

INDUSTRY OVERVIEW

This section contains information and statistics primarily relating to China's flooring industry. We have derived such information and statistics from the Frost & Sullivan Report, as well as certain public available sources. See "Sources of Information" below. We believe that the sources of such information are appropriate sources for such information and we have taken such care as we consider reasonable in the reproduction and extraction of such information and statistics. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading in all material aspects. However, none of our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Underwriters, or any other parties involved in this Global Offering has independently verified the information and statistics derived directly or indirectly from the Frost & Sullivan Report or any public available sources and none of our Company, the Joint Sponsors or any other parties involved in this Global Offering makes any representation as to their correctness or accuracy. Accordingly, you should not place undue reliance on such information and statistics contained in this section.

SOURCES OF INFORMATION

The information contained in this section is mainly prepared by Frost & Sullivan. We have also derived information from China's National Bureau of Statistics, the International Monetary Fund and the Ministry of Housing and Urban-Rural Development of the PRC.

Frost & Sullivan is an independent global market research and consulting company that was founded in New York in 1961. It offers industry research and market strategies and provides growth consulting and corporate training. Its industry coverage in China includes automotive and transportation, chemicals, materials and food, commercial aviation, consumer products, energy and power systems, environment and building technologies, healthcare, industrial automation and electronics, industrial and machinery, and technology, media and telecom.

We have commissioned Frost & Sullivan to conduct an analysis of, and to report on, China's flooring market for the period from 2005 to 2014, as well as a consumer survey to understand consumer behavior and company brand awareness, which was completed in February 2011. In connection with the preparation of the Frost & Sullivan Report, we have paid Frost & Sullivan a fee of approximately RMB1.1 million that the Directors consider to reflect market rates.

The Frost & Sullivan Report includes information on China's flooring market, China's wood flooring market, China's laminated flooring market, China's engineered flooring market, China's solid wood flooring market, the global wood flooring market overview, and other economic data. In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions and parameters:

- Frost & Sullivan has assumed that China's economy is likely to maintain a steady growth rate in the next decade; and China's social, economic and political environment is likely to remain stable in the forecast period, which ensures the stable and healthy development of China's wood flooring industry; and
- Frost & Sullivan has considered related industry key drivers that are likely to drive China's wood flooring market in the forecast period, including rising disposable income of Chinese consumers, continued urbanization driving increased demand for housing,

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PRC government support and initiatives in housing, increasing renovation activities and consumer preferences driving increasing penetration of wood flooring.

In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has also adopted the following methodologies:

- A primary research involving 100 leading industry participants to discuss the status of China's flooring industry. These industry participants are from flooring brand companies and distributors, as well as industry experts. Through this primary research, Frost & Sullivan has obtained the information in relation to annual retail sales volume, annual retail sales value and market share for the top five brands;
- A customer survey with 1,080 interviews of the current and potential customers of Company and its key competitors across 12 municipal and provincial capital cities in China, including Shanghai, Beijing, Guangzhou, Jinan, Chengdu, Wuhan, Shenyang, Changsha, Hefei, Harbin, Chongqing and Guiyang. Through this customer survey, Frost & Sullivan has obtained the information in relation to consumer behavior and company brand awareness; and
- A secondary research involving the reviews of company reports, independent research reports and data based on Frost & Sullivan's own research database. Frost & Sullivan has obtained the figures for the estimated total market size in China from historical data analysis plotted against macroeconomic data and the related information for the industry key drivers.

INTRODUCTION

Our Company's growth prospects are primarily affected by the development of China's flooring market, the key characteristics and growth drivers of China's wood flooring market and the growth prospects and competitive landscape of the key wood flooring product segments in China.

According to Frost & Sullivan, China's flooring market has grown rapidly, but it is still at an early stage of development and remains significantly under penetrated, with approximately 71.0% of China's total available floorspace of 55.3 billion sq.m. not covered by any flooring products in 2009. The uncovered floorspace percentage is expected to decrease to 65.9% by 2014 as the penetration of flooring products continues. As of the end of 2009, wood flooring products were the second largest flooring product category in China, accounting for 10.0% of total installed floorspace and forecasted to increase to 16.4% by the end of 2014. Driven by changing consumer preferences, higher disposable income and improving living standards, wood flooring products have become increasingly popular.

As of the end of 2009, China's wood flooring market was the world's largest wood flooring market in terms of both retail sales volume and retail sales value of wood flooring. China's wood flooring market is primarily a consumer and retail driven market, where 90.0% of the retail sales volume was sold through retail stores in 2009. According to Frost & Sullivan, China's wood flooring market has the following key characteristics:

- brand is the most important consideration for retail consumers in purchasing wood flooring;
- retail stores are the primary sales channel for wood flooring products;

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- retail consumers continue to drive market demand for wood flooring products; and
- fragmented market with increasing industry consolidation.

The annual retail sales value of China's wood flooring products reached RMB47.8 billion in 2009, representing a CAGR of 14.2% from 2005 to 2009 and is expected to grow at a CAGR of 19.3% from 2009 to 2014. The key drivers of growth are:

- rising disposable income of Chinese consumers;
- continued urbanization driving increased demand for housing;
- PRC government support and initiatives in housing;
- increasing renovation activities; and
- consumer preferences driving increasing penetration of wood flooring.

China's wood flooring market is comprised primarily of three key product segments: laminated flooring, engineered flooring and solid wood flooring. According to Frost & Sullivan, solid wood flooring has been the largest product segment in terms of retail sales value during the past five years and laminated flooring is expected to become the largest product segment in China's wood flooring market by 2014. According to Frost & Sullivan, in 2009, "Nature" (大自然) branded products ranked second in laminated flooring with a 7.2% market share, first in multi-layered engineered flooring with a 5.3% market share and first in solid wood flooring with a 7.4% market share, in terms retail sales value in China.⁽¹⁾ See "Business — Our Branded Products."

