THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountants or other professional adviser.

If you have sold or transferred all your shares in **Fulbond Holdings Limited**, you should at once hand this circular and the enclosed proxy form to the purchaser or the transferee or to the bank, stockbroker or other registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

This circular appears for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of Fulbond Holdings Limited.

fulbond
福 邦 控 股

Fulbond Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1041)

(1) VERY SUBSTANTIAL ACQUISITION RELATING TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF AND THE ASSIGNMENT OF THE SHAREHOLDER'S LOAN IN LITHIUM ENERGY GROUP LTD.; (2) PLACING OF NEW SHARES UNDER SPECIFIC MANDATE; (3) PLACING OF CONVERTIBLE NOTES; (4) PROPOSED CAPITAL REORGANISATION AND CHANGE OF BOARD LOT SIZE AND (5) NOTICE OF SPECIAL GENERAL MEETING

Financial Adviser to the Company

KINGSTON CORPORATE FINANCE LIMITED

A letter from the Board is set out on pages 13 to 95 of this circular.

A notice convening a special general meeting of Fulbond Holdings Limited (the "Company") to be held at Plaza 1 and 2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 21 June 2011 at 11:00 a.m. or any adjournment thereof is set out on pages N-1 to N-7 of this circular. A proxy form for use at the special general meeting is enclosed. Whether or not you propose to attend the special general meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the special general meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the special general meeting or any adjournment thereof should you so wish.

Hong Kong, 25 May 2011

CONTENTS

In this circular, the following expressions have the following meanings unless the context otherwise requires:

"1st Stage Cash"	the first stage cash payment, details of which are set out in the paragraph headed "Consideration"
"2nd Stage Cash"	the second stage cash payment, details of which are set out in the paragraph headed "Consideration"
"3rd Stage Cash"	the third stage cash payment, details of which are set out in the paragraph headed "Consideration"
"1st Stage Loan"	the non-interest bearing loan in the amount of the 1st Stage Cash as advanced and on-lent by the Vendor to the Target Group
"2nd Stage Loan"	the non-interest bearing loan in the amount of the 2nd Stage Cash as advanced and on-lent by the Vendor to the Target Group
"3rd Stage Loan"	the non-interest bearing loan in the amount of the 3rd Stage Cash as advanced and on-lent by the Vendor to the Target Group
"1st Stage Profit Target"	the profit target for the financial year of the Completion Date, details of which are set out in the paragraph headed "Consideration Adjustment and Charges"
"2nd Stage Profit Target"	the profit target for the first financial year immediately following the Completion Date, details of which are set out in the paragraph headed "Consideration Adjustment and Charges"
"3rd Stage Profit Target"	the profit target for the second financial year immediately following the Completion Date, details of which are set out in the paragraph headed "Consideration Adjustment and Charges"
"4th Stage Profit Target"	the profit target for the third financial year immediately following the Completion Date, details of which are set out in the paragraph headed "Consideration Adjustment and Charges"

"5th Stage Profit Target"	the profit target for the fourth financial year immediately following the Completion Date, details of which are set out in the paragraph headed "Consideration Adjustment and Charges"
"Acquisition"	the acquisition of the Sale Shares and the Shareholder's Loan by the Purchaser in accordance with the Acquisition Agreement
"Acquisition Agreement"	the conditional agreement dated 13 January 2011 entered into between the Purchaser, the Vendor and the Vendor's Guarantors (as supplemented and amended by a supplemental agreement made between the same parties on 23 May 2011) in respect of the Acquisition
"Acquisition Completion"	completion of the Acquisition in accordance with the Acquisition Agreement
"Acquisition of Allywing"	acquisition of the entire issued share capital of Allywing Investments Limited ("Allywing") and the shareholder's loan due and owing to Mr. Zhang Xi ("Mr. Zhang") as vendor by Allywing, by Good Base Investments Limited ("Good Base") as purchaser in accordance with the conditional agreement dated 1 June 2010 entered into between Good Base and Mr. Zhang
"acting in concert"	has the meaning ascribed to it in the Takeovers Code
"Announcement"	the announcement of the Company dated 2 February 2011 in respect of, inter alia, the Acquisition, the Share Placings, the CN Placing and the Capital Reorganisation
"associates"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day"	any day (not being a Saturday, Sunday and public holiday) on which licensed banks in Hong Kong are generally open for business
"Bye-Laws"	the bye-laws of the Company from time to time

"Capital Reduction"	the proposed reduction of the par value of each issued Consolidated Share from US$0.01 to US$0.001 by cancellation of US$0.009 of the paid-up capital of each issued Consolidated Share
"Capital Reorganisation"	the proposed reorganisation of the share capital of the Company as set out in the section headed "Proposed Capital Reorganisation and Change of Board Lot Size" in this circular, including, inter alia, the Share Consolidation, the Capital Reduction and the Share Premium Reduction
"Cash Consideration"	the 1st Stage Cash, the 2nd Stage Cash and the 3rd Stage Cash and the additional cash part of the Consideration if the Purchaser exercises its rights to change the payment method of the Consideration according to the Acquisition Agreement
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Charged Shares"	the 2nd Stage Remaining Shares, the 3rd Stage Shares and the 4th Stage Shares or such less number of Consideration Shares if the Purchaser exercises its rights to change the payment method of the Consideration according to the Acquisition Agreement
"CN Placee(s)"	any professional, institutional or other investor(s) procured by the CN Placing Agent to subscribe for the Convertible Notes
"CN Placing"	the placing of the Convertible Notes by the CN Placing Agent on a best efforts basis
"CN Placing Agent"	Kingston
"CN Placing Agreement"	a conditional placing agreement dated 13 January 2011 entered into between the Company and the CN Placing Agent (as supplemented and amended by side letters made between the Company and the CN Placing Agent on 1 February 2011 and 23 May 2011) in relation to the CN Placing
"Companies Act"	the Companies Act 1981 of Bermuda

"Company"	Fulbond Holdings Limited, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the main board of the Stock Exchange
"Completion Date"	a date falling within thirty business days after the fulfillment of the Conditions Precedent or such other time as mutually agreed by the parties to the Acquisition Agreement
"Conditions Precedent"	the conditions precedent of the Acquisition Agreement, details of which are set out in the section headed "Conditions Precedent" of this circular
"connected person(s)"	has the meaning ascribed thereto under the Listing Rules
"Consideration"	the consideration for the Acquisition
"Consideration Shares"	the 1st Stage Shares, the 2nd Stage Shares, the 3rd Stage Shares, the 4th Stage Shares and the 5th Stage Shares and the decrease in the relevant parts of the Consideration Shares if the Purchaser exercises its rights to change the payment method of the Consideration according to the Acquisition Agreement
"Consolidated Share(s)"	ordinary share(s) of US$0.01 each in the capital of the Company after the Share Consolidation becoming effective
"Conversion Shares"	those shares to be issued upon the exercise of the conversion rights under the Convertible Notes
"Convertible Notes"	the convertible redeemable notes to be issued by the Company in the maximum aggregate principal amount of HK$500,000,000 due on the Maturity Date pursuant to the CN Placing Agreement
"Directors"	the directors of the Company
"Enlarged Group"	the Group immediately after the Acquisition Completion
"Existing Share(s)"	ordinary share(s) of US$0.001 each in the capital of the Company as at the date of this Circular and before the Capital Reorganisation becoming effective

"First Tranche Convertible Notes"	the convertible redeemable notes in an aggregate principal amount of HK$450,000,000 due on Previous CN Maturity Date issued by the Company to the holder(s) of the Previous Convertible Notes in two tranches on 29 December 2009 and 14 January 2010 respectively
"GDS"	Guangdong Securities Limited, a licensed corporation to carry on type 1 regulated activities (dealing in securities), type 2 regulated activities (dealing in futures contracts), type 4 regulated activities (advising on securities), type 6 regulated activities (advising on corporate finance) and type 9 regulated activities (asset management) under the SFO
"GDS Placing"	the placing of 5,882,000,000 new Reorganised Shares by GDS on a best effort basis pursuant to the GDS Placing Agreement
"GDS Placing Agreement"	a conditional placing agreement dated 13 January 2011 entered into between the Company and GDS (as supplemented and amended by side letters made between the Company and GDS on 1 February 2011 and 23 May 2011) in relation to the GDS Placing
"Group"	the Company and its subsidiaries
"Guarantees"	the deeds of guarantee to be entered into by each of Yeung Tsoi San and Fei Phillip in favour of the Purchaser to secure the obligations of Lau Yung under the Loan Agreement
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Parties"	independent third parties which are not connected with the chief executive, Directors and substantial shareholder(s) of the Company or any of its subsidiaries and their respective associates, and any of them an "Independent Third Party"

"Issue Price"	HK$0.021 per Existing Share (or HK$0.21 per Reorganised Share after the Capital Reorganisation becoming effect), being the issue price for the Consideration Shares
"Kingston"	Kingston Securities Limited, a licensed corporation to carry on type 1 regulated activities (dealing in securities) under the SFO
"Kingston Placing"	the placing of 2,941,000,000 new Reorganised Shares by Kingston on a best effort basis pursuant to the Kingston Placing Agreement
"Kingston Placing Agreement"	a conditional placing agreement dated 13 January 2011 entered into between the Company and Kingston (as supplemented and amended by side letters made between the Company and Kingston on 1 February 2011 and 23 May 2011) in relation to the Kingston Placing
"Last Trading Date"	13 January 2011, being the date of the Acquisition Agreement, Share Placing Agreements and the CN Placing Agreement which is a business day
"Latest Practicable Date"	23 May 2011, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Lithium BJ"	中珠鋰源科技（北京）有限公司 (Zhongzhu Lithium Technology (Beijing) Limited*), a company incorporated in the PRC with limited liability
"Lithium Caofeidian"	唐山曹妃甸鋰源電動汽車驅動總成有限公司 (Tangshan Caofeidian Lithium Assembly of Electric Vehicles Company Limited*), a company incorporated in the PRC with limited liability
"Lithium Guang"	珠海廣鋰電動汽車有限公司 (Zhuhai Guang Lithium Electric Vehicles Company Limited*), a company incorporated in the PRC with limited liability

"Lithium HK"	China Lithium Electric Vehicle Group (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability
"Lithium Jilin"	吉林鋰源電動車有限公司 (Jilin Lithium Electric Vehicles Company Limited*), a company incorporated in the PRC with limited liability
"Lithium New EV"	唐山鋰源新電動汽車製造有限公司 (Tangshan Lithium New Electric Vehicles Manufacturing Company Limited*), a company incorporated in the PRC with limited liability
"Lithium Power Motor"	唐山鋰源鋰動力電池科技有限公司 (Tangshan Lithium Power Motor Technology Company Limited*), a company incorporated in the PRC with limited liability
"Lithium Sales"	唐山鋰源電動汽車銷售有限公司 (Tangshan Lithium Electric Vehicles Sales Company Limited*), a company incorporated in the PRC with limited liability
"Lithium Zhuhai"	珠海鋰源新能源科技有限公司 (Zhuhai Lithium New Energy Sources Technology Limited*), a company incorporated in the PRC with limited liability
"Loan Agreement"	the loan agreement dated 23 May 2011 entered into between (i) Lau Yung, a 97% shareholder of the Vendor and (ii) the Purchaser whereby, subject to the terms and conditions therein, the Purchaser agreed to grant the Loan Facility to Lau Yung
"Loan Facility"	a loan facility of up to HK$25,000,000 to be granted by the Purchaser to Lau Yung
"Maturity Date"	the date falling upon the expiry of five years from the date on which the Convertible Notes is first issued or if such date is not a business day, the immediate preceding business day
"Noteholder(s)"	the holder(s) of the Convertible Notes
"Original Owners"	two individuals, being the original owners of the entire registered capital of Lithium Zhuhai

"Placing Completion"	completion of the Share Placings in accordance with the Kingston Placing Agreement and/or GDS Placing Agreement
"Placing Price"	HK$0.17 per Reorganised Share under the Share Placing Agreements
"Placing Shares"	up to a maximum of 2,941,000,000 new Reorganised Shares to be placed through Kingston pursuant to the Kingston Placing Agreement and/or up to a maximum of 5,882,000,000 new Reorganised Shares to be placed through GDS pursuant to the GDS Placing Agreement
"PRC"	the People's Republic of China excluding Hong Kong, Macau Special Administrative Region and Taiwan Region
"Previous CN Maturity Date"	28 December 2012, being the date falling upon the expiry of three years from the date on which the Previous Convertible Notes was first issued
"Previous Convertible Notes"	the convertible redeemable notes of the Company in the maximum aggregate principal amount of HK$800,000,000 due on Previous CN Maturity Date comprising the First Tranche Convertible Notes and the Second Tranche Convertible Notes
"Profit Target"	the 1st Stage Profit Target, the 2nd Stage Profit Target, the 3rd Stage Profit Target, the 4th Stage Profit Target and/or the 5th Stage Profit Target
"Property Project"	a property project of two parcels of land in Weiyang District, Xi'an City, the PRC with a site area of approximately 134,357 square meters for residential use and approximately 19,739 square meters for commercial use which would be developed into a residential and commercial area comprising approximately 435,595 square meters for residential use and approximately 90,403 square meters for commercial use
"Purchaser"	Fulbond Investments Limited, a wholly-owned subsidiary of the Company

"Reorganisation"	the corporate reorganisation of Lithium HK, Lithium Zhuhai and its subsidiaries including but not limited to Lithium HK acquiring Lithium Zhuhai's entire registered capital from the Original Owners and obtaining the relevant approvals from the PRC government authorities; completion of disposal of interests in companies which are not members of the Target Group; and transfer of business from other shareholders to the Target Group
"Reorganised Shares"	ordinary share(s) of US$0.001 each in the share capital of the Company immediately after the Capital Reorganisation becoming effective
"Sale Shares"	an aggregate of 50,000 shares of US$1.00 each in the share capital of the Target Company, representing the entire issued share capital of the Target Company
"Second Tranche Convertible Notes"	the convertible redeemable notes in the maximum aggregate principal amount of HK$350,000,000 due on Previous CN Maturity Date to be issued by the Company pursuant to a conditional placing agreement dated 6 August 2009 entered into between the Company and the CN Placing Agent in relation to the placing of the Previous Convertible Notes by the CN Placing Agent on a best effort basis (as supplemented and amended by side letters made between the same parties on 24 September 2009 and 2 June 2010 respectively)
"Secured Obligations"	all and each of the obligations, liabilities, undertakings, burdens and commitments of the Vendor under the Acquisition Agreement
"SFO"	the Securities and Futures Ordinance (Chapter 571 the Laws of Hong Kong)
"SGM"	a special general meeting to be held by the Company to consider and, if thought fit, approve the Acquisition Agreement, the Share Placings, the CN Placing, the Capital Reorganisation and the respective transactions contemplated thereunder

"Share(s)"	ordinary share(s) of US$0.001 each in the share capital of the Company, and all other (if any) shares from time to time and for the time being ranking pari passu therewith and all other (if any) shares of the Company resulting from any sub-division, consolidation, capital reduction
"Share Consolidation"	the proposed consolidation of every 10 Existing Shares in the issued share capital of the Company of US$0.001 each into one Consolidated Share of par value of US$0.01
"Share Mortgage"	a share mortgage to be entered into by Lau Yung and Fei Phillip, being all the shareholders of the Vendor, as chargor and the Vendor to charge the entire issued share capital in, and shareholders' loan due and owing by, the Vendor in favour of the Purchaser to secure the obligations of Lau Yung under the Loan Agreement
"Share Option Scheme"	the share option scheme adopted by the Company on 19 November 2001 (as amended by an addendum effective on 22 February 2011)
"Share Options"	the option(s) to subscribe for Shares granted under the Share Option Scheme
"Share Placees"	placees under the Share Placings
"Share Placing(s)"	the Kingston Placing and/or the GDS Placing
"Share Placing Agent(s)"	Kingston and/or GDS
"Share Placing Agreement(s)"	Kingston Placing Agreement and/or GDS Placing Agreement
"Share Premium Reduction"	the proposed cancellation of the entire amount standing to the credit of the share premium account of the Company
"Shareholder(s)"	holder(s) of the Shares
"Shareholder's Loan"	the shareholder's loan due and owing to the Vendor by the Target Company as at the Completion Date (as at the date of the Acquisition Agreement, the amount of such shareholder's loan is approximately HK$451,000)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Takeovers Code"	the Hong Kong Codes on Takeovers and Mergers and Share Repurchases
"Target Company"	Lithium Energy Group Ltd., a company incorporated in the British Virgin Islands with limited liability
"Target Group"	the Target Company, Lithium HK, Lithium Zhuhai and its subsidiaries after completion of Reorganisation
"Vendor"	Hefu Limited, a company incorporated in the British Virgin Islands with limited liability
"Vendor's Guarantors"	Yeung Tsoi San, Lau Yung and Fei Phillip
"Vendor's Loan"	the 1st Stage Loan, the 2nd Stage Loan and the 3rd Stage Loan and the increase in the respective parts of the aforesaid loans and further loans incurred if the Purchaser exercises its rights to change the payment method of the Consideration according to the Acquisition Agreement
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	per cent

If there is any inconsistency between the Chinese names of the PRC entities mentioned in this circular and their English translations, the Chinese version shall prevail.

"AC"	alternating current
"AH"	Ampere-hour
"BMS"	battery management system
"DC"	direct current
"IFP"	a type of battery where "I" denotes "embedded lithium ion batteries", "F" denotes "iron group" and "P" denotes "squareness" respectively
"kW/kg"	kilowatts per kilogram, power-to-weight ratio
"SOC"	state of charge, a term to indicate the level of electricity in the battery installed in an electric vehicle
"V"	Volt, a unit of electromotive force
"°C"	degree Celsius, a unit to indicate a temperature interval

福邦控股

Fulbond Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1041)

Executive Directors:
Mr. Zhang Xi *(Chairman)*
Ms. Catherine Chen *(Managing Director)*
Mr. Chiu Kong
Mr. Yeung Kwok Yu
Mr. Kwan Kam Hung, Jimmy
Mr. Wah Wang Kei, Jackie
Mr. Chiu Guanglin

Independent Non-Executive Directors:
Mr. Hong Po Kui, Martin
Mr. Yu Pan
Ms. Ma Yin Fan
Mr. Leung Hoi Ying

Registered Office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business in Hong Kong:
Unit 2807, 28/F
The Center
99 Queen's Road Central
Central
Hong Kong

25 May 2011

To the Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION RELATING TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF AND THE ASSIGNMENT OF THE SHAREHOLDER'S LOAN IN LITHIUM ENERGY GROUP LTD.;
(2) PLACING OF NEW SHARES UNDER SPECIFIC MANDATE;
(3) PLACING OF CONVERTIBLE NOTES;
(4) PROPOSED CAPITAL REORGANISATION AND CHANGE OF BOARD LOT SIZE; AND
(5) NOTICE OF SPECIAL GENERAL MEETING

INTRODUCTION

On 2 February 2011, the Board announced that (a) the Purchaser, which is a wholly-owned subsidiary of the Company, the Vendor and the Vendor's Guarantors entered into the Acquisition Agreement on 13 January 2011, pursuant to which the Purchaser has conditionally agreed to acquire the Sale Shares, which represents the entire issued share capital of the Target Company, and the Shareholder's Loan at the Consideration; (b) the Company proposed to proceed with the Share Placings and the CN Placing; and (c) the Company proposed to conduct the Capital Reorganisation.

The purpose of this circular is to provide you with, among other things, (i) further information on the Acquisition, the Share Placings, the CN Placing and the Capital Reorganisation; (ii) the financial and other information of the Group; (iii) the financial information of the Target Group; (iv) the pro forma financial information on the Enlarged Group; (v) the business valuation of the Target Group; (vi) the property valuation of the Enlarged Group; and (vii) the notice of the SGM.

THE ACQUISITION AGREEMENT

Date

13 January 2011 (as supplemented and amended by a supplemental agreement entered into between the same parties on 23 May 2011)

Parties

Purchaser:	Fulbond Investments Limited, a wholly-owned subsidiary of the Company
Vendor:	Hefu Limited
Vendor's Guarantors:	Yeung Tsoi San, Lau Yung and Fei Phillip

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, each of the Vendor and its ultimate beneficial owners and Mr. Yeung Tsoi San and Mr. Lau Yung, is Independent Third Party. Mr. Fei Phillip was a fellow director of certain Directors in another listed company in Hong Kong. Save as aforesaid, Mr. Fei Phillip has no other relationship with the chief executive, Directors and substantial shareholder(s) of the Company or any of its subsidiaries and their respective associates.

Assets to be acquired

Pursuant to the Acquisition Agreement, the Purchaser has conditionally agreed to purchase the Sale Shares, representing the entire issued share capital of the Target Company, and the Shareholder's Loan from the Vendor.

Consideration

The Consideration payable for the Sale Shares and the Shareholder's Loan is HK$900 million of which (i) HK$370 million shall be paid by the Purchaser in cash to the Vendor and (ii) HK$530 million shall be paid by way of allotment and issue of Shares (or those corresponding shares of the Company after Capital Reorganisation becoming effective) as Consideration Shares to the Vendor at an issue price of HK$0.021 (or HK$0.21 after Capital Reorganisation becoming effective) per Consideration Share.

The Cash Consideration shall be advanced and on-lent to the Target Company by tranches for the purpose of acquisition of plant and machinery, construction of factory premises, purchase of raw materials and general working capital of the Target Group whereupon such advances shall constitute the Vendor's Loan. The Vendor has agreed to assign to the Purchaser such amount of loan as may be advanced by the Vendor to the Target Company from time to time (including but not limiting to the Vendor's Loan) (the "**Assigned Loan**") to secure the Secured Obligations.

The Consideration shall be paid in the following manner:

(a) a sum of HK$90 million including HK$60 million cash (the "**1st Stage Cash**") and 1,428,571,428 Existing Shares (or 142,857,142 Reorganised Shares after Capital Reorganisation becoming effective) to be issued at the Issue Price in an aggregate amount of HK$30 million (the "**1st Stage Shares**") (collectively, the "**1st Stage Consideration**"). 1st Stage Shares shall be issued on the Completion Date and the 1st Stage Cash shall be paid at the time of payments for acquisition of plant and machinery from the relevant supplier and in the manner as set out in the second paragraph of this section headed "Consideration".

    If the Target Group requires further financial resources prior to the payment of the 2nd Stage Consideration (as defined below), the Vendor will provide interest-free loan to the Target Group upon such terms and conditions to be agreed between the Target Company and the Vendor.

(b) a sum of HK$320 million including HK$150 million cash (the "**2nd Stage Cash**") and 8,095,238,095 Existing Shares (or 809,523,809 Reorganised Shares after Capital Reorganisation becoming effective) to be issued at the Issue Price in an aggregate amount of HK$170 million (the "**2nd Stage Shares**") (collectively, the "**2nd Stage Consideration**").

    Payment of the 2nd Stage Consideration shall be subject to the fulfillment of the following conditions precedent (the "**2nd Stage CP**"):

    (i) 1st Stage Profit Target has been achieved;

    (ii) the repair rate within warranty period and goods return rate of the products of the Target Group for the financial year of Acquisition Completion have attained the standard requirement of the relevant PRC industries, of not higher than 15%;

    (iii) the Purchaser is satisfied with the collection level of account receivables and the cash flows of the Target Group for the financial year of Acquisition Completion;

    (iv) the Target Group has obtained sales contracts or sales orders for the subsequent two years and the Purchaser is satisfied with such sales amounts or number of vehicles ordered;

(v) the Purchaser is satisfied with the construction progress of the production capacities of the Target Group;

(vi) all consents or approvals for the transactions contemplated under the Acquisition Agreement as required under the Listing Rules having been obtained and have not subsequently been revoked; and

(vii) such other detailed technical terms as considered necessary by the Purchaser.

The 2nd Stage Shares shall be issued in the first financial year after the Completion Date within 30 business days upon the fulfillment of the 2nd Stage CP and the 2nd Stage Cash shall be paid at the time of payments for acquisition of plant and machinery from the relevant supplier after fulfillment of the 2nd Stage CP and in the manner as set out in the second paragraph of this section headed "Consideration".

If the 2nd Stage CP is not fulfilled, the Consideration shall be adjusted to HK$90 million and that the Purchaser shall not be obliged to pay the 2nd Stage Consideration, the 3rd Stage Consideration, the 4th Stage Consideration and the 5th Stage Consideration. As a result of the non-fulfillment of the 2nd Stage CP (including the Profit Target), the Group may suffer loss (including any reduction in value of the Group's investment in the Target Group). Accordingly, the Purchaser shall have the right to treat the 1st Stage Loan as security for indemnifying the Purchaser's loss. Alternatively, the Purchaser shall have an option to require the Vendor to repurchase from the Purchaser the Sale Shares and the Shareholder's Loan at HK$90 million together with interest and the Purchaser shall have the right to treat the 1st Stage Loan as security for the payment of such consideration. There is no provision under the Acquisition Agreement that the Purchaser can waive the above rights.

Upon the fulfillment of the 2nd Stage CP, 1,428,571,428 Existing Shares (or 142,857,142 Reorganised Shares after Capital Reorganisation becoming effective) out of the 2nd Stage Shares (the "**2nd Stage Released Shares**") will be released and discharged by the Purchaser to the Vendor.

(c) a sum of HK$260 million including HK$160 million cash (the "**3rd Stage Cash**") and 4,761,904,761 Existing Shares (or 476,190,476 Reorganised Shares after Capital Reorganisation becoming effective) to be issued at the Issue Price in an aggregate amount of HK$100 million (the "**3rd Stage Shares**") (collectively, the "**3rd Stage Consideration**").

Payment of the 3rd Stage Consideration shall be subject to the fulfillment of the following conditions precedent (the "**3rd Stage CP**"):

(i) 1st Stage Profit Target and 2nd Stage Profit Target have been achieved;

(ii) the repair rate within warranty period and goods return rate of the products of the Target Group for the period from the financial year of Acquisition

Completion to the end of the first financial year after Acquisition Completion have attained the standard requirement of the relevant PRC industries, of not higher than 15%;

(iii) the Purchaser is satisfied with the collection level of account receivables and the cash flows of the Target Group for the two financial years after Acquisition Completion;

(iv) the Target Group has obtained sales contracts or sales orders for the subsequent two years and the Purchaser is satisfied with such sales amounts or number of vehicles ordered;

(v) the Purchaser is satisfied with the construction progress of the production capacities of the Target Group;

(vi) all consents or approvals for the transactions contemplated under the Acquisition Agreement as required under the Listing Rules having been obtained and have not subsequently been revoked; and

(vii) such other detailed technical terms as considered necessary by the Purchaser.

The 3rd Stage Shares shall be issued in the second financial year after the Completion Date within 30 business days upon the fulfillment of the above conditions precedent and the 3rd Stage Cash shall be paid at the time of payments for acquisition of plant and machinery from the relevant supplier after fulfillment of the above conditions precedent and in the manner as set out in the second paragraph of this section headed "Consideration".

If the 3rd Stage CP is not fulfilled, the Consideration shall be adjusted to HK$410 million and that the Purchaser shall not be obliged to pay the 3rd Stage Consideration, the 4th Stage Consideration and the 5th Stage Consideration. As a result of the non-fulfillment of the 3rd Stage CP (including the Profit Target), the Group may suffer loss (including any reduction in value of the Group's investment in the Target Group). Accordingly, the Purchaser shall have the right to treat the 1st Stage Loan, 2nd Stage Loan and the balance of the 2nd Stage Shares after releasing the 2nd Stage Released Shares (i.e. 6,666,666,667 Shares (or 666,666,667 Reorganised Shares after Capital Reorganisation becoming effective)) (the "**2nd Stage Remaining Shares**") as security for indemnifying the Purchaser's loss. The trustee, acting for and on behalf of the Purchaser (the "**Trustee**"), shall be entitled to dispose of the 2nd Stage Remaining Shares and use the proceeds raised from such disposal to recover the loss of the Group. Alternatively, the Purchaser shall have an option to require the Vendor to repurchase from the Purchaser the Sale Shares and the Shareholder's Loan at HK$410 million together with interest and the Purchaser shall have the right to treat the 1st Stage Loan, the 2nd Stage Loan and the 2nd Stage Remaining Shares as security for the payment of such consideration. There is no provision under the Acquisition Agreement that the Purchaser can waive the above rights.

(d) a sum of HK$150 million (the "**4th Stage Consideration**") by way of allotment and issue of 7,142,857,142 Existing Shares (or 714,285,714 Reorganised Shares after Capital Reorganisation becoming effective) to be issued at the Issue Price (the "**4th Stage Shares**").

Payment of the 4th Stage Consideration shall be subject to the fulfillment of the following conditions precedent (the "**4th Stage CP**"):

(i) 1st Stage Profit Target, 2nd Stage Profit Target and 3rd Stage Profit Target have been achieved;

(ii) the repair rate within warranty period and goods return rate of the products of the Target Group for the period from the financial year of Acquisition Completion to the end of the second financial year after Acquisition Completion have attained the standard requirement of the relevant PRC industries, of not higher than 15%;

(iii) the Purchaser is satisfied with the collection level of account receivables and the cash flows of the Target Group for the three financial years after Acquisition Completion;

(iv) the Target Group has obtained sales contracts or sales orders for the subsequent two years and the Purchaser is satisfied with such sales amounts or number of vehicles ordered;

(v) the Purchaser is satisfied with the construction progress of the production capacities of the Target Group;

(vi) all consents or approvals for the transactions contemplated under the Acquisition Agreement as required under the Listing Rules having been obtained and have not subsequently been revoked; and

(vii) such other detailed technical terms as considered necessary by the Purchaser.

The 4th Stage Consideration shall be paid in the third financial year after the Completion Date within 30 business days upon the fulfillment of the above conditions precedent.

If the 4th Stage CP is not fulfilled, the Consideration shall be adjusted to HK$670 million and that the Purchaser shall not be obliged to pay the 4th Stage Consideration and the 5th Stage Consideration. As a result of the non-fulfillment of the 4th Stage CP (including the Profit Target), the Group may suffer loss (including any reduction in value of the Group's investment in the Target Group). Accordingly, the Purchaser shall have the right to treat the 1st Stage Loan, the 2nd Stage Loan, the 3rd Stage Loan, the 2nd Stage Remaining Shares and the 3rd Stage Shares as security for indemnifying the Purchaser's loss. The Trustee shall be entitled to dispose of the 2nd Stage Remaining Shares and the 3rd Stage Shares and use the proceeds raised from such disposal to recover the loss of the Group. Alternatively, the Purchaser shall have an option to require the Vendor to repurchase from the Purchaser the Sale Shares and the Shareholder's Loan at HK$670 million together with interest and the Purchaser shall have the right to treat the 1st Stage Loan, the 2nd Stage Loan, the 3rd Stage Loan, the 2nd Stage Remaining Shares and the 3rd Stage Shares as security for the payment of such consideration. There is no provision under the Acquisition Agreement that the Purchaser can waive the above rights.

(e) a sum of HK$80 million (the "**5th Stage Consideration**") by way of allotment and issue of 3,809,523,809 Existing Shares (or 380,952,380 Reorganised Shares of the Company after Capital Reorganisation becoming effective) to be issued at the Issue Price (the "**5th Stage Shares**").

Payment of the 5th Stage Consideration shall be subject to the fulfillment of the following conditions precedent (the "**5th Stage CP**"):

(i) 1st Stage Profit Target, 2nd Stage Profit Target, 3rd Stage Profit Target, 4th Stage Profit Target and the 5th Stage Profit Target have been achieved;

(ii) the repair rate within warranty period and goods return rate of the products of the Target Group for the period from the financial year of Acquisition Completion to the end of the fourth financial year after Acquisition Completion have attained the standard requirement of the relevant PRC industries, of not higher than 15%;

(iii) the Purchaser is satisfied with the collection level of account receivables and the cash flows of the Target Group for the five financial years after Acquisition Completion;

(iv) the Target Group has obtained sales contracts or sales orders for the subsequent two years and the Purchaser is satisfied with such sales amounts or number of vehicles ordered;

(v) the Purchaser is satisfied with the construction progress of the production capacities of the Target Group;

(vi) all consents or approvals for the transactions contemplated under the Acquisition Agreement as required under the Listing Rules having been obtained and have not subsequently been revoked; and

(vii) such other detailed technical terms as considered necessary by the Purchaser.

The 5th Stage Consideration shall be paid in the fifth financial year after the Completion Date within 30 business days upon the fulfillment of the above conditions precedent.

If the 5th Stage CP is not fulfilled, the Consideration shall be adjusted to HK$820 million and that the Purchaser shall not be obliged to pay the 5th Stage Consideration. As a result of the non-fulfillment of the 5th Stage CP (including the Profit Target), the Group may suffer loss (including any reduction in value of the Group's investment in the Target Group). Accordingly, the Purchaser shall have the right to treat the 1st Stage Loan, 2nd Stage Loan, 3rd Stage Loan, 2nd Stage Remaining Shares, the 3rd Stage Shares and the 4th Stage Shares as security for indemnifying the Purchaser's loss. The Trustee shall be entitled to dispose of the 2nd Stage Remaining Shares, the 3rd Stage Shares and the 4th Stage Shares and use the proceeds raised from such disposal to recover the loss of the Group. Alternatively, the Purchaser shall have an option to require the Vendor to repurchase from the Purchaser the Sale Shares and the Shareholder's Loan at HK$820 million together with interest and the Purchaser shall have the right to treat the 1st Stage Loan, the 2nd Stage Loan, the 3rd Stage Loan, the 2nd Stage Remaining Shares, the 3rd Stage Shares and the 4th Stage Shares as security for the payment of such consideration. There is no provision under the Acquisition Agreement that the Purchaser can waive the above rights.

(f) notwithstanding the above sub-paragraphs, after the fulfillment of the Conditions Precedent and prior to the Acquisition Completion, the Purchaser is entitled to change the payment method of the 1st Stage Consideration to the 5th Stage Consideration from payment by Consideration Shares or any part thereof to payment by cash. Any payment of Consideration in cash will be treated as part of the Cash Consideration.

(g) the above interest shall be calculated based on the interest rate for 1-year Hong Kong Dollar fixed deposit quoted from time to time by The Hongkong and Shanghai Banking Corporation Limited, calculated on a daily basis for the period from the payment date of the relevant consideration by the Purchaser under the Acquisition Agreement until the date of receipt of the relevant amount by the Purchaser from the Vendor.

In determining whether the Purchaser is satisfied with the conditions (iii) to (v) of the 2nd Stage CP, 3rd Stage CP, 4th Stage CP and the 5th Stage CP, the Company will review the overall position of the Target Group and will assess whether the interests of the Company will be jeopardized. The Purchaser will not claim satisfaction of such conditions or will not waive such conditions if it would have material adverse impact on the operation of the Target Group.

After the fulfillment of the Secured Obligations, the Assigned Loan shall be discharged on the issue date of the 5th Stage Shares, and the Target Company will repay the Vendor's Loan to the Vendor at that time.

The Vendor has also agreed to charge and assign the Charged Shares in favour of a trustee, acting for and on behalf of the Purchaser, to secure the performance of the Secured Obligations. After the fulfillment of the Secured Obligations, the Charged Shares shall be discharged on the issue date of the 5th Stage Shares, provided that upon fulfillment of the 2nd Stage CP, the 2nd Stage Released Shares shall be released while the 2nd Stage Remaining Shares shall remain to be charged under such share charge.

In the event that the Secured Obligations could not be fulfilled, the Purchaser shall be entitled to enforce the security in respect of the Assigned Loan and the Charged Shares to recover its loss.

The Consideration was determined after arm's length negotiations between the parties having taken into account (i) the Profit Target provided by the Vendor; (ii) the prospects of the Target Group, which is engaged in one of the industries with favourable policies to be issued by the Chinese government under the "12th Five-Year Plan", taking into consideration the potential growth of the Target Group and the potential income to be generated to the Group through the Target Group as set forth in the section headed "Reasons for and benefit of the Acquisition"; (iii) the prospects of the lithium and electric vehicles industry; and (iv) the benefits of the Acquisition as discussed in the section headed "Reasons for and benefit of the Acquisition". Accordingly, as the Vendor has already provided the Profit Target and the failure to meet the Profit Target will result in adjustment to the Consideration, the consideration paid by Lithium HK to the Original Owners for the acquisition of the entire equity interests in Lithium Zhuhai is not a factor for determining the Consideration. For details of the valuation on the business of the Target Group, please refer to the valuation report prepared by an independent valuer, Asset Appraisal Limited, as set out in Appendix V-B of this circular.

The Group intends to finance the Consideration by the proceeds from the Share Placings, details of which are set out under the section headed "Share Placings" in this circular.

Conditions Precedent

Acquisition Completion is subject to and conditional upon the satisfactions in full or the waiver of the following Conditions Precedent by the Purchaser (save for conditions (f), (g) and (h) below which cannot be waived):

(a) Reorganisation shall have been duly and properly completed (in the form and content satisfactory to the Purchaser) and approval of the Reorganisation by the relevant governmental authority in the PRC shall have been obtained;

(b) PRC legal opinions from the PRC legal advisers acceptable to the Purchaser (in the forms and content satisfactory to the Purchaser) on, inter alia: (i) the due incorporation, shareholders and scope of business activities of Lithium Zhuhai; (ii) valid lithium operation licence (鋰電經營許可證) (i.e. the business licence with business scope to carry on lithium battery operation) having been validly issued by the relevant PRC governmental authority; (iii) Reorganisation having been completed; and (iv) such other matters as reasonably required by the Purchaser;

(c) the audited combined accounts of the Target Group for the period from the date of incorporation up to 31 December 2010 and the management accounts of each member of the Target Group as at the last day of the month immediately preceding the Acquisition Completion (in the form and content satisfactory to the Purchaser) prepared by the auditor being acceptable by the Purchaser;

(d) the Purchaser has not notified the Vendor that it is not satisfied with the results of the due diligence review of the Target Group, including but not limited to the satisfaction of the assets, liabilities, business, accounts, financial, legal and taxation structure of the Target Group before Acquisition Completion;

(e) due and proper completion of the placing of shares and convertible notes of the Company and obtaining the proceeds from such placing of not less than HK$1 billion;

(f) the Shareholders should have approved (i) the Acquisition Agreement and the transactions contemplated thereunder; (ii) the placing of shares and convertible notes of the Company and the transactions contemplated thereunder; and (iii) the Capital Reorganisation at the SGM in accordance with the Listing Rules;

(g) the Capital Reorganisation becoming effective;

(h) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in the Consideration Shares;

(i) the Purchaser has not notified the Vendor that it has come to the attention of the Purchaser that there is existence or the occurrence of matters which will lead to Vendor's breach of warranties under the Acquisition Agreement before Acquisition Completion;

(j) all necessary consents and approvals in relation to the sale and purchase of the Sale Shares and the Shareholder's Loan, the business of the Target Group and the Reorganisation having been obtained from relevant third parties (including any governmental or regulatory authorities) or no governmental or regulatory authorities have issued any law, statute or regulation restricting or limiting the sale and purchase of the Sale Shares and the Shareholder's Loan, the business of the Target Group and the Reorganisation; and

(k) all consents or approvals for the transactions contemplated under the Acquisition Agreement as required under the Listing Rules having been obtained and have not subsequently been revoked.

If the Conditions Precedent are not fulfilled (or waived by the Purchaser, save for conditions (f), (g) and (h) above which cannot be waived) on or before 30 September 2011 or such other date as the parties to the Acquisition Agreement may agree, the Acquisition Agreement and the transactions contemplated thereunder shall terminate and be null and void and of no further effect and no parties thereto shall have any liability to any other party, save in respect of any prior breaches.

The Company currently does not intend to waive any of the Conditions Precedent. The necessary consents and approvals in relation to the business of the Target Group (including the valid lithium operation license) shall have been obtained before the Acquisition Completion. In addition, the necessary approvals in relation to the Reorganisation for the purpose of conducting the business of the Target Group shall have been obtained before the Acquisition Completion.

Acquisition Completion

Acquisition Completion shall take place on the Completion Date.

None of the Directors has indicated that he/she will resign upon Acquisition Completion. The Company will appoint expertise with relevant experience in the business of the Target Group and retain the team of experts and consultants and the management team engaged by the Target Group. For details, please refer to the section headed "Expertise and Management Team". In addition, the Company intends to appoint Mr. Fei Phillip as a Director upon Acquisition Completion. Notwithstanding that Mr. Fei Phillip has no relevant experience in the business of the Target Group, the Company believes that the appointment of Mr. Fei Phillip as a Director would be beneficial for the future development of the Target Group for the reasons that Mr. Fei Phillip has been playing an important role in public relations and publicity for exploring markets of the Target Group in various parts of the PRC. According to Mr. Fei, he has also introduced both domestic and international experts to the Target Group in exploring electric passenger vehicles related technologies. Mr. Fei Phillip is interested as to 3% in the Vendor, a company which is deemed to be interested in the Consideration Shares which would fall to be disclosed under provisions of Divisions 2 and 3 of Party XV of the SFO. The Target Company shall appoint or retain two representatives nominated by the Vendor to the board of directors of the Target Company. During the Profit Target period, the Vendor shall be entitled to appoint two directors to the board of directors of each member of the Target Group and manage the daily operations of the Target Group, provided that any material matter concerning the Target Group shall obtain the prior approval of the board of directors of the Target Company.

Further covenants from the Vendor and the Vendor's Guarantors

The Vendor and the Vendor's Guarantors further covenant to the Purchaser that subject to applicable laws and regulations, within 3 months after the Acquisition Completion (or such other later date as agreed between the Vendor and the Purchaser), they will procure a company controlled by the Vendor and/or the Vendor's Guarantor (the "**Subject Company**") to acquire the registered capital of a PRC vehicle manufacturing company as a manufacturing base of the Target Group so as to facilitate the other businesses of the Target Group, including, the manufacturing of lithium-ion battery, power motor and controller and vehicle electronics and controller system and will grant an option to the Purchaser to acquire or to procure Lithium Zhuhai to acquire the entire or partial equity interests in the Subject Company for consideration payable in cash and/or by issue of Shares exercisable within 3 months after the completion of such acquisition. Such purchase price and the acquisition percentage will be agreed between the Vendor and the Purchaser. The intended acquisition is at a preliminary stage and accordingly it may or may not proceed. It is not expected that there will be material impact on the operation of the Group if the Company could not acquire the Subject Company. The Company will comply with the Listing Rules requirements should such acquisition materialises.

Consideration Shares

The Issue Price of HK$0.021 per Existing Share (or HK$0.21 per Reorganised Share after Capital Reorganisation becoming effective) was determined after arm's length negotiations between the parties with reference to the recent market price of the Shares.

The Issue Price of HK$0.021 per Existing Share represents:

(a) the closing price of HK$0.021 per Share as quoted on the Stock Exchange on the Last Trading Date;

(b) a premium of approximately 6.06% over the average closing price of HK$0.0198 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date;

(c) a premium of approximately 6.60% over the average closing price of HK$0.0197 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date; and

(d) a discount of approximately 32.26% over the closing price of HK$0.031 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Consideration Shares will rank equally in all respects with the issued Shares as at the relevant date of allotment. Application will be made by the Company to the Listing Committee of the Stock Exchange for the approval for the listing of and permission to deal in the Consideration Shares.

The Consideration Shares represent approximately (i) 55.29% of the Company's issued share capital immediately after Capital Reorganisation becoming effective (based on the Company's existing issued share capital as at the Latest Practicable Date); (ii) 25.16% of the issued share capital of the Company as enlarged by the issue of the Placing Shares under Kingston Placing and the Consideration Shares; and (iii) 19.46% of the issued share capital of the Company as enlarged by the issue of the Placing Shares under GDS Placing and the Consideration Shares. The Acquisition will not result in a change of control of the Company.

Consideration Adjustment and Charges

The Vendor has guaranteed to the Group that the audited consolidated net profit of the Target Group (after taxation and minority interest but before non-recurring income and extraordinary income and non-operating income) ("**TG Consolidated Net Profit**") for the financial year of the Completion Date and the four financial years immediately after Completion Date as audited by Deloitte Touche Tohmatsu or by the auditors appointed by the Purchaser in preparing the audited financial information of the Target Group for the five financial years after Completion Date, will not be less than HK$1.12 billion, including:

(a) TG Consolidated Net Profit of not less than HK$70 million for the financial year of the Completion Date (the "**1st Stage Profit Target**");

(b) TG Consolidated Net Profit of not less than HK$150 million for the first financial year immediately following the Completion Date (the "**2nd Stage Profit Target**");

(c) TG Consolidated Net Profit of not less than HK$250 million for the second financial year immediately following the Completion Date (the "**3rd Stage Profit Target**");

(d) TG Consolidated Net Profit of not less than HK$300 million for the third financial year immediately following the Completion Date (the "**4th Stage Profit Target**"); and

(e) TG Consolidated Net Profit of not less than HK$350 million for the fourth financial year immediately following the Completion Date (the "**5th Stage Profit Target**").

The Profit Target was arrived after taken into consideration the income to be generated after capital has been contributed to invest in the plant and machineries and the number of production lines of the Target Group against the number of targeted sales orders to be received by the Target Group.

As security for the Profit Target above, at Acquisition Completion, the Vendor undertakes to provide the share charge and loan assignment in favour of the Purchaser in respect of the following:

(a) 1st Stage Loan;

(b) 2nd Stage Loan;

(c) 3rd Stage Loan;

(d) the 2nd Stage Remaining Shares after the fulfillment of the 2nd Stage CP;

(e) the 3rd Stage Shares; and

(f) the 4th Stage Shares.

In the event that the Profit Target is achieved in advance, at the option of the Target Company or the Purchaser but without affecting the cash flow of the Group and its business operation, the time schedule for payment of the Cash Consideration can be accelerated and the Cash Consideration will cease to be treated as Vendor's Loan or as security in favour of the Purchaser. However, the time schedule for the issue of the Consideration Shares will remain unchanged and such Consideration Shares will be issued by tranches within 30 business days after the issue of the audited financial statements of the Target Company of the relevant financial year, but the Consideration Shares will not be treated as security in favour of the Purchaser.

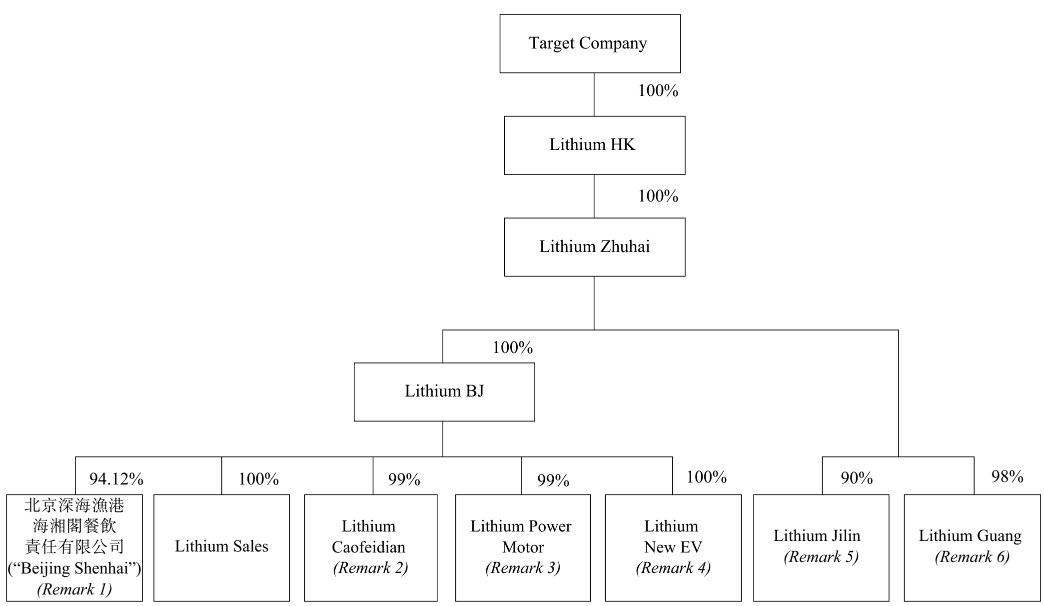
In the event that the Profit Target cannot be achieved according to the terms of the Acquisition Agreement and that the shortfall of relevant Profit Target falls within the range of

10% and that the reason(s) for not achieving the relevant Profit Target is acceptable by the Purchaser, after the negotiation between the Vendor and the Purchaser, the parties will continue to proceed with the payment arrangements and provisions as stipulated in the Acquisition Agreement and that the Profit Target for the immediately following financial year in respect of the 1st Stage Profit Target, the 2nd Stage Profit Target, the 3rd Stage Profit Target and the 4th Stage Profit Target, as the case may be, will be increased by an amount equal to such shortfall while the Vendor shall indemnify the Purchaser any shortfall in respect of the 5th Stage Profit Target. The Purchaser will take into consideration the then circumstance (including the then market condition, the reason for not being able to meet the target and the likelihood of achieving the future target(s), such as the amount or number of sales orders secured by the Target Group). The Company will update the market by way of an announcement in the event that the relevant Profit Target is not achieved.

INFORMATION ON THE VENDOR AND THE TARGET GROUP

Introduction

The organizational structure of the Target Group as at the Last Trading Date is as follows:



Remarks:

1. Beijing Shenhai's business licences was revoked in August 2007 and the company is in the process of deregistration.

2. as to 1% equity interests in Lithium Caofeidian is held by Independent Third Party.

3. as to 1% equity interests in Lithium Power Motor is held by Independent Third Party.

4. Lithium New EV was merged into Lithium Sales. In April 2011, it has obtained approval from relevant authority for its deregistration.

5. as to 10% equity interests in Lithium Jilin is held by Independent Third Party.

6. as to 2% equity interests in Lithium Guang is held by Independent Third Party.

Due diligence review on the Target Group

It is one of the Conditions Precedent to the Acquisition Completion that the Purchaser be satisfied with the results of the due diligence review of the assets, liabilities, business, accounts, financial, legal and taxation structure of the Target Group. In this connection, the Company has performed extensive due diligence review on the Target Group and has revealed the following issues during its due diligence exercise:

(i) some of the approvals, certificates and assessments for commencement of businesses of certain members of the Target Group may not be obtained before the expected Completion Date;

(ii) the consideration for the transfer of the entire equity interest in Lithium Zhuhai from the Original Owners to Lithium HK being RMB50 million (less HK$10 million which has been settled) has yet to be paid. As the Vendor was unable to arrange for payment of such consideration, after obtaining the consent of the Original Owners, the Target Group has applied to the Department of Foreign Trade and Economic Cooperation of Guangdong Province, PRC to delay the payment of the consideration to within six months after the signing of such transfer agreement. As advised by the Vendor, it is expected that such approval will be obtained in June 2011. Notwithstanding the aforesaid, Lithium HK owns the entire equity interest in Lithium Zhuhai, subject to the limitations that the owners' equity of Lithium HK will be determined in accordance with the proportion of the actual contribution it made to Lithium Zhuhai and that its rights to transfer shares, reduce capital, wind up Lithium Zhuhai and to transfer profits of Lithium Zhuhai will be restricted accordingly.

As at the Latest Practicable Date, the outstanding major approvals, certificates and assessments as mentioned above were summarized as follows:

(a) Lithium Caofeidian is engaged in the business of development and sale of power motor. As capital is required for Lithium Caofeidian to commence production of power motor, it is expected that the Company will inject capital to Lithium Caofeidian after Acquisition Completion and Lithium Caofeidian will apply for the project filing (項目備案) with the relevant competent authorities prior to the commencement of production.

(b) Lithium Power Motor is currently in the trial-production status and has yet to obtain the project filing, which has been submitted to the Development and Reform Commission of Hebei Province for processing and was informed that such certificate of project filing is expected to be obtained before 1 June 2011. In addition, the business license of Lithium Power Motor stated that its scope of business include preparation of lithium-ion battery, in which case, Lithium Power Motor was not permitted to commence production and operation during the preparation stage. Accordingly, Lithium Power Motor is in the process of amending the scope of business under the business license so that Lithium Power Motor can early commence its production and operation. Such amendment of scope of business is expected to be completed around mid-June 2011, following which, Lithium Power Motor will be able to commence operation.

(c) Lithium Jilin has yet to obtain the project filing, which has been submitted to the Development and Reform Commission of Changchun for review and was informed that such review progress is expected to be obtained before 18 July 2011. In addition, the business license of Lithium Jilin shall be renewed to include production or manufacturing of batteries upon obtaining approval for project filing.

(d) Lithium Power Motor has commenced trial-production but has yet to obtain the approval on the environmental impact assessment report ("EIA") and provisional permit for sewage disposal. The EIA is in the process of approval by the ministry of environmental protection of the PRC.

(e) Lithium Jilin has yet to obtain the approval on the EIA and provisional permit for sewage disposal. The EIA is in the process of approval by the ministry of environmental protection of the PRC.

The project filing refers to the procedures for the application to the relevant governmental supervisory body (i.e. the relevant Development and Reform Commissions in the case of the Target Group) to conduct certain designated business by the applicant. Failing to complete such procedures will result in the applicant not being able to obtain any subsequent approvals in relation to its incorporation and conduct of business. As mentioned above, the relevant Development and Reform Commissions have indicated that the project filings for Lithium Power Motor and Lithium Jilin are expected to be obtained before 1 June 2011 and 18 July 2011 respectively. In addition, Lithium Caofeidian will apply for the project filing after obtaining fund to commence production. Although Lithium Caofeidian will be responsible for the business of development and sale of power motors and controller, the Target Group currently either outsources the production or purchases power motor and controller directly from other suppliers. In this connection, the Target Group is not relying on Lithium Caofeidian to conduct the Target Group's principal activities. Accordingly, it is considered that the failure to obtain the project filing for Lithium Caofeidian will not have material adverse effect on the Target Group.

The grant of a valid lithium operation licence is to obtain the business licence with business scope to carry on lithium battery operation. As mentioned above, both Lithium Power Motor and Lithium Jilin are to change or renew their business scope in their business licence to include production or manufacturing of batteries. If these companies cannot obtain their business licences with the relevant business scopes, they cannot carry on the business of production or manufacturing of batteries. However, the relevant local Administration for Industry and Commerce of the PRC have issued confirmation in March 2011 indicating that once these companies complete their project filing, there will not be any impediment to change or renew their business scopes under their business licences if these companies proceed to apply for such change or renewal and these governmental authorities will not have any recourse against these companies in respect of any prior production activities.

Lithium Power Motor currently owns an existing production line of the Target Group and is expected to be a principal manufacturing arm generating substantial turnover for the Target Group. The Company expects that all necessary approvals, business licence and project filing for Lithium Power Motor in relation to its incorporation and operation shall have been obtained before completion of the Acquisition Agreement.

The obtaining of the approval on the EIA is necessary for the construction of the project. Failing to obtain such approval will cause delay in construction of the project while the failure to obtain permit for sewage disposal will result in the applicant not being able to discharge solid waste and waste water. In the normal case, once the approval on the EIA is obtained, the permit for sewage disposal will also be approved. The Vendor advised that Lithium Power Motor will be able to obtain the approval on EIA and permit for sewage disposal around 20 June 2011 while Lithium Jilin will be able to obtain approval on EIA and permit for sewage disposal around 20 days after obtaining the project filing which is expected to be obtained before 18 July 2011.

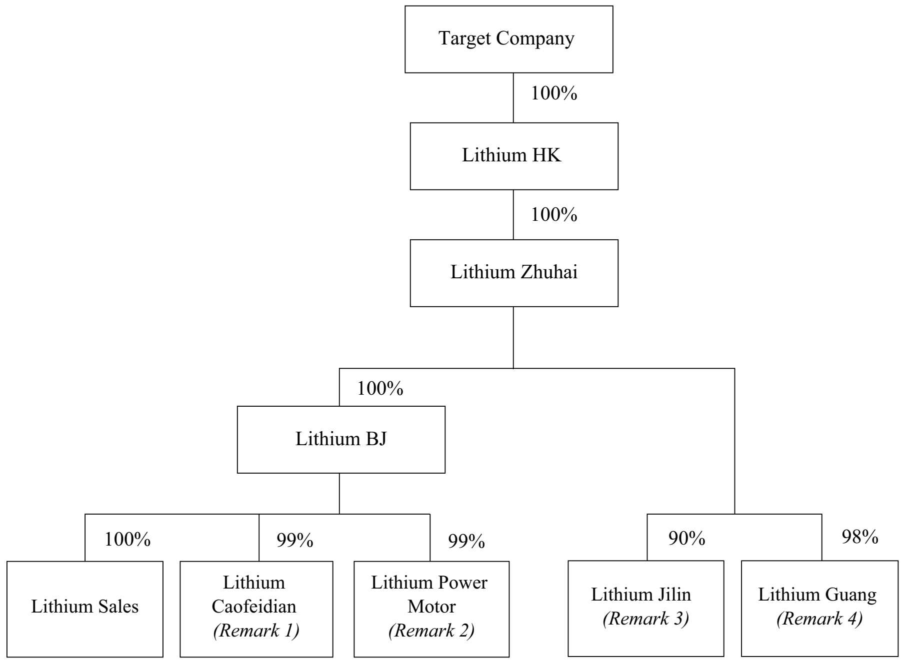
To the knowledge of the Directors, the Reorganisation involves corporate reorganisation of Lithium HK, Lithium Zhuhai and its subsidiaries including but not limited to Lithium HK acquiring Lithium Zhuhai's entire registered capital from the Original Owners and obtaining the relevant approvals from the PRC government authorities; completion of disposal of interests in companies which are not members of the Target Group; and transfer of business from other shareholders to the Target Group.

Reference is made to the announcement of the Company dated 24 May 2011 in relation to, inter alia, the Loan Agreement. The Company was informed by the Vendor that they may not be able to arrange for payment of consideration (as set out in item (ii) above) in full before Acquisition Completion. In order to facilitate the operation of the Target Group and the smooth Acquisition Completion, the Purchaser entered into the Loan Agreement with Lau Yung, the 97% shareholder of the Vendor to provide a loan facility of up to HK$25,000,000 to Lau Yung. Lau Yung will then grant a shareholder's loan in the same amount to the Vendor which will in turn inject such loan proceeds to the Target Group through the Target Company for payment of the consideration for acquisition of Lithium Zhuhai as mentioned above. The shareholder's loan to be granted by the Vendor to Target Company will constitute part of the Shareholder's Loan which will be acquired by the Purchaser under the Acquisition Agreement under the total Consideration of HK$900 million.

The loan will be for a term of 6 months from the date of drawdown and will bear interest at the rate of 10% per annum. Interest will be paid monthly. The loan will be secured by (i) the Share Mortgage whereby Lau Yung and Fei Phillip, being all the shareholders of the Vendor, will charge the entire issued share capital in, and shareholders' loan due and owing by, the Vendor in favour of the Purchaser to secure the obligations of Lau Yung under the Loan Agreement and (ii) the Guarantees whereby each of Yeung Tsoi San and Fei Phillip will guarantee the obligations of Lau Yung under the Loan Agreement. The Share Mortgage and the Guarantees will be entered into upon the drawdown of the Loan Facility. The Loan Agreement is conditional upon (i) approval by shareholders of the Company at a special general meeting and (ii) simultaneous completion of the Acquisition Agreement. Accordingly, a resolution will be put forward to the Shareholders for approval of the Loan Agreement together with the Share Mortgage and the Guarantees at the SGM. The loan will be injected to the Target Group to settle the consideration for acquisition of Lithium Zhuhai. In addition, the Loan Facility will be secured by the Share Mortgage and the Guarantees. The Directors consider the Share Mortgage and the Guarantees are adequate securities as the Guarantees were given (i) by Mr. Fei Phillip, who was a director of a company listed on the Stock Exchange and is a professor of The International Economic Department of University of International Relations, the PRC, and (ii) by Mr. Yeung Tsoi San, who is a well-known businessman in the PRC who had participated in a number of cross border merger and acquisition transactions in the PRC. As to the Share Mortgage, upon expiry of the term of the Loan Facility, the Acquisition Completion would have taken place. At that time, the 1st Stage Shares (ie. 1,428,571,428 Existing Shares or 142,857,142 Reorganised Shares) would have been issued to the Vendor. Based on the closing price of HK$0.031 per Share as quoted on the Stock Exchange on the Latest Practicable Date, the 1st Stage Shares as may be owned by the Vendor would have the market value of approximately HK$44 million. On the other hand, the Loan Facility is subject to the simultaneous completion of the Acquisition. In any event, even if Lau Yung defaulted in the payment of the Loan Facility, the Group will still be in possession of the relevant lithium operation license and patents owned by the Target Group after the Acquisition Completion. In view of the above reasons, the Directors consider that it is in the interests of the Company and the Shareholders for the Company to grant the Loan Facility so as to expedite the commencement of the operation of the Target Group and to facilitate the Acquisition Completion.

If the Company consider it to be necessary to waive any other Conditions Precedent, the Company will review the overall terms and conditions of the Acquisition after such wavier and may impose further terms and conditions to the waiver as the Board considers necessary to safeguard the interest of the Company and its Shareholders. No waiver shall be exercised by the Board if it would have material adverse impact on the operation of the Target Group. In the event that there is any material variation to the terms of the Acquisition, the Company will comply with the relevant provisions of the Listing Rules.

The organizational structure of the Target Group immediately after completion of Reorganisation is as follows:



Remarks:

1. as to 1% equity interests in Lithium Caofeidian is held by Independent Third Party.
2. as to 1% equity interests in Lithium Power Motor is held by Independent Third Party.
3. as to 10% equity interests in Lithium Jilin is held by Independent Third Party.
4. as to 2% equity interests in Lithium Guang is held by Independent Third Party.

The Vendor

The Vendor is incorporated in the British Virgin Islands on 15 December 2010 with limited liability. It is an investment holding company. So far as the Directors are aware, Mr. Lau Yung and Mr. Fei Phillip are business partners through their shareholding in the Vendor as to 97% and 3% respectively while Mr. Yeung Tsoi San is a previous shareholder of the Target Company.

Target Group

The Target Company is incorporated in the British Virgin Islands on 25 June 2010 with limited liability. It is an investment holding company.

Lithium HK is incorporated in Hong Kong on 21 October 2010 with limited liability. On 29 October 2010, Lithium HK entered into a share transfer agreement with the Original Owners for the sale and purchase of the entire registered capital of Lithium Zhuhai at a consideration of RMB50 million, which equals to its registered capital and Lithium Zhuhai is now wholly-owned by the Target Company. To the best of the Directors' knowledge, information and belief having made all reasonable enquires, the Original Owners are Independent Third Parties. So far as the Directors are aware, it is an investment holding company.

Lithium Zhuhai and its subsidiaries are principally engaged in (1) research and manufacturing of lithium-ion battery (鋰電池); (2) research and production of power motor and controller (電機電控設備); and (3) co-operation with strategic partners involving in manufacturing of automotive vehicles (整車).

Lithium Zhuhai was established in the PRC on 19 August 2008 with limited liability and is wholly-owned by Lithium HK. Its scope of business as stated in the business licence includes, inter alia, new energy technology and battery, battery equipments, battery management system, electric vehicle power assembly products and vehicle electronics research and development. The principal asset of Lithium Zhuhai is its shareholding interests in Lithium BJ and its subsidiaries, Lithium Jilin and Lithium Guang.

Lithium BJ was established in the PRC on 19 February 2001 with limited liability and is wholly-owned by Lithium Zhuhai. Its scope of business as stated in the business licence includes, inter alia, new energy technology research and development, battery, battery equipments, battery management system and electric vehicle power assembly products and vehicle electronics research and development. The principal asset of Lithium BJ is its shareholding interests in Lithium Sales, Lithium Caofeidian, Lithium Power Motor and Lithium New EV.

Lithium Sales was established in the PRC on 4 November 2009 with limited liability and is wholly-owned by Lithium BJ. Its scope of business as stated in the business licence, includes, inter alia, selling and renting out electric vehicles for business use; selling parts of electric vehicles; vehicles maintenance in Class II (including large and medium size electric vehicle) (二類機動車維修《大中型電動車維修》). It does not hold any major assets. So far as the Directors are aware, it is principally engaged in the sales of pure electric vehicles and commenced sales in September 2010. Following the acquisition of Lithium New EV, Lithium Sales will be engaged in sale and maintenance of vehicles.

Lithium Caofeidian was established in the PRC on 23 November 2009 with limited liability and is owned as to 99% by Lithium BJ and as to 1% by an Independent Third Party. Its scope of business as stated in the business licence includes, inter alia, power motor and controller production; vehicle electronics and controller system research and development and sale. So far as the Directors are aware, it is in the preparation stage and will be engaged in the research and development of power motor and vehicle electronics and controller system.

Lithium Power Motor was established in the PRC on 19 January 2010 with limited liability and is owned as to 99% by Lithium BJ and as to 1% by an Independent Third Party. Its scope of business as stated in the business licence includes, inter alia, preparation of lithium-ion battery. It does not hold any major assets. So far as the Directors are aware, it is principally engaged in research and development of battery and has commenced its trial production of 200AH lithium-ion battery in June 2010.

Lithium New EV was established in the PRC on 2 February 2010 with limited liability and is wholly-owned by Lithium BJ. Its scope of business as stated in the business licence is preparation for electric vehicle production project. The business licence further provides that Lithium New EV cannot commence production during the preparation stage (i.e. until 1 February 2011). Lithium New EV has not carried out any business. It was merged into Lithium Sales. In April 2011, it has obtained approval from relevant authority for its deregistration.

Lithium Jilin was established in the PRC on 26 November 2010 with limited liability and is owned as to 90% by Lithium Zhuhai and as to 10% by an Independent Third Party. Its scope of business as stated in the business licence includes, inter alia, electric vehicle power assembly products and vehicle electronics, new energy technology and battery, battery equipments and battery management system research and development and sale of battery. It does not hold any major assets. So far as the Directors are aware, Lithium Jilin is in the preparation stage and will be engaged in research and development and production of battery.

Lithium Guang was established in the PRC on 5 November 2010 with limited liability and is owned as to 98% by Lithium Zhuhai and as to 2% by an Independent Third Party. Its scope of business as stated in the business licence includes, inter alia, electric vehicle, electric vehicle power assembly products and vehicle electronics, new energy technology and battery, battery equipments and battery management system research and development. It does not hold any major assets. So far as the Directors are aware, Lithium Guang has yet to commence business. It will be engaged in the assembly of electric vehicles after commencement of operation.

Financial Information of the Target Group

Based on the audited consolidated financial statements of Target Group, the financial information of Target Group for the period from 25 June 2010 (date of incorporation) to 31 December 2010 are as follows:

	For the period from 25 June 2010 (date of incorporation) to 31 December 2010
	US$
Loss for the period	(167,830)
Net asset value	42,988

Based on the audited financial statements of Lithium Zhuhai, the financial information of Lithium Zhuhai for the two years ended 31 December 2010 are as follows:

	For the year ended 31 December 2009	**For the year ended 31 December 2010**
	US$	*US$*
Loss for the year	(6,605)	(79,688)
Net asset value	1,474,385	7,500,376

Based on the audited financial statements of Lithium BJ, the financial information of Lithium BJ for the two years ended 31 December 2010 are as follows:

	For the year ended 31 December 2009	**For the year ended 31 December 2010**
	US$	*US$*
Loss for the year	(427,450)	(445,338)
Net asset value	3,814,357	3,317,122

Based on the audited financial statements of Lithium Sales, the financial information of Lithium Sales for the period from 4 November 2009 (date of incorporation) to 31 December 2010 are as follows:

	For the period from 4 November 2009 (date of incorporation) to 31 December 2009	**For the year ended 31 December 2010**
	US$	*US$*
Loss for the year	(35,564)	(94,168)
Net asset value	257,187	170,359

Based on the audited financial statements of Lithium Caofeidian, the financial information of Lithium Caofeidian for the period from 23 November 2009 (date of incorporation) to 31 December 2010 are as follows:

	For the period from 23 November 2009 (date of incorporation) to 31 December 2009	**For the year ended 31 December 2010**
	US$	*US$*
Loss for the year	(12,354)	(15,947)
Net asset value	719,646	731,267

Based on the audited financial statements of Lithium Power Motor, the financial information of Lithium Power Motor for the period from 19 January 2010 (date of incorporation) to 31 December 2010 are as follows:

	For the period from 19 January 2010 (date of incorporation) to 31 December 2010
	US$
Loss for the year	(110,985)
Net asset value	2,319,463

Based on the audited financial statements of Lithium New EV, the financial information of Lithium New EV for the period from 2 February 2010 (date of incorporation) to 31 December 2010 are as follows:

	For the period from 2 February 2010 (date of incorporation) to 31 December 2010 *US$*
Loss for the year	(219,183)
Net asset value	1,295,593

Based on the audited financial statements of Lithium Jilin, the financial information of Lithium Jilin for the period from 26 November 2010 (date of incorporation) to 31 December 2010 are as follows:

	For the period from 26 November 2010 (date of incorporation) to 31 December 2010 *US$*
Loss for the year	(22,341)
Net asset value	1,498,659

Based on the audited financial statements of Lithium Guang, the financial information of Lithium Guang for the period from 5 November 2010 (date of incorporation) to 31 December 2010 are as follows:

	For the period from 5 November 2010 (date of incorporation) to 31 December 2010 *US$*
Loss for the year	(16,414)
Net asset value	287,786

Financial effect of the Acquisition

Upon Acquisition Completion, the Target Group (other than (i) Lithium Caofeidian, (ii) Lithium Power Motor, (iii) Lithium Jilin and (iv) Lithium Guang which will become non wholly-owned subsidiaries of the Company) will become wholly-owned subsidiaries of the Company. Accounts of the Target Group will be consolidated into the Group's accounts.

As referred to in the annual results of the Group for the year ended 31 December 2010, the audited consolidated net liabilities of the Group as at 31 December 2010 was approximately US$6,866,000, comprising total assets of approximately US$117,496,000 and total liabilities of approximately US$124,362,000, and the loss of the Group from continuing operations for the year ended 31 December 2010 was approximately US$100,167,000.

According to the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular, the unaudited pro forma net assets of the Enlarged Group would be approximately US$248,229,000, comprising unaudited pro forma total assets of approximately US$482,633,000 and unaudited pro forma total liabilities of approximately US$234,404,000, and the unaudited pro forma loss of the Enlarged Group from continuing operations would be approximately US$107,941,000.

BUSINESS OF THE TARGET GROUP

Revenue Model

The Target Group is engaged in the (1) research and manufacturing of lithium-ion battery; (2) research and production of power motor and controller; and (3) co-operation with strategic partners involving in manufacturing of automotive vehicles and sell these electric vehicles to customers. In addition, it also offers pre-sale and after-sale services to customers in respect of these electric vehicles and its components to generate sales income, government subsidies and service-based income. The revenue model includes sale of lithium-ion batteries and electric vehicles to customers. However, in view of the sales orders for electric vehicles obtained by the Target Group, the batteries of the Target Group is expected to be used for the purpose of assembling electric vehicles with strategic partners during the Profit Target Period. For details regarding the co-operation with strategic partners in assembly of electric vehicles, please refer to the sub-section headed "Sales and Marketing".

Competitive Advantages

The project of "1,000 New Energy Vehicles in Ten Cities", launched in 2009, is designated to ramp up the operational scale of new energy vehicles to 10% of the domestic automobile market by 2012 by implementing a three-year plan of introducing 1,000 new energy vehicles in 10 different pilot cities each year, which is funded mainly by fiscal subsidy. In January 2009, four ministries including the Ministry of Finance and the Ministry of Science and Technology jointly promulgated the Notice on Promoting the Pilot Work of Demonstrating Energy Conservation and New Energy Vehicles (《關於開展節能與新能源汽車示範推廣試點工作的通知》) (Cai Jian [2009] No.6) to carry out the pilot work of demonstrating energy conservation and new energy vehicles in 13 cities including Beijing, Shanghai, Chongqing and Changchun, encouraging the spearheading promotion and use of energy conservation and new energy vehicles in public transport, charting service, public affairs, environmental sanitary and postal service by introducing favorable financial policies including providing fiscal subsidy to such entities which purchase energy conservation and new energy vehicles. The demonstrating promotion subsidy standard for a pure electric municipal public passenger vehicle with length of more than 10 metres is RMB500,000 per unit. In May 2010, the Ministry of Finance, the Ministry of Science and Technology, the Ministry of Industry and Information Technology and the National Development and Reform Commission jointly promulgated the Notice in Relation to the Promotion of Energy Conservation and New Energy Vehicle Demonstration Work in Public Services (《關於擴大公共服務領域節能與新能源汽車示範推廣有關工作的通知》) (Cai Jian [2010] No.227), adding 7 pilot cities for new energy vehicle promotion, including Guangzhou and Tangshan. According to the Notice in Relation to the Pilot Work of Subsidy for Private Purchase of New Energy Vehicles (《關於開展私人購買新能源汽車補貼試點的通知》) (Cai Jian [2010] No.230) jointly promulgated by the Ministry of Finance, the Ministry of Science and Technology, the Ministry of Industry and Information Technology and the National Development and Reform Commission, the pilot work of subsidy for private purchase of new energy vehicles have been launched in five selected cities including Shanghai and Changchun. The maximum subsidy of plug-in hybrid electric passenger vehicle is RMB50,000 per unit, while that of pure electric passenger vehicle is RMB60,000 per unit. In addition, the Ministry of Science and Technology will, together with relevant departments, push forward various work involving energy conservation and emission reduction, among which the number of pilot cities for the promotion of new energy vehicles will increase to 25.

The Target Group has formulated strategies in the electric vehicle industry in Tangshan and Changchun, which are among the first batch of the 13 pilot cities and the second batch of the 7 additional pilot cities in the "Project of 1,000 New Energy Vehicles in Ten Cities" promulgated by the PRC Government respectively. The Target Group currently has two lithium ferrous sulfate battery production lines located in Changchun and Tangshan respectively. It is expected that the demand for electric vehicles in Changchun and Tangshan will be stimulated by the abovementioned government subsidies including the RMB500,000 per electric municipal public passenger vehicle with length of more than 10 metres and RMB60,000 per pure electric passenger vehicle, thereby enhancing the sales of the electric vehicles by the Target Group. In addition, the Target Group is also striving to expand its presence in other markets such as Hong Kong, Shenzhen, Guangzhou, Sanya (Hainan Province), Shenyang, Dalian, Jilin, Chongqing, Chengdu, Shijiazhuang, Baoding and Langfang.

The Target Group also has advantages in general technical strength and in provision of integral electric vehicle resolutions. The Target Group can offer a full range of technical resolutions and a basket of implementation and after-sale services in respect of electric vehicles. The Target Group has a marketing subsidiary, a battery testing plant, an after-sale team and a training proposal concerning the use of its products. This series of establishments enables it to have a complete quality guarantee system for its products. The Target Group has strong technical capabilities to build a complete industrial chain of electric vehicles from the production of batteries, power motors and BMS, the outsourcing of the production of electric vehicles and the integration of critical components. The three core technologies of manufacturing pure electric vehicles, namely lithium-ion batteries, power motors and controllers, as well as their production capabilities as set out in the section headed "Proposed business plan", are the strongest advantages of the Target Group.

Limitations

In order to engage in the businesses of (1) research and manufacturing of lithium-ion battery; (2) research and production of power motor and controller; (3) research of vehicle electronics and controller system; (4) sales of vehicle and batteries; and (5) automobile maintenance and repair, the Target Group is subject to certain legal limitations including the following:

(i) according to the existing effective "Catalogue for Guidance of Foreign Investment Industries" (外商投資產業指導目錄), wholly foreign owned enterprises are not allowed to engage in (i) the manufacturing and the research and development of Lithium power motor and controller system and (ii) the manufacturing and research and development of integrated motor and its controller system;

(ii) it should observe the "Administration of Foreign Investment in Commercial Sectors Procedures" in the sales of vehicles and batteries and to obtain approval from the relevant authority in charge of commerce; and

(iii) it should proceed with the relevant registration procedures with the local road transportation administration authority and the local industrial and commercial administrative department before commencement of automobile maintenance and repair business.

For details, please refer to the regulatory overview of the Target Group's business as set forth in Appendix VI to this circular.

Quality Control and Product Safety

Lithium-ion Batteries

The Target Group has implemented a series of quality control measures to ensure that the quality of its batteries meets the standards and requirements specified by its customers. Lithium Jilin is in the process of applying the certification of ISO 9001: 2000 Quality Management System. In addition, other subsidiaries of the Target Group will ensure the quality of the batteries by complying with the standards of the national recognised vehicle inspection institutes.

The Target Group has a quality control team and has set up several quality control points throughout the production process to inspect the quality of its batteries. The inspection procedures carried out by its quality control team include visual and physical inspection. Neither did the Target Group have any dispute with any suppliers or customers, nor was it subject to any legal actions taken by those persons.

Other than the quality control measures, the Target Group also conducts internal safety tests to ensure that the batteries meet the safety standards. These tests include (i) a short circuit test which is to short circuit the battery for ten minutes after it is charged, (ii) a fire test which is to place the battery under fire until it turns into ashes, and (iii) an extrusion test which is to press the battery perpendicularly towards the cell plates until the cell case is broken or an internal short circuit occurs. Any product that explodes during any of the above tests will not pass the product safety requirements of the Target Group and will not be put into use. However, smoke emission from the battery which will not cause any injury to the user is considered acceptable.

It is prudent to send batteries to national recognised vehicle inspection institutes for testing. The batteries with different capacities made by the Target Group were sent to National Quality Supervision and Inspection Center for Buses (國家客車質量監督檢驗中心) and Northern Vehicles Quality Supervision Testing Laboratory (No. 201 Laboratory), both being vehicle inspection institutes recognised by National Development and Reform Commission, for various tests, including but not limited to tests of appearance, structure, discharge properties and safety. As at the Latest Practicable Date, the test result of the batteries with a capacity of 100AH and 200AH have been proved satisfactory. The Vendor believes that, as the identical technical knowledge and technologies were applied in all product series made by the Target Group, the test result of the 200AH batteries can be considered an overall representative of the quality of its batteries with different capacities. In the event that the Target Group develops batteries with other capacities, such batteries will be sent to the national recognised vehicle inspection institutes.

Power Motor and controller

The Target Group is engaged in the internal research and development and production of power motor and controller. At present, the Target Group does not produce power motor and controller equipments. The Target Group obtains the power motor and controller product through (i) collaborating with independent manufacturers who would produce the products based on the technical requirements of the Target Group, thereby utilizing the Target Group's technical know-how in Permanent Magnetic Synchronous Motor and Permanent Magnetic Brushless DC Motor; or (ii) directly purchase such products from other suppliers based on the requirements of the customers of the Target Group. Notwithstanding that the bargaining power of the Target Group in purchasing such products may be less advantageous in view of its scale, the Target Group will negotiate the procurement terms with the suppliers on arm-length basis. The Target Group will conduct sampling inspection of such equipments. The process of power motor and controller production shall be completed by an ISO 9001: 2000 certified enterprise. Each of the products manufactured by a third party is required to be tested in accordance with national standards. The Target Group has designed relevant testing software for simplified tests conducted during the production and delivery of products. Each product shall be tested before installation, during which process mutual tests may be conducted between any two related products with a view to ensure the reliability of relevant products and installations. A test on overall close loop control shall be carried out following the completion of overall installation of products. In addition, in assessing whether the quality of such power motor and controller equipments meet the standard of the Target Group, the Target Group will conduct certain inspections, including, inter alia, (i) whether the size and weight of motor and controller and motor stator windings cold DC resistance meet the requirements of the Northern Vehicles Quality Supervision Testing Laboratory (No. 201 Laboratory); (ii) rotation of motor; (iii) mechanical strength of controller bearing shell; (iv) turn-to-turn insulation of motor windings; (v) voltage proof; (vi) Locked-rotor torque and locked-rotor current; (vii) hydraulic pressure test on water-cooling system; (viii) feedback characteristics of recovered energy; and (ix) rated power.

Electric Vehicles

The Target Group does not manufacture electric vehicles, instead, the Target Group co-operate with strategic partners involving in manufacturing of automotive vehicles to assemble electric vehicles. At the time of assembling the electric vehicles, the technical staff of the Target Group will monitor the assembly process. Upon completion of assembling the electric vehicles, the Target Group will conduct inspection in accordance with the national standard, and assess the functionality of the electric vehicle.

Raw Materials and Procurement

The major raw materials of batteries include aluminium foil, copper toil, lithium, rare-earth mineral, isolating membrane, other chemicals, electrolytes, metals and plastics. For the year ended 31 December 2010, purchase from the largest supplier of the Target Group accounted for approximately 30% of the total purchase of the Target Group, while purchase from the five largest suppliers accounted for approximately 73.0% of the total purchase of the Target Group. Such suppliers mainly provide copper toil, aluminium foil, lithium and rare-earth mineral to the Target Group. All suppliers of the Target Group are domestic suppliers in China. Although purchase from the five largest suppliers accounted for over 70% of the total purchase of the Target Group, the Vendor expects no material difficulty in purchasing necessary raw materials when its existing suppliers fail to supply adequate raw materials to the Target Group as there are several other suppliers providing similar raw materials in the market.

Production

Specialised Equipment

The Target Group owns more than 400 units/sets of specialised equipment, including equipment specially used in the production of power batteries, such as high-speed planetary mixer, coating machine, roll press, slicing machine, laminating machine, drying oven, infusion machine, sealing machine and formation cabinet. The functions of such equipment are briefly described as follows:

Mixer:	to mix the active material, adhesive substance and conductive agent in an vacuum circumstance at a high speed for a long time till the mixture forms slurry
Coating machine:	to coat the slurry evenly on the conductive substrates, let them dry to form anode and cathode pieces
Roll press:	to roll over the anode and cathode pieces to reduce their sizes so as to enhance their cohesiveness and reduce the electrical resistance

Slicing machine:	to slice the anode and cathode pieces into different sizes based on the process requirements
Laminating machine:	to laminate the anode and cathode pieces into cell packs automatically
Drying oven:	to dry the anode and cathode pieces and cell packs in a precisely controlled manner
Infusion machine:	to infuse electrolyte into batteries in a precise manner
Sealing machine:	to seal up the top covers and casings for batteries
Formation cabinet:	to charge, discharge, activate and test the batteries so as to obtain the basic parameters

Production process

The production of the electric battery products has to go through a series of processes, including collecting materials, coating, pole coiling, drying, rolling, slicing, laminating, assembling, drying the cell, sealing, infusing to forming, capacity grading, selecting and matching, storage of finished products and selecting components for assembling whole vehicles. The production flow is briefly described as follows:

Stage I – mixing of electrode powder and coating of electrodes

Rare earth minerals and other constituent ingredients are mixed and stirred according to a prescribed formula in a mixer to produce cathode powder and anode powder (as the case may be). The cathode powder and anode powder produced are then coated onto aluminum foils or copper foils using fully automated coating equipment to become cathodes and anodes. Coated foils of cathode and anode are then cut into specific sizes to suit different types of products.

Stage II – production of the core of the battery

Slices of cathode and anode foils cut to tailor-made sizes in Stage I are then arranged in layers together with slices of separator to become the core of the battery.

Stage III – sealing of battery

The core of the battery produced in Stage II will be placed into a plastic casing with patented features to facilitate heat radiation and dehydration using infrared heat or vacuum heater. After dehydration, electrolyte and other constituent chemicals are injected and the casing is sealed to become a battery.

Stage IV – charging and discharging

The battery sealed in Stage III are then passed to the workshop where the batteries will be charged and discharged to initiate the necessary chemical reactions among different components in order to enable the battery to function.

Production Facilities

The Target Group currently has two production lines of lithium ferrous sulfate battery located in Changchun and Tangshan respectively. The Target Group's existing production facilities are located in Tangshan Caofeidian Development Zone and Jilin Changchun High-tech Development Zone in PRC respectively, with a total site area of approximately 30,000 square meters. The production facility in Changchun covers a site area of 16,000 square meters and a gross floor area of 15,000 square meters, while the facility in Tangshan covers a site area of 13,000 square meters, comprising gross floor area of 6,000 square meters for battery plant. Both facilities are equipped with automated production lines for each of the four production stages as outlined in the section headed "Production process" above. The automatic production lines are customized from Chinese manufacturers according to specific requirements for battery products. These two production lines currently have comparable production capacity, both being capable to produce high power batteries of 100AH-400AH and has a daily production capacity of 50,000 AH. However, the production facility in Tangshan has more advanced equipments comparing to Changchun and is therefore expected to have greater production capacity than the Changchun production facility. The Target Group has been preparing for the set up of the production lines and was in trial production process in the middle of 2010. No formal operation of the Target Group has commenced. The facilities are capable of producing all the product types of the Target Group, although certain tools and moulds will need to be replaced before switching the production processes for different products. Due to the fund and time required to install additional equipment, certain steps in the production process of the Target Group of arranging the cathodes, anodes and separators into layers and formation of the battery core are also conducted manually by skilled workers with the aid of automated machineries. Provided that the capital required for the installation of additional equipment is available, the annual production capacity of the Target Group is capable of being further increased. The Target Group currently does not have production facilities for electric vehicle management system, power motor and controller.

The Target Group was granted permission to occupy the production plant in Changchun for a period expiring on 14 July 2011 at no charges. The grantor has offered to rent the production plant to the Target Group after the expiry of the occupancy. The Target Group is under negotiation with the grantor with a view to reduce the rental payment. In the event that the grantor does not agree to reduce the rental payment, the Target Group will take necessary measures, including, accepting the rental arrangement so as to enable smooth production and operation of Lithium Jilin.

With the objective of inviting investments, raising funds and promoting development of new energy industries, the Target Group was permitted by 唐山市曹妃甸工業區管理委員會 (Tangshan Caofeidian Industrial Zone Management Committee) to occupy factory premises situated in Caofeidian Industrial Zone in Tangshan City for so long as it continues its operation within the Caofeidian Industrial Zone. The Directors consider that such committee is unlikely to terminate the occupancy, and therefore will not affect the operation of the Target Group. For further details relating to such factory premises, please refer to the property valuation report as set out in Appendix V-A of this circular.

Target Markets and Sales Directions of the Products

The battery products of IFP type with capacities of 100AH and 200AH are mainly sold to other new energy vehicle manufacturers in China.

After the completion of the production and pilot manufacturing of nearly 10,000 pieces of 200AH batteries, the Target Group has completed battery packs for two 352V300AH electric mini-buses with its branded (“鋰源牌”) iron phosphate power batteries, and assembled over 30 electric buses running on 352V, of which, the standard battery facility is 220 pieces of 200AH batteries.

Electric Vehicles Management System

The electric vehicles management system of the Target Group comprises four units, namely, BMS, charger control unit, motor control unit and vehicle control unit. It is a system that analyses datas concerning the conditions of the batteries and power motor, thereby control the working condition of the vehicle and used in all electric vehicles assembled by the Target Group with its working partners.

BMS monitors the state of the battery such as the voltage, temperature, the charge current and the SOC and is capable of calculating the immediate available discharge power value based on the conditions of the said items. BMS reports such data to (i) the vehicle control unit which could coordinate and stabilise the vehicle; (ii) the motor control unit which could perform appropriate safety actions in a timely manner; and (iii) charger control unit after analyzing the charging mode required so as to charge the battery properly. The motor control unit sends request command to the BMS based on its own status or failure so as to demand the BMS to control the current so as to avoid any hidden risks.

Power Motor and Controller

The Target Group has been engaged in the development of permanent-magnet motors, asynchronous motors and the drive system. The permanent-magnetic synchronous motor products developed by the Target Group have passed the test conducted by the Electrical Testing Centre of Beijing Institute of Technology, and have been assembled into pure electric vehicles manufactured by a number of domestic automobile manufacturers. The Target Group currently is mainly focused on the development of permanent-magnetic synchronous motors, and masters the technical know-how about brushless DC motor and permanent-magnetic synchronous motor, and can provide supporting services relating to the general drive system of electric vehicles (power motor and controller equipment).

Permanent-magnetic synchronous motors can be used in hybrid cars, various electric vehicles and other types of electric applications, mainly including electric vehicles and industrial motor drives. Their electromagnetic and structural design has special features and possesses a number of domestic patents. The features include high heat load, multiple speed flux weakening, low torque ripple design which contributes to reduce noise, high torque, high efficiency (efficiency ⩾ 95%), high power density (power density ⩾ 1kW/kg), low noise, maintenance-free, electromagnetic brake, renewable power generation, good acceleration performance, and ability to achieve stepless speed changing, compact structure, small-sized and light weight suitable for applications with exacting requirements for size, weight and efficiency. The motors have their cores made of high quality silicon steel and their base and cover structures made of aluminium alloy with power output through a single axis. The output axis has optional connection modes, providing benefits of high torque, small size, light weight, high efficiency and better appearance. In addition, a controller can be equipped upon customers' request.

A permanent-magnetic synchronous motor together with its corresponding controller may constitute an AC stepless speed changing system for electric vehicles. Compared with a DC drive system, it has high efficiency, high power, stepless speed changing, good start acceleration performance, best driving mileage, electromagnetic brake, renewable energy, and with dynamic power, and best fit the requirements of maximum speed and maximum climbing gradient. The Target Group not only can offer system products to customers, but can also provide system solutions according to the specific requirements of customers.

Proposed business plan

The Group has a five-year business plan to develop the business of the Target Group. It intends to expand the business principally engaged by the Target Group in three segments, namely battery, power motor and controller equipments and co-operation with strategic partners involving in manufacturing of automotive vehicles. It aims to consolidate the internal resources of the Target Group to achieve synergy and to expand its business in the PRC and to develop its overseas markets.

As for the three business segments of the Target Group, the Group has the following plans:

(a) battery business – the Group plans to set up 10 production lines to achieve an annual production capacity exceeding 1 billion AH and to reduce the unit cost of production through economies of scale. Currently, the battery business has 2 production lines and has an annual production capacity of 20 million AH.

(b) power motor and controller equipments business – the Group plans to set up 5 production lines to achieve an annual production capacity exceeding 20,000 sets to satisfy the needs of vehicle assembly within the Target Group. Currently, the Target Group has an annual capacity of 1,000 sets motor assembly.

(c) automotive vehicles business – the Group plans to involve in the vehicle business through co-operation with strategic partners involving in manufacturing of automotive vehicles to achieve an annual production capacity exceeding 10,000 vehicles. The existing annual production capacity under such co-operation is 500 pure electric buses.

The expansion plan of the Target Group for each of the five years ending 2015 is as follows:

2011 (First Year)

The Target Group targets an annual sale of 15 million AH lithium-ion power battery, an annual output of 300 sets of power motor and controller equipments and an annual sale of 300 automotive vehicles for 2011.

The Target Group plans to inject capital of approximately RMB90 million in 2011, which will be allocated as follows:

1. an investment of approximately RMB50 million or above on building an additional production line with an annual capacity of 15 million AH lithium-ion power battery (of which 30% will be imported equipments);

2. an investment of approximately RMB13 million on technological research and development and upgrading of original facilities;

3. an investment of RMB13 million for the future growth of the Target Group through acquiring other lithium battery plant as and when such opportunities arise or as general working capital;

4. an investment of approximately RMB6 million on the assembly line with an annual output of 500 of power motors; and

5. an investment of approximately RMB8 million on an additional bus assembly line and an additional bus detection line.

The abovementioned investments are expected to be completed in 2011.

2012 (Second Year)

The Target Group targets an annual sale of 30 million AH lithium-ion power battery and an annual output of 750 sets of power motor and controller equipments and an annual sale of 750 automotive vehicles for 2012.

The Target Group plans to make an additional investment of approximately RMB180 million in early 2012 , which will be allocated as follows:

1. an investment of approximately RMB80 million on building an additional production line with an annual capacity of 20 million AH lithium-ion power battery (of which 50% will be imported equipment);

2. an investment of approximately RMB12 million on establishing another battery research and development center;

3. an investment of approximately RMB15 million on building an additional bus assembly line;

4. an investment of approximately RMB20 million on building an additional power motor assembly line with an annual output of 1000 power motors assembly; and

5. an investment of approximately RMB53 million as general working capital.

The abovementioned investments are expected to be completed in 2012.

2013 (Third Year)

The Target Group targets an annual sale of 50 million AH lithium-ion power battery and an annual output of 1,200 sets of power motor and controller equipments and an annual sale of 1200 automotive vehicles for 2013.

The Target Group plans to make its third investment of RMB140 million in early 2013, which will be allocated as follows:

1. an investment of approximately RMB80 million on an additional production line with an annual capacity of 20 million AH lithium-ion power battery;

2. an investment of approximately RMB10 million on a battery research and development center ;

3. an investment of approximately RMB10 million on an additional bus production line; and

4. an investment of approximately RMB 40 million on a power motor assembly line with an annual output of 2,000 power motors.

The abovementioned investments are expected to be completed in 2013.

2014 (Fourth Year)

The Target Group targets an annual sale of 70 million AH lithium-ion power battery and an annual output of 1,500 sets of power motor and controller equipments and an annual sale of 1,500 automotive vehicles for 2014.

2015 (Fifth Year)

The Target Group targets an annual sale of 90 million AH lithium-ion power battery and an annual output of 2000 sets of power motor and controller equipments and an annual sale of 2000 automotive vehicles for 2015.

As illustrated in the business valuation report as set out in Appendix V-B to this circular, the ex-factory selling price of lithium-ion battery is approximately RMB9/AH (exclusive of

Value Added Tax) and the ex-factory selling price of electric bus (model no. GTQ6107) is RMB1,150,000 per unit (exclusive of Valued Added Tax). Under the existing production scale, the total costs of goods sold for lithium-ion battery is approximately RMB5.33/AH while the total costs of goods sold for an electric bus (model no. GTQ6107) is approximately RMB981,500 including ex-factory selling price of lithium-ion batteries.

On this basis, it is expected that the Profit Target for each stage could be achieved as follows:

(i) the targeted sales of 300 automotive vehicles together with 15 million AH lithium-ion power battery as may be assembled into such automotive vehicles in 2011 would generate gross profit in the region of approximately RMB105.6 million for the Target Group after deducting the costs of goods sold;

(ii) the targeted sales of 750 automotive vehicles together with 30 million AH lithium-ion power battery as may be assembled into such automotive vehicles in 2012 would generate gross profit in the region of approximately RMB236.5 million for the Target Group after deducting the costs of goods sold;

(iii) the targeted sales of 1,200 automotive vehicles together with 50 million AH lithium-ion power battery as may be assembled into such automotive vehicles in 2013 would generate gross profit in the region of approximately RMB385.7 million for the Target Group after deducting the costs of goods sold;

(iv) the targeted sales of 1,500 automotive vehicles together with 70 million AH lithium-ion power battery as may be assembled into such automotive vehicles in 2014 would generate gross profit in the region of approximately RMB509.7 million for the Target Group after deducting the costs of goods sold;

(v) the targeted sales of 2,000 automotive vehicles together with 90 million AH lithium-ion power battery as may be assembled into such automotive vehicles in 2015 would generate gross profit in the region of approximately RMB667.3 million for the Target Group after deducting the costs of goods sold.

The injection of capital in the manner set forth above will be financed by the internal resource of the Target Group, the Cash Consideration, the interest-free loan advanced by the Vendor to the Target Group as referred to in the sub-section headed “Consideration” in relation to the 1st Stage Consideration and/or by proceeds raised from the Share Placings and CN Placing, details of which are set out in the sections headed “Reasons for and benefit of the Share Placings” and “Reasons for and benefit of the CN Placing and use of proceeds”.

The Target Group’s existing major customers are PRC vehicle manufacturers and bus transportation companies. For the PRC markets, the Group intends to expand the business of the Target Group in 5 regions, namely the northeastern region, northern region, western region, southwestern region and southern region of the PRC and intends to invest approximately

RMB2.5 billion for achieving an annual production capacity of 20,000 or above new energy vehicles (including battery, power motor and controller equipments). The Group intends to invest approximately RMB500 million in each region to develop the three business segments of the Target Group. Out of the 5 regions, the Target Group's major markets are in Beijing, Tangshan, Jilin, Chongqing, Guangdong and Sanya.

For the overseas markets, the Group intends to invest an aggregate of RMB600 million to expand its business to the overseas market and when opportunities allow, to set foot in overseas markets of battery, power motor and controller equipments.

Sales and Marketing

The Target Group promotes its batteries mainly through internet marketing, participation in exhibitions and inviting potential customers to have an on-site visit or a test ride on electric vehicles powered by its batteries. As at 31 December 2010, the Target Group's sales and marketing team expanded from 5 staff in 2009 to a total of 8 staff. The sales and marketing team is mainly responsible for handling and following up the orders from existing and potential customers across the world, as well as offering after-sale services to customers.

The batteries of the Target Group could be sold to customers separately. However, in view of the sales orders for electric vehicles obtained by the Target Group, the batteries of the Target Group are expected to be used for the purpose of assembly electric vehicles with strategic partners during the Profit Target period. Notwithstanding the aforesaid, the customers for the batteries will mainly come from China. The Company plans to strengthen the presence of the Target Group worldwide, especially in the PRC, by marketing the batteries and electric vehicles through its marketing and technical sales personnel and targets to develop the PRC market as its major market. The Company expects the number of sales personnel, who are qualified sales engineers and project managers, in Hong Kong and the PRC sales offices to increase to 20 by the end of 2011. The Target Group will continue to increase the headcount of its sales team to 50 in 2013 and set up sales offices in the United States and Europe depending on the then market conditions and the growth in the electric vehicle industry worldwide.

The batteries are currently targeted at the electric vehicle market. After Completion, the Target Group will focus on the electric vehicle market in the PRC, the United States and Europe, and the target customers for these products mainly include electric vehicle manufacturers and component traders who will purchase the batteries for use in electric vehicles as their sole source of energy. These batteries have capacities ranging from 100AH to 400AH, which are used either singly or in bundle in motorcycles, electric scooters, golf carts, outdoor sweepers and electric vehicles. The potential customers are mainly manufacturers of vehicles and vessels, manufacturers or traders of electrical tools, motorcycles and vehicle parts in Europe, Asia, the United States, and Hong Kong.

The Target Group also intends to cooperate with strategic partners in respect of the production of electric vehicles. Such strategic partners shall be vehicle manufacturing enterprises based in one of the 25 pilot cities under the "Project of 1,000 New Energy Vehicles in Ten Cities" that has obtained approval by the State to manufacture electric vehicles. In addition to Zhuhai Guangtong Automobile Company Ltd. as mentioned in the section headed "REASONS FOR AND BENEFIT OF THE ACQUISITION" below, the Target Group has entered into strategic co-operation agreements with two other strategic partners who are Independent Third Parties. One of the strategic partners is a state-owned enterprise based in Beijing under the direct leadership of China Weapon Industry Group Corp., principally engaged in the development of luxury buses. The other strategic partner is based in Chongqing, and is one of the largest city passenger vehicles manufacturers in the PRC with an annual production capacity of 8,000 large scale passenger vehicles. Under these strategic co-operation agreements, the Target Group will provide batteries, power motor and controller and the management system for the assembly of vehicles while such strategic partners will be responsible for assembling the electric vehicle and to submit the "Catalogue of Types of Recommended Vehicles for the Demo Project of Energy Conservation and New Energy Vehicles" (節能與新能源汽車示範推廣應用工程推薦車型目錄) (the "Catalogue"). After completion of assembling electric vehicle, such strategic partners will sell the vehicles to the Target Group at a price to be determined with reference to the prevailing market price of the electric vehicle and taking into account the government subsidy of RMB500,000 per unit of pure electric municipal public passenger vehicles with length of more than 10 metres and the applicable taxation. Local electric vehicle sales branches will also be established for the sale of the electric vehicles and the provision of after-sale services. The Target Group will be responsible for distribution and sales of the electric vehicles. For after-sales services, each of the parties shall be responsible for the repair of those parts that they manufactured. The target customers for these products include cross-city coaches, electric sedans, electric minibuses, electric buses, electric commuter buses, electric garbage trucks and electric special-purpose vehicles. Among which, the electric city buses are the major target customers.

Expertise & Management Team

The Target Group possesses a team of experts and consultants with extensive professional knowledge in terms of research and development strength. This team comprises professors of reputable universities in the PRC, including Professor Chen Quanshi, Professor Zhang Chengning, Professor Qi Guoguang and Mr. Wang Jun, and other team members include Mr. Liu Yi, Mr. Li Baoyu and Mr. Xiang Ye.

The brief biographies of Professor Chen Quanshi, Professor Zhang Chengning, Professor Qi Guoguang, Mr. Wang Jun, Mr. Liu Yi, Mr. Li Baoyu and Mr. Xiang Ye which are based on the information provided by the Vendor, are set out below.

Professor Chen Quanshi

Professor Chen Quanshi studied at Automotive Engineering Department of Tsinghua University. He held various positions throughout his career, such as Head of Automotive Engineering Department, Vice Dean of School of Mechanical Engineering and Deputy Chief of Automotive Research Institute. He is currently engaged in lecturing research and management at Automotive Engineering Department of Tsinghua University. Mr. Chen is a professor and supervisor of doctoral candidates of Tsinghua University, Chief of Automotive Research Institute, Head of Electric Vehicle Research Office, Executive Director of Society of Automotive Engineers of China, Head of Electric Vehicle Branch of Society of Automotive Engineers of China, Deputy Head of National Automotive Standardization Technical Sub-committee, Advisor to the Advisory Panel of the Government of Beijing Municipality, etc.. He has been awarded an advancement prize, a second-class prize and a third-class prize of the National (Ministerial) Science and Technology Advancement Award, and was the winner of a third-class prize of Chinese Automotive Industry Science and Technology Advancement Award in 2006. Professor Chen is currently the director of the research centre and the chief technical consultant of the Target Group and any intellectual property developed by him in such capacities shall belong to the Target Group.

Professor Zhang Chengning

Professor Zhang Chengning studied at College of Mechanical & Electrical Engineering, Anhui Polytechnic University and Department of Automation of Beijing Institute of Technology. Since 1994, he has been engaged in the research of motor vehicle systems, energy management systems, integrated control and digital network systems of vehicles assembly and charging systems for electric vehicles. He is currently a professor and supervisor of doctoral candidates of Beijing Institute of Technology, Deputy Chief of National Electric Vehicle Laboratory of Beijing Institute of Technology. Mr. Zhang was the winner of the second-class prize of 2004 National Science and Technology Award (title of the award-winning project: A Key Technological Product for Electric Vehicle Power Systems and Its Applications (一種電動車輛動力系統關鍵技術產品及其應用)), and was recognized as one of the 100 Outstanding Doctors in China's Defence Industry. He is an appointed expert recruited by Society of Automotive Engineers of China, Team Leader of 863 Electric Vehicle Substantial Project of "Power Motor and Controller Equipments for Pure Electric Vehicle" ("純電動汽車電機及其控制器") under the national 10th Five-Year Plan, Team Leader of 863 Electric Vehicle Substantial Project of "Testing and Appraisal of Power Motor and Controller Equipments for Electric Vehicle" ("電動汽車電機及其控制系統測試與評價") under the national 10th Five-Year Plan, etc.. Professor Zhang is currently a technical consultant of the Target Group and any intellectual property developed by him in such capacity shall belong to the Target Group.

Professor Qi Guoguang

Professor Qi Guoguang graduated from Department of Automation of Tsinghua University. He had been engaged in lecturing and research and development on automation system after graduation. Currently, he is employed by the Department of Computer Science and Technology of Tsinghua University. He started the research and development on electric vehicles since early 1990s. He undertook the key research and development projects on electric vehicles of the State Planning Commission during the 8th five-year plan period and the research and development on battery charging and management system which was one of the key technologies in the electric vehicle project launched by the Ministry of Science and Technology during the 9th five-year plan period. He was a member of the expert team of electric vehicle key projects of the 8th and the 9th five-year plans. During the 10th five-year plan period, he participated in the development of Fuel Cell Powered Bus Project which was one of the "National 863 Projects" and was responsible for the research and development on the lithium and nickel-metal hydride battery management technologies and systems. Concurrently, he undertook the research and development on Lithium battery management and charging systems of electric vehicles assigned by Beijing Municipal of Science and Technology Commission. Commencing from 2005, he began self-study of advanced technology on management of battery system platform and developed several battery charges and discharge maintenance and repair devices for enterprises producing battery. Professor Qi is currently a technical consultant of the Target Group. The Company will review the service contract entered into with Professor Qi Guoguang and may require Target Group to enter into supplemental agreements with Professor Qi (if necessary) such that the patents developed in his capacity as technical consultant of the Target Group shall belong to the Target Group.

Wang Jun

Mr. Wang Jun obtained a degree in automotive design from College of Automotive Engineering in Department of Engineering of Jilin University of Technology and has been engaged in development of electric vehicles design and research on vehicle dynamics system and automotive electric control system for a long time. Mr. Wang was a participant in a major project of "pure electric buses" under the National 863 program of 10th and 11th Five-year Plan, in which he was responsible for research and development on vehicles design. Mr. Wang also undertook several projects and studies organised by Beijing Municipal Science & Technology Commission. Mr. Wang is currently an adjunct professor of Department of Vehicle Engineering of School of Mechanical Engineering in Beijing Institute of Technology and a technical consultant of the Target Group. Any intellectual property developed by him in the capacity of a technical consultant of the Target Group shall belong to the Target Group.

Liu Yi

Mr. Liu Yi obtained a bachelor degree in Software from Department of Computer Science and Engineering of Beijing Institute of Science and Technology and Master Degree in Software from Department of Computer Science of University of Queensland in Australia. Mr. Liu was an engineer of Intelligent Engineering Laboratory of Institute of Software Chinese Academy of Sciences ("ISCAS"), a participant in a major project of "High-power Motor System" of ISCAS and a key project of electric vehicles under the National 863 Program of 10th Five-year Plan as well as the person in charge of the project of high power motor research and development. Mr. Liu was also an Engineer of a technical institute of new energy vehicles in Australia and has participated in research projects relating to new energy vehicles and pure electric vehicles supported by the Federal Government of Australia and New South Wales of Australia respectively. He is currently a deputy chief engineer of the Target Group. The Company will review the service contract entered into with Mr. Liu Yi and may require the Target Group to enter into supplemental agreements with Mr. Liu (if necessary) such that the patents developed during the subsistence of his service contract with the Target Group shall belong to the Target Group.

Li Baoyu

Mr. Li Baoyu majored in Chemical Engineering and Technology in Southern Institute of Metallurgy (now known as Jiangxi University of Science and Technology). Mr. Li worked in a communication equipment company in Shandong as manager of Technology Department and was responsible for industrialization of lithium iron phosphate battery; and as the Chief Engineer and Deputy Manager of the said company and set up a task force principally engaged in the preparatory and coordination work. Mr. Li was also appointed as the Head of Production Planning Department of a company engaged in power and energy business in Hefei. During his employment, he improved the production management and statistics and planning systems, and established systems for production evaluation, material management as well as costing. Thereafter, Mr. Li was appointed as the Head of Battery Cell Department of the said company and responsible for the overall management of battery cell workshops and concurrently in charge of Equipment Department. Since April 2009, Mr. Li has been a Deputy Chief Engineer of the Target Company in respect of battery business. Mr. Li led the development of 200AH lithium iron phosphate plastic shell power battery and obtained an overall testing report issued by China North Vehicle Research Institute (Institute No. 210) in June 2010. The Company will review the service contract entered into with Mr. Li Baoyu and may require Target Group to enter into supplemental agreements with Mr. Li (if necessary) such that the patents developed during the subsistence of his service contract with the Target Group shall belong to the Target Group.

Xiang Ye

Mr. Xiang Ye studied in University of Science and Technology Beijing and obtained a master degree in Physics from TU Dortmund University. Mr. Xiang worked as an intern in a large global manufacturer of electronic products and responsible for testing of the level of tolerance of mobile phone cases and quality of products and subsequently Mr. Xiang was also employed by a reputable automobile company in Germany and responsible for steel structure design and subsequently engaged in planning of market networks. Since 2009, he has been a deputy chief engineer of the Target Group. The Company will review the service contract entered into with Mr. Xiang Ye and may require Target Group to enter into supplemental agreements with Mr. Xiang (if necessary) such that the patents developed during the subsistence of his service contract with the Target Group shall belong to the Target Group.

The Group intends to retain certain management of the Target Group, namely, Mr. Hei Liangqi, Mr. Fei Phillip, Mr. Shao Zhiyong and Mr. Wang Binbin. Their brief biographies are set out below.

Mr. Hei Liangqi, president, is one of the promoters of the Target Group. Mr. Hei graduated from Liaoning University, majoring in Chinese Language and Literature. He has over 20 years experience working in the enterprise administration department of former Ministry of Electronic Industry of the PRC for over 20 years and has extensive experience in enterprise administration and government relations. In the past ten years, he has been working in China's new energy vehicle industry and new materials industry. In the research and development of new energy materials, Mr. Hei has been in charge of the co-research program conducted by the Target Group together with Tsinghua University and Beijing Institute of Technology.

Mr. Fei Phillip, executive president, is a professor of The International Economic Department of University of International Relations, the PRC. Currently, he serves as a director of China Overseas Friendship Association, a director of China Council for the Promotion of Peaceful National Reunification and a director of Beijing Overseas Friendship Association. Mr. Fei has over 10 years of experience in the international trading business and economic research. His responsibilities in the Target Group include the promotion and marketing of the Lithium Brand in the PRC and Hong Kong and Macau in order to enhance brand awareness. He has also introduced both domestic and international experts to the Target Group in exploring electric passenger vehicles related technologies.

Mr. Shao Zhiyong, executive president, graduated from China Finance and Accounting Correspondence School and Beijing Renmin University with a major in journalism. He completed specialized courses in Archaeology and Identification of Cultural Relics at the Graduate School of the Chinese Academy of Social Sciences. Currently, Mr. Shao is responsible for the Target Group's daily operation and management. He is in charge of the administrative and financial functions of the Target Group, and the research institute of lithium battery and the research institute of power motor and controller and vehicle assembly. Mr. Shao is also responsible for advocating and promoting the continuous development of new technical patents relating to the Target Group's products, including power motor, power controller, battery control system, and lithium power battery through cooperative research between the two research institutes, and the gradual commercialization of patented technologies.

Mr. Wang Binbin, executive president, graduated from Beijing University of Technology majoring in mechanical engineering. He has several years of experience in marketing and management. Mr. Wang is in charge of Lithium BJ, and the four Tangshan subsidiaries of the Group. Mr. Wang is responsible for the construction of the production base of Tangshan Caofeidian; the brand building of the Group; the development of the sales market; maintenance of relations with government agencies; and technology research and development through cooperation with universities and institutions.

Patent

As at the Latest Practicable Date, the Target Group has the following registered patents:

	Patent Number	Name of Patent	Type of Patent	Term of Patent
1	ZL 2010 3 0171064.0	Driving Motor for Electric Vehicle (電動汽車驅動電機) (LYCD01)	Exterior Design	10 years from 11 May 2010 to 10 May 2020
2	ZL 2010 3 0171100.3	Driving Motor for Electric Vehicle (電動汽車驅動電機) (LYCD04)	Exterior Design	10 years from 11 May 2010 to 10 May 2020
3	ZL 2010 3 0171121.5	Driving Motor for Electric Vehicle (電動汽車驅動電機) (LYCD05)	Exterior Design	10 years from 11 May 2010 to 10 May 2020
4	ZL 2010 3 0171096.0	Driving Motor for Electric Vehicle (電動汽車驅動電機) (LYCD03)	Exterior Design	10 years from 11 May 2010 to 10 May 2020
5	ZL 2010 2 0194281.6	Rotor for Electric Vehicle (一種用於電動汽車的電機轉子)	Utility Model	10 years from 11 May 2010 to 10 May 2020
6	ZL 2010 2 0194294.3	Rotor for Permanent Magnetic Synchronous Motor (永磁同步電機轉子)	Utility Model	10 years from 11 May 2010 to 10 May 2020
7	ZL 2010 2 0194316.6	Adjustable Brushless DC Motor (一種功率可調的直流無刷電機)	Utility Model	10 years from 11 May 2010 to 10 May 2020
8	ZL 2010 2 0194330.6	Permanent Magnetic Brushless Motor for Electric Vehicle (電動汽車永磁無刷電機)	Utility Model	10 years from 11 May 2010 to 10 May 2020

	Patent Number	Name of Patent	Type of Patent	Term of Patent
9	ZL 2009 3 0076773.8	Battery pole (電池極柱)	Exterior Design	10 years from 14 May 2009 to 13 May 2019
10	ZL 2009 3 0080017.2	Battery pole (300AH) (電池極柱 (300AH))	Exterior Design	10 years from 12 June 2009 to 11 June 2019
11	ZL 2009 3 0073879.2	Battery shell (電池外殼)	Exterior Design	10 years from 17 April 2009 to 16 April 2019
12	ZL 2009 2 0054747.X	Battery shell(一種電池外殼)	Utility Model	10 years from 17 April 2009 to 16 April 2019
13	ZL 2009 2 0061347.1	Explosion-proof device for lithium-ion battery (鋰離子電池的防爆裝置)	Utility Model	10 years from 28 July 2009 to 27 July 2019
14	ZL 2009 2 0264341.4	Explosion trap for Lithium-ion batteries (鋰離子蓄電池防爆閥)	Utility Model	10 years from 8 December 2009 to 7 December 2019

The abovementioned patents are all the relevant patent technologies that are related to the development and design of products of the Target Group or the relevant operable patent technologies which are closely connected with production processing. Patents for exterior design numbered 1, 2 and 4 relate to the driving motor for electric vehicle, which deal with the problem of heat dissipation of the driving motor of a vehicle when it is running on the road. This device helps radiate heat by making use of the air passing through the bottom of a vehicle, hence improves the overall stability of the driving motor system. Patent for exterior design numbered 3 also relates to the driving motor for electric vehicle, which aims to increase the power density of high power motors in an electric vehicle to a greater extent and effectively reduce its size. Patents for utility model numbered 5 and 6 relate to the rotor used in permanent magnetic synchronous motor. It is a rotator that features stable performance, high startup torque and low loss of power which helps to increase the startup speed of a vehicle. Patent for utility model numbered 7 relates to adjustable brushless DC motors. With a combination of different motor units and electrical control units, the motor produces different power output under different load and runs in a state of high efficiency. Patent for utility model numbered 8 relates to the driving motors in an electric vehicle. The rotor consists of a series of modularized rare earth permanent magnets and can produce different power output under different assembly as required. Patents for exterior design numbered 9 to 11 and patents for utility model numbered 12 to 14 relate to the lithium-ion batteries of the Target Group.

The Target Group has also applied for registration of patents for its products relating to power motor and lithium-ion battery. Target Group has obtained quality inspection compliance reports for both 100AH and 200AH lithium iron phosphate battery and 80KW permanent-magnetic synchronous motor for use in vehicles.

Under the applicable laws and regulations in the PRC, there are three types of patents, namely, (i) a patent for invention, which is granted to any new technical solution relating to a product, a process or improvement thereof; (ii) a patent for utility model which is granted to any new technical solution relating to the shape or structure of a product, or a combination of both, which is fit for practical use; and (iii) a patent for exterior design, which is granted to any new design of the shape and pattern of a product, or a combination of both, or a combination of the colour with the shape or pattern, of a product which creates an aesthetic feeling and is fit for industrial application.

Internal control

Through introducing matured domestic processing techniques and advanced equipments for lithium-ion battery production, the Target Group produces lithium-ion batteries with certain raw materials such as lithium iron phosphate. The processing techniques that the Target Group are using are those widely used in the industry which meet the requirements of clean production and emit less pollutants.

The density of pollutants in factory waste water satisfies relevant standards and the waste water can be directly discharged into the sewage treatment plant; the density of emitted pollutants in waste gas also satisfies relevant emission standards; the properly equipped shock-absorbing and noise-reducing facilities and the layout of green belts can reduce the noise level within factory so that it will not exceed the limits after the operation of the project; and most solid wastes are utilized comprehensively. All the above measures can reduce the project's impact on the external environment by the greatest extent. The Target Group strictly carry out a series of regulations, systems and implementation measures related to environment protection and supervise and inspect on the implementation conducted by each unit. Some planning and annual plan for environment protection within the factory area have been formulated or implemented. The Target Group has also taken the following measures in its internal control:

(1) Solid wastes treatment measures: production scrap such as the small amount of trimming scrap materials produced by electrode cutting, and the substandard outer shell and screws will be recycled and utilized by the waste recovery department.

(2) Waste water prevention measures: waste water comes from the cleaning in the mixing process. Mixing process refers to the mixing of the raw material in each of the positive and negative pulp beaters, the pulp beater should be cleaned after resumption of production. The cleaned waste water in the mixing process of the project can be reused after precipitating. The produced sewage and reused water discharge into the drainage pipes that are connected with the municipal pipe network and travel to the local sewage treatment plant. After treatment, the waste water meets the discharge standard and discharges into the rivers.

(3) Waste gas treatment measures: the emission sources of waste gas in the project include a small amount of organic waste generated in the process of battery plate

coating. The equipments are operated strictly in accordance with the procedures and the recovery rate should be increased in order to reduce the emission of hydrocarbons as much as possible. Meanwhile, the exhaust devices in workshops should be improved so as to keep proper ventilation in the workshop.

(4) noise control measures: the noise in this project mainly comes from a variety of pumps, air compressors and fans whose sound pressure level is 85-110dB (A). In order to reduce the impact of noises on the operating conditions, various noise control measures such as using sound-absorbing construction materials and equipment are introduced.

REASONS FOR AND BENEFIT OF THE ACQUISITION

Development of new energy vehicles is one of the most important tasks under "the 12th Five-Year Plan". Recently, the Chinese government has issued a series of regulatory documents on the development of new energy and new energy vehicles, such as the Plan for Revitalization of Automobile Industry (《汽車產業調整和振興規劃》), the Notice on Promoting the Pilot Work of Demonstrating Energy Conservation and New Energy Vehicles (《關於開展節能與新能源汽車示範推廣試點工作的通知》) and the Provisional Measures on Management of Financial Subsidies for Demonstration of Energy Conservation and New Energy Vehicles (《節能與新能源汽車示範推廣財政補助資金管理暫行辦法》). Series of complementary measures, such as legislative activities, economic incentive policies, the organizations and institutions, have been carried out by all levels of governmental authorities of China, particularly, the newly-issued "12th Five-Year Plan" requires more preferential policies to be issued to support the development of new energy vehicles (including pure electric buses) within the next five years, which provide the manufacture and sales of electric vehicles with better development platform. According to the estimate and information provided by the Vendor, currently, there are approximately 3 million buses and passenger vehicles in use in China and the annual capacity of electric passenger vehicles in the Chinese market is less than 3,000, which indicates that the electric vehicle market in China is in its early stages, and has an infinite room for development.

Upon completion of the Reorganisation, the Target Group will be one of those Chinese enterprises possessing the three core technologies of manufacturing pure electric vehicles, namely lithium-ion battery, power motor and electronic and controller system, which have passed the accreditation of an inspection body recognised by China National Accreditation Service for Conformity Assessment. One of the working partners of the Target Group, Zhuhai Guangtong Automobile Company ltd. ("Guangtong"), a 2% shareholder of Lithium Guang, is a domestic passenger vehicles manufacturer which has submitted the Catalogue, and becomes one of the enterprises approved by the State to manufacture pure electric vehicles. The Target Group is the sole sales agent of Guangtong in the PRC, Hong Kong, Macau and Taiwan for assembling Guangtong's electric vehicles and components. Under the co-operation arrangement with Guangtong, the Target Group sells batteries, power motor and controller and provide relevant technical services to Guangtong. Thereafter, Guangtong and the Target Group will assemble the electric vehicle together, in which Guangtong will be responsible for the assembling of the vehicle shell and the Target Group will be responsible for the assembling of the batteries, power motor and controller. After completion of assembling electric vehicle, Guangtong will sell such vehicle to the Target Group at a price to be determined with reference to the prevailing market price of the electric vehicle and taking into account the government subsidy of RMB500,000 per unit of pure electric municipal public passenger vehicles with length of more than 10 metres and the applicable taxation and the Target Group will sell the vehicles to the market. The Target Group has concluded cooperation arrangement with various automobile factories regarding the assembly of electric passenger vehicles. In terms of automotive vehicles, the Target Group has entered into agreements with 唐山市曹妃甸工業區管理委員會 (Tangshan City Caofeidian Industrial Zone Management Committee) concerning sales of 2,000 pure electric vehicles within three years and will apply for the approval for assembly of 3,000 electric vehicles annually from the Development and Reform Commission of Jilin Province upon completion of the Reorganisation. As illustrated in the business valuation report as set out in Appendix V-B to this circular, the ex-factory selling price of electric bus (model no. GTQ6107) is RMB1,150,000 per unit (exclusive of Value Added Tax), on this basis, the estimated sales amount of the said projects will amount to more than RMB5 billion. Save for the aforesaid, the Target Group has not received other confirmed sales orders.

The Group has also planned to penetrate markets in Guangzhou, Shenzhen, Hainan, Dalian, Shandong, Chongqing, Chengdu, Hong Kong and other cities in the next five years. The Vendor anticipated that, in five years, the Group will secure sales of pure electric vehicles of a certain number, including the sales of the 2,000 pure electric vehicle and the approval for assembly of 3,000 electric vehicles as mentioned above, which, upon completion, will bring lucrative profits to the Shareholders. Based on the above reasons, the Board believes that the terms of the Acquisition Agreement are fair and reasonable and in the best interests of the Company and the Shareholders as a whole, and will be beneficial for the Company's development to a new industrial altitude.

RISK FACTORS

I. Industry Risk

The Acquisition constitutes investment by the Group in new businesses including new energy vehicles (pure electric buses) and power assembly (including batteries, power motors and controllers). These businesses are generally recognized as "rising-sun industries". A series of policies were launched recently to subsidize the new energy sector, which will enable pure electric vehicles to overcome the difficulty of high cost which resulted in the non-marketability of the pure electric vehicles. Nevertheless, the pure electric vehicle business, confronted with the regulatory environment, may pose significant challenge to the Company's administrative, financial and operational resources. Although the Target Group is experienced in manufacturing pure electric vehicles and power assembly, the Company is not in a position to ascertain the timing and amount of any return or benefits that may be generated from the business of pure electric vehicle and power assembly. If the proposed business plan which the Company attempts to develop does not proceed as planned, the Company may not be able to recover the funds and resources injected, and this may adversely affect the Company's financial position.

II. Market risks

1. Power assembly (including batteries, power motors and electric control system)

Future operations of the Target Group are reliant upon the acceptance by customers of its power assembly products. Power assembly products are the core products in pure electric vehicle industry which is evolving with limited historical public information on its turnover and market demands. Consequently, there are many uncertainties in the operations of the Target Group. It is very difficult to predict the demand for power assembly products, and actual demand may be different from the growth in vehicle market. As the Target Group will also be engaged in the sales of power assembly products in addition to the sales of pure electric vehicles, any uncertainties in the demand for power assembly products or its quality will have negative impact on the businesses and financial performance of the Target Group.

2. Demand for electric vehicles may be affected by the sales of batteries which is subject to fluctuations in fuel prices

It is anticipated that at the early stage of operations of the Target Group, its batteries will be mainly used in power assembly products. As a part of the power assembly products in vehicle industry, batteries will face extensive competition from the vehicles using conventional fuels, especially petrol and natural gas. Recent fluctuations in price of conventional fuels have enhanced the price competitiveness of electric vehicles. However, the technological advancement in large miners in exploring other energy sources or discovering oil fields, gas fields or coal mines may probably lower the prices of those fuels, thus undermining the competitive strengths of pure electric vehicles. As a result, the demand for batteries will be subject to negative impact, thereby affecting the sales of power assembly products.

III. Dependent on research & development experts' continuous service and achievements in scientific research

Since the Target Group's sales is based on scientific research, thus the Group is to a great extent dependent on its research & development experts for their continuous service and achievements in scientific research. Such experts include Professor Chen Quanshi, the chief expert, and the research & development team, in its research and development work. Experienced personnel in the technology industry are in high demand. In order to keep these experts, the Target Group may have to offer higher salaries and provide better benefits to attract and retain these experts. If the Target Group is not able to retain these experts and engage the service of overseas scientific institutions and technicians, especially such experts as Professor Chen Quanshi, the ability of the Target Group to achieve its goal and to implement its business strategies will be adversely affected, and thereby have a material and adverse impact on the business and financial position of the Target Group.

IV. Further Investment in Production at Later Stage

The Company plans to commence the production of three core products under power assembly segment. The estimated cost of the Company's new construction projects (including production plant, equipment and storage facilities located in Dalian, Beijing and Shenzhen) will be several hundred million Hong Kong dollars over five years. The Company relies on third party factories, companies and purchasers to supply key technical information and to estimate the overall cost for new plants and equipment. The actual capital expenditure for new business (including construction of new production plants) may significantly exceeds the Company's budget as a consequence of various unforeseeable factors, and therefore may adversely affect the Target Group's business and financial position.

V. Legal and regulatory matters

There are general laws and regulations on electric vehicles and power assembly products in many jurisdictions in which the Target Group's potential customers are located, these laws and regulations are extensive and may subject to change. There can be no assurance that the relevant governments will not change such laws and regulations or impose additional or more stringent laws or regulations. Such changes (which may include, but not limited to, restrictions on production, manufacturing, distribution and utilization of battery products and recycling of disposed batteries) may have a material and adverse effect on the Target Group's business. In addition, the PRC laws and regulations with respect to the production and sales of electric vehicles are gradually improving. However, national competent authorities have not formulated a unified industrial standard for the electric vehicles, which may be a potential risk for the operations of the Company.

VI. New business industry

The electric vehicle industry is currently under development. There is no sufficient public information available for the Company to reliably ascertain the potential growth and the development thereof, or to identify the existing market players and the competition thereof. If (i) the growth and development of such industry is slower than the Company's expectations; (ii) there is another market player who will be able to dominate the market; or (iii) the competition in such industry is more rigorous than the Company's expectations, the demand for the electric battery products will be adversely affected.

VII. New products

The electric vehicle is a new product and there is no assurance that electric vehicle will be successfully commercialized at all or on a timely basis, or is accepted by the market. Moreover, there is no sufficient public information available for the Company to reliably ascertain the current and potential development, and the market response of such products. In the event that the electric vehicle does not achieve market acceptance or the market response is negative or there is substantial delay in the process of market development, the performance of the Target Group may be adversely affected.

VIII. Competition

The Target Group is expected to compete with the PRC and international companies, which may have competitive advantages over the Target Group in terms of, for example, resources, technical capability, customer base, brand name and distribution power. In view of these factors, the Target Group's competitors may be able to adapt to rapid changes in technology and customer preference and needs in these industries, to take advantage of business opportunities more readily and adopt more aggressive pricing policies than the Target Group. However, the competition in the electric vehicle market is uncertain as no information in respect of the competition is publicly available.

INDUSTRY OVERVIEW

The Target Group is principally engaged in (1) research and manufacturing of lithium-ion battery; (2) research and production of power motor and controller; and (3) co-operation with strategic partners involving in manufacturing of automotive vehicles and sell these electric vehicles to customers. Set out below is an overview of the rechargeable battery market, the automotive industry, the global trends in the automotive industry and the electric vehicle market.

The Rechargeable Battery Market

Types of batteries

Batteries are generally classified into two categories: (i) primary batteries, also known as non-rechargeable batteries, which are designed to be used once and discarded when they are exhausted and (ii) secondary batteries, also known as rechargeable batteries, which are designed to be recharged and used multiple times. Common types of primary batteries include zinc-carbon batteries and alkaline batteries. The major types of secondary batteries currently available in the market include the following:

(i) Lead-acid batteries

The lead-acid battery is the oldest type of rechargeable battery. It is able to supply high surge electricity current, which means that the battery maintains a relatively large power-to-weight ratio. It is a relatively economical and popular storage choice which is generally reliable and relatively simple to manufacture. However, lead is hazardous to the environment and excess lead exposure may cause serious health issues. Currently, attempts are being made to develop alternatives to lead-acid battery for a wide range of applications including in automotives because of concerns over environmental and health consequences. In addition, it has low energy density.

(ii) Nickel-based batteries

Nickel-based batteries come in two main forms, namely, nickel cadmium and nickel metal hydride batteries. Sealed nickel-based battery may be used on a standalone form, or assembled into battery packs containing two or more cells. Small nickel-based cells are generally used in portable electronics and toys, often using cells manufactured in the same sizes as primary cells. Compared to lead-acid batteries, the cost of producing nickel-based batteries is higher as nickel and cadmium are costly materials. Also, cadmium is toxic and is known to be carcinogenic. In addition, nickel-based batteries are affected by high self-discharge rate and experience memory effect which means that it will gradually lose its maximum energy capacity if it is repeatedly recharged after being partially discharged.

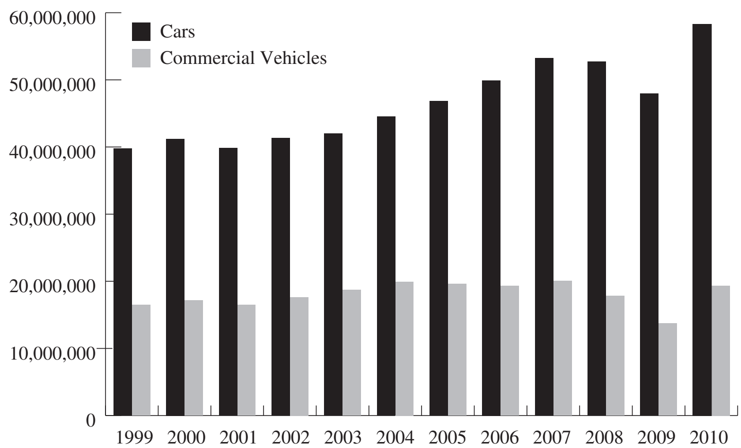
(iii) Conventional Lithium-ion batteries

Lithium-ion batteries have higher energy density than lead-acid and nickel-based batteries. Lithium is a chemical that can be found in brine resources. It is one of the lightest metals in the periodic table and is widely available. Conventional lithium-ion battery is commonly used in consumer electronics and is one of the most popular types of battery for small portable electronics. It has one of the best power-to-weight ratios, no memory effect and relatively low rate of self-discharge when not in use. Under the global trend to promote environmental awareness, the vehicle industry cries out for pollution-free and more reliable vehicles battery types. Given the characteristics of Lithium-ion battery, it has emerged as one of the preferred choices for the vehicle industry and becomes widely used storage types for electric vehicles. At present, China has become one of the world's largest manufacturers of lithium battery production bases.

For details of the electric vehicle market, please refer to the section headed "the Electric Vehicle Market" below.

An Overview of the Automotive Industry

There are generally four main categories of commercial cars, namely, passenger vehicles, light commercial vehicles, heavy trucks and buses. Set out below is the number of vehicles produced worldwide (including cars and commercial vehicles) each year from 1999 to 2010:



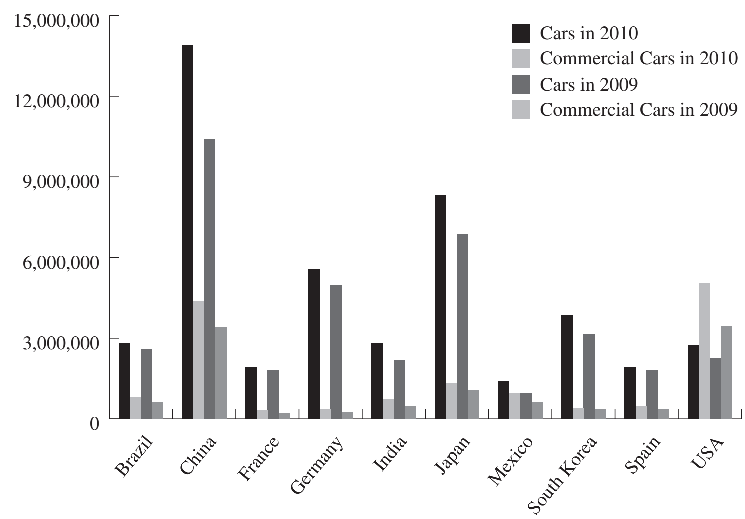
Source: International Organization of Motor Vehicle Manufacturers

Note: The production statistics for 2010 are provisional statistics for illustration purpose.

As shown in the above chart, the number of vehicles produced has generally increased from 1999 to 2010. The total number of production of motor vehicles in 2009 has reached approximately 61.7 million, representing an increase of approximately 9.70% when compared to 1999 and the provisional total number of production of motor vehicles in 2010 represent an increase of approximately 25.8% comparing to that of 2009. With the continuous improvement in living standards especially in developing countries, it is expected that the number of vehicles to be produced will continue to increase in coming years.

In light of the fast growing economy, rapid urbanization in the PRC and series of favourable government policies, motor vehicle manufacturing in the PRC has grown rapidly over the last decade when compared with other major vehicle manufacturing countries. In 2009, PRC produced approximately 13.79 million units of vehicles comprising approximately 10.38 million units of passenger cars and 3.41 million units of commercial vehicles, representing an increase of 48.3% comparing to the total manufacturing of approximately 9.30 million units of motor vehicles in 2008. The production of motor vehicles by the PRC in 2010 was approximately 18.26 million units, representing an increase of approximately 32.41%

comparing to that of 2009. Set out below is a chart showing the number of motor vehicles produced in major vehicle manufacturing countries in 2009 and 2010:



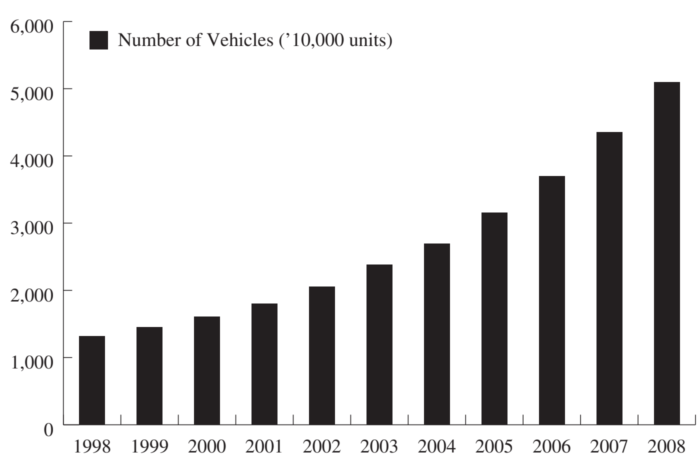
Source: International Organization of Motor Vehicle Manufacturers

Note: The production statistics for 2010 are provisional statistics for illustration purpose.

As shown from the above chart, the number of vehicles produced in the PRC was higher than Japan and the United States in 2009 and 2010, making it the largest motor vehicle market in the world.

Based on the data from the National Bureau of Statistics of the PRC, the number of civil vehicles (i.e. excluding vehicles for military use) increased by more than three times from 1998 to 2008, reaching 50 million units in 2008. Set out below is the number of civil vehicles in the PRC from the year 1998 to 2008:

Number of civil vehicles in the PRC from 1998 to 2008



Sources: Website of the National Bureau of Statistics of the PRC

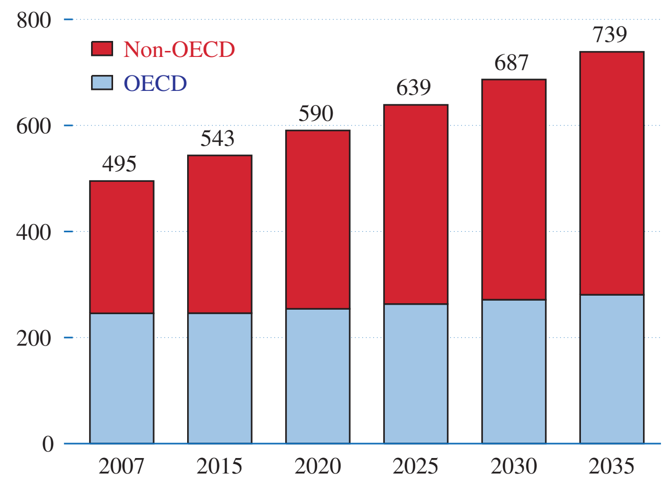
Note: The above chart does not take into account vehicles for military use.

Global Trends in the Automotive Industry

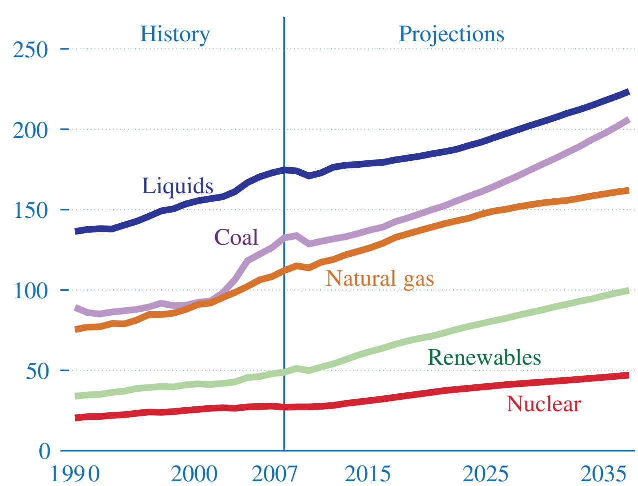
Increase in oil prices and oil resources being limited

The increase in the use of motor vehicles has also driven up the demand for the fuel of such vehicles. It has become a global phenomenon to explore new sources of energy and natural resources in view of the increase in the demand for oil products. Set out below are the statistics of projected oil consumption based on the data extracted from the International Energy Outlook 2010 ("International Energy Outlook") prepared by U.S. Energy Information Administration (EIA), a statistical and analytical agency within the U.S. Department of Energy:

World marketed energy consumption, 2007-2035 (quadrillion Btu)



World marketed energy use by fuel type, 1990-2035 (quadrillion Btu)



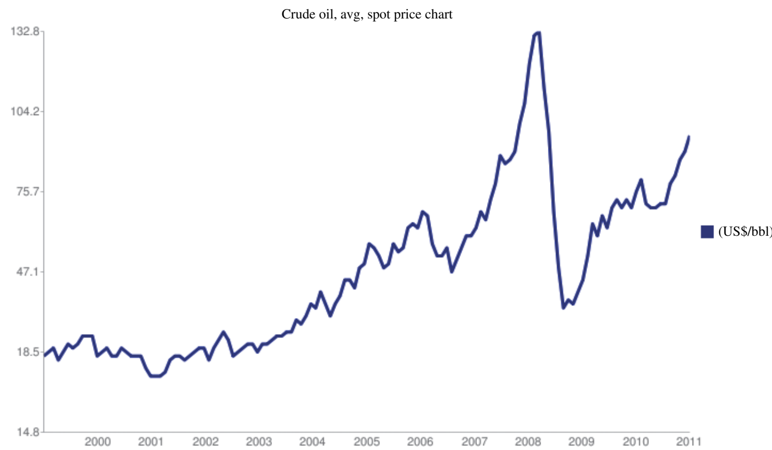
Source: International Energy Outlook 2010, U.S. Energy Information Administration

Note: Current Convention on the Organisation for Economic Co-operation and Development member countries as of the date hereof are the United States, Canada, Mexico, Austria, Belgium, Czech Republic, Chile, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Luxembourg, the Netherlands, Norway, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom, Japan, South Korea, Australia, and New Zealand.

As shown in the above chart, the worldwide consumption of liquid fuel resources such as petroleum and natural gas is expected to increase continuously and will reach over 200 quadrillion British thermal unit in 2035.

Oil is a limited resource. Scarcity in resource is becoming an important matter for countries to consider strategically, especially for global economics balance and military safety.

As the world reserve of liquid fuel resources is limited, prices of petroleum and its related products therefore have been rising over the years. Set out below are the statistics of oil prices from 2000 to 2010:



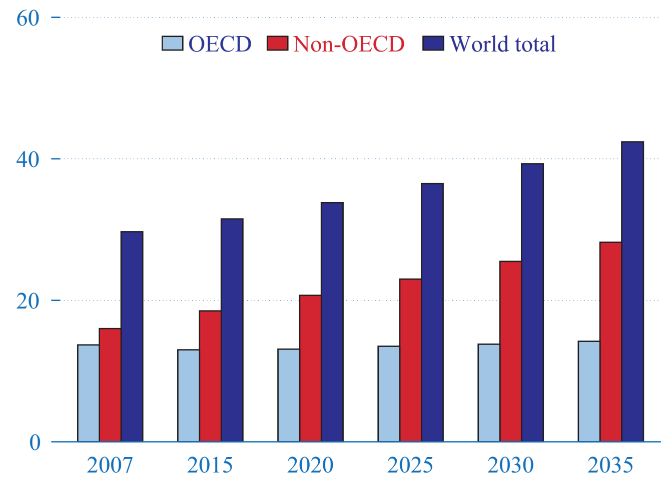
Source: http://www.mongabay.com/images/commodities/charts/crude_oil.html

In view of the increasing oil prices and development of renewal power generation technology (such as wind, thermal and photovoltaic, wave and tidal), it has become a global phenomenon for automotive manufacturers to conduct research and development of electric vehicles. Electricity is considered to be one of the most economical substitutes for oil as an alternative energy source to power vehicles on a cost per mile driven basis. This trend will bring significant opportunities to battery suppliers to develop high performance batteries and in particular, the higher fuel consumption rate of the heavy-duty transportation market, such as buses, trucks and other industrial vehicles, will also boost up the demand for the development of advanced battery technology to reduce the dependence on oil products.

Environmental concern

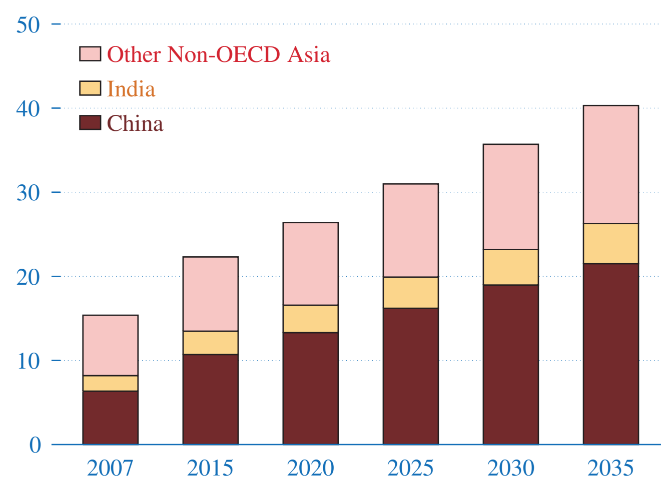
Global warming refers to the increase in the average temperature of the Earth's near-surface air and oceans. According to the Intergovernmental Panel on Climate Change, most of the observed temperature increase since the middle of the 20th century was caused by increasing concentrations of greenhouse gases resulting from human activity such as fossil fuel burning and deforestation. Carbon dioxide is one of the greenhouse gases and is created as a result of burning carbon-based fuel. Set out below are the statistics of the projected world energy-related carbon dioxide emissions and Non-OECD Asia transportation energy use for the period from 2007 to 2035.

World energy-related carbon dioxide emissions, 2007-2035 (billion metric tons)



Source: *International Energy Outlook 2010, U.S. Energy Information Administration*

Non-OECD Asia transportation energy use by country, 2007-2035 (quadrillion Btu)



Source: *International Energy Outlook 2010, U.S. Energy Information Administration*

As shown in the above charts, the PRC has been, and is projected to be, the fastest-growing economy among non-OECD countries and the fastest-growing consumer of transportation fuels. Automakers have invested hugely in developing a variety of automobiles that can run on alternative fuels including those from sustainable sources or that use hybrid technology using both gasoline or diesel engines and electric power. According to the Department of Energy of the Federal Government of the United States, only 15% to 20% of the energy contained in gasoline is used to propel the vehicle and the rest is lost primarily as waste heat. In contrast, electric motors are able to convert 86% to 90% of available energy into motive power. Although the aforesaid does not take into account the efficiency of electric power generation, it is believed that electric motors are more efficient than gasoline.

Government policy

Regulations to control global emissions from industrial activities are expected to continue to tighten along with the increasing awareness of environmental issues among governments globally. Pursuant to the declaration of Group of Eight Summit in 2010, the member countries, namely Canada, the Russian Federation, France, Germany, Japan, Italy, the United Kingdom and the United States expressed their goal of achieving at least a 50% reduction of global emissions and an aggregate of 80% or more reduction of greenhouse gases emissions of developed countries by 2050.

In the PRC, according to the《產業結構調整指導目錄(2007年本)》(Guidance on Structural Adjustments (2007 Edition)*) issued by NDRC, new energy vehicles have been entered into the list of the 國家鼓勵產業目錄 (Catalogue of National Encouraged Industries*) as one of the 國家重點支持項目 (National Key Projects*). On 31 December 2009, the NDRC issued the 國家重點節能技術推廣目錄 (第二批) (Catalogue of Key Promotions for National Energy Conservation Technologies (Second Batch)*), pursuant to which the PRC government will invest a total of RMB300 billion in 汽車混合動力技術及純電動汽車動力總成系統技術 (hybrid and electric vehicle technology*). According to NDRC, the number of hybrid electric vehicles and electric vehicles in the PRC are estimated to be 3 million and 1.5 million, respectively, in 2015. According to the Twelfth Five-Year Plan for 2011 to 2015, the PRC government will develop seven new strategic industries, namely, new generation information technology, energy-saving and environment protection, new energy, biology, high-end equipment manufacturing, new materials and new-energy cars with favourable policies in the next five years. In addition, the PRC government also put forward its objective of reducing carbon dioxide emission per unit of gross domestic product by 40% to 45% by 2020 from the 2005 level.

With the increasing government efforts on the reduction of carbon dioxide emission in various major countries in the world, it is expected that the development of the electric vehicles will experience rapid growth in the coming years.

The Electric Vehicle Market

In view of the worldwide growing environmental concerns and the booming economy, countries such as the United States, PRC, Japan and western Europe have introduced specific tax incentives and regulations to promote the use of electric vehicles. This trend has driven up the prospect for the electric vehicle as well as the electric vehicle battery markets.

Based on the estimation of the total number of 600,000 new energy vehicles produced in 2011, the Vendor predicts that new energy vehicle production capability will enjoy a compound annual growth rate of 200% in the following three years. Assuming that each vehicle uses an average of 100kg of power battery, the scale of the power battery market in 2011 will reach 600 million tonnes. While based on the development goal for new energy vehicles suggested by Wan Gang, Minister of the Ministry of Science and Technology, 10% of the new vehicles produced in China in 2012 will be energy conservation and new energy vehicles, and the scale of market demand for batteries will reach 1,000 million tonnes.

China is one of the largest lithium-ion battery producers in the world. In 2008, lithium-ion batteries made by China accounted for 44% of the global total output. According to the research report released by Japan's IIT, by 2013, the output of lithium-ion mixed power and pure electric power vehicles will exceed that of NiMH mixed power vehicles. The global market value of lithium-ion batteries used in vehicles will expand rapidly to US$25 billion by 2014. The Vendor estimates that nearly half of these batteries will be supplied by China.

Power Motor and Controller

Batteries are the basic part of any electric vehicle, they are just as important as fuels to any vehicle, as they are a prerequisite for the development of electric vehicles. However, the quality and development prospects of electric vehicles are determined by the technical level of batteries, electric motors and controllers. As for electric motors and controllers, China still lags behind other developed countries. However, China is the world's largest exporter of rare metals and rare metals, such as neodymium and boron, which are key materials for production of rare metals permanent magnet DC motors (稀土永磁直流電機).

There are mainly three kinds of motors used in electric vehicles, namely, AC Asynchronous Motor, Permanent Magnetic Synchronous Motor and Permanent Magnetic Brushless DC Motor. Permanent magnetic motors have certain advantages comparing to AC Asynchronous Motor, including, high efficiency, high power density, small volume and great torque, which is more suitable for using as the power motor in electrical vehicles. Other foreign countries are facing a critical issue that the production cost of developing permanent magnetic motors is high as the said rare metals are expensive in such countries. Given abundant rare earth sources in China, the cost of production and application of permanent magnetic DC motors in China can be decreased markedly. Accordingly, China has certain advantages in the application of high-power DC motors. Moreover, many technologies have been put under modularization management in the electric control system, thus laying a solid foundation for the development of pure electric vehicles in China. In view of the above, the cost of production and application of permanent magnetic DC motors of the Target Group could be reduced thereby enhancing the Target Group's competitive edges compared to other international players.

Competition

There is no entry barrier in the PRC battery industry. Currently, most domestic battery producers are on preliminary development stage and are all seeking for cooperation with vehicle producers. Electric vehicles, especially the large electric vehicles which the Target Group has set its battery target at, have a small market share. To date, no battery producers have overwhelming advantages over their peers. The major competitors of the Target Group's lithium-ion battery business are rechargeable battery manufacturers. The Target Group considers (i) BYD Company Limited, a Hong Kong-listed company; (ii) Thunder Sky Battery Limited, a Hong Kong listed-company; (iii) Wanxiang Group Corporation; (iv) Hunan Corun New Energy Co., Ltd., a company listed on the Shanghai Stock Exchange, to be active players in the manufacturing of lithium-ion battery in the PRC.

ENTRY/EXIT BARRIER

Barriers of entry to the electric vehicle industry are high, which requires new players to possess three demanding core technologies, namely, battery, power motor and power controller. The industry involves vast fields of technology, long industrial chains and new segments requiring new technologies. Therefore, it is extremely challenging to develop and constantly update required technologies. In addition, establishing market presence and defending market share in the industry requires significant investments in production equipment and facilities, substantial liquidity and a large number of technicians and production employees.

There is no barrier in exiting the industry by an enterprise.

OPPORTUNITIES

According to the development goal for China's electric vehicle industry as set out in the Automobile Industry Adjustment and Revival Plan (2009 – 2011), China shall, by 2011, achieve an annual production capacity of 500,000 new energy vehicles including pure electric type, plug-in HEV type and conventional HEV type, such that the sales of new energy vehicles will account for approximately 5% of the total sales volume of passenger vehicles; and all major passenger vehicle manufacturers shall have their own certified new energy automotive products. In addition, according to the development goal for China's energy-saving and new energy vehicles as set out in the Development Plan for Energy-saving and New Energy Vehicles (2011 – 2020) (《節能與新能源汽車發展規劃 (2011年至 2020年)》), China will rank the first in the world in terms of the extent of industrialization of new energy vehicles and market scale by 2020; particularly, the number of new energy vehicles including plug-in HEV type, pure electric type and hydro-battery type in China will reach 5 million units, and the sales volume of energy-saving vehicles, represented by hybrid vehicle, will amount to 15 million units, surpassing any other country in the world.

Such goals are supported by China's preferential policies. This is exampled by the "12th Five-Year Plan", which requires more preferential policies to be issued to support the development of new energy vehicles within the next five years. The relevant PRC policies give priority to develop new energy buses by providing a subsidy of RMB500,000 for each new energy bus and granting favourable terms to manufacturers of new energy vehicles in tax payment and land lease and acquisition. The vendor estimates that, at present, there are 3 million buses and passenger vehicles in the PRC. Based on the replacement rate of 5% per annum, the market demand for electric vehicles will reach 150,000 units per annum, while the current annual production capacity of electric passenger vehicles in the PRC is 3,000 units or less. This illustrates that China's electric vehicle market is still at the preliminary stage, where a competitive market has not yet been formed.

In addition, the automotive market in China has been growing rapidly. This is evidenced by a total of more than 18 million vehicles produced and sold in China in 2010. It is expected that 330 million vehicles will hit the road in China by 2030. Currently, the Target Group has basically mastered the core technology relating to energy-saving and pure electric vehicles.

Therefore, the establishment of a pure electric vehicle industry in this occasion will put the Company in a better position to participate the development of and the competition in the international electric vehicle industry.

CHALLENGES

The Target Group has the expertise in all the three core technologies, namely, battery, power motor and power controller. However, the industry in which the Target Group operates involves vast fields of technology, long industrial chains and new segments requiring new technologies. In view of the above, the Company will face challenges of technology investment and capital contribution.

Currently, much of the core technology related to the key materials of battery is possessed by countries such as Japan, South Korea, the United States, Germany and France. Although the technology gap between China and those countries is narrowing due to China's dedicated efforts to achieve breakthroughs, China remains lagged behind in terms of components, key technology of raw materials and key technology related to the electric vehicle industry.

In addition, the most important factor that hinders electric vehicles from being popular is cost. The cost (including the price of raw materials such as separators, electrolyte, anodes, cathodes, shells and current collector) of new energy vehicles must be reduced before the general public can spontaneously accept them. Therefore, the Target Group is looking forward to the introduction of new substitutes, including the application of new materials and new technology, so as to enhance the acceptance and use of electric vehicles by the general public.

LISTING RULES IMPLICATIONS

The Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules and will be subject to the approval of the Shareholders at the SGM under Rule 14.49 of the Listing Rules. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition Agreement and the transactions contemplated thereunder. Therefore, no Shareholder is required to abstain from voting in relation to the resolution(s) to be proposed for approving the Acquisition Agreement and the transactions contemplated thereunder at the SGM.

SHARE PLACINGS

Kingston Placing Agreement

Date

13 January 2011 (as supplemented and amended by side letters entered into between the same parties on 1 February 2011 and 23 May 2011)

Parties

The Company (as issuer) and Kingston (as Share Placing Agent)

Placing Agent

Kingston has conditionally agreed with the Company to place 2,941,000,000 new Reorganised Shares on a best effort basis and will receive a placing commission of 1% of the aggregate amount equal to the Placing Price multiplied by the actual number of the Placing Shares being placed.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Kingston and its ultimate beneficial owners, are Independent Third Parties.

GDS Placing Agreement

Date

13 January 2011 (as supplemented and amended by side letters entered into between the same parties on 1 February 2011 and 23 May 2011)

Parties

The Company (as issuer) and GDS (as Share Placing Agent)

Placing Agent

GDS has conditionally agreed with the Company to place 5,882,000,000 new Reorganised Shares on a best effort basis and will receive a placing commission of 1% of the aggregate amount equal to the Placing Price multiplied by the actual number of the Placing Shares being placed.

The Company shall have the absolute discretion to appoint additional placing agent(s) (the "**Joint Placing Agent(s)**") to act as the joint placing agent(s) together with GDS under the GDS Placing and to allocate to such Joint Placing Agent(s) the placing commitment under the GDS Placing Agreement in such proportions may be determined by the Company in its absolute discretion.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, GDS and its ultimate beneficial owners, are Independent Third Parties.

Principal terms of the Share Placing Agreements

The principal terms and conditions of the Share Placing Agreements are similar and are set out below:

Placees

Not less than six independent Share Placees (which will be independent professional, institutional or other investors), who and whose ultimate beneficial owners are not (a) connected or acting in concert with the Company or the Vendor or any Directors, chief executives or substantial shareholders of the Company or its subsidiaries or any of their respective associates; and (b) directly or indirectly funded or backed by a connected person of the Company or the Vendor; and (c) a person who is accustomed to take instructions from a connected person of the Company or the Vendor in relation to the acquisition, disposal, voting or any other disposition of the securities in the Company. Each of the Share Placing Agents undertakes to use all reasonable endeavours to ensure that no Share Placee will immediately become a substantial shareholder of the Company as a result of the Placing Completion when aggregating with the Shares held by it at the time of Placing Completion and those Shares to be issued or acquired upon exercise of any rights under any securities held by it at the time of Placing Completion.

Placing Shares

Pursuant to the Kingston Placing Agreement, 2,941,000,000 new Reorganised Shares will be placed by Kingston on a best effort basis, representing approximately (i) 64.43% of the Company's issued share capital immediately after Capital Reorganisation becoming effective (based on the Company's existing issued share capital as at the Latest Practicable Date) and (ii) 39.19% of its issued share capital as enlarged by Kingston Placing.

Pursuant to the GDS Placing Agreement, 5,882,000,000 new Reorganised Shares will be placed by GDS on a best effort basis, representing approximately (i) 128.87% of the Company's issued share capital immediately after Capital Reorganisation becoming effective (based on the Company's existing issued share capital as at the Latest Practicable Date) and (ii) 56.31% of its issued share capital as enlarged by GDS Placing.

The Placing Shares will be allotted and issued pursuant to a specific mandate to be obtained at the SGM.

The Placing Shares will, when fully paid, be allotted and issued in accordance with the memorandum and bye-laws of the Company and with the relevant rules and regulations applicable to the Company in Bermuda and Hong Kong and will, at completion of the Share Placings, be free from all liens, charges, encumbrances or third party rights of whatsoever nature and together with all rights attaching thereto at completion of the Share Placings and thereafter.

The Placing Shares will rank pari passu in all respects with the shares of the Company in issue on the date of allotment and issue of the Placing Shares.

Placing Price

The Placing Price of HK$0.17 for Reorganised Share (and for illustration purpose, HK$0.017 for Existing Shares) represents:

(a) a discount of approximately 19.05% to the adjusted closing price of HK$0.21 per Reorganised Share, based on the closing price of HK$0.021 per Share as quoted on the Stock Exchange on the Last Trading Date and adjusted for the effect of the Capital Reorganisation;

(b) a discount of approximately 14.14% to the adjusted closing price of approximately HK$0.198 per Reorganised Share, based on the average closing price of HK$0.0198 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date and adjusted for the effect of the Capital Reorganisation;

(c) a discount of approximately 13.71% to the adjusted closing price of approximately HK$0.197 per Reorganised Share, based on the average closing price of HK$0.0197 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date and adjusted for the effect of the Capital Reorganisation; and

(d) a discount of approximately 45.16% to the adjusted closing price of approximately HK$0.31 per Reorganised Share, based on the closing price of HK$0.031 per Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation.

The Share Placing Agreements and the Placing Price were negotiated on an arm's length basis between the Company and the respective Share Placing Agent with reference to the recent market prices, the performance of the Shares and the current market conditions. The Board considers that the terms of the Share Placings and the Share Placing Agreements (including but not limited to the placing commission) are fair and reasonable, on normal commercial terms, and are in the interests of the Company and its Shareholders as a whole.

The net price raised per Placing Share under the Share Placings will be approximately HK$0.168 per Placing Share. The aggregate nominal value of the Placing Shares under the Kingston Placing and GDS Placing is approximately US$2,941,000 and US$5,882,000 respectively.

Conditions of the Share Placings

Placing Completion is conditional upon (a) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in all of the Placing Shares under the relevant tranche of the Share Placings; (b) the granting of approval by Shareholders on the Share Placing Agreements and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Placing Shares) and the Capital Reorganisation; (c) the Capital Reorganisation becoming effective and (d) the obligations of the Share Placing Agents under the Share Placing Agreements becoming unconditional and not being terminated in accordance with the terms of the Share Placing Agreements, including provisions regarding force majeure event.

If the conditions precedent are not fulfilled (or waived as to condition (d) above only) in whole or in part by the respective Share Placing Agent prior to 10:00 a.m. on 30 September 2011, the Share Placings will be terminated and the Share Placings will not proceed and all obligations and liabilities of the parties thereunder will forthwith cease and determine and no party will have any claim against the others (save for any antecedent breaches thereof) provided that such termination shall not affect any partial completion of the Placing Shares that have taken place prior to such date of termination.

Termination and force majeure of the Share Placings

The Share Placing Agents may terminate the respective Share Placing Agreement by notice in writing prior to 10:00 a.m. on the Placing Completion, if in the reasonable opinion of the Share Placing Agents, the success of the Share Placings would be materially and adversely affected by any force majeure events:

(a) the introduction of any new laws or regulations or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the reasonable opinion of the Share Placing Agents, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(b) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the Share Placing Agreements) of a political, military, financial, economic, currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances which may, in the reasonable opinion of the Share Placing Agents, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or adversely prejudices the success of the Share Placings to potential investor(s) or otherwise makes it inexpedient or inadvisable for the Company or the Share Placing Agents to proceed with the Share Placings; or

(c) any change in market conditions or combination of circumstances in Hong Kong (including without limitation to suspension or material restriction or trading in securities) occurs which affect the success of the Share Placings (such success being the placing of the Reorganised Shares to potential investor(s)) or otherwise in the reasonable opinion of the Share Placing Agents makes it inexpedient or inadvisable or inappropriate for the Company or the Share Placing Agents to proceed with the Share Placings.

If, at or prior to 10:00 a.m. on the Placing Completion:

(a) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed or assumed under the Share Placing Agreements; or

(b) any suspension in the trading of the shares of the Company/Reorganised Shares on the Stock Exchange for more than ten consecutive trading days save for (i) the purposes of clearing of the announcements or circulars relating to the Share Placing Agreements and (ii) the transactions contemplated under the Acquisition Agreement; or

(c) the Share Placing Agents shall become aware of the fact that any of the representations or warranties contained in the Share Placing Agreements was, when given, untrue or inaccurate or would in any respect be untrue or inaccurate if repeated the Share Placing Agents shall determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the financial or trading position or prospects of the Group taken as a whole or will otherwise likely to have a material prejudicial effect on the Share Placings.

Completion of the Share Placings

Placing Completion will take place within four business days after the fulfilment or waiver (as the case may be) of the conditions as set out in the Share Placing Agreements or such later date to be agreed between the Company and the respective Share Placing Agent in writing.

The Share Placings can be completed partially by tranches. For Kingston Placing, it can be completed partially by a maximum of 5 tranches provided that the aggregate number of the Placing Shares for each partial completion shall not be less than 590,000,000 Placing Shares (save for the last tranche of the Kingston Placing where the number of the Placing Shares to be issued may be less than 590,000,000). For GDS Placing, it can be completed partially by a maximum of 5 tranches provided that the aggregate number of the Placing Shares for each partial completion shall not be less than 1,000,000,000 (save for the last tranche of the GDS Placing where the number of the Placing Shares to be issued may be less than 1,000,000,000). The Company will issue an announcement upon each partial completion of the Share Placings. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the relevant Placing Shares once the Share Placing Agents confirm to the Company that the number of Placing Shares to be subscribed by the Share Placees procured by the Share Placing Agents has reached 590,000,000 Shares for the Kingston Placing and 1,000,000,000 Shares for the GDS Placing and that partial completion of the relevant Share Placings can take place.

Listing

Application will be made to the Stock Exchange to grant the listing of, and permission to deal in, the Placing Shares in the manner as set out above.

Reasons for and benefit of the Share Placings

The gross proceeds and the net proceeds from the Kingston Placing will be approximately HK$499,970,000 and HK$494,970,000 respectively. The gross proceeds and the net proceeds from the GDS Placing will be approximately HK$999,940,000 and HK$989,940,000 respectively. The Board intends to apply the net proceeds (or any part thereof as the Company may consider necessary) obtained from the Share Placings as follows: (i) as to approximately HK$370 million to satisfy the Cash Consideration; (ii) as to approximately HK$530 million to satisfy further Cash Consideration should the Purchaser exercises its right to change the payment method of the Consideration from payment by Consideration Shares or any part thereof to payment by cash as set out in the section headed "Consideration" above, provided that if no such right was exercised or if part of such right was exercised by the Purchaser, such amount or the remaining amount (as the case may be) will be utilized as general working capital of the Group and/or as funds for the Group's future investment in new energy industry should such opportunities arise; (iii) as to approximately HK$500 million for the future development of the Target Group in the northeastern region of the PRC in which Lithium Jilin is established; and (iv) as to approximately HK$80 million as general working capital of the Group and/or as funds for the Group's future investment in new energy industry should such opportunities arise.

Since the Acquisition is a valuable opportunity for the Company to diversify its business to the lithium and electric vehicles industry, the Board considers that it is a suitable timing for the Company to conduct Share Placings to provide the Company with immediate funding. In addition, the Share Placings give the opportunity to the Company to broaden its shareholder and capital base. Accordingly, the Directors consider that the Share Placings are fair and reasonable and in the interests of the Shareholders and Company as a whole.

CN PLACING

Date

13 January 2011 (as supplemented and amended by side letters entered into between the same parties on 1 February 2011 and 23 May 2011)

Parties

The Company (as issuer) and Kingston (as CN Placing Agent)

CN Placing Agent

The CN Placing Agent has conditionally agreed to act as the agent of the Company to place, on a best efforts basis, the Convertible Notes which are proposed to be issued in a maximum aggregate principal amount of HK$500,000,000. The CN Placing Agent will receive a placing commission of 1% of the amount equal to the aggregate principal amount of the Convertible Notes actually placed by the CN Placing Agent in the relevant tranche of the CN Placing, which was arrived at after arm's length negotiations between the Company and the CN Placing Agent.

The Board is of the view that the terms of the CN Placing and the CN Placing Agreement (including but not limited to the placing commission) are fair and reasonable, on normal commercial terms and in the interest of the Company and the Shareholders as a whole.

CN Placees

The CN Placing Agent will place the Convertible Notes to not less than six independent CN Placees (who will be independent professional, institutional or other investors), each of whom is not (a) connected or acting in concert with the Company or the Vendor or any Directors, chief executives or substantial shareholders of the Company or its subsidiaries or any of their respective associates; and (b) directly or indirectly funded or backed by a connected person of the Company or the Vendor; and (c) a person who is accustomed to take instructions from a connected person of the Company or the Vendor in relation to the acquisition, disposal, voting or any other disposition of the securities in the Company.

Conditions of the CN Placing

The CN Placing is conditional upon:

(a) the Stock Exchange granting or agreeing to grant the listing of and permission to deal in the relevant Conversion Shares under the relevant tranche of the CN Placing;

(b) the granting of approval by the Shareholders on the CN Placing Agreement and the transactions contemplated thereunder (including but not limited to the issue of the Convertible Notes and the allotment and issue of the Conversion Shares) and the Capital Reorganisation at the SGM;

(c) the Capital Reorganisation becoming effective; and

(d) (if so required by the laws of Bermuda) the approval of the Bermuda Monetary Authority for the issue of the Convertible Notes and the Conversion Shares issuable on conversion of the Convertible Notes has been obtained.

If the conditions are not fulfilled on or before 30 September 2011, the CN Placing Agreement shall terminate and neither the Company nor the CN Placing Agent shall have any claim against the other for any costs or losses (save for any prior breaches of the CN Placing Agreement). The CN Placing Agent shall provide to the Company all information concerning itself and the CN Placees as the Stock Exchange may reasonably require.

Undertaking by the CN Placing Agent

The CN Placing Agent undertakes with the Company that it shall procure and shall procure sub-placing agents to procure independent CN Placees to subscribe for the Convertible Notes which upon full conversion will enable the Company to maintain and/or meet the public float requirements under Rule 8.08 of the Listing Rules immediately after completion of the relevant tranche of the CN Placing.

Termination and force majeure for the CN Placing

The CN Placing Agreement may be terminated by the CN Placing Agent, if, at any time prior to 10:00 a.m. on the relevant date of completion of the CN Placing, in the reasonable opinion of the CN Placing Agent, the success of the CN Placing or the business or financial prospects of the Group would or might be adversely affected by:

(a) any material breach of any of the representations and warranties set out in the CN Placing Agreement; or

(b) any suspension in the trading of the Shares on the Stock Exchange for more than ten consecutive trading days save for (i) the purposes of clearing of the announcement relating to the CN Placing Agreement or circulars relating to the placing of the Convertible Notes and in the ancillary agreements thereto and (ii) the transactions contemplated under the Acquisition Agreement; or

(c) any of the following events:

(i) the introduction of any new laws or regulations or any change in existing laws or regulations (or the judicial interpretation thereof) or other occurrence of any nature whatsoever which may, in the reasonable opinion of the CN Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole; or

(ii) the occurrence of any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before and/or after the date of the CN Placing Agreement) of a political, military, financial, economic, currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not sui generis with any of the foregoing), or in the nature of any local, national, international outbreak or escalation of hostilities or armed conflict, or affecting local securities market or the occurrence of any combination of circumstances which would, in the reasonable opinion of the CN Placing Agent, materially and adversely affect the business or the financial or trading position or prospects of the Group as a whole or adversely prejudices the success of the placing of the Convertible Notes by potential investor(s) or otherwise makes it inexpedient or inadvisable for the Company or the CN Placing Agent to proceed with the placing of Convertible Notes; or

(iii) any change in market conditions or combination of circumstances in Hong Kong (including without limitation suspension or material restriction on trading in securities) which would materially and adversely affect the success of the placing of the Convertible Notes (such success being the placing of the Convertible Notes to potential investor(s)) or otherwise in the reasonable opinion of the CN Placing Agent makes it inexpedient or inadvisable or inappropriate for the Company or the CN Placing Agent to proceed with the placing of the Convertible Notes, then and in any such case, the CN Placing Agent may terminate the CN Placing Agreement without liability to the Company by giving notice in writing to the Company, provided that such notice is received prior to 10:00 a.m. on the relevant completion date of the CN Placing and provided further that such termination shall not affect any partial completion of the Convertible Notes that have taken place prior to such date of termination.

Completion of the CN Placing

Completion of the CN Placing Agreement shall take place within four business days following the date on which the conditions of the CN Placing Agreement are fulfilled or in such other date as the Company and the CN Placing Agent shall agree.

The CN Placing can be completed partially by a maximum of 5 tranches provided that the aggregate principal amount of the Convertible Notes to be issued by the Company for each partial completion shall not be less than HK$100,000,000 and in integral multiple of HK$500,000 (save for the last tranche of the CN Placing where the aggregate principal amount of the Convertible Notes to be issued by the Company may be less than HK$100,000,000). The Company will issue an announcement upon each partial completion of the CN Placing. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the relevant Conversion Shares once the CN Placing Agent confirms to the Company that the aggregate principal amount of the Convertible Notes to be subscribed by the CN Placees procured by the CN Placing Agent has reached HK$100,000,000 and that partial completion of the CN Placing can take place.

The Convertible Notes

The terms of the Convertible Notes have been negotiated on arm's length basis and the principal terms of which are summarized below:

Principal amount

A maximum aggregate of HK$500,000,000.

Interest

The Convertible Notes will be non-interest bearing.

Maturity date

The Convertible Notes shall mature on the date falling upon the expiry of five years from the date on which the Convertible Notes is first issued or if such date is not a business day, the immediate preceding business day.

Denomination

HK$500,000 each

Conversion price

The conversion price, subject to the adjustment, shall be HK$0.17 per Reorganised Share. The conversion price of the Convertible Notes was arrived at after arm's length negotiations between the Company and the CN Placing Agent and with reference to the market price of the Shares and the net asset value of the Company. The conversion prices of the Convertible Notes may be adjusted upon occurrence of adjustment events, which include consolidation or sub-division of Shares, capitalisation of profits or reserves, capital distributions in cash or specie, rights issues or subsequent issue of securities in the Company, and will in any event not be adjusted below the par value of the Shares. In addition, every adjustment to the conversion price shall be certified (at the option of the Company) either by the auditors of the Company for the time being or by an approved merchant bank.

The conversion price of HK$0.17 per Reorganised Share (and for illustration purpose, HK$0.017 per Existing Share) represents

(a) a discount of approximately 19.05% to the adjusted closing price of HK$0.21 per Reorganised Share, based on the closing price of HK$0.021 per Share as quoted on the Stock Exchange on the Last Trading Date and adjusted for the effect of the Capital Reorganisation;

(b) a discount of approximately 14.14% to the adjusted closing price of approximately HK$0.198 per Reorganised Share, based on the average closing price of HK$0.0198 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Date and adjusted for the effect of the Capital Reorganisation;

(c) a discount of approximately 13.71% to the adjusted closing price of approximately HK$0.197 per Reorganised Share, based on the average closing price of HK$0.0197 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Date and adjusted for the effect of the Capital Reorganisation; and

(d) a discount of approximately 45.16% to the adjusted closing price of approximately HK$0.31 per Reorganised Share, based on the closing price of HK$0.031 per Share as quoted on the Stock Exchange on the Latest Practicable Date and adjusted for the effect of the Capital Reorganisation.

Conversion

Each holder may convert the whole or part of the principal amount of the relevant Convertible Notes (in multiple of HK$500,000 at any one time of conversion) into new Shares unless the principal amount of the outstanding Convertible Notes is less than HK$500,000 in which case the whole (but not part only) of such outstanding principal amount of the Convertible Notes shall be converted.

No conversion shall be made by the Noteholder unless the Noteholder provides, to the reasonable satisfaction of the Company, evidence that such Noteholder and its parties acting in concert will not be beneficially interested in 30% or more of the then issued share capital and/or the voting rights of the Company immediately upon conversion.

In addition, no conversion shall be made by the Noteholder unless immediately after exercise of such conversion rights attaching to the Convertible Notes, the Company will be able to comply with the public float requirements under Rule 8.08 of the Listing Rules.

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Notes in the aggregate of HK$500,000,000 at the conversion price of HK$0.17 per Reorganised Share by all holders of the Convertible Notes, the Company will issue an aggregate of 2,941,176,470 new Reorganised Shares, representing approximately (i) 64.44% of the Company's issued share capital immediately after Capital Reorganisation becoming effective (based on the Company's existing issued share capital as at the Latest Practicable Date), and (ii) 39.19% of its issued share capital as enlarged by the issue of the Conversion Shares.

Ranking

The Conversion Shares will rank pari passu in all respects with the shares of the Company in issue at the date of the conversion notice.

Redemption by the Company

The Company shall, at any time before the Maturity Date, have the option to redeem the Convertible Notes in whole or in part by giving not less than 7 clear business days' prior written notice. The amount payable for any redemption shall be the relevant amount of the principal amount of the Convertible Notes so redeemed.

Status of the Convertible Notes

The Convertible Notes constitute a direct, general, unconditional and unsecured obligation of the Company and rank pari passu and rateably without preference (with the exception of obligations in respect of taxes and certain other mandatory provisions of applicable law exceptions) equally with all other present and/or future unsecured and unsubordinated obligations of the Company. The holders of the Convertible Notes shall not be entitled to receive dividend of the Company.

Transferability

The Convertible Notes may not be assigned or transferred to a connected person of the Company. The Company will notify the Stock Exchange should it become aware of the Convertible Notes have been assigned or transferred to a connected person of the Company.

Voting Rights

The Convertible Notes do not confer any voting rights at any meetings of the Company.

Listing

No application will be made for the listing of the Convertible Notes. Application will be made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Conversion Shares in the manner as set out above.

Specific Mandate

The Conversion Shares to be issued pursuant to conversion of the Convertible Notes will be, if approved by the Shareholders at the SGM, allotted and issued under a specific mandate.

Reasons for and benefit of the CN placing and use of proceeds

The gross proceeds and the net proceeds from the CN Placing will be approximately HK$500,000,000 and HK$495,000,000 respectively. On this basis, the net conversion price for each Conversion Share is approximately HK$0.168. The Board intends to apply the net proceeds (or any part thereof as the Company may consider necessary) obtained from the CN Placing for the future development of the Target Group in the northern region of the PRC in which certain subsidiaries of the Target Company in Tangshan are established as mentioned in the section headed "Proposed business plan" and/or as funds for future investment of the Group in new energy industry should such opportunities arise.

In the event that the Acquisition does not take place, the proceeds raised from the CN Placing together with the Share Placings will be used for the Group's future investment in new energy industry should such opportunities arise.

The Board considers that the CN Placing is conducted in the best interest of the Company in view of the Acquisition is a valuable opportunity for the Company to diversify its business to the lithium and electric vehicles industry, the prevailing market conditions and that the recent market sentiment represents a good timing for the CN Placing. The Board also considered that the issue of the Convertible Notes is an appropriate means of raising additional capital for the Company since it will provide the Company with immediate funding. In addition, the CN Placing gives the opportunity to the Company to broaden its shareholder and capital base and strengthen the cash position of the Company. Accordingly, the Board considers that the CN Placing is fair and reasonable to the Shareholders and the Company as a whole.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST 12 MONTHS

Save for the placing of the First Tranche Convertible Notes and the Second Tranche Convertible Notes, the Company has not conducted any fund raising activities in the past twelve months before the Latest Practicable Date.

Detailed breakdown of the use of the net proceeds from the placing of the First Tranche Convertible Notes in an amount of approximately HK$440,000,000 is set out below:

Net proceeds (approximately)	**Intended use of proceeds as announced**	**Actual use of proceeds**
Up to HK$150,000,000	To redeem outstanding convertible notes of the Company	Used as intended
Up to approximately HK$50,000,000	As disclosed in the announcement of the Company dated 10 August 2010, such amount, which was intended to be applied as general working capital of the Company as set out in the circular of the Company dated 28 June 2010, would be applied to satisfy part of the consideration for the Acquisition of Allywing, the completion of which took place on 13 August 2010	Used as intended
Up to approximately HK$14,125,000	For cash outflow to the timber business of the Group	Reserved as intended
Up to approximately HK$31,640,000	As disclosed in the announcement of the Company dated 19 January 2010, such amount, which was originally intended to be used for the food processing and distribution business of the Group as set out in the circular of the Company dated 28 September 2009, would be applied as general working capital of the Group and/or funding for potential investment when opportunities arise	Approximately HK$31,640,000 used as general working capital of the Group

Net proceeds (approximately)	Intended use of proceeds as announced	Actual use of proceeds
Up to approximately HK$178,600,000	As available cash which may be necessary to honour the Company's financial obligations	Used as intended
Remaining balance of approximately HK$15,635,000	To be reserved for the operation of the Company	Reserved as intended

The unutilised proceeds from the placing of the First Tranche Convertible Notes as mentioned above are placed in bank deposit.

Detailed breakdown of the use of the net proceeds from the placing of the Second Tranche Convertible Notes in an amount of approximately HK$245,000,000 is set out below:

Net proceeds (approximately)	Intended use of proceeds as announced	Actual use of proceeds
Approximately HK$245,000,000	To satisfy the consideration (whether in whole or in part) for the Acquisition of Allywing, the completion of which took place on 13 August 2010, and the remaining balance thereof shall be used to finance the Property Project	Approximately HK$245,000,000 used to satisfy the partial consideration for the Acquisition of Allywing

PROPOSED CAPITAL REORGANISATION AND CHANGE OF BOARD LOT SIZE

The Company intends to put forward for approval by the Shareholders to effect the Capital Reorganisation which involves the following:

(a) Share Consolidation: every 10 Existing Shares of US$0.001 each in the issued share capital of the Company will be consolidated into one Consolidated Share of par value US$0.01;

(b) Capital Reduction: upon the Share Consolidation becoming effective, the par value of each issued Consolidated Share will be reduced from US$0.01 to US$0.001 by cancellation of US$0.009 of the paid-up capital of each issued Consolidated Share;

(c) Share Premium Reduction: upon the Share Consolidation and the Capital Reduction becoming effective, the entire amount standing to the credit of the share premium account of the Company as at the date of the Capital Reorganisation becomes effective will be reduced and cancelled.

The credits arising from the Capital Reduction and the Share Premium Reduction will be applied to reduce the accumulated losses of the Company on the date of the Capital Reorganisation becomes effective with the balance (if any) to be credited to the contributed surplus account of the Company. As at the Latest Practicable Date, the authorised share capital of the Company is US$100,000,000 divided into 100,000,000,000 Shares of US$0.001 each, of which 45,642,927,432 Existing Shares have been issued and are fully paid. On the assumption that no Existing Shares will be issued after the Latest Practicable Date, a credit of approximately US$41,078,000 will arise from the Capital Reduction.

The entire balance of the accumulated losses and the share premium account of the Company amounted to approximately US$217,050,000 and US$133,056,000 respectively as at 30 June 2010.

Any fraction of the Reorganised Shares, if any, arising from the Capital Reorganisation will not be issued to the Shareholders but will be aggregated and sold (if a premium, net of expenses, can be obtained) for the benefit of the Company. The Reorganised Shares will rank pari passu in all respects with each other.

In order to alleviate the difficulties arising from the existence of odd lots of the Reorganised Shares arising from the Capital Reorganisation, the Company has appointed Kingston Securities Limited to stand in the market to provide matching services for the odd lots of the Reorganised Shares on a best effort basis during the period from Thursday, 7 July 2011 to Wednesday, 27 July 2011 (both days inclusive). Shareholders who wish to buy or sell their holdings of odd lots of Reorganised Shares may contact Ms. Rosita Kiu of Kingston Securities Limited located at Suite 2801, 28/F., One International Finance Centre, 1 Harbour View Street, Central, Hong Kong, at telephone number 22986215 during normal office hours, for the purchase or disposal of odd lots holdings. Shareholders should note that the matching of the sale and purchase of odd lots of the Reorganised Shares is not guaranteed. Shareholders are recommended to consult their licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser if they are in doubt about the facility described above. The expected timetable for the implementation of the Capital Reorganisation is set out in the section headed "Expected timetable for the proposed Capital Reorganisation and change of board lot size" below.

Conditions of the Capital Reorganisation

The Capital Reorganisation is conditional upon:

(i) the passing of the necessary resolutions by the Shareholders approving the Capital Reorganisation at the SGM;

(ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Reorganised Shares in issue arising from the Capital Reorganisation; and

(iii) the compliance with the relevant procedures and requirements under the Listing Rules, the Companies Act and the Bye-laws to effect the Capital Reorganisation.

Assuming the above conditions are fulfilled, it is expected that the Capital Reorganisation will become effective on the business day immediately following the day of passing the relevant resolution approving the Capital Reorganisation.

Effects of the Capital Reorganisation

Implementation of the Capital Reorganisation will not, of itself, alter the underlying assets, business operations, management or financial position of the Company or the proportionate interests of the Shareholders, except for the payment of the related expenses. The Board believes that the Capital Reorganisation will not have any adverse effect on the financial position of the Group and the Board believes that on the date the Capital Reorganisation is to be effected, there are no reasonable grounds for believing that the Company is, or after the Capital Reorganisation would be, unable to pay its liabilities as they become due. No capital will be lost as a result of the Capital Reorganisation and, except for the expenses involved in relation to the Capital Reorganisation which are expected to be insignificant in the context of the net asset value of the Company, the net asset value of the Company will remain unchanged before and after the Capital Reorganisation becoming effective. The Capital Reorganisation does not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any paid up capital of the Company nor will it result in any change in the relative rights of the Shareholders.

The effect of the Capital Reorganisation on the share capital of the Company is summarized below:

	Prior to the Capital Reorganisation *(Note)*	Immediately following the Capital Reorganisation becoming effective
Nominal value of each share	US$0.001	US$0.001
Number of authorized shares	100,000,000,000	100,000,000,000
Authorised share capital	US$100,000,000	US$100,000,000
Number of shares in issue	45,642,927,432	4,564,292,743.20
Issued and fully paid up share capital	US$45,642,927.43	US$4,564,292.74

Note: The issued share capital immediately prior to the Capital Reorganisation becoming effective is presented here on the assumption that no Existing Shares would be issued as a result of any exercise of the rights attaching to the Previous Convertible Notes and the outstanding Share Options after the Latest Practicable Date and prior to the date of Capital Reorganisation becoming effective.

Reasons for the Capital Reorganisation

The Directors believe that (i) the Share Consolidation enables the Company to meet the requirement of Rule 13.64 of the Listing Rules; (ii) the Capital Reduction will give greater flexibility to the Company to raise funds through the issue of new Shares in the future since the Company is not permitted to issue new Shares below their nominal value under the law of Bermuda; (iii) the Company can apply the credit arising from the Capital Reduction and the Share Premium Reduction to reduce its accumulated losses and (iv) the Capital Reorganisation can reduce the transaction costs for dealing in the Shares, including charges by reference to the number of share certificates issued.

Listing and Dealings

Application will be made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Reorganised Shares arising from the Capital Reorganisation.

None of the securities of the Company is listed or dealt in or on which listing or permission to deal is being or is proposed to be sought on any other stock exchanges.

The Reorganised Shares will be identical in all respects and rank pari passu in all respects with each other as to all future dividends and distributions which are declared, made or paid. Subject to the granting of the listing of, and permission to deal in, the Reorganised Shares on the Stock Exchange, the Reorganised Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Reorganised Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Board lot size

As at the Latest Practicable Date, the Shares are traded on the Stock Exchange in board lots of 2,000 Existing Shares. Subject to the Capital Reorganisation becoming effective, the board lot size of the Shares will be changed to 10,000 Reorganised Shares.

With effect from Wednesday, 22 June 2011, the original counter for trading in Existing Shares in board lots of 2,000 Existing Shares will be closed temporarily and the temporary counter for trading in Reorganised Shares in board lots of 200 Reorganised Shares will be opened. With effect from Thursday, 7 July 2011, the original counter for trading in Reorganised Shares in board lots of 10,000 Reorganised Shares will be reopened. Parallel trading arrangements at the Stock Exchange will be arranged during the period from Thursday, 7 July 2011 to Wednesday, 27 July 2011 (both days inclusive) to deal in the Reorganised Shares in board lot size of 200 Reorganised Shares under temporary counter and the Reorganised Shares are dealt in board lot size of 10,000 Reorganised Shares under original counter. The temporary counter for trading in Reorganised Shares in board lots of 200 Reorganised Shares will be closed at 4:00 p.m. on Wednesday, 27 July 2011.

Free exchange of share certificates

Subject to the Capital Reorganisation becoming effective, Shareholders may submit existing certificates for Shares in blue colour to Computershare Hong Kong Investor Services Limited, the Company's branch share registrar in Hong Kong, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong to exchange from Wednesday, 22 June 2011 to Friday, 29 July 2011 (both dates inclusive), at the expense of the Company, for new certificates for the Reorganised Shares in yellow colour. Thereafter, certificates for Shares will be accepted for exchange only on payment of a fee of HK$2.50 (or such higher amount as may from time to time be allowed by the Stock Exchange) for each share certificate of the Shares cancelled or each new share certificate issued for the Reorganised Shares, whichever number of certificates cancelled/issued is higher. Nevertheless, the certificates for the Existing Shares will continue to be good evidence of legal title only and will cease to be valid for dealing, trading and settlement purposes. Certificates for the Shares in blue colour may be exchanged for certificates for the Reorganised Shares in yellow colour at any time in accordance with the foregoing.

Expected timetable for the proposed Capital Reorganisation and change of board lot size

The expected timetable in respect of the proposed Capital Reorganisation and the change of board lot size is set out as follows:

	2011
Date of despatch of the circular	Wednesday, 25 May
Latest time for lodging forms of proxy for the SGM (not less than 48 hours before the SGM)	11:00 a.m., Sunday, 19 June

Expected date and time of SGM	11:00 a.m., Tuesday, 21 June
Publication of announcement of results of the SGM	Tuesday, 21 June
Effective date of the Capital Reorganisation	Wednesday, 22 June
First day of free exchange of existing share certificates in blue colour for new share certificates for Reorganised Shares in yellow colour	Wednesday, 22 June
Commencement in dealings in the Reorganised Shares	9:00 a.m., Wednesday, 22 June
Original counter for trading in the Existing Shares in board lots of 2,000 Existing Shares temporarily closes	9:00 a.m., Wednesday, 22 June
Temporary counter for trading in the Reorganised Shares in board lots of 200 Reorganised Shares (in the form of existing share certificates in blue colour) opens	9:00 a.m., Wednesday, 22 June
Original counter for trading in the Reorganised Shares in board lots of 10,000 Reorganised Shares (in the form of new share certificates in yellow colour) reopens	9:00 a.m., Thursday, 7 July
Parallel trading in the Reorganised Shares (in form of new and existing certificates) commences on	9:00 a.m., Thursday, 7 July
Designated broker starts to stand in the market to provide matching services for sale and purchase of odd lots of Reorganised Shares	Thursday, 7 July
Temporary counter for trading in the Reorganised Shares in board lots of 200 Reorganised Shares (in the form of existing share certificates in blue colour) closes	4:00 p.m., Wednesday, 27 July
Parallel trading in Reorganised Shares (in form of new and existing certificates) ends	4:00 p.m., Wednesday, 27 July
Designated broker ceases to stand in the market to provide matching services for sale and purchase of odd lots of Reorganised Shares	Wednesday, 27 July
Last day for free exchange of existing share certificates	Friday, 29 July

All date and time references in this circular refer to Hong Kong time.

Dates or deadlines specified in this circular are indicative only and may be varied by the Company. Any consequential changes to the expected timetable will be published or notified to the Shareholders as and when appropriate.

EFFECT ON SHAREHOLDING STRUCTURE

To the best of the Directors' knowledge, information and belief, based on public information, the effects on the shareholding structure of the Company (i) upon Capital Reorganisation becoming effective; (ii) upon Capital Reorganisation becoming effective and issue of Placing Shares; (iii) upon Capital Reorganisation becoming effective and issue of Placing Shares and Consideration Shares; (iv) upon Capital Reorganisation becoming effective and issue of Placing Shares and Consideration Shares and upon full conversion of the Convertible Notes; (v) upon Capital Reorganisation becoming effective and issue of Placing Shares and Consideration Shares and upon full conversion of the Convertible Notes and full exercise of the subscription rights attaching to the outstanding Share Options; and (vi) upon Capital Reorganisation and issue of Placing Shares and Consideration Shares and upon full conversion of the Convertible Notes and the Previous Convertible Notes and full exercise of the subscription rights attaching to the outstanding Share Options are set out below:

Shareholders	As at the Latest Practicable Date		Upon Capital Reorganisation becoming effective		Upon Capital Reorganisation becoming effective and issue of Placing Shares		Upon Capital Reorganisation becoming effective and issue of Placing Shares and Consideration Shares		Upon Capital Reorganisation becoming effective and issue of Placing Shares and Consideration Shares and upon full conversion of the Convertible Notes		Upon Capital Reorganisation becoming effective and issue of Placing Shares and Consideration Shares and upon full conversion of the Convertible Notes and full exercise of the subscription rights attaching to the outstanding Share Options		Upon Capital Reorganisation becoming effective and issue of Placing Shares and Consideration Shares and upon full conversion of the Convertible Notes and the Previous Convertible Notes and full exercise of the subscription rights attaching to the outstanding Share Options	
	No. of Shares	*Approximate shareholding percentage %*	*No. of Reorganised Shares*	*Approximate shareholding percentage %*	*No. of Reorganised Shares*	*Approximate shareholding percentage %*	*No. of Reorganised Shares*	*Approximate shareholding percentage %*	*No. of Reorganised Shares*	*Approximate shareholding percentage %*	*No. of Reorganised Shares*	*Approximate shareholding percentage %*	*No. of Reorganised Shares*	*Approximate shareholding percentage %*
Directors														
Zhang Xi *(Note 1)*	1,592,826,000	3.49%	159,282,600	3.49%	159,282,600	1.19%	159,282,600	1.00%	159,282,600	0.84%	168,444,300	0.89%	168,444,300	0.74%
Catherine Chen *(Note 2)*	–	–	–	–	–	–	–	–	–	–	9,161,700	0.05%	9,161,700	0.04%
Vendor	–	–	–	–	–	–	2,523,809,521	15.86%	2,523,809,521	13.39%	2,523,809,521	13.37%	2,523,809,521	11.05%
Share Placees under Kingston Placing	–	–	–	–	2,941,000,000	21.97%	2,941,000,000	18.48%	2,941,000,000	15.60%	2,941,000,000	15.58%	2,941,000,000	12.88%
Share Placees under GDSP Placing	–	–	–	–	5,882,000,000	43.94%	5,882,000,000	36.97%	5,882,000,000	31.20%	5,882,000,000	31.17%	5,882,000,000	25.76%
CN Placees *(Note 3)*	–	–	–	–	–	–	–	–	2,941,176,470	15.60%	2,941,176,470	15.58%	2,941,176,470	12.88%
Holders of Previous Convertible Notes *(Note 4)*	–	–	–	–	–	–	–	–	–	–	–	–	3,960,000,000	17.34%
Other holders of Share Options	–	–	–	–	–	–	–	–	–	–	1,832,300	0.01%	1,832,300	0.01%
Other public shareholders	44,050,101,432	96.51%	4,405,010,143.2	96.51%	4,405,010,143.2	32.90%	4,405,010,143.2	27.69%	4,405,010,143.2	23.37%	4,405,010,143.2	23.34%	4,405,010,143.2	19.29%
Total	45,642,927,432	100.00%	4,564,292,743.2	100.00%	13,387,292,743.2	100.00%	15,911,102,264.2	100.00%	18,852,278,734.2	100.00%	18,872,434,434.2	100.00%	22,832,434,434.2	100.00%

Notes:

1. Mr. Zhang Xi is an executive Director and the Chairman of the Company.

2. Ms. Catherine Chen is an executive Director.

3. The figures set out in this column are for illustrative purposes only. Pursuant to the terms of the Convertible Notes, no conversion shall be made by the Noteholder unless (i) the Noteholder provides, to the reasonable satisfaction of the Company, evidence that such Noteholder and parties acting in concert with it will not be beneficially interested in 30% or more of the then issued share capital and/or the voting rights of the Company; and (ii) the Company will be able to comply with the public float requirements under Rule 8.08 of the Listing Rules, immediately upon conversion.

4. The figures set out in this column are for illustrative purposes only. Pursuant to the terms of the Previous Convertible Notes, no conversion shall be made by the noteholder unless (i) the noteholder provides, to the reasonable satisfaction of the Company, evidence that such noteholder and parties acting in concert with it will not be beneficially interested in 30% or more of the then issued share capital and/or the voting rights of the Company; and (ii) the Company will be able to comply with the public float requirements under Rule 8.08 of the Listing Rules, immediately upon conversion.

5. The percentages may not add up to 100% due to rounding.

SGM

A notice convening the SGM is set out on pages N-1 to N-7 of this circular. The SGM will be held at Plaza 1 and 2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 21 June 2011 at 11:00 a.m. or any adjournment thereof, for the purpose of considering and, if thought fit, approving, by way of poll, among other things, (i) the Acquisition Agreement and the transactions contemplated thereunder; (ii) the Loan Agreement together with the Share Mortgage and the Guarantees; (iii) the Share Placings; (iv) the CN Placing; and (v) the Capital reorganisation.

A proxy form for use at the SGM is enclosed. Whether or not you propose to attend the meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding of the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so wish and in such event, the proxy shall be deemed to be revoked.

RECOMMENDATION

Based on the reasons set out in the sections headed "Reasons for and benefit of the Acquisition", "Reasons for and benefit of the Share Placings", "Reasons for and benefit of the CN Placing and use of proceeds" and "Reasons for the Capital Reorganisation" above, the Board considers that the terms of the (i) Acquisition; (ii) the Loan Agreement together with the Share Mortgage and the Guarantee; (iii) Share Placings; (iv) CN Placing and (v) Capital Reorganisation, are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of all the resolutions to be proposed at the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of SGM.

By Order of the Board
Fulbond Holdings Limited
Zhang Xi
Chairman

FINANCIAL SUMMARY

Set out below are the audited consolidated statement of comprehensive income and audited consolidated statement of financial position of the Group extracted from the relevant annual reports of the Company. The latest published audited financial statements of the Group together with the notes on the annual accounts of the Group for the financial year ended 31 December 2010 are set out on pages 33 to 113 of the annual report of the Company for the year ended 31 December 2010, which was published by the Company on 29 April 2011 and is available for viewing at the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.fulbond.com).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December

	2010	**2009**	**2008**
	US$'000	*US$'000*	*US$'000*
			(Restated)
Continuing operations			
Turnover	13,106	15,605	21,883
Cost of sales	(12,356)	(13,773)	(17,577)
Gross profit	750	1,832	4,306
Other income	1,552	835	1,436
Other gains and losses	(90,386)	(42,026)	3,094
Selling and distribution costs	(1,104)	(1,283)	(1,961)
Administrative expenses	(7,151)	(4,208)	(4,311)
Other operating expenses	–	–	(524)
Impairment loss recognised in respect of property, plant and equipment and prepaid lease payments	–	–	(10,619)
Finance costs	(3,828)	(6,803)	(3,255)
Loss before taxation	(100,167)	(51,653)	(11,834)
Taxation	–	(84)	(273)
Loss for the year from continuing operations	(100,167)	(51,737)	(12,107)
Discontinued operation			
Loss for the year from discontinued operation	(678)	(2,371)	(20,147)
Loss for the year	(100,845)	(54,108)	(32,254)

	2010 *US$'000*	2009 *US$'000*	2008 *US$'000* **(Restated)**
Other comprehensive income			
Exchange differences arising on translation to presentation currency	2	(557)	581
Exchange differences released upon disposal of a subsidiary	–	–	292
Other comprehensive income for the year	2	(557)	873
Total comprehensive expense for the year	(100,843)	(54,665)	(31,381)
Loss for the year attributable to:			
Owners of the Company	(100,630)	(53,877)	(29,174)
Non-controlling interests	(215)	(231)	(3,080)
	(100,845)	(54,108)	(32,254)
Total comprehensive expense attributable to:			
Owners of the Company	(100,907)	(54,434)	(29,104)
Non-controlling interests	64	(231)	(2,277)
	(100,843)	(54,665)	(31,381)
Loss per share			
From continuing and discontinued operations			
– Basic	US(0.29) cent	US(0.41) cent	US(0.29) cent
– Diluted	US(0.31) cent	US(0.41) cent	US(0.29) cent
From continuing operations			
– Basic	US(0.29) cent	US(0.40) cent	US(0.09) cent
– Diluted	US(0.31) cent	US(0.40) cent	US(0.11) cent

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December

	2010 US$'000	2009 US$'000	2008 US$'000
Non-current assets			
Property, plant and equipment	478	857	11,133
Intangible assets	–	–	2,539
Prepaid lease payments	556	636	3,046
Other advances	–	–	439
Goodwill	–	–	–
Interests in associates	–	–	–
Other investments	–	–	–
Club debenture	–	–	–
Deferred tax asset	–	–	350
	1,034	1,493	17,507
Current assets			
Inventories	5,830	5,876	16,685
Properties under development	65,588	–	–
Hold-for-trading investments	12,206	–	–
Trade and other receivables	9,693	2,982	18,263
Deposits and prepayments	4,707	1,585	3,705
Prepaid lease payments	–	–	70
Amount due from a director of a subsidiary	–	–	951
Bank balances and cash	18,438	29,183	8,882
	116,462	39,626	48,556
Assets classified as held for sale	–	39,071	–
	116,462	78,697	48,556
Current liabilities			
Trade and other payables	11,437	27,631	14,170
Amounts due to associates	57	76	76
Amount due to a shareholder	–	–	162
Amounts due to directors of subsidiaries	473	473	189
Taxation payable	331	319	775
Obligation under finance lease	10	10	–
Warrants	–	10,430	15
Convertible notes	–	26,727	39,054
Bank and other borrowings – amount due within one year	10,280	10,364	22,043
	22,588	76,030	76,484
Liabilities associated with assets classified as held for sale	–	17,278	–
	22,588	93,308	76,484
Net current assets (liabilities)	93,874	(14,611)	(27,928)
Total assets less current liabilities	94,908	(13,118)	(10,421)

	2010	2009	2008
	US$'000	*US$'000*	*US$'000*
Non-current liabilities			
Convertible notes	101,764	46,373	–
Bank and other borrowings – amount due after one year	–	–	455
Deferred tax liability	–	–	803
Obligation under finance lease	10	20	–
	101,774	46,393	1,258
	(6,866)	(59,511)	(11,679)
Capital and reserves			
Share capital	45,643	14,013	12,954
Reserves	(81,048)	(74,005)	(25,831)
Equity attributable to owners of the Company	(35,405)	(59,992)	(12,877)
Non-controlling interests	28,539	481	1,198
	(6,866)	(59,511)	(11,679)

The following is the text of accountants' report on the Target Group, prepared for the purpose of inclusion in the circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

德勤 · 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

25 May 2011

The Directors
Fulbond Holdings Limited

Dear Sirs/Madam,

We set out below our report on the financial information relating to Lithium Energy Group Ltd. (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") for the period from 25 June 2010 (date of incorporation) to 31 December 2010 (the "Relevant Period") (the "Target Group Financial Information") for inclusion in the circular issued by Fulbond Holdings Limited (the "Company") dated 25 May 2011 (the "Circular") in connection with the proposed acquisition of the entire issued capital of the Target Company by Fulbond Investments Limited ("Fulbond Investments"), a wholly-owned subsidiary of the Company.

The Target Company was established in British Virgin Islands ("BVI") on 25 June 2010 with limited liability and acted as an investment holding company during the Relevant Period. On 13 January 2011, Fulbond Investments entered into an acquisition agreement (the "Acquisition Agreement") with Hefu Limited (the "Vendor"), a company incorporated in BVI with limited liability, pursuant to which Fulbond Investments has conditionally agreed to acquire the entire issued share capital of the Target Company and the shareholder's loan (the "Acquisition").

The Target Company has interest in the following subsidiaries as follows:

Name of subsidiary	Date of incorporation/ establishment	Place of incorporation/ establishment and operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Target Group		Principal activities
				As at 31 December 2010	Date of this report	
Directly-owned subsidiary						
China Lithium Electric Vehicle Group (Hong Kong) Limited ("Lithium HK")	21 October 2010	Hong Kong – Limited liability company	HK$10,000	100%	100%	Investment holding
Indirectly-owned subsidiaries						
珠海鋰源新能源科技有限公司 Zhuhai Lithium New Energy Sources Technology Limited ("Lithium Zhuhai")	19 August 2008	People's Republic of China (the "PRC") – Wholly foreign-owned enterprise	RMB50,000,000	100%	100%	Investment holding
中珠鋰源科技(北京)有限公司 Zhongzhu Lithium Technology (Beijing) Limited ("Lithium BJ")	19 February 2001	PRC – Limited liability company	RMB51,900,000	100%	100%	Investment holding
唐山鋰源電動汽車銷售有限公司 Tangshan Lithium Electric Vehicles Sales Company Limited ("Lithium Sales")	4 November 2009	PRC – Limited liability company	RMB2,000,000	100%	100%	Trading in and renting out electric vehicles
唐山曹妃甸鋰源電動汽車驅動總成有限公司 Tangshan Caofeidian Lithium Assembly of Electric Vehicles Company Limited ("Lithium Caofeidian")	23 November 2009	PRC – Limited liability company	RMB5,000,000	100%	99%	Research and development of power motor and vehicle electronics and controller system
唐山鋰源鋰動力電池科技有限公司 Tangshan Lithium Power Motor Technology Company Limited ("Lithium Power Motor")	19 January 2010	PRC – Limited liability company	RMB16,000,000/ RMB30,000,000	99%	99%	Trading in and research and development of lithium-ion battery
唐山鋰源新電動汽車製造有限公司 Tangshan Lithium New Electric Vehicles Manufacturing Company Limited ("Lithium New EV")	2 February 2010	PRC – Limited liability company	RMB10,000,000	100%	100%	Preparation for electric vehicle production project
吉林鋰源電動車有限公司 Jilin Lithium Electric Vehicles Company Limited ("Lithium Jilin")	26 November 2010	PRC – Limited liability company	RMB10,000,000	90%	90%	Trading in battery and research and development of electric vehicle power assembly products
珠海廣鋰電動汽車有限公司 Zhuhai Guang Lithium Electric Vehicles Company Limited ("Lithium Guang")	6 November 2010	PRC – Limited liability company	RMB2,000,000	100%	98%	Research and development of electric vehicle products

The Target Company and its subsidiaries adopted 31 December as the financial year end date.

The statutory financial statements of the entities comprising the Target Group during the Relevant Period were prepared in accordance with the relevant accounting rules and financial regulations applicable to enterprises established in the PRC and were audited by the following certified public accountants, registered in the PRC:

Name of entity	Financial period	Auditors
Lithium Zhuhai	For the period from 1 January 2010 to 31 December 2010	珠海友城會計師事務所 (Zhuhai You Cheng Certified Public Accountants)
Lithium BJ	For the period from 1 January 2010 to 31 December 2010	北京永勤會計師事務所有限公司 (Beijing Yongqin Certified Public Accountants Co. Ltd.)
Lithium Sales	For the period from 1 January 2010 to 31 December 2010	北京永勤會計師事務所有限公司 (Beijing Yongqin Certified Public Accountants Co. Ltd.)
Lithium Caofeidian	For the period from 1 January 2010 to 31 December 2010	北京永勤會計師事務所有限公司 (Beijing Yongqin Certified Public Accountants Co. Ltd.)
Lithium Power Motor	For the period from 19 January 2010 to 31 December 2010	北京永勤會計師事務所有限公司 (Beijing Yongqin Certified Public Accountants Co. Ltd.)
Lithium New EV	For the period from 2 February 2010 to 31 December 2010	北京永勤會計師事務所有限公司 (Beijing Yongqin Certified Public Accountants Co. Ltd.)
Lithium Guang	For the period from 6 November 2010 to 31 December 2010	珠海友城會計師事務所 (Zhuhai You Cheng Certified Public Accountants)

No statutory financial statements have been prepared for the Target Company during the Relevant Period as the Target Company was incorporated in a jurisdiction where there was no statutory audit requirement. In addition, no statutory financial statements of Lithium HK and Lithium Jilin have been prepared as they were only incorporated/established on 21 October 2010 and 26 November 2010 respectively and no statutory audit requirement. We have, however, reviewed all relevant transactions of Lithium HK and Lithium Jilin since their date of incorporation/establishment and carried out such procedures as we considered necessary for inclusion of their financial information in this Circular.

For the purpose of the preparation of this report, the directors of the Target Company have prepared the consolidated management accounts for the Relevant Period in accordance with accounting policies conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Management Accounts"). We have carried out independent audit procedures we consider necessary in respect of the Underlying Management Accounts of the Target Group for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Management Accounts for the Relevant Period in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Target Group Financial Information for the Relevant Period set out in this report has been prepared based on the Underlying Management Accounts without making any adjustments for the purpose of inclusion in the Circular.

The directors of the Target Company are responsible for preparing the Underlying Management Accounts. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Target Group Financial Information set out in this report from the Underlying Management Accounts, to form an independent opinion on the Target Group Financial Information and to report our opinion to you.

In our opinion, the Target Group Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Group as at 31 December 2010, and of the loss and cash flows of the Target Group for the Relevant Period.

Without qualifying our opinion, we draw attention to note 2 to Section E of the Target Group Financial Information which indicates that the Target Group has net current liabilities of US$12,407,895 and net liabilities attributable to owners of the Target Company of US$117,830 as at 31 December 2010. This condition indicates the existence of an uncertainty which may cast doubt about the Target Group's ability to continue as a going concern.

A. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the period from 25 June 2010 (date of incorporation) to 31 December 2010

	Notes	*US$*
Other income		702
Selling and distribution expenses		(14,336)
Administrative expenses		(149,268)
Finance costs		(4,928)
Loss and total comprehensive expense for the period	*9*	(167,830)
Loss for the period attributable to:		
Owners of the Company		(167,830)
Non-controlling interests		–
		(167,830)
Total comprehensive expense attributable to:		
Owners of the Company		(167,830)
Non-controlling interests		–
		(167,830)
Loss per share – basic	*10*	(3.36)

B. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	*US$*
Non-current assets		
Property, plant and equipment	*12*	11,197,806
Intangible assets	*13*	737,019
Goodwill	*14*	211,702
Deposits paid for acquisition of property, plant and equipment		304,356
		12,450,883
Current assets		
Inventories	*15*	2,550,382
Other receivables	*16*	4,703,729
Amount due from a director	*17*	10,041
Bank balances and cash	*18*	1,365,299
		8,629,451
Current liabilities		
Trade and other payables	*19*	19,761,403
Other borrowing	*20*	1,275,943
		21,037,346
Net current liabilities		(12,407,895)
		42,988
Capital and reserves		
Share capital	*21*	50,000
Reserves		(167,830)
Equity attributable to owners of the Target Company		(117,830)
Non-controlling interests		160,818
		42,988

C. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the period from 25 June 2010 (date of incorporation) to 31 December 2010

	Attributable to owners of the Target Company				
	Share capital	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total**
	US$	*US$*	*US$*	*US$*	*US$*
Loss for the period and total comprehensive expense for the period	–	(167,830)	(167,830)	–	(167,830)
Issue of shares	50,000	–	50,000	–	50,000
Acquired on acquisition of subsidiaries	–	–	–	160,818	160,818
At 31 December 2010	50,000	(167,830)	(117,830)	160,818	42,988

D. CONSOLIDATED STATEMENT OF CASH FLOWS

For the period from 25 June 2010 (date of incorporation) to 31 December 2010

	Note	US$
Operating activities		
Loss for the period		(167,830)
Adjustments for:		
Depreciation of property, plant and equipment		21,095
Interest expense		4,928
Interest income		(657)
Operating cash flows before movements in working capital		(142,464)
Increase in inventories		(625,608)
Decrease in other receivables		193,477
Increase in trade and other payables		75,165
Net cash used in operating activities		(499,430)
Investing activities		
Acquisition of subsidiaries	22	2,120,309
Advance to non-controlling shareholder of a subsidiary		(1,022,668)
Purchase of property, plant and equipment		(106,697)
Increase in amount due from a director		(10,041)
Interest received		657
Net cash from investing activities		981,560
Financing activities		
Proceeds from issue of shares		50,000
Advance from a former fellow subsidiary of subsidiaries		45,630
Advance from former intermediate holding company of subsidiaries		787,539
Cash from financing activities		883,169
Net increase in cash and cash equivalents and cash and cash equivalents at 31 December 2010 representing bank balances and cash		1,365,299

E. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Lithium Energy Group Ltd. (the "Target Company") was established in the British Virgin Islands (the "BVI") on 25 June 2010 as a company with limited liability and acted as an investment holding company. The Target Company is wholly owned by Mr. Lau Yung and Mr. Fei Phillip. The address of the registered office is Geneva Place, Waterfront Drive, PO Box 3469, Road Town, Tortola, British Virgin Islands and principal place of business is 24th Floor, Yue Cai Holiday Inn Hotel, No. 188 Ji Da Jingshan Road, Zhuhai City, Guangdong Province, PRC.

The functional currency of the Target Company and its subsidiaries is Renminbi ("RMB"). The Target Group Financial Information is presented in US dollars ("US$"), as US$ is the presentation currency of the financial statements of the Company.

2. BASIS OF PREPARATION

In preparing the Underlying Management Accounts, the directors of the Target Company have given consideration to the future liquidity of the Target Group in light of its net current liabilities of US$12,407,895 and net liabilities attributable to owners of the Target Company of US$117,830 as at 31 December 2010. Upon completion of the proposed acquisition of the entire issued share capital of the Target Company by Fulbond Investments and assignment of the loan from the Vendor to the Target Group, the directors of the Target Company believe that Fulbond Investment will provide financial support to the Target Group to meet in full its financial obligations as they fall due for the foreseeable future.

However, if the Acquisition is not completed, directors of the Target Company believe that the Vendor will continue to provide financial support to the Target Group to enable it to meet its liabilities as and when they fall due and to continue its business for the foreseeable future. The directors of the Target Company believe that the Target Group will continue as going concern. Consequently, the Target Group Financial Information has been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations ("INT") (hereinafter collectively referred to as the "new HKFRSs") which are effective for the Target Group's financial period beginning on 1 January 2010. For the purposes of preparing and presenting the Target Group Financial Information for the Relevant Period, the Target Group has adopted all HKFRSs applicable to financial year beginning on 1 January 2010 during the Relevant Period.

The Target Group has not early applied the following revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 1 (Amendments)	Limited exemptions from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised)	Related party disclosures[6]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.

The directors of the Target Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Target Group.

4. SIGNIFICANT ACCOUNTING POLICIES

The Target Group Financial Information have been prepared on the historical cost basis and in accordance with HKFRSs issued by the HKICPA. In addition, the Target Group Financial Information include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The principal accounting policies are set out below.

Basis of consolidation

The Target Group Financial Information incorporates the financial statements of the Target Company and entities controlled by the Target Company (its subsidiaries). Control is achieved where the Target Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Target Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Target Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Target Group, liabilities incurred by the Target Group to the former owners of the acquiree and the equity interests issued by the Target Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets.

The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

Where the consideration the Target Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase.

Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 "Provisions, contingent liabilities and contingent assets", as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Revenue Recognition

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Operating lease

Operating lease payments are recognised as an expense on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income and expense that are taxable or deductible in other period, and it further excludes the items of income and expense that are never taxable and deductible. Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Target Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Target Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production of goods, or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Target Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Impairment losses on tangible assets and intangible assets other than goodwill

At the end of the reporting period, the Target Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when the Target Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Target Group's financial assets are mainly loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables including other receivables, amount due from a director and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables and other borrowing, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Target Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Target Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the entity's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for exchange differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entities which are stated at functional currency of the respective group entity other than RMB are translated into the presentation currency of the Target Group (i.e. US$) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Retirement benefit schemes

Payments to government-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

5. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities in the Target Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Target Group consists of net debts, which includes the cash and cash equivalents, and equity attributable to owners of the Target Company, comprising share capital.

The directors of the Target Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital and will balance its overall capital structure through the payment of dividends and new capital raising.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	US$
Financial assets	
Loans and receivables (including cash and cash equivalents)	5,511,045
Financial liabilities	
Amortised cost	19,973,302

(b) Financial risk management objectives and policies

The Target Group's major financial assets and liabilities include amount due from a director, other receivables, bank balances and cash, trade and other payables and other borrowing. The risks associated with these financial instruments and the policies on how to mitigate market risk, credit risk and liquidity risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Market risks

Interest rate risk

Interest income is derived from the Target Group's current deposits that carry interest at the respective banking deposit rate of the banks located in the PRC and Hong Kong.

The fair value interest rate risk relates primary to the Target Group's bank deposits and other borrowing (set out in note 20) carried at fixed interest rates. The Target Group's bank deposits and other borrowing are short-term in nature and the exposure of the interest rate risk is minimal and no sensitivity to interest rate risk is presented.

(d) Credit risk

The Target Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. The Target Group's credit risk is primarily attributable to other receivables.

At the end of the reporting period, other receivables are repayable on demand. In order to minimise the credit risk, the management has reviewed the recoverable amounts of the other receivables regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Target Company consider that the Target Group's credit risk on other receivables is significantly reduced.

The credit risk on bank balances is minimal as such amounts are placed in banks with good reputation.

(e) Liquidity risk management

The directors of the Target Company have built an appropriate liquidity risk management framework for the management of the Target Group's short, medium and long-term funding and liquidity management requirements. The Target Group manages liquidity risk by maintaining sufficient bank balances and by continuously monitoring forecast and actual cash flows, and the maturity profile of financial liabilities.

The Target Group had net current liabilities of US$12,407,895 as at 31 December 2010. As outlined in note 2 to Section E, the directors of the Target Company believe that the liquidity risk can be mitigated upon completion of the Acquisition as Fulbond Investment will provide financial support to the Target Group to meet the financial obligations as they fall due for the foreseeable future.

However, if the Acquisition is not completed, the Vendor has confirmed that it will provide continuing financial support to the Target Group to enable it to meet its liabilities as and when they fall due and to continue its business for the foreseeable future.

The following table details the Target Group's contractual maturity for its financial liabilities and has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The table includes only principal cash flows.

	Weighted average effective interest rate	Within 1 month or repayable on demand	1 to 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amounts
	%	*US$*	*US$*	*US$*	*US$*	*US$*
As at 31 December 2010						
Trade payables	N/A	836,152	–	–	836,152	836,152
Advances received	N/A	9,367,013	–	–	9,367,013	9,367,013
Consideration payable for acquisition of subsidiaries	N/A	7,605,037	–	–	7,605,037	7,605,037
Other payables	N/A	889,157	–	–	889,157	889,157
Other borrowing	4.86	1,275,943	–	–	1,275,943	1,275,943
		19,973,302	–	–	19,973,302	19,973,302

7. SEGMENT INFORMATION

The Target Group is engaged in single business segment being manufacture of and trading in electric vehicles and related products in the PRC. The directors of the Target Company being the chief operating decision maker review the overall results of the Target Group for the purpose of resources allocation and performance assessment. The Target Group principally operates in the PRC (country of domicile) with all of its results derived from its operation in the PRC. Analysis of the Target Group's non-current assets is not presented as they are all located in the PRC.

8. TAXATION

No provision for taxation has been made as the Target Group had no assessable profit during the Relevant Period.

The tax rate of Target Company is 25% under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation of regulation of the EIT Law.

A statement of reconciliation of taxation is as follows:

	US$
Loss for the period	167,830
Tax at EIT rate of 25%	41,957
Effect of different tax rate of subsidiaries operating in other jurisdictions	(1,808)
Tax effect of tax losses not recognised	(40,149)
Taxation for the period	–

9. LOSS FOR THE PERIOD

	US$
Loss for the period has been arrived at after charging:	
Directors' remuneration *(note 11)*	–
Staff costs	32,707
Depreciation	21,095
Operating lease rental in respect of rented premises	4,818
and after crediting:	
Interest income from bank deposits	657

10. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the Relevant Period attributable to owners of the Target Company of US$167,830 and on 50,000 ordinary shares in issue during the Relevant Period.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

No directors' emoluments have been paid or payable to the directors for the Relevant Period.

The five highest paid individuals did not include any director of the Target Company during Relevant Period. The emoluments of the five highest paid individuals, who are the senior management of the Target Company, during the Relevant Period were US$26,728. The emoluments of each of the five highest paid individuals during the Relevant Period were below US$128,000 (equivalent to HK$1,000,000).

During the Relevant Period, no emoluments were paid by the Target Company to directors or any top five individuals as an inducement to join or upon joining the Target Company or as compensation for loss of office. The directors have not waived any remuneration during the Relevant Period.

12. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixture and equipment	Leasehold improvement	Motor vehicles	Plant and machinery	Construction in progress	Total
	US$	*US$*	*US$*	*US$*	*US$*	*US$*
COST						
Acquired from acquisition of subsidiaries during the period	95,400	274,663	254,431	10,487,710	–	11,112,204
Additions	3,666	87,268	–	–	15,763	106,697
At 31 December 2010	99,066	361,931	254,431	10,487,710	15,763	11,218,901
DEPRECIATION						
Provided for the period and balance at 31 December 2010	2,453	12,717	4,138	1,787	–	21,095
CARRYING VALUE						
At 31 December 2010	96,613	349,214	250,293	10,485,923	15,763	11,197,806

The above items of property, plant and equipment other than construction in progress are depreciated on a straight line basis of the following rates per annum:

Furniture, fixture and equipment	$33^1/_3$%
Leasehold improvement	50%
Motor vehicles	25%
Plant and machinery	10%

13. INTANGIBLE ASSETS

	Patents
	US$
Acquired from the acquisition of subsidiaries during the period and balance at 31 December 2010	737,019

The patents have definite useful lives and are amortised on a straight line basis over 10 years.

14. GOODWILL

	US$
Arising on acquisition of subsidiaries and as at 31 December 2010	211,702

The management determines if there is impairment of its cash-generating unit ("CGU") containing goodwill annually.

For the purpose of impairment testing, goodwill has been allocated to the CGU including six subsidiaries with principal activity of manufacture of and trading in electronic motor vehicles. These six subsidiaries are Lithium Zhuhai, Lithium BJ, Lithium Caofeidian, Lithium Power Motor and Lithium New EV. At 31 December 2010, the management of the Target Group has determined that there is no impairment of its CGU containing goodwill.

The recoverable amount of the above CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on most recent financial budgets approved by management covering a five-year period, and discount rate of 25%, with an estimated constant growth rate of 52% which is estimated based on the presently available orders at the end of the reporting period. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

15. INVENTORIES

	US$
Raw materials	193,916
Work-in-progress	909,945
Finished goods	1,446,521
	2,550,382

16. OTHER RECEIVABLES

	US$
Advances to	
– non-controlling shareholder of a subsidiary	1,930,021
– former fellow subsidiary of subsidiaries	106,471
– former holding company of subsidiaries	553,992
– a related party *(note)*	448,695
– other third parties	589,156
	3,628,335
Prepayments to suppliers	564,359
Other receivables	511,035
	4,703,729

Note: A director of the related company is also a director of a subsidiary.

The advances are unsecured, non-interest bearing and repayable on demand. The amount are subsequently settled as at the date of this report.

17. AMOUNT DUE FROM A DIRECTOR

Amount due from a director represents amount due from Mr. Yeung Tsoi San. Pursuant to section 161B of the Hong Kong Companies Ordinance, the maximum amount outstanding during the Relevant Period is US$48,715. The amount is unsecured, non-interest bearing and repayable on demand.

18. BANK BALANCES AND CASH

Bank balances carry interest of prevailing market rate ranging from 0.01% to 0.36% per annum.

19. TRADE AND OTHER PAYABLES

	US$
Advances received from	
– a former fellow subsidiary of subsidiaries	4,677,724
– former intermediate holding company of subsidiaries	4,144,018
– others	545,271
	9,367,013
Trade payables	836,152
Deposits received from customers	1,003,865
Consideration payable for acquisition of subsidiaries	7,605,037
Other payables and accrued charges	949,336
	19,761,403

The advances received are unsecured, non-interest bearing and repayable on demand.

The following is an aged analysis of trade payables presented based on the invoices date at the end of the reporting period:

	US$
Within 30 days	6,429
31 – 60 days	406,858
61 – 90 days	422,475
Over 90 days	390
	836,152

20. OTHER BORROWING

Other borrowing represents a short-term borrowing of US$1,275,943 from 唐山市曹妃甸工業區管理委員會 (Tangshen Caofeidian Industrial Zone Management Committee) to the Target Group with a fixed interest rate of 4.86% per annum. Inventories amounting to US$1,450,186 (equivalent to RMB9,534,378) were pledged to secure the short-term borrowing. The short-term borrowing is repayable on demand.

21. SHARE CAPITAL

	Number of shares	Amount US$
Shares of US$1.00 each		
Authorised, issued and fully paid	50,000	50,000

The Target Company was incorporated on 25 June 2010 with an authorised share capital of US$50,000 divided into 50,000 ordinary shares of US$1.00 each. 50,000 ordinary shares of US$1.00 each were issued at par to the subscribers to provide the initial capital to the Target Company.

22. ACQUISITIONS OF SUBSIDIARIES

On 21 December 2010, Lithium HK acquired 100% equity interest in Lithium Zhuhai and its subsidiaries (collectively referred to as the "Lithium Zhuhai Group"), the acquired companies principally engaged in manufacture of and trading in electric vehicles. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was US$211,702. Lithium Zhuhai Group was acquired so as to develop the local markets in the electric vehicles and contribute to the Target Group's development.

	US$
Consideration transferred	
Total consideration payable (included in trade and other payables)	7,605,037
Assets acquired and liabilities recognised at the date of acquisition are as follows:	
Property, plant and equipment	11,112,204
Deposit paid for acquisition of property, plant and equipment	304,356
Intangible assets	737,019
Other receivables	5,726,710
Inventories	1,928,439
Bank balances and cash	2,120,309
Trade and other payables	(13,103,869)
Other borrowing	(1,271,015)
Non-controlling interests	(160,818)
	7,393,335
Net cash inflow arising on acquisition	
Bank balances and cash acquired and inflow of cash and cash equivalents in respect of the acquisition	2,120,309
Goodwill arising on acquisition	
Consideration payable	7,605,037
Less: net assets acquired	(7,393,335)
Goodwill	211,702

The directors of the Target Company are of the opinion that the goodwill is attributable to the anticipated profitability manufacture of electric vehicles. In addition, the consideration payable for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of the Lithium Zhuhai Group. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purpose.

23. OPERATING LEASE

At the end of the reporting period, the Target Group had commitments of US$62,793 for future minimum lease payments under non-cancellable operating lease which fall due within one year.

Operating lease payments represent rentals payable by the Target Group for certain of its staff quarter and offices. Leases are negotiated for terms of 1 year with fixed rental.

24. RETIREMENT BENEFITS SCHEME

The employees of the Target Group are members of the state-managed retirement benefits scheme operated by the PRC government. The Target Group is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Target Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No contributions were made to the retirement benefits scheme during the Relevant Period.

25. RELATED PARTY TRANSACTIONS

Other than the balances with related parties disclosed in respective notes to Section E, the Target Group has no significant transactions with related parties during the Relevant Period.

The key management personnel are the directors and senior management of the Company. The details of the remuneration paid to them are set out in note 11.

F. SUBSEQUENT EVENTS

On 6 January 2011, the Vendor acquired the entire interest of the Target Company. On 13 January 2011, the Vendor entered into the Acquisition Agreement with Fulbond Investments, pursuant to which Fulbond Investments has conditionally agreed to acquire the entire issued share capital of the Target Company, and the shareholder's loan.

G. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group subsequent to 31 December 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of accountants' report on Lithium Zhuhai, prepared for the purpose of inclusion in the circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
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Hong Kong

25 May 2011

The Directors
Fulbond Holdings Limited

Dear Sirs/Madam,

We set out below our report on the financial information relating to 珠海鋰源新能源科技有限公司 (Zhuhai Lithium New Energy Sources Technology Limited) ("Lithium Zhuhai") for the period from 19 August 2008 (date of establishment) to 31 December 2008 and each of the two years ended 31 December 2010 (the "Relevant Periods") (the "Lithium Zhuhai Financial Information") for inclusion in the circular issued by Fulbond Holdings Limited (the "Company") dated 25 May 2011 (the "Circular") in connection with the proposed acquisition of the entire issued capital of Lithium Energy Group Ltd. (the "Target Company"), the ultimate holding company of Lithium Zhuhai, and its other subsidiaries (hereinafter collectively referred to as the "Target Group") by Fulbond Investments Limited ("Fulbond Investments"), a wholly-owned subsidiary of the Company.

Lithium Zhuhai was established in the People's Republic of China (the "PRC") on 19 August 2008 as a company with limited liability. It principally acted as an investment holding company.

Lithium Zhuhai adopted 31 December as the financial year end date. The PRC statutory financial statements of Lithium Zhuhai for the Relevant Periods were audited by 珠海友城會計師事務所 (Zhuhai You Cheng Certified Public Accountants), certified public accountants registered in the PRC. The PRC statutory financial statements for the Relevant Periods were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises.

For the purpose of the preparation of this report, the sole director of Lithium Zhuhai has prepared the management accounts for the Relevant Periods in accordance with accounting policies set out in note 4 to this report which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") except for the failure to prepare consolidated financial information in accordance with Hong Kong Accounting Standard ("HKAS") 27 "Consolidated and Separate Financial Statements" ("HKAS 27") for the year ended 31 December 2010 (the "Underlying Management Accounts").

We have carried out independent audit procedures we consider necessary in respect of the Underlying Management Accounts of Lithium Zhuhai for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Management Accounts for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Lithium Zhuhai Financial Information for the Relevant Periods set out in this report has been prepared based on the Underlying Management Accounts without making any adjustments for the purpose of inclusion in the Circular.

The sole director of Lithium Zhuhai is responsible for preparing the Underlying Management Accounts. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Lithium Zhuhai Financial Information set out in this report from the Underlying Management Accounts, to form an independent opinion on the Lithium Zhuhai Financial Information and to report our opinion to you.

In our opinion:

- The Lithium Zhuhai Financial Information together with the notes thereon give, for the purpose of this report, a true and fair view of the state of affairs of Lithium Zhuhai as at 31 December 2008, 2009 and 2010, and of the results and cash flows of Lithium Zhuhai for the Relevant Periods.

- Because of the significance of the matter discussed above regarding the failure to prepare consolidated financial information of Lithium Zhuhai and its subsidiaries (collectively referred to as the "Lithium Zhuhai Group"), the Lithium Zhuhai Financial Information does not give a true and fair view of the state of affairs of the Lithium Zhuhai Group as at 31 December 2010 and of the results and cash flows of Lithium Zhuhai Group for the year then ended.

We draw your attention to note 2 to Section E of the Lithium Zhuhai Financial Information which indicates that Lithium Zhuhai has net current liabilities of US$3,193,307 as at 31 December 2010. This condition indicates the existence of an uncertainty which may cast significant doubt about Lithium Zhuhai's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

A. STATEMENTS OF COMPREHENSIVE INCOME

	NOTE	Period from 19 August 2008 (date of establishment) to 31 December 2008	Year ended 31 December 2009	Year ended 31 December 2010
		US$	US$	US$
Other income		966	–	2,733
Administrative expenses		(15,261)	(6,605)	(82,421)
Loss for the period/year	9	(14,295)	(6,605)	(79,688)
Other comprehensive (expense) income				
Exchange difference arising on translation		(914)	(9)	55,141
Total comprehensive expense for the period/year		(15,209)	(6,614)	(24,547)

B. STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 December 2008	2009	2010
		US$	US$	US$
Non-current assets				
Interests in subsidiaries	12	–	–	10,672,149
Property, plant and equipment	13	–	–	21,534
		–	–	10,693,683
Current assets				
Inventories	14	–	–	3,652
Other receivables	15	1,313,710	1,470,934	22,608
Amount due from immediate holding company	16	–	–	1,694
Bank balances and cash	17	167,289	3,451	780,991
		1,480,999	1,474,385	808,945
Current liabilities				
Other payables	18	–	–	3,850,152
Amount due to a subsidiary	19	–	–	152,100
		–	–	4,002,252
Net current assets (liabilities)		1,480,999	1,474,385	(3,193,307)
		1,480,999	1,474,385	7,500,376
Capital and reserves				
Paid-in capital	20	1,496,208	1,496,208	7,546,746
Reserves		(15,209)	(21,823)	(46,370)
		1,480,999	1,474,385	7,500,376

C. STATEMENT OF CHANGES IN EQUITY

	Paid-in capital *US$*	Deficit *US$*	Translation reserve *US$*	Total *US$*
Loss for the period	–	(14,295)	–	(14,295)
Exchange differences arising on translation of functional currency to presentation currency	–	–	(914)	(914)
Total comprehensive expense for the period	–	(14,295)	(914)	(15,209)
Capital contribution upon establishment	1,496,208	–	–	1,496,208
At 31 December 2008	1,496,208	(14,295)	(914)	1,480,999
Loss for the year	–	(6,605)	–	(6,605)
Exchange differences arising on translation of functional currency to presentation currency	–	–	(9)	(9)
Total comprehensive expense for the year	–	(6,605)	(9)	(6,614)
At 31 December 2009	1,496,208	(20,900)	(923)	1,474,385
Loss for the year	–	(79,688)	–	(79,688)
Exchange differences arising on translation of functional currency to presentation currency	–	–	55,141	55,141
Total comprehensive (expense) income for the year	–	(79,688)	55,141	(24,547)
Capital contributions	6,050,538	–	–	6,050,538
At 31 December 2010	7,546,746	(100,588)	54,218	7,500,376

D. STATEMENTS OF CASH FLOWS

	Period from 19 August 2008 (date of establishment) to 31 December 2008	Year ended 31 December 2009	Year ended 31 December 2010
	US$	US$	US$
Operating activities			
Loss for the period/year	(14,295)	(6,605)	(79,688)
Adjustment for:			
Interest income	(966)	–	(2,733)
Depreciation of property, plant and equipment	–	–	1,210
Operating cash outflows before movements in working capital	(15,261)	(6,605)	(81,211)
(Increase) decrease in other receivables	(105,245)	(93,689)	183,781
Increase in inventories	–	–	(3,652)
Increase in other payables	–	–	10,951
Net cash (used in) from operating activities	(120,506)	(100,294)	109,869
Investing activities			
Purchase of property, plant and equipment	–	–	(22,778)
(Advance to) repayment from former immediate holding company	(1,024,800)	(8,784)	1,072,318
(Advances to) repayment from fellow subsidiaries	(183,665)	(54,751)	247,351
Advances to subsidiaries	–	–	(4,861,449)
Capital contribution to subsidiaries	–	–	(5,627,700)
Interest received	966	–	2,733
Net cash used in investing activities	(1,207,499)	(63,535)	(9,189,525)

	Period from 19 August 2008 (date of establishment) to 31 December 2008	Year ended 31 December 2009	2010
	US$	*US$*	*US$*
Financing activities			
Capital contribution from equity owner	1,496,208	–	6,050,538
Advance from former immediate holding company	–	–	3,497,528
Repayment to an immediate holding company	–	–	(1,694)
Advances from subsidiaries	–	–	152,100
Advances from other related parties	–	–	158,673
Net cash from financing activities	1,496,208	–	9,857,145
Net increase (decrease) in cash and cash equivalents	168,203	(163,829)	777,489
Cash and cash equivalents at beginning of period/year	–	167,289	3,451
Effect of foreign exchange rate changes	(914)	(9)	51
Cash and cash equivalents at end of period/year representing bank balances and cash	167,289	3,451	780,991

E. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Lithium Zhuhai was established in the PRC on 19 August 2008 as a company with limited liability and is acted as an investment holding company. Lithium Zhuhai was formerly known as 珠海金光旅游投資有限公司 (Zhuhai Jin Guang Travel Investment Company Limited) upon its establishment, and subsequently changed its name to 珠海金光投資有限公司 (Zhuhai Jin Guang Investment Company Limited), 珠海市廣通鋰源電動汽車有限公司 (Zhuhai City Guang Tong Electric Vehicles Company Limited) and 珠海鋰源新能源科技有限公司 (Zhuhai Lithium New Energy Sources Technology Limited) on 24 August 2009, 21 July 2010, 8 September 2010 respectively. Its scope of business as stated in the business licence include research and development of new energy technology and battery, battery equipments, battery management system, electric vehicle power assembly products and vehicle electronics. However, business has not yet commenced as the date of this report and Lithium Zhuhai is principally acted as an investment holding company during the Relevant Periods. The immediate holding company of Lithium Zhuhai is China Lithium Electric Vehicle Group (Hong Kong) Limited ("Lithium HK"), a company incorporated in Hong Kong with limited liability. Lithium HK acquired the entire interest of Lithium Zhuhai on 21 December 2010. Lithium HK is a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Islands with limited liability. Accordingly, Lithium HK and the Target Company became the immediate holding company and ultimate holding company of the Lithium Zhuhai respectively on 21 December 2010. On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium Zhuhai on that date.

The Lithium Zhuhai Financial Information is presented in United States dollar ("US$"), while the functional currency of Lithium Zhuhai is Renminbi ("RMB") as US$ is the presentation currency of the financial statements of the Company.

2. BASIS OF PREPARATION

In preparing the Underlying Management Accounts, the sole director of Lithium Zhuhai have given consideration to the future liquidity of Lithium Zhuhai in light of its net current liabilities of US$3,193,307 as at 31 December 2010. Upon completion of the proposed acquisition of the entire issued share capital of the Target Company by Fulbond Investments (the "Acquisition") and assignment of the loan from the Vendor to the Target Group, the sole director of Lithium Zhuhai believes that Fulbond Investment will provide financial support to Lithium Zhuhai to meet in full its financial obligations as they fall due for the foreseeable future.

However, if the Acquisition is not completed, the sole director of the Lithium Zhuhai believes that the Vendor will continue to provide financial support to Lithium Zhuhai to enable it to meet its liabilities as and when they fall due and to continue its business for the foreseeable future. The sole director of the Lithium Zhuhai believes that Lithium Zhuhai will continue as going concern. Consequently, the Lithium Zhuhai Financial Information has been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations ("INT") (hereinafter collectively referred to as the "new HKFRSs") which are effective for Lithium Zhuhai's financial period beginning on 1 January 2010. For the purposes of preparing and presenting the Lithium Zhuhai Financial Information for the Relevant Periods, Lithium Zhuhai has adopted all HKFRSs applicable to financial year beginning on 1 January 2010 during the Relevant Periods.

Lithium Zhuhai has not early applied the following revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 1 (Amendments)	Limited exemptions from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised)	Related party disclosures[6]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 July 2011.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 January 2011.

The sole director of Lithium Zhuhai anticipates that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and financial position of Lithium Zhuhai.

4. SIGNIFICANT ACCOUNTING POLICIES

The Lithium Zhuhai Financial Information has been prepared under the historical cost basis in accordance with HKFRSs issued by HKICPA except for the failure to prepare consolidated financial information in accordance with Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements" ("HKAS 27") issued by HKICPA for the year ended 31 December 2010. In addition, the Lithium Zhuhai Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Revenue recognition

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income and expense that are taxable or deductible in other period, and it further excludes the items of income and expense that are never taxable and deductible. Lithium Zhuhai's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where Lithium Zhuhai is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Lithium Zhuhai expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Investments in subsidiaries

Investments in subsidiaries are included in the Lithium Zhuhai's statements of financial position at costs less any identified impairment losses.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Foreign currencies

For the purposes of presenting the Lithium Zhuhai Financial Information, the assets and liabilities of Lithium Zhuhai are translated from its functional currency (i.e. RMB) into the presentation currency of Lithium Zhuhai (i.e. US$) at the rate of exchange prevailing at the end of the reporting period, and its income and expenses are translated at the average exchange rates for the period/year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when Lithium Zhuhai becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Lithium Zhuhai's financial assets are loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables including other receivables, amount due from immediate holding company, amounts due from subsidiaries and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is recognised in the statements of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the statements of comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by Lithium Zhuhai are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including other payables and amount due to a subsidiary are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Lithium Zhuhai are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Lithium Zhuhai has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefit schemes

Payments to government-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

5. CAPITAL RISK MANAGEMENT

Lithium Zhuhai manages its capital to ensure that Lithium Zhuhai will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of Lithium Zhuhai consists of net debts, which includes the cash and cash equivalents, and equity attributable to owners of Lithium Zhuhai, comprising paid-in capital.

The sole director of Lithium Zhuhai reviews the capital structure on a regular basis. As part of this review, the sole director considers the cost of capital and the risks associates with each class of capital and will balance its overall capital structure through the payment of dividends and new capital raising.

6. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December		
	2008	**2009**	**2010**
	US$	*US$*	*US$*
Financial assets			
Loans and receivables (including cash and cash equivalents)	1,480,999	1,474,385	5,849,742
Financial liabilities			
Amortised cost	–	–	4,002,252

(b) Financial risk management objectives and policies

Lithium Zhuhai's major financial assets and liabilities include other receivables, amounts due from/to subsidiaries, amount due from immediate holding company, bank balances and cash and other payables. The risks associated with these financial instruments and the policies on how to mitigate credit risk and liquidity risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Credit risk

Lithium Zhuhai's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statements of financial position. Lithium Zhuhai's credit risk is primarily attributable to other receivables, amount due from immediate holding company and amounts due from subsidiaries. At the end of the reporting period, other receivables, amount due from immediate holding company and amounts due from subsidiaries are repayable on demand. In order to minimise the credit risk, the management has reviewed the recoverable amounts of the other receivables, amount due from immediate holding company and amounts due from fellow subsidiaries regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the sole director of Lithium Zhuhai consider that Lithium Zhuhai's credit risk on other receivables, amount due from immediate holding company and amounts due from fellow subsidiaries is significantly reduced. Most of the other receivables are subsequently settled.

The credit risk on bank balances is minimal as such amounts are placed in banks with good reputation.

(d) Liquidity risk management

The sole director of Lithium Zhuhai has built an appropriate liquidity risk management framework for the management of Lithium Zhuhai's short, medium and long-term funding and liquidity management requirements. Lithium Zhuhai manages liquidity risk by maintaining sufficient bank balances and by continuously monitoring forecast and actual cash flows, and the maturity profile of financial liabilities.

At 31 December 2008, 31 December 2009 and 31 December 2010, all Lithium Zhuhai's non-derivative financial liabilities are interest-free and their remaining contractual maturities are on demand or repayable within 90 days.

7. SEGMENT INFORMATION

Lithium Zhuhai is engaged in single business segment being an investment holding company in the PRC. The sole director of Lithium Zhuhai being the chief operating decision maker reviewed the overall results of Lithium Zhuhai for the purpose of result allocation and performance assessment. Lithium Zhuhai principally operates in the PRC (country of domicile) with all of its results derived from its operation in the PRC.

Analysis of Lithium Zhuhai's non-current assets is not presented as they are all located in the PRC.

8. TAXATION

No provision for taxation is made as Lithium Zhuhai had no assessable profit during the Relevant Periods.

The tax rate of Lithium Zhuhai is 25% under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation of regulation of the EIT Law.

A statement of reconciliation of taxation is as follows:

	Period from 19 August 2008 (date of establishment) to 31 December	Year ended 31 December	
	2008	**2009**	**2010**
	US$	*US$*	*US$*
Loss for the period/year	(14,295)	(6,605)	(79,688)
Tax at EIT rate of 25%	(3,574)	(1,651)	(19,922)
Tax effect of tax loss not recognised	3,574	1,651	19,922
Taxation for the period/year	–	–	–

9. LOSS FOR THE PERIOD/YEAR

	Period from 19 August 2008 (date of establishment) to 31 December	Year ended 31 December	
	2008	**2009**	**2010**
	US$	*US$*	*US$*
Loss for the period/year has been arrived at after charging:			
Director's remuneration *(note 10)*	–	–	–
Staff costs	798	3,509	15,596
Depreciation	–	–	1,210
Operating lease rental in respect of rented premises	8,484	8,484	8,484
and after crediting:			
Interest income	966	–	2,733

10. DIRECTOR'S AND EMPLOYEES' EMOLUMENTS

No director's emoluments have been paid or payable to the sole director for the Relevant Periods.

The five highest paid individuals did not include the sole director of Lithium Zhuhai during the Relevant Periods. The emoluments of the five highest paid individuals during the Relevant Periods were as follows:

	Period from 19 August 2008 (date of establishment) to 31 December 2008	Year ended 31 December	
		2009	2010
	US$	*US$*	*US$*
Employees			
– Salaries and other benefits	798	3,509	9,288

The emoluments of each of the five highest paid individuals during the Relevant Periods were below US$128,000 (equivalent to HK$1,000,000).

During the Relevant Periods, no emoluments were paid by Lithium Zhuhai to the sole director or any individual as an inducement to join or upon joining Lithium Zhuhai or as compensation for loss of office.

11. DIVIDENDS

No dividend has been paid or declared by Lithium Zhuhai during the Relevant Periods.

12. INTERESTS IN SUBSIDIARIES

	As at 31 December		
	2008	2009	2010
	US$	*US$*	*US$*
Paid-in capital, at cost	–	–	5,627,700
Amounts due from subsidiaries	–	–	5,044,449
	–	–	10,672,149

The amounts due from subsidiaries are unsecured, non-interest bearing and was originally repayable on demand. As at 31 December 2010, Lithium Zhuhai has agreed not to demand for the repayment of the amounts due from subsidiaries for at least the next twelve months from 31 December 2010 or until the subsidiaries have the ability to repay the amounts, whichever is later. As a result, the amounts due from subsidiaries are classified as non-current assets accordingly.

Details of subsidiaries held by Lithium Zhuhai directly as at 31 December 2010 are as follows:

Name of subsidiary	Place of establishment	Paid-in capital	Proportion of paid in capital/registered capital held by Lithium Zhuhai	Principal activities
中珠鋰源科技(北京)有限公司 (Zhongzhu Lithium Technology (Beijing) Limited)	The People's Republic of China ("PRC")	RMB51,900,000	100%	Investment holding
吉林鋰電動車有限公司 (Jilin Lithium Electric Vehicles Company Limited)	PRC	RMB10,000,000	90%	Trading in battery and research and development of electric vehicle power assembly products
珠海廣鋰電動汽車有限公司 (Zhuhai Guang Lithium Electric Vehicles Company Limited)	PRC	RMB2,000,000	98%	Research and development of electric vehicle products

No consolidated financial information have been prepared in accordance with HKAS 27 as the sole director of Lithium Zhuhai is of the opinion that Target Group has already prepared consolidated financial information which is available in Appendix-II-A of the Circular, it is not worthy to prepare consolidated financial information of Lithium Zhuhai in this report.

13. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicle	Office equipment	Total
	US$	*US$*	*US$*
COST			
As at 19 August 2008 (date of establishment), 31 December 2008 and 31 December 2009	–	–	–
Additions	17,496	5,282	22,778
As at 31 December 2010	17,496	5,282	22,778
ACCUMULATED DEPRECIATION			
As at 19 August 2008 (date of establishment), 31 December 2008 and 31 December 2009	–	–	–
Provided for the year	1,010	200	1,210
Exchange realignment	29	5	34
As at 31 December 2010	1,039	205	1,244
NET CARRYING VALUES			
As at 31 December 2008 and 31 December 2009	–	–	–
As at 31 December 2010	16,457	5,077	21,534

The above items of property, plant and equipments are depreciated on a straight line basis at the following rates per annum:

Motor vehicle	25%
Office equipment	33.33%

14. INVENTORIES

	As at 31 December		
	2008	2009	2010
	US$	*US$*	*US$*
Finished goods	–	–	3,652

15. OTHER RECEIVABLES

	As at 31 December		
	2008	2009	2010
	US$	*US$*	*US$*
Cash advances to *(note)*			
– former immediate holding company	1,024,800	1,033,584	–
– former fellow subsidiaries	183,665	238,416	–
	1,208,465	1,272,000	–
Other receivables	105,245	198,934	22,608
	1,313,710	1,470,934	22,608

Note: As at 31 December 2008 and 31 December 2009, the amounts are unsecured, non-interest bearing and repayable on demand. The amounts were subsequently settled during the year ended 31 December 2010.

16. AMOUNT DUE FROM IMMEDIATE HOLDING COMPANY

The amount due from immediate holding company is unsecured, non-interest bearing and repayable on demand.

17. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market rate ranging from 0.01% to 0.36% per annum.

18. OTHER PAYABLES

	As at 31 December		
	2008	2009	2010
	US$	*US$*	*US$*
Cash advances from *(note a)*			
– former immediate holding company	–	–	3,680,528
– other related parties *(note b)*	–	–	158,673
	–	–	3,839,201
Other payables	–	–	10,951
	–	–	3,850,152

Notes:

(a) As at 31 December 2010, the amounts are unsecured, non-interest bearing and repayable on demand.

(b) The sole director of Lithium Zhuhai has significant influence over these companies.

19. AMOUNT DUE TO A SUBSIDIARY

The amount due to a subsidiary is unsecured, non-interest bearing and repayable on demand.

20. PAID-IN CAPITAL

	RMB
Registered capital and paid-in capital	
As at 31 December 2008 and 31 December 2009	10,220,000
Capital contribution during the year	39,780,000
As at 31 December 2010	50,000,000
	US$
Show in Lithium Zhuhai Financial Information	
As at 31 December 2008 and 31 December 2009	1,496,208
As at 31 December 2010	7,546,746

21. OPERATING LEASE COMMITMENTS

At the end of each reporting period, Lithium Zhuhai was committed to make the following future minimum lease payments in respect of rented premises under non-cancellable operating leases which for due as followings:

	2008	**2009**	**2010**
	US$	*US$*	*US$*
Within one year	8,484	8,484	9,108

Leases were negotiated and rentals are fixed originally for lease terms of one year.

22. RETIREMENT BENEFITS SCHEME

The employees of Lithium Zhuhai are members of the state-managed retirement benefits scheme operated by the PRC government. Lithium Zhuhai is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of Lithium Zhuhai with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No contributions were made to the retirement benefits scheme during the Relevant Periods.

23. RELATED PARTY TRANSACTIONS

The key management personnel is the sole director of Lithium Zhuhai. No emolument has been paid or payable to the sole director for the Relevant Periods.

Other than the balances with related parties disclosed in respective notes to Section E, Lithium Zhuhai has no significant transactions with related parties during the Relevant Periods.

F. ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

The sole director considers the immediate holding company at 31 December 2010 be Lithium HK, a company established in Hong Kong and a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Island. Upon the acquisition of Lithium Zhuhai by Lithium HK on 21 December 2010, Lithium HK and the Target Company became the immediate holding company and ultimate holding company of Lithium Zhuhai respectively.

G. SUBSEQUENT EVENTS

On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium Zhuhai on that date. On 13 January 2011, the Vendor entered into an acquisition agreement (the "Acquisition Agreement") with Fulbond Investments. Pursuant to the Acquisition Agreement, Fulbond Investments has conditionally agreed to acquire the entire issued share capital of the Target Company, and the shareholder's loan at a consideration of HK$900 million (equivalent to US$115.4 million). The major terms of the Acquisition Agreement are set out in the Company's announcement dated 2 February 2011.

H. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Lithium Zhuhai subsequent to 31 December 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of accountants' report on Lithium BJ, prepared for the purpose of inclusion in the circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

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Deloitte Touche Tohmatsu
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Hong Kong

25 May 2011

The Directors
Fulbond Holdings Limited

Dear Sirs/Madam,

We set out below our report on the financial information relating to 中珠鋰源科技(北京)有限公司 (Zhongzhu Lithium Technology (Beijing) Limited) ("Lithium BJ") for each of the three years ended 31 December 2010 (the "Relevant Periods") (the "Lithium BJ Financial Information") for inclusion in the circular issued by Fulbond Holdings Limited (the "Company") dated 25 May 2011 (the "Circular") in connection with the proposed acquisition of the entire issued capital of Lithium Energy Group Ltd. (the "Target Company"), the ultimate holding company of Lithium BJ, and its other subsidiaries (hereinafter collectively referred to as the "Target Group") by Fulbond Investments Limited ("Fulbond Investments"), a wholly-owned subsidiary of the Company.

Lithium BJ was established in the People's Republic of China (the "PRC") on 19 February 2001 as a company with limited liability. Prior to 15 September 2009, Lithium BJ was principally engaged in sales of craft products. On 15 September 2009, Lithium BJ changed its scope of business to research and development of new energy technology, battery equipments, battery management system and electric vehicle power assembly products and vehicle electronics. However, business has not yet commenced since the change in scope of business and up to the date of this report. Lithium BJ principally acted as an investment holding company during each of the two years ended 31 December 2010.

Lithium BJ adopted 31 December as the financial year end date. The PRC statutory financial statements of Lithium BJ for the Relevant Periods were audited by 北京永勤會計師事務所有限公司 (Beijing Yongqin Certified Public Accountants Co. Ltd.), certified public accountants registered in the PRC. The PRC statutory financial statements for the Relevant Periods were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises.

For the purpose of the preparation of this report, the sole director of Lithium BJ has prepared the management accounts for the Relevant Periods in accordance with accounting policies set out in note 3 to this report which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") except for the failure to prepare consolidated financial information in accordance with Hong Kong Accounting Standard ("HKAS") 27 "Consolidated and Separate Financial Statements" ("HKAS 27") for each of the two years ended 31 December 2010 (the "Underlying Management Accounts"). We have carried out independent audit procedures we consider necessary in respect of the Underlying Management Accounts of Lithium BJ for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Management Accounts for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Lithium BJ Financial Information for the Relevant Periods set out in this report has been prepared based on the Underlying Management Accounts without making any adjustments for the purpose of inclusion in the Circular.

The sole director of Lithium BJ is responsible for preparing the Underlying Management Accounts. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Lithium BJ Financial Information set out in this report from the Underlying Management Accounts, to form an independent opinion on the Lithium BJ Financial Information and to report our opinion to you.

In our opinion:

- The Lithium BJ Financial Information together with the notes thereon give, for the purpose of this report, a true and fair view of the state of affairs of Lithium BJ as at 31 December 2008, 2009 and 2010, and of the results and cash flows of Lithium BJ for the Relevant Periods.

- Because of the significance of the matter discussed above regarding the failure to prepare consolidated financial information of Lithium BJ and its subsidiaries (collectively referred to as the "Lithium BJ Group"), the Lithium BJ Financial Information does not give a true and fair view of the state of affairs of the Lithium BJ Group as at 31 December 2009 and 2010 and of the results and cash flows of Lithium BJ Group for the two years then ended.

We draw your attention to note 1 to Section E of the Lithium BJ Financial Information which indicates that Lithium BJ incurred a loss of US$497,235 for the year ended 31 December 2010 and has net current liabilities of US$991,429 as at 31 December 2010. This condition indicates the existence of an uncertainty which may cast significant doubt about Lithium BJ's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

A. STATEMENTS OF COMPREHENSIVE INCOME

		Year ended 31 December		
	NOTE	**2008**	**2009**	**2010**
		US$	*US$*	*US$*
Turnover		1,323,077	–	–
Cost of sales		(1,231,078)	–	–
Gross profits		91,999	–	–
Other income		105	21	237,149
Administrative expenses		(233,981)	(427,471)	(682,487)
Loss for the year	*8*	(141,877)	(427,450)	(445,338)
Other comprehensive income (expense)				
Exchange difference arising on translation		255,006	(583)	(51,897)
Total comprehensive income (expense) for the year		113,129	(428,033)	(497,235)

B. STATEMENTS OF FINANCIAL POSITION

		As at 31 December		
	NOTES	**2008**	**2009**	**2010**
		US$	*US$*	*US$*
Non-current assets				
Interests in subsidiaries	*11*	–	1,024,800	8,709,075
Property, plant and equipment	*12*	216,881	236,349	187,625
		216,881	1,261,149	8,896,700
Current assets				
Inventories	*13*	3,367,493	3,367,493	–
Other receivables	*14*	2,241,890	1,975,030	195,914
Bank balances and cash		7,759	9,278	3,647
		5,617,142	5,351,801	199,561
Current liability				
Other payables	*15*	1,591,633	2,798,593	1,190,990
Net current assets (liabilities)		4,025,509	2,553,208	(991,429)
Total assets less current liabilities		4,242,390	3,814,357	7,905,271
Non-current liability				
Amount due to immediate holding company	*16*	–	–	4,588,149
		4,242,390	3,814,357	3,317,122
Capital and reserves				
Paid-in capital	*17*	6,269,520	6,269,520	6,269,520
Reserves		(2,027,130)	(2,455,163)	(2,952,398)
		4,242,390	3,814,357	3,317,122

C. STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital	Deficit	Translation reserve	Total
	US$	*US$*	*US$*	*US$*
At 1 January 2008	6,269,520	(2,694,017)	553,758	4,129,261
Loss for the year	–	(141,877)	–	(141,877)
Exchange differences arising on translation of functional currency to presentation currency	–	–	255,006	255,006
Total comprehensive (expense) income for the year	–	(141,877)	255,006	113,129
At 31 December 2008	6,269,520	(2,835,894)	808,764	4,242,390
Loss for the year	–	(427,450)	–	(427,450)
Exchange differences arising on translation of functional currency to presentation currency	–	–	(583)	(583)
Total comprehensive expenses for the year	–	(427,450)	(583)	(428,033)
At 31 December 2009	6,269,520	(3,263,344)	808,181	3,814,357
Loss for the year	–	(445,338)	–	(445,338)
Exchange differences arising on translation to presentation currency	–	–	(51,897)	(51,897)
Total comprehensive expense for the year	–	(445,338)	(51,897)	(497,235)
At 31 December 2010	6,269,520	(3,708,682)	756,284	3,317,112

D. STATEMENTS OF CASH FLOWS

	Year ended 31 December		
	2008	**2009**	**2010**
	US$	*US$*	*US$*
Operating activities			
Loss for the year	(141,877)	(427,450)	(445,338)
Adjustment for:			
Interest income	(105)	(21)	(503)
Depreciation of property, plant and equipment	50,399	52,984	57,214
Loss of disposal of property, plant and equipment	5,635	–	–
Operating cash outflows before movements in working capital	(85,948)	(374,487)	(388,627)
Decrease (increase) in other receivables	41,786	(6,520)	653,216
Decrease in inventories	1,292,911	–	3,392,411
(Decrease) increase in other payables	(222,836)	54,106	(186,206)
Net cash from (used in) operating activities	1,025,913	(326,901)	3,470,794
Investing activities			
Purchase of property, plant and equipment	(39,929)	(72,524)	(913)
Proceeds from disposal of property, plant and equipment	32,569	–	–
(Advance to) repayment from former immediate holding company	(1,339,321)	745,720	616,475
(Advance to) repayment from former fellow subsidiaries	–	(682,318)	707,888
(Advances to) repayment from other related parties	(229,924)	209,978	(94,028)
Advances to subsidiaries	–	–	(3,754,674)
Advance to a former subsidiary	–	–	(30,420)
Capital contributions to subsidiaries	–	(1,024,800)	(3,797,616)
Interest received	105	21	503
Net cash used in investing activities	(1,576,500)	(823,923)	(6,352,785)

	Year ended 31 December		
	2008	**2009**	**2010**
	US$	*US$*	*US$*
Financing activities			
Advance from immediate holding company	–	–	4,406,149
Advances from former immediate holding company	–	43,920	28,476
Advances from former related parties	36,600	–	53
Advances from (repayment to) other related parties	519,000	1,108,934	(1,554,379)
Net cash from financing activities	555,600	1,152,854	2,879,299
Net increase (decrease) in cash and cash equivalents	5,013	2,030	(2,692)
Cash and cash equivalents at beginning of year	2,376	7,759	9,278
Effect of foreign exchange rate changes	370	(511)	(2,939)
Cash and cash equivalents, at end of the year, representing bank balances and cash	7,759	9,278	3,647

E. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL AND BASIS OF PREPARATION

Lithium BJ was established in the PRC on 19 February 2001 as a company with limited liability. Lithium BJ was formerly known as 北京財富投資有限公司 (Beijing Wealth Investment Company Limited) upon its establishment, and subsequently changed its name to 北京財富力泰投資有限公司 (Beijing Cai Fu Li Tai Investment Company Limited), 北京鋰源財富投資有限公司 (Beijing Lithium Cai Fu Investment Company Limited), 鋰源動力投資 (北京) 有限公司 (Lithium Energy Investment (Beijing) Company Limited) and 中珠鋰源科技(北京)有限公司 (Zhongzhu Lithium Technology (Beijing) Limited) on 23 April 2007, 15 September 2007, 8 January 2010 and 1 December 2010 respectively. Prior to 15 September 2009, Lithium BJ was principally engaged in sales of craft products. On 15 September 2009, Lithium BJ changed its scope of business to research and development of new energy technology, battery equipments, battery management system and electric vehicle power assembly products and vehicle electronics. However, business has not yet commenced since the change in scope of business and up to the date of this report. Lithium BJ is principally acted as an investment holding company during each of the two years ended 31 December 2010. The immediate holding company of Lithium BJ is 珠海鋰源新能源科技有限公司 (Zhuhai Lithium New Energy Sources Technology Limited) ("Lithium Zhuhai"), a company established in the PRC with limited liability. Lithium Zhuhai acquired the entire interest of Lithium BJ on 10 September 2010. On 21 December 2010, China Lithium Electric Vehicle Group (Hong Kong) Limited ("Lithium HK"), a company incorporated in Hong Kong with limited liability, acquired the entire interest of Lithium Zhuhai. Lithium HK is a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Islands with limited liability. Accordingly, Lithium HK and the Target Company became the intermediate holding company and ultimate holding company of Lithium BJ respectively on 21 December 2010. On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium BJ on that date.

The Lithium BJ Financial Information is presented in United States dollar ("US$"), while the functional currency of Lithium BJ is Renminbi ("RMB") as US$ is the presentation currency of the financial statements of the Company.

In preparing the Underlying Management Accounts, the sole director of Lithium BJ have given consideration to the future liquidity of Lithium BJ in light of its net current liabilities of US$991,429 as at 31 December 2010. Upon completion of the proposed acquisition of the entire issued share capital of the Target Company by Fulbond Investments (the "Acquisition") and assignment of the loan from the Vendor to the Target Group, the sole director of Lithium BJ believes that Fulbond Investment will provide financial support to Lithium BJ to meet in full its financial obligations as they fall due for the foreseeable future.

However, if the Acquisition is not completed, the sole director of the Lithium BJ believes that the Vendor will continue to provide financial support to Lithium BJ to enable it to meet its liabilities as and when they fall due and to continue its business for the foreseeable future. The sole director of the Lithium BJ believes that Lithium BJ will continue as going concern. Consequently, the Lithium BJ Financial Information has been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations ("INT") (hereinafter collectively referred to as the "new HKFRSs") which are effective for Lithium BJ's financial period beginning on 1 January 2010. For the purposes of preparing and presenting the Lithium BJ Financial Information for the Relevant Periods, Lithium BJ has adopted all HKFRSs applicable to financial year beginning on 1 January 2010 during the Relevant Periods.

Lithium BJ has not early applied the following revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 1 (Amendments)	Limited exemptions from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised)	Related party disclosures[6]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 July 2011.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 January 2011.

The sole director of Lithium BJ anticipates that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and financial positions of Lithium BJ.

3. SIGNIFICANT ACCOUNTING POLICIES

The Lithium BJ Financial Information has been prepared under the historical cost basis in accordance with HKFRSs issued by HKICPA except for the failure to prepare consolidated financial information in accordance with Hong Kong Accounting Standard 27 "Consolidated and Separate Financial Statements" ("HKAS 27") issued by HKICPA for the two years ended 31 December 2010. In addition, the Lithium BJ Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and returns.

Revenue from sale of goods is recognised when goods are delivered and title has been passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to Lithium BJ and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income and expense that are taxable or deductible in other period, and it further excludes the items of income and expense that are never taxable and deductible. Lithium BJ's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where Lithium BJ is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Lithium BJ expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Investment in subsidiaries

Investment in subsidiaries are included in the Lithium BJ's statements of financial position at costs less any identified impairment losses.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Foreign currencies

For the purposes of presenting the Lithium BJ Financial Information, the assets and liabilities of Lithium BJ are translated from its functional currency (i.e. RMB) into the presentation currency of Lithium BJ (i.e. US$) at the rate of exchange prevailing at the end of the reporting period, and its income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when Lithium BJ becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Lithium BJ's financial assets are loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables including other receivables, amounts due from subsidiaries and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is recognised in the statements of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the statements of comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by Lithium BJ are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including other payables and amount due to immediate holding company are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Lithium BJ are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Lithium BJ has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefit schemes

Payments to government-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

4. CAPITAL RISK MANAGEMENT

Lithium BJ manages its capital to ensure that Lithium BJ will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of Lithium BJ consists of net debts, which includes the cash and cash equivalents, and equity attributable to owners of Lithium BJ, comprising paid-in capital.

The sole director of Lithium BJ reviews the capital structure on a regular basis. As part of this review, the sole director considers the cost of capital and the risks associates with each class of capital and will balance its overall capital structure through the payment of dividends and new capital raising.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December		
	2008	**2009**	**2010**
	US$	*US$*	*US$*
Financial assets			
Loans and receivables (including cash and cash equivalents)	2,248,852	1,980,851	4,084,712
Financial liabilities			
Amortised cost	1,591,633	2,798,593	5,779,139

(b) Financial risk management objectives and policies

Lithium BJ's major financial assets and liabilities include other receivables, amounts due from subsidiaries, bank balances and cash, other payables and amount due to immediate holding company. The risks associated with these financial instruments and the policies on how to mitigate credit risk and liquidity risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Credit risk

Lithium BJ's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statements of financial position. Lithium BJ's credit risk is primarily attributable to other receivables and amounts due from subsidiaries. At the end of the reporting period, other receivables and amounts due from subsidiaries are repayable on demand. In order to minimise the credit risk, the management has reviewed the recoverable amounts of the other receivables and amounts due from fellow subsidiaries regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the sole director of Lithium BJ consider that Lithium BJ's credit risk on other receivables and amounts due from fellow subsidiaries is significantly reduced. Most of the balances of other receivables and subsequently settled.

The credit risk on bank balances is minimal as such amounts are placed in banks with good reputation.

(d) Liquidity risk management

The sole director of Lithium BJ has built an appropriate liquidity risk management framework for the management of Lithium BJ's short, medium and long-term funding and liquidity management requirements. Lithium BJ manages liquidity risk by maintaining sufficient bank balances and by continuously monitoring forecast and actual cash flows, and the maturity profile of financial liabilities.

At 31 December 2008, 31 December 2009 and 31 December 2010, all Lithium BJ's non-derivative financial liabilities are interest-free and their remaining contractual maturities are on demand or repayable within 90 days except for the amount due to immediate holding company which is due over one year.

6. SEGMENT INFORMATION

For the year ended 31 December 2008, Lithium BJ is engaged single business segment being sales of craft products in the PRC and all the sales are made to a single customer. For the year ended 31 December 2009 and 31 December 2010, Lithium BJ is principally acted as an investment holding in the PRC. The sole director of Lithium BJ being the chief operating decision maker reviewed the overall results of Lithium BJ for the purpose of result allocation and performance assessment. Lithium BJ principally operates in the PRC (country of domicile) with all of its results derived from its operation in the PRC. Analysis of Lithium BJ's non-current assets is not presented as they are all located in the PRC.

7. TAXATION

No provision for taxation is made as Lithium BJ had no assessable profit during the Relevant Periods.

The tax rate of Lithium BJ is 25% under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation of regulation of the EIT Law.

A statement of reconciliation of taxation is as follows:

	Year ended 31 December		
	2008	**2009**	**2010**
	US$	*US$*	*US$*
Loss for the year	(141,877)	(427,450)	(445,338)
Tax at EIT rate of 25%	(35,469)	(106,863)	(111,335)
Tax effect of tax loss not recognised	35,469	106,863	111,335
Taxation for the year	–	–	–

8. LOSS FOR THE YEAR

	Year ended 31 December		
	2008	**2009**	**2010**
	US$	*US$*	*US$*
Loss for the year has been arrived at after charging:			
Director's remuneration *(note 9)*	–	–	–
Staff costs	50,593	95,738	204,567
Depreciation	50,399	52,984	57,214
Loss on disposal of property, plant and equipment	5,635	–	–
Operating lease rentals	20,828	7,223	5,712
and after crediting:			
Interest income	105	21	503

9. DIRECTOR'S AND EMPLOYEES' EMOLUMENTS

No director's emoluments have been paid or payable to the sole director for the Relevant Periods.

The five highest paid individuals did not include the sole director of Lithium BJ during the Relevant Periods. The emoluments of the five highest paid individuals during the Relevant Periods were as follows:

	Year ended 31 December		
	2008	**2009**	**2010**
	US$	*US$*	*US$*
Employees			
– Salaries and other benefits	25,854	32,099	67,662

The emoluments of each of the five highest paid individuals during the Relevant Periods were below US$128,000 (equivalent to HK$1,000,000).

During the Relevant Periods, no emoluments were paid by Lithium BJ to the sole director or any individual as an inducement to join or upon joining Lithium BJ or as compensation for loss of office.

10. DIVIDENDS

No dividend has been paid or declared by Lithium BJ during the Relevant Periods.

11. INTERESTS IN SUBSIDIARIES

	As at 31 December		
	2008	**2009**	**2010**
	US$	*US$*	*US$*
Unlisted shares, at cost	–	1,024,800	4,822,416
Amounts due from subsidiaries	–	–	3,886,659
	–	1,024,800	8,709,075

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand. Lithium BJ agreed not to demand for the repayment of the amounts due from subsidiaries for at least the next twelve months from 31 December 2010 until the subsidiaries have the ability to repay the amounts, whichever is later. The amounts due from subsidiaries are classified as non-current assets accordingly.

Details of Lithium BJ's subsidiaries as at 31 December 2009 and 2010 are as follows:

Name of subsidiary	Place of establishment	Paid-in capital	Proportion of paid-in capital held by Lithium BJ 2009	Proportion of paid-in capital held by Lithium BJ 2010	Principal activities
唐山鋰源電動汽車銷售有限公司 (Tangshan Lithium Electric Vehicles Sales Company Limited)	The People's Republic of China ("PRC")	RMB2,000,000	100%	100%	Trading in and renting out electric vehicles
唐山曹妃甸鋰源電動汽車驅動總成有限公司 (Tangshan Caofeidian Lithium Assembly of Electric Vehicles Company Limited)	PRC	RMB5,000,000	100%	100%	Research and development of power motor and vehicle electronic and controller system
唐山鋰源鋰動力電池科技有限公司 (Tangshan Lithium Power Motor Technology Company Limited)	PRC	RMB16,000,000	–	99.63%	Trading in and research and development of lithium-ion battery
唐山鋰源新電動汽車製造有限公司 (Tangshan Lithium New Electric Vehicles Manufacturing Company Limited)	PRC	RMB10,000,000	–	100%	Preparation for electric vehicle production project

No consolidated financial information of Lithium BJ have been prepared in accordance with HKAS 27 as the sole director of Lithium BJ is of the opinion that the Target Group has prepared consolidated financial information which is available in Appendix II-A of the Circular, it is not worthy to prepare consolidated financial information of Lithium BJ in this report.

12. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicle *US$*	**Leasehold improvements** *US$*	**Office equipment** *US$*	**Total** *US$*
COST				
As at 1 January 2008	265,155	20,658	141,914	427,727
Exchange realignment	16,958	1,321	9,076	27,355
Additions	36,439	–	3,490	39,929
Disposals	(44,491)	–	–	(44,491)
As at 31 December 2008	274,061	21,979	154,480	450,520
Additions	60,586	–	11,938	72,524
As at 31 December 2009	334,647	21,979	166,418	523,044
Exchange realignment	13,029	856	6,479	20,364
Additions	–	–	913	913
As at 31 December 2010	347,676	22,835	173,810	544,321
ACCUMULATED DEPRECIATION				
As at 1 January 2008	69,836	18,303	86,966	175,105
Exchange realignment	6,145	1,220	7,057	14,422
Provided for the year	26,248	767	23,384	50,399
Eliminated on disposal	(6,287)	–	–	(6,287)
As at 31 December 2008	95,942	20,290	117,407	233,639
Exchange realignment	38	1	33	72
Provided for the year	27,974	817	24,193	52,984
As at 31 December 2009	123,954	21,108	141,633	286,695
Exchange realignment	5,955	841	5,991	12,787
Provided for the year	39,746	689	16,779	57,214
As at 31 December 2010	169,655	22,638	164,403	356,696
NET CARRYING VALUES				
As at 31 December 2008	178,119	1,689	37,073	216,881
As at 31 December 2009	210,693	871	24,785	236,349
As at 31 December 2010	178,021	197	9,407	187,625

During the Relevant Periods, an independent third party has provided, free of charge, the office premise, to Lithium BJ. As at 31 December 2010, there was no specification as to the duration of the provision of office premise.

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Motor vehicle	25%
Leasehold improvements	33.33%
Office equipment	33.33%

13. INVENTORIES

	As at 31 December		
	2008	2009	2010
	US$	*US$*	*US$*
Finished goods	3,367,493	3,367,493	–

During the year ended 31 December 2010, inventories amounted to US$3,367,493 were transferred to the former immediate holding company at cost.

14. OTHER RECEIVABLES

	As at 31 December		
	2008	2009	2010
	US$	*US$*	*US$*
Cash advances to *(note a)*			
– former immediate holding company	1,339,927	594,207	–
– former fellow subsidiaries	–	682,318	–
– a former subsidiary	–	–	30,420
– other related parties *(note b)*	230,865	20,887	115,698
	1,570,792	1,297,412	146,118
Other receivables	670,301	674,161	48,288
Other prepaid expenses	797	3,457	1,508
	2,241,890	1,975,030	195,914

Notes:

(a) As at 31 December 2008, 31 December 2009 and 31 December 2010, the amounts are unsecured, non-interest bearing and repayable on demand. The amounts are subsequently settled.

(b) The sole director of Lithium BJ has significant influence over these companies.

15. OTHER PAYABLES

	As at 31 December		
	2008	2009	2010
	US$	*US$*	*US$*
Cash advances from *(note a)*			
– a former immediate holding company	–	43,920	74,042
– former related parties	36,600	36,600	38,025
– other related parties *(note b)*	1,384,493	2,493,427	1,032,064
	1,421,093	2,573,947	1,144,131
Other payables	170,540	224,646	46,859
	1,591,633	2,798,593	1,190,990

Notes:

(a) As at 31 December 2008, 31 December 2009 and 31 December 2010, the amounts are unsecured, non-interest bearing and repayable on demand.

(b) The sole director of Lithium BJ has significant influence over these companies.

16. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount due to immediate holding company is unsecured, non-interest bearing and repayable on demand. The immediate holding company, Lithium Zhuhai, agreed not to demand for the repayment of the amount due to it for at least the next twelve months from the date of the report or until Lithium BJ have the ability to repay the amount, whichever is later. The amount due to immediate holding company is classified as non-current liability accordingly.

17. PAID-IN CAPITAL

	As at 31 December 2010, 2009 and 2008
Registered capital and paid-in capital	RMB51,900,000
Shown in Lithium BJ Financial information	US$6,269,520

18. RETIREMENT BENEFITS SCHEME

The employees of Lithium BJ are members of the state-managed retirement benefits scheme operated by the PRC government. Lithium BJ is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of Lithium BJ with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No contributions were made to the retirement benefits scheme during the Relevant Periods.

19. OPERATING LEASE COMMITMENTS

At the end of the reporting period, Lithium BJ had commitments for future minimum lease payments in respect of land and buildings under non-cancellable operating leases which fall due as follows:

	As at 31 December		
	2008	**2009**	**2010**
	US$	*US$*	*US$*
Within one year	557	557	684

Operating lease payments represent rental payable by Lithium BJ for certain of its office properties.

Leases are negotiated for terms of 1 year with fixed rental.

20. RELATED PARTY TRANSACTIONS

The key management personnel is the sole director of Lithium BJ. No emolument has been paid or payable to the sole director for the Relevant Periods.

Other than the balances and transactions with related parties disclosed in respective notes to section E, Lithium BJ has no significant transactions with related parties during the Relevant Periods.

F. ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

The sole director considers the immediate holding company at 31 December 2010 be Lithium Zhuhai, a company established in the PRC. Upon the acquisition of Lithium Zhuhai by Lithium HK, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Islands, on 21 December 2010, Lithium HK and the Target Company became the intermediate holding company and ultimate holding company of Lithium BJ respectively.

G. SUBSEQUENT EVENTS

On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium BJ on that date. On 13 January 2011, the Vendor entered into an acquisition agreement (the "Acquisition Agreement") with Fulbond Investments, a wholly owned subsidiary of the Company. Pursuant to the Acquisition Agreement, Fulbond Investments has conditionally agreed to acquire the entire issued share capital of the Target Company, and the shareholder's loan at a consideration of HK$900 million (equivalent to US$115.2 million). The major terms of the Acquisition Agreement are set out in the Company's announcement dated 2 February 2011.

H. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Lithium BJ subsequent to 31 December 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of accountants' report on Lithium Sales, prepared for the purpose of inclusion in the circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

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香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

25 May 2011

The Directors
Fulbond Holdings Limited

Dear Sirs/Madam,

We set out below our report on the financial information relating to 唐山鋰源電動汽車銷售有限公司 (Tangshan Lithium Electric Vehicles Sales Company Limited) (" Lithium Sales") for the period from 4 November 2009 (date of establishment) to 31 December 2009 and the year ended 31 December 2010 (the "Relevant Periods") (the "Lithium Sales Financial Information") for inclusion in the circular issued by Fulbond Holdings Limited (the "Company") dated 25 May 2011 (the "Circular") in connection with the proposed acquisition of the entire issued capital of Lithium Energy Group Ltd. (the "Target Company"), the ultimate holding company of Lithium Sales, and its other subsidiaries (hereinafter collectively referred to as the "Target Group") by Fulbond Investments Limited ("Fulbond Investments"), a wholly-owned subsidiary of the Company.

Lithium Sales was established in the Peoples' Republic of China (the "PRC") on 4 November 2009 as a company with limited liability. It is principally engaged in trading in and renting out electric vehicles.

Lithium Sales adopted 31 December as the financial year end date. No PRC statutory financial statements have been prepared for Lithium Sales for the period from 4 November 2009 (date of establishment) to 31 December 2009. The PRC statutory financial statements of Lithium Sales for the year ended 31 December 2010 were audited by 北京永勤會計師事務所有限公司 (Beijing Yongqin Certified Public Accountants Co. Ltd.), certified public accountants registered in the PRC. The PRC statutory financial statements for the year ended 31 December 2010 were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises.

For the purpose of the preparation of this report, the sole director of Lithium Sales has prepared the management accounts for the Relevant Periods in accordance with accounting policies conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Management Accounts"). We have carried out independent audit procedures we consider necessary in respect of the Underlying Management Accounts of Lithium Sales for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Management Accounts for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Lithium Sales Financial Information for the Relevant Periods set out in this report has been prepared based on the Underlying Management Accounts without making any adjustments for the purpose of inclusion in the Circular.

The sole director of Lithium Sales is responsible for preparing the Underlying Management Accounts. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Lithium Sales Financial Information set out in this report from the Underlying Management Accounts, to form an independent opinion on the Lithium Sales Financial Information and to report our opinion to you.

In our opinion, the Lithium Sales Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Lithium Sales as at 31 December 2009 and 31 December 2010, and of the loss and cash flows of Lithium Sales for the Relevant Periods.

A. STATEMENTS OF COMPREHENSIVE INCOME

	Notes	**Period from 4 November 2009 (date of establishment) to 31 December 2009**	**Year ended 31 December 2010**
		US$	*US$*
Turnover		–	1,390,513
Cost of sales		–	(1,137,490)
Gross profit		–	253,023
Selling and distribution expenses		–	(86,991)
Administrative expenses		(35,564)	(202,696)
Finance costs	*7*	–	(57,504)
Loss for the period/year	*9*	(35,564)	(94,168)
Other comprehensive (expense) income			
Exchange difference arising on translation		(49)	7,340
Total comprehensive expense for the period/year		(35,613)	(86,828)

B. STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2009 US$	2010 US$
Non-current assets			
Property, plant and equipment	12	10,717	10,864
Deposits paid for acquisition of property, plant and equipment		296,793	–
		307,510	10,864
Current assets			
Inventories	13	–	853,165
Other receivables	14	1,075,522	2,336,473
Amount due from a fellow subsidiary	15	–	65,334
Bank balances and cash		3,234	3,515
		1,078,756	3,258,487
Current liabilities			
Trade and other payables	16	968,039	1,350,700
Amounts due to fellow subsidiaries	17	161,040	109,588
Other borrowing	18	–	1,275,943
		1,129,079	2,736,231
Net current (liabilities) assets		(50,323)	522,256
Total assets less current liabilities		257,187	533,120
Non-current liability			
Amount due to immediate holding company	17	–	362,761
		257,187	170,359
Capital and reserves			
Paid-in capital	19	292,800	292,800
Reserves		(35,613)	(122,441)
		257,187	170,359

C. STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital *US$*	Deficit *US$*	Translation reserve *US$*	Total *US$*
Loss for the period	–	(35,564)	–	(35,564)
Exchange differences arising on translation of functional currency to presentation currency	–	–	(49)	(49)
Total comprehensive expense for the period	–	(35,564)	(49)	(35,613)
Capital contribution upon establishment	292,800	–	–	292,800
At 31 December 2009	292,800	(35,564)	(49)	257,187
Loss for the year	–	(94,168)	–	(94,168)
Exchange differences arising on translation of functional currency to presentation currency	–	–	7,340	7,340
Total comprehensive (expense) income for the year	–	(94,168)	7,340	(86,828)
At 31 December 2010	292,800	(129,732)	7,291	170,359

D. STATEMENTS OF CASH FLOWS

	Period from 4 November 2009 (date of establishment) to 31 December 2009 *US$*	Year ended 31 December 2010 *US$*
Operating activities		
Loss for the period/year	(35,564)	(94,168)
Adjustments for:		
Interest expenses	–	57,504
Depreciation for property, plant and equipment	–	2,870
Operating cash inflows before movements in working capital	(35,564)	(33,794)
Increase in inventories	–	(853,165)
Increase in other receivables	(6,802)	(497,422)
Increase in trade and other payables	967,990	346,383
Net cash from (used in) operating activities	925,624	(1,037,998)
Investing activities		
Purchase of property, plant and equipment	(10,717)	(2,682)
Advance to a fellow subsidiary	–	(57,487)
(Advance to) repayment from former intermediate holding company	(1,068,720)	1,108,771
Advance to former immediate holding company	–	(1,806,948)
Advance to a third party	–	(25,046)
Deposits paid for acquisition of property, plant and equipment	(296,793)	–
Net cash used in investing activities	(1,376,230)	(783,392)
Financing activities		
Interest paid	–	(57,504)
Capital contribution from equity holder	292,800	–
Advances from fellow subsidiaries	161,040	242,581
Advance from immediate holding company	–	362,761
Other borrowing raised	–	1,275,943
Net cash from financing activities	453,840	1,823,781
Net increase in cash and cash equivalents	3,234	2,391
Cash and cash equivalents at beginning of period/year	–	3,234
Effect of foreign exchange rate changes	–	(2,110)
Cash and cash equivalents at end of the period/year representing bank balances and cash	3,234	3,515

E. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Lithium Sales was established in the PRC on 4 November 2009 as a company with limited liability and is principally engaged in trading in and renting out electric vehicles. The immediate holding company of Lithium Sales is 中珠鋰源科技 (北京)有限公司 (Zhongzhu Lithium Technology (Beijing) Limited) ("Lithium BJ"), a company established in the PRC with limited liability. Lithium BJ acquired the entire interest of Lithium Sales on 26 July 2010. On 10 September 2010, 珠海鋰源新能源科技有限公司 (Zhuhai Lithium New Energy Sources Technology Limited) ("Lithium Zhuhai"), a company established in the PRC with limited liability, acquired the entire interest of Lithium BJ. On 21 December 2010, China Lithium Electric Vehicle Group (Hong Kong) Limited ("Lithium HK"), a company incorporated in Hong Kong with limited liability, acquired the entire interest of Lithium Zhuhai. Lithium HK is a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Islands with limited liability. Accordingly, Lithium HK and the Target Company became the intermediate holding company and ultimate holding company of Lithium Sales respectively on 21 December 2010. On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium Sales on that date.

The Lithium Sales Financial Information is presented in United States dollar ("US$"), while the functional currency of Lithium Sales is Renminbi ("RMB") as US$ is the presentation currency of the financial statements of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations ("INT") (hereinafter collectively referred to as the "new HKFRSs") which are effective for Lithium Sales's financial period beginning on 1 January 2010. For the purposes of preparing and presenting the Lithium Sales Financial Information for the Relevant Periods, Lithium Sales has adopted all HKFRSs applicable to financial year beginning on 1 January 2010 during the Relevant Periods.

Lithium Sales has not early applied the following revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 1 (Amendments)	Limited exemptions from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised)	Related party disclosures[6]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.

The sole director of Lithium Sales anticipates that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and financial position of Lithium Sales.

3. SIGNIFICANT ACCOUNTING POLICIES

The Lithium Sales Financial Information has been prepared under the historical cost basis in accordance with HKFRSs issued by HKICPA. In addition, the Lithium Sales Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The principle accounting policies are set out below.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods in the normal course of business, net of discounts and returns.

Revenue from sale of goods is recognised when goods are delivered and title has been passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income and expense that are taxable or deductible in other period, and it further excludes the items of income and expense that are never taxable and deductible. Lithium Sales's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Lithium Sales expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Foreign currencies

For the purposes of presenting the Lithium Sales Financial Information, the assets and liabilities of Lithium Sales are translated from its functional currency (i.e. RMB) into the presentation currency of Lithium Sales (i.e. US$) at the rate of exchange prevailing at the end of the reporting period, and its income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when Lithium Sales becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Lithium Sales's financial assets are loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables including other receivables, amount due from a fellow subsidiary and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is recognised in the statements of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the statements of comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by Lithium Sales are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, other borrowing, amounts due to fellow subsidiaries and amount due to immediate holding company, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Lithium Sales are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Lithium Sales has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefit schemes

Payments to government-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

4. CAPITAL RISK MANAGEMENT

Lithium Sales manages its capital to ensure that Lithium Sales will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of Lithium Sales consists of net debts, which includes the cash and cash equivalents, and equity attributable to owners of Lithium Sales, comprising paid-in capital.

The sole director of Lithium Sales reviews the capital structure on a regular basis. As part of this review, the sole director considers the cost of capital and the risks associates with each class of capital and will balance its overall capital structure through the payment of dividends and new capital raising.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December	
	2009	**2010**
	US$	*US$*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	1,078,756	2,037,853
Financial liabilities		
Amortised cost	161,119	3,098,992

(b) Financial risk management objectives and policies

Lithium Sales's major financial assets and liabilities include other receivables, amount due from a fellow subsidiary, bank balances and cash, trade and other payables, other borrowing, amounts due to fellow subsidiaries and immediate holding company. The risks associated with these financial instruments and the policies on how to mitigate credit risk and liquidity risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Credit risk

Lithium Sales's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statements of financial position. Lithium Sales's credit risk is primarily attributable to other receivables and amount due from a fellow subsidiary.

At the end of the reporting period, the other receivables and amount due from a fellow subsidiary are repayable on demand. In order to minimise the credit risk, the management has reviewed the recoverable amounts of the other receivables and amount due from a fellow subsidiary regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the sole director of Lithium Sales consider that Lithium Sales's credit risk on other receivables and amount due from a fellow subsidiary is significantly reduced. Most of the balances of other receivables are subsequently settled.

The credit risk on bank balances is minimal as such amounts are placed in banks with good reputation.

(d) Liquidity risk management

The sole director of Lithium Sales has built an appropriate liquidity risk management framework for the management of Lithium Sales's short, medium and long-term funding and liquidity management requirements. Lithium Sales manages liquidity risk by maintaining sufficient bank balances and by continuously monitoring forecast and actual cash flows, and the maturity profile of financial liabilities.

At 31 December 2009 and 31 December 2010, all Lithium Sales's non-derivative financial liabilities are interest-free (except for other borrowing at 31 December 2010, which bears interest at 4.86% per annum and is repayable on demand) and their remaining contractual maturities are on demand or repayable within 90 days except for the amount due to immediate holding company which is due over one year.

6. SEGMENT INFORMATION

Lithium Sales is engaged in single business segment being trading in and renting out electric vehicles in the PRC and the sales is made to a single customer. The sole director of Lithium Sales being the chief operating decision maker reviewed the overall results of Lithium Sales for the purpose of result allocation and performance assessment. Lithium Sales principally operates in the PRC (country of domicile) with all of its results derived from its operation in the PRC. Analysis of Lithium Sales's non-current assets is not presented as they are all located in the PRC.

7. FINANCE COST

Finance cost represents the interest expense incurred on other borrowing.

8. TAXATION

No provision for taxation is made as Lithium Sales had no assessable profit during the Relevant Periods.

The tax rate of Lithium Sales is 25% under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation of regulation of the EIT Law.

A statement of reconciliation of taxation is as follows:

	Period from 4 November 2009 (date of establishment) to 31 December 2009	**Year ended 31 December 2010**
	US$	*US$*
Loss for the period/year	(35,564)	(94,168)
Tax at EIT rate of 25%	(8,891)	(23,542)
Tax effect of tax loss not recognised	8,891	23,542
Taxation for the period/year	–	–

9. LOSS FOR THE PERIOD/YEAR

	Period from 4 November 2009 (date of establishment) to 31 December 2009	**Year ended 31 December 2010**
	US$	*US$*
Loss for the period/year has been arrived at after charging:		
Director's remuneration *(note 10)*	–	–
Staff costs	–	60,353
Depreciation	–	2,870
Legal and professional fee	–	3,816

10. DIRECTOR'S AND EMPLOYEES' EMOLUMENTS

No director's emoluments have been paid or payable to the sole director for the Relevant Periods.

The five highest paid individuals did not include the sole director of Lithium Sales during the year ended 31 December 2010. The emoluments of the five highest paid individuals during the year ended 31 December 2010 was US$14,246. The emoluments of each of the five highest paid individuals during the year ended 31 December 2010 were below US$128,000 (equivalent to HK$1,000,000).

During the Relevant Periods, no emoluments were paid by Lithium Sales to the sole director or any individual as an inducement to join or upon joining Lithium Sales or as compensation for loss of office. The sole director has not waived any remuneration during the Relevant Periods.

11. DIVIDENDS

No dividend has been paid or declared by Lithium Sales during the Relevant Periods.

12. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures	Motor vehicle	Office equipment	Total
	US$	*US$*	*US$*	*US$*
COST				
Additions during the period and balance at 31 December 2009	–	10,717	–	10,717
Exchange realignment	–	417	–	417
Additions	1,095	–	1,587	2,682
At 31 December 2010	1,095	11,134	1,587	13,816
ACCUMULATED DEPRECIATION				
Provided during the period and balance at 31 December 2009	–	–	–	–
Exchange realignment	2	73	7	82
Provided for the year	67	2,571	232	2,870
At 31 December 2010	69	2,644	239	2,952
NET CARRYING VALUES				
At 31 December 2009	–	10,717	–	10,717
At 31 December 2010	1,026	8,490	1,348	10,864

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Furniture and fixtures	$33^{1}/_{3}$%
Motor vehicle	25%
Office equipment	$33^{1}/_{3}$%

During the Relevant Periods, an independent third party has provided, free of charge, the office premise, to Lithium Sales. As at 31 December 2010, there was no specification as to the duration of the provision of office premise.

13. INVENTORIES

	As at 31 December	
	2009	2010
	US$	*US$*
Raw materials	–	14,145
Finished goods	–	839,020
	–	853,165

14. OTHER RECEIVABLES

	As at 31 December	
	2009	**2010**
	US$	*US$*
Cash advances to *(Note)*		
– former intermediate holding company	1,068,720	–
– former immediate holding company	–	1,806,948
– a third party	–	25,046
	1,068,720	1,831,994
Other receivables	6,802	137,010
Prepayments	–	367,469
	1,075,522	2,336,473

Note : As at 31 December 2009 and 31 December 2010, the amounts are unsecured, non-interest bearing and repayable on demand. The amounts are subsequently settled.

15. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The amount due from a fellow subsidiary is unsecured, non-interest bearing and repayable on demand.

16. TRADE AND OTHER PAYABLES

	As at 31 December	
	2009	**2010**
	US$	*US$*
Trade payables	–	1,336,077
Deposits from customers	967,960	–
Other payables and accrued charges	79	14,623
	968,039	1,350,700

An aging analysis of trade payables is as follows:

Within 30 days	–	1,333,187
Within 31 to 60 days	–	2,890
	–	1,336,077

17. AMOUNT(S) DUE TO FELLOW SUBSIDIARIES AND IMMEDIATE HOLDING COMPANY

The amount(s) due to fellow subsidiaries and immediate holding company are unsecured, non-interest bearing and repayable on demand. As at 31 December 2010, Lithium BJ has agreed not to demand for the repayment of the amount due from Lithium Sales for at least the next twelve months from 31 December 2010 or until Lithium Sales has the ability to repay the amount, whichever is later. As a result, the amount due to Lithium BJ is classified as non-current liability accordingly.

18. OTHER BORROWING

Other borrowing represents a short-term borrowing of US$1,275,943 is granted by 唐山市曹妃甸工業區管理委員會 (Tangshen Caofeidien Industrial Zone Management Committee) to Lithium Sales with a fixed interest rate of 4.86% per annum. Inventories of Lithium Sales amounting to US$853,165 were pledged to secure the short-term borrowing. The borrowing is repayable on demand.

19. PAID-IN CAPITAL

	As at 31 December 2010 and 2009
Registered capital and paid-in capital	RMB2,000,000
Show in Lithium Sales Financial Information as	US$292,800

20. RETIREMENT BENEFITS SCHEME

The employees of Lithium Sales are members of the state-managed retirement benefits scheme operated by the PRC government. Lithium Sales is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of Lithium Sales with respect to the retirement benefits scheme is to make the required contributions under the scheme.

Total contributions of US$2,360 were made to the retirement benefits scheme during the year ended 31 December 2010 (period from 4 November 2009 (date of establishment) to 31 December 2009: Nil).

21. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2010, Lithium Sales has transferred the deposits paid for acquisition of property, plant and equipment amounting to US$296,793 to its fellow subsidiary 唐山鋰源動力電池科技有限公司 (Tangshen Lithium Power Motor Technology Company Limited) through current account.

22. RELATED PARTY TRANSACTIONS

The key management personnel are the sole director of Lithium Sales. No emolument has been paid or payable to the sole director for the Relevant Periods.

Other than the balances with related parties disclosed in the respective notes to Section E, Lithium Sales has no significant transactions with related parties during the Relevant Periods.

F. ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

The sole director considers the immediate holding company at 31 December 2010 to be Lithium BJ, a company established in the PRC. Upon the acquisition of Lithium BJ by Lithium Zhuhai, a company established in the PRC on 10 September 2010 and the acquisition of Lithium Zhuhai by Lithium HK, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Island on 21 December 2010, Lithium HK and the Target Company became the intermediate holding company and ultimate holding company of Lithium Sales respectively.

G. SUBSEQUENT EVENTS

On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium Sales on that date. On 11 January 2011, Lithium Sales signed a merger agreement (the "Merger Agreement") with 唐山鋰源新電動汽車製造有限公司 (Tangshan Lithium New Electric Vehicles Manufacturing Company Limited) ("Lithium New EV") to merge the business of Lithium New EV into Lithium Sales. According to the Merger Agreement, Lithium Sales will continue to operate and Lithium New EV will be deregistered after the merger. The merger was completed on 27 April 2011 and Lithium New EV was deregistered on the same day.

On 13 January 2011, the Vendor entered into an acquisition agreement (the "Acquisition Agreement") with Fulbond Investments. Pursuant to the Acquisition Agreement, Fulbond Investments has conditionally agreed to acquire the entire issued share capital of the Target Company, and the shareholder's loan at a consideration of HK$900 million (equivalent to US$115.2 million). The major terms of the Acquisition Agreement are set out in the Company's announcement dated 2 February 2011.

H. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Lithium Sales subsequent to 31 December 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of accountants' report on Lithium Caofeidian, prepared for the purpose of inclusion in the circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

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25 May 2011

The Directors
Fulbond Holdings Limited

Dear Sirs/Madam,

We set out below our report on the financial information relating to 唐山曹妃甸鋰源電動汽車驅動總成有限公司 (Tangshan Caofeidian Lithium Assembly of Electric Vehicles Company Limited) ("Lithium Caofeidian") for the period from 23 November 2009 (date of establishment) to 31 December 2009 and the year ended 31 December 2010 (the "Relevant Periods") (the "Lithium Caofeidian Financial Information") for inclusion in the circular issued by Fulbond Holdings Limited (the "Company") dated 25 May 2011 (the "Circular") in connection with the proposed acquisition of the entire issued capital of Lithium Energy Group Ltd. (the "Target Company"), the ultimate holding company of Lithium Caofeidian, and its other subsidiaries (hereinafter collectively referred to as the "Target Group") by Fulbond Investments Limited ("Fulbond Investments"), a wholly-owned subsidiary of the Company.

Lithium Caofeidian was established in the Peoples' Republic of China (the "PRC") on 23 November 2009 as a company with limited liability. It is principally engaged in the research and development of power motor and vehicle electronics and controller system. However, business has not yet commenced as at the date of this report.

Lithium Caofeidian adopted 31 December as the financial year end date. No PRC statutory financial statements have been prepared for Lithium Caofeidian for the period from 23 November 2009 (date of establishment) to 31 December 2009. The PRC statutory financial statements of Lithium Caofeidian for the year ended 31 December 2010 were audited by 北京永勤會計師事務所有限公司 (Beijing Yongqin Certified Public Accountants Co. Ltd.), certified public accountants registered in the PRC. The PRC statutory financial statements for the year ended 31 December 2010 were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises.

For the purpose of the preparation of this report, the sole director of Lithium Caofeidian has prepared the management accounts for the Relevant Periods in accordance with accounting policies conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Management

Accounts"). We have carried out independent audit procedures we consider necessary in respect of the Underlying Management Accounts of Lithium Caofeidian for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Management Accounts for the Relevant Periods in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Lithium Caofeidian Financial Information for the Relevant Periods set out in this report has been prepared based on the Underlying Management Accounts without making any adjustments for the purpose of inclusion in the Circular.

The sole director of Lithium Caofeidian is responsible for preparing the Underlying Management Accounts. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Lithium Caofeidian Financial Information set out in this report from the Underlying Management Accounts, to form an independent opinion on the Lithium Caofeidian Financial Information and to report our opinion to you.

In our opinion, the Lithium Caofeidian Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Lithium Caofeidian as at 31 December 2009 and 31 December 2010, and of the loss and cash flows of Lithium Caofeidian for the Relevant Periods.

A. STATEMENTS OF COMPREHENSIVE INCOME

	Note	**Period from 23 November 2009 (date of establishment) to 31 December 2009** *US$*	**Year ended 31 December 2010** *US$*
Other income		171	45
Administrative expenses		(12,525)	(15,992)
Loss for the period/year	*8*	(12,354)	(15,947)
Other comprehensive income			
Exchange difference arising on translation		–	27,568
Total comprehensive (expense) income for the period/year		(12,354)	11,621

B. STATEMENTS OF FINANCIAL POSITION

	Notes	As at 31 December 2009 US$	2010 US$
Non-current assets			
Property, plant and equipment	11	–	153,221
Deposits paid for acquisition of property, plant and equipment		35,269	–
		35,269	153,221
Current assets			
Other receivables	12	992,553	299,204
Amounts due from fellow subsidiaries	13	161,040	291,576
Bank balances and cash		37,562	13
		1,191,155	590,793
Current liabilities			
Other payables	14	497,760	10,785
Amount due to a fellow subsidiary	15	9,018	–
		506,778	10,785
Net current assets		684,377	580,008
Total assets less current liabilities		719,646	733,229
Non-current liability			
Amount due to immediate holding company	15	–	1,962
		719,646	731,267
Capital and reserves			
Paid-in capital	16	732,000	732,000
Reserves		(12,354)	(733)
		719,646	731,267

C. STATEMENT OF CHANGES IN EQUITY

	Paid-in capital US$	Deficit US$	Translation reserve US$	Total US$
Loss and total comprehensive expense for the period	–	(12,354)	–	(12,354)
Capital contributions upon establishment	732,000	–	–	732,000
At 31 December 2009	732,000	(12,354)	–	719,646
Loss for the year	–	(15,947)	–	(15,947)
Exchange differences arising on translation of functional currency to presentation currency	–	–	27,568	27,568
Total comprehensive income (expense) for the year	–	(15,947)	27,568	11,621
At 31 December 2010	732,000	(28,301)	27,568	731,267

D. STATEMENTS OF CASH FLOWS

	Period from 23 November 2009 (date of establishment) to 31 December 2009 US$	Year ended 31 December 2010 US$
Operating activities		
Loss for the period/year	(12,354)	(15,947)
Adjustments for:		
Depreciation of property, plant and equipment	–	45
Interest income	(171)	(45)
Operating cash inflows before movements in working capital	(12,525)	(15,947)
(Increase) decrease in other receivables	(128,793)	44,346
Increase in other payables	–	10,785
Net cash (used in) from operating activities	(141,318)	39,184
Investing activities		
Interest received	171	45
Purchase of property, plant and equipment	–	(116,675)
Advances to fellow subsidiaries	(161,040)	(124,501)
(Advance to) repayment from former ultimate holding company	(644,160)	668,300
Advance to former immediate holding company	–	(15,210)
(Advances to) repayment from former fellow subsidiaries	(219,600)	121,360
Advance to a related party	–	(88,250)
Deposits paid for acquisition of property, plant and equipment	(35,269)	–
Net cash (used in) from investing activities	(1,059,898)	445,069
Financing activities		
Capital contribution from equity owner	732,000	–
Advance from (repayment to) a fellow subsidiary	9,018	(9,356)
Advance from immediate holding company	–	1,962
Advance from (repayment to) a related party	497,760	(516,414)
Net cash from (used in) financing activities	1,238,778	(523,808)
Net increase (decrease) in cash and cash equivalents	37,562	(39,555)
Cash and cash equivalents at beginning of period/year	–	37,562
Effect of foreign exchange rate changes	–	2,006
Cash and cash equivalents, at end of period/year, representing bank balances and cash	37,562	13

E. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Lithium Caofeidian was established in the PRC on 23 November 2009 as a company with limited liability and is principally engaged in the research and development of power motor and vehicle electronics and controller system. The immediate holding company of Lithium Caofeidian is 中珠鋰源科技(北京)有限公司 (Zhongzhu Lithium Technology (Beijing) Limited) ("Lithium BJ"), a company established in the PRC with limited liability. Lithium BJ acquired the entire interest of Lithium Caofeidian on 26 July 2010. On 10 September 2010, 珠海鋰源新能源科技有限公司 (Zhuhai Lithium New Energy Sources Technology Limited) ("Lithium Zhuhai"), a company established in the PRC with limited liability, acquired the entire interest of Lithium BJ. On 21 December 2010, China Lithium Electric Vehicle Group (Hong Kong) Limited ("Lithium HK"), a company incorporated in Hong Kong with limited liability, acquired the entire interest of Lithium Zhuhai. Lithium HK is a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Islands with limited liability. Accordingly, Lithium HK and the Target Company became the intermediate holding company and ultimate holding company of Lithium Caofeidian respectively on 21 December 2010. On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium Caofeidian on that date.

The Lithium Caofeidian Financial Information is presented in United States dollar ("US$"), while the functional currency of Lithium Caofeidian is Renminbi ("RMB") as US$ is the presentation currency of the financial statements of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations ("INT") (hereinafter collectively referred to as the "new HKFRSs") which are effective for Lithium Caofeidian's financial period beginning on 1 January 2010. For the purposes of preparing and presenting the Lithium Caofeidian Financial Information for the Relevant Periods, Lithium Caofeidian has adopted all HKFRSs applicable to financial year beginning on 1 January 2010 during the Relevant Periods.

Lithium Caofeidian has not early applied the following revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 1 (Amendments)	Limited exemptions from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised)	Related party disclosures[6]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

2 Effective for annual periods beginning on or after 1 July 2010.

3 Effective for annual periods beginning on or after 1 July 2011.

4 Effective for annual periods beginning on or after 1 January 2013.

5 Effective for annual periods beginning on or after 1 January 2012.

6 Effective for annual periods beginning on or after 1 January 2011.

The sole director of Lithium Caofeidian anticipates that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and financial position of Lithium Caofeidian.

3. SIGNIFICANT ACCOUNTING POLICIES

The Lithium Caofeidian Financial Information has been prepared under the historical cost basis in accordance with HKFRSs issued by HKICPA. In addition, the Lithium Caofeidian Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The principle accounting policies are set out below.

Revenue recognition

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income and expense that are taxable or deductible in other period, and it further excludes the items of income and expense that are never taxable and deductible. Lithium Caofeidian's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Lithium Caofeidian expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between sales proceeds an the carrying amount of the asset and is recognised in profit or loss.

Foreign currencies

For the purposes of presenting the Lithium Caofedian Financial Information, the assets and liabilities of Lithium Caofeidian are translated from its functional currency (i.e. RMB) into the presentation currency of Lithium Caofeidian (i.e. US$) at the rate of exchange prevailing at the end of the reporting period, and its income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when Lithium Caofeidian becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Lithium Caofeidian's financial assets are loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables including other receivables, amounts due from fellow subsidiaries and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is recognised in the statements of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the statements of comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by Lithium Caofeidian are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including other payables, amount due to a fellow subsidiary and amount due to immediate holding company are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Lithium Caofeidian are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Lithium Caofeidian has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefit schemes

Payments to government-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

4. CAPITAL RISK MANAGEMENT

Lithium Caofeidian manages its capital to ensure that Lithium Caofeidian will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of Lithium Caofeidian consists of net debts, which includes the cash and cash equivalents, and equity attributable to owners of Lithium Caofeidian, comprising paid-in capital.

The sole director of Lithium Caofeidian reviews the capital structure on a regular basis. As part of this review, the sole director considers the cost of capital and the risks associates with each class of capital and will balance its overall capital structure through the payment of dividends and new capital raising.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December	
	2009	**2010**
	US$	*US$*
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,078,392	529,306
Financial liabilities		
Amortised cost	506,778	12,747

(b) Financial risk management objectives and policies

Lithium Caofeidian's major financial assets and liabilities include other receivables, amounts due from fellow subsidiaries, bank balances and cash, other payables, amount due to a fellow subsidiary and amount due to immediate holding company. The risks associated with these financial instruments and the policies on how to mitigate credit risk and liquidity risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Credit risk

Lithium Caofeidian's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statements of financial position. Lithium Caofeidian's credit risk is primarily attributable to other receivables and amounts due from fellow subsidiaries.

At the end of the reporting period, the other receivables and amounts due from fellow subsidiaries are repayable on demand. In order to minimise the credit risk, the management has reviewed the recoverable amounts of the other receivables and amounts due from fellow subsidiaries regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the sole director of Lithium Caofeidian consider that Lithium Caofeidian's credit risk on other receivables and amounts due from fellow subsidiaries is significantly reduced. Most of the balances of other receivables are subsequently settled.

The credit risk on bank balances is minimal as such amounts are placed in banks with good reputation.

(d) Liquidity risk management

The sole director of Lithium Caofeidian has built an appropriate liquidity risk management framework for the management of Lithium Caofeidian's short, medium and long-term funding and liquidity management requirements. Lithium Caofeidian manages liquidity risk by maintaining sufficient bank balances and by continuously monitoring forecast and actual cash flows, and the maturity profile of financial liabilities.

At 31 December 2009 and 31 December 2010, all Lithium Caofeidian's non-derivative financial liabilities are interest-free and their remaining contractual maturities are on demand or repayable within 90 days except for the amount due to immediate holding company which is due over one year.

6. SEGMENT INFORMATION

Lithium Caofeidian is engaged in single business segment being research and development of power motor and vehicle electronics and controller system in the PRC. The sole director of Lithium Caofeidian being the chief operating decision maker reviewed the overall results of Lithium Caofeidian for the purpose of result allocation and performance assessment. Lithium Caofeidian principally operates in the PRC (country of domicile) with all of its results derived from its operation in the PRC. Analysis of Lithium Caofeidian's non-current assets is not presented as they are all located in the PRC.

7. TAXATION

No provision for taxation is made as Lithium Caofeidian had no assessable profit during the Relevant Periods.

The tax rate of Lithium Caofeidian is 25% under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation of regulation of the EIT Law.

A statement of reconciliation of taxation is as follows:

	Period from 23 November 2009 (date of establishment) to 31 December 2009	Year ended 31 December 2010
	US$	*US$*
Loss for the period/year	(12,354)	(15,947)
Tax at EIT rate of 25%	(3,089)	(3,987)
Tax effect of tax loss not recognised	3,089	3,987
Taxation for the period/year	–	–

8. LOSS FOR THE PERIOD/YEAR

	Period from 23 November 2009 (date of establishment) to 31 December 2009	Year ended 31 December 2010
	US$	*US$*
Loss for the period/year has been arrived at after charging:		
Director's remuneration *(note 9)*	–	–
Staff costs	–	3,218
Depreciation	–	45
and after crediting:		
Interest income	171	45

9. DIRECTOR'S AND EMPLOYEES' EMOLUMENTS

No director's emoluments have been paid or payable to the sole director for the Relevant Periods.

The five highest paid individuals did not include the sole director of Lithium Caofeidian during the year ended 31 December 2010. The emoluments of the five highest paid individuals during the year ended 31 December 2010 were US$3,218. The emoluments of each of the five highest paid individuals during the year ended 31 December 2010 were below US$128,000 (equivalent to HK$1,000,000).

During the Relevant Periods, no emoluments were paid by Lithium Caofeidian to the sole director or any individual as an inducement to join or upon joining Lithium Caofeidian or as compensation for loss of office. The sole director has not waived any remuneration during the Relevant Periods.

10. DIVIDENDS

No dividend has been paid or declared by Lithium Caofeidian during the Relevant Periods.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements *US$*	Office equipment *US$*	Plant and machinery *US$*	Total *US$*
COST				
At 23 November 2009 (date of establishment) and 31 December 2009	–	–	–	–
Additions	57,466	250	95,550	153,266
At 31 December 2010	57,466	250	95,550	153,266
ACCUMULATED DEPRECIATION				
At 23 November 2009 (date of establishment) and 31 December 2009	–	–	–	–
Provided for the year	–	45	–	45
At 31 December 2010	–	45	–	45
NET CARRYING VALUES				
At 31 December 2010	57,466	205	95,550	153,221
At 31 December 2009	–	–	–	–

During the Relevant Periods, an independent third party has provided, free of charge, the office premise, and the land and building on which Lithium Caofeidian's production plants were located. As at 31 December 2010, there was no specification as to the duration of the provision of office premise land and building.

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold improvements	33.33%
Office equipment	33.33%
Plant and machinery	6.67%

12. OTHER RECEIVABLES

	As at 31 December 2009 *US$*	2010 *US$*
Cash advances to *(Note a)*:		
– former ultimate holding company	644,160	–
– former immediate holding company	–	15,210
– former fellow subsidiaries	219,600	106,470
– a related party *(Note b)*	–	88,250
	863,760	209,930
Other receivables	16,030	27,787
Prepayments	112,763	61,487
	992,553	299,204

Note a: As at 31 December 2009 and 31 December 2010, the amounts are unsecured, non-interest bearing and repayable on demand. The amounts are subsequently settled.

Note b: The sole director of Lithium Caofeidian has significant influence over this company.

13. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The amounts due from fellow subsidiaries are unsecured, non-interest bearing and repayable on demand.

14. OTHER PAYABLES

	As at 31 December	
	2009	**2010**
	US$	*US$*
Cash advance from a related party *(Note)*	497,760	–
Other payables	–	10,785
	497,760	10,785

Note: The sole director of Lithium Caofeidian has significant influence over this company. As at 31 December 2009, the amount is unsecured, non-interest bearing and repayable on demand.

15. AMOUNT DUE TO A FELLOW SUBSIDIARY/IMMEDIATE HOLDING COMPANY

The amount due to a fellow subsidiary and immediate holding company are unsecured, non-interest bearing and repayable on demand. Lithium BJ agreed not to demand for the repayment of the amount due from Lithium Caofeidian for at least the next twelve months from 31 December 2010 or until Lithium Caofeidian has the ability to repay the amount, whichever is later. The amount due to Lithium BJ is classified as non-current liability accordingly.

16. PAID-IN CAPITAL

	As at 31 December 2010 and 2009
Registered capital and paid-in capital	RMB5,000,000
Shown in Lithium Caofeidian Financial Information as	US$732,000

17. RETIREMENT BENEFITS SCHEME

The employees of Lithium Caofeidian are members of the state-managed retirement benefits scheme operated by the PRC government. Lithium Caofeidian is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of Lithium Caofeidian with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No contributions were made to the retirement benefits scheme during the Relevant Periods.

18. RELATED PARTY TRANSACTIONS

The key management personnel are the sole director of Lithium Caofeidian. No emolument has been paid or payable to the sole director for the Relevant Periods.

Other than the balances with related parties disclosed in the respective notes to Section E, Lithium Caofeidian has no significant transactions with related parties during the Relevant Periods.

F. ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

The sole director considers the immediate holding company at 31 December 2010 to be Lithium BJ, a company established in the PRC. Upon the acquisition of Lithium BJ by Lithium Zhuhai, a company established in the PRC on 10 September 2010 and the acquisition of Lithium Zhuhai by Lithium HK, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Island on 21 December 2010, Lithium HK and the Target Company became the intermediate holding company and ultimate holding company of Lithium Caofeidian respectively.

G. SUBSEQUENT EVENTS

On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium Caofeidian on that date. On 13 January 2011, the Vendor entered into an acquisition agreement (the "Acquisition Agreement") with Fulbond Investments. Pursuant to the Acquisition Agreement, Fulbond Investments has conditionally agreed to acquire the entire issued share capital of the Target Company, and the shareholder's loan at a consideration of HK$900 million (equivalent to US$115.2 million). The major terms of the Acquisition Agreement are set out in the Company's announcement dated 2 February 2011.

H. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Lithium Caofeidian subsequent to 31 December 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of accountants' report on Lithium Power Motor, prepared for the purpose of inclusion in the circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

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35/F One Pacific Place
88 Queensway
Hong Kong

25 May 2011

The Directors
Fulbond Holdings Limited

Dear Sirs/Madam,

We set out below our report on the financial information relating to 唐山鋰源鋰動力電池科技有限公司 (Tangshan Lithium Power Motor Technology Company Limited) ("Lithium Power Motor") for the period from 19 January 2010 (date of establishment) to 31 December 2010 (the "Relevant Period") (the "Lithium Power Motor Financial Information") for inclusion in the circular issued by Fulbond Holdings Limited (the "Company") dated 25 May 2011 (the "Circular") in connection with the proposed acquisition of the entire issued capital of Lithium Energy Group Ltd. (the "Target Company"), the ultimate holding company of Lithium Power Motor, and its other subsidiaries (hereinafter collectively referred to as the "Target Group") by Fulbond Investments Limited ("Fulbond Investments"), a wholly-owned subsidiary of the Company.

Lithium Power Motor was established in the Peoples' Republic of China (the "PRC") on 19 January 2010 as a company with limited liability. It is principally engaged in trading in and research and development of lithium-ion battery. However, business has not yet commenced as at the date of this report.

Lithium Power Motor adopted 31 December as the financial year end date. The PRC statutory financial statements of Lithium Power Motor for the Relevant Period were audited by 北京永勤會計師事務所有限公司 (Beijing Yongqin Certified Public Accountants Co. Ltd.), certified public accountants registered in the PRC. The PRC statutory financial statements for the Relevant Period were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises.

For the purpose of the preparation of this report, the sole director of Lithium Power Motor has prepared the management accounts for the Relevant Period in accordance with accounting policies conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Management Accounts"). We have carried out independent audit procedures we consider necessary in respect of the Underlying Management Accounts of Lithium Power Motor for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Management Accounts for the Relevant Period in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Lithium Power Motor Financial Information for the Relevant Period set out in this report has been prepared based on the Underlying Management Accounts without making any adjustments for the purpose of inclusion in the Circular.

The sole director of Lithium Power Motor is responsible for preparing the Underlying Management Accounts. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Lithium Power Motor Financial Information set out in this report from the Underlying Management Accounts, to form an independent opinion on the Lithium Power Motor Financial Information and to report our opinion to you.

In our opinion, the Lithium Power Motor Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Lithium Power Motor as at 31 December 2010, and of the loss and cash flows of Lithium Power Motor for the Relevant Period.

A. STATEMENT OF COMPREHENSIVE INCOME

For the period from 19 January 2010 (date of establishment) to 31 December 2010

	Notes	*US$*
Other income	7	56,158
Administrative expenses		(167,143)
Loss for the period	9	(110,985)
Other comprehensive income		
Exchange differences arising on translation		88,048
Total comprehensive expense for the period		(22,937)

B. STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	*US$*
Non current asset		
Property, plant and equipment	*12*	5,324,749
Deposits paid for acquisition of property, plant and equipment		304,354
		5,629,103
Current assets		
Inventories	*13*	820,086
Other receivables	*14*	679,540
Amount due from a fellow subsidiary	*15*	83,731
Bank balances and cash		11,979
		1,595,336
Current liabilities		
Trade and other payables	*16*	984,697
Amounts due to fellow subsidiaries	*17*	404,117
		1,388,814
Net current assets		206,522
Total assets less current liabilities		5,835,625
Non-current liability		
Amount due to immediate holding company		3,516,162
		2,319,463
Capital and reserves		
Paid-in capital	*18*	2,342,400
Reserves		(22,937)
		2,319,463

C. STATEMENT OF CHANGES IN EQUITY

For the period from 19 January 2010 (date of establishment) to 31 December 2010

	Paid-in capital	Translation reserve	Deficit	Total
	US$	*US$*	*US$*	*US$*
Loss for the period	–	–	(110,985)	(110,985)
Exchange differences arising on translation of functional currency to presentation currency	–	88,048	–	88,048
Total comprehensive expense for the period	–	88,048	(110,985)	(22,937)
Capital contributions upon establishment	2,342,400	–	–	2,342,400
At 31 December 2010	2,342,400	88,048	(110,985)	2,319,463

D. STATEMENT OF CASH FLOWS

For the period from 19 January 2010 (date of establishment) to 31 December 2010

	US$
Operating activities	
Loss for the period	(110,985)
Adjustments for:	
Investment income recognised in profit and loss	(4,275)
Interest income	(117)
Depreciation of property, plant and equipment	31,530
Operating cash inflows before movements in working capital	(83,847)
Increase in inventories	(789,353)
Increase in other receivables	(148,994)
Increase in trade and other payables	818,856
Net cash used in operating activities	(203,338)
Investing activities	
Interest received	117
Purchase of property, plant and equipment	(5,156,732)
Purchase of available-for-sale investments	(59,160)
Proceeds from disposal of available-for-sale investments	63,435
Advance to a fellow subsidiary	(80,593)
Advance to former immediate holding company	(73,200)
Advance to a related party	(431,880)
Net cash used in investing activities	(5,738,013)
Financing activities	
Capital contribution from equity owner	2,342,400
Advance from immediate holding company	3,384,393
Advances from fellow subsidiaries	96,025
Advance from former intermediate holding company	128,939
Cash from financing activities	5,951,757
Net increase in cash and cash equivalents	10,406
Effect of foreign exchange rate changes	1,573
Cash and cash equivalents at 31 December 2010 representing bank balances and cash	11,979

E. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Lithium Power Motor was established in the PRC on 19 January 2010 as a company with limited liability and is principally engaged in trading in and research and development of lithium-ion battery. The immediate holding company of Lithium Power Motor is 中珠鋰源科技 (北京)有限公司 (Zhongzhu Lithium Technology (Beijing) Limited) ("Lithium BJ"), a company established in the PRC with limited liability. Lithium BJ acquired the entire interest of Lithium Power Motor on 26 July 2010. On 10 September 2010, 珠海鋰源新能源科技有限公司 (Zhuhai Lithium New Energy Sources Technology Limited) ("Lithium Zhuhai"), a company established in the PRC with limited liability, acquired the entire interest of Lithium BJ. On 21 December 2010, China Lithium Electric Vehicle (Hong Kong) Group Limited ("Lithium HK"), a company incorporated in Hong Kong with limited liability, acquired the entire interest of Lithium Zhuhai. Lithium HK is a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Islands with limited liability. Accordingly, Lithium HK and the Target Company became the intermediate holding company and ultimate holding company of Lithium Power Motor respectively on 21 December 2010. On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium Power Motor on that date.

The Lithium Power Motor Financial Information is presented in United States dollar ("US$"), while the functional currency of Lithium Power Motor is Renminbi ("RMB") as US$ is the presentation currency of the financial statements of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations ("INT") (hereinafter collectively referred to as the "new HKFRSs") which are effective for Lithium Power Motor's financial period beginning on 1 January 2010. For the purposes of preparing and presenting the Lithium Power Motor Financial Information for the Relevant Period, Lithium Power Motor has adopted all HKFRSs applicable to financial year beginning on 1 January 2010 during the Relevant Period.

Lithium Power Motor has not early applied the following revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 1 (Amendments)	Limited exemptions from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised)	Related party disclosures[6]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

2 Effective for annual periods beginning on or after 1 July 2010.

3 Effective for annual periods beginning on or after 1 July 2011.

4 Effective for annual periods beginning on or after 1 January 2013.

5 Effective for annual periods beginning on or after 1 January 2012.

6 Effective for annual periods beginning on or after 1 January 2011.

The sole director of Lithium Power Motor anticipates that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and financial position of Lithium Power Motor.

3. SIGNIFICANT ACCOUNTING POLICIES

The Lithium Power Motor Financial Information has been prepared under the historical cost basis in accordance with HKFRSs issued by HKICPA. In addition, the Lithium Power Motor Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The principle accounting policies are set out below.

Revenue recognition

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income and expense that are taxable or deductible in other period, and it further excludes the items of income and expense that are never taxable and deductible. Lithium Power Motor's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the statement of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Lithium Power Motor expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which Lithium Power Motor recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Lithium Power Motor should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the statement of financial position and transferred to profit or loss over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Lithium Power Motor with no future related costs are recognised in profit or loss in the period in which they become receivable.

Foreign currencies

For the purposes of presenting the Lithium Power Motor Financial Information, the assets and liabilities of Lithium Power Motor are translated from its functional currency (i.e. RMB) into the presentation currency of Lithium Power Motor (i.e. US$) at the rate of exchange prevailing at the end of the reporting period, and its income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Financial instruments

Financial assets and financial liabilities are recognised on the statement of financial position when Lithium Power Motor becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Lithium Power Motor's financial assets are loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables including other receivables, amount due from a fellow subsidiary and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the statement of comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by Lithium Power Motor are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to fellow subsidiaries and amount due to immediate holding company are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Lithium Power Motor are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Lithium Power Motor has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefit schemes

Payments to government-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

4. CAPITAL RISK MANAGEMENT

Lithium Power Motor manages its capital to ensure that Lithium Power Motor will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of Lithium Power Motor consists of net debts, which includes the cash and cash equivalents, and equity attributable to owner of Lithium Power Motor, comprising paid-in capital.

The sole director of Lithium Power Motor reviews the capital structure on a regular basis. As part of this review, the sole director considers the cost of capital and the risks associates with each class of capital and will balance its overall capital structure through the payment of dividends and new capital raising.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	US$
Financial assets	
Loans and receivables (including cash and cash equivalents)	649,417
Financial liabilities	
Amortised cost	4,904,976

(b) Financial risk management objectives and policies

Lithium Power Motor's major financial assets and liabilities include other receivables, amount due from a fellow subsidiary, bank balances and cash and other payables, amounts due to fellow subsidiaries, and amount due to immediate holding company. The risks associated with these financial instruments and the policies on how to mitigate credit risk and liquidity risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Credit risk

Lithium Power Motor's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. Lithium Power Motor's credit risk is primarily attributable to other receivables and amount due from a fellow subsidiary.

At the end of the reporting period, the other receivables and amount due from a fellow subsidiary are repayable on demand. In order to minimise the credit risk, the management has reviewed the recoverable amounts of the other receivables and amount due from a fellow subsidiary regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the sole director of Lithium Power Motor consider that Lithium Power Motor's credit risk on other receivables and amount due from a fellow subsidiary is significantly reduced. Most of the balances of other receivables are subsequently settled.

The credit risk on bank balances is minimal as such amounts are placed in banks with good reputation.

(d) Liquidity risk management

The sole director of Lithium Power Motor has built an appropriate liquidity risk management framework for the management of Lithium Power Motor's short, medium and long-term funding and liquidity management requirements. Lithium Power Motor manages liquidity risk by maintaining sufficient bank balances and by continuously monitoring forecast and actual cash flows, and the maturity profile of financial liabilities.

At 31 December 2010, all Lithium Power Motor's non-derivative financial liabilities are interest-free and their remaining contractual maturities are on demand or repayable within 90 days except for the amount due to immediate holding company which is due over one year.

6. SEGMENT INFORMATION

Lithium Power Motor is engaged in single business segment being trading in and research and development of lithium-ion battery in the PRC. The sole director of Lithium Power Motor being the chief operating decision maker reviewed the overall results of Lithium Power Motor for the purpose of result allocation and performance assessment. Lithium Power Motor principally operates in the PRC (country of domicile) with all of its results derived from its operation in the PRC. Analysis of Lithium Power Motor's non-current assets is not presented as they are all located in the PRC.

7. OTHER INCOME

	US$
Gain on disposal of available-for-sale investments	4,275
Government grants *(Note)*	51,766
Interest income	117
	56,158

Note: Government grant of US$51,766 received represents subsidy granted by 科技型中小企業技術創新基金 (Innovation Fund for Technology Base Firms) for supporting Small Technology-Based Firms in technological innovations. The government grant is unconditional and hence is recognised in profit or loss when the government grant was received by Lithium Power Motor.

8. TAXATION

No provision for taxation is made as Lithium Power Motor had no assessable profit during the Relevant Period.

The tax rate of Lithium Power Motor is 25% under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation of regulation of the EIT Law.

A statement of reconciliation of taxation is as follows:

	US$
Loss for the period	(110,985)
Tax at EIT rate of 25%	(27,746)
Tax effect of tax loss not recognised	27,746
Taxation for the period	–

9. LOSS FOR THE PERIOD

	US$
Loss for the period has been arrived at after charging:	
Director's remuneration *(note 9)*	–
Staff costs	78,090
Depreciation	31,530

10. DIRECTOR'S AND EMPLOYEES' EMOLUMENTS

No director's emoluments have been paid or payable to the sole director for the Relevant Period.

The five highest paid individuals did not include the sole director of Lithium Power Motor during the Relevant Period. The emoluments of the five highest paid individuals during the Relevant Period was US$27,977. The emoluments of each of the five highest paid individuals during the Relevant Period were below US$128,000 (equivalent to HK$1,000,000).

During the Relevant Period, no emoluments were paid by Lithium Power Motor to the sole director or any individual as an inducement to join or upon joining Lithium Power Motor or as compensation for loss of office. The sole director has not waived any remuneration during the Relevant Period.

11. DIVIDENDS

No dividend has been paid or declared by Lithium Power Motor during the Relevant Period.

12. PROPERTY, PLANT AND EQUIPMENT

	Furniture, fixture and equipment	Leasehold improvements	Plant and machinery	Total
	US$	*US$*	*US$*	*US$*
COST				
Additions during the period	36,023	283,517	4,889,705	5,209,245
Exchange realignment	1,023	8,051	138,856	147,930
As at 31 December 2010	37,046	291,568	5,028,561	5,357,175
ACCUMULATED DEPRECIATION				
Provided for the period	2,866	27,591	1,073	31,530
Exchange realignment	81	784	31	896
As at 31 December 2010	2,947	28,375	1,104	32,426
NET CARRYING VALUES				
As at 31 December 2010	34,099	263,193	5,027,457	5,324,749

During the Relevant Period, an independent third party has provided, free of charge, the office premise, and the land and building on which Lithium Power Motor's production plants were located. As at 31 December 2010, there was no specification as to the duration of the provision of office premise land and building.

The above items of property, plant and equipment are depreciated on a straight line basis for the following rates per annum:

Furniture, fixture and equipment	20 – 33⅓%
Leasehold improvements	33⅓%
Plant and machinery	6.67 – 10%

13. INVENTORIES

	US$
Raw materials	8,643
Work-in-progress	138,355
Finished goods	673,088
	820,086

14. OTHER RECEIVABLES

	US$
Cash advances to *(Note a)*	
– former immediate holding company	76,050
– a related party *(Note b)*	448,695
	524,745
Other receivables	28,962
Value-added tax recoverable	125,833
	679,540

Note a: The amounts are unsecured, non-interest bearing and repayable on demand. The amounts are subsequently settled.

Note b: The sole director of Lithium Power Motor has significant influence over this company.

15. AMOUNT DUE FROM A FELLOW SUBSIDIARY

The amount due from a fellow subsidiary is unsecured, non-interest bearing and repayable on demand.

16. TRADE AND OTHER PAYABLES

	US$
Trade payables	824,846
Cash advance from former intermediate holding company *(note)*	133,959
Other payables and accrued charges	25,892
	984,697

Note: The amount is unsecured, non-interest bearing and repayable on demand.

	US$
An aging analysis of trade payables is as follows:	
Within 30 days	–
Within 31 to 60 days	402,373
Within 61 to 90 days	422,473
	824,846

17. AMOUNT(S) DUE TO FELLOW SUBSIDIARIES AND IMMEDIATE HOLDING COMPANY

The amount(s) due to fellow subsidiaries and immediate holding company are unsecured, non-interest bearing and repayable on demand. As at 31 December 2010, the immediate holding company, Lithium BJ, has agreed not to demand for the repayment of the amount due from Lithium Power Motor for at least the next twelve months from 31 December 2010 or until Lithium Power Motor have the ability to repay the amount, whichever is later. As a result, the amount due to immediate holding company is classified as non-current liability accordingly.

18. PAID-IN CAPITAL

Registered capital	RMB30,000,000
Paid-in capital at 31 December 2010	RMB16,000,000
Shown in Lithium Power Motor Financial Information as	US$2,342,400

19. RETIREMENT BENEFITS SCHEME

The employees of Lithium Power Motor are members of the state-managed retirement benefits scheme operated by the PRC government. Lithium Power Motor is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of Lithium Power Motor with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No contributions were made to the retirement benefits scheme during the Relevant Period.

20. MAJOR NON-CASH TRANSACTION

During the Relevant Period, a fellow subsidiary of Lithium Power Motor, 唐山鋰源電動汽車銷售有限公司 (Tangshan Lithium Electric Vehicles Sales Company Limited) transferred the deposit paid for acquisition of property, plant and equipment amounting to US$296,793 to Lithium Power Motor through current account.

21. RELATED PARTY TRANSACTIONS

The key management personnel is the sole director of Lithium Power Motor. No emolument has been paid or payable to the sole director for the Relevant Period.

Other than the balances with related parties disclosed in the respective notes to Section E, Lithium Power Motor has no significant transactions with related parties during the Relevant Period.

F. ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

The sole director considers the immediate holding company at 31 December 2010 to be Lithium BJ, a company established in the PRC. Upon the acquisition of Lithium BJ by Lithium Zhuhai, a company established in the PRC on 10 September 2010 and the acquisition of Lithium Zhuhai by Lithium HK, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Island on 21 December 2010, Lithium HK and the Target Company became the intermediate holding company and ultimate holding company of Lithium Power Motor respectively.

G. SUBSEQUENT EVENTS

On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium Power Motor on that date. On 13 January 2011, the Vendor entered into an acquisition agreement (the "Acquisition Agreement") with Fulbond Investments. Pursuant to the Acquisition Agreement, Fulbond Investments has conditionally agreed to acquire the entire issued share capital of the Target Company, and the shareholder's loan at a consideration of HK$900 million (equivalent to US$115.4 million). The major terms of the Acquisition Agreement are set out in the Company's announcement dated 2 February 2011.

H. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Lithium Power Motor subsequent to 31 December 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of accountants' report on Lithium New EV, prepared for the purpose of inclusion in the circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

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25 May 2011

The Directors
Fulbond Holdings Limited

Dear Sirs/Madam,

We set out below our report on the financial information relating to 唐山鋰源新電動汽車製造有限公司 (Tangshan Lithium New Electric Vehicles Manufacturing Company Limited) ("Lithium New EV") for the period from 2 February 2010 (date of establishment) to 31 December 2010 (the "Relevant Period") (the "Lithium New EV Financial Information") for inclusion in the circular issued by Fulbond Holdings Limited (the "Company") dated 25 May 2011 (the "Circular") in connection with the proposed acquisition of the entire issued capital of Lithium Energy Group Ltd. (the "Target Company"), the ultimate holding company of Lithium New EV, and its other subsidiaries (hereinafter collectively referred to as the "Target Group") by Fulbond Investments Limited ("Fulbond Investments"), a wholly-owned subsidiary of the Company.

Lithium New EV was established in the Peoples' Republic of China (the "PRC") on 2 February 2010 (date of establishment) as a company with limited liability. It is principally engaged in preparation for electric vehicle production project. However, business has not yet commenced at the date of this report.

Lithium New EV adopted 31 December as the financial year end date. The PRC statutory financial statements of Lithium New EV for the Relevant Period were audited by 北京永勤會計師事務所有限公司 (Beijing Yongqin Certified Public Accountants Co. Ltd.), certified public accountants registered in the PRC. The PRC statutory financial statements for the Relevant Period were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises.

For the purpose of the preparation of this report, the sole director of Lithium New EV has prepared the management accounts for the Relevant Period in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Management Accounts"). We have carried out independent audit procedures we consider necessary in respect of the Underlying Management Accounts of Lithium New EV for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Management Accounts for the Relevant Period in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Lithium New EV Financial Information for the Relevant Period set out in this report has been prepared based on the Underlying Management Accounts without making any adjustments for the purpose of inclusion in the Circular.

The sole director of Lithium New EV is responsible for preparing the Underlying Management Accounts. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Lithium New EV Financial Information set out in this report from the Underlying Management Accounts, to form an independent opinion on the Lithium New EV Financial Information and to report our opinion to you.

In our opinion, the Lithium New EV Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Lithium New EV as at 31 December 2010, and of the loss and cash flows of Lithium New EV for the Relevant Period.

Without qualifying our opinion, we draw attention to note 1 to Section E of the Lithium New EV Financial Information, which states that Lithium New EV transferred its operations, assets and liabilities to its fellow subsidiary on 27 April 2011 and was deregistered on the same day. As required by Hong Kong Accounting Standard 1 “Presentation of Financial Statements”, the sole director has prepared the Lithium New EV Financial Information on the basis that Lithium New EV is no longer a going concern.

A. STATEMENT OF COMPREHENSIVE INCOME

For the period from 2 February 2010 (date of establishment) to 31 December 2010

	Note	*US$*
Administrative and other expenses and loss for the period	*8*	(219,183)
Other comprehensive income		
Exchange difference arising on translation		50,776
Total comprehensive expense for the period		(168,407)

B. STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	*US$*
Current assets		
Property, plant and equipment	*11*	281,267
Inventories	*12*	261,351
Amounts due from fellow subsidiaries	*13*	250,952
Other receivables	*14*	741,737
Bank balances and cash		928
		1,536,235
Current liabilities		
Trade and other payables	*15*	56,980
Amounts due to fellow subsidiaries	*16*	177,888
Amount due to immediate holding company	*16*	5,774
		240,642
		1,295,593
Capital and reserves		
Paid-in capital	*17*	1,464,000
Reserves		(168,407)
		1,295,593

C. STATEMENT OF CHANGES IN EQUITY

For the period from 2 February 2010 (date of establishment) to 31 December 2010

	Paid-in capital	Translation reserve	Deficit	Total
	US$	*US$*	*US$*	*US$*
Loss for the period	–	–	(219,183)	(219,183)
Exchange differences arising on translation of functional currency to presentation currency	–	50,776	–	50,776
Total comprehensive expense for the period	–	50,776	(219,183)	(168,407)
Capital contributions upon establishment	1,464,000	–	–	1,464,000
At 31 December 2010	1,464,000	50,776	(219,183)	1,295,593

D. STATEMENT OF CASH FLOWS

For the period from 2 February 2010 (date of establishment) to 31 December 2010

	US$
Operating activities	
Loss for the period	(219,183)
Adjustment for:	
Depreciation for property, plant and equipment	33,600
Operating cash outflows before movements in working capital	(185,583)
Increase in other receivables	(141,785)
Increase in inventories	(249,557)
Increase in trade and payables	54,845
Net cash used in operating activities	(522,080)
Investing activities	
Purchase of property, plant and equipment	(304,237)
Advances to fellow subsidiaries	(241,547)
Advance to former immediate holding company	(30,598)
Advance to former intermediate holding company	(509,920)
Advance to a related party	(30,638)
Cash used in investing activities	(1,116,940)
Financing activities	
Capital contributions from equity owner	1,464,000
Advances from fellow subsidiaries	171,222
Advance from immediate holding company	5,558
Cash from financing activities	1,640,780
Net increase in cash and cash equivalents	1,760
Effect of foreign exchange rate changes	(832)
Cash and cash equivalents at 31 December 2010 representing bank balances and cash	928

E. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL AND BASIS OF PREPARATION

Lithium New EV was established in the PRC on 2 February 2010 (date of establishment) with limited liability and is principally engaged in the manufacture and maintenance of coaches. The immediate holding company of Lithium New EV is 中珠鋰源科技 (北京)有限公司 (Zhongzhu Lithium Technology (Beijing) Limited) ("Lithium BJ"), a company established in the PRC with limited liability. Lithium BJ acquired the entire interest of Lithium New EV on 23 July 2010. On 10 September 2010, 珠海鋰源新能源科技有限公司 (Zhuhai Lithium New Energy Sources Technology Limited) ("Lithium Zhuhai"), a company established in the PRC with limited liability, acquired the entire interest of Lithium BJ. On 21 December 2010, China Lithium Electric Vehicle Group (Hong Kong) Limited ("Lithium HK"), a company incorporated in Hong Kong with limited liability, acquired the entire interest of Lithium Zhuhai. Lithium HK is a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Islands with limited liability. Accordingly, Lithium HK and the Target Company became the intermediate holding company and ultimate holding company of Lithium New EV respectively on 21 December 2010. On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium New EV on that date.

The Lithium New EV Financial Information is presented in United States dollar ("US$"), while the functional currency of Lithium New EV is Renminbi ("RMB"), as US$ is the presentation currency of the financial statements of the Company.

Lithium New EV transferred its operations, assets and liabilities to its fellow subsidiary on 27 April 2011 and was deregistered on the same day. As required by HKAS 1 "Presentation of Financial Statements", the sole director has prepared the Lithium New EV Financial Information on the basis that Lithium New EV is no longer a going concern. No material adjustments arose as a result of ceasing to apply the going concern basis. All assets and liabilities were transferred to its fellow subsidiary at their book value.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

For the purposes of preparing and presenting the Lithium New EV Financial Information for the Relevant Period, Lithium New EV has adopted all HKFRSs applicable to financial year beginning 1 January 2010 during the Relevant Period. The HKICPA has issued a number of new and revised Hong Kong Accounting Standards ("HKASs") and HKFRSs, Amendments and Interpretations ("INT") (hereinafter collectively referred to as the "new HKFRSs") which are effective for Lithium New EV's financial period beginning on 1 January 2010.

Lithium New EV has not early applied the following revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 1 (Amendments)	Limited exemptions from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised)	Related party disclosures[6]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 July 2010.
3 Effective for annual periods beginning on or after 1 July 2011.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2012.
6 Effective for annual periods beginning on or after 1 January 2011.

The sole director of Lithium New EV anticipates that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and financial position of Lithium New EV.

3. SIGNIFICANT ACCOUNTING POLICIES

The Lithium New EV Financial Information has been prepared under the historical cost basis in accordance with HKFRSs issued by HKICPA. In addition, the Lithium New EV Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The principle accounting policies are set out below.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income and expense that are taxable or deductible in other period, and it further excludes the items of income and expense that are never taxable and deductible. Lithium New EV's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Lithium New EV expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Foreign currencies

For the purposes of presenting the Lithium New EV Financial Information, the assets and liabilities of Lithium New EV are translated from its functional currency (i.e. RMB) into the presentation currency of Lithium New EV (i.e. US$) at the rate of exchange prevailing at the end of the reporting period, and its income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when Lithium New EV becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Lithium New EV's financial assets are loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables including amounts due from fellow subsidiaries, other receivables and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is recognised in the statements of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the statements of comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by Lithium New EV are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade and other payables, amount(s) due to fellow subsidiaries and immediate holding company, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Lithium New EV are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Lithium New EV has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefit schemes

Payments to government-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

4. CAPITAL RISK MANAGEMENT

Lithium New EV manages its capital to ensure that Lithium New EV will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of Lithium New EV consists of net debts, which includes the cash and cash equivalents, and equity attributable to owners of Lithium New EV, comprising paid-in capital.

The sole director of Lithium New EV reviews the capital structure on a regular basis. As part of this review, the sole director considers the cost of capital and the risks associates with each class of capital and will balance its overall capital structure through the payment of dividends and new capital raising.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	US$
Financial assets	
Loans and receivables (including cash and cash equivalents)	871,177
Financial liabilities	
Amortised cost	240,642

(b) Financial risk management objectives and policies

Lithium New EV's major financial assets and liabilities include other receivables, amounts due from fellow subsidiaries, bank balances and cash, trade payables, amounts due to fellow subsidiaries, amount due to immediate holding company and other payables. The risks associated with these financial instruments and the policies on how to mitigate credit risk and liquidity risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Credit risk

Lithium New EV's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. Lithium New EV's credit risk is primarily attributable to other receivables and amount due from fellow subsidiaries.

At the end of the reporting period, other receivables and amounts due from fellow subsidiaries are repayable on demand. In order to minimise the credit risk, the management has reviewed the recoverable amounts of the other receivables and amounts due from fellow subsidiaries regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the sole director of Lithium New EV consider that Lithium New EV's credit risk on other receivables and amounts due from fellow subsidiaries is significantly reduced. Most of the other receivables and amounts due from fellow subsidiaries are subsequently settled.

The credit risk on bank balances is minimal as such amounts are placed in banks with good reputation.

(d) Liquidity risk management

As discussed in note 1 to Section E of the Lithium New EV Financial Information, Lithium New EV transferred its operations, assets and liabilities to its fellow subsidiary on 27 April 2011 and was deregistered on the same day. As required by Hong Kong Accounting Standard 1 "Presentation of Financial Statements", the sole director has prepared the Lithium New EV Financial Information on the basis that Lithium New EV is no longer a going concern. All assets and liabilities were transferred to its fellow subsidiary at their book value.

6. SEGMENT INFORMATION

Lithium New EV is engaged in single business segment being preparation for electric vehicle production project in the PRC. The sole director of Lithium New EV being the chief operating decision maker reviewed the overall results of Lithium New EV for the purpose of result allocation and performance assessment. Lithium New EV principally operates in the PRC (country of domicile) with all of its results derived from its operation in the PRC. Analysis of Lithium New EV's non-current assets is not presented as they are all located in the PRC.

7. TAXATION

No provision for taxation is made as Lithium New EV had no assessable profit during the Relevant Period.

The tax rate of Lithium New EV is 25% under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation of regulation of the EIT Law.

A statement of reconciliation of taxation is as follows:

	US$
Loss for the period	(219,183)
Tax at EIT rate of 25%	(54,796)
Tax effect of expenses not deductible for tax purposes	54,796
Taxation for the period	–

8. LOSS FOR THE PERIOD

	US$
Loss for the period has been arrived at after charging:	
Director's remuneration *(note 8)*	–
Staff costs	30,209
Depreciation	33,600

9. DIRECTOR'S AND EMPLOYEES' EMOLUMENTS

No director's emoluments have been paid or payable to the sole director for the Relevant Period.

The five highest paid individuals did not include the sole director of Lithium New EV during the Relevant Period. The emoluments of the five highest paid individuals during the Relevant Period was US$28,644. The emoluments of each of the five highest paid individuals during the Relevant Period were below US$128,000 (equivalent to HK$1,000,000).

During the Relevant Period, no emoluments were paid by Lithium New EV to the sole director or any individual as an inducement to join or upon joining Lithium New EV or as compensation for loss of office. The sole director has not waived any remuneration during the Relevant Period.

10. DIVIDENDS

No dividend has been paid or declared by Lithium New EV during the Relevant Period.

11. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment	Leasehold improvements	Motor vehicle	Plant and machinery	Total
	US$	*US$*	*US$*	*US$*	*US$*
COST					
Additions during the period	13,250	54,642	7,990	228,355	304,237
Currency realignment	505	2,081	304	8,694	11,584
At 31 December 2010	13,755	56,723	8,294	237,049	315,821
DEPRECIATION					
Provided for the period	1,851	27,393	1,117	3,239	33,600
Currency realignment	52	777	33	92	954
At 31 December 2010	1,903	28,170	1,150	3,331	34,554
CARRYING VALUES					
At 31 December 2010	11,852	28,553	7,144	233,718	281,267

During the Relevant Period, an independent third party has provided, free of charge, the office premise, and the land and building on which Lithium New EV's production plants were located. As at 31 December 2010, there was no specification as to the duration of the provision of office premise and land and building.

The above items of property, plant and equipment are depreciated on a straight line basis at the following rates per annum:

Computer equipment	33⅓%
Leasehold improvements	33⅓%
Motor vehicle	25%
Plant and machinery	10%

12. INVENTORIES

	US$
Raw materials	66,518
Work-in-progress	194,833
	261,351

13. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The amounts due from fellow subsidiaries are unsecured, non-interest bearing and repayable on demand. The amounts are subsequently settled as at the date of this report.

14. OTHER RECEIVABLES

	US$
Cash advances to *(Note a)*	
– former immediate holding company	31,789
– former intermediate holding company	529,773
– a related party *(Note b)*	31,831
	593,393
Other receivables	25,904
Prepayments	122,440
	741,737

Note a: The amounts are unsecured, non-interest bearing and repayable on demand. The amounts are subsequently settled as at the date of this report.

Note b: The sole director of Lithium New EV has significant influence over this company.

15. TRADE AND OTHER PAYABLES

	US$
Trade payables	2,167
Other payables	54,813
	56,980

An aging analysis of trade payables is as follows:

Within 30 days	2,167

16. AMOUNT(S) DUE TO FELLOW SUBSIDIARIES AND IMMEDIATE HOLDING COMPANY

The amount(s) due to fellow subsidiaries and immediate holding company are unsecured, non-interest bearing and was originally repayable on demand.

17. PAID-IN CAPITAL

Registered capital and paid-in capital	RMB10,000,000
Shown in Lithium New EV Financial Information as	US$1,464,000

18. RETIREMENT BENEFITS SCHEME

The employees of Lithium New EV are members of the state-managed retirement benefits scheme operated by the PRC government. Lithium New EV is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of Lithium New EV with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No contributions were made to the retirement benefits scheme during the Relevant Period.

19. RELATED PARTY TRANSACTIONS

The key management personnel are the sole director of Lithium New EV. No emolument has been paid or payable to the sole director for the Relevant Period.

Other than the balances with related parties disclosed in the respective notes to Section E, Lithium New EV has no significant transaction with related parties during the Relevant Period.

F. ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

The sole director considers the immediate holding company at 31 December 2010 to be Lithium BJ, a company established in the PRC. Upon the acquisition of Lithium BJ by Lithium Zhuhai, a company established in the PRC on 10 September 2010 and the acquisition of Lithium Zhuhai by Lithium HK, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Island on 21 December 2010, Lithium HK and the Target Company became the intermediate holding company and ultimate holding company of Lithium New EV respectively.

G. SUBSEQUENT EVENTS

On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium New EV on that date. On 11 January 2011, Lithium New EV signed a merger agreement (the "Merger Agreement") with 唐山鋰源電動汽車銷售有限公司 (Tangshan Lithium Electric Vehicles Sales Company Limited) ("Lithium Sales") to merge the business of Lithium New EV into Lithium Sales. According to the Merger Agreement, Lithium Sales will continue to operate and Lithium New EV will be deregistered after the merger. The merger was completed on 27 April 2011 and Lithium New EV was deregistered on the same day.

On 13 January 2011, the Vendor entered into an acquisition agreement (the "Acquisition Agreement") with Fulbond Investments. Pursuant to the Acquisition Agreement, Fulbond Investments has conditionally agreed to acquire the entire issued share capital of the Target Company, and the shareholder's loan at the consideration of HK$900 million (equivalent to US$115.2 million). The major terms of the Acquisition Agreement are set out in the Company's announcement dated 2 February 2011.

H. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Lithium New EV subsequent to 31 December 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of accountants' report on Lithium Jilin, prepared for the purpose of inclusion in the circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

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Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

25 May 2011

The Directors
Fulbond Holdings Limited

Dear Sirs/Madam,

We set out below our report on the financial information relating to 吉林鋰源電動車有限公司 (Jilin Lithium Electric Vehicles Company Limited) (" Lithium Jilin") for the period from 26 November 2010 (date of establishment) to 31 December 2010 (the "Relevant Period") (the "Lithium Jilin Financial Information") for inclusion in the circular issued by Fulbond Holdings Limited (the "Company") dated 25 May 2011 (the "Circular") in connection with the proposed acquisition of the entire issued capital of Lithium Energy Group Ltd. (the "Target Company"), the ultimate holding company of Lithium Jilin, and its other subsidiaries (hereinafter collectively referred to as the "Target Group") by Fulbond Investments Limited ("Fulbond Investments"), a wholly-owned subsidiary of the Company.

Lithium Jilin was established in the Peoples' Republic of China (the "PRC") on 26 November 2010 as a company with limited liability. It is principally engaged in trading in battery and research and development of electric vehicle power assembly products. However, the business has not yet commenced at the date of this report.

Lithium Jilin adopted 31 December as the financial year end date. No PRC statutory financial statements have been prepared for Lithium Jilin during the Relevant Period.

For the purpose of the preparation of this report, the sole director of Lithium Jilin has prepared the management accounts for the Relevant Period in accordance with accounting policies conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Management Accounts"). We have carried out independent audit procedures we consider necessary in respect of the Underlying Management Accounts of Lithium Jilin for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Management Accounts for the Relevant Period in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Lithium Jilin Financial Information for the Relevant Period set out in this report has been prepared based on the Underlying Management Accounts without making any adjustments for the purpose of inclusion in the Circular.

The sole director of Lithium Jilin is responsible for preparing the Underlying Management Accounts. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Lithium Jilin Financial Information set out in this report from the Underlying Management Accounts, to form an independent opinion on the Lithium Jilin Financial Information and to report our opinion to you.

In our opinion, the Lithium Jilin Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Lithium Jilin as at 31 December 2010, and of the loss and cash flows of Lithium Jilin for the Relevant Period.

Without qualifying our opinion, we draw your attention to note 1 to Section E of the Financial Information which indicates that Lithium Jilin has net current liabilities of US$3,263,291 as at 31 December 2010. This condition indicates the existence of an uncertainty which may cast doubt about Lithium Jilin's ability to continue as a going concern.

A. STATEMENT OF COMPREHENSIVE INCOME

For the period from 26 November 2010 (date of establishment) to 31 December 2010

	Notes	*US$*
Other income		87
Administrative expenses		(22,428)
Loss and total comprehensive expense for the period	*8*	(22,341)

B. STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	*US$*
Non-current asset		
Property, plant and equipment	*11*	5,218,250
Current assets		
Inventories	*12*	615,780
Other receivables	*13*	411,887
Bank balances and cash		417,093
		1,444,760
Current liabilities		
Trade and other payables	*14*	4,708,051
Net current liabilities		(3,263,291)
Total assets less current liabilities		1,954,959
Non-current liability		
Amount due to immediate holding company	*15*	456,300
		1,498,659
Capital and reserve		
Paid-in capital	*16*	1,521,000
Deficit		(22,341)
		1,498,659

C. STATEMENT OF CHANGES IN EQUITY

For the period from 26 November 2010 (date of establishment) to 31 December 2010

	Paid-in capital	Deficit	Total
	US$	*US$*	*US$*
Capital contributions upon establishment	1,521,000	–	1,521,000
Loss and total comprehensive expense for the period	–	(22,341)	(22,341)
At 31 December 2010	1,521,000	(22,341)	1,498,659

D. STATEMENT OF CASH FLOWS

For the period from 26 November 2010 (date of establishment) to 31 December 2010

	US$
Operating activities	
Loss for the period	(22,341)
Adjustment for:	
Interest income	(87)
Operating cash outflows before movements in working capital	(22,428)
Increase in other receivables	(1,217)
Increase in inventories	(615,780)
Increase in trade and other payables	38,641
Net cash used in operating activities	(600,784)
Investing activities	
Purchase of property, plant and equipment	(5,218,250)
Advance to a related party	(410,670)
Interest received	87
Net cash used in investing activities	(5,628,833)
Financing activities	
Capital contributions from equity owner	1,521,000
Advance from immediate holding company	456,300
Advance from former intermediate holding company	4,669,410
Cash from financing activities	6,646,710
Net increase in cash and cash equivalents and cash and cash equivalents at 31 December 2010, representing bank balances and cash	417,093

E. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Lithium Jilin was established in the PRC on 26 November 2010 as a company with limited liability and is principally engaged in trading in battery and research and development of electric vehicle power assembly products. The immediate holding company of Lithium Jilin is 珠海鋰源新能源科技有限公司 (Zhuhai Lithium New Energy Sources Technology Limited) ("Lithium Zuhai"), a company established in the PRC with limited liability. On 21 December 2010, China Lithium Electric Vehicle Group (Hong Kong) Limited ("Lithium HK"), a company incorporated in Hong Kong with limited liability, acquired the entire interest of Lithium Zhuhai. Lithium HK is a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Islands with limited liability. Accordingly, Lithium HK and the Target Company became the intermediate holding company and ultimate holding company of Lithium Jilin respectively on 21 December 2010. On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium Jilin on that date.

The Lithium Jilin Financial Information is presented in United States dollar ("US$"), while the functional currency of Lithium Jilin is Renminbi ("RMB"), as US$ is the presentation currency of the financial statements of the Company.

In preparing the Underlying Management Accounts, the sole director of Lithium Jilin has given consideration to the future liquidity of Lithium Jilin in light of the fact that Lithium Jilin had net current liabilities of US$3,263,291 as at 31 December 2010. Upon completion of the proposed acquisition of the entire issued share capital of the Target Company by Fulbond Investments (the "Acquisition") and assignment of the loan from the Vendor to the Target Group, the sole director of the Lithium Jilin believes that Fulbond Investment will provide financial support to the Lithium Jilin to meet in full its financial obligations as they fall due for the foreseeable future.

However, if the Acquisition is not completed, the sole director of the Lithium Jilin believes that the Vendor will continue to provide financial support to Lithium Jilin to enable it to meet its liabilities as and when they fall due and to continue its business for the foreseeable future. The sole director of the Lithium Jilin believes that Lithium Jilin will continue as going concern. Consequently, the Lithium Jilin Financial Information has been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations ("INT") (hereinafter collectively referred to as the "new HKFRSs") which are effective for Lithium Sales's financial period beginning on 1 January 2010. For the purposes of preparing and presenting the Lithium Jilin Financial Information for the Relevant Period, Lithium Jilin has adopted all HKFRSs applicable to financial year beginning on 1 January 2010 during the Relevant Period.

Lithium Jilin has not early applied the following revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 1 (Amendments)	Limited exemptions from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised)	Related party disclosures[6]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

[2] Effective for annual periods beginning on or after 1 July 2010.

[3] Effective for annual periods beginning on or after 1 July 2011.

[4] Effective for annual periods beginning on or after 1 January 2013.

[5] Effective for annual periods beginning on or after 1 January 2012.

[6] Effective for annual periods beginning on or after 1 January 2011.

The sole director of Lithium Jilin anticipates that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and financial position of Lithium Jilin.

3. SIGNIFICANT ACCOUNTING POLICIES

The Lithium Jilin Financial Information has been prepared under the historical cost basis in accordance with HKFRSs issued by HKICPA. In addition, the Lithium Jilin Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The principle account of policies are set out below.

Revenue recognition

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income and expense that are taxable or deductible in other period, and it further excludes the items of income and expense that are never taxable and deductible. Lithium Jilin's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Lithium Jilin expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Foreign currencies

For the purposes of presenting the Lithium Jilin Financial Information, the assets and liabilities of Lithium Jilin are translated from its functional currency (i.e. RMB) into the presentation currency of Lithium Jilin (i.e. US$) at the rate of exchange prevailing at the end of the reporting period, and its income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when Lithium Jilin becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Lithium Jilin's financial assets are mainly loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables including other receivables and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is recognised in the statements of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the statements of comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by Lithium Jilin are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including other payables, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Lithium Jilin are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Lithium Jilin has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefit schemes

Payments to government-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

4. CAPITAL RISK MANAGEMENT

Lithium Jilin manages its capital to ensure that Lithium Jilin will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of Lithium Jilin consists of net debts, which includes the cash and cash equivalents, and equity attributable to owners of Lithium Jilin, comprising paid-in capital.

The sole director of Lithium Jilin reviews the capital structure on a regular basis. As part of this review, the sole director considers the cost of capital and the risks associates with each class of capital and will balance its overall capital structure through the payment of dividends and new capital raising.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	US$
Financial assets	
Loans and receivables	
(including cash and cash equivalents) *(note)*	828,980
Financial liabilities	
Amortised cost	5,164,351

Note: Bank balances carry interest of prevailing market rate ranging from 0.01% to 0.36% per annum.

(b) Financial risk management objectives and policies

Lithium Jilin's major financial assets and liabilities include other receivables, bank balances and cash and other payables. The risks associated with these financial instruments and the policies on how to mitigate credit risk, and liquidity risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Credit risk

Lithium Jilin's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. Lithium Jilin's credit risk is primarily attributable to other receivables.

At the end of the reporting period, the other receivables are repayable on demand. In order to minimise the credit risk, the management has reviewed the recoverable amounts of the other receivables regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the sole director of Lithium Jilin consider that Lithium Jilin's credit risk on other receivables is significantly reduced.

Lithium Jilin has concentration of credit risk on its bank balances and such amounts are placed in a bank with good reputation.

(d) Liquidity risk management

The sole director of Lithium Jilin has built an appropriate liquidity risk management framework for the management of Lithium Jilin's short, medium and long-term funding and liquidity management requirements. Lithium Jilin manages liquidity risk by maintaining sufficient bank balances and by continuously monitoring forecast and actual cash flows, and the maturity profile of financial liabilities.

Lithium Jilin relies on financial support from the Target Company which has agreed to provide adequate funds for Lithium Jilin as a significant source of liquidity.

At 31 December 2010, all Lithium Jilin's non-derivative financial liabilities are interest-free and their remaining contractual maturities are on demand or repayable within 90 days except for the amount due to immediate holding company which is due over one year.

6. SEGMENT INFORMATION

Lithium Jilin is engaged in single business segment being trading in battery and research and development of electric vehicle power assembly products in the PRC. The sole director of Lithium Jilin being the chief operating decision maker reviewed the overall results of Lithium Jilin for the purpose of result allocation and performance assessment. Lithium Jilin principally operates in the PRC (country of domicile) with all of its results derived from its operation in the PRC. Analysis of Lithium Jilin's non-current assets is not presented as they are all located in the PRC.

7. TAXATION

No provision for taxation has been made as Lithium Jilin had no assessable profit during the Relevant Period.

The tax rate of Lithium Jilin is 25% under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation of regulation of the EIT Law.

A statement of reconciliation of taxation is as follows:

	US$
Loss for the period	(22,341)
Tax at EIT rate of 25%	5,585
Tax effect of expenses not deductible for tax purposes	(5,585)
Taxation for the period	–

8. LOSS FOR THE PERIOD

	US$
Loss for the period has been arrived at after charging:	
Director's remuneration *(note 10)*	–
Staff costs	9,582
and after crediting:	
Interest income	87

9. DIRECTOR'S AND EMPLOYEES' EMOLUMENTS

No director's emoluments have been paid or payable to the sole director for the Relevant Period.

The five highest paid individuals did not include the sole director of Lithium Jilin during the Relevant Period. The emoluments of the five highest paid individuals during the Relevant Period was US$9,582. The emoluments of each of the five highest paid individuals during the Relevant Period were below US$128,000 (equivalent to HK$1,000,000).

During the Relevant Period, no emoluments were paid by Lithium Jilin to the sole director or any individual as an inducement to join or upon joining Lithium Jilin or as compensation for loss of office. The sole director has not waived any remuneration during the Relevant Period.

10. DIVIDENDS

No dividend has been paid or declared by Lithium Jilin during the Relevant Period.

11. PROPERTY, PLANT AND EQUIPMENT

	Motor vehicles *US$*	Office equipment *US$*	Plant and machinery *US$*	Total *US$*
COST				
Additions during the period and balance at 31 December 2010	40,179	48,924	5,129,147	5,218,250
ACCUMULATED DEPRECIATION				
Provided for the period and balance at 31 December 2010	–	–	–	–
NET CARRYING VALUES				
At 31 December 2010	40,179	48,924	5,129,147	5,218,250

The above items of property, plant and equipment are depreciated on a straight line basis as the following rates per annum:

Motor vehicles	25%
Office equipment	33⅓%
Plant and equipment	10%

During the Track Record Period, an independent third party has provided, free of charge, the office premise, and the land and building on which Lithium Jilin's production plants were located. As at 31 December 2010, such party has agreed to continue to provide the office premise to Lithium Jilin free of charge for another year while there was no specification as to the duration of the provision of land and building.

12. INVENTORIES

	US$
Raw materials	104,610
Work-in-progress	42,020
Finished goods	469,150
	615,780

13. OTHER RECEIVABLES

	US$
Cash advance to a related party *(Note)*	410,670
Other receivables	1,217
	411,887

Note: The sole director of Lithium Jilin has significant influence over this Company. The amount is unsecured, non-interest bearing and repayable on demand. The amount is subsequently settled as at the date of this report.

14. TRADE AND OTHER PAYABLES

	US$
Trade payables	6,429
Cash advance from former intermediate holding company *(note)*	4,669,410
Other payables and accrued charges	32,212
	4,708,051

Note: The amount is unsecured, non-interest bearing and repayable on demand.

An aging of trade payables is as follows:

	US$
Within 30 days	6,429

15. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount due to immediate holding company is unsecured, non-interest bearing and was originally repayable on demand. As at 31 December 2010, Lithium Zhuhai has agreed not to demand for the repayment of the amount due from Lithium Jilin for at least the next twelve months from 31 December 2010 until Lithium Jilin has the ability to repay the amount, whichever is later. As a result, the amount due to Lithium Zhuhai is classified as non-current liability accordingly.

16. PAID-IN CAPITAL

Registered capital and paid-in capital	RMB10,000,000
Shown in Lithium Jilin Financial Information as	US$1,521,000

17. RETIREMENT BENEFITS SCHEME

The employees of Lithium Jilin are members of the state-managed retirement benefits scheme operated by the PRC government. Lithium Jilin is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of Lithium Jilin with respect to the retirement benefits scheme is to make the required contributions under the scheme.

No contributions were made to the retirement benefits scheme during the Relevant Period.

18. RELATED PARTY TRANSACTIONS

The key management personnel are the sole director of Lithium Jilin. No emolument has been paid or payable to the sole director for the Relevant Period.

Other than the balance with a related party disclosed in the respective note to Section E, Lithium Jilin has no significant transactions with related parties during the Relevant Period.

F. ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

The sole director considers the immediate holding company during the Relevant Period to be Lithium Zhuhai, a company established in the PRC. Upon the acquisition of Lithium Zhuhai by Lithium HK, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Islands on 21 December 2010, Lithium HK and the Target Company became the intermediate holding company and ultimate holding company of Lithium Jilin respectively.

G. SUBSEQUENT EVENTS

On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium Jilin on that date. On 13 January 2011, the Vendor entered into an acquisition agreement (the "Acquisition Agreement") with Fulbond Investments. Pursuant to the Acquisition Agreement, Fulbond Investments has conditionally agreed to acquire the entire issued share capital of the Target Company, and the shareholder's loan at a consideration of HK$900 million (equivalent to US$115.4 million). The major terms of the Acquisition Agreement are set out in the Company's announcement dated 2 February 2011.

H. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Lithium Jilin subsequent to 31 December 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of accountants' report on Lithium Guang, prepared for the purpose of inclusion in the circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

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Deloitte Touche Tohmatsu
35/F One Pacific Place
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Hong Kong

25 May 2011

The Directors
Fulbond Holdings Limited

Dear Sirs/Madam,

We set out below our report on the financial information relating to 珠海廣鋰電動汽車有限公司 (Zhuhai Guang Lithium Electric Vehicles Company Limited) ("Lithium Guang") for the period from 6 November 2010 (date of establishment) to 31 December 2010 (the "Relevant Period") (the "Lithium Guang Financial Information") for inclusion in the circular issued by Fulbond Holdings Limited (the "Company") dated 25 May 2011 (the "Circular") in connection with the proposed acquisition of the entire issued capital of Lithium Energy Group Ltd. (the "Target Company"), the ultimate holding company of Lithium Guang, and its other subsidiaries (hereinafter collectively referred to as the "Target Group") by Fulbond Investments Limited ("Fulbond Investments"), a wholly-owned subsidiary of the Company.

Lithium Guang was established in the Peoples' Republic of China (the "PRC") on 6 November 2010 as a company with limited liability. It is principally engaged in research and development of electronic vehicle products. However, business has not yet commenced at the date of this report.

Lithium Guang adopted 31 December as the financial year end date. The PRC statutory financial statements of Lithium Guang for the Relevant Period were audited by 珠海友城會計師事務所 (Zhuhai You Cheng Certified Public Accountants), certified public accountants registered in the PRC. The PRC statutory financial statements for the Relevant Period were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises.

For the purpose of the preparation of this report, the sole director of Lithium Guang has prepared the management accounts for the Relevant Period in accordance with accounting policies which conform with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Management Accounts"). We have carried out independent audit procedures we consider necessary in respect of the Underlying Management Accounts of Lithium Guang for the Relevant Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and examined the Underlying Management Accounts for the Relevant Period in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Lithium Guang Financial Information for the Relevant Period set out in this report has been prepared based on the Underlying Management Accounts without making any adjustments for the purpose of inclusion in the Circular.

The sole director of Lithium Guang is responsible for preparing the Underlying Management Accounts. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Lithium Guang Financial Information set out in this report from the Underlying Management Accounts, to form an independent opinion on the Lithium Guang Financial Information and to report our opinion to you.

In our opinion, the Lithium Guang Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Lithium Guang as at 31 December 2010, and of the loss and cash flows of Lithium Guang for the Relevant Period.

A. STATEMENT OF COMPREHENSIVE INCOME

For the period from 6 November 2010 (date of establishment) to 31 December 2010

	Note	*US$*
Administrative expenses, loss and total comprehensive expense for the period	*8*	(16,414)

B. STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	*US$*
Non-current asset		
Property, plant and equipment	*11*	241
Current assets		
Other receivables		3,042
Amount due from immediate holding company	*12*	152,100
Bank balances and cash		136,346
		291,488
Current liability		
Other payables		3,943
Net current assets		287,545
		287,786
Capital and reserve		
Paid-in capital	*13*	304,200
Deficit		(16,414)
		287,786

C. STATEMENT OF CHANGES IN EQUITY

For the period from 6 November 2010 (date of establishment) to 31 December 2010

	Paid-in capital	Deficit	Total
	US$	*US$*	*US$*
Capital contributions upon establishment	304,200	–	304,200
Loss and total comprehensive expense for the period	–	(16,414)	(16,414)
At 31 December 2010	304,200	(16,414)	287,786

D. STATEMENT OF CASH FLOWS

For the period from 6 November 2010 (date of establishment) to 31 December 2010

	US$
Operating activities	
Loss for the period	(16,414)
Adjustment for:	
Depreciation of property, plant and equipment	11
Operating cash inflows before movements in working capital	(16,403)
Increase in other receivables	(3,042)
Increase in other payables	3,943
Net cash used in operating activities	(15,502)
Investing activities	
Purchase of property, plant and equipment	(252)
Advance to immediate holding company	(152,100)
Cash used in investing activities	(152,352)
Cash from financing activity	
Capital contributions from equity owner	304,200
Net increase in cash and cash equivalents and cash and cash equivalents at 31 December 2010, representing bank balances and cash	136,346

E. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

Lithium Guang was established in the PRC on 6 November 2010 as a company with limited liability and is principally engaged in research and development of electronic vehicle products. The immediate holding company of Lithium Guang is 珠海鋰源新能源科技有限公司 (Zhuhai Lithium New Energy Sources Technology Limited) ("Lithium Zuhai"), a company established in the PRC with limited liability. On 21 December 2010, China Lithium Electric Vehicle Group (Hong Kong) Limited ("Lithium HK"), a company incorporated in Hong Kong with limited liability, acquired the entire interest of Lithium Zhuhai. Lithium HK is a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Islands with limited liability. Accordingly, Lithium HK and the Target Company became the intermediate holding company and ultimate holding company of Lithium Guang respectively on 21 December 2010. On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the Ultimate Holding Company of Lithium Guang in that date.

The Lithium Guang Financial Information is presented in United States dollar ("US$"), while the functional currency of Lithium Guang is Renminbi ("RMB"), as US$ is the presentation currency of the financial statements of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The HKICPA has issued a number of new and revised Hong Kong Accounting Standards ("HKAS"s) and HKFRSs, Amendments and Interpretations ("INT") (hereinafter collectively referred to as the "new HKFRSs") which are effective for Lithium Guang's financial period beginning on 1 January 2010. For the purposes of preparing and presenting the Lithium Guang Financial Information for the Relevant Period, Lithium Guang has adopted all HKFRSs applicable to financial year beginning on 1 January 2010 during the Relevant Period.

Lithium Guang has not early applied the following revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKFRS 1 (Amendments)	Limited exemptions from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 1 (Amendments)	Severe hyperinflation and removal of fixed dates for first-time adopters[3]
HKFRS 7 (Amendments)	Disclosures – Transfers of financial assets[3]
HKFRS 9	Financial instruments[4]
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets[5]
HKAS 24 (Revised)	Related party disclosures[6]
HK(IFRIC) – INT 14 (Amendments)	Prepayments of a minimum funding requirement[6]
HK(IFRIC) – INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.

2 Effective for annual periods beginning on or after 1 July 2010.

3 Effective for annual periods beginning on or after 1 July 2011.

4 Effective for annual periods beginning on or after 1 January 2013.

5 Effective for annual periods beginning on or after 1 January 2012.

6 Effective for annual periods beginning on or after 1 January 2011.

The sole director of Lithium Guang anticipates that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and financial position of Lithium Guang.

3. SIGNIFICANT ACCOUNTING POLICIES

The Lithium Guang Financial Information has been prepared under the historical cost basis in accordance with HKFRSs issued by HKICPA. In addition, the Lithium Guang Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The principal accounting policies are set out below.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the profit or loss because it excludes items of income and expense that are taxable or deductible in other period, and it further excludes the items of income and expense that are never taxable and deductible. Lithium Guang's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the statements of financial position and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which Lithium Guang expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of property, plant and equipment is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Foreign currencies

For the purposes of presenting the Lithium Guang Financial Information, the assets and liabilities of Lithium Guang are translated from its functional currency (i.e. RMB) into the presentation currency of Lithium Guang (i.e. US$) at the rate of exchange prevailing at the end of the reporting period, and its income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the translation reserve).

Financial instruments

Financial assets and financial liabilities are recognised on the statements of financial position when Lithium Guang becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

Lithium Guang's financial assets are loans and receivables.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of the reporting period subsequent to initial recognition, loans and receivables including other receivables, amount due from immediate holding company and bank balances and cash are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Impairment of loans and receivables

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the loans and receivables have been affected.

Objective evidence of impairment could include significant financial difficulty of the issuer or counterparty; or default or delinquency in interest or principal payments; or it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

An impairment loss is recognised in the statements of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through the statements of comprehensive income to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by Lithium Guang are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including other payables, are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by Lithium Guang are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Lithium Guang has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefit schemes

Payments to government-managed retirement benefits schemes are charged as an expense when employees have rendered service entitling them to the contributions.

4. CAPITAL RISK MANAGEMENT

Lithium Guang manages its capital to ensure that Lithium Guang will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of Lithium Guang consists of net debts, which includes the cash and cash equivalents, and equity attributable to owners of Lithium Guang, comprising paid-in capital.

The sole director of Lithium Guang reviews the capital structure on a regular basis. As part of this review, the sole director considers the cost of capital and the risks associates with each class of capital and will balance its overall capital structure through the payment of dividends and new capital raising.

5. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	US$
Financial assets	
Loans and receivables	
(including cash and cash equivalents) *(note)*	291,488
Financial liabilities	
Amortised cost	3,943

Note: Bank balances carry interest of prevailing market rate ranging from 0.9% to 0.36% per annum.

(b) Financial risk management objectives and policies

Lithium Guang's major financial assets and liabilities include other receivables, amount due from immediate holding company, bank balances and cash and other payables. The risks associated with these financial instruments and the policies on how to mitigate credit risk and liquidity risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Credit risk

Lithium Guang's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at the end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. Lithium Guang's credit risk is primarily attributable to other receivables and amount due from immediate holding company.

At the end of the reporting period, the other receivables and amount due from immediate holding company are repayable on demand. In order to minimise the credit risk, the management has reviewed the recoverable amounts of the other receivables and amount due from immediate holding company regularly to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the sole director of Lithium Guang consider that Lithium Guang's credit risk on other receivables and amount due from immediate holding company is significantly reduced. Most of the other receivables and amount due from immediate holding company are subsequently settled.

The credit risk on bank balances is minimal as such amounts are placed in banks with good reputation.

(d) Liquidity risk management

The sole director of Lithium Guang has built an appropriate liquidity risk management framework for the management of Lithium Guang's short, medium and long-term funding and liquidity management requirements. Lithium Guang manages liquidity risk by maintaining sufficient bank balances and by continuously monitoring forecast and actual cash flows, and the maturity profile of financial liabilities.

At 31 December 2010, all Lithium Guang's non-derivative financial liabilities are interest-free and their remaining contractual maturities are on demand or repayable within 90 days.

6. SEGMENT INFORMATION

Lithium Guang is engaged in single business segment being research and development of electronic vehicle products in the PRC. The sole director of Lithium Guang being the chief operating decision maker reviewed the overall results of Lithium Guang for the purpose of resources allocation and performance assessment. Lithium Guang principally operates in the PRC (country of domicile) with all of its results derived from its operation in the PRC. Analysis of the Lithium Guang's non-current assets is not presented as they are all located in the PRC.

7. TAXATION

No provision for taxation is made as Lithium Guang had no assessable profit during the Relevant Period.

The tax rate of Lithium Guang is 25% under the Law of PRC on Enterprise Income Tax (the "EIT Law") and Implementation of regulation of the EIT Law.

A statement of reconciliation of taxation is as follows:

	US$
Loss for the period	16,414
Tax at EIT rate of 25%	4,104
Tax effect of expenses not deductible for tax purposes	(4,104)
Taxation for the period	–

8. LOSS FOR THE PERIOD

	US$
Loss for the period has been arrived at after charging:	
Director's remuneration *(note 9)*	–
Staff costs	9,726
Depreciation	11

9. DIRECTOR'S AND EMPLOYEES' EMOLUMENTS

No director's emoluments have been paid or payable to the sole director for the Relevant Period.

The five highest paid individuals did not include the sole director of Lithium Guang during the period from 6 November 2010 to 31 December 2010. The emoluments of the five highest paid individuals during the period from 6 November 2010 to 31 December 2010 was US$6,706. The emoluments of each of the five highest paid individuals during the Relevant Period were below US$128,000 (equivalent to HK$1,000,000).

During the Relevant Period, no emoluments were paid by Lithium Guang to the sole director or any individual as an inducement to join or upon joining Lithium Guang or as compensation for loss of office. The sole director has not waived any remuneration during the Relevant Period.

10. DIVIDENDS

No dividend has been paid or declared by Lithium Guang during the Relevant Period.

11. PROPERTY, PLANT AND EQUIPMENT

	Office equipment *US$*
COST	
Additions during the period and balance at 31 December 2010	252
DEPRECIATION	
Provided for the period and balance at 31 December 2010	11
CARRYING VALUE	
As at 31 December 2010	241

During the Relevant Period, an independent third party has provided, free of charge, the office premise, and the land and building on which Lithium Guang production plants were located. As at 31 December 2010, there was no specification as to the duration of the provision of office premise and land and building.

The office equipment is depreciated on a straight line basis at the rate of $33^1/_3$% per annum.

12. AMOUNT DUE FROM IMMEDIATE HOLDING COMPANY

The amount due from immediate holding company is unsecured, non-interest bearing and repayable on demand. The amount is subsequently settled.

13. PAID-IN CAPITAL

Registered capital and paid-in capital	RMB2,000,000
Shown in Lithium Guang Financial Information as	US$304,200

14. RETIREMENT BENEFITS SCHEME

The employees of Lithium Guang are members of the state-managed retirement benefits scheme operated by the PRC government. Lithium Guang is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of Lithium Guang with respect to the retirement benefits scheme is to make the required contributions under the scheme.

Total contributions of US$469 were made to the retirement benefits scheme during the Relevant Period.

15. RELATED PARTY TRANSACTIONS

The key management personnel are the sole director of Lithium Guang. No emolument has been paid or payable to the sole director for the Relevant Period.

Other than the balance with related parties disclosed in the respective notes to Section E, Lithium Guang has no significant transactions with related parties during the Relevant Period.

F. ULTIMATE HOLDING COMPANY AND IMMEDIATE HOLDING COMPANY

The sole director considers the immediate holding company during the Relevant Period be Lithium Zhuhai, a company established in the PRC. Upon the acquisition of Lithium Zhuhai by Lithium HK, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Target Company, a company incorporated in the British Virgin Islands on 21 December 2010, Lithium HK and the Target Company became the intermediate holding company and ultimate holding company of Lithium Guang respectively.

G. SUBSEQUENT EVENTS

On 6 January 2011, Hefu Limited (the "Vendor") acquired the entire interest of the Target Company and becomes the ultimate holding company of Lithium Guang on that date. On 13 January 2011, the Vendor entered into an acquisition agreement (the "Acquisition Agreement") with Fulbond Investments. Pursuant to the Acquisition Agreement, Fulbond Investments has conditionally agreed to acquire the entire issued share capital of the Target Company, and the shareholder's loan at a consideration of HK$900 million (equivalent to US$115.2 million). The major terms of the Acquisition Agreement are set out in the Company's announcement dated 2 February 2011.

H. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Lithium Guang subsequent to 31 December 2010.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

On 13 January 2011, Fulbond Investments Limited ("Fulbond Investments"), a wholly-owned subsidiary of Fulbond Holdings Limited (the "Company") entered into an acquisition agreement (the "Acquisition Agreement") with Hefu Limited (the "Vendor"), an independent third party, pursuant to which Fulbond Investments has conditionally agreed to acquire the entire issued share capital of Lithium Energy Group Ltd. (the "Target Company") and the shareholder's loan owing by the Target Company to the Vendor at a consideration of HK$900 million (the "Consideration"), of which (i) HK$370 million shall be paid by Fulbond Investments in cash to the Vendor and (ii) HK$530 million shall be paid by way of allotment and issue of Shares of the Company (or those corresponding Reorganised Shares of the Company after Capital Reorganisation becoming effective) as consideration shares (the "Consideration Shares") to the Vendor in 5 stages in the manner set forth in the section headed "Consideration" of the Circular in connection with the proposed acquisition (the "Acquisition").

The accompanying unaudited pro forma financial information of the Company and its subsidiaries (together with the Company referred to as the "Group") and the Target Company and its subsidiaries (collectively referred to as the "Enlarged Group") has been prepared to illustrate the effect of the Acquisition. On completion of the Acquisition, the Company will indirectly own 100% equity interest in the Target Company and its subsidiaries (the "Target Group").

The unaudited pro forma financial information of the Enlarged Group has been prepared on the assumption that the Acquisition had been completed on 31 December 2010 in the case of the unaudited pro forma consolidated statement of financial position, and on 1 January 2010 in the case of the unaudited pro forma consolidated statement of comprehensive income and the unaudited pro forma consolidated statement of cash flows of the Enlarged Group.

For the purpose of the unaudited pro forma financial information, RMB and HK$ amounts have been translated into US$ amounts at a closing rate of US$1.00 = RMB6.575 and US$1.00 = HK$7.783 respectively (being the exchange rate prevailing as at 31 December 2010) in respect of balances as at 31 December 2010 for the unaudited pro forma consolidated statement of financial position and at an average rate of US$1.00 = RMB6.762 and US$1.00 = HK$7.7696 respectively (being the average exchange rate prevailing 2010) for the unaudited pro forma consolidated statement of comprehensive income and statement of cash flows for the year ended 31 December 2010.

1. Unaudited Pro Forma Consolidated Statement of Financial Position of the Enlarged Group

This unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if it had taken place on 31 December 2010.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group is based on the audited consolidated statement of financial position as at 31 December 2010 of the Group as extracted from the Company's published annual report for the year ended 31 December 2010, and the statement of financial position of the Target Group as at 31 December 2010 as extracted from the Accountants' Report on the financial information of the Target Group as set out in Appendix II-A to this circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable. The unaudited pro forma consolidated statement of financial position of the Enlarged Group is prepared for illustrative purpose only and because of its nature, may not give a true picture of the financial position of the Enlarged Group as at 31 December 2010 or any future date.

	The Group	**The Target Group**	**Pro forma adjustments**			**Pro forma Enlarged Group**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
			Note (a)(i)	*Note (b)*	*Note (c)*	
Non-current assets						
Property, plant and equipment	478	11,198				11,676
Intangible assets	–	737				737
Prepaid lease payments	556	–				556
Provisional goodwill	–	212		(ii)90,377		90,589
Deposits paid for acquisition of property, plant and equipment	–	304				304
Interest in associates	–	–				–
Other investments	–	–				–
Club debenture	–	–				–
	1,034	12,451				103,862
Current assets						
Inventories	5,830	2,550				8,380
Properties under development	65,588	–				65,588
Held-for-trading investments	12,206	–				12,206
Trade and other receivables	9,693	4,704				14,397
Deposits and prepayments	4,707	–				4,707
Amount due from a director	–	10				10
Bank balances and cash	18,438	1,365	254,389		(709)	273,483
	116,462	8,629				378,771

	The Group	The Target Group	Pro forma adjustments			Pro forma Enlarged Group
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
			Note (a)(i)	*Note (b)*	*Note (c)*	
Current liabilities						
Trade and other payables	11,437	19,761				31,198
Amounts due to associates	57	–				57
Amounts due to directors of subsidiaries	473	–				473
Taxation payable	331	–				331
Obligation under finance lease	10	–				10
Bank and other borrowings – amount due within one year	10,280	1,276				11,556
	22,588	21,037				43,625
Net current assets (liabilities)	93,874	(12,408)				335,146
Total assets less current liabilities	94,908	43				439,008
Non-current liabilities						
Convertible notes	101,764	–	63,600			165,364
Amount due to Vendor	–	–		(iii)25,405		25,405
Obligation under finance lease	10	–				10
	101,774	–				190,779
	(6,866)	43				248,229
Capital and reserves						
Share capital	45,643	50	88,230	(i)1,379		135,302
Reserves	(81,048)	(168)	102,559	(i)63,593	(709)	84,227
Equity attributable to owners of the Company	(35,405)	(118)				219,529
Non-controlling interests	28,539	161				28,700
	(6,866)	43				248,229

2. Unaudited Pro Forma Consolidated Statement of Comprehensive Income and unaudited Pro Forma Consolidated Statement of Cash Flows of the Enlarged Group

This unaudited pro forma consolidated statement of comprehensive income of the Enlarged Group is prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Acquisition assuming it had been completed as of 1 January 2010.

The unaudited pro forma consolidated statement of comprehensive income and consolidated statement of cash flows of the Enlarged Group have been prepared based on the audited consolidated statement of comprehensive income and audited consolidated statement of cash flows of the Company as extracted from the Company's published annual report for the year ended 31 December 2010, the consolidated statement of comprehensive income and consolidated statement of cash flows of the Target Group for the period from 25 June 2010 (date of incorporation) to 31 December 2010 as extracted from the Accountants' Reports on the financial information of the Target Group as set out in Appendix II-A to this circular and the statements of comprehensive income and statements of cash flows of Lithium Zhuhai, Lithium BJ, Lithium Sales, Lithium Caofeidian, Lithium Power Motor, Lithium New EV, Lithium Jilin and Lithium Guang for the period from each respective date of establishment to 31 December 2010 or for the year ended 31 December 2010 as extracted from the Accountants' Reports set out in Appendices II-B to II-I, respectively to this circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the transaction; and (ii) factually supportable. The unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated statement of cash flows of the Enlarged Group are prepared for illustrative purpose only and because of their nature, may not give a true picture of the results and cash flows of the Enlarged Group for the year ended 31 December 2010 or any future period.

Unaudited pro forma consolidated statement of comprehensive income

	The Group	The Target Group	Lithium Zhuhai	Lithium BJ	Lithium Sales	Lithium Caofeidian	Lithium Power Motor	Lithium New EV	Lithium Jilin	Lithium Guang	Pro forma adjustments				Pro forma Enlarged Group
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
											Note (a)(ii)	*Note (b)(iv)*	*Note (c)*	*Note (d)*	
Continuing operations															
Turnover	13,106	–	–	–	1,390	–	–	–	–	–					14,496
Cost of sales	(12,356)	–	–	–	(1,137)	–	–	–	–	–					(13,493)
Gross profit	750	–	–	–	253	–	–	–	–	–					1,003
Other income	1,552	–	3	237	–	–	56	–	–	–					1,848
Other gains or losses	(90,386)	–	–	–	–	–	–	–	–	–					(90,386)
Selling and distribution costs	(1,104)	(14)	–	–	(87)	–	–	–	–	–				14	(1,191)
Administrative expenses	(7,151)	(149)	(83)	(682)	(203)	(16)	(167)	(219)	(22)	(16)			(709)	120	(9,297)
Finance costs	(3,828)	(5)	–	–	(57)	–	–	–	–	–	(2,254)	(3,779)		5	(9,918)
Loss for the year from continuing operations	(100,167)	(168)	(80)	(445)	(94)	(16)	(111)	(219)	(22)	(16)					(107,941)
Discontinued operation															–
Loss for the year from discontinued operation	(678)	–	–	–	–	–	–	–	–	–					(678)
Loss for the year	(100,845)	(168)	(80)	(445)	(94)	(16)	(111)	(219)	(22)	(16)					(108,619)
Other comprehensive income															
Exchange differences arising on translation to presentation currency	2	–	55	(52)	7	28	88	51	–	–					179
Total comprehensive (expense) income for the year	(100,843)	(168)	(25)	(497)	(87)	12	(23)	(168)	(22)	(16)					(108,440)
Loss for the year attributable to:															
Owners of the Company	(100,630)	(168)	(80)	(445)	(94)	(16)	(111)	(219)	(22)	(16)	(2,254)	(3,779)	(709)	139	(108,404)
Non-controlling interests	(215)	–	–	–	–	–	–	–	–	–					(215)
	(100,845)	(168)	(80)	(445)	(94)	(16)	(111)	(219)	(22)	(16)					(108,619)
Total comprehensive (expense) income attributable to:															
Owners of the Company	(100,907)	(168)	(25)	(497)	(87)	12	(23)	(168)	(22)	(16)	(2,254)	(3,779)	(709)	139	(108,504)
Non-controlling interests	64	–	–	–	–	–	–	–	–	–					64
	(100,843)	(168)	(25)	(497)	(87)	12	(23)	(168)	(22)	(16)					(108,440)

Unaudited pro forma consolidated statement of cash flows

	The Group	The Target Group	Lithium Zhuhai	Lithium BJ	Lithium Sales	Lithium Caofeidian	Lithium Power Motor	Lithium New EV	Lithium Jilin	Lithium Guang	Pro forma adjustments					Pro forma Enlarged Group
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
											Note (a)(ii)	*Note (b)(iv)*	*Note (b)(v)*	*Note (c)*	*Note (d)*	
Operating activities																
Loss before taxation	(100,845)	(168)	(80)	(445)	(94)	(16)	(111)	(219)	(22)	(16)	(2,254)	(3,779)	–	(709)	139	(108,619)
Adjustments for:																
Amortisation of prepaid lease payments	42	–	–	–	–	–	–	–	–	–						42
Net loss of derivative financial instruments and warrants	94,019	–	–	–	–	–	–	–	–	–						94,019
Depreciation of property, plant and equipment	1,136	21	1	57	3	–	31	34	–	–					(21)	1,262
Interest income/investment income	(124)	–	(3)	(1)	–	–	(4)	–	–	–						(132)
Finance costs	3,863	5	–	–	57	–	–	–	–	–	2,254	3,779			(5)	9,953
Gain on disposal of subsidiaries	(212)	–	–	–	–	–	–	–	–	–						(212)
Gain on early redemption of convertible notes	(4,768)	–	–	–	–	–	–	–	–	–						(4,768)
Loss on held-for-trading investments	1,141	–	–	–	–	–	–	–	–	–						1,141
Operating cash flows before movements in working capital	(5,748)	(142)	(82)	(389)	(34)	(16)	(84)	(185)	(22)	(16)						(7,314)
Decrease (Increase) in inventories	622	(626)	(3)	3,393	(853)	–	(789)	(251)	(616)	–					626	1,503
(Increase) decrease in trade and other receivables	(1,549)	195	181	653	(497)	44	(149)	(143)	(1)	(3)					(195)	(1,464)
Increase in deposits and prepayments	(2,204)	–	–	–	–	–	–	–	–	–						(2,204)
Net increase in held-for-trading investments	(13,368)	–	–	–	–	–	–	–	–	–						(13,368)
(Decrease) increase in trade and other payables	(685)	75	11	(186)	346	11	819	54	38	4					(75)	412
Net cash (used in) generated from operating activities	(22,932)	(498)	107	3,471	(1,038)	39	(203)	(525)	(601)	(15)						(22,435)

	The Group	The Target Group	Lithium Zhuhai	Lithium BJ	Lithium Sales	Lithium Caofeidian	Lithium Power Motor	Lithium New EV	Lithium Jilin	Lithium Guang	Pro forma adjustments					Pro forma Enlarged Group
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
											Note (a)(ii)	Note (b)(iv)	Note (b)(v)	Note (c)	Note (d)	
Investing activities																
Interest received	124	–	3	1	–	–	–	–	–	–						128
Acquisition of subsidiaries	(38,215)	2,120	(3,955)	–	–	–	–	–	–	–			50		(2,068)	(42,068)
Capital contribution to subsidiaries	–	–	(1,673)	(3,798)	–	–	–	–	–	–					5,471	–
Disposal of subsidiaries	(1,063)	–	–	–	–	–	–	–	–	–						(1,063)
Advance to non-controlling shareholder of subsidiaries	–	(1,023)	–	–	–	–	–	–	–	–					(903)	(1,926)
Repayment from non-controlling shareholder of subsidiaries	–	–	–	–	–	–	–	–	–	–					1,688	1,688
Advance to a third party	–	–	–	–	(25)	–	–	–	–	–						(25)
Advance to related parties	–	–	–	(94)	–	(88)	(432)	(31)	(410)	–						(1,055)
Advances to former subsidiaries	–	–	–	(30)	–	–	–	–	–	–						(30)
Repayment from former ultimate holding company	–	–	–	–	–	668	–	–	–	–						668
Repayment from (advance to) former intermediate holding company	–	–	–	–	1,109	–	–	(510)	–	–						599
Repayment from (advance to) former immediate holding company	–	–	1,072	616	(1,807)	(15)	(73)	(31)	–	–					238	–
Repayment from former fellow subsidiary	–	–	247	708	–	121	–	–	–	–						1,076
Advance to fellow subsidiaries	–	–	–	–	(57)	(124)	(80)	(241)	–	–					502	–
Advance to immediate holding company	–	–	–	–	–	–	–	–	–	(152)					152	–
Advances to subsidiaries	–	–	(4,861)	(3,755)	–	–	–	–	–	–					8,616	–
Increase in amount due from a director	–	(10)	–	–	–	–	–	–	–	–						(10)
Purchases of property, plant and equipment	(739)	(107)	(23)	(1)	(3)	(117)	(5,157)	(304)	(5,218)	–					107	(11,562)
Purchase of available-for-sale investments	–	–	–	–	–	–	(59)	–	–	–						(59)
Proceed from disposal of available-for-sale investments	–	–	–	–	–	–	63	–	–	–						63
Net cash (used in) from investing activities	(39,893)	980	(9,190)	(6,353)	(783)	445	(5,738)	(1,117)	(5,628)	(152)						(53,576)

	The Group	The Target Group	Lithium Zhuhai	Lithium BJ	Lithium Sales	Lithium Caofeidian	Lithium Power Motor	Lithium New EV	Lithium Jilin	Lithium Guang	Pro forma adjustments					Pro forma Enlarged Group
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
											Note (a)(ii)	Note (b)(iv)	Note (b)(v)	Note (c)	Note (d)	
Financing activities																
Interest paid	(579)	–	–	–	(57)	–	–	–	–	–						(636)
New bank loans/other borrowing raised	9,553	–	–	–	1,275	–	–	–	–	–						10,828
Repayments of bank loans	(9,553)	–	–	–	–	–	–	–	–	–						(9,553)
Repayment of obligation under finance lease	(10)	–	–	–	–	–	–	–	–	–						(10)
Redemption of convertible notes	(16,779)	–	–	–	–	–	–	–	–	–						(16,779)
Proceeds from issue of convertible notes	64,432	–	–	–	–	–	–	–	–	–	63,600					128,032
Proceeds from exercise of warrants	4,106	–	–	–	–	–	–	–	–	–						4,106
Proceeds from issue of shares/placing of shares	–	50	–	–	–	–	–	–	–	–	190,789		(50)			190,789
Capital contribution from equity holder	–	–	6,050	–	–	–	2,342	1,464	1,521	304					(5,471)	6,210
Advance from (repayment to) a related party	–	–	159	(1,555)	–	(516)	–	–	–							(1,912)
Advance from former fellow subsidiary of subsidiaries	–	46	–	–	–	–	–	–	–	–					(46)	–
Advance from former holding company of subsidiaries	–	787	–	–	–	–	–	–	–	–					(787)	–
Advance from former immediate holding company	–	–	3,499	28	–	–	–	–	–	–						3,527
Advnace from former intermediate holding company	–	–	–	–	–	–	129	–	4,669	–						4,798
Advances from (repayment to) fellow subsidiaries	–	–	–	–	243	(9)	96	171	–	–					(501)	–
Advance from immediate holding company	–	–	–	4,406	363	2	3,384	6	456	–					(8,617)	–
Advances from subsidiaries	–	–	152	–	–	–	–	–	–	–					(152)	–
Net cash from (used in) financing activities	51,170	883	9,860	2,879	1,824	(523)	5,951	1,641	6,646	304						319,400
Net (decrease) increase in cash and cash equivalents	(11,655)	1,365	777	(3)	3	(39)	10	(1)	417	137						243,389
Cash and cash equivalents at beginning of the year/period	30,633	–	3	9	3	37	–	–	–	–					(52)	30,633
Effect of foreign exchange rate changes	(540)	–	–	(3)	(2)	2	2	2	–	–						(539)
Cash and cash equivalents at 31 December, represented by bank balances and cash	18,438	1,365	780	3	4	–	12	1	417	137						273,483

Notes to the unaudited Pro Forma Financial Information

(a) (i) The adjustments reflect, pursuant to the Acquisition Agreement, the Share Placing and CN Placing (both as defined in the Acquisition Agreement) that will take place prior to the Acquisition relating to precedent conditions that are relevant for the purpose of this pro forma financial information:

	US$
Share Placing	190,789,000
CN Placing	63,600,000
	254,389,000

As the Share Placing and the CN Placing are on "best effort" basis which involve uncountable possibilities, for simplicity, the preparation of the pro forma financial information has been prepared assuming that the maximum amounts of the Share Placing and the CN Placing as specified in the Acquisition Agreement have been achieved. The maximum estimated net proceed from the Share Placing is approximately HK$1,484,911,000 (equivalent to US$190,789,000) assuming all new shares under the GDS Placing Agreement and the Kingston Placing Agreement are placed at the Placing Price of HK$0.17 per Reorganised Share. The result of the Share Placing can be summarised as follows:

Number of Reorganised Shares to be placed	A	8,823,000,000
Placing price per Reorganised Share	B	HK$0.17
Maximum net proceed (Less: 1% Placing Agents commission)	=A x B x 99% C	HK$1,484,911,000 (approximately equivalent to US$190,789,000)
Par value of Reorganised Share	D	US$0.01
Credited as share capital	E = A x D	US$88,230,000
Credited as share premium	= C – E	US$102,559,000

The maximum estimated net proceed from the CN Placing is approximately HK$495,000,000 (equivalent to US$63,600,000). The aggregate principal amount of the Convertible Notes is HK$500,000,000, non-interest bearing and denominated in Hong Kong dollars with a conversion period of 5 years from the issue date and can be converted into ordinary shares of the Company at HK$0.17 per Reorganised Share. The Convertible Notes can be redeemed at par at the discretion of the issuer in whole or in part anytime before the maturity date and the issuer has the obligation to repay the principal amount (redeem at par) at maturity. The Convertible Notes contain three components, the liability component, conversion option and issuer's early redemption option. The conversion option gives the holder's right at any time to convert the Convertible Notes into ordinary shares of the Company. However, since the conversion option will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instrument, the conversion option is accounted for as a derivative liability. The early redemption option gives the issuer the right to redeem the note at par at any time before maturity. Both conversion option derivative and early redemption option are measured at fair value with changes in fair value recognised in profit or loss. The fair value of the liability component upon the issuance of the note was calculated at the present value of the principal amount to be repaid at maturity.

(ii) For the purpose of unaudited pro forma consolidated statements of comprehensive income and cash flows, the fair value and the estimated net proceeds of the Convertible Notes at 1 January 2010 is approximately US$63,600,000. The effective interest expense on the Convertible Notes is approximately US$2,254,000 is recognised in profit or loss for the year ended 31 December 2010. This adjustment will have continuing effect on the Group in the subsequent financial years.

Transaction costs related to the derivative portion of the Convertible Bonds are not taken into account in the pro form consolidated statements of comprehensive income and cash flows as they are not expected to be material.

For the purpose of this unaudited pro forma financial information, it is assumed that there is no change in fair value of the conversion option and issuer's early redemption during the year ended 31 December 2010. The above are hypothetical in nature and may not be indicative of the actual financial impact of, nor the net cash proceeds to be received by the Group from the Share Placing and the CN Placing, which are depending on various factors including the number of Shares and Convertible Bonds placed, and the fair value of the Convertible Bonds as at the actual date of issue, which may or may not approximate their then principal amount.

(b) The adjustments reflect the acquisition of the Target Group, which includes the following:

Recognition of the consideration of HK$900 million (equivalent to US$115,637,000) ("Consideration") of which (i) HK$370 million (equivalent to US$47,540,000) shall be paid by Fulbond Investments in cash to the Vendor ("Cash Consideration") and (ii) HK$530 million (equivalent to US$68,097,000) shall be paid by way of allotment and issue of Shares (or those corresponding shares of the Company after Capital Reorganisation becoming effective) as consideration shares ("Consideration Shares") to the Vendor at an issue price of HK$0.021 per Share ("Issue Price") and a par value of US$0.001 per Share.

The Consideration shall be paid in the following manner, subject to the fulfillments of several precedent conditions at each stage:

(1) a sum of HK$90 million (equivalent to US$11,564,000) including HK$60 million cash (equivalent to US$7,709,000) (the "1st Stage Cash") and 1,428,571,428 Consideration Shares to be issued at the Issue Price in an aggregate amount of HK$30 million (equivalent to US$3,855,000) payable at Completion Date (the "1st Stage Consideration Shares");

(2) a sum of HK$320 million (equivalent to US$41,115,000) including HK$150 million cash (equivalent to US$19,273,000) (the "2nd Stage Cash") and 8,095,238,095 Consideration Shares to be issued at the Issue Price in an aggregate amount of HK$170 million (equivalent to US$21,842,000) payable at the first full financial year end date after Completion Date (the "2nd Stage Consideration Shares");

(3) a sum of HK$260 million (equivalent to US$33,406,000) including HK$160 million cash (equivalent to US$20,558,000) (the "3rd Stage Cash") and 4,761,904,761 Consideration Shares to be issued at the Issue Price in an aggregate amount of HK$100 million (equivalent to US$12,849,000) payable at the second full financial year end date after Completion Date (the "3rd Stage Consideration Shares");

(4) a sum of HK$150 million (equivalent to US$19,273,000) by way of allotment and issue of 7,142,857,142 Consideration Shares to be issued at the Issue Price payable at the third full financial year end date after Completion Date (the "4th Stage Consideration Shares"); and

(5) a sum of HK$80 million (equivalent to US$10,279,000) by way of allotment and issue of 3,809,523,809 Consideration Shares to be issued at the Issue Price payable at the fourth full financial year end date after Completion Date (the "5th Stage Consideration Shares").

Pursuant to the terms of the Acquisition Agreement:

- the Consideration for the Acquisition is to be settled in 5 stages and the Consideration for each of the five stages is subject to certain condition precedent as set out in the Acquisition Agreement (details of which are set out in the section headed "Consideration" to this circular);

- prior to the completion of the Acquisition, the Group is entitled to change the payment method of the Consideration for each of the five stages from payment by Consideration Shares or any part thereof to payment by cash (the "Net Settlement Provision"); and

- if any of the target as set out in each stage is not achieved, the Group is entitled to certain rights including the right to demand the Vendor to repurchase the Sale Shares and the Shareholder's loan at the Consideration paid and settled in previous stage(s) together with interest (the "Put Option") which may in effect nullify the Acquisition.

These arrangements may result in numerous outcomes that have different financial impact to the Group. In preparation of the pro forma financial information, for simplicity, the Put Option and the Net Settlement Provision have been ignored as it is assumed that value of the Put Option is not material and that the Net Settlement Provision is not exercised by the Group; and it is also assumed that the relevant condition precedent at each of the five stage will be achieved and the Cash Consideration and Consideration Shares will be settled as detailed above. The Consideration is assumed to be paid at each stage according to the terms of the Acquisition Agreement as set out above.

The above are hypothetical in nature and may not be indicative of the actual value of the Put Option, actual Consideration to be settled or the actual financial impact of the Acquisition to the Group which are depending on various factors and future events as detailed above.

Assuming the Acquisition is completed on 31 December 2010, the 1st Stage Consideration Shares will be issued as at 31 December 2010. Also, the 2nd, 3rd, 4th and 5th Stage Consideration Shares that will be settled in exchanging a fixed amount of cash for fixed number of the Company's own equity instruments will be accounted for as an equity component of the Company and recognised in capital reserve.

(i) The adjustments to share capital of US$1,379,000 represent the net amount of following:

  - the aggregate par value of US$1,429,000, representing the 1,428,571,428 1st Stage Consideration Shares to be issued; and

  - the elimination of the share capital of the Target Company of US$50,000.

  The adjustments to reserves of US$63,593,000 represent the aggregate sum of following:

  - the share premium of the 1st Stage Consideration Shares of US$2,242,000, issued at the quoted price of the Shares on the Stock Exchange as at 31 December 2010 at HK$0.02 per Share (the "Closing Price", equivalent to US$0.0026 per Share);

  - the capital reserve of US$61,183,000 recognised at the date of completion at the Closing Price of US$0.0026 per Share in respect of an aggregate of 23,809,523,807 representing the 2nd, 3rd, 4th and 5th Stage Consideration Shares to be issued; and

  - the elimination of the pre-acquisition reserves of the Target Company of US$168,000.

  As the fair value of the ordinary shares of the Company at the date of completion may be substantially different from the Closing Price, the actual fair value of the consideration and in turn, the amount of goodwill may be different from that presented in this unaudited pro forma financial information.

(ii) Provisional goodwill as of the acquisition date is measured as the excess of the aggregate of the Consideration transferred (including all Cash Consideration and Share Consideration) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. Recognition of provisional goodwill of US$90,377,000 arising from the Acquisition which is estimated on the assumption that the fair value of the identified assets, liabilities and contingent liabilities of the Target Group is the same as the carrying amount of the net assets of the Target Group as at 31 December 2010.

	US$
Cash Consideration (see (b)(iii) below)	25,405,000
Shares Consideration (see (b)(i) above)	64,854,000
Total Consideration	90,259,000
Net liabilities assumed	118,000
Provisional goodwill	90,377,000

Specifically, in the absence of a formal valuation, the directors of the Company have not made any fair value adjustment on potential intangible assets of which the fair value may be significantly different from their carrying amount, if any, as at 31 December 2010. The Company is in the process of identifying and determining the fair values of the identifiable assets and liabilities of the Target Group. Accordingly, the actual goodwill may be significantly different from the provisional goodwill presented in this unaudited pro forma financial information.

The directors of the Company have assessed whether the provisional goodwill may be impaired as at 31 December 2010 on a pro forma basis, in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets", and concluded that there is no impairment in respect of the provisional goodwill of approximately US$90,589,000 as shown in the pro forma consolidated statement of financial position of the Enlarged Group as at 31 December 2010, on the basis that the value in use estimated using discounted cash flow method is higher than its carrying amount as at 31 December 2010. Upon completion of the Acquisition and in subsequent reporting periods, valuation of goodwill and intangible assets will be performed for the purpose of determining the fair value and recoverable amount of the goodwill and intangible assets. The valuation method to be applied will be consistent with the Valuation as set out in Appendix V-B and key assumptions will be similar to those disclosed in the Valuation set out in Appendix V-B and adjusted to reflect changes in market conditions and circumstances. The calculation of the value in use was based on a discounted cash flow projections on financial forecast budgets prepared by the directors of the Company covering a 5 year period and a discount rate of 24.5%. The discount rate used represents the cost of equity of companies engaging in operations similar to the Target Group's business and cost of debt based on data and factors to the economy and industry and determined based on the following major inputs:

Risk free rate	4.03%
Re-levered Beta	1.0491
Equity Risk Premium	11.666%
Small company premium	3.74%
Company specific risk	7.5%

The financial forecast budgets prepared by the directors of the Company have been based on the following major assumptions:

- the designed output capacities of lithium-ion battery and electric bus and revenue generated are in accordance with the business plans and projections;
- the Target Group shall have uninterrupted rights to operate its existing business during the unexpired term of its authorised enterprise operating period;
- the availability of finance will not be a constraint on the forecast growth of the Target Group;

- the production facilities and capital expenditure utilised and expended by the Target Group in carrying out its existing businesses will be met; and

- there will be no material changes in the Company's business strategy and its production structure.

(iii) Pursuant to the Acquisition Agreement, the 1st Stage Cash, 2nd Stage Cash and 3rd Stage Cash consideration in aggregate amount of HK$370 million (equivalent to US$47,540,000) will be advanced by the Vendor to the Target Company by tranches for the purpose of acquisition of plant and machinery, construction of factory premises, purchase of raw materials and general working capital of the Target Group whereupon such advances shall constitute the Vendor's loan. The Vendor's loan is non-interest bearing and shall be repayable upon settlement of the final consideration (in the fifth financial year after Completion Date). For the purpose of unaudited pro forma consolidated statement of financial position, the Vendor's loan was discounted at an effective interest rate of 16.96% resulting in a fair value of US$25,405,000 as at 31 December 2010. The discount rate used was determined by the directors of the Company based on credit analysis of CCC rating of the Company and market rates with similar credit ratio representing the cost of debt to the Company at 31 December 2010.

(iv) For the purpose of unaudited pro forma consolidated statement of comprehensive income, the Vendor's loan was discounted at an effective interest rate of 18.84% resulting in a fair value of US$20,056,000 as 1 January 2010 and the effective interest expense of US$3,779,000 was recognised in profit or loss during the year ended 31 December 2010. The discount rate used was determined by the directors of the Company based on credit analysis of CCC rating of the Company and market rates with similar credit ratio representing the cost of debt to the Company at 1 January 2010. This adjustment will have continuing effect on the Group in the subsequent financial years.

(v) The amount represents net cash inflow arising from the Acquisition as a result of the bank and cash balances of US$50,000 of the Target Group as if the shares of the Target Company had been issued as at 1 January 2010. This adjustment will not have continuing effect on the Group in the subsequent financial years.

(c) The adjustment reflects the payment of professional fee attributable to the Acquisition amounting to HK$5,520,000 (equivalent to US$709,000). This adjustment will not have continuing effect on the Group in the subsequent financial years.

(d) The Target Company was incorporated on 25 June 2010. On 21 December 2010, a subsidiary of the Target Company acquired the subsidiaries now comprising the Target Group (the Target Group excluding the Target Company is hereinafter collectively referred to as the "Lithium Zhuhai Group") and the Target Company become the holding company of the Lithium Zhuhai Group since that date. The adjustment reflects the elimination of profit or loss transactions and cash flows of the Lithium Zhuhai Group for the period from 21 December 2010 to 31 December 2010 extracted from the management accounts of the entities comprising the Lithium Zhuhai Group as they have already being reflected in the consolidated statement of comprehensive income and consolidated statement of cash flows of the Target Group as set out in Appendix II-A to this circular. For the purpose of unaudited pro forma consolidated statement of cash flows, it is assumed that the acquisition of Lithium Zhuhai Group by a subsidiary of the Target Company was completed on 1 January 2010. This adjustment will not have continuing effect on the Group in the subsequent financial years.

B. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF FULBOND HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Fulbond Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") and Lithium Energy Group Ltd. (the "Target Company") and its subsidiaries (together with the Group hereinafter referred to as the "Enlarged Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the entire issued share capital of and the assignment of shareholder's loan in the Target Company might have affected the financial information presented, for inclusion in Appendix III of the circular dated 25 May 2011 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out in section A of Appendix III of the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial

Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Enlarged Group as at 31 December 2010 or any future date; or

- the results and cash flows of the Enlarged Group for the year ended 31 December 2010 or any future period.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

25 May 2011

1. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the operating results and business review extracted from the annual reports of the Company for the three years ended 31 December 2010.

Review of the year ended 31 December 2010 of the Group

Revenue

For the year ended 31 December 2010, the Group's revenue from continuing and discontinued operations decreased to approximately US$15,387,000 from approximately US$53,661,000 in last year, representing a decrease of approximately 71.33%.

Segmental Results

In the current year, the operations of investment in securities and property development were introduced to the Group but the operation of food processing and distribution was discontinued.

The turnover of the timber business for the year decreased to approximately US$13,106,000 from approximately US$15,605,000 in last year, representing a drop of approximately 16.01%. The segment result of the timber business had improved to a profit of approximately US$651,000 from a loss of approximately US$948,000 in 2009.

There was no revenue generated from the operation of property development for the year and its segmental result suffered a loss of approximately US$510,000.

There was no revenue generated from the operation of investment in securities for the year and its segmental result suffered a loss of approximately US$1,145,000.

The turnover of food processing and distribution business for the year decreased to approximately US$2,281,000 from approximately US$38,056,000 in 2009, representing a decrease of approximately 94.01%. Such a decrease was due to only 19 days sales figures before completion of disposal of Prowealth Holding Group Ltd ("Prowealth") on 19 January 2010. The segment result of the food processing and distribution business had suffered a loss of approximately US$101,000 from loss of approximately US$130,000 in 2009, as a result of deteriorating performance in the food processing and distribution business in 2010.

Cost of Sales

The Group's cost of sales from continuing and discontinued operations for the year dropped to approximately US$14,557,000 from approximately US$49,522,000 in last year, representing a decline of approximately 70.60%.

Gross Profit

The Group's gross profit from continuing and discontinued operations for the year decreased to approximately US$830,000 from approximately US$4,139,000 in last year, representing a drop of approximately 79.95%. Accordingly, the gross profit margin dropped to approximately 5.39% for the year from approximately 7.71% in 2009.

Other Income

The Group's other income from continuing and discontinued operations for the year decreased to approximately US$1,640,000 from approximately US$2,580,000 of last year, representing a decrease of approximately 36.43%.

Other Gains and Losses

Other losses of the Group from continuing and discontinued operations amounted to approximately US$90,174,000 for the year while the Group recorded a loss of approximately US$42,377,000 in last year. The significant loss was mainly due to (i) the net losses in fair values on derivative financial instruments and warrants of approximately US$94,019,000 (2009: approximately US$47,035,000) which comprised loss on initial recognition of convertible notes of approximately US$83,443,000 (2009: approximately US$16,086,000), net losses in fair value of embedded conversion option and early redemption option of convertible notes of approximately US$17,868,000 (2009: approximately US$16,770,000) and net gain on fair value of warrants of approximately US$7,292,000 (2009: approximately US$14,179,000); (ii) net gain on early redemption of convertible notes of approximately US$4,768,000 (2009: approximately US$5,083,000) and (iii) the net loss on held-for-trading investments of approximately US$1,141,000 (2009: Nil).

Selling and Distribution Costs

The Group's selling and distribution costs from continuing and discontinued operations for the year decreased to approximately US$1,122,000 from approximately US$2,389,000 in last year, representing a decrease of approximately 53.03%.

Administrative Expenses

The Group's administrative expenses from continuing and discontinued operations for the year slightly increased to approximately US$8,156,000 from approximately US$7,686,000 in last year, representing an increase of approximately 6.12%.

Impairment Loss Recognised in Respect of Intangible Assets

During the year ended 31 December 2009, impairment losses of approximately US$2,009,000 had been recognised in respect of customer relationship and license which were attributable to the food processing and distribution segment. However, there was no such impairment loss recognised in respect of intangible assets in the current year.

Finance Costs

The Group's finance cost from continuing and discontinued operations for the year dropped to approximately US$3,863,000 from approximately US$7,604,000 in last year, representing an improvement of approximately 49.20%. The improvement was mainly resulted from redemption of the Sun Boom Convertible Note and the Wise Virtue Convertible Note.

Loss for the year and Loss Per Share

The Group's loss for the year attributable to owners of the Company increased to approximately US$100,630,000 from approximately US$53,877,000 in last year, representing an increase of approximately 86.78%. Basic loss per share from continuing and discontinued operations of the Group was decreased from US0.41 cent for the year ended 31 December 2009 to US0.29 cent for the year ended 31 December 2010. Meanwhile diluted loss per share was US0.31 cent for the year under review while that for the last year was US0.41 cent.

Business Review

The Company reviewed the existing businesses of the Group and considered to consolidate certain of its operations. Restructuring of certain of its existing businesses, disposal of under-performing operations of the Group as well as exploration of other business and potential investment opportunities are under consideration.

Timber Business

During the year, timber business resumed to be the core business of the Group. The turnover of the timber business decreased to approximately US$13,106,000 from approximately US$15,605,000 in last year, representing a drop of approximately 16.01%. The segment result of the timber business had recorded a profit of approximately US$651,000 as compared to a loss of approximately US$948,000 in 2009.

Food Processing and Distribution Business

In December 2009, the Company entered into an agreement with a party connected to the Group, to dispose all of its entire interests in Prowealth and its subsidiaries (the "Disposal"), which carried out all of the Group's food processing and distribution business. The Disposal was subsequently approved by its shareholders on 18 January 2010 and completed on 19 January 2010. It resulted in a gain on the disposal of approximately US$212,000.

A loss of approximately US$101,000 together with the shrunken turnover of approximately US$2,281,000 represented the segment result for the 19 days period before the completion of the disposal.

Property Development

During the year under review, the Group acquired the entire equity interest and shareholder's loan in Allywing for a consideration of RMB284,848,920 (approximately US$41,916,000). Allywing owns 60% equity interest in Xi'an Yuansheng (the "Acquisition"). The Acquisition of Allywing symbolizes the Group's diversification of business into the business of property development.

According to the latest development plan, the Group will develop the Land as an area consists of luxury residential buildings and commercial buildings by several phases. For the past few months, the Group commenced certain groundworks on this new business of the Group.

Since the Group did not recorded any revenue from the property development business, a loss of approximately US$510,000 was resulted for the period between the date of acquisition and 31 December 2010.

Liquidity and Capital Resources

As at 31 December 2010, the Group's cash and bank balances amounted to approximately US$18,438,000 (as at 31 December 2009: approximately US$30,633,000), representing a decline of approximately US$12,195,000. As at 31 December 2010, the bank and other borrowing amounted to approximately US$10,280,000 (as at 31 December 2009: approximately US$23,083,000).

During the year, net cash used in operating activities was approximately US$22,932,000. The net cash used in investing activities was approximately US$39,893,000, which was mainly due to settlement of purchase consideration for the acquisition of Xi'an Yuansheng amounted to approximately US$38,215,000. The net cash from financing activities was approximately US$51,170,000, which was mainly due to net proceeds from the issue of convertible notes of approximately US$64,432,000. As a result, the net decrease in cash and cash equivalents during the year was approximately US$11,626,000.

Exercise of Warrants

During the year, registered holders of 1,229,538,456 warrants exercised their rights to subscribe for 1,229,538,456 ordinary shares in the Company at HK$0.026 per share. The fair value gain of approximately US$881,000 was recognized in respect of fair value changes of the warrant from 1 January 2010 to the dates immediately prior to each exercise dates. A gain of approximately US$6,411,000 was recorded upon the expiry of the 1,980,923,092 warrants on 28 July 2010.

Issue of Fulbond Convertible Notes

On 6 August 2009, the Company announced that a placing agreement (the "Fulbond CN Placing Agreement") was entered between the Company and a placing agent (the "Placing Agent"), whereby the Placing Agent conditionally agreed to place, on a best efforts basis, zero coupon convertible notes in a maximum aggregate principal amount of HK$800,000,000 (equivalent to approximately US$103,226,000) (the "Fulbond Convertible Notes") which are convertible into ordinary shares of the Company at a conversion price of HK$0.01 per share. All the Fulbond Convertible Notes will mature on 28 December 2012 and can only be redeemed at par at the discretion of the issuer in whole or in part anytime before the maturity date.

The resolution approving the placing agreement was passed at the special general meeting of the Company held on 16 October 2009. The placing of the First Tranche Convertible Notes in the aggregate principal amount of HK$450,000,000 took place in 2 tranches on 29 December 2009 and 14 January 2010. Total fair value of the remaining portion of the First Tranche Convertible Notes at 14 January 2010 was approximately US$92,626,000, representing a loss on initial recognition of US$60,395,000 recognised in profit or loss. During the year ended 31 December 2010, an aggregate fair value gain of approximately US$18,040,000 in respect of the outstanding First Tranche Fulbond Convertible Notes was recognised in the profit or loss.

The resolution approving the placing of the Second Tranche Convertible Notes was passed at the special general meeting of the Company held on 20 July 2010. On 2 August 2010, the Listing Committee of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), upon application by the Company, granted on a conditional basis the listing of and permission to deal in the Conversion Shares (as defined in Circular dated 28 June 2010) which may fall to be issued on exercise of the conversion rights attaching to the Second Tranche Convertible Notes in an aggregate principal amount of HK$250,000,000 (the "HK$250 million CN"). The placing of the HK$250 million CN was completed on 10 August 2010. The total fair value of the note at 10 August 2010 is approximately US$55,249,000, representing a loss on initial recognition of approximately US$23,048,000 recognised in profit or loss.

During the year ended 31 December 2010, an aggregate far value loss of approximately US$7,663,000 in respect of the outstanding Second Tranche Fulbond Convertible Notes was recognised in the profit or loss.

In view of its strong liquidity and financial position, we will have sufficient resources to fund the daily operations and capital expenditure commitments and potential investment.

Redemption of Convertible Notes

On 10 December 2009, Sun Boom Limited and Wise Virtue Holdings Limited transferred the April Convertible Note, May SPA Convertible Note, Sun Boom Convertible Note and Wise Virtue Convertible Note to a private investment institution independent of the Company.

On 14 January 2010, the conversion price of Sun Boom Convertible Note and Wise Virtue Convertible Note was adjusted from HK$0.047 to HK$0.044 per share as a result of the completion of the placing of the remaining First Tranche Fulbond Convertible Notes. As a result of the adjustment of conversion price, a net gain of approximately US$650,000 was recognised in the profit or loss in the year.

On 4 March 2010, the holder of Sun Boom Convertible Note and Wise Virtue Convertible Note exercised their options to require the Company to redeem the remaining of Sun Boom Convertible Note and Wise Virtue Convertible Note at the principle amount of approximately US$6,440,000 and approximately US$10,339,000, respectively. During the period up to the date of redemption, a fair value gain of approximately approximately US$4,443,000 was recognised in the profit and loss account. An aggregate gain on early redemption of these convertible notes of approximately US$4,768,000 was recognised in the profit or loss.

Conversion of Convertible Notes

During the year, the holders of the First Tranche Fulbond Convertible Notes exercised its option to convert the convertible note in the aggregate principle amount of HK$270,000,000 to ordinary shares of the Company. The aggregate loss on fair value change of Fulbond Convertible Notes being converted during the year of approximately US$32,108,000 was recognised in profit or loss.

During the year, the holders of the Second Tranche Fulbond Convertible Notes exercised its option to convert the convertible note in the aggregate principle amount of HK$34,000,000 to ordinary shares of the Company. The aggregate loss on fair value change of Fulbond Convertible Notes being converted during the year of approximately US$1,230,000 was recognised in profit or loss.

Material Disposal of Subsidiaries

The Disposal was approved by the shareholders of the Company and completed on 19 January 2010. Upon completion of the Disposal, the Prowealth has ceased to be subsidiaries of the Company. Part of the consideration in the sum of HK$122,000,000 was received in December 2009, the remaining balance of the consideration in the sum of HK$43,000,000 shall be receivable on or before 20 July 2011.

Material Acquisition and Connected Transaction

Property Development Project in Xi'an City, PRC

The Acquisition was completed on 13 August 2010. Following the completion of the Acquisition, Allywing has become a wholly-owned subsidiary of the Company and Xi'an Yuansheng has become a non-wholly owned subsidiary of the Company. Referring to the announcements dated on 13 August 2010, the payment of the consideration amounting to RMB284,848,920 was arranged as (i) an amount of RMB260,848,920 was paid in cash to Mr. Zhang Xi on 13 August 2010; (ii) the remaining balance of RMB24,000,000 shall be retained and applied to satisfy the Second Stage Capital Increase (as defined in the Circular dated 28 June 2010) after completion of the Acquisition.

With reference to the announcement dated 29 November 2010 and the circular dated 31 December 2010, Allywing entered into a management agreement with Harvest Day Limited ("Harvest Day"), a company of which 60% issued share capital is owned by sister of Mr. Zhang Xi, the chairman and executive Director of the Company. Pursuant to the agreement, Harvest Day would provide management and consultancy services to Allywing in connection with the property development project in Xi'an city, PRC. Allywing would pay to Harvest Day an inclusive management fee of HK$50,000,000 by 3 installments.

The resolution approving the management agreement and the annual cap of management fee payable to Harvest Day was passed at the special general meeting of the Company held 6 January 2011. The first installment of HK$23,000,000 was paid on 7 January 2011 according to terms and conditions of the management agreement.

Acquisition of Lithium Energy and Electric Vehicle Businesses

After the year-end date, the Group entered into an acquisition agreement, pursuant to which the Group has conditionally agreed to acquire the entire issued shares and shareholders' loan of Lithium Energy Group Limited ("LEG") at the consideration of HK$900,000,000. HK$370,000,000 of the consideration shall be settled in cash while the remaining HK$530,000,000 shall be settled by way of allotment and issue of shares.

LEG holds 100% of the issued share capital of China Lithium Electric Vehicle Group (Hong Kong) Limited ("Lithium HK"). Upon completion of reorganization, Lithium HK will hold 100% equity interests in a group of PRC companies that engaged in the research and manufacturing of Lithium-ion battery, production of power motor and controller, and research and manufacturing of vehicle electronics and controller system.

Material Contingent Liabilities

The Group is not aware of any material contingent liabilities as at 31 December 2010.

Capital Structure

As at 31 December 2010, the Group's gearing ratio calculated on the basis of warrants, convertible notes, bank and other borrowings of approximately US$112,044,000 (as at 31 December 2009: approximately US$106,613,000) and total assets of approximately US$117,496,000 (as at 31 December 2009: approximately US$80,190,000), was approximately 48.81% (as at 31 December 2009: approximately 57.07%).

Pledge of Assets

At the end of the reporting period, the Group had pledged certain property, plant and equipment and land use rights with aggregate carrying amounts of approximately US$1,201,000 (2009: approximately US$10,588,000) respectively to various banks and other financial institutions for securing the loans and general credit facilities granted to the Group.

Foreign Exchange Exposure

There have been no significant changes in the Group's policy in terms of exchange rate exposure. The Group operates mainly in Hong Kong and Mainland China. Most of the transactions are denominated in Hong Kong dollars ("HKD"), Renminbi ("RMB") and United States dollars ("US$"). The Group is exposed to foreign currency risk primarily through sales that are denominated in United States dollars. The exchange rate of US$ against HKD is relatively stable and the related foreign currency risk is considered insignificant. The Group currently does not have a foreign currency hedging policy. However, the management continuously monitors the Group's foreign exchange risk exposure and will consider to hedge significant currency risk exposure should the need arise.

Human Resources

The Group highly values its human resources and aims to attract, retain and develop high caliber individual committed to attaining our objectives. As at 31 December 2010, the Group had approximately 510 employees in HK and PRC. Employees of the Group are remunerated according to their qualifications, experience, job nature, performance and with reference to market conditions. Apart from discretionary performance bonus, the Group also provides other benefits such as medical insurance. The Company also operates a share option scheme for granting of options to eligible employees and Directors.

Review of the year ended 31 December 2009 of the Group

Revenue

For the year ended 31 December 2009, the Group's revenue from continuing and discontinued operations increased to approximately US$53,661,000 from approximately US$36,308,000 last year, representing an increase of approximately 47.79%.

Segmental Results

The turnover of the timber business for the year decreased to approximately US$15,605,000 from US$21,883,000 last year, representing a drop of approximately 28.69%. The segment result of the timber business had suffered a loss of US$948,000 from loss of US$8,062,000 in 2008, representing an improvement of approximately 88.24%.

The turnover of food processing and distribution business for the year increased to approximately US$38,056,000 from US$14,425,000 since acquisition in 2008, representing an increase of approximately 163.82%. The segment result of the food processing and distribution business had suffered a loss of approximately US$130,000 from profit of approximately US$1,904,000 in 2008, as a result of deteriorating performance in the food processing and distribution business in 2009.

Cost of Sales

The Group's cost of sales from continuing and discontinued operations for the year increased to approximately US$49,522,000 from approximately US$29,232,000 last year, representing an increase of approximately 69.41%.

Gross Profit

The Group's gross profit from continuing and discontinued operations for the year decreased to approximately US$4,139,000 from approximately US$7,076,000 last year, representing a drop of approximately 41.51%. Accordingly, the gross profit margin dropped to approximately 7.71% for the year from approximately 19.49% in 2008.

Other Income

The Group's other income from continuing and discontinued operations for the year increased to approximately US$2,580,000 from approximately US$1,757,000 of last year, representing an increase of approximately 46.84%. The increase was primarily due to the government grants of approximately US$971,000 which have been received in 2009 for expenditures incurred in relation to energy saving and waste reduction and other subsidies granted for the Group's food processing and distribution business.

Other Gains and Losses

Other losses of the Group amounted to approximately US$42,026,000 for the year while the Group recorded a gain of approximately US$3,094,000 last year. The significant loss was mainly due to the net losses in fair values of derivative financial instruments and warrants of approximately US$47,035,000 which comprised loss on initial recognition of convertible notes of approximately US$16,086,000 (2008: gain on initial recognition of approximately US$182,000), net losses in fair value of embedded conversion option and early redemption option of convertible notes of approximately US$16,770,000 (2008: gain in fair value of approximately US$1,906,000) and net losses on fair value of warrants of approximately US$14,179,000 (2008: gain on fair value of approximately US$177,000).

Selling and Distribution Costs

The Group's selling and distribution costs from continuing and discontinued operations for the year slightly increased to approximately US$2,389,000 from approximately US$2,230,000 last year, representing an increase of approximately 7.13%.

Administrative Expenses

The Group's administrative expenses from continuing and discontinued operations for the year increased to approximately US$7,686,000 from approximately US$5,341,000 last year, representing an increase of approximately 43.91%.

Impairment Loss Recognized in Respect of Intangible Assets

During the year ended 31 December 2009, impairment losses of approximately US$1,956,000 and approximately US$53,000, have been recognised in respect of customer relationship and license, respectively, which are attributable to the food processing and distribution segment.

Finance Costs

The Group's finance cost from continuing and discontinued operations for the year raised to approximately US$7,604,000 from approximately US$3,425,000 last year, representing an increase of approximately 122.01%. The significant increase was mainly due to the increase of interest expenses on the convertible notes.

Loss for the Year and Loss Per Share

The Group's loss for the year attributable to owners of the Company increased to approximately US$53,877,000 from approximately US$29,174,000 last year, representing an increase of approximately 84.67%. Basic loss per share from continuing and discontinued operations of the Group was significantly increased from approximately US0.29 cent for the year ended 31 December 2008 to approximately US0.41 cent for the year ended 31 December 2009. Meanwhile diluted loss per share was approximated US0.41 cent for the year ended 31 December 2009 and diluted loss per share was US0.29 cent for the last year. The computation of diluted loss per share for the years ended 31 December 2009 and 31 December 2008 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares during both years. It does not assume the exercise of the Company's outstanding warrants and conversion of all convertible notes for the year ended 31 December 2009 since their exercise and conversion would result in a decrease in the loss per share. It does not assume the exercise of the Company's outstanding warrants and conversion of certain convertible notes for year ended 31 December 2008 since their exercise and conversion would result in a decrease in the loss per share.

Liquidity and Capital Resources

As at 31 December 2009, the Group's cash and bank balances amounted to approximately US$30,633,000 (as at 31 December 2008: approximately US$8,882,000), representing an increase of approximately US$21,751,000. As at 31 December 2009, the bank and other borrowing amounted to approximately US$23,083,000 (as at 31 December 2008: approximately US$22,498,000).

During the year, net cash from operating activities was approximately US$2,003,000. The net cash from investing activities was approximately US$14,160,000, which was mainly due to deposits received from the proposed disposal of subsidiaries amounted to approximately US$15,742,000. The net cash from financing activities was approximately US$5,677,000, which was mainly due to proceed from exercise of warrants amounted to US$3,552,000 and net proceeds from the issue of convertible notes of approximately US$25,290,000. As a result, the net increase in cash and cash equivalents during the year was US$21,840,000.

Exercise of Warrants

On 6 August 2009, the subscription price under the terms of the warrants was adjusted downwards from HK$0.074 to HK$0.026 as a result of the proposed placing of the Fulbond Convertible Notes and the total number of warrants was adjusted to 4,269,230,769. Subsequent to the price adjustments, registered holders of 1,058,769,221 warrants exercised their rights to subscribe for 1,058,769,221 ordinary shares in the Company at HK$0.026 per share. The aggregate fair value of warrants exercised at the dates immediately before the exercise was approximately US$3,767,000.

Redemption of Convertible Notes

On 10 December 2009, Sun Boom Limited ("Sun Boom") and Wise Virtue Holdings Limited ("Wise Virtue") transferred (i) the convertible note in principal amount of US$3,700,000 issued by the Company on 9 April 2008 ("April Convertible Note"), (ii) the convertible note in principal amount of HK$121,000,000 issued by the Company on 30 May 2008 ("May SPA Convertible Note"), (iii) the convertible note in principal amount of HK$80,646,500 issued by the Company on 17 October 2008 ("Sun Boom Convertible Note") and (iv) the convertible note in principal amount of HK$80,265,260 issued by the Company on 17 October 2008 ("Wise Virtue Convertible Note") to a private investment institution independent of the Group.

On 29 December 2009, the conversion price of the April Convertible Note, May SPA Convertible Note, Sun Boom Convertible Note and Wise Virtue Convertible Note was adjusted from HK$0.086 to HK$0.047 per share. Subsequent to the adjustment, on 30 December 2009, the holders of the April Convertible Note, May SPA Convertible Note and Sun Boom Convertible Note have exercised their options to require the Company to redeem the convertible note in principal amount of US$3,700,000, approximately US$15,613,000 and approximately US$3,954,000, respectively. An aggregate gain on early redemption of these convertible notes of approximately US$5,083,000 was recognised in profit or loss.

Issue of Fulbond Convertible Notes

On 6 August 2009, the Company announced that a Placing Agreement was entered into between the Company and the Placing Agent, whereby the Placing Agent has conditionally agreed to place, on a best efforts basis, zero coupon convertible notes in a maximum aggregate principal amount of HK$800,000,000 which are convertible into ordinary shares of the Company at a conversion price of HK$0.01 per share. Pursuant to the Placing Agreement, the Company and the Placing Agent agreed that the placing can be completed partially by a maximum of 8 tranches provided that the aggregate principal amount of the convertible notes to be issued by the Company for each partial completion shall not be less than HK$100,000,000 and in multiple of HK$5,000,000.

On 28 September 2009, the Company issued a circular in connection with the placing, whose proceeds will provide additional funding to the Group and redemption of existing convertible notes issued by the Company. The placing shall proceed in two tranches namely, the First Tranche Convertible Notes and the Second Tranche Convertible Notes. Both the First Tranche Convertible Notes (up to the aggregate principal amount of HK$450,000,000) and the Second Tranche Convertible Notes (up to the aggregate principal amount of HK$350,000,000) fall under the placing subject to and upon the terms and conditions under the Placing Agreement. On 22 December 2009, the Stock Exchange has, upon application by the Company, granted, on a conditional basis, the listing of and permission to deal in a maximum of 20,000,000,000 conversion shares in an aggregate sum of HK$200,000,000 at the initial conversion price of HK$0.01 per share.

The partial completion of the placing of the First Tranche Convertible Notes in the aggregate principal amount of HK$200,000,000 took place on 29 December 2009. The placing of the remaining First Tranche Convertible Notes in an aggregate principal amount of HK$250,000,000 was completed on 14 January 2010.

In view of its strong liquidity and financial position, we will have sufficient resources to fund the daily operations and capital expenditure commitments and potential investment.

Material Disposal of Subsidiaries

On 4 December 2009, the Group entered into an agreement with Sincerity Shine Holdings Limited ("Sincerity Shine"), being a party connected to the Group, to dispose all of its entire interests in Prowealth Holdings Group Limited ("Prowealth") and its subsidiaries, which carried out all of the Group's food processing and distribution operations. Sincerity Shine is beneficially owned as to 50% by Ms. Huang Yu Wei, being the spouse of Mr. Li Geng ("Mr. Li"). Mr. Li was a substantial shareholder of the Company before Mr. Li disposed of his entire interest in the Company on 4 December 2009. Mr. Li is also a director of Prowealth and has beneficial interest in Wise Virtue. Wise Virtue was one of the vendors of Prowealth when Prowealth was acquired by the Group in October 2008. The disposal was subsequently approved by the shareholders of the Company on 18 January 2010 and completed on 19 January 2010.

The net proceeds from the disposal is expected to be less than the net carrying amount of the relevant assets and liabilities. Accordingly an impