticipation of our higher sales in the second half of the year. As of 31 October 2013, the subsequent utilisation of our inventory balance was estimated to be approximately 98.8%.

TRADE AND OTHER RECEIVABLES

The following table sets forth our trade and other receivables as of the dates indicated:

	As of 31 December			As of 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Current				
Trade receivables	145,714	203,730	288,967	274,055
Deposits and prepayments	1,403	6,021	15,731	16,908
Value-added tax recoverable	246	1,288	467	184
Others	202	226	301	292
Sub-total:	147,565	211,265	305,466	291,439
Non-current				
Prepayments for land use rights	19,393	–	–	9,272
	166,958	211,265	305,466	300,711

Our trade and other receivables mainly comprise trade receivables, deposits and prepayments and value-added tax recoverable.

Our trade and other receivables remained relatively stable at approximately RMB300.7 million as of 30 June 2013 and RMB305.5 million as of 31 December 2012. Our increase in trade and other receivables from approximately RMB211.3 million as of 31 December 2011 to approximately RMB305.5 million as of 31 December 2012 was primarily due to the increase in trade receivables, deposits and prepayments. Our trade receivables increased from approximately RMB203.7 million as of 31 December 2011 to approximately RMB289.0 million as of 31 December 2012, which was primarily due to the increase in sales of our electric fireplaces.

Our trade and other receivables increased from approximately RMB167.0 million as of 31 December 2010 to approximately RMB211.3 million as of 31 December 2011 primarily due to the increase in trade receivables, deposits and prepayments. Our trade receivables increased from approximately RMB145.7 million as of 31 December 2010 to approximately RMB203.7 million as of 31 December 2011, which was primarily due to the increase in our sales of electric fireplaces.

Our increase of deposits and prepayments from approximately RMB1.4 million as of 31 December 2010 to approximately RMB6.0 million as of 31 December 2011 was mainly due to the increase in prepayment for advertisement.

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

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
Average trade receivables turnover days *(note)*	54	79	93	103

Note: Average trade receivables turnover days is equal to the average of the starting and ending trade receivables balance of the year divided by revenue and multiplied by 365 days for a year, or by 181 days for a six-month period.

The average trade receivables turnover days increased from 54 days in 2010 to 79 days in 2011 and further to 93 days in 2012, which was primarily due to our strategy to promote our electric fireplaces and therefore allowing longer credit periods for our electric fireplace customers. The increase of the average trade receivables turnover days to 103 days for the six months ended 30 June 2013 was primarily due to the approximate additional 30-day credit period granted to selected customers in order to further promote the sales of our electric fireplaces.

The following table sets forth an ageing analysis of our trade receivables for the period indicated:

	As of 31 December			As of 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 30 days	89,274	65,660	137,566	92,724
31 to 60 days	52,580	75,330	108,100	92,132
61 to 90 days	3,860	57,818	25,488	73,299
Over 90 days	–	4,922	17,813	15,900
	145,714	203,730	288,967	274,055

We usually grant to our customers a credit period of 60 to 90 days.

We do not have a general policy on provisions for impairment losses of trade receivables but would consider the need for a specific write-down of trade receivables on a case-by-case basis. Our Directors consider that the outstanding amount will be received and bad debt provision on the amount is not required at the present stage. As of 31 December 2010 and 2011, no trade receivables were impaired or provided for. As of 31 December 2012 and 30 June 2013, trade receivables of approximately RMB1.3 million and RMB1.9 million, respectively, were written off directly. The individually impaired receivables mainly related to certain individual customers.

As of 31 December 2011 and 2012 and 30 June 2013, trade receivables of approximately RMB56.4 million, RMB42.1 million and RMB82.9 million, respectively, were past due but not impaired, which were related to a number of independent customers for whom there is no recent history of default. The ageing analysis of these past due but not impaired trade receivables is as follows:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Past due by				
0 to 30 days	–	54,426	42,083	74,144
31 to 60 days	–	2,023	–	8,799
	–	56,449	42,083	82,943

As of 31 October 2013, approximately 100% of our total trade receivables as of 30 June 2013 had been subsequently settled.

TRADE AND OTHER PAYABLES

The following table sets forth our trade and other payables as at the date indicated:

	As of 31 December			As of 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables	67,746	60,896	82,950	77,344
Bills payable	21,600	21,150	157,100	86,000
Value added tax payable	5,027	3,390	8,780	3,206
Salary and welfare payables	5,801	7,447	9,822	10,493
Retention fee payables	–	4,372	2,552	2,274
Others	77	554	4,388	4,625
	100,251	97,809	265,592	183,942

Trade and bills payables primarily related to purchase of raw materials from our suppliers. Our bills payable were jointly secured by certain properties, land use rights, restricted bank deposits of our Group and guaranteed by the Controlling Shareholders and certain third parties. Other payables mainly consisted of accrued expenses. The guarantees provided by our Controlling Shareholders will be released prior to the Listing.

The decrease in our trade and other payables as of 30 June 2013 of approximately RMB183.9 million from approximately RMB265.6 million as of 31 December 2012 was primarily due to the decrease in our bills payable. Our trade and other payables increased from approximately RMB97.8 million as of 31 December 2011 to approximately RMB265.6 million as of 31 December 2012, which was principally due to the increase in bills payable due to our suppliers. Some of our suppliers requested our Group to settle our purchase payments by way of bills payable, and such requests increased in particular for the year ended 31 December 2012. In order to secure sufficient raw materials for our production needs, we agreed to the suppliers' requests to settle our purchase payment by bills payable and as such our bills payable increased from approximately RMB21.2 million as of 31 December 2011 to approximately RMB157.1 million as of 31 December 2012. For the six months ended 30 June 2013, less suppliers requested our Group to settle our purchase payments with them by way of bills payable.

The following table sets forth our average trade and bills payable turnover days for the period indicated:

	Year ended 31 December			Six months ended 30 June
	2010	**2011**	**2012**	**2013**
Average trade and bills payable turnover days *(note)*				
– Trade payables	43	50	49	54
– Bills payables	21	16	60	82
	64	66	109	136

Note: Average trade and bills payables turnover days is equal to the average of the starting and ending trade and/or bills payables balance of the year/period divided by total cost of sales and multiplied by 365 days for a year, or by 181 days for a six-month period.

Our average trade payables turnover days increased from approximately 43 days for the year ended 31 December 2010 to approximately 49 days for the year ended 31 December 2012 and further to approximately 54 days for the six months ended 30 June 2013, which was primarily due to the increase in our purchase for raw materials to meet our production needs. Our average bills payables turnover days increased from approximately 21 days for the year ended 31 December 2010 to approximately 60 days for the year ended 31 December 2012, which was primarily as a result of our delay in settlement of certain payments for raw materials due to increase in bills payable which have longer settlement periods of 180 days. The increase in our average bills payables turnover days increased to approximately 82 days for the six months ended 30 June 2013, which was also primarily due to increase in our purchase for raw materials to meet our production needs in anticipation of our higher sales volume in the second half of the year.

The table below sets forth the ageing analysis of our Group's trade and bills payable at 31 December 2010, 2011 and 2012 and 30 June 2013 is as follows:

	As of 31 December			As of 30 June
	2010	**2011**	**2012**	**2013**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
0 to 30 days	42,082	45,423	87,365	57,863
31 to 60 days	29,414	28,159	71,154	20,773
61 to 90 days	3,450	1,114	21,605	27,365
Over 90 days	14,400	7,350	59,926	57,343
	89,346	82,046	240,050	163,344

Our trade and bills payables significantly increased from approximately RMB82.0 million as of 31 December 2011 to approximately RMB240.1 million as of 31 December 2012 principally due to the increase in our purchase for raw materials, electronic components and others to meet our production needs as a result of increasing sales.

Our domestic suppliers generally grant to our Group a credit period of 60 days. In cases where we settle our purchase prices with our suppliers by bank bills, the bank bills generally have an expiry term of 180 days.

As of 31 October 2013, approximately 99.1% of our total trade and bills payables as of 30 June 2013 had been subsequently settled.

RELATED PARTY TRANSACTIONS

It is the view of our directors that each of the related party transactions set out in Note 33 to the Accountant's Report as set out in Appendix I to this prospectus was conducted in the ordinary and usual course of business and on normal commercial terms between the relevant parties. These related party transactions will not continue after the Listing.

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 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.

FINANCIAL RISKS

Our activities expose our Group to a variety of financial risks: foreign exchange risk, interest rate risk, credit risk and liquidity risk.

Foreign exchange risk

Our functional currency is RMB. Our Group's foreign exchange risk mainly relate to fluctuations in exchange rates of RMB against the foreign currencies of our bank balances and trade receivables denominated in foreign currencies, and these may affect our operation results. Our Group does not have a hedging policy.

The following table demonstrates the sensitivity to a reasonably possible change in our profit for the years ended 31 December 2010, 2011, 2012 and the six months ended 30 June 2013 if RMB had strengthened/weakened by 5% against HK$ and USD with all variables held constant would be as follows:

	If RMB had strengthened by 5% against HK$ and USD	**If RMB had weakened by 5% against HK$ and USD**
31 December 2010	RMB2,105,000 higher	RMB2,105,000 lower
31 December 2011	RMB1,302,000 higher	RMB1,302,000 lower
31 December 2012	RMB1,395,000 higher	RMB1,395,000 lower
30 June 2013	RMB1,044,000 higher	RMB1,044,000 lower

Interest rate risk

Our exposure to the risk of changes in market interest rates primarily relates to our Group's bank borrowings with a floating interest rate. We currently do not have any derivative contracts to hedge our exposure to interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in our profit for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 if interest rates on borrowings had been 100 basis-points higher/lower with all variables held constant would be as follows:

	If 100 basis-point higher	**If 100 basis-point lower**
31 December 2010	RMB486,000 higher	RMB486,000 lower
31 December 2011	RMB16,000 lower	RMB16,000 higher
31 December 2012	RMB2,977,000 higher	RMB2,977,000 lower
30 June 2013	RMB1,404,000 higher	RMB1,404,000 lower

Credit risk

Our credit risk mainly arises from cash and cash equivalents and deposits with banks and defaults in payments of trade receivables.

For credit risk in respect of deposits with banks, we managed this risk by placing cash and cash equivalents and deposits in major local banks and state-owned bank in the PRC with good credit standing. We also have policies in place to ensure that our sales are made to reputable and credit-worthy customers with an appropriate financial strengths and credit history.

To manage and minimise credit risk, our management is responsible for assessing the credit risk of our new customers. We also delegate a team to determine the credit limits, credit approvals and other monitoring procedures to ensure follow-up actions have been taken to recover overdue debts. We also review our recoverable amount from time to time at the end of each reporting period and ensure impairment loss for unrecoverable amount.

We consider our credit risk limited and we do not have significant concentration of credit risk as our Group has a vast number of customers.

Liquidity risk

We monitor our shortage of funds from time to time. We finance our working capital requirements through a combination of funds generated from our operations, bank borrowings and capital injection by our shareholders. We maintain flexibility in funding by keeping sufficient cash or committed credit lines available.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2013

Our Directors believe that, in the absence of unforeseen circumstances and on the bases and assumptions as set forth in "Appendix III — Profit Forecast" to this prospectus, our forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2013 and the unaudited pro forma forecast earnings per Share are as follows:

Forecast consolidated profit attributable to equity holders of the Company(1)	not less than RMB295.0 million (equivalent to approximately HK$368.8 million)
Unaudited pro forma forecast earnings per Share(2)	not less than RMB0.16 (equivalent to approximately HK$0.20)

Notes:

(1) The bases and assumptions on which the above profit forecast for the year ending 31 December 2013 has been prepared are summarised in Appendix III to this prospectus.

(2) The calculation of unaudited pro forma forecast earnings per Share for the year ending 31 December 2013 is based on the forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2013 and on the basis that 1,800,000,000 Shares were in issue during the entire period and assuming that the Global Offering had been completed on 1 January 2013. The calculation takes no account of any Shares which may be issued upon exercise of the options granted under the Share Option Scheme or any shares which may be allotted and issued or repurchased by our Company pursuant to the General Mandate to Issue Shares or the General Mandate to Repurchase Shares as described in the section headed "Share Capital" in this prospectus.

(3) For the purpose of forecast consolidated profit attributable to equity holders of the Company and unaudited pro forma forecast earnings per Share, the amounts stated in Renminbi are converted into Hong Kong dollars at a rate of RMB1.00 to HK$1.25. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

LISTING EXPENSES

All incremental costs that are directly attributable to the issue of new shares are recognised directly deducted from equity while any expenses attributable to listing of existing shares are charged to the profit and loss accounts in the period in which the expenses are incurred. The total expenses for the Listing are estimated to be approximately HK$57.4 million (assuming an Offer Price of HK$2.075 per Offer Share, being the mid-point of the indicative Offer Price range of HK$1.80 to HK$2.35), of which approximately HK$31.2 million is directly attributable to the issue of new Shares in the Global Offering and to be accounted for as a deduction from equity and approximately HK$26.2 million is to be charged as administrative expenses to our profit and loss accounts in the period in which the expenses are incurred. The listing expenses of approximately HK$9.0 million were charged to our profit and loss account for the year ended 31 December 2012 and the six months ended 30 June 2013, and approximately HK$17.2 million are expected to be charged to our profit and loss account after 30 June 2013, which will be reflected in our administrative expenses for the year ending 31 December 2013.

DIVIDEND POLICY

We declared dividends of approximately RMB128.3 million for the year ended 31 December 2010, approximately RMB166.0 million for the year ended 31 December 2011, approximately RMB54.4 million for the year ended 31 December 2012 and approximately RMB91.8 million for the period ended 30 June 2013.

Our Directors are of the view that undistributed earnings of our subsidiaries of approximately RMB436.4 million as of 30 June 2013 are for reinvestment in the PRC and not for distribution. Future dividends will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of our Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on our Shares. The declaration, payment, and amount of dividends will be subject to our discretion.

Our PRC subsidiaries may pay dividends only out of its accumulated distributable profits, if any, determined in accordance with its articles of association, and the accounting standards and regulations in China. Furthermore, pursuant to the relevant PRC laws and regulations applicable to our subsidiary in the PRC, our PRC subsidiary is required to set aside a certain amount of its accumulated after-tax profits each year, if any, to fund statutory reserves. These reserves may not be distributed as cash dividends. Dividends may be paid only out of our distributable profits as permitted under the relevant laws.

There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of our Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

The amount of dividend actually distributed to our Shareholders will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our Shareholders.

DISTRIBUTABLE RESERVES

Our reserves available for distribution to Shareholders consist of share premium and retained earnings. Under the Companies Law and subject to compliance with our Articles of Association, the share premium account may be applied by our Company for paying distributions or dividends to our Shareholders if immediately following the date on which the distribution or dividend is proposed to be paid, we will be able to pay off our debts as they fall due in the ordinary course of business. As of 30 June 2013, our Company had an aggregate share premium and retained earnings of RMB0.9 million which are available for distribution to our shareholders.

PROPERTY INTERESTS AND PROPERTY VALUATION

Particulars of our property interests are set out in Appendix IV to this prospectus. Jones Lang LaSalle Corporate Appraisal and Advisory Limited has valued the property interests of our Company as of 31 October 2013. A summary of values and valuation certificates issued by Jones Lang LaSalle Corporate Appraisal and Advisory Limited are included in Appendix IV to this prospectus.

PROPERTY VALUE RECONCILIATION

The table below sets forth the reconciliation of the net book value of our Group's property interests as of 30 June 2013 to their market values as stated in the property valuation report as of 31 October 2013 as set out in Appendix IV to this prospectus:

	RMB'000
Net book value of property interests of our Group as at 30 June 2013	394,564
Additions for the period	3,019
Depreciation for the period	(3,908)
Net book value as at 31 October 2013	393,675
Valuation surplus	34,046
Valuation of our Group's property interests as at 31 October 2013	427,721

UNAUDITED PRO FORMA NET TANGIBLE ASSETS

The following unaudited pro forma statement of our net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is for illustration purposes only, and is set out here to illustrate the effect of the Global Offering and the Capitalisation Issue on our net tangible assets as of 30 June 2013 as if they had taken place on 30 June 2013.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets as of 30 June 2013 or any future date following the Global Offering. It is prepared based on our consolidated net assets as of 30 June 2013 as set out in the Accountant's Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of net tangible assets does not form part of the Accountant's Report as set out in Appendix I of this prospectus.

	Consolidated net tangible assets of the Group attributable to equity holders of the Company as at 30 June 2013	Estimated net proceeds from the Global Offering	Unaudited pro forma net tangible assets of the Group	Unaudited pro forma net tangible assets per Share	Unaudited pro forma net tangible assets per Share
	RMB'000 (1)	*RMB'000* (2)	*RMB'000*	*RMB* (3)	*HK$* (3)
Based on an offer price of HK$1.80 per Share	891,003	482,068	1,373,071	0.76	0.95
Based on an offer price of HK$2.35 per Share	891,003	635,716	1,526,719	0.85	1.06

Notes:

(1) The audited consolidated net tangible assets attributable to equity holders of the Company as of 30 June 2013 is extracted from the Accountant's Report set out in Appendix I to this prospectus and is based on the audited consolidated net assets of the Group attributable to equity holders of the Company as of 30 June 2013 of RMB891,003,000.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK$1.80 and HK$2.35 per Share after deduction of the underwriting fees and other related expenses (excluding listing related expenses of approximately HK$8,978,000 which have been accounted for prior to 30 June 2013) payable by the Company and takes no account of any shares which may fall to be issued upon the exercise of the Over-allotment Option.

(3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,800,000,000 Shares were in issue assuming that the Global Offering has been completed on 30 June 2013 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Share which will be allotted and issued or repurchased by the Company pursuant to the General Mandate to Issue Shares or the General Mandate to Repurchase Shares as described in the section headed "Share Capital" in this prospectus.

(4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 June 2013.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the amounts stated in Renminbi are converted into Hong Kong dollars at a rate of RMB1.00 to HK$1.25. No representation is made that Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects of our Company since 30 June 2013.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

We confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.