OVERVIEW OF CHINA'S FLOORING MARKET

Overview

According to Frost & Sullivan, China's flooring market has grown significantly over the past five years, reaching a total installed floorspace of 16.1 billion sq.m. in 2009, representing 29.0% of China's total available floorspace, and is expected to reach a total installed floorspace of 23.7 billion sq.m. in 2014, representing 34.1% of China's total available floorspace of 69.5 billion sq.m. in 2014. Compared to the established flooring markets of developed countries, China's flooring market is still at an early stage of development and remains significantly underpenetrated, with approximately 71.0% of China's total available floorspace of 55.3 billion sq.m. not covered by any flooring products in 2009. In contrast, in the U.S., the uncovered floorspace is less than 10% of the total available floorspace. The significant area of uncovered floorspace in China presents a large potential market for Chinese flooring products. The market penetration of flooring products is expected to continue to increase as consumers,

Note:

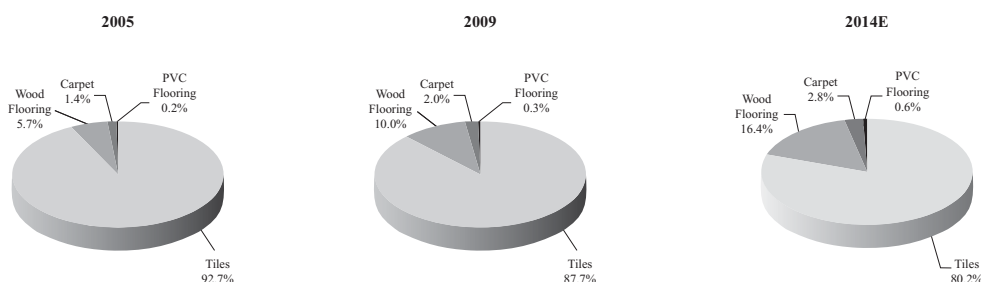
(1) During the Track Record Period, we manufactured all of our branded laminated flooring and a portion of our branded engineered flooring while all of our branded solid wood flooring and a majority of branded engineered flooring were manufactured by authorized manufacturers. In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured at our own factories accounted for 42.6%, 29.9% and 38.9% of the total Wholesale Volume of our branded engineered flooring products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1%, respectively.

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driven by higher disposable income, increasing purchasing power, as well as changing lifestyle preferences, install flooring products for new homes or to renovate their existing homes.

According to Frost & Sullivan, as of the end of 2009, wood flooring was the second largest flooring product category in China, accounting for 10.0% of the total installed floorspace up from 5.7% as of the end of 2005 and is forecasted to increase to 16.4% in 2014. Set forth below are the historical and estimated total installed floorspace by product category as of the end of the years indicated:

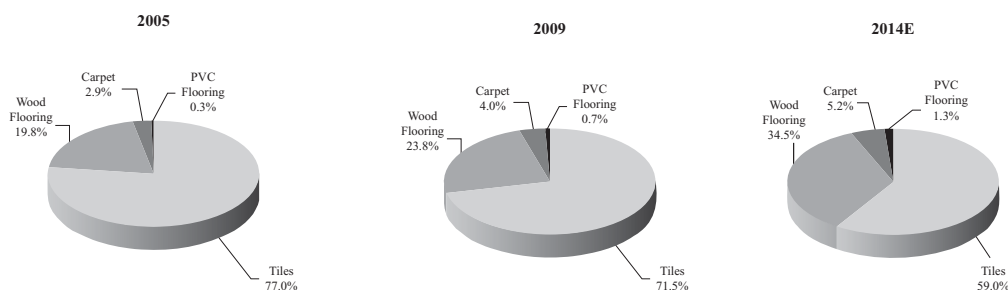
China Flooring Market: Total Installed Floorspace by Product Category



Source: Frost & Sullivan Report

Tile flooring is the largest product category in China's flooring market in terms of annual retail sales volume, but it has gradually lost market share to wood flooring and other flooring types, as its market share decreased from 77.0% in 2005 to 71.5% in 2009. In the 1980s, tiles were widely used to cover cement areas because they were affordable and easy to install; many consumers could not afford solid wood flooring, which was the only wood flooring product available in China at the time. However, driven by changing consumer preferences, higher disposable incomes and improving living standards in China, wood flooring products have become increasingly popular, and in particular, laminated flooring has gained popularity as a low price wood flooring product that retains the appearance of solid wood flooring. According to Frost & Sullivan, of the 1,316.3 million sq.m. of annual flooring product retail sales volume sold in 2009, wood flooring accounted for 23.8%, up from 19.8% in 2005. Frost & Sullivan further expects the contribution of wood flooring to reach 34.5% of the annual flooring product retail sales volume of 2,031.3 million sq.m. during 2014. Set forth below are the historical and estimated annual flooring product retail sales volume by product category for the years indicated:

China Flooring Market: Annual Flooring Product Retail Sales Volume by Product Category



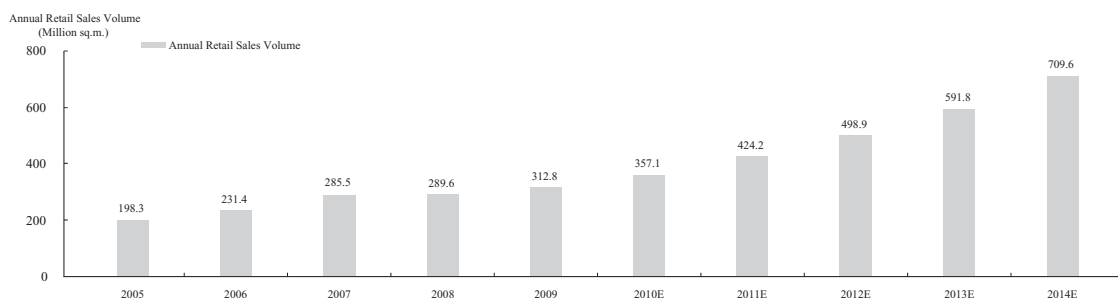
Source: Frost & Sullivan Report

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OVERVIEW OF CHINA'S WOOD FLOORING MARKET

According to Frost & Sullivan, China was the world's largest wood flooring market in terms of both annual retail sales volume and retail sales value of wood flooring in 2009. The annual retail sales volume of wood flooring increased from 198.3 million sq.m. in 2005 to 312.8 million sq.m. in 2009, a CAGR of 12.1% over that period, and is expected to reach 709.6 million sq.m. in 2014, a CAGR of 17.8% from 2009 to 2014. Set forth below are the historical and estimated annual retail sales volume in China's wood flooring market for the years indicated:

China's Wood Flooring Market: Annual Wood Flooring Retail Sales Volume



Source: Frost & Sullivan Report

In comparison, the annual retail sales volume of wood flooring in China for 2009 was 4.6 times larger than in the U.S., which only totaled 67.7 million sq.m., and was also much larger than in any country in Europe. Set forth below is the annual retail sales volume, in amount as well as a percentage of the total annual retail sales volume, of the major countries in 2009:

	For the Year Ended December 31, 2009	
	(million sq.m., except percentages)	
Europe ⁽¹⁾	362.9	44.1%
China	312.8	38.0
U.S	67.7	8.2
Japan	40.5	4.9
Others	39.9	4.8
Total	<u>823.7</u>	<u>100.0%</u>

Note:

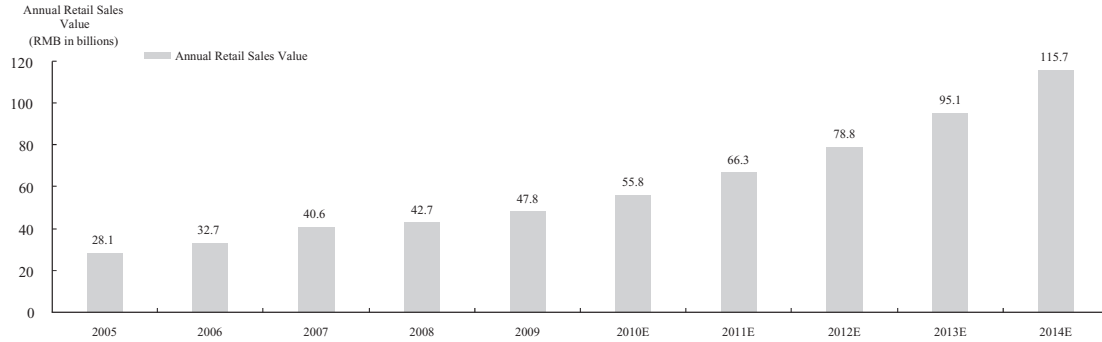
(1) The leading countries are Germany, Italy, Spain and France, each with less than 20% market share of the entire Europe.

According to Frost & Sullivan, the total retail sales value of China's wood flooring products reached RMB47.8 billion in 2009, a CAGR of 14.2% from 2005 to 2009. Driven by increasing average retail prices and sales volume, the total retail sales value is expected to reach RMB115.7 billion by 2014, reflecting a CAGR of 19.3% from 2009 to 2014. China's retail sales value of wood flooring products was much higher than any other country in 2009 due to its large amount of retail sales volume, even though the average wood flooring retail selling price in certain developed countries (such

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as European countries and the U.S.) was slightly higher than in China. Set forth below are the historical and estimated annual retail sales value in China's wood flooring market for the years indicated:

China's Wood Flooring Market: Annual Wood Flooring Retail Sales Value



Source: Frost & Sullivan Report

In comparison, the annual retail sales value of wood flooring in China for 2009 was 4.4 times larger than in the U.S., which only totaled US\$1.6 billion, and was also much larger than in any country in Europe. Set forth below is the annual retail sales value, in amount as well as a percentage of the total annual retail sales value, of the major countries in 2009:

	For the Year Ended December 31, 2009	
	(US\$ in billions, except percentages)	
Europe ⁽¹⁾	8.7	45.8%
China	7.0	36.8
U.S.	1.6	8.4
Japan	0.9	4.7
Others	0.8	4.2
Total	19.0	100.0%

Note:

(1) The leading countries are Germany, Italy, Spain and France, each with less than 20% market share of the entire Europe.

Reflecting the growth in retail sales volume and retail sales value, China's total installed wood flooring has increased from 555.3 million sq.m. in 2005 to 1,607.4 million sq.m. in 2009, and is expected to increase to 3,887.6 million sq.m. by 2014.

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According to Frost & Sullivan, from 2007 to 2009, Nature ranked second, first, and first among all brands in terms of annual retail sales value in China's wood flooring market, with a market share of 3.9%, 6.1% and 6.5%, respectively. Set forth below is the market share⁽¹⁾ by annual retail sales value of the top five brands in China's wood flooring market for the years indicated:

Top Five Wood Flooring Brands: Market Share by Annual Retail Sales Value in China					
2007		2008		2009	
Brands	Market Share	Brands	Market Share	Brands	Market Share
Power Dekor	5.0%	Nature	6.1%	Nature	6.5%
Nature	3.9%	Power Dekor	5.4%	Power Dekor	5.6%
Ark Floors	2.3%	Ark Floors	2.4%	Sunyard	2.3%
Vohringer	1.9%	Sunyard	2.2%	Ark Floors	2.3%
Shengda Forestry	1.8%	Vohringer	2.0%	Vohringer	1.9%
Total	14.9%		18.0%		18.7%

Source: Frost & Sullivan Report

Key Characteristics of China's Wood Flooring Market

Brand is the Most Important Consideration for Retail Consumers in Purchasing Wood Flooring

Consumers in China generally prefer well-known brands when purchasing wood flooring in order to lower the risk of purchasing low quality products or products with poor product safety, and out of concerns of receiving unreliable or limited after-sales customer service from lesser known brands. According to a consumer survey conducted by Frost & Sullivan, which included 1,080 respondents from 12 municipalities and provincial capital cities in China, about 31.3% of the respondents stated that brand is the most important factor in the selection of wood flooring products, followed by quality (29.7%), environmental concept (15.8%), and price (15.3%). In addition, most participants surveyed indicated that they would pay a premium for branded products over non-branded wood flooring products, and approximately 50% indicated that they would pay a premium of 11%-20% for branded wood flooring products. The survey also indicated strong brand awareness and recognition of the "Nature" (大自然) brand among Chinese consumers. The highest percentage of participants in the survey named "Nature" (大自然) when asked which wood flooring brand first came to mind.

Retail Stores are the Primary Sales Channel for Wood Flooring Products

A substantial majority of wood flooring manufacturers in China sell their products to distributors, who in turn sell the products to retail consumers through retail stores. These retail stores are primarily located in home furnishing supermarkets and shopping malls, such as Macalline, which sell not only flooring but also other decoration products and furniture. A portion of retail stores are also located outside of home furnishing markets and malls as stand-alone retail stores.

Note:

- (1) The market share data includes retail sales value of branded products manufactured by our own factories as well as products manufactured by authorized manufacturers from whom we receive trademark and distribution network usage fees. In 2008, 2009 and 2010, the Wholesale Volume of our branded products manufactured at our own manufacturing factories accounted for 60.5%, 66.7% and 67.3% of the total Wholesale Volume of our branded products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 37.7%, 31.4% and 30.3%, respectively.

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According to Frost & Sullivan, the retail store sales channel accounted for approximately 90.0% of the annual retail sales volume in China for wood flooring products in 2009. The remaining annual retail sales volume was generated from sales to property developers, which accounted for 7.0% of the annual retail sales volume, and direct sales in home furnishing supermarkets, which accounted for 3.0% of the annual retail sales volume. Unlike certain other markets, such as the U.S., the home furnishing supermarket is still a small and undeveloped sales channel in China with limited nationwide coverage. As such, retail stores are expected to remain the largest sales channel during the forecast period.

Retail Consumers Continue to Drive Market Demand for Wood Flooring Products

The vast majority of newly built homes in China's residential real estate market are sold as unfurnished units. According to Frost & Sullivan, during 2009, unfurnished units accounted for more than 80.0% of the total newly completed residential real estate in China. While furnished units are usually decorated by property developers, for unfurnished units the individual property owners make the decisions on home furnishing and decoration, such as for wood flooring products. Frost & Sullivan expects the trend of unfurnished units representing the vast majority of the completed residential real estate to continue during the forecast period. As a result, retail consumers are expected to continue to drive market demand for wood flooring products during the forecast period.

Fragmented Market Experiencing Increasing Industry Consolidation

According to Frost & Sullivan, as of 2009, there were approximately 2,500 wood flooring brands in China, many of which were small regional companies. While the market share of the top five brands (in terms of annual retail sales value) has increased from 14.9% in 2007 to 18.7% in 2009, this is significantly below the level of consolidation in the U.S. where the top five wood flooring brands accounted for over 60% of the annual retail sales volume in 2009. During the forecast period, the wood flooring industry is expected to continue consolidating, and established market leaders are positioned to gain additional market share by leveraging their well-recognized brands, extensive distribution network, broad product offerings, and ability to provide more reliable after-sales service as compared to smaller industry players. These competitive advantages create strong entry barriers for potential new entrants and further increase the market leadership of the established players.

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KEY DRIVERS OF GROWTH FOR CHINA'S WOOD FLOORING MARKET

The key drivers of growth for China's wood flooring market include: rising disposable income of Chinese consumers, continued urbanization driving increased demand for housing, PRC government support and initiatives in housing, increasing renovation activities, and consumer preferences driving increasing penetration of wood flooring.

Set forth below is certain historical and estimated data regarding China's economy for the years indicated:

	2005	2006	2007	2008	2009	2005-2009 CAGR	2009-2014 CAGR (Estimated)
Nominal GDP (RMB in billions)	18,493.7	21,631.4	26,581.0	31,404.5	34,050.7	16.5%	12.6%
Per capita nominal GDP (RMB)	14,185.4	16,499.7	20,169.5	23,707.7	25,575.5	15.9%	12.0%
Per capita annual disposable income for urban households (RMB)	10,493.0	11,759.5	13,785.8	15,780.8	17,174.7	13.1%	11.1%
Per capita annual net income for rural households (RMB)	3,254.9	3,587.0	4,140.4	4,760.6	5,153.2	12.2%	13.4%
Total retail sales of consumer goods (RMB in billions) . .	6,835.3	7,914.5	9,357.2	11,483.0	13,267.8	18.0%	14.5%
Urban population (millions)	562.1	577.1	593.8	606.7	621.9	2.6%	3.3%
Urbanization rate (%)	43.0%	43.9%	44.9%	45.7%	46.6%	—	—

Sources: National Bureau of Statistics, the International Monetary Fund and Frost & Sullivan Report

Rising Disposable Income of Chinese Consumers

According to Frost & Sullivan, from 2005 to 2009, the per capita annual disposable income in urban households has increased from RMB10,493.0 to RMB17,174.7, a CAGR of 13.1%, and is forecasted to reach RMB29,030.5 by 2014, a CAGR of 11.1% from 2009 to 2014. In addition, the per capita annual disposable income in rural households increased from RMB3,254.9 to RMB5,153.2 during the same period, a CAGR of 12.2%, and is forecasted to reach RMB9,668.0 by 2014, a CAGR of 13.4% from 2009 to 2014. As disposable income and purchasing power continue to grow, Chinese consumers have been improving and upgrading their living standards and preferences, which has driven the purchase of wood flooring products. For example, the market share in terms of annual retail sales volume of wood flooring products as a percentage total flooring products has increased from 19.8% in 2005 to 23.8% in 2009, and is expected to reach 34.5% by 2014. Meanwhile, the market share of annual retail sales volume of tiles is expected to decrease from 71.5% in 2009 to 59.0% in 2014, as consumers upgrade from flooring tiles to wood flooring.

In addition, according to the Ministry of Housing and Urban-Rural Development of the PRC, as of 2009, the average residential space per capita in China was approximately 30 sq.m., which is

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significantly lower than developed nations such as the U.S., where the average residential space per capita reached approximately 70 sq.m. as of 2009. As disposable income increases and living standards improve, Frost & Sullivan expects that residential space per capita would continue to grow as people upgrade to larger living spaces.

Continued Urbanization Driving Increased Demand for Housing

China's urban population has been steadily increasing as a result of China's rapid economic development, and as people from less developed areas seek better job opportunities and higher income and living standards in urban areas. From 2005 to 2009, China's urban population increased 10.6% from 562.1 million to 621.9 million, a net increase of 59.8 million, reaching an urbanization rate of 46.6%. Frost & Sullivan estimates that by 2014, China's urban population is expected to reach 732.3 million, or an urbanization rate of 53.5%, representing a net increase in the urban population of 110.4 million people over the forecast period. We believe that the growing urban population will result in growing demand for housing in urban areas and accordingly drive demand for wood flooring. According to Frost & Sullivan, 2.6 billion sq.m. of new available floorspace was added in 2009, and 14.2 billion sq.m. new available floorspace is expected to be added to address floorspace and housing needs in China from 2010 to 2014.

PRC Government Support and Initiatives in Housing

The PRC government has implemented a number of policies aimed at improving living standards and addressing housing difficulties in less developed and rural areas of China. For example in November 2008, the PRC government announced the "Low-Income Housing Three-Year Plan" where the PRC government planned to deploy RMB900 billion to construct six million units low-income housing (保障性住房) for low-income families over three years. In December 2010, The Ministry of Housing and Urban-Rural Development of the PRC (住房和城乡建设部) promulgated Circular Regarding Submitting the Assignment of Urban Low-income Housing Plan (關於報送城鎮保障性安居工程計劃任務的通知) (the "Circular"). According to the Circular, the PRC government has planned to construct an additional 10 million units of low-income housing in 2011. In addition, in January 2010, the PRC government launched an initiative to improve the living standards in rural areas of China by subsidizing the selling prices of housing and decoration products. In March 2011, according to the Twelfth Five-Year Plan, the PRC government extended its support to low-income housing by announcing a plan to construct a total of 36 million units of low-income housing over five years. In the PRC Government Report of 2011, the PRC government plans to further expand the construction of low-income housing. The PRC government plans to begin construction of 10 million units of low-income housing and shanty town renovation housing. The PRC government plans to allocate RMB103 billion in its budget for the year of 2011 as subsidies to the construction of low-income housing.

These PRC government policies and initiatives are expected to drive continued construction of housing in under-developed regions, increasing demand for such affordable housing and, as a result, stimulate the demand for wood flooring products in these areas. In addition, as the property becomes more affordable, buyers are expected to be willing to spend more on housing decoration, thereby increasing the demand for our wood flooring products. We expect that the PRC government support will be especially beneficial to the long-term growth of the laminated wood flooring market, given its

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lower price point. We believe we are well positioned to benefit from this growth and generate increased sales of our laminated flooring product particularly under our sub-brand “Nature · No. 1 My Space” (大自然 · 第一空間) and “Nature · Yijia” (大自然 · 宜家). In particular, our laminated flooring sub-brand “Nature · No. 1 My Space” (大自然 · 第一空間) is positioned in the market to specifically target those entry-level and lower budget customers whom these government policies also intend to benefit.

Increasing Renovation Activities

During the forecast period, China’s residential market is expected to experience a continued increase in home renovation and upgrade activities. We believe consumers who first installed flooring approximately 10 years ago are expected to replace their original flooring in the near future as a result of the natural replacement of old flooring, as well as upgrading of existing wood flooring. Renovation as a percentage of total flooring product retail sales volume in 2009 was 20.7% in China, which is significantly lower than 55.0% in the U.S. or 62.0% in Western Europe in 2009, and indicate a significant growth opportunity. According to Frost & Sullivan, renovation as a percentage of annual flooring product retail sales volume is expected to reach 22.9% by 2014 compared to 17.9% in 2005, implying a large and growing future market from renovations.

Consumer Preferences Driving Increasing Penetration of Wood Flooring

During the forecast period, the market share of wood flooring is expected to continue increasing, primarily as consumer preference and rising purchasing power drive product upgrades to wood flooring from less expensive flooring categories, and as more consumers are attracted to the advantages offered by wood flooring, such as attractive appearance, strong thermal insulation and high performance relative to cost compared to other flooring alternatives. According to Frost & Sullivan, the annual retail sales volume of wood flooring products increased from 198.3 million sq.m. in 2005 to 312.8 million sq.m. in 2009 with a corresponding market share increase from 19.8% to 23.8%, and wood flooring market share is expected to further grow to 34.5% of the annual flooring retail sales volume in 2014.

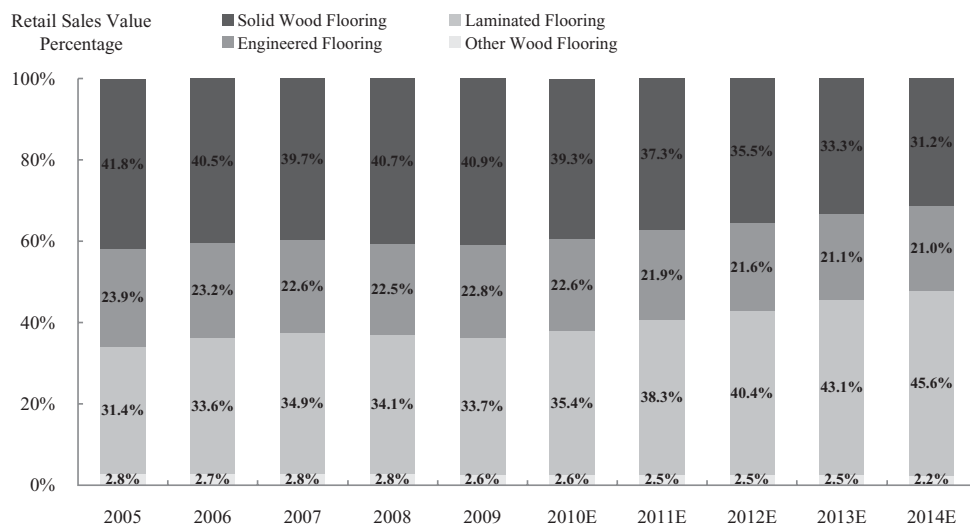
Despite the strong growth of China’s wood flooring market over the past five years, the per capita volume of installed wood flooring in China remains significantly lower than that of other developed markets. According to Frost & Sullivan, China’s per capita volume of installed wood flooring reached 1.2 sq.m. per capita as of 2009 compared to 6.0 sq.m. per capita in the U.S. and 7.9 sq.m. per capita in Western Europe, presenting significant future potential for further market penetration.

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KEY SEGMENTS OF THE WOOD FLOORING MARKET

The wood flooring market is comprised primarily of laminated flooring, engineered flooring and solid wood flooring. Set forth below are historical and estimated annual retail sales value percentage by wood flooring product segment in China for the years indicated:

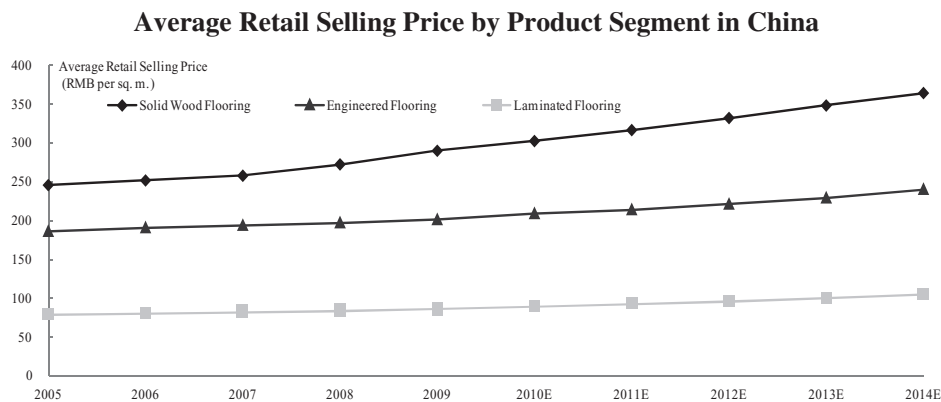
Annual Retail Sales Value Percentage by Product Segment in China's Wood Flooring Market



Source: Frost & Sullivan Report

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According to Frost & Sullivan, solid wood flooring has been the largest product segment in terms of retail sales value during the past five years. In 2009, 33.7% of the total retail sales value was from laminated flooring, 22.8% from engineered flooring and 40.9% from solid wood flooring. Frost & Sullivan forecasts that from 2009 to 2014, the growth rate of laminated flooring is expected to grow at a CAGR of 26.8%, which is faster than the forecasted growth of engineered and solid wood flooring. As a result, laminated flooring is expected to become the largest product segment in the wood flooring market by 2014 with a 45.6% market share, solid wood flooring being second largest with a 31.2% market share, and engineered wood flooring being third largest with a 21.0% market share, each in terms of retail sales value. Set forth below is the historical and estimated average retail selling price by product segment in China for the years indicated:



Source: Frost & Sullivan Report

The average retail selling price of these product segments have historically increased and are expected to trend upwards; solid wood flooring, in particular, is forecasted to experience the highest price increase.

Laminated Flooring

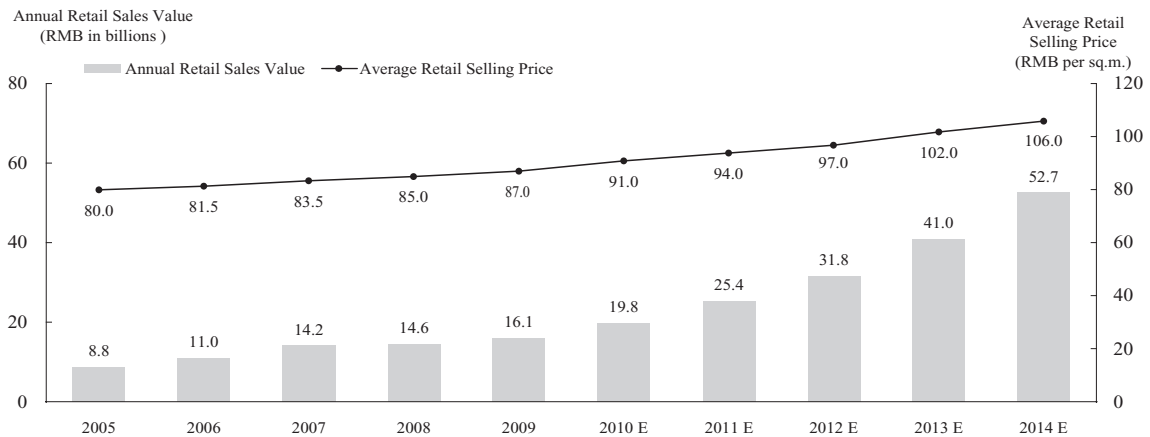
Laminated floorings consist of multiple layers that include a moisture-proof foundation layer, a layer of composite fiberboard, a design layer with a high-resolution replication photo of wood or a variety of other motifs and a wear-resistant, laminated surface layer. Laminated flooring can be designed in a wide variety of styles and textures and its construction enables the product also to be resistant to humidity and temperature changes. As composite fiberboard, which consists primarily of wood chips and glue, is less expensive than solid wood and plywood, laminated flooring is generally more affordable than either solid wood flooring or engineered flooring, and is priced at a lower price point and marketed toward mass market consumers.

According to Frost & Sullivan, from 2005 to 2009, laminated flooring has experienced the most rapid growth among all wood flooring product segments. In the forecast period, the laminated flooring market segment is expected to benefit the most from favorable government policies, such as the PRC government's support to construct low-income housing and the initiative subsidizing the selling prices of home building and decoration products in rural areas.

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From 2005 to 2009, the annual retail sales value of laminated flooring in China increased from RMB8.8 billion to RMB16.1 billion, reflecting a CAGR of 16.2%. During the forecast period, the annual retail sales value is expected to increase from RMB19.8 billion to RMB52.7 billion, with a CAGR of 26.8%. Set forth below are the historical and estimated annual retail sales value in China's laminated flooring market and the average retail selling price for the years indicated:

Laminated Flooring Market: Annual Retail Sales Value in China



Source: Frost & Sullivan Report

Key Brands in the Laminated Flooring Market

According to Frost & Sullivan, the top five brands contributed 31.3% of the annual retail sales value of the laminated flooring segment in 2009. Nature ranked second in annual retail sales value in 2009 with a market share of 7.2%. Nature began selling laminated flooring in 2005. Nature's market share ranking by annual retail sales value increased quickly, from fifth in 2007 to second in 2008, when Nature's volume increased at a CAGR of 45.8%, compared to industry growth of 4.4%. Set forth below is the market share of the top brands of laminated flooring by annual retail sales value in China from 2007 to 2009:

Top Five Laminated Flooring Brands: Market Share by Annual Retail Sales Value in China

2007		2008		2009	
Brands	Market Share	Brands	Market Share	Brands	Market Share
Power Dekor	9.3%	Power Dekor	10.5%	Power Dekor	11.3%
Vohringer	4.7%	Nature	5.0%	Nature	7.2%
Der	4.3%	Vohringer	5.0%	Vohringer	4.8%
Shengda Forestry	3.6%	Der	4.3%	YangZi Flooring	4.0%
Nature	3.5%	YangZi Flooring	3.8%	Der	4.0%
Total	25.3%		28.7%		31.3%

Source: Frost & Sullivan Report

During the Track Record Period, we manufactured all of our branded laminated flooring.

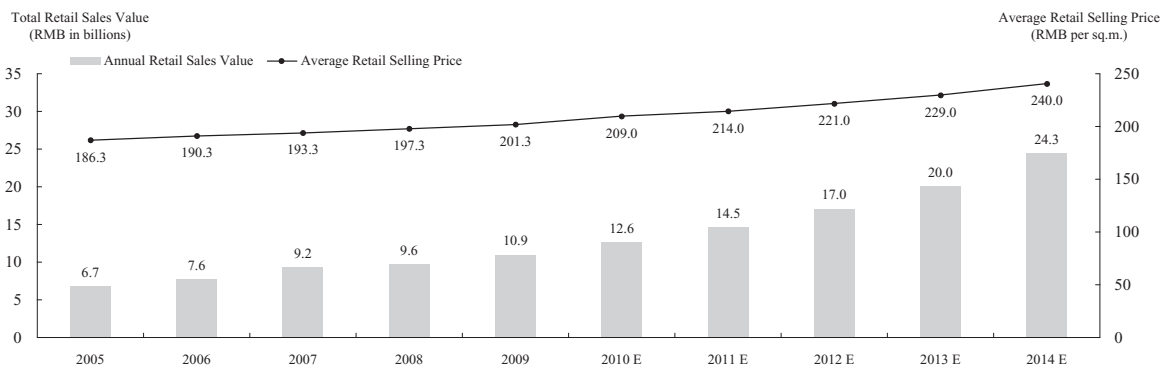
INDUSTRY OVERVIEW

Engineered Flooring

Engineered flooring retains the natural wood feel of solid wood flooring while offering more versatility due to its construction. Rather than using a single solid piece of wood, several pieces of wood are stacked on top of each other in opposite directions, resulting in a more dimensionally stable wood flooring product that is also less sensitive to changes in temperature and humidity than solid wood flooring. Engineered flooring is a medium to high-end product that is generally more affordable than solid wood flooring because it is manufactured with a combination of a thinner solid wood layer and plywood.

According to Frost & Sullivan, the annual retail sales value of engineered flooring in China increased from RMB6.7 billion in 2005 to RMB10.9 billion in 2009, reflecting a CAGR of 12.8%, and is expected to grow at a CAGR of 17.4% during the forecast period to RMB24.3 billion in 2014. Set forth below are the historical and estimated annual retail sales value in China's engineered flooring market and the average selling price for the years indicated:

Engineered Flooring Market: Annual Retail Sales Value in China



Source: Frost & Sullivan Report

Depending on the number of layers of wood or wood-based panels that is used in the manufacturing process, engineered flooring is generally divided into two segments: multi-layered engineered flooring and three-layered engineered flooring. In China, three-layered engineered flooring is mainly produced for export, and as a result, multi-layered engineered flooring has dominated China's engineered flooring market. Multi-layered engineered flooring, accounted for 88.0% of engineered flooring annual retail sales volume in 2009, is expected to continue to comprise the largest share of the engineered flooring market during the forecast period.

INDUSTRY OVERVIEW

Key Brands in the Multi-layered Engineered Wood Flooring Market

According to Frost & Sullivan, the top five brands contributed 17.3% to the annual retail sales of multi-layered engineered flooring segment in 2009. Of all the brands in China, Nature ranked first in 2009 in terms of annual retail sales value, with a market share of 5.3%. Set forth below is the market share of the top brands of multi-layered engineered flooring by annual retail sales value in China from 2007 to 2009.

Top Five Multi-Layered Engineered Flooring Brands: Market Share by Annual Retail Sales Value in China

2007		2008		2009	
Brands	Market Share	Brands	Market Share	Brands	Market Share
Power Dekor	4.6%	Power Dekor	5.1%	Nature	5.3%
Nature	3.5%	Nature	4.9%	Power Dekor	4.6%
Shengda Forestry	3.0%	Shengda Forestry	3.1%	Ark Floors	2.6%
Ark Floors	2.6%	Ark Floors	2.7%	Shengda Forestry	2.5%
Sinomaple	2.2%	Sinomaple	2.3%	Sinomaple	2.3%
Total	15.8%		18.1%		17.3%

Source: Frost & Sullivan Report

In 2008, 2009 and 2010, the Wholesale Volume of our branded engineered flooring products manufactured at our own factories accounted for 42.6%, 29.9% and 38.9% of the total Wholesale Volume of our branded engineered flooring products for the same periods, respectively, while those manufactured by authorized manufacturers accounted for 57.4%, 70.1% and 61.1% of the total Wholesale Volume of our branded engineered flooring products, respectively.

Both we and authorized manufacturers manufacture our branded engineered flooring products. As authorized manufacturers are obligated to sell our branded products to our exclusive distributors to whom we also sell products manufactured at our own factories, there may be competition between us and authorized manufacturers in selling engineered flooring products to the same group of distributors. Such competition may relate to, among other factors, the pricing of the products.

Solid Wood Flooring

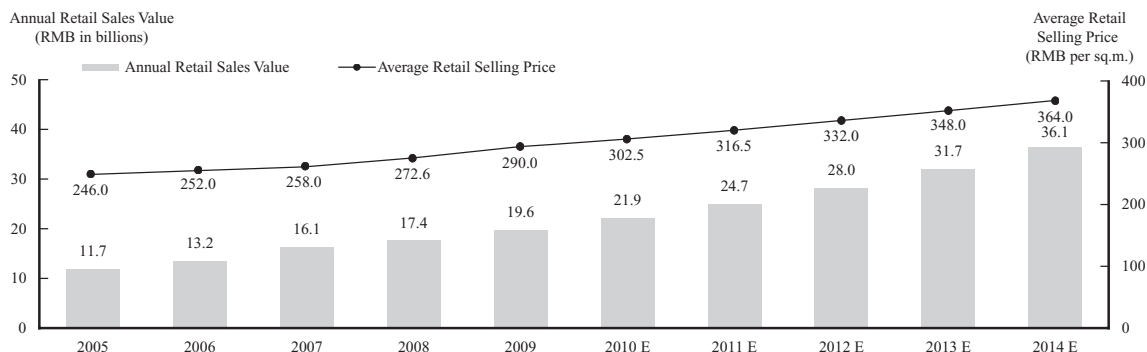
Solid wood flooring is manufactured with a single plank of high-quality solid wood, generally without the use of glue, which is then dried, polished and coated to produce a natural flooring product that exhibits the varying colors, textures and fragrance of the bare wood. The product can be further hand-engraved to produce a surface with varying desired patterns. Due to the use of a solid piece of natural wood, solid wood flooring generally has a higher price point and is marketed toward more affluent customers.

The rising purchasing power of middle to high income consumers, along with the increasing demand for high quality products, has driven the growth of China's solid wood flooring market historically, and is expected to continue to do so in the future. Moreover, since the majority of the raw materials used in the production of solid wood flooring are imported, solid wood manufacturers based in China are expected to benefit from any further appreciation of the Renminbi, which would lower the cost of raw materials purchased in the international market.

INDUSTRY OVERVIEW

According to Frost & Sullivan, the annual retail sales value of solid wood flooring in China increased from RMB11.7 billion to RMB19.6 billion from 2005 to 2009, with a CAGR of 13.6%, and is expected to continue growing at a CAGR of 13.0% from 2009 through 2014, to RMB36.1 billion. Set forth below are the historical and estimated annual retail sales value in China's solid wood flooring market and the average retail selling price for the years indicated:

Solid Wood Flooring Market: Annual Retail Sales Value in China



Source: Frost & Sullivan Report

Key Brands in the Solid Wood Flooring Market

According to Frost & Sullivan, the top five brands contributed 19.5% to the annual retail sales value of the solid wood flooring segment in 2009. Of all the brands in China, Nature ranked first in terms of annual retail sales value for three consecutive years, from 2007 to 2009, with a market share of 7.4% in 2009. Set forth below are the market share of the top brands of solid wood flooring by annual retail sales value in China from 2007 to 2009.

Top Five Solid Wood Flooring Brands: Market Share by Annual Retail Sales Value in China

2007		2008		2009	
Brands	Market Share	Brands	Market Share	Brands	Market Share
Nature	5.0%	Nature	8.2%	Nature	7.4%
Treessun	3.0%	Sunyard	3.5%	Sunyard	3.7%
Sunyard	2.9%	Treessun	3.3%	Treessun	3.3%
Ark Floors	2.8%	Ark Floors	3.0%	Ark Floors	2.9%
Fudeli Flooring	1.8%	Fudeli Flooring	2.1%	Fudeli Flooring	2.2%
Total	15.6%	Total	20.2%	Total	19.5%

Source: Frost & Sullivan Report

During the Track Record Period, all of our branded solid wood flooring were manufactured by authorized manufacturers.

INDUSTRY OVERVIEW

OVERVIEW OF THE MARKETS OF WOOD DOORS, WOOD WARDROBES AND WOOD CABINETS

A wood door refers to a door whose major component is wood material. According to Frost & Sullivan, the annual retail sales volume of wood doors in China is anticipated to continue growing, from 142.2 million sets in 2009 to 525.3 million sets in 2014, with a CAGR of 29.9%. The wood door industry's annual output value in China is also forecasted by Frost & Sullivan to increase from RMB65.0 billion in 2009 to RMB280.4 billion in 2014, with a CAGR of 34.0%.

A wood wardrobe refers to furniture that provides storage space for clothing. According to Frost & Sullivan, the annual retail sales value of wood wardrobes in China is expected to increase from RMB43.5 billion in 2009 to RMB160.5 billion in 2014, with a CAGR of 29.8%.

A wood cabinet, also known as "home kitchen wood furniture", refers to comprehensive kitchen wood furniture integrating different functions in the kitchen, such as cooking and storage. According to Frost & Sullivan, the annual retail sales value of wood cabinets in China is expected to increase from RMB81.6 billion in 2009 to RMB330.9 billion in 2014, with a CAGR of 32.3%.

According to Frost & Sullivan, the major forces driving the development of markets for wood doors, wood wardrobes and wood cabinets include:

- Real estate development in China;
- Implementation of new industry standards for wood doors and wood furniture;
- Consumers' shifting purchasing preferences; and
- Product design and innovation.