

China Intelligent Lighting & Electronics, Inc.  
Form S-1  
December 03, 2010

As Filed with the Securities and Exchange Commission on December 3,  
2010

Registration No.  
333-\_\_\_\_\_

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM S-1

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REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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China Intelligent Lighting and Electronics, Inc.  
(Name of Registrant As Specified in its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	3640 (Primary Standard Industrial Classification Code Number)	26-1357819 (I.R.S. Employer Identification No.)
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No. 29 & 31, Huanzhen Road  
Shuikou Town, Huizhou, Guangdong, China 516005  
86-752-2323888  
(Address and Telephone Number of Principal Executive Offices)

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Corporation Service Company  
2711 Centerville Road  
Suite 400  
Wilmington, DE 19808  
800-222-2122  
(Name, Address and Telephone Number of Agent for Service)

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Copies to

Thomas J. Poletti, Esq.  
Anh Q. Tran, Esq.  
K&L Gates LLP  
10100 Santa Monica Blvd., 7th Floor  
Los Angeles, CA 90067  
Telephone: (310) 552-5000  
Facsimile: (310) 552-5001

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Approximate Date of Proposed Sale to the Public: From time to time after the effective date of this Registration Statement

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If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement the same offering.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer      Accelerated filer      Non-accelerated filer      Smaller reporting company  
(Do not check if a smaller reporting company)

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered (1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price (3)	Amount of Registration Fee
Common Stock, \$0.0001 par value per share	1,858,323(2)	\$ 2.77(3)	\$ 5,147,555	\$ 367.02
Total Registration Fee				\$ 367.02(4)

(1) In accordance with Rule 416(a), the Registrant is also registering hereunder an indeterminate number of additional shares of Common Stock that shall be issuable pursuant to Rule 416 to prevent dilution resulting from stock splits, stock dividends or similar transactions.

(2) Represents shares of the Registrant's common stock being registered for resale that have been issued to the selling stockholders named in the prospectus or prospectus supplement.

(3) Estimated pursuant to Rule 457(c) of the Securities Act of 1933, as amended, solely for the purpose of computing the amount of the registration fee based on the average of the high and low sales prices reported on the NYSE Amex on November 30, 2010.

(4) This amount is being paid herewith.

\_\_\_\_\_

The Registrant amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall hereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the registration statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission becomes effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

SUBJECT TO COMPLETION

DECEMBER 3, 2010

1,858,323 Shares

China Intelligent Lighting and Electronics, Inc.

Common Stock

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This prospectus relates to the resale by the selling stockholders of up to 1,858,323 shares of our common stock that have been previously issued to the selling stockholders named in this prospectus or a prospectus supplement. The selling stockholders may sell common stock from time to time in the principal market on which the stock is traded at the prevailing market price or in negotiated transactions. We will not receive any proceeds from the sales by the selling stockholders. The selling stockholders named herein may be deemed underwriters of the shares of common stock which they are offering.

Our shares of common stock are traded on the NYSE Amex under the ticker symbol "CIL." On November 30, 2010, the closing sales price for our common stock on the NYSE Amex was \$2.68 per share.

The purchase of the securities involves a high degree of risk. See section entitled "Risk Factors" beginning on page 7.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of anyone's investment in these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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The Date of This Prospectus is \_\_\_\_\_, 2010

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Please read this prospectus carefully. It describes our business, our financial condition and results of operations. We have prepared this prospectus so that you will have the information necessary to make an informed investment decision.

You should rely only on information contained in this prospectus. We have not authorized any other person to provide you with different information. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state where the offer or sale is not permitted. The information in this prospectus is complete and accurate as of the date on the front cover, but the information may have changed since that date.

## PROSPECTUS SUMMARY

Because this is only a summary, it does not contain all of the information that may be important to you. You should carefully read the more detailed information contained in this prospectus, including our financial statements and related notes. Our business involves significant risks. You should carefully consider the information under the heading “Risk Factors” beginning on page 7. In addition, except as otherwise specified, all information in this prospectus and all share and per share information has been adjusted to reflect a reverse stock split that was effected on May 12, 2010 pursuant to which every 2 shares of our common stock was converted into 1 share of our common stock.

As used in this prospectus, unless otherwise indicated, the terms “we,” “our,” “us,” “Company” and “China Intelligent” refer to China Intelligent Lighting and Electronics, Inc., a Delaware corporation, formerly known as SRKP 22, Inc. (“SRKP 22”). We conduct our business through our subsidiaries, which include our wholly-owned subsidiary, China Intelligent Electronic Holding Limited, a British Virgin Islands corporation (“China Intelligent BVI”), and its 100% owned subsidiary, Hyundai Light and Electric (Huizhou) Co., Ltd., a company organized under the laws of the PRC (“Hyundai Light”).

“China” or “PRC” refers to the People’s Republic of China. “RMB” or “Renminbi” refers to the legal currency of China and “\$” or “U.S. Dollars” refers to the legal currency of the United States.

### Company Overview

We provide a full range of lighting solutions, including the design, manufacture, sales and marketing of high-quality LED and other lighting products for the household, commercial and outdoor lighting industries in China and internationally. We currently offer over 1,000 products that include LEDs, long life fluorescent lights, ceiling lights, metal halide lights, super electric transformers, grille spot lights, down lights, and recessed and framed lighting. The primary industry in which we conduct business is the LED lighting industry, and the core technology of our business is based on the all-solid-state semiconductor white light technology, in addition to general lighting products.

Our goal is to become a leader in the development, manufacture, and distribution of LED and other lighting products in China and internationally. We intend to achieve this goal by implementing the following strategies:

- Expand offering of highly efficient LED products. We intend to introduce new LED lighting products as we believe there exists significant opportunities to increase our market share. We currently offer over 1,000 lighting products, and we intend to continue to shift from traditional technologies to energy-efficient and solid-state lighting technologies, while expanding the applications and markets of LED products.
- Augment marketing and promotion efforts to increase brand awareness. We intend to continue to increase our marketing and promotion expenditures to further develop our brand, “Hyundai Lights,” and utilize marketing concepts in an attempt to strengthen the marketability of our products.
- Expand sales network and distribution channels. We intend to expand our sales network in China and develop relationships with a broader set of wholesalers, distributors and resellers, all in order to expand the market availability of our products in China.
- Build partnerships with new and existing clients. We intend to establish partnerships with our current clients to develop and manufacture new products based on client needs, in addition to exploring opportunities for product expansion with new customers.

- Expand global presence. We intend to increase the number of our OEM products that are exported to countries and areas outside of Mainland China, primarily to Southeast Asia and Middle East countries such as Hong Kong, the Philippines, the United Arab Emirates, Malaysia and Singapore.

## Corporate Information

We were incorporated in the State of Delaware on October 11, 2007. We were originally organized as a “blank check” shell company to investigate and acquire a target company or business seeking the perceived advantages of being a publicly held corporation. On January 15, 2010, we (i) closed a share exchange transaction, described below, pursuant to which we became the 100% parent of China Intelligent BVI, (ii) assumed the operations of China Intelligent BVI and its subsidiaries, and (iii) changed our name from SRKP 22, Inc. to China Intelligent Lighting and Electronics, Inc. China Intelligent BVI is primarily a holding company.

Our principal corporate offices are located in the PRC at No. 29 & 31 Huanzhen West Road, Shuikou Town, Huizhou City, Guangdong, China 516005. Our telephone number is 86-752-2323888.

Our shares of common stock are traded on the NYSE Amex under the ticker symbol “CIL.” On November 30, 2010, the closing sales price for our common stock on the NYSE Amex was \$2.68 per share.

## Recent Events

### June 2010 Public Offering

In June 2010, we completed a public offering consisting of 3,350,000 shares of our common stock. Rodman and Renshaw, LLC (“Rodman”) and WestPark Capital, Inc. (“WestPark,” and together with Rodman, the “Underwriters”) acted as co-underwriters in the public offering. Our shares of common stock were sold to the public at a price of \$3.00 per share, for gross proceeds of approximately \$10.1 million. Compensation for the Underwriters’ services included discounts and commissions of \$904,500, a \$251,250 non-accountable expense allowance, roadshow expenses of approximately \$10,000, and legal counsel fees (excluding blue sky fees) of \$40,000. The Underwriters also received warrants to purchase an aggregate of 167,500 shares of our common stock at an exercise price of \$3.60 per share. The warrants, which have a term of five years, are not exercisable until 180 days after the date of effectiveness or commencement of sales of our public offering in June 2010. The warrants also carry registration rights.

### May 2010 Reverse Stock Split

On March 30, 2010, our Board of Directors and shareholders approved an amendment to our Certificate of Incorporation to effect a 1-for-2 reverse stock split of all of our issued and outstanding shares of common stock (the “Reverse Stock Split”). On May 12, 2010 we effected the Reverse Stock Split by filing the amendment to the Certificate of Incorporation with the Secretary of the State of Delaware. The par value and number of authorized shares of our common stock remained unchanged. All references to number of shares and per share amounts included in this prospectus give effect to the Reverse Stock Split. The number of shares and per share amounts included in the consolidated financial statements and the accompanying notes, starting on page F-1, have been adjusted to reflect the Reverse Stock Split retroactively.

### January 2010 Share Exchange

On October 20, 2009, we entered into a share exchange agreement with China Intelligent BVI and the sole shareholder of China Intelligent BVI. Pursuant to the share exchange agreement, as amended by Amendment No. 1 dated November 25, 2009 and Amendment No. 2 dated January 15, 2010 (collectively, the “Exchange Agreement”), we agreed to issue an aggregate of 7,097,748 shares of our common stock in exchange for all of the issued and outstanding share capital of China Intelligent BVI (the “Share Exchange”). On January 15, 2010, the Share Exchange



closed and China Intelligent BVI became our wholly-owned subsidiary and we immediately changed our name from “SRKP 22, Inc.” to “China Intelligent Lighting and Electronics, Inc.” We issued a total of 7,097,748 shares to Li Xuemei, the sole shareholder of China Intelligent BVI, and her designees in exchange for all of the issued and outstanding capital stock of China Intelligent BVI.

Prior to the closing of the Share Exchange and the Private Placement, as described below, our stockholders cancelled an aggregate of 2,130,195 shares such that there were 1,418,001 shares of common stock outstanding immediately prior to the Share Exchange. Our stockholders also canceled an aggregate of 2,757,838 warrants to purchase shares of common stock held by them such that they held an aggregate of 790,358 warrants immediately prior to the Share Exchange. Each warrant was entitled to purchase one share of our common stock at \$0.0002. No consideration was paid to the stockholders for the cancellation of the shares and warrants. The cancellation of the shares and warrants was accounted for as a contribution to capital.

The number of shares and warrants cancelled was determined based on negotiations with the security holders of SRKP 22, Inc. and China Intelligent BVI. As indicated in the Share Exchange Agreement, the parties to the transaction acknowledged that a conflict of interest existed with respect to the negotiations for the terms of the Share Exchange due to, among other factors, the fact that WestPark Capital, Inc. was advising China Intelligent BVI in the transaction. As further discussed below in “Recent Events—Private Placement”, certain of the controlling stockholders and control persons of WestPark Capital, Inc. were also, prior to the completion of the Share Exchange, controlling stockholders and control persons of SRKP 22, Inc. Under these circumstances, the sole shareholder of China Intelligent BVI and the shareholders of SRKP 22 negotiated an estimated value of China Intelligent BVI and its subsidiaries, an estimated value of the shell company (based on similar recent public shell transactions), and the mutually desired capitalization of the company resulting from the Share Exchange.

With respect to the determination of the amounts of shares and warrants cancelled, the value of the shell company was derived primarily from its utility as a public company platform, including its good corporate standing and its timely public reporting status, which was expected to allow us to list our stock on a national securities exchange and raise capital at an appropriate price per share; the services provided by WestPark Capital, Inc. were not a consideration in determining this aspect of the transaction. Under these circumstances and based on these factors, the sole shareholder of China Intelligent BVI and the shareholders of SRKP 22 agreed upon the amount of shares and warrants to be cancelled. Further to such negotiations, we paid a total of \$600,000 in connection with the Share Exchange to acquire the SRKP 22, Inc. shell corporation, such fee consisting of \$350,000 paid to WestPark Capital, Inc., which is the placement agent in the Private Placement as described below, and \$250,000 paid to a third party unaffiliated with China Intelligent BVI, Hyundai Light or WestPark Capital, Inc. in connection with the third party’s services as an advisor to the Company, including assisting in preparations for the Share Exchange and the Company’s listing of securities in the United States. In addition, we paid a \$140,000 success fee to WestPark Capital, Inc. for services provided in connection with the Share Exchange, including coordinating the Share Exchange transaction process, interacting with the principals of the shell corporation and negotiating the definitive purchase agreement for the shell, conducting a financial analysis of China Intelligent BVI, conducting due diligence on China Intelligent BVI and its subsidiaries, and managing the interrelationship between legal and accounting activities. We also reimbursed WestPark Capital, Inc. a total of \$80,000 for expenses related to its due diligence. All of the fees due to WestPark Capital, Inc. and to the unaffiliated third party in connection with the Share Exchange have been paid as of the date of this prospectus.

Based on the \$2.54 per share offering price of the common shares issued in the private placement on January 15, 2010, as described below, the 1,418,001 shares retained by the SRKP 22 shareholders had an implied monetary value of approximately \$3.6 million, and including the 790,358 warrants that were retained by the SRKP 22 shareholders, the total 2,208,359 securities retained by the SRKP 22 shareholders had an implied monetary value of approximately \$5.6 million. The implied monetary value of the retained shares was calculated based on the \$2.54 per share offering price, without regard to liquidity, marketability, or legal or resale restrictions; accordingly, such amounts should not be considered as an indication of the fair value of the retained shares.

The transactions contemplated by the Exchange Agreement, as amended, were intended to be a “tax-free” contribution and/or reorganization pursuant to the provisions of Sections 351 and/or 368(a) of the Internal Revenue Code of 1986, as amended.

#### January 2010 Private Placement

On January 15, 2010, concurrently with the close of the Share Exchange, we closed a private placement of shares of common stock (the “Private Placement”). The purpose of the Private Placement was to increase our working capital,

and the net proceeds from the Private Placement will be used for working capital. Pursuant to subscription agreements entered into with the investors, we sold an aggregate of 1,377,955 shares of common stock at \$2.54 per share, for gross proceeds of approximately \$3.5 million. We paid WestPark Capital, Inc. a placement agent commission equal to 8% of the gross proceeds from the financing and a 4% non-accountable expense allowance. We also agreed to retain WestPark Capital, Inc. for a period of six months following the closing of the Private Placement to provide us with financial consulting services, for which we pay WestPark Capital, Inc. \$6,000 per month.

We agreed to file a registration statement covering the common stock sold in the Private Placement within 30 days of the closing of the Private Placement pursuant to the subscription agreement entered into with each investor and to cause such registration statement to be declared effective by the SEC no later than 150 days from the date of filing or 180 days from the date of filing if the registration statement is subject to a full review by the SEC. We filed the registration statement on February 16, 2010, which was declared effective by the SEC on June 17, 2010.

The investors in the Private Placement also entered into lock-up agreements pursuant to which they agreed that (i) if the public offering that we conducted was for \$10 million or more, then the investors would not be able to sell or transfer their shares until at least six months after the completion of the public offering, and (ii) if the offering was for less than \$10 million, then one-tenth of the investors' shares would be released from the lock-up restrictions ninety days after the offering and there would be a pro rata release of the shares thereafter every 30 days over the following nine months. WestPark Capital, Inc., in its discretion, may also release some or all the shares from the lock-up restrictions earlier. In June 2010, we sold 3,350,000 shares of common stock in a public offering price at a price of \$3.00 per share for gross proceeds of approximately \$10.1 million. Accordingly, the investors are subject to lock-up restrictions such that they would be able to sell and/or transfer all of their shares six months after the public offering's completion, subject to early release by WestPark Capital, Inc.

Some of the controlling stockholders and control persons of WestPark Capital, Inc. were also, prior to the completion of the Share Exchange, controlling stockholders and control persons of SRKP 22, Inc., our predecessor, including Richard Rappaport, who is the Chief Executive Officer of WestPark Capital, Inc. and was the President and a significant stockholder of SRKP 22, Inc. prior to the Share Exchange, and Anthony C. Pintsopoulos, who is President and Treasurer of WestPark Capital, Inc. and was one of the controlling stockholders and an officer and director of SRKP 22, Inc. prior to the Share Exchange. Kevin DePrimio and Jason Stern, each employees of WestPark Capital, Inc., were also stockholders of SRKP 22, Inc. and are also our stockholders. Each of Messrs. Rappaport and Pintsopoulos resigned from all of their executive and director positions with us upon the closing of the Share Exchange.

#### Corporate Structure

The corporate structure of the Company is illustrated as follows:

	The Offering
Common stock offered by selling stockholders	1,858,323 shares
Common stock outstanding	13,684,026 shares (1)
Use of proceeds	We will not receive any proceeds from the sale of the common stock by the selling stockholders.

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(1) The number of shares of our common stock issued and outstanding is as of the date of this prospectus, which excludes (i) warrants to purchase 167,500 shares of common stock at \$3.60 per share and (ii) options to purchase 25,000 shares of common stock at \$3.00 per share.

The selling stockholders have agreed not to sell any of these shares until six months after our common stock is listed on the NYSE Amex. WestPark Capital, Inc., in its discretion, may also release some or all the shares from the lock-up restrictions earlier.

## SUMMARY FINANCIAL DATA

The following summary financial information contains consolidated statement of income data for the nine month ended September 30, 2010 and 2009 and each of the years in the four-year period ended December 31, 2009 and the period from July 6, 2005 (date of inception of our operating company) to December 31, 2005 and the consolidated balance sheet data as of September 30, 2010 and the year-end dates for each of the years in the four-year period ended December 31, 2009 and as of December 31, 2005. The consolidated statement of income data and balance sheet data were derived from the audited consolidated financial statements, except for data for the nine month ended September 30, 2010 and 2009 and the period from July 6, 2005 (date of inception of our operating company) to December 31, 2005 and as of September 30, 2010 and December 31, 2005. Such financial data should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements starting on page F-1 and with "Management's Discussion and Analysis of Financial Condition and Results of Operations." Share and per share information has been adjusted to reflect a reverse stock split that was effected on May 12, 2010 pursuant to which every 2 shares of our common stock was converted into 1 share of our common stock.

(in thousand US Dollars, except share and per share amounts)	Nine Months ended		Years ended December 31,				Period from
	September 30, 2010	2009	2009	2008	2007	2006	July 6, 2005 (date of inception) to December 31, 2005
Revenue	\$ 53,630	\$ 40,609	\$ 59,261	\$ 42,944	\$ 16,552	\$ 2,517	\$ 33
Gross profit	\$ 12,347	\$ 9,101	\$ 13,573	\$ 9,990	\$ 4,105	\$ 699	\$ 1
Income from operations	\$ 6,165	\$ 5,705	\$ 8,681	\$ 6,045	\$ 2,238	\$ 271	\$ (11)
Net income	\$ 5,155	\$ 4,969	\$ 7,580	\$ 5,768	\$ 2,209	\$ 243	\$ (11)
Earnings per share—basic	\$ 0.46	\$ 0.70	\$ 1.07	\$ 0.81	\$ 0.31	\$ 0.03	\$ (0.002)
Weighted average shares outstanding – basic	11,119,435	7,097,748	7,097,748	7,097,748	7,097,748	7,097,748	7,097,748
Earnings per share—diluted	\$ 0.46	\$ 0.70	\$ 1.07	\$ 0.81	\$ 0.31	\$ 0.03	\$ (0.002)
Weighted average shares outstanding –diluted	11,119,435	7,097,748	7,097,748	7,097,748	7,097,748	7,097,748	7,097,748

  

(in thousand US dollars)	As of		As of December 31,			
	September 30, 2010	2009	2008	2007	2006	2005
Cash and cash equivalents	\$ 11,046	\$ 469	\$ 264	\$ 1,502	\$ 117	\$ 94
Total assets	\$ 42,204	\$ 24,158	\$ 13,906	\$ 5,489	\$ 1,787	\$ 336
Long-term debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

The acquisition of China Intelligent BVI by us on January 15, 2010 pursuant to the Share Exchange was accounted for as a recapitalization by us. The recapitalization was, at the time of the Share Exchange, the merger of a private operating company (China Intelligent BVI) into a non-operating public shell corporation (us) with nominal net assets and as such is treated as a capital recapitalization, rather than a business combination. As a result, the assets of the operating company are recorded at historical cost. The transaction is the equivalent to the issuance of stock by the private company for the net monetary assets of the shell corporation. The pre-acquisition financial statements of China

Intelligent BVI are treated as the historical financial statements of the consolidated companies. The financial statements presented will reflect the change in capitalization for all periods presented, therefore the capital structure of the consolidated enterprise, being the capital structure of the legal parent, is different from that appearing in the financial statements of China Intelligent BVI in earlier periods due to this recapitalization.

## RISK FACTORS

Any investment in our common stock involves a high degree of risk. Investors should carefully consider the risks described below and all of the information contained in this prospectus before deciding whether to purchase our common stock. Our business, financial condition or results of operations could be materially adversely affected by these risks if any of them actually occur. The trading price could decline due to any of these risks, and an investor may lose all or part of his or her investment. Some of these factors have affected our financial condition and operating results in the past or are currently affecting our company. This prospectus also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere in this prospectus.

### RISKS RELATED TO OUR OPERATIONS

A substantial portion of our assets has been comprised of trade receivables representing amounts owed by a small number of customers. If any of these customers fails to timely pay us amounts owed, we could suffer a significant decline in cash flow and liquidity which, in turn, could cause us to be unable to pay our liabilities and purchase an adequate amount of inventory to sustain or expand our sales volume.

Our trade receivables represented approximately 53%, 65% and 34% of our total current assets as of September 30, 2010, December 31, 2009 and December 31, 2008, respectively. As of September 30, 2010, 4.9% of our trade receivables represented amounts owed by one customer. As of December 31, 2009, 24.7% of our trade receivables were owed to us by four customers, each of which represented over 5% of the total amount of our trade receivables. As a result of the substantial amount and concentration of our trade receivables, if any of our major customers fails to timely pay us amounts owed, we could suffer a significant decline in cash flow and liquidity which could adversely affect our ability to borrow funds to pay our liabilities and to purchase inventory to sustain or expand our current sales volume.

In addition, our business is characterized by long periods for collection from our customers and short periods for payment to our suppliers, the combination of which may cause us to have liquidity problems. We experience an average accounts settlement period ranging from 15 days to as high as three months from the time we sell our products to the time we receive payment from our customers. In contrast, we typically need to place certain deposits and advances with our suppliers on a portion of the purchase price in advance and for some suppliers we must maintain a deposit for future orders. Because our payment cycle is considerably shorter than our receivable cycle, we may experience working capital shortages. Working capital management, including prompt and diligent billing and collection, is an important factor in our results of operations and liquidity. We cannot assure you that system problems, industry trends or other issues will not extend our collection period and adversely impact our working capital.

Pursuant to the terms of the Trademark License Agreement, our right to use the Hyundai™ trademark is limited to the PRC and expires in 2013, and our inability to extend our right to use the trademark under the agreement may have an adverse effect on our results of operations.

We believe that the Hyundai™ name provides us with high brand name recognition and visibility and expect that the brand name Hyundai™ will assist us in growing our business over the course of the next few years, assuming we reach an agreement with the licensor to extend the license agreement past the 2013 expiration date. We, through our subsidiary Hyundai Light, have a trademark license agreement with Hyundai Corporation, a company incorporated and existing under the laws of Korea, pursuant to which Hyundai Corporation granted us a license to use its trademark in connection with manufacturing, selling, and marketing wiring accessories and lighting products within the PRC.



The trademark license agreement prohibits us from selling our Hyundai™ branded products outside of the PRC, and we extended the agreement in July 2010. The agreement contains three terms, with the first term from August 1, 2010 to July 31, 2011, the second term from August 1, 2011 to July 31, 2012, and the third term from August 1, 2012 to July 31, 2013. Any additional term or renewal of the agreement is contingent upon further written agreement of the parties.

Additionally, Hyundai Corporation has signed a non-binding memorandum of cooperation effective January 1, 2009 that indicates that Hyundai Corporation intends to renew our license agreement until December 31, 2018. However, the memorandum is not binding on Hyundai Corporation and we have no control over Hyundai Corporation's decision whether to continue to license its trademark to us. If such trademark license is discontinued, we would lose the right to use the Hyundai™ name in connection with our business. As a result, we would not be able to sell our products under the trademark Hyundai™, even if we have inventory of such labeled products in our inventory.

Our lack of long-term purchase orders and commitments could lead to a rapid decline in our sales and profitability.

Our significant customers issue purchase orders solely in their own discretion, often only one to three weeks before the requested date of shipment. Our customers are generally able to cancel orders or delay the delivery of products on relatively short notice. In addition, our customers may decide not to purchase products from us for any reason.

Accordingly, we cannot assure you that any of our current customers will continue to purchase our products in the future. As a result, our sales volume and profitability could decline rapidly with little or no warning.

We cannot rely on long-term purchase orders or commitments to protect us from the negative financial effects of a decline in demand for our products. The limited certainty of product orders can make it difficult for us to forecast our sales and allocate our resources in a manner consistent with our actual sales. Moreover, our expense levels are based in part on our expectations of future sales and, if our expectations regarding future sales are inaccurate, we may be unable to reduce costs in a timely manner to adjust for sales shortfalls. Furthermore, because we depend on a small number of customers for the vast majority of our sales, the magnitude of the ramifications of these risks is greater than if our sales were less concentrated with a small number of customers. As a result of our lack of long-term purchase orders and purchase commitments we may experience a rapid decline in our sales and profitability.

In November 2008, we stopped borrowing funds from affiliated third parties to fund our business operations. We expect that we will need additional capital to implement our current business strategy, and we will need to find new sources of financing, which may not be available to us. Also, if we raise additional capital, it may dilute your ownership in us.

Prior to November 2008, our financing activities have been substantially dependent upon loans from affiliated parties, including Li Tianfu, our founder and a former owner, officer, and director of Hyundai Light and Electric (HZ) Co., Ltd. (“Hyundai HZ”) and Korea Hyundai Light & Electric (Intl) Holding Limited (“Hyundai HK”), in addition to companies controlled by Mr. Li, such as NIVS IntelliMedia Technology Group, Inc. and its subsidiaries. For the year ended December 31, 2008, we had net cash of approximately \$7.4 million provided from these financing activities from the affiliated parties. The loans were interest free, for the purpose of temporary funding of our business operations, and were borrowed and repaid frequently, normally within three to six months from the date of the loan transaction. We ceased to enter into the loan transactions in November 2008 and do not expect to enter into similar transactions. We have since utilized other financing sources, such as short term bank loans and the sale of common stock.

In order to grow revenues and sustain profitability, we will need new sources of financing and additional capital. In fiscal 2009, we have entered into short term loan transactions. In January 2010, the Chinese government took steps to tighten the availability of credit including ordering banks to increase the amount of reserves they hold and to reduce or limit their lending. The government’s actions may make it more difficult for us to renew our short terms loan transactions once they expire, in which case we will be forced to seek other sources of funding. In January 2010, we closed a private placement of shares of our common stock from which we received gross proceeds of \$3.5 million. In June 2010, we sold 3,350,000 shares of common stock in a public offering price at a price of \$3.00 per share for gross proceeds of approximately \$10.1 million. Our ability to obtain additional financing will be, however, subject to a number of factors, including market conditions, our operating performance and investor sentiment. These factors may make the timing, amount, terms and conditions of additional financing unattractive to us. We cannot assure you that we will be able to obtain any additional financing. If we are unable to obtain the financing needed to implement our business strategy, our ability to increase revenues will be impaired and we may not be able to sustain profitability.

We have depended on a small number of customers for the vast majority of our sales. A reduction in business from any of these customers could cause a significant decline in our sales and profitability.

The vast majority of our sales are generated from a small number of customers. During the years ended December 31, 2008 and 2007, we had two and four customers that generated revenues of at least 5% of our total revenues, respectively, with our largest customer accounting for 16.8% and 16.1% of our revenues for each respective period. A total of approximately 26.7% and 50.1% of our revenues for the years ended December 31, 2008 and 2007, respectively, were attributable to customers that each individually accounted for at least 5% of our sales. For the nine months ended September 30, 2010 and year ended December 31, 2009, none of our customers accounted for more than 5% of the revenues that we generated. We believe that we may depend upon a small number of customers for a significant majority of our sales in the future, and the loss or reduction in business from any of these customers could

cause a significant decline in our sales and profitability.

If our reduced VAT tax rate in the PRC for fiscal years 2008, 2009, and 2010 for which we received local approval is revoked by national taxation authorities, or is otherwise lost, our liquidity and profitability could suffer a material adverse effect to the extent that we are unable to recoup such losses from our customers and a guarantor.

Enterprises which manufacture and sell products such as ours are typically required under Chinese law to pay the Chinese government value added tax ("VAT") in an amount equal to 17% of gross sales of certain products sold and used in the PRC. In 2007, through our subsidiary Hyundai Light, we received an approval from the local agent of national taxation authority, the State Taxation Bureau of Huicheng District, Huizhou, Guangdong (the "Huicheng Taxation Bureau"), to pay a 4% simplified VAT for fiscal years 2008, 2009, and 2010. Such favorable tax policy was provided to us in accordance with the local government's strategy of "to build a brand lighting production based in Huizhou". Based on the foregoing, Huicheng Taxation Bureau agreed that Hyundai Light can use the simplified method to calculate the value-added tax, which is 4%. As a result of this approval, our total tax savings for fiscal 2008 and 2009 was more than approximately \$7.0 million; there will be additional tax savings in fiscal 2010.

Although there is general uncertainty in PRC laws and the implementation thereof, there is particular uncertainty related to our use of the simplified VAT tax rate of 4% because Huicheng Taxation Bureau, which approved our use of the simplified rate, only acts as local agent of the national taxation authority, which may revoke and overturn approvals made by the Huicheng Taxation Bureau. Such revocations can be based on broad and numerous bases that the national taxing authorities may assert, including disagreement with the local government's strategy or unsuitable actions in furtherance thereof. The tax authority of the PRC Government conducts periodic and ad hoc tax reviews on business enterprises operating in the PRC. Notwithstanding the tax concession granted by the Huicheng Taxation Bureau, it is possible that this decision may not be endorsed by higher levels of government. If a tax audit is conducted by a higher tax authority and it was determined that such local approval was improper or unauthorized and that we should in fact have been paying VAT at the rate of 17% on all sales in the PRC, we may be required to make up all of the underpaid taxes. In addition, under accounting standards with respect to accounting for uncertainty in income taxes, certain tax contingencies are recognized when they are determined to be more likely than not to occur, and we believe a similar accounting by analogy should apply to VAT. Based on approvals that we have received on the use of the simplified VAT rate, we believe that the likelihood that a higher tax authority will determine that local approval of the reduced rate was improper or unauthorized does not reach a "more likely than not" level. We believe our judgments in this area are reasonable and correct, but there is no guarantee that we will be successful if such approvals are challenged by a higher tax authority. If our use of the simplified VAT rate is challenged successfully by a higher taxing authority, we may be required to pay additional taxes or we may seek to enter into settlements with the taxing authorities, which could require significant payments or otherwise have a material adverse effect on our business, results of operations and financial condition. While we believe it is a remote contingency, the clarification of the indemnity to potential investors was considered appropriate.

Due to the possibility that the grant of the reduced VAT tax rate to us by the Huicheng Taxation Bureau may be overturned by higher levels of the PRC government and the potential negative effects on our results of operations and financial position if such event were to occur, we believed that investors may be reluctant to participate in the Private Placement that we conducted concurrently with the Share Exchange. Li Xuemei, our Chief Executive Officer and Chairman of the Board, believes that the revocation of the reduced VAT rate is remote, as does our management. The reasons that Ms. Li and our management believe that the revocation of the reduced VAT rate is remote are:

- the VAT reduction was granted by a governmental unit with authority to do so;
- the rate reduction was done with all facts known by all parties;
- although we are not aware of many businesses such as ours that receive a simplified VAT rate, we also have no knowledge of similar revocations, nor are there any known court cases or administrative matters of which we are aware in which a revocation has taken place; and
- the issuance of the rate reduction by local authorities was by an appropriately sanctioned administrative procedure.

Ms. Li did not have a material relationship to our company's receipt of approval for 4% simplified VAT from the local agent of Huicheng Taxation Bureau; however, she desired that the Private Placement and Share Exchange be completed and she volunteered to indemnify us against our losses if such revocation occurred. Ms. Li believed that the investors in the Private Placement, which are primary residents in the United States, would not be familiar with the PRC tax system and wished to provide an additional layer of comfort and protection to the Private Placement investors and future shareholders of our company, who also may not be familiar with the PRC tax system, as a benefit to our company and shareholders.

In January 2010, we entered into an Indemnification Agreement and Security Agreement with Ms. Li pursuant to which Ms. Li agreed to indemnify and pay to us amounts that would make us whole for any tax liability, penalty, loss, or other amounts expended as a result of any removal of our reduced 4% simplified VAT rate, including any requirement to make up all of the underpaid taxes. In addition, pursuant to the terms of the Indemnification Agreement and Security Agreement, if Ms. Li is unable to or fails to pay all such amounts due to us under the

agreement, we would have the right to obtain the proceeds from a forced sale of the real estate property secured under the Security Agreement. Based on a review of valuation documents, we believe that the value of the collateral that Ms. Li provided to secure her indemnification to us is sufficient to cover any losses that we would incur from a revocation of our reduced simplified VAT rate. However, if such sale proceeds were insufficient to cover amounts due to us, we would be able to cancel a number of shares of common stock in our company held by Ms. Li in an amount equal any shortfall. Any such prospective change to the aforementioned tax approval would have a material adverse effect on our liquidity and profitability to the extent that we are unable to collect such deficiency from the related customers and to the extent that we are not able to collect any shortfall from Ms. Li under the Indemnification Agreement and Security Agreement.

We may be exposed to monetary fines by the local housing authority and claims from our employees in connection with Hyundai Light's non-compliance with regulations with respect to contribution of housing provident funds for employees.

According to the relevant PRC regulations on housing provident funds, PRC enterprises are required to contribute housing provident funds for their employees. The monthly contributions must be at least 5% of each employee's average monthly income in the previous year. Hyundai Light has not paid such funds for its employees since its establishment and the accumulated unpaid amount is approximately \$0.3 million. The amount has been accrued as a liability beginning as of December 31, 2009. Under local regulations on collection of housing provident funds in Huizhou City where Hyundai Light is located, the local housing authority may require Hyundai Light to rectify its non-compliance by setting up bank accounts and making payment and relevant filings for the unpaid housing funds for its employees within a specified time period. If Hyundai Light fails to do so within the specified time period, the local housing authority may impose a monetary fine on it and may also apply to the local people's court for enforcement. Hyundai Light employees may also be entitled to claim payment of such funds individually. If we receive any notice from the local housing authority or any claim from our current and former employees regarding Hyundai Light's non-compliance with the regulations, our reputation, financial condition and results of operations could be materially and adversely affected.

Lighting products, particularly emerging LED products, are subject to rapid technological changes. If we fail to accurately anticipate and adapt to these changes, the products we sell will become obsolete, causing a decline in our sales and profitability.

Lighting products are subject to rapid technological changes which often cause product obsolescence. Companies within the lighting industry are continuously developing new products with heightened performance and functionality. This puts pricing pressure on existing products and constantly threatens to make them, or causes them to be, obsolete. Our typical product's life cycle is extremely short, generating lower average selling prices as the cycle matures. If we fail to accurately anticipate the introduction of new technologies, we may possess significant amounts of obsolete inventory that can only be sold at substantially lower prices and profit margins than we anticipated. In addition, if we fail to accurately anticipate the introduction of new technologies, we may be unable to compete effectively due to our failure to offer products most demanded by the marketplace. If any of these failures occur, our sales, profit margins and profitability will be adversely affected.

In addition, we form alliances or business relationships with, and make strategic partnerships with, other companies to introduce new technologies. This is particularly important to the development and enhancement of our LED technology. In some cases, such relationships are crucial to our goal of introducing new products and services, but we may not be able to successfully collaborate or achieve expected synergies with our partners. We do not, however, control these partners, who may make decisions regarding their business undertakings with us that may be contrary to our interests. In addition, if these partners change their business strategies, we may fail to maintain these relationships.

We do not carry any business interruption insurance, products liability insurance or any other insurance policy except for a limited property insurance policy. As a result, we may incur uninsured losses, increasing the possibility that you would lose your entire investment in our company.

We could be exposed to liabilities or other claims for which we would have no insurance protection. We do not currently maintain any business interruption insurance, products liability insurance, or any other comprehensive insurance policy except for property insurance policies with limited coverage. As a result, we may incur uninsured liabilities and losses as a result of the conduct of our business. There can be no guarantee that we will be able to obtain additional insurance coverage in the future, and even if we are able to obtain additional coverage, we may not carry sufficient insurance coverage to satisfy potential claims. Should uninsured losses occur, any purchasers of our

common stock could lose their entire investment.

Because we do not carry products liability insurance, a failure of any of the products marketed by us may subject us to the risk of product liability claims and litigation arising from injuries allegedly caused by the improper functioning or design of our products. We cannot assure that we will have enough funds to defend or pay for liabilities arising out of a products liability claim. To the extent we incur any product liability or other litigation losses, our expenses could materially increase substantially. There can be no assurance that we will have sufficient funds to pay for such expenses, which could end our operations and you would lose your entire investment.

We rely on a limited number of suppliers for our raw materials, and unanticipated disruptions in our operations or slowdowns by our suppliers and shipping companies could adversely affect our ability to deliver our products and service our customers which could materially and adversely affect our revenues and our relationships with our customers.

Our top three suppliers of accounted for a total of approximately 19.66%, 23.27% and 13.76% of our raw material purchases for the nine months ended September 30, 2010 and for the years ended December 31, 2009 and December 31, 2008, respectively. We generally have supply agreements that are no longer than one year. Our primary suppliers of raw materials are located in Huizhou, Zhongshan and Shenzhen. Our largest supplier accounted for approximately 7.04%, 10.4% and 6.77% of our raw material purchases for the nine months ended September 30, 2010 and for the years ended December 31, 2009 and December 3, 2008, respectively.

Our ability to provide high quality customer service, process and fulfill orders and manage inventory depends on:

- the efficient and uninterrupted operation of our distribution centers; and
- the timely and uninterrupted performance of third party suppliers, shipping companies, and dock workers.

Any material disruption or slowdown in the operation of our distribution centers, manufacturing facilities or management information systems, or comparable disruptions or slowdowns suffered by our principal manufacturers, suppliers and shippers could cause delays in our ability to receive, process and fulfill customer orders and may cause orders to be cancelled, lost or delivered late, goods to be returned or receipt of goods to be refused. As a result, our revenues and operating results could be materially and adversely affected.

We intend to make significant investments in research and development and new lighting products that may not be profitable.

Companies in our industry are under pressure to develop new designs and product innovations to support changing consumer tastes and regulatory requirements. We have engaged in research and development activities and we believe that substantial additional research and development activities are necessary to allow us to offer technologically-advanced products. We expect that our research and development budget will increase significantly as we attempt to create new products and as we have access to additional working capital to fund these activities. We intend to use approximately one-fourth of the net proceeds from our recently completely public offering for research and development focused on LED technologies and one-half of the net proceeds for expansion of our manufacturing and production of LED components. However, research and development and investments in new technology are inherently speculative and commercial success depends on many factors including technological innovation, novelty, service and support, and effective sales and marketing.

We may not achieve significant revenue from new product and service investments for a number of years, if at all. Moreover, new products and services may not be profitable, and even if they are profitable, operating margins for new products and businesses may be minimal.

Our operating results are substantially dependent on the development and acceptance of new LED and other lighting products.

Our future success may depend on our ability to develop new and lower cost LED and lighting solutions for existing and new markets and for customers to accept those solutions. We must introduce new products in a timely and cost-effective manner, and we must secure production orders for those products from our customers. The development of new products is a highly complex process, particularly as it relates to LEDs, and we have experienced delays in completing the development and introduction of new products. The successful development and introduction of these products depends on a number of factors, including the following:

- achievement of technology advancements required to make commercially viable devices;
- the accuracy of our predictions for market requirements and evolving standards;
  - acceptance of our new product designs;
  - acceptance of new technology in certain markets;
- the availability of qualified research and development personnel;



- our timely completion of product designs and development;
- our ability to expand sales and influence key customers to adopt our products;
- our ability to develop repeatable processes to manufacture new products in sufficient quantities and at low enough costs for commercial sales;
- our ability to effectively transfer products and technology developed in location or geographic region to our manufacturing facilities in another location or geographic region;
  - our customers' ability to develop competitive products incorporating our products; and
    - acceptance of our customers' products by the market.

If any of these or other factors becomes problematic, we may not be able to develop and introduce these new products in a timely or cost-effective manner.

Our failure to effectively manage growth could harm our business.

We have rapidly and significantly expanded the number and types of products we sell, and we will endeavor to further expand our product portfolio. We must continually introduce new products and technologies, enhance existing products, and effectively stimulate customer demand for new products and upgraded versions of our existing products in order to remain competitive.

This expansion of our products places a significant strain on our management, operations and engineering resources. Specifically, the areas that are strained most by our growth include the following:

- **New Lighting Product Launch:** With the growth of our product portfolio, we experience increased complexity in coordinating product development, manufacturing, and shipping. As this complexity increases, it places a strain on our ability to accurately coordinate the commercial launch of our products with adequate supply to meet anticipated customer demand and effective marketing to stimulate demand and market acceptance. If we are unable to scale and improve our product launch coordination, we could frustrate our customers and lose retail shelf space and product sales;
- **Forecasting, Planning and Supply Chain Logistics:** With the growth of our product portfolio, we also experience increased complexity in forecasting customer demand, planning for production, and transportation and logistics management. If we are unable to scale and improve our forecasting, planning and logistics management, we could frustrate our customers, lose product sales or accumulate excess inventory; and
- **Support Processes:** To manage the growth of our operations, we will need to continue to improve our transaction processing, operational and financial systems, and procedures and controls to effectively manage the increased complexity. If we are unable to scale and improve these areas, the consequences could include delays in shipment of products, degradation in levels of customer support, lost sales, decreased cash flows, and increased inventory. These difficulties could harm or limit our ability to expand.

Our products could contain defects or they may be installed or operated incorrectly, which could result in claims against us or reduce sales of those products.

Despite quality control testing by us, errors have been found and may be found in the future in our existing or future products. This could result in, among other things, a delay in the recognition or loss of revenue, loss of market share or failure to achieve market acceptance. These defects could cause us to incur significant warranty, support and repair costs, divert the attention of our personnel from our product development efforts and harm our relationship with our customers. The occurrence of these problems could result in the delay or loss of market acceptance of our lighting products and would likely harm our business. Defects, integration issues or other performance problems in our lighting products could result in personal injury or financial or other damages to end-users or could damage market acceptance of our products. Our customers and end-users could also seek damages from us for their losses. A product liability claim brought against us, even if unsuccessful, would likely be time-consuming and costly to defend.

If the landlords of our manufacturing facilities are unable to maintain its Guangdong Province Pollution Discharge Certificate, we may lose our ability to continue conducting our manufacturing operations.

We are subject to various federal, state, local and foreign environmental laws and regulations, including those governing the use, discharge and disposal of hazardous substances in the ordinary course of our manufacturing

process. The manufacturing facilities in which we operate are subject to the PRC's environmental laws and requirements. Our landlords, Huizhou NIVS Audio & Video Technology Company Limited and Hu Guilian, that lease the factory facilities to us are required to and have obtained a Guangdong Province Pollution Discharge Certificate issued by the competent Environment Protection Bureau and are responsible for the disposal of the waste in accordance with applicable environmental regulations. If our landlords fail to comply with the provisions of the permit and environmental laws, our landlords could be subject to sanctions by regulators, including the suspension or termination of its Certificate, which would result in the suspension or termination of our manufacturing operations, which would have a material adverse effect on our results of operations.

Our LED revenues are highly dependent on our customers' ability to produce and sell more integrated products using our LED products.

Because our customers generally integrate our LED products into the products that they market and sell, our LED revenues depend on getting our LED products designed into a larger number of our customers' products and our customers' ability to sell those products. We also have current and prospective customers that create lighting systems using our LED components. Sales of LED components for these applications are highly dependent upon our customers' ability to develop high quality and highly efficient lighting products. The lighting industry has traditionally not had this level of technical expertise for LED related designs, which may limit the success of our customers' products. Even if our customers are able to develop efficient systems, there can be no assurance that our customers will be successful in the marketplace.

The lighting industry is subject to significant fluctuations in the availability of raw materials and components. If we do not properly anticipate the need for critical raw materials and components, we may be unable to meet the demands of our customers and end-users, which could reduce our competitiveness, cause a decline in our market share and have a material adverse effect on our results of operations.

As the availability of raw materials and components decreases, the cost of acquiring those raw materials and components ordinarily increases. If we fail to procure adequate supplies of raw materials and components in anticipation of our customers' orders or end-users' demand, our gross margins may be negatively impacted due to higher prices that we are required to pay for raw materials and components in short supply. High-growth product categories have experienced chronic shortages of raw materials and components during periods of exceptionally high demand. If we do not properly anticipate the need for critical raw materials and components, we may pay higher prices for the raw materials and components, and we may be unable to meet the demands of our customers and end-users, which could reduce our competitiveness, cause a decline in our market share and have a material adverse effect on our results of operations.

Variations in our production yields and limitations in the amount of process improvements we can implement could impact our ability to reduce costs and could cause our margins to decline and our operating results could suffer.

A significant portion of our products are manufactured using technologies that are highly complex, and the number of usable items, or yield, from our production processes may fluctuate as a result of many factors, including but not limited to the following:

- variability in our process repeatability and control;
- contamination of the manufacturing environment;
- equipment failure, power outages or variations in the manufacturing process;
- lack of consistency and adequate quality and quantity of piece parts and other raw materials;
- losses from broken components or parts, inventory shrinkage or human errors;
  - defects in packaging; and
- any transitions or changes in our production process, planned or unplanned.

Any difficulties that we experience in achieving acceptable yields on new products may adversely affect our operating results, and we cannot predict when they may occur or their severity. In some instances, we may offer products for future delivery at prices based on planned yield improvements or increased cost efficiencies from other production advances. Failure to achieve these planned improvements or advances could significantly affect our margins and operating results.

We believe that mandatory and voluntary certification and compliance issues are critical to adoption of our lighting systems, and failure to obtain such certification or compliance would harm our business.

We are required to comply with certain legal requirements governing the materials in our products. Although we are not aware of any efforts to amend any existing legal requirements or implement new legal requirements in a manner with which we cannot comply, our revenue might be materially harmed if such an amendment or implementation were to occur.

Moreover, although not legally required to do so, we strive to obtain certification for substantially all our products. Where appropriate in certain jurisdictions, we seek to obtain national or regional certifications for our products. Although we believe that our broad knowledge and experience with electrical codes and safety standards have facilitated certification approvals, we cannot ensure that we will be able to obtain any such certifications for our new products or that, if certification standards are amended, that we will be able to maintain any such certifications for our existing products, especially since existing codes and standards were not created with our lighting products in mind. Moreover, although we are not aware of any effort to amend any existing certification standard or implement a new certification standard in a manner that would render us unable to maintain certification for our existing products or obtain ratification for new products, our revenue might be materially harmed if such an amendment or implementation were to occur.

We depend on distributors and independent sales representatives for a substantial portion of our revenue and sales, and the failure to manage successfully our relationships with these third parties, or the termination of these relationships, could cause our revenue to decline and harm our business.

We rely significantly on indirect sales channels to market and sell our products. Most of our products are sold through independent distributors and agents. In addition, these parties provide technical sales support to end-users. Our current distribution agreements are either exclusive or not exclusive with respect to geographic location, depending on the market size. Furthermore, our agreements are generally short-term, such as one year, and can be cancelled by these sales channels without significant financial consequence. We cannot control how these sales channels perform and cannot be certain that we or end-users will be satisfied by their performance. If these distributors and agents significantly change their terms with us, or change their historical pattern of ordering products from us, there could be a significant impact on our revenue and profits.

We may incur design and development expenses and purchase inventory in anticipation of orders which are not placed.

In order to transact business, we assess the integrity and creditworthiness of our customers and suppliers and we may, based on this assessment, incur design and development costs that we expect to recoup over a number of orders produced for the customer. Such assessments are not always accurate and expose us to potential costs, including the write off of costs incurred and inventory obsolescence if the orders anticipated do not materialize. We may also occasionally place orders with suppliers based on a customer's forecast or in anticipation of an order that is not realized. Additionally, from time to time, we may purchase quantities of supplies and materials greater than required by customer orders to secure more favorable pricing, delivery or credit terms. These purchases can expose us to losses from cancellation costs, inventory carrying costs or inventory obsolescence, and hence adversely affect our business and operating results.

We intend to adopt an equity incentive plan under which we may grant securities to compensate employees and other services providers, which would result in increased share-based compensation expenses and, therefore, reduce net income.

We may adopt an equity incentive plan under which we may grant shares or options to qualified employees. Under current accounting rules, we would be required to recognize share-based compensation as compensation expense in our statement of income, based on the fair value of equity awards on the date of the grant, and recognize the compensation expense over the period in which the recipient is required to provide service in exchange for the equity award. We have not made any such grants prior to our public offering in June 2010, and accordingly our results of operations have not contained any share-based compensation charges prior to that time. The additional expenses associated with share-based compensation may reduce the attractiveness of issuing stock options under an equity incentive plan that we may adopt in the future. If we grant equity compensation to attract and retain key personnel, the expenses associated with share-based compensation may adversely affect our net income. However, if we do not grant equity compensation, we may not be able to attract and retain key personnel or be forced to expend cash or other compensation instead. Furthermore, the issuance of equity awards would dilute the shareholders' ownership interests in our company.

We are subject to market risk through our sales to international markets.

A relative small but growing percentage of our sales are being derived from international markets. These international sales are primarily focused in Middle East and South East Asia. These operations are subject to risks that are inherent in operating in foreign countries, including the following:

- foreign countries could change regulations or impose currency restrictions and other restraints;

changes in foreign currency exchange rates and hyperinflation or deflation in the foreign countries in which we operate;

- exchange controls;

- some countries impose burdensome tariffs and quotas;

- political changes and economic crises may lead to changes in the business environment in which we operate;

international conflict, including terrorist acts, could significantly impact our financial condition and results of operations; and

economic downturns, political instability and war or civil disturbances may disrupt distribution logistics or limit sales in individual markets.

In addition, we utilize third-party distributors to act as our representative for the geographic region that they have been assigned. Sales through distributors represent approximately 95% of total revenue during the nine months ended September 30, 2010. Since the product transfers title to the distributor at the time of shipment by us, the products are not considered inventory on consignment. Our success is dependent on these distributors finding new customers and receiving new orders from existing customers.

Our business may be adversely affected by the global economic and construction industry downturn, in addition to the continuing uncertainties in the financial markets.

The global economy is currently in a pronounced economic downturn. Global financial markets are continuing to experience disruptions, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates, and uncertainty about economic stability. Given these uncertainties, there is no assurance that there will not be further deterioration in the global economy, the global financial markets and consumer confidence. If economic conditions deteriorate further, our business and results of operations could be materially and adversely affected.

Additionally, in many areas, sales of new and existing homes have slowed and there has been a continued downturn in the housing market, as well as adverse changes in employment levels, job growth, consumer confidence and interest rates, in addition to an oversupply of commercial and residential buildings for sale. Sales of our lighting products depend significantly upon the level of new building construction and renovation, which are affected by housing market trends, interest rates and weather. Our future results of operations may experience substantial fluctuations from period to period as a consequence of these factors, and such conditions and other factors affecting capital spending may affect the timing of orders. Thus, any economic downturns generally or in our markets specifically, particularly those affecting new building construction and renovation or that cause end-users to reduce or delay their purchases of lighting products, signs or displays, would have a material adverse effect on our business, cash flows, financial condition and results of operations.

Additionally, the inability of our customers and suppliers to access capital efficiently, or at all, may have other adverse effects on our financial condition. For example, financial difficulties experienced by our customers or suppliers could result in product delays; increase trade receivables defaults; and increase our inventory exposure. The impact of tightening credit conditions may impair our customers' ability to effectively access capital markets, resulting in a decline in construction, renovation, and relight projects. The inability of our customers to borrow money to fund construction and renovation projects reduces the demand for our products and services and may adversely affect our results from operations and cash flow. These risks may increase if our customers and suppliers do not adequately manage their business or do not properly disclose their financial condition to us.

Although we believe we have adequate liquidity and capital resources to fund our operations internally, in light of current market conditions, our inability to access the capital markets on favorable terms, or at all, may adversely affect our financial performance. The inability to obtain adequate financing from debt or capital sources could force us to self-fund strategic initiatives or even forego certain opportunities, which in turn could potentially harm our performance.

We are subject to intense competition in the industry in which we operate, which could cause material reductions in the selling price of our products or losses of our market share.

The lighting industry is highly competitive, especially with respect to pricing and the introduction of new products and features. Our products compete in the emerging LED and traditional lighting market and compete primarily on the basis of:



- brand recognition;
  - efficiency;
  - quality;
  - price;
  - design; and
- quality service and support to retailers and our customers.

In recent years, we and many of our competitors have regularly lowered prices for more developed products, and we expect these pricing pressures to continue. If these pricing pressures are not mitigated by increases in volume, cost reductions from our suppliers or changes in product mix, our revenues and profits could be substantially reduced. As compared to us, many of our competitors have:

- significantly longer operating histories;

- significantly greater managerial, financial, marketing, technical and other competitive resources; and
  - greater brand recognition.

As a result, our competitors may be able to:

- adapt more quickly to new or emerging technologies and changes in customer requirements;
- devote greater resources to the promotion and sale of their products and services; and
  - respond more effectively to pricing pressures.

These factors could materially adversely affect our operations and financial condition. In addition, competition could increase if:

- new companies enter the market;
- existing competitors expand their product mix; or
- we expand into new markets.

An increase in competition could result in material price reductions or loss of our market share.

We may not be able to effectively recruit and retain skilled employees, particularly scientific, technical and management professionals.

Our ability to compete effectively depends largely on our ability to attract and retain certain key personnel, including scientific, technical and management professionals. We anticipate that we will need to hire additional skilled personnel in all areas of our business. Industry demand for such employees, however, exceeds the number of personnel available, and the competition for attracting and retaining these employees is intense. Because of this intense competition for skilled employees, we may be unable to retain our existing personnel or attract additional qualified employees to keep up with future business needs. If this should happen, our business, operating results and financial condition could be adversely affected.

Our labor costs are likely to increase as a result of changes in Chinese labor laws.

We expect to experience an increase in our cost of labor due to recent changes in Chinese labor laws which are likely to increase costs further and impose restrictions on our relationship with our employees. In June 2007, the National People's Congress of the PRC enacted new labor law legislation called the Labor Contract Law and more strictly enforced existing labor laws. The new law, which became effective on January 1, 2008, amended and formalized workers' rights concerning overtime hours, pensions, layoffs, employment contracts and the role of trade unions. As a result of the new law, we have had to increase the salaries of our employees, provide additional benefits to our employees, and revise certain other of our labor practices. The increase in labor costs has increased our operating costs, which increase we have not always been able to pass through to our customers. In addition, under the new law, employees who either have worked for us for 10 years or more or who have had two consecutive fixed-term contracts must be given an "open-ended employment contract" that, in effect, constitutes a lifetime, permanent contract, which is terminable only in the event the employee materially breaches our rules and regulations or is in serious dereliction of his or her duties. Such non-cancelable employment contracts will substantially increase our employment related risks and limit our ability to downsize our workforce in the event of an economic downturn. No assurance can be given that

we will not in the future be subject to labor strikes or that we will not have to make other payments to resolve future labor issues caused by the new laws. Furthermore, there can be no assurance that the labor laws will not change further or that their interpretation and implementation will vary, which may have a negative effect upon our business and results of operations.

Our business could be materially adversely affected if we cannot protect our intellectual property rights or if we infringe on the intellectual property rights of others.

Our ability to compete effectively will depend on our ability to maintain and protect our proprietary rights, including patents that we use in our business and our brand name. We have a license to sell our products under the brand name of HYUNDAI™, which is materially important to our business. Under our license agreement with Hyundai Corporation, we have a non-assignable, non-transferrable and non-sub-licensable license to use the trademark of HYUNDAI™ to manufacture, sell and market the wiring accessories and lighting products within the PRC for a term through 2013. However, third parties may seek to challenge, invalidate, circumvent or render unenforceable any proprietary rights owned by or licensed to us. In addition, in the event third party licensees fail to protect the integrity of our trademarks, the value of these trademarks could be materially adversely affected.

Our trademark license agreements with Hyundai Corporation have not been registered with the Trademark Office of the State Administration for Industry and Commerce of the PRC. The PRC law requires such agreements to be registered within three months from the date of execution. Our failure to register such license agreements will not cause such license agreements to be invalid but weaken our rights in protection of our licensed trademark rights against any third party claims and block our access to application for urgent protection of our licensed trademark rights at the pre-litigation stage with the PRC administrative and judicial authorities.

Our inability to protect our proprietary rights could materially adversely affect the license of our trade names and trademarks to third parties as well as our ability to sell our products. Litigation may be necessary to:

- enforce our intellectual property rights;
- protect our trade secrets; and
- determine the scope and validity of such intellectual property rights.

Any such litigation, whether or not successful, could result in substantial costs and diversion of resources and management's attention from the operation of our business.

We may receive notice of claims of infringement of other parties' proprietary rights. Such actions could result in litigation and we could incur significant costs and diversion of resources in defending such claims. The party making such claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief. Such relief could effectively block our ability to make, use, sell, distribute or market our products and services in certain jurisdictions. We may also be required to seek licenses to such intellectual property. We cannot predict, however, whether such licenses would be available or, if available, could be obtained on terms that are commercially reasonable and acceptable to us. The failure to obtain the necessary licenses or other rights could delay or preclude the sale, manufacture or distribution of our products and could result in increased costs to us.

We are currently a party to a cross-guarantee loan arrangement pursuant to which we may lose a deposit with banks if the other parties to the guarantee default on their loans, which would reduce our available working capital.

In April 2009, we obtained a one-year term loan of approximately \$1.2 million from Pudong Development Bank. In April 2010, we paid off this loan and obtained a new loan from the same bank. This new loan is a one year term loan of RMB 10,000,000 (approximately \$1,467,000) bearing interest at the prevailing prime rate (approximately 5.8%). Pursuant to the loan contract, the monthly payment is RMB 300,000 plus monthly interest and the balance will be repaid in April 2011. As of September 30, 2010, the loan balance due to Pudong Development Bank was approximately \$1.3 million. In connection with the loan, we also entered into a guarantee agreement with the bank and six different companies pursuant to which all of the companies, including us, cross guarantee each others' loans. According to the terms of the guarantee, in the event one company defaults on its loan, the other companies are required to pay a penalty to the bank based on the percentage of the defaulted loan such that the bank can recoup its losses on the defaulted loan through such penalty. Additionally, we and the other companies were required to deposit 30% of its respective loan amount in an account held at the bank to be used as collateral for the loans, guarantee, and any potential penalty that may result from another company's default. We deposited RMB 3,000,000, or approximately \$449,000, in the bank and accounted for it as restricted cash as of September 30, 2010. Our cross guarantee under the loan is limited to the restricted cash held at the bank.

We may pursue future growth through strategic acquisitions and alliances which may not yield anticipated benefits and may adversely affect our operating results, financial condition and existing business.

We may seek to grow in the future through strategic acquisitions in order to complement and expand our business. The success of our acquisition strategy will depend on, among other things:

- the availability of suitable candidates;
- competition from other companies for the purchase of available candidates;
- our ability to value those candidates accurately and negotiate favorable terms for those acquisitions;
- the availability of funds to finance acquisitions;

- the ability to establish new informational, operational and financial systems to meet the needs of our business;
- the ability to achieve anticipated synergies, including with respect to complementary products or services; and
- the availability of management resources to oversee the integration and operation of the acquired businesses.

If we are not successful in integrating acquired businesses and completing acquisitions in the future, we may be required to reevaluate our acquisition strategy. We also may incur substantial expenses and devote significant management time and resources in seeking to complete acquisitions. Acquired businesses may fail to meet our performance expectations. If we do not achieve the anticipated benefits of an acquisition as rapidly as expected, or at all, investors or analysts may not perceive the same benefits of the acquisition as we do. If these risks materialize, our stock price could be materially adversely affected.

#### RISKS RELATED TO US DOING BUSINESS IN CHINA

Substantially all of our assets are located in the PRC and a substantial portion of our revenues are derived from our operations in China, and changes in the political and economic policies of the PRC government could have a significant impact upon the business we may be able to conduct in the PRC and accordingly on the results of our operations and financial condition.

Our business operations may be adversely affected by the current and future political environment in the PRC. The Chinese government exerts substantial influence and control over the manner in which we must conduct our business activities. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under the current government leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will not significantly alter these policies from time to time without notice.

Our operations are subject to PRC laws and regulations that are sometimes vague and uncertain. Any changes in such PRC laws and regulations, or the interpretations thereof, may have a material and adverse effect on our business.

The PRC's legal system is a civil law system based on written statutes. Unlike the common law system prevalent in the United States, decided legal cases have little value as precedent in China. There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to, governmental approvals required for conducting business and investments, laws and regulations governing the lighting industry and lighting product safety, national security-related laws and regulations and export/import laws and regulations, as well as commercial, antitrust, patent, product liability, environmental laws and regulations, consumer protection, and financial and business taxation laws and regulations.

The Chinese government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

Our principal operating subsidiary, Hyundai Light and Electric (Huizhou) Co., Ltd., a company organized under the laws of the PRC ("Hyundai Light"), is considered a foreign invested enterprise under PRC laws, and as a result is

required to comply with PRC laws and regulations, including laws and regulations specifically governing the activities and conduct of foreign invested enterprises. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our businesses. If the relevant authorities find us in violation of PRC laws or regulations, they would have broad discretion in dealing with such a violation, including, without limitation:

- levying fines;
- revoking our business license, other licenses or authorities;
- requiring that we restructure our ownership or operations; and
- requiring that we discontinue any portion or all of our business.

Investors may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based upon U.S. laws, including the federal securities laws or other foreign laws against us or our management.

Most of our current operations, including the manufacturing and distribution of our products, are conducted in China. Moreover, all of our directors and officers are nationals and residents of China. All or substantially all of the assets of these persons are located outside the United States and in the PRC. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon these persons. In addition, uncertainty exists as to whether the courts of China would recognize or enforce judgments of U.S. courts obtained against us or such officers and/or directors predicated upon the civil liability provisions of the securities laws of the United States or any state thereof, or be competent to hear original actions brought in China against us or such persons predicated upon the securities laws of the United States or any state thereof.

The scope of our business license in China is limited, and we may not expand or continue our business without government approval and renewal, respectively.

Our principal operating subsidiary, Hyundai Light, is a wholly foreign-owned enterprise, commonly known as a WFOE. A WFOE can only conduct business within its approved business scope, which ultimately appears on its business license. Our license permits us to produce, market, design, develop, and sell lighting and electric products and accessories, with 30% of products sold overseas and 70% sold domestically in China. Any amendment to the scope of our business, including expansion of our international business beyond 30%, requires further application and government approval. In order for us to expand our business beyond the scope of our license, we will be required to enter into a negotiation with the PRC authorities for the approval to expand the scope of our business. We cannot assure investors that Hyundai Light will be able to obtain the necessary government approval for any change or expansion of its business.

We are subject to a variety of environmental laws and regulations related to our manufacturing operations. Our failure to comply with environmental laws and regulations may have a material adverse effect on our business and results of operations.

We are subject to various environmental laws and regulations in China. We cannot assure you that at all times we will be in compliance with the environmental laws and regulations or that we will not be required to expend significant funds to comply with, or discharge liabilities arising under, environmental laws and regulations. Additionally, these regulations may change in a manner that could have a material adverse effect on our business, results of operations and financial condition. We have made and will continue to make capital and other expenditures to comply with environmental requirements.

Furthermore, our failure to comply with applicable environmental laws and regulations worldwide could harm our business and results of operations. The manufacturing, assembling and testing of our products require the use of hazardous materials that are subject to a broad array of environmental, health and safety laws and regulations. Our failure to comply with any of these applicable laws or regulations could result in:

- regulatory penalties, fines and legal liabilities;
- suspension of production;
- alteration of our fabrication, assembly and test processes; and
- curtailment of our operations or sales.



In addition, our failure to manage the use, transportation, emission, discharge, storage, recycling or disposal of hazardous materials could subject us to increased costs or future liabilities. Existing and future environmental laws and regulations could also require us to acquire pollution abatement or remediation equipment, modify our product designs or incur other expenses associated with such laws and regulations. Many new materials that we are evaluating for use in our operations may be subject to regulation under existing or future environmental laws and regulations that may restrict our use of one or more of such materials in our manufacturing, assembly and test processes or products. Any of these restrictions could harm our business and results of operations by increasing our expenses or requiring us to alter our manufacturing processes.

Contract drafting, interpretation and enforcement in China involve significant uncertainty.

We have entered into numerous contracts governed by PRC law, many of which are material to our business. As compared with contracts in the United States, contracts governed by PRC law tend to contain less detail and are not as comprehensive in defining contracting parties' rights and obligations. As a result, contracts in China are more vulnerable to disputes and legal challenges. In addition, contract interpretation and enforcement in China is not as developed as in the United States, and the result of any contract dispute is subject to significant uncertainties. Therefore, we cannot assure you that we will not be subject to disputes under our material contracts, and if such disputes arise, we cannot assure you that we will prevail.

We could be liable for damages for defects in our products pursuant to the Tort Liability Law of the PRC.

The Tort Liability Law of the People's Republic of China, which was passed during the 12th Session of the Standing Committee of the 11th National People's Congress on December 26, 2009, states that manufacturers are liable for damages caused by defects in their products and sellers are liable for damages attributable to their fault. If the defects are caused by the fault of third parties such as the transporter or storekeeper, manufacturers and sellers are entitled to claim for compensation from these third parties after paying the compensation amount.

Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may create regulatory uncertainties that could restrict or limit our ability to operate. Our failure to obtain the prior approval of the China Securities Regulatory Commission, or the CSRC, for our offering and the listing and trading of our common stock could have a material adverse effect on our business, operating results, reputation and trading price of our common stock.

The PRC State Administration of Foreign Exchange, or "SAFE," issued a public notice on October 21, 2005 which became effective on November 1, 2005, known as Circular 75, concerning the use of offshore holding companies in mergers and acquisitions in China. The public notice provides that if an offshore company controlled by PRC residents intends to acquire a PRC company, such acquisition will be subject to registration with the relevant foreign exchange authorities. The public notice also suggests that registration with the relevant foreign exchange authorities is required for any sale or transfer by the PRC residents of shares in an offshore holding company that owns an onshore company. The PRC residents must each submit a registration form to the local SAFE branch with respect to their ownership interests in the offshore company, and must also file an amendment to such registration if the offshore company experiences material events, such as changes in the share capital, share transfer, mergers and acquisitions, spin-off transactions or use of assets in China to guarantee offshore obligations. If any PRC resident stockholder of an offshore holding company fails to make the required SAFE registration and amended registration, the onshore PRC subsidiaries of that offshore company may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation to the offshore entity. Failure to comply with the SAFE registration and amendment requirements described above could result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

Li Xuemei, our largest shareholder, has confirmed to us in writing that she is in the process of completing registration under relevant SAFE regulations. However, we cannot provide any assurances that Ms. Li or any of our other PRC shareholders will be able to obtain the SAFE registrations required by Circular 75. Moreover, because of uncertainty over how Circular 75 will be interpreted and implemented, and how or whether SAFE will apply it to us, we cannot predict how it will affect our business operations or future strategies. For example, Hyundai Light's ability to conduct foreign exchange activities, such as the remittance of dividends and foreign currency-denominated borrowings, may be subject to compliance with the SAFE notice by our PRC resident beneficial holders.

In addition, such PRC residents may not always be able to complete the necessary registration procedures required by Circular 75. We also have little control over either our present or prospective direct or indirect stockholders or the outcome of such registration procedures. Failure by our PRC resident beneficial holders could subject these PRC resident beneficial holders to fines or legal sanctions, restrict our overseas or cross-border investment activities, limit Hyundai Light's ability to make distributions or pay dividends or affect our ownership structure, which could adversely affect our business and prospects.

On August 8, 2006, the PRC Ministry of Commerce ("MOFCOM"), joined by the State-owned Assets Supervision and Administration Commission of the State Council, the State Administration of Taxation, the State Administration for Industry and Commerce, the China Securities Regulatory Commission and SAFE, released a substantially amended version of the Provisions for Foreign Investors to Merge with or Acquire Domestic Enterprises (the "Revised M&A

Regulations”), which took effect September 8, 2006 (as amended on June 22, 2009). These new rules significantly revised China’s regulatory framework governing onshore-to-offshore restructurings and foreign acquisitions of domestic enterprises. These new rules signify greater PRC government attention to cross-border merger, acquisition and other investment activities, by confirming MOFCOM as a key regulator for issues related to mergers and acquisitions in China and requiring MOFCOM approval of a broad range of merger, acquisition and investment transactions. Further, the new rules establish reporting requirements for acquisition of control by foreigners of companies in key industries, and reinforce the ability of the Chinese government to monitor and prohibit foreign control transactions in key industries.

Among other things, the revised M&A Regulations include new provisions that purport to require that an offshore special purpose vehicle, or SPV, formed for listing purposes and controlled directly or indirectly by PRC companies or individuals must obtain the approval of the CSRC prior to the listing and trading of such SPV's securities on an overseas stock exchange. On September 21, 2006, the CSRC published on its official website procedures specifying documents and materials required to be submitted to it by SPVs seeking CSRC approval of their overseas listings. However, the application of this PRC regulation remains unclear with no consensus currently existing among the leading PRC law firms regarding the scope and applicability of the CSRC approval requirement. Our PRC counsel, Han Kun Law Offices, has advised us that due to the reasons that Hyundai Light was established as qualified foreign-invested enterprises before September 8, 2006, the effective date of the New M&A Regulations and the general application of the CSRC under the current rules and regulations does not provide a specific scope of CSRC approval into which our public offering and the listing and trading of our Common Stock as contemplated by our public offering would fall, it is not necessary for us to submit the application to the CSRC for its approval, and the listing and trading of our Common Stock does not require CSRC approval.

If the CSRC or another PRC regulatory agency subsequently determines that CSRC approval was required, we may face regulatory actions or other sanctions from the CSRC or other PRC regulatory agencies. These regulatory agencies may impose fines and penalties on our operations in the PRC, limit our operating privileges in the PRC, or take other actions that could have a material adverse effect on our business, financial condition, results of operations, reputation and prospects, as well as the trading price of our common stock.

Also, if later the CSRC requires that we obtain its approval, we may be unable to obtain a waiver of the CSRC approval requirements, if and when procedures are established to obtain such a waiver. Any uncertainties and/or negative publicity regarding this CSRC approval requirement could have a material adverse effect on the trading price of our common stock.

It is uncertain how our business operations or future strategy will be affected by the interpretations and implementation of Circular 75 and the Revised M&A Regulations. It is anticipated that application of the new rules will be subject to significant administrative interpretation, and we will need to closely monitor how MOFCOM and other ministries apply the rules to ensure that our domestic and offshore activities continue to comply with PRC law. Given the uncertainties regarding interpretation and application of the new rules, we may need to expend significant time and resources to maintain compliance.

If the land use rights of our landlord are revoked, we would be forced to relocate operations.

Under Chinese law land is owned by the state or rural collective economic organizations. The state issues to the land users the land use right certificate. Land use rights can be revoked and the land users forced to vacate at any time when redevelopment of the land is in the public interest. The public interest rationale is interpreted quite broadly and the process of land appropriation may be less than transparent. We do not have any land use rights and each of our manufacturing facilities rely on land use rights of a landlord, and the loss of such rights would require us to identify and relocate our manufacturing and other facilities, which could have a material adverse effect on our financial conditions and results of operations.

Our landlords' failure to comply with lease registration under PRC law may subject these landlords or us to fines or other penalties that may negatively affect our ability to operate our business.

We lease our manufacturing facilities, which consist of our factory space and dormitories, pursuant to written lease agreements entered between us and the landlords, including Huizhou NIVS Audio & Video Technology Company Limited. We and the landlords are subject to a number of land- and property-related legal requirements. Under PRC law, lessees and lessors are required to register all lease agreements and related ownership certificates with the local

housing bureau of the Real Property Administration Department. We and our landlords failed to file these leases with the housing bureau, which may result in fines or penalties on us and/or our landlords. We intend to make the required registrations with the local housing bureau, but there is no guarantee that we will not be subject to fines and penalties, which may negatively affect our financial condition and results of operations.

We will not be able to complete an acquisition of prospective acquisition targets in the PRC unless their financial statements can be reconciled to U.S. generally accepted accounting principles in a timely manner.

Companies based in the PRC may not have properly kept financial books and records that may be reconciled with U.S. generally accepted accounting principles. If we attempt to acquire a significant PRC target company and/or its assets, we would be required to obtain or prepare financial statements of the target that are prepared in accordance with and reconciled to U.S. generally accepted accounting principles. Federal securities laws require that a business combination meeting certain financial significance tests require the public acquirer to prepare and file historical and/or pro forma financial statement disclosure with the SEC. These financial statements must be prepared in accordance with, or be reconciled to U.S. generally accepted accounting principles and the historical financial statements must be audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), or PCAOB. If a proposed acquisition target does not have financial statements that have been prepared in accordance with, or that can be reconciled to, U.S. generally accepted accounting principles and audited in accordance with the standards of the PCAOB, we will not be able to acquire that proposed acquisition target. These financial statement requirements may limit the pool of potential acquisition targets with which we may acquire and hinder our ability to expand our retail operations. Furthermore, if we consummate an acquisition and are unable to timely file audited financial statements and/or pro forma financial information required by the Exchange Act, such as Item 9.01 of Form 8-K, we will be ineligible to use the SEC's short-form registration statement on Form S-3 to raise capital, if we are otherwise eligible to use a Form S-3. If we are ineligible to use a Form S-3, the process of raising capital may be more expensive and time consuming and the terms of any offering transaction may not be as favorable as they would have been if we were eligible to use Form S-3.

We face risks related to natural disasters, terrorist attacks or other events in China that may affect usage of public transportation, which could have a material adverse effect on our business and results of operations.

Our business could be materially and adversely affected by natural disasters, terrorist attacks or other events in China. For example, in early 2008, parts of China suffered a wave of strong snow storms that severely impacted public transportation systems. In May 2008, Sichuan Province in China suffered a strong earthquake measuring approximately 8.0 on the Richter scale that caused widespread damage and casualties. The May 2008 Sichuan earthquake has had a material adverse effect on the general economic conditions in the areas affected by the earthquake. Any future natural disasters, terrorist attacks or other events in China could cause a reduction in usage of or other severe disruptions to, public transportation systems and could have a material adverse effect on our business and results of operations.

We face uncertainty from China's Circular on Strengthening the Administration of Enterprise Income Tax on Non-Resident Enterprises' Share Transfer ("Circular 698") that was released in December 2009 with retroactive effect from January 1, 2008.

The Chinese State Administration of Taxation (SAT) released a circular (Guoshuihan No. 698 – Circular 698) on December 10, 2009 that addresses the transfer of shares by nonresident companies. Circular 698, which is effective retroactively to January 1, 2008, may have a significant impact on many companies that use offshore holding companies to invest in China. Circular 698, which provides parties with a short period of time to comply its requirements, indirectly taxes foreign companies on gains derived from the indirect sale of a Chinese company. Where a foreign investor indirectly transfers equity interests in a Chinese resident enterprise by selling the shares in an offshore holding company, and the latter is located in a country or jurisdiction where the effective tax burden is less than 12.5% or where the offshore income of his, her, or its residents is not taxable, the foreign investor is required to provide the tax authority in charge of that Chinese resident enterprise with the relevant information within 30 days of the transfers. Moreover, where a foreign investor indirectly transfers equity interests in a Chinese resident enterprise through an abuse of form of organization and there are no reasonab