

## REGULATORY OVERVIEW

### LAWS, RULES AND REGULATIONS IN RELATION TO THE PRODUCT QUALITY

#### Domestic sales

The Group is principally engaged in the design, manufacture and wholesale of a wide range of home furniture products including mainly wood-based furniture and mattresses. Products manufactured by the Group are subject to the laws, rules and regulations in relation to the product quality in the PRC. 中華人民共和國產品質量法 (Product Quality Law of the PRC), promulgated on 22 February 1993 and subsequently amended on 8 July 2000, is the principal law governing the supervision and administration of product quality, and is applicable to the production and sale of any products in the PRC. With respect to the furniture industry, the relevant laws, rules and regulations imposed on furniture companies include the following:

1. GB 17927-1999 軟體家具彈簧軟床墊和沙發抗引燃特性的評定 (Upholstered Furniture – Assessment of the Resistance to Ignition of the Spring Mattress and Sofa), which took effect on 1 May 2000, promulgated by 國家質量技術監督局 (The General Bureau of Quality and Technical Supervision), which is now renamed as 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC). This rule states that under different types of environment, the procedures and the testing should be performed to determine the resistance to ignition of the spring mattress and sofa. The test is carried out by placing a lighting cigarette horizontally onto the surface of the spring mattress or sofa for a certain amount of time twice to ensure no ignition occurs.
2. GB 18580-2001 室內裝飾裝修材料人造板及其製品中甲醛釋放限量 (Indoor Decoration and Refurbishing Materials – Limit of Formaldehyde Emission of Wooden Based Panels and related Finished Products), which took effect on 1 January 2002, promulgated by 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC). This rule specifies the limit of formaldehyde emission of wooden based panels and related finished products. Different types of products are categorised into subclasses by the different test methods. Each subclass has a different limit of formaldehyde emission and has different testing procedures.
3. GB 18581-2001 室內裝飾裝修材料溶劑型木器塗料中有害物質限量 (Indoor Decoration and Refurbishing Materials – Limit of Harmful Substances of Solvent Coatings for Woodenware), which took effect on 1 January 2002, promulgated by 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC). This rule provides the limit of harmful substances in solvent coatings used for indoor wooden decoration and refurbishing materials. The harmful substances to be detected include (i) volatile organic compounds, (ii) benzene, (iii) toluene and xylene, (iv) free toluene diisocyanate, (v) soluble lead, (vi) soluble cadmium, (vii) soluble chromium and (viii) soluble mercury.

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4. GB 18583-2001 室內裝飾裝修材料膠黏劑中有害物質限量 (Indoor Decoration and Refurbishing Materials – Limit of Harmful Substances of Adhesives), which took effect on 1 January 2002, promulgated by 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC). This rule provides the limit of harmful adhesive substances in indoor decoration and refurbishing materials. The adhesives are divided into two groups, solvent-based adhesives and water based adhesives. These adhesives are tested to ascertain the following harmful substances (i) free formaldehyde, (ii) benzene, (iii) toluene and xylene, (iv) toluene diisocyanate and (v) total volatile organic compounds.
  
5. GB 18584-2001 室內裝飾裝修材料木家具中有害物質限量 (Indoor Decoration and Refurbishing Materials – Limit of Harmful Substances of Wood Based Furniture), which took effect on 1 January 2002, promulgated by 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC). This rule states the limit of harmful substances in any wood based indoor furniture. Harmful substances include (i) formaldehyde emission, (ii) soluble lead, (iii) soluble cadmium, (iv) soluble chromium and (v) soluble mercury.
  
6. GB 5296.6-2004 《消費品使用說明第6部份：家具》 (Instruction for Use of Consumer Products – Part 6: Furniture), which took effect on 1 October 2004, promulgated by 國家標準化管理委員會 (The Standardisation Administration of the PRC) and 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC). This rule provides the basic requirements, methods, and contents to be included for the preparation of furniture manual. The requirements include the following (i) a manual must be included in all sales of furniture, (ii) in accordance with the national or industrial standards, the name of the furniture item must reflect the real item, (iii) the manual must clearly define the purpose and application under the specified environmental conditions, (iv) the sale of furniture item must comply with relevant national safety, health, environmental protection laws, rules, regulations and standards, (v) the manual must also specify any special attention required for the usage of such furniture item, (vi) all manuals must clearly state the description and production date of the furniture item, (vii) the information contained in the manual must be consistent with the related advertisements and promotional materials, and (viii) if applicable, the manual must state "Before installation, or usage, please read the instructions carefully." on the cover page.

Violation of the abovementioned laws, rules or regulations may result in the imposition of fines, penalties, suspension of operations, order to cease operations, or even criminal liability for severe cases.

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The Group has implemented appropriate measures to ensure compliance with the aforesaid laws, rules and regulations in respect of the product quality. At the raw material procurement stage, the major suppliers of the Group are required to demonstrate that raw materials provided to the Group are in compliance with requirements under the relevant laws, rules and regulations. At each stage of the production process, the section leader would go through details of the production process and quality requirements with his team members beforehand. During the production process, the section leader would visit each work station and perform 5% random sample checking. At the end of the production process, the section leader, based on the design specifications, would conduct sample checking to ensure that the parts produced at this stage of production conform to the design and quality requirements. Before packaging, quality assurance staff would assemble parts of the wood-based furniture produced at different production stages into a final product for testing to ensure that the parts and the finished products meet with the design specifications. Quality assurance staff in charge of mattress production would check the cleanliness of the mattress and ensure that the mattress is properly packed with protective plastic cover. For details, please refer to [the paragraphs headed "Production" and "Quality assurance" in the section headed "Business" in this document.

### Export sales

The PRC government has taken a proactive role in ensuring the wood-based products and furniture manufactured by domestic exporting enterprises are in compliance with the technical requirements and quality standards imposed by the various major importing overseas countries. 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine), which has laid down the regulatory framework in this regard, is a ministerial-level department under the State Council of the PRC that is in charge of national quality, metrology, entry-exit commodity inspection, entry-exit health quarantine, entry-exit animal and plant quarantine, import-export food safety, certification and accreditation, standardization, as well as administrative law enforcement.

In order to maintain the continuous development of external trade and to ensure the product quality and safety of wood-based products and furniture exported to overseas countries, on 14 December 2007, 中國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC) issued 關於對出口木製品及木製家具實施檢驗監管工作通知 (Administrative Notice regarding Implementation of Quality Inspection on Exporting Wood-based Products and Furniture) listing out the catalog of wood-based products and furniture items which are subject to exit quality inspection by the respective local entry-exit inspection and quarantine bureau before such merchandise can be cleared with the custom office for export. The aforesaid notice stipulates, inter alia, that:

- (i) wood-based products and furniture for export to overseas countries must meet the technical requirements and quality standards on (1) resistance to ignition, (2) limit of formaldehyde emission, and (3) limit of heavy metal content imposed by the respective importing countries, and in the event that the importing country does not

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have such technical requirements and quality standards, the related requirements and standards in the PRC should be followed and complied with. The major technical requirements and quality standards imposed by the European Union, the United Kingdom, the United States, Australia, Japan, and the PRC are incorporated in the aforesaid notice;

- (ii) enterprises engaging in exporting wood-based products and furniture are subject to certification. Local entry-exit inspection and quarantine bureaus should actively assist exporting enterprises to establish quality and safety control system covering raw material procurement, production process and finished product quality assurance. For those enterprises which have not established such quality and safety control system, the bureau will impose deadline for such enterprises to do so and before the quality and safety control system is established, finished products manufactured by such enterprises would not be inspected and approved by the bureau for export;
- (iii) respective local bureau should demand exporting enterprises to check the resistance to ignition, heavy metal content and degree of formaldehyde emission on various raw materials, including paint, adhesives, fabric, MDF boards and leather used in manufacturing. All quality check reports have to be issued by qualified laboratories. Proper records on the details of approved suppliers have to be kept by the exporting enterprises. Respective local bureaus would also conduct random checks on the quality of raw materials used in manufacturing by exporting enterprises; and
- (iv) when applying approval for export, exporting enterprises should either provide the respective technical requirements and quality standards imposed by the relevant importing country or make a formal declaration that the finished products are in compliance with the technical requirements and quality standards of the relevant importing country to the respective local bureaus.

To further regulate the participants in the wood-based product manufacturing industry, on 1 February 2008, 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC) issued 《關於進一步加強出境竹木草製品檢驗檢疫監管工作的通知》 (Administrative Notice on Further Strengthening Quality Supervision, Inspection and Quarantine Control on Exporting Wood and Hay-based Products) requiring all the wood and hay-based product manufacturing enterprises be registered with the respective local entry-exit inspection and quarantine bureaus before being allowed to be engaged in the industry. In order to be qualified for registration, enterprises must be capable of fulfilling the standards and requirements on production, quality control, warehousing, and logistics imposed by the respective local entry-exit inspection and quarantine bureaus. Enterprises which are registered with the local bureaus are granted a registration certificate. The validity of such certificate is 3 years from the date of grant and approval for renewal of such certificate is subject to the local bureau's assessment on the relevant enterprise's continuous capabilities in fulfilling the required standards and requirements.

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Each of Shenzhen Xingli and Shenzhen Xingli Zundian has been registered with the local entry-exit inspection and quarantine bureau in accordance with the requirements promulgated by 中華人民共和國國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC) as mentioned above and has been granted a registration certificate with a validity period of 3 years from 1 July 2008 to 1 July 2011.

### LAWS AND REGULATIONS IN RELATION TO LABOUR MATTERS

中華人民共和國勞動合同法 (PRC Labour Contract Law), which took effect on 1 January 2008, stipulates certain requirements in respect of human resources management including, among other things, signing labour contracts with employees, dissolving labour contracts, paying remuneration and compensation as well as the employee social insurances. In addition, 中華人民共和國勞動合同法 (PRC Labour Contract Law) requires employers to provide remuneration packages which are not lower than the respective local minimum standards.

中華人民共和國就業促進法 (PRC Employment Promotion Law), which took effect on 1 January 2008, stipulates that employees shall have equal opportunities to employment without discrimination in terms of ethnicity, race, gender, religious belief, communicable disease and rural residence, and may not be discriminated against in hiring or in their employment terms. Enterprises are also required to provide employees with vocational training. Administrative authorities at the county level or above are responsible for implementing policies to promote employment.

Violation of the above mentioned laws may result in the imposition of fines, penalties, suspension of operations, order to cease operations, or even criminal liability for severe cases.

Prior to the implementation of 中華人民共和國勞動合同法 (PRC Labour Contract Law) and 中華人民共和國就業促進法 (PRC Employment Promotion Law) which took effect on 1 January 2008, the Group had already implemented measures to protect the interests of its employees which included, among others, (i) signing a written employment contract with every employee; (ii) establishing a remuneration system to ensure compliance with the local minimum salary standards; and (iii) provision of vocational training to its employees. The Directors consider that the implementation of 中華人民共和國勞動合同法 (PRC Labour Contract Law) and 中華人民共和國就業促進法 (PRC Employment Promotion Law) has not given rise to any material impact on the operations and businesses of the Group.

For details of the compliance with labour matters, please refer to the sub-paragraph headed "PRC labour contract law" in the paragraph headed "Employees" in the section headed "Directors, senior management and staff" in this document.

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### LAWS AND REGULATIONS IN RELATION TO PRODUCTION SAFETY

中華人民共和國安全生產法 (PRC Production Safety Law), which took effect on 1 November 2002, is the principal law governing the supervision and administration of production safety in the PRC. The law provides that production entities must meet the relevant legal requirements such as providing training and handbook on production safety to its staff and provision of safe working conditions as set out in the relevant laws, rules and regulations. Any production entities that cannot provide the required safe working conditions may not engage in production activities.

Violation of 中華人民共和國安全生產法 (PRC Production Safety Law) may result in the imposition of fines, penalties, suspension of operations, order to cease operations, or even criminal liability for severe cases.

In order to comply with 中華人民共和國安全生產法 (PRC Production Safety Law), the Group provides training with respect to production safety to the employees on a regular basis to enhance their safety awareness and provides each employee with a handbook on production safety in relation to operation of equipment and machinery. The Group also provides safe protection equipment and devices to ensure that its staff work under a safe environment. The Directors have confirmed that during the Track Record Period, no [material] accident occurred during the production process of the Group in the PRC, nor was there any violation or breach of the relevant laws, rules and regulations by the Group in the PRC in relation to production safety. In the future, the Group will continue its current practice in providing training to its employees to strength their awareness of production safety in order to minimise the risks of occurrence of accidents during the production process.

For details of the compliance with production safety of the Group, please refer to [the sub-paragraph headed “Compliance with safety laws, rules and regulations” in the paragraph headed “Compliance and litigation” in the section headed “Business” in this document.

### LAWS AND REGULATIONS IN RELATION TO PROVISION OF THE HOUSING PROVIDENT FUND

住房公積金管理條例 (Regulations on Management of Housing Provident Fund), which took effect on 24 March 2002, provides that enterprises in the PRC shall undertake the registration of housing provident funds with the relevant authorities, maintain the relevant account with designated banks and contribute to housing provident funds at the rate of not less than 5% of the [basic] salaries paid to the employees.

Violation of the above mentioned law may result in the imposition of fines, penalties, or even criminal liability for severe cases.



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According to 住房公積金管理條例 (Regulations on Management of Housing Provident Fund), [the Group has undertaken registration with the relevant authorities and maintained designated accounts for housing provident fund for its employees at the relevant banks. Each of Shenzhen Xingli and Shenzhen Xingli Zundian has made the housing provident fund contributions for its qualified employees from 1 March 2009 as the local relevant authority needed time in setting up the accounts to process the contribution payments made by these two companies. Dongguan Super Furniture has made the required housing provident fund contributions for its qualified employees in the PRC since 1 January 2009.]

For details of the compliance with housing provident funds of the Group, please refer to the paragraph headed “Compliance and litigation” in the section headed “Business” in this document.

### LAWS AND REGULATIONS IN RELATION TO TAXATION

The New EIT Law and 中華人民共和國企業所得法實施條例 (Implementation Rules for the New EIT Law), which became effective on 1 January 2008, impose a uniform enterprise income tax rate of 25% on both domestic and foreign-invested enterprises. However, pursuant to 關於實施企業所得稅過渡優惠政策的通知 (the Notice of the State Council on the Implementation of the Enterprise Income Tax Transitional Preferential Policy) promulgated on 26 December 2007, enterprises which are currently subject to an enterprise income tax rate lower than 25% may continue to enjoy the lower rate and gradually become subject to the new tax rate over a transitional period of five years starting from 1 January 2008. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term prior to 1 January 2008 may continue to enjoy such treatment until such fixed term expires.

Violation of the above mentioned law, rules or notice may result in the imposition of fines, penalties, suspension of operations, order to cease operations, or, even criminal liability for severe cases.

Each of Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture are subject to enterprise income tax in the PRC. Pursuant to the New EIT Law, the enterprise income tax rates for each of Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture will be unified to the standard enterprise income tax rate of 25%. Accordingly, after the applicable transitional period, each of Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture in the PRC may no longer be subjected to preferential tax rates and/or tax exemption.

For details of the Group’s compliance with taxation, please refer to the sub-paragraph headed “Taxation” in the paragraph headed “Principal income statement components” in the section headed “Financial information” in this document.

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### ENVIRONMENTAL PROTECTION

The Group is subject to environmental protection laws, rules and regulations in the PRC. According to 中華人民共和國環境保護法 (Environmental Protection Law of the PRC) which took effect on 26 December 1989, the state environmental protection authority is authorised to formulate national environmental quality and discharge standards and monitor the environmental system at the national level. 中華人民共和國環境噪聲污染防治法 (Law of the PRC on the Prevention and Control of Environmental Noise Pollution), which took effect on 1 March 1997, stipulates the supervision and management measures in respect of the prevention and control of environmental noise pollution and industrial noise pollution, construction noise pollution, transportation noise pollution and social activities noise pollution. The law also stipulates the relevant legal liabilities.

Violation of the abovementioned laws, rules or regulations may result in the imposition of fines, penalties, suspension of operations, order to cease operations, or even criminal liability for severe cases.

According to 中華人民共和國環境影響評價法 (Environmental Impact Assessment Law of the PRC) which was promulgated on 28 October 2002, 建設項目竣工環境保護驗收管理辦法 (Administrative measures for Environmental Protection Examination and Approval Upon Completion of Construction Projects), which was promulgated on 27 December 2001, and 建設項目環境保護管理條例 (Regulations Governing Environmental Protection in Construction Projects) which were promulgated on 29 November 1998, enterprises in the PRC are required to engage relevant environmental protection authorities to provide environmental impact evaluations on construction projects and to prepare environmental impact assessments.

Violation of the abovementioned laws, rules or regulations may result in the imposition of fines, penalties, suspension of operations, or order to cease operations.

In order to comply with 中華人民共和國環境影響評價法 (Environmental Impact Assessment Law of the PRC), 建設項目竣工環境保護驗收管理辦法 (Administrative measures for Environmental Protection Examination and Approval Upon Completion of Construction Projects) and 建設項目環境保護管理條例 (Regulations Governing Environmental Protection in Construction Projects), each of Shenzhen Xingli, Shenzhen Xingli Zundian and Dongguan Super Furniture has obtained approvals from the relevant authorities for an environmental impact assessment before commencement of the construction work on the relevant properties.

The material environmental impact from the Group's production of furniture products and mattress is the discharge of waste water, the emission of dusts into the air and the generation of noise pollution. In order to comply with 中華人民共和國環境保護法 (Environmental Protection Law of the PRC) and 中華人民共和國環境噪聲污染防治法 (Law of the PRC on the Prevention and Control of Environmental Noise Pollution), the Group (i) has constructed sewage treatment facilities that helps to recycle the waste water discharged; (ii) has installed



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a central dust vacuum system that collects sawdust generated during the production process; (iii) has installed anti-noise pollution facilities to reduce the noise level generated during the production process; (iv) has equipped itself with a fully automatic UV spray-coating processing line which helps to reduce the level of air pollution and waste water discharge in spraying parts; and (v) has set up arrangements to deliver the residual waste after the above treatments to waste treatment professionals. Furthermore, 環保守法證明 (Certificates of Compliance with the Environmental Laws) have been issued by the relevant environmental protection authorities (in respect of Shenzhen Xingli and Shenzhen Xingli Zundian, for each of the 3-year periods prior to the issue of such certificates in May 2008 and March 2009 respectively, and in respect of Dongguan Super Furniture, since its establishment up to the issue of the certificate in March 2009). For details of the compliance with environmental protection of the Group, please refer to the sub-paragraph headed "Compliance with environmental protection laws, rules and regulations" in the paragraph headed "Compliance and litigation" in the section headed "Business" in this document.

### U.S. ANTI-DUMPING DUTIES RELATING TO WOODEN BEDROOM FURNITURE FROM THE PRC

The U.S. International Trade Commission and Department of Commerce are responsible for conducting anti-dumping investigations and five-year (sunset) reviews under Title VII of the Tariff Act of 1930. Under this law, U.S. industries may petition the U.S. International Trade Commission and Department of Commerce for relief from unfairly priced (dumped) and subsidised imports. Dumping occurs when a foreign producer sells a product in the United States at a price that is below that producer's sales price in its home market, or at a price that is lower than its cost of production. Subsidising occurs when a foreign government provides financial assistance to benefit the production, manufacture, or exportation of a good. If the U.S. Department of Commerce finds that an imported product is dumped or subsidised and the International Trade Commission finds that a U.S. industry producing a like product is materially injured or threatened with material injury, an anti-dumping duty order or countervailing duty order will be imposed to offset the dumping or subsidies. When an anti-dumping or countervailing duty order is imposed, the U.S. Department of Commerce instructs the Bureau of Customs and Border Protection (Customs) to assess anti-dumping or countervailing duties on imports of the product into the United States to offset the unfair trade practice. The U.S. Department of Commerce and the International Trade Commission review each outstanding anti-dumping and countervailing duty order every five years to determine whether revocation of the order would be likely to lead to continuation or recurrence of dumping or subsidies and of material injury within a reasonably foreseeable time. If both agencies make affirmative determinations, the order is continued for another five years; if not, the order is revoked.

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On 18 June 2004, the U.S. Department of Commerce announced its preliminary determination in the anti-dumping duty investigation of wooden bedroom furniture from the PRC, with dumping rates ranging from 4.90% to 198.08%. The U.S. Department of Commerce applies a single anti-dumping rate to all exporters of wooden bedroom furniture from the PRC (the "PRC-wide Rate") unless an exporter has applied for and approved to be eligible for separate-rate status. The U.S. Department of Commerce would periodically review the anti-dumping duties on imports of wooden bedroom furniture from the PRC and publish the results of its review listing, among others, the PRC-wide Rate and the names of the exporters eligible for the separate-rate status and the separate anti-dumping rates imposed on such eligible exporters. According to the Federal Register dated 27 March 2009 issued by International Trade Administration of the U.S. Department of Commerce, the PRC-wide Rate of 216.01% would be applied to all exporters of wooden bedroom furniture from the PRC except for eligible separate-rate exporters which would be entitled to separate anti-dumping rates ranging from 22.29% to 39.46% on wooden bedroom furniture from the PRC, among which Shenzhen Xingli was listed as one of the eligible separate rate exporters with an applicable anti-dumping rate of 32.23%.

[Shenzhen Xingli has been approved to be eligible for separate-rate status as mentioned above since 2004. As a result of the periodic reviews performed by the U.S. Department of Commerce in relation to the anti-dumping duties on imports of wooden bedroom furniture from the PRC, the anti-dumping rates to which Shenzhen Xingli was subject during the Track Record Period and up to the Latest Practicable Date are set out below:

1 January 2006 – 31 December 2006	32.23%
1 January 2007 – 20 August 2008	7.24%
20 August 2008 – 31 December 2008	18.82%
1 January 2009 – 27 January 2009	18.82%
28 January 2009 – 26 March 2009	33.38%
27 March 2009 up to the Latest Practicable Date	32.23%

The Directors confirmed that Shenzhen Xingli Zundian and Dongguan Super Furniture did not need to apply for the separate-rate status in relation to the anti-dumping duties on exports of wooden bedroom furniture from the PRC as described above as both of these companies did not report any export sales to the U.S. market.]