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## REGULATORY OVERVIEW

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### OVERVIEW

This section sets out summaries of certain aspects of PRC laws and regulations, which are relevant to our business and operations.

### PRC LAWS AND REGULATIONS RELATING TO THE INDUSTRY AND FOREIGN INVESTMENT

The manufacture of valve regulated lead acid batteries must comply with the Regulations on the Administration of Production Permits for Industrial Products (《工業產品生產許可證管理條例》), promulgated by the State Council of the PRC on July 9, 2005, and its Implementation Rules (《工業產品生產許可證管理條例實施辦法》), promulgated by the State Administration of Quality Supervision, Inspection and Quarantine on September 15, 2005. Products listed in the Industrial Products Catalogue are subject to the Production Permit System; a manufacturer cannot produce any product listed in the Industrial Products Catalogue unless a Production Permit has been obtained. As of the Latest Practicable Date, we have obtained Production Permits for the manufacture of all of our valve regulated lead acid batteries listed in the Industrial Products Catalogue.

The table below sets forth the terms of validity of the National Production Permits for Industrial Product (《全國工業產品生產許可證》) of our PRC subsidiaries:

<u>Company Name</u>	<u>Expiration Date of the National Production Permits for Industrial Product (《全國工業產品生產許可證》)</u>
Jiangsu Leoch .....	May 23, 2015
Zhaoqing Leoch .....	September 8, 2014
Anhui Leoch Battery .....	April 7, 2014
Shenzhen Leoch .....	August 14, 2010 <sup>(1)</sup>
Dongguan Leoch .....	August 28, 2010 <sup>(1)</sup>

*Note:*

- (1) The relevant authority has accepted our renewal application, and the facility has passed the site inspection for permit renewal. As the renewed permit will be issued after the expiration date of the current permit, our PRC legal advisers, Zhong Lun Law Firm, consulted with the State Administration of Quality Supervision, Inspection and Quarantine of the PRC, and received confirmation that as the renewal application was accepted before the expiration date, the legality of production at this production facility will not be affected. We have never failed to renew the permits and our PRC legal advisers confirm that they do not foresee any legal impediment in obtaining the renewed permits. We expect to receive the renewed permits before Listing.

Under the current Industrial Guidance Catalogue for Foreign Investment (《外商投資產業指導目錄(2007年修訂)》), jointly issued by the National Development and Reform Commission (“NDRC”) and the Ministry of Commerce on November 30, 2004 and revised on October 31, 2007, effective on December 1, 2007, foreign investment in the “high-volume, complete-sealed and maintenance-free lead acid battery” industry is categorized as an encouraged investment. According to the Provisions on Guiding the Foreign Investment Direction (《指導外商投資方向規定》), and the Comments Regarding Further Encouraging Foreign Investment (《關於當前進一步鼓勵外商投資的意見》), an encouraged foreign investment is entitled to receive certain benefits and incentives from the government, mainly in terms of taxation.

On July 16, 2004, the PRC State Council promulgated the Decision on the Reform of the Investment System (《國務院關於投資體制改革的決定》, “Investment Decision”). According to the Investment Decision, government approval is no longer required for projects not funded by the government. Instead, the authorization system and record system are applied where appropriate. Where state funds are not used in the projects, such projects only need to be recorded with the competent local

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authority except that governmental authorization must be secured for significant projects, projects in restricted investment areas and all foreign invested projects. Jiangsu Leoch, Anhui Leoch Battery and Zhaoqing Leoch, our foreign invested enterprises established after the promulgation of the Investment Decision, have each secured the authorization from the local competent authorities.

Shenzhen Leoch and Dongguan Leoch were set up in 1999 and 2002, respectively, before the promulgation of the Investment Decision in July 2004. Shenzhen Bao'an Development and Reform Bureau (深圳市寶安區發展和改革局) and the Economy and Technological Information Bureau of Dongguan Tangxia People's Government (東莞市塘廈鎮人民政府經濟和科技信息局) confirmed that Shenzhen Leoch and Dongguan Leoch, respectively, are not required to make any additional filings for their investment projects and no administrative penalty will be imposed, because these investment projects were established before the promulgation of the Investment Decision and have continuously operated since establishment. Our PRC legal advisers, Zhong Lun Law Firm, advised that the above authorities are competent authorities to give such confirmations and the lack of record-filing for these investment projects has no material adverse impact on the operation of the Company.

### REGULATION OF FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

#### *Foreign Currency Exchange*

The principal regulations governing foreign currency exchange in China are the Foreign Exchange Administration Regulations (《外匯管理條例》), as amended, and the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange (《結匯、售匯及付匯管理規定》). Under these regulations, Renminbi are freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for most capital account items, such as direct investment, loan, repatriation of investment and investment in securities outside China, unless the prior approval of the State Administration of Foreign Exchange ("SAFE") or its local counterparts is obtained. In addition, any loans to foreign invested enterprises cannot, in the aggregate, exceed the difference between their respective approved total investment amount and their respective approved registered capital amount. Furthermore, any foreign loan must be registered with SAFE or its local counterparts for the loan to be effective. Any increase in the amount of the total investment and registered capital must be approved by the PRC Ministry of Commerce ("MOFCOM") or its local counterparts.

The dividends paid by a subsidiary to its shareholder are deemed shareholder income and are taxable in China. Pursuant to the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange, foreign-invested enterprises in China may purchase or remit foreign exchange, subject to a cap approved by SAFE, for settlement of current account transactions without the approval of SAFE. Foreign exchange transactions under the capital account are still subject to limitations and require approvals from, or registration with, SAFE and other relevant PRC governmental authorities.

#### *Dividend Distribution*

The principal regulations governing the distribution of dividends by foreign holding companies include the PRC Wholly Foreign-owned Enterprise Law of the PRC (《中華人民共和國外資企業法》), as amended, and the Administrative Rules thereunder.

Under these regulations, foreign investment enterprises in China may pay dividends only out of their retained profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, foreign-invested enterprises in China are required to allocate at least 10% of their respective retained profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

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### *Circular 75*

Pursuant to the SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通》), issued on October 21, 2005 and effective on November 1, 2005, (i) a person residing in the PRC (a "PRC Resident") must register with the local branch of SAFE before he or she may establish or control an SPV for the purpose of overseas equity financing (including convertible debt financing) with the assets of or equity interests in a domestic enterprise which is owned by him or her; (ii) when a PRC Resident contributes the assets of or its equity interests in a domestic enterprise to an overseas SPV, or engages in overseas financing after contributing assets or equity interests to an overseas SPV, such PRC Resident must register his or her interest in the overseas SPV or any changes to such interest in the overseas SPV with the local branch of SAFE; and (iii) when the overseas SPV undergoes a material event outside of China, such as change in share capital or merger and acquisition, the PRC Resident must, within 30 days after the occurrence of such event, register such change with the local branch of SAFE. Our controlling shareholder, Mr. Dong, who is a PRC resident, applied for a post-facto foreign exchange registration of overseas investment at the local SAFE branch in Shenzhen and received approval for the registration on September 21, 2010.

Under Circular 75, failure to comply with the registration procedures may result in penalties, including imposition of restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the overseas SPV.

### **NEW M&A REGULATIONS AND OVERSEAS LISTINGS**

On August 8, 2006, six PRC regulatory agencies, namely MOFCOM, the State Assets Supervision and Administration Commission, the State Administration for Taxation ("SAT"), the State Administration for Industry and Commerce, the China Securities Regulatory Commission ("CSRC"), and the State Administration of Foreign Exchange, jointly adopted the Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者並購境內企業的規定》), which became effective on September 8, 2006. The New M&A Rule requires, among other things, that, if any offshore company established or controlled by any PRC domestic company or citizen intends to acquire equity interests or assets of any domestic company affiliated with such PRC company or citizen, then the acquisition must be submitted to MOFCOM, rather than local regulators, for approval. In addition, the New M&A Rule requires that any listing on an overseas stock exchange of an offshore special purpose vehicle, or the SPV, directly or indirectly controlled by any PRC domestic company or citizen is subject to the CSRC's approval.

Given the facts that, (i) Jiangsu Leoch, a foreign invested enterprise, was duly established on March 11, 2003, (ii) Zhaoqing Leoch, a foreign invested enterprise, was duly established on May 9, 2005, (iii) Anhui Leoch, a foreign invested enterprise, was duly established on July 26, 2006, our PRC legal advisers, Zhong Lun Law Firm, has advised us that MOFCOM approval for our restructuring is not required. However, we cannot rule out the possibility that the MOFCOM may have different opinions on the interpretation of the New M&A Rules and may determine that its approval is required with respect to our restructuring.

### **TAX LAWS**

On January 1, 2008, the Foreign-funded Enterprise and Foreign Enterprise Income Tax Law of the PRC (《中華人民共和國外商投資企業和外國企業所得稅法》) was abolished, and the New Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》, "EIT Law"), promulgated on March 16, 2007, as well as the Implementing Regulations for the PRC Enterprise Income Tax Law (《企業所得稅法實施條例》, "Implementation Rules"), promulgated on December 6, 2007, became effective. Pursuant to the EIT Law of the PRC, the income tax rate for both domestic-funded enterprises and foreign-funded enterprises is 25%.

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Pursuant to the Notice on the Implementation of the Enterprise Income Tax Transition Preferential Policy (《國務院關於實施企業所得稅過渡優惠政策的通知》), enacted by the State Council of the PRC on December 26, 2007, (i) enterprises that enjoy the low tax rate of 15% shall be subject to a transitional tax rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012, and (ii) enterprises that had enjoyed the preferential policy of full exemption for the first two years and half EIT concession for the next three years since the first profit-making year, shall continue to enjoy the former policy until the preferential period expired; enterprises that had not enjoyed the aforesaid preferential policy due to their failure to make profit shall enjoy the aforesaid preferential policy from 2008. On October 6, 2008, Shenzhen National Tax Bureau released the Notice on the Implementation of a levy-first-refund-immediately Scheme for Shenzhen locally-promulgated Preferential Policy on Enterprise Income Tax (《關於深圳市自行制定企業所得稅優惠政策實行“即徵即退”工作方案的通知》, “Notice 145”). Notice 145 acknowledges that the enterprises in Bao’an District and Longgang District in Shenzhen enjoy the enterprise income tax rate of 15% according to the Shenzhen People’s Government Notice on the Taxation Policy of Bao’an District and Longgang District promulgated in 1993 (《深圳市人民政府關於寶安龍崗兩個市轄區稅收政策問題的通知》, 深府[1993]1號). According to Notice 145, enterprises which enjoyed the low tax rate of 15% before 2008 shall be subject to the transitional enterprise income tax rate of 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012.

The EIT Law also provides that enterprises that are established in accordance with the law of a foreign country (or region) and whose “de facto management bodies” are located in China are considered “tax resident enterprises” and will generally be subject to the uniform 25% enterprise income tax rate as to their global income. Under the Implementation Rules, “de facto management bodies” is defined as the bodies that have, in substance, overall management and control over such aspects as the production and business, personnel, accounts and properties of an enterprise. The EIT Law and the Implementation Rules have only recently taken effect. Currently, there are no detailed rules or precedents governing the procedures and specific criteria for determining “de facto management bodies”.

Under the EIT Law and the Implementation Rules, China-sourced income of foreign enterprises that are “non PRC resident enterprises” that do not have an establishment or place of business in China or, despite the existence of such establishment or place in China, the relevant income is not actually connected with such establishment or place in China, such as dividends paid by a PRC subsidiary to its overseas parent, is generally subject to a 10% withholding tax unless the jurisdiction of such foreign enterprises has a tax treaty with China that provides a different withholding arrangement. Under an arrangement between China and the Hong Kong Special Administrative Region, which became effective on January 1, 2007, such dividend withholding tax rate is reduced to 5% for dividends paid by a PRC company to a Hong Kong resident enterprise if such Hong Kong entity directly owns at least 25% of the equity interest of the PRC company.

On February 20, 2009, the SAT promulgated the Notice on Relevant Issues concerning Implementation of Dividend Clauses under Tax Treaties (《關於執行稅收協定股息條款有關問題的通知》, “2009 Notice”). Pursuant to the 2009 Notice, the transaction or the arrangement, with the major purpose of obtaining any preferential tax treatment, shall not justify the application of preferential treatment stipulated in dividend clauses under tax treaties. If the tax payer improperly enjoys the preferential treatment under tax treaties as a result of the abovementioned transaction or arrangement, the tax authority in charge shall be entitled to made adjustment. As the 2009 Notice is newly issued, it remains unclear how the PRC tax authorities will implement it in practice.

On January 9, 2009, the SAT promulgated the Interim Measures for the Administration of Withholding at Source of Enterprise Income Tax for Non-resident Enterprises, or the Interim Measures (《非居民企業所得稅源泉扣繳管理暫行辦法》, “Interim Measures”), which took effect retroactively on January 1, 2009. In accordance with the Interim Measures, if a non-resident enterprise receives the income originating from China, or the taxable income, including equity investment income such as dividend and profit, interest, rental and royalty income, income from property transfer and other incomes,

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the EIT payable on the taxable income shall be withheld at the source by the enterprise or the individual who is directly obligated to make relevant payment to the non-resident enterprise under relevant laws or contracts.

Under the EIT Law and the Implementing Regulations, certain qualifying high-technology enterprises may still benefit from a preferential tax rate of 15% if they are satisfied with certain conditions, including they own their core intellectual properties and their products or services fall into the scope of certain State-supported high-tech industries specified by the government, etc., and obtain the certificate of “high-technology enterprise” in accordance with the relevant regulations, including the Administrative Measures for Determination of High-technology Enterprises promulgated by the Ministry of Science and Technology, Ministry of Finance and SAT on April 14, 2008.

On December 10, 2009, the State Administration of Taxation issued the Notice on Strengthening Enterprise Income Taxation on Non-resident Enterprises with respect to Gains from Equity Transfer (《關於加強非居民企業股權轉讓所得企業所得稅管理的通知》, “Notice 698”), which demonstrates its jurisdiction over the indirect equity transfer of PRC resident enterprises via disposing the equity of a SPV offshore China. Pursuant to the Notice 698, the offshore transferor which interposes a SPV as an intermediate holding company for its investment in PRC subsidiary will be required to report the indirect transfer of the equity interest of SPV to the Chinese local-level tax bureau in charge of the PRC subsidiary if the effective tax rate of the jurisdiction over the transferee is less than 12.5%, or that jurisdiction does not tax foreign income of the transferee. The Chinese tax authorities will examine the true nature of the transfer through such reporting documents and determine whether such transfer constitutes evasion of Chinese taxation through abusive arrangement without reasonable commercial purpose. Based on the “substance over form” principle, the Chinese tax authorities may re-characterize the transfer and disregard the existence of the SPV. Once a SPV is disregarded, the transfer should be effectively treated as non-resident enterprises transferring the PRC subsidiary’s equity, and thus the transfer gain is of China source which should be subject to China withholding tax.

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

### ENVIRONMENTAL LAWS

Manufacturing businesses are subject to PRC environmental laws and regulations, which include the PRC Environmental Protection Law (《中華人民共和國環境保護法》), PRC Law on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), PRC Law on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》), PRC Law on the Prevention and Control of Pollution From Environmental Noise (《中華人民共和國環境噪聲污染防治法》), PRC Law on the Prevention and Control of Environmental Pollution by Solid Waste (《中華人民共和國固體廢物污染環境防治法》), the Standards for Pollution Control on Hazardous Waste Storage (《危險廢物貯存污染控制標準》) (GB18597-2001), PRC Law on the Environmental Impact Assessment (《中華人民共和國環境影響評價法》), the Administrative Regulations on Environmental Protection for Construction Projects (《建設項目環境保護管理條例》) and the Rules on the Administration of Acceptance Inspection of Construction Project Environmental Protection (《建設項目竣工環境保護驗收管理辦法》) (collectively as the “Environmental Laws”). The Environmental Laws govern a broad range of environmental matters, including air pollution, noise emissions, sewage, and waste discharge.

According to the Environmental Laws, companies are also required to carry out an environment impact assessment (“EIA”) before commencing construction of production facilities and install pollution treatment facilities that meet the relevant environmental standards to treat pollutants before discharge, and all business operations that may cause environmental pollution and other public hazards are required to incorporate environmental protection measures into their plans and establish a reliable system for environmental protection. These operations must adopt effective measures to prevent and control pollution levels and harm caused to the environment in the form of waste gas, liquid and solid waste, dust,

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malodorous gas, radioactive substances, noise, vibration, and electromagnetic radiation generated in the course of production, construction, or other activities. Upon completion of the construction, companies should request the relevant environmental protection authority to assess the air pollutant density and inspect the site and the equipment installed for the project. Companies can make application for the inspection and acceptance of environmental protection for construction projects and obtain the approvals from the relevant environmental protection department when the results meet the requirements of the environmental protection department.

As of the Latest Practicable Date, an EIA and environmental completion acceptance examination of our production lines have been carried out and approved by the environmental protection authorities according to the Environmental Law. We expanded the production capacity of Dongguan Leoch and added battery shelf manufacturing lines to Zhaoqing Leoch in 2006 and 2010, respectively, but did not conduct additional EIA in a timely manner. Dongguan Environmental Protection Bureau Tangxia Branch (東莞市環境保護局塘廈分局, “Dongguan EPB”) and Zhaoqing High and New-tech Industry Development Zone Environmental Protection Bureau (肇慶高新技術產業開發區環保局, “Zhaoqing EPB”) has confirmed that Dongguan Leoch and Zhaoqing Leoch can conduct post-facto EIA and an environmental completion acceptance examination, and we have already received EIA approvals for Dongguan Leoch and Zhaoqing Leoch on September 8, 2010 and August 20, 2010, respectively. Our PRC legal advisers, Zhong Lun Law Firm, advised us that (i) Dongguan EPB and Zhaoqing EPB are competent to give such confirmations; (ii) in its opinion the risk of those confirmations being challenged by higher authorities is low; and (iii) after correcting such inadequacies, we will not be subject to any negative legal consequences.

According to the Environmental Laws, all entities, directly or indirectly, discharge pollutants shall register at the local environmental protection department before commencing operation. After reviewing the registration, the local environmental protection department will issue a Pollutants Discharge Permit to the entity, which sets out the discharge standards for permitted waste water, exhaust air and solid waste. Each entity shall also submit a Pollutants Discharge Registration Form to the local environmental protection department every year within the operation period. The category and the quantity of the raw materials applied for, the possible pollutants caused, the treatment facilities and process of site installation, as well as the efficiency and economic analysis of the projects shall be set out in the Pollutants Discharge Registration Form.

As of the Latest Practicable Date, Jiangsu Leoch, Zhaoqing Leoch and Anhui Leoch Battery have obtained the relevant Pollutant Discharge Permits. The Pollutant Discharge Permits are renewable upon their respective expiration dates. Our PRC legal advisers, Zhong Lun Law Firm, confirm that, to their best knowledge after due inquiry and based on our confirmations, were not aware of any impediments for us to obtain or renew the permits as of the Latest Practicable Date.

The table below provides the terms of validity of the Pollutant Discharge Permits of our PRC subsidiaries:

Company Name	Issuance date	Expiration Date
Jiangsu Leoch .....	January 1, 2010	December 31, 2011
Zhaoqing Leoch .....	April 8, 2009	April 7, 2012
Anhui Leoch Battery.....	July 1, 2009 and May 10, 2010 for two different pollutant discharge	June 30, 2012 and May 9, 2013, respectively
Shenzhen Leoch .....	N/A	N/A
Dongguan Leoch.....	N/A	N/A

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According to the Environmental Laws, no solid wastes are allowed to be discharged to water. The PRC government implements the declaration and registration system for the production and disposal of the industrial solid wastes. Industrial solid waste producer shall provide the local environmental protection authority with the relevant information regarding the arising, whereabouts, storage and disposal of the solid wastes. The open storage for slag, chemical slag, coal ash, waste minerals, mineral waste residues and other industrial solid wastes requires special facilities. Failure to comply with the requirements of declaration and registration of the industrial solid wastes or hazardous wastes will be ordered to take remedial measures in due course and fined by the environmental protection authority.

Enterprises generating hazardous wastes must register with the local environmental protection authority and must properly dispose the wastes in compliance with the relevant laws and regulations imposed by the PRC government. Any entity disposing its hazardous materials by way of burying or without complying with the relevant regulations should pay relevant hazardous waste disposal charges. All hazardous wastes, including certain hazardous wastes produced at our production facilities, listed on the “National Catalogue of Hazardous Wastes” should be collected and disposed by entities approved for handling the disposal of hazardous wastes. Any entity without the permit of hazardous waste disposal is prohibited from engaging in collection, storage, transportation, utilization and disposal of hazardous wastes. Hazardous wastes should not be placed and handled together with non-hazardous waste.

Under the Standards for Pollution Control on Hazardous Waste Storage (GB18597-2001), containers with abandoned batteries must have labels indicating their category, or specialized facilities must be constructed in accordance with the Standards for Pollution Control on Hazardous Waste Storage (GB18597-2001) for the storage of abandoned batteries, in which the abandoned batteries must be placed inside plastic containers. The plastic containers must be corrosion and pressure-resistant and properly sealed. The disposal of used batteries into landfill must also fulfill the stringent requirements on landfill.

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

### *Environmental Quality Standards*

The PRC has implemented various environmental quality standards with respect to air quality, water condition and soil condition. Local environmental protection authorities will follow these national standards when reviewing and approving EIAs of and when determining the permissible pollutant discharge amounts by companies in such jurisdiction. Companies within the jurisdiction are not required to monitor or evaluate emissions to ensure compliance with the environmental quality standards, while they must comply with the approved EIA in its construction of pollution prevention and processing facilities, and the discharge pollutants in its operation must meet the approved discharge amounts. Local environmental protection authorities monitor the pollutant discharge from time to time to ensure compliance with the approved EIA levels. The following environmental quality standards and pollutant discharge standards are applicable to the EIA of our production facilities and our operations:

#### **Air Quality in a Specific Environment**

The daily average concentration of lead in the air must conform to the maximum concentration limit of toxic materials in the atmosphere in a residential zone permitted under the Hygiene Standards for Industrial Enterprises (《工業企業設計衛生標準》) (TJ36-79). In addition, the average annual and quarterly concentration of lead in the air has to meet the concentration limits as set out under the Air Quality Standards in a Specific Environment (《環境空氣質量標準》) (GB3095-1996). Details of the concentration limits are set out as follows:

Period	Lead	
	(Unit: $\mu\text{g}/\text{m}^3$ )	Standards
Daily average .....	0.70	TJ36-79
Quarterly average .....	1.50	GB3095-1996
Annual average .....	1.00	GB3095-1996

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### Ground Surface Water Condition

Depending on the water usage category, water discharge has to conform to the relevant standards of Category III specified under the Ground Surface Water Quality Standards (《地表水環境質量標準》) (GB3838-2002), which refer to an indicative lead value of  $\leq 0.05\text{mg/L}$ .

### Underground Water Condition

The quality of underground water has to conform to the Underground Water Quality Standards (《地下水質量標準》) (GB/T14848-93) as set forth below:

Categories	Category I	Category II	Category III	Category IV	Category V
pH .....	6.5~8.5	6.5~8.5	6.5~8.5	5.5~6.5 8.5~9	<5.5 >9
Maximum permitted lead concentration (Unit: mg/L) .....	$\leq 0.005$	$\leq 0.01$	$\leq 0.05$	$\leq 0.1$	$> 0.1$

### Soil Condition

Soil condition has to conform to Soil Quality Standards (《土壤環境質量標準》) (GB15168-1995). Specific parameters are set forth below:

Soil Class	First Class	Second Class			Third Class
pH .....	Natural background	<6.5	6.5~7.5	>7.5	>6.5
Maximum permitted lead concentration (Unit: mg/L) .....	$\leq 35$	$\leq 250$	$\leq 300$	$\leq 350$	$\leq 500$

## LABOR AND SOCIAL INSURANCE

The PRC has many labor and safety laws, including the PRC Labor Law (《中華人民共和國勞動法》), the PRC Labor Contract Law (《中華人民共和國勞動合同法》), the Regulation of Insurance for Work-Related Injury (《工傷保險條例》), the Unemployment Insurance Law (《失業保險條例》), the Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》), the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for operations in the PRC.

According to the PRC Labor Law (《中華人民共和國勞動法》) and the PRC Labor Contract Law (《中華人民共和國勞動合同法》), labor contracts in written form shall be executed to establish labor relationships between employers and employees. Wages cannot be lower than local minimum wage. The company must establish a system for labor safety and sanitation, strictly abide by state standards, and provide relevant education to its employees. Employers are also required to provide safe and sanitary working conditions meeting State rules and standards, and carry out regular health examinations of employees engaged in hazardous occupations.



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As required under the Regulation of Insurance for Work-Related Injury (《工傷保險條例》), the Provisional Measures on Insurance for Maternity of Employees (《企業職工生育保險試行辦法》), the Interim Regulation on the Collection and Payment of Social Insurance Premiums (《社會保險費徵繳暫行條例》), and the Interim Provisions on Registration of Social Insurance (《社會保險登記管理暫行辦法》), companies are obliged to provide employees in the PRC with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance.

### WORK SAFETY AND OCCUPATIONAL DISEASE PREVENTION AND TREATMENT

Companies are subject to the PRC Production Safety Law (《中華人民共和國安全生產法》, “Production Safety Law”), which requires that safe production conditions as required by the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards in respect of our manufacturing business are maintained. It further provides that any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities, and that companies must provide production safety education and training programs to employees. The design, manufacture, installation, use, checking, and maintenance of the safety equipment are required to conform to applicable national or industrial standards. In addition, labor protection equipment must meet national or industrial standards, and companies must supervise and educate their employees to wear or use such equipment according to the prescribed rules. Violation of the PRC Production Safety Law may result in the imposition of fines, penalties, suspension of operations, order to cease operations, or even criminal liability for severe cases.

Pursuant to the Regulations on Production Safety Licenses (《安全生產許可證條例》) and the Measures for Implementation of the System of Production Safety Licenses of Hazardous Chemicals Production Enterprises (《危險化學品生產企業安全生產許可證實施辦法》), which were promulgated and came into effect on January 13, 2004 and May 17, 2004, respectively, the PRC central government has implemented a licensing system for production safety of mining enterprises, construction companies and enterprises producing hazardous chemical products, fireworks and civil explosive materials. No enterprise producing hazardous chemical products may engage in production activities without holding a production safety license. While the regulatory authorities for production safety of the State Council are responsible for the issuance and administration of production safety licenses for hazardous chemical production enterprises (group companies, head offices or listed companies) under the administration of the central government, the regulatory authorities for production safety of the people’s governments of provinces, autonomous regions and municipalities directly under the PRC central government are responsible for the issuance and administration of production safety licenses for other hazardous chemical production enterprises. Production Safety Bureau of Jiangsu Province released the Notice on the Production Safety Licensing of Hazardous Chemical Production Enterprises (《關於危險化學品生產企業安全生產許可有關工作的通知》, “Jiangsu Safety Notice”) on December 30, 2008. Pursuant to Jiangsu Safety Notice, battery manufacturing companies are not categorized as hazardous chemical production enterprises. There is no specific provincial regulation in Guangdong Province requiring a company manufacturing lead-acid batteries to obtain a production safety license.

Anhui Leoch Battery has obtained a production safety license valid from November 19, 2009 to November 18, 2012 from the Anhui Administration of Production Safety. Jiangsu Leoch has consulted with the Production Safety Bureau of Jiangsu Province (江蘇省安全生產監督管理局) and Zhaoqing Leoch, Shenzhen Leoch and Dongguan Leoch have consulted with the Bureau of Production Safety of Guangdong Province (廣東省安全生產監督管理局), and received confirmation that they are not required to obtain production safety licenses. Our PRC legal advisers, Zhong Lun Law Firm, have advised us that the above authorities are competent local administration to give the confirmations and in its opinion the risk of those confirmations being challenged by higher authorities is low.

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## REGULATORY OVERVIEW

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The dangerous nature of the components of lead-acid batteries could pose risks to battery manufacturers if they do not handle the lead materials in the appropriate ways. Laws and regulations also exist to specifically regulate workplace conditions where such dangerous chemicals are used to ensure that workers involved in handling or transporting them are adequately protected. The Rules on Safety Use of Chemicals at Workstations (《工作場所安全使用化學品的規定》) and the Regulations on Safety Control of Dangerous Chemicals (《危險化學品安全管理條例》) stipulate specific requirements in the purchase, storage, transportation and usage of dangerous goods and disposal of hazardous chemical wastes. According to the Regulations on Safety Control of Dangerous Goods (《危險化學品安全管理條例》), the storage of and dealing with dangerous goods should be as follows: (i) dangerous chemicals should be stored in a purpose-built warehouse, purpose-built premise or storage room and managed by special-trained staff; (ii) the purpose-built warehouse or storage room should meet the prescribed standard for ventilation, fire-proof and fire-suppression, explosion-proof, pressure discharge, lightning-proof, thermoregulation, static electricity-proof and protection coffer system; and (iii) chemicals should be stored separately according to their property and type. Different types of chemicals should be stored in a safety distance away from each other. Pursuant to the Measures for the Administration of Registration of Hazardous Chemicals (《危險化學品登記管理辦法》) that came into effect on November 15, 2002, any entity engaged in the production or storage of hazardous chemicals, or usage of virulent chemicals or other hazardous chemicals in a quantity that could be a potential source of serious accidents must register with the competent offices for chemicals in accordance with the laws of the PRC. The PRC central government has established the National Registration Center for Chemicals (國家化學品登記註冊中心) to take charge of activities and administrative matters of the national registration of hazardous chemicals, while the governments of provinces, autonomous regions and municipalities have set up chemical registration offices to handle the local activities and administrative matters related to hazardous chemical registration.

Each of our PRC subsidiaries has registered its use of hazardous chemicals for production in the PRC with the relevant authorities.

Employers are also subject to the Law of Prevention and Treatment of Occupational Diseases of the PRC (《中華人民共和國職業病防治法》). Employers must ensure that the protective facilities against occupational diseases be designed, constructed, and put into production and use at the same time as that of the main part of the project. For employees engaging in operations that may expose them to risk of occupational diseases, employers must arrange for occupational health examinations before, during and at the end of the employment, and pay any related expenses. Employees who are found to have health injuries relating to their employment must be transferred from their position and provided with a different position of employment. Employers may not cancel or terminate the labor contracts signed with employees that have not gone through the occupational health examination before leaving their posts. Violation of the Law of Prevention and Treatment of Occupational Diseases may result in the imposition of fines, penalties, or even criminal liability for severe cases.

## REGULATORY OVERVIEW

According to the Diagnostic Criteria of Occupational Chronic Lead Poisoning (《職業性慢性鉛中毒診斷標準》) (GBZ37-2002) issued by the Hygiene Department of the PRC in April 2002, a person who possesses the following symptoms is considered to have lead poisoning:

	<b>lead poisoning of low degree</b>	<b>lead poisoning of medium degree</b>	<b>lead poisoning of high degree</b>
Symptoms . . . . .	<p>(a) blood lead level is equal to or more than 600 µg/L or urine lead level is equal to or more than 120 µg/L; and</p> <p>(b) either one of the following symptoms:-</p> <p>(i) δ-aminolevulin acid-ALA is equal to or more than 8,000 µg/L;</p> <p>(ii) free erythrocyte protoporphyrin (EP) is equal to or more than 2,000 µg/L;</p> <p>(iii) zinc protoporphyrin (ZPP) is equal to or more than 13.0 µg/gHb;</p> <p>(iv) abdominal pain, abdominal swelling or constipation</p>	<p>(a) symptoms of lead poisoning of low degree; and</p> <p>(b) either one of the following symptoms:-</p> <p>(i) acute abdominal pain;</p> <p>(ii) anaemia;</p> <p>(iii) mild toxic peripheral neuropathy</p>	<p>(a) either one of the following symptoms:-</p> <p>(i) lead paralysis;</p> <p>(ii) toxic encephalopathy</p>

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## REGULATORY OVERVIEW

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### INTELLECTUAL PROPERTY

#### *PRC Trademark Law*

The PRC Trademark Law (《中華人民共和國商標法》) was promulgated on August 23, 1982, and subsequently amended on February 22, 1993 and October 27, 2001. Under this law, any of the following acts shall be an infringement upon the right to exclusive use of a registered trademark:

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

In the event of infringement, the infringer would be fined, ordered to stop the infringement acts immediately and required to indemnify the infringed party.

#### *PRC Patent Law*

According to the PRC Patent Law (《中華人民共和國專利法》), last amended on December 27, 2008, protective patents fall into three categories: invention patents, utility model patents and design patents. Invention patents are intended to protect new technology or measures for a product, method or its improvement and the term of protection for invention patents is 20 years from the date of application. Utility model patents are intended to protect new technology or measures to increase the utility of a product's shape, structure or a combination, and the term of protection for invention patents is 10 years from the date of application. Design patents are intended to protect new designs of a product's shape, graphic or color with aesthetic and industrial application value and the term of protection for invention patents is 10 years from the date of application.

During the protection period, unless otherwise permitted by law, no individual or entity is permitted to engage in the manufacture, use, sale or import of the product protected by the patent of any category or otherwise engage in the manufacture, use, sale or import of the product directly derived from applying the production technology or method protected by such patent without the consent of the patent holder.

As of the Latest Practicable Date, we held 38 patents in China, including six invention patents, 28 utility model patents, four packaging design patents. We also had 30 patent applications pending in China, consisting of 27 invention patents and three utility model patents. We mainly rely on patent laws to establish, protect and maintain our propriety intellectual property, technology and other confidential information.