
PRC REGULATORY OVERVIEW

Our business activities are principally based in the PRC. We are therefore required to comply with a number of PRC regulations to carry out our operating activities. Pursuant to the “Industrial Guidelines for Foreign Investments” (2007 amended version) issued by the Ministry of Commerce and NDRC on 31 October 2007 and effective from 1 December 2007, based on the scope of operation of our operating subsidiaries, they are classified as “permitted” foreign-invested enterprises, and the manufacturing of electric machinery and appliances are also “permitted”.

LAWS AND REGULATIONS RELATING TO OUR PRODUCTS

Product Labelling Requirements

Energy Label Management Rules (能源效率標識管理辦法), which was promulgated on 13 August 2004 and became effective on 1 March 2005, provides that the state shall publish Catalogues of Products for Implementing Energy Label in the PRC (the “China Energy Label Catalogues”), and the products listed within the China Energy Label Catalogues shall be marked with the unified PRC energy labels on the obvious parts of the products or on the smallest package of the products. Manufacturers must file energy labels and the relevant information with the institution authorised by the competent authorities within 30 days after having used the energy labels.

Regulations for the Implementation of the Energy Efficiency Label for Fluorescent Lamps (自鎮流熒光燈能源效率標識實施細則), and Catalogues of Products for Implementing Energy Efficiency Label in the PRC (the Third Batch) (中華人民共和國實行能源效率標識的產品目錄(第三批)), which became effective on 1 June 2008, require that fluorescent lamp products that reach certain technical standards should be marked with energy labels.

Product Quality

Pursuant to the Product Quality Law of the PRC (《中華人民共和國產品質量法》) which was promulgated on 22 February 1993 and amended on 8 July 2000, it is prohibited to produce or sell products that do not meet the standards or requirement for safeguarding human health and ensuring human and property safety. Products shall be free from unreasonable dangers threatening human and property safety. For products which, if improperly used, may cause damage to the products per se or may endanger human or property safety, the products or their packaging shall be marked with warning marks or warning statements in Chinese.

Producers are liable for the quality of the products they produce. Where a defective product causes physical injury to a person or damage to property, the victim may claim compensation against the producer or the seller of such product. Where bodily injury is caused by a defective product, the infringing party is required to compensate for medical expenses, nursing fees and other economic losses of the infringed such as any decreased earnings due to loss of ability to work. Where the infringed becomes disabled, the infringing party is required to also pay such fees as the expenses for self-help devices, the subsistence allowance, damages for the disabled, and necessary living expenses of the person(s) the infringed supports. Where such defect causes death of the infringed, the infringing party is required to also pay the funeral expenses, the death damages, and necessary living expenses of the person(s) supported by the infringed before his death. Where the defective product causes damage to the property of the infringed, the infringing party is required to restore the damaged property to its original state, or compensate for the depreciated value of the property.

Where anyone produces or sell products that do not comply with the relevant national or trade standards safeguarding the health or safety of the person and property, the related authority will order it to suspend the production or sale, confiscate the products produced or for sale, and impose a fine higher than the value of the products and less than three times of the value of the products. Where there exist illegal earnings, the earnings will be confiscated concurrently. Where the case is serious, the business licence will be revoked. Where the activities constitute a crime, the offender will be prosecuted.

Product Certification

The Administrative Regulations on Compulsory Product Certification (《強制性產品認證管理規定》), which as promulgated by the General Administration of Quality Supervision, Inspection and Quarantine on 3 July 2009, requires that products specified in certain catalogues must be certified (the “Compulsory Product

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Certification”) and labelled with a certification sign before any sale, import or utilisation in any other business activity.

According to the Catalogue of the First Batch of Products subject to Compulsory Product Certificate (《第一批實施強制性產品認證的產品目錄》) (the “3C Catalogue”), lighting equipment (including lamps and ballasts) are subject to Compulsory Product Certification.

The lighting equipment subject to Compulsory Product Certification are set out in documents such as:

- The Applicable Scope of the Products in the 3C Catalogue (《<第一批實施強制性產品認證的產品目錄>中產品的適用範圍》), which was jointly promulgated by the General Administration of Quality Supervision, Inspection and Quarantine and the Certification and Accreditation Administration on 1 July 2002;
- The Detailed Applicable Scope of Some Products in the 3C Catalogue (《<第一批實施強制性產品認證的產品目錄>中部分產品詳細適用範圍》), promulgated on 12 August 2003;
- The Reply on whether the Plasma Lighting Equipment Falls within the Scope of 3C Catalogue (《關於等離子照明裝置是否屬於強制性產品認證目錄範圍的批覆》), issued on 20 June 2006; and
- The Reply on Issues in Relation to the 3C Certification of Lamp Products (《關於燈具產品CCC認證有關問題的覆函》), which was issued on 2 April 2007 by the Certification and Accreditation Administration.

In addition, companies engaged in the manufacturing of certain kitchen and washing-room equipment or fire protection products as listed in the 3C Catalogue must obtain certification for their products and label their products with certification signs.

Import or Export of Products

The Foreign Trade Law of the PRC (《中華人民共和國對外貿易法》), which was promulgated on 12 May 1994 and amended on 6 April 2004, and the Measures for the Archival Filing and Registration of Foreign Trade Operators (《對外貿易經營者備案登記辦法》), which were promulgated by the Ministry of Commerce on 25 June 2004, require that foreign trade operators who engage in the import or export of goods or technologies must register with the Ministry of Commerce or another institution authorised by the Ministry of Commerce. In addition, if a company imports or exports goods as consignee and consignor, it must register with local Customs authority and obtain the PRC Customs Declaration Registration Certificate for Consignors and Consignees pursuant to the Provisions for the Registration of Customs Declaration Agents (《中華人民共和國對報關單位註冊登記管理規定》).

LAWS AND REGULATIONS RELATING TO ENVIRONMENT AND SAFETY ISSUES

Environmental Law

Our operations are subject to PRC environmental laws and regulations, which include the PRC Environmental Protection Law (《中華人民共和國環境保護法》), the PRC Law on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), PRC Law on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), the PRC Law on the Prevention and Control of Pollution From Environmental Noise (《中華人民共和國環境噪聲污染防治法》), the PRC Law on the Prevention and Control of Environmental Pollution by Solid Waste (《固體廢物污染環境防治法》) the Administrative Regulations on Environmental Protection for Construction Project (《建設項目環境保護管理條例》), and the Administrative Regulations on Levy and Utilisation of Sewage Charge (《排污費徵收使用管理條例》). The Environmental Laws govern a broad range of environmental matters, including air pollution, noise emissions, sewage and waste discharge.

According to these environmental laws, all business operations that may cause environmental pollution and other public hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These operations are required to adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of waste

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gas, liquid and solid waste, dust, malodorous gas, radioactive substances, noise, vibration, and electromagnetic radiation generated in the course of production, construction or other activities.

According to these environmental laws, companies are also required to carry out an environmental impact assessment before commencing construction of production facilities and also must install pollution treatment facilities that meet the relevant environmental standards to treat pollutants before discharge.

If a company fails to report and/or register in respect of any environmental pollution caused by it, it will be warned or subject to penalties. If the company then fails to restore the environment to its original state or improve the environment as affected by the pollution within the time limit, it will be penalised, and its business licence may be suspended. Companies or enterprises causing environmental pollution and hazards are responsible for taking action to remedy the hazards and consequences caused by the pollution, and compensation for any loss or damages caused by the environmental pollution.

Enterprises are required to comply with the applicable national and local environmental laws and regulations.

Labour and Safety Law

According to the Production Safety Law of the PRC (《中華人民共和國安全生產法》) which was promulgated on 29 June 2002 by the Standing Committee of the National People's Congress and became effective on 1 November 2002, companies carrying out production activities are required to have safe production conditions as required by relevant laws and regulations. Companies having more than 300 employees are required to form a management department to carry out the functions of production safety or appoint personnel solely responsible for production safety. Companies are required to display warning signs at the location and on equipment with high potential risks. Companies are required to purchase job-related injury insurance according to relevant laws and regulations.

According to the Fire Control Law of the PRC (《中華人民共和國消防法》), we are required to submit the design and drawings of a construction project to the relevant fire control bureau for approval before commencement of the construction. Also upon completion of a construction project, fire prevention mechanisms of the construction project should be evaluated and approved by the relevant fire control bureau before commencement of operation.

In addition, we are also subject to other labour and safety laws and regulations in the PRC including the PRC Labour Law (《中華人民共和國勞動法》), the PRC Labour Contract Law (《中華人民共和國勞動合同法》), the Regulation of Insurance for Labour Injury (《工傷保險條例》), the Unemployment Insurance Law (《失業保險條例》), the Provisional Insurance Measures for Maternity of Employees (《企業職工生育保險試行辦法》), Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》). According to the PRC Labour Law and the PRC Labour Contract Law, labour contracts in written form must be executed to establish labour relationships between employers and employees. Wages cannot be lower than the local minimum wage. Companies are required to establish a system for labour safety and sanitation, strictly abide by state standards, and provide relevant education to its employees. Employees are also required to work in safe and sanitary conditions meeting State rules and standards, and carry out regular health examinations of employees engaged in hazardous occupations.

OTHER LAWS AND REGULATIONS

Tax Law

On 1 January 2008, the Foreign-funded Enterprise and Foreign Enterprise Income Tax Law of the PRC (《中華人民共和國外商投資企業和外國企業所得稅法》) was abolished, and the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), promulgated on 16 March 2007, became effective. Pursuant to the Enterprise Income Tax Law of the PRC, the income tax rate for both domestic-funded enterprises and foreign-funded enterprises is 25%.

Pursuant to the Notice on the Implementation of the Enterprise Income Tax Transition Preferential Policy (《國務院關於實施企業所得稅過渡優惠政策的通知》), enacted by the State Council of the PRC on 26 December 2007, the preferential tax rate enjoyed by enterprises established prior to the issuance of

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the new Tax Law pursuant to relevant tax laws, regulations and documents, will gradually be increased to the statutory tax rate within a transitional period of five years from the effective date of the new Tax Law. The fixed-term preferential tax policies enjoyed by certain enterprises, such as the “two-year exemption and three-year half rate” and the “five-year exemption and five-year half rate”, will continue to be effective after the implementation of the new Tax Law in the manner and for the period as specified in relevant tax laws, regulations and documents until the expiration of the preferential period. Enterprises that had not enjoyed the aforesaid preferential policy due to their failure to make a profit will enjoy the aforesaid preferential policy from 2008. In addition, the preferential tax policies for certain enterprises in western regions as set out in the Circular on Issues Concerning Preferential Tax Policies for the Development of Western Regions (《財政部、國家稅務總局、海關總署關於西部大開發稅收優惠政策問題的通知》) (Cai Shui 2001 No. 202), jointly issued by the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs, will continue to apply.

The Provisional Regulation on VAT of the PRC was promulgated on 13 December 1993 and effective from 1 January 1994. Such regulation is applicable on domestic and foreign invested enterprises selling commodities in the PRC, provision of processing or maintenance services, and imports of commodities. Except for the sales or imports of specific categories of commodities which are entitled to a VAT rate of 13%, sales or imports, provision of processing, and maintenance labour are subject to a tax rate of 17%.

Pursuant to the Provisional Regulation on Business Tax of the PRC and its implementation rules promulgated on 13 December 1993 and effective from 1 January 1994, enterprises providing various taxable labour services and transfer of intangible assets and sale of fixed assets are subject to Business Tax at a rate ranging from 3% to 20%, depending on the categories of taxable items.

Trademark Law

The PRC Trademark Law which was promulgated on 23 August 1982, amended on 22 February 1993 and on 27 October 2001, seeks to improve the administration of trademarks, protect the right to exclusive use of trademarks and encourage producers and operators to guarantee the quality of their goods and services and maintain the reputation of their trademarks, so as to protect the interests of consumers and of producers and operators.

Under this law, any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark:

- using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a licence from the registrant of that trademark;
- selling the commodities that infringe upon the right to exclusive use of a registered trademark;
- forging, manufacturing without authorisation the marks of a registered trademark of others, or selling the marks of a registered trademark forged or manufactured without authorisation;
- changing a registered trademark and putting the commodities with the changed trademark into the market without the consent of the registrant of that trademark; and
- causing other damage to the right to exclusive use of a registered trademark of another person.

In the event of any above mentioned acts which infringe upon the right to the exclusive use of a registered trademark, the infringer would be imposed a fine, ordered to stop the infringement acts immediately, and give the infringed party compensation.

Customer Interests Protection

Products of our operating subsidiaries manufactured within their scope of operation are subject to the Consumer Interests Protection Law (《消費者權益保護法》) effective on 1 January 1994 and other related laws and regulations, including requirements relating with personal safety and property protection. In the event of personal injury or property damage to customers caused by product defects, the customers shall be entitled to claim for damages from the manufacturers or sellers.

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Foreign Exchange

Pursuant to the Regulation of Foreign Exchange Administration of the PRC 《中華人民共和國外匯管理條例》, which was promulgated on 19 January 1996, as amended on 14 January 1997 and on 1 August 2008 by the State Council, Renminbi are freely convertible for current account items, such as trade-related receipts and payments, interest and dividends. However, conversion of Renminbi and remittance of the foreign currency outside the PRC for capital account items, such as direct equity investments, loans and repatriation of investment, are subject to prior approval from SAFE or its local counterpart.

M&A Rules

The Rules on Merger and Acquisition of Domestic Enterprises by Foreign Investors (the “M&A Rules”) (關於外國投資者併購境內企業的規定), which was promulgated by the Ministry of Commerce, the State Asset Supervision and Administration Commission, the CSRC, the State Administration of Taxation, the State Administration for Industry and Commerce and the SAFE became effective on 8 September 2006 and applies in the event that foreign investors acquire PRC enterprises. Our PRC legal advisor, Jun He Law Offices, has advised that the M&A Rules are not applicable to our listing and it is unnecessary for us to obtain approval from the CSRC in respect of our listing for the reasons that: (i) the foreign investment enterprises involved in the listing of the Company include Huizhou NVC, Jiangshan Phoebus, Shanghai Arcata, Zhangpu Phoebus, which were set up as wholly foreign-owned enterprises or Sino-foreign equity joint ventures before 8 September 2006, and (ii) Chongqing NVC, which was newly established as wholly foreign-owned enterprise after 8 September 2006 was not set up through acquisition as defined in the M&A Rules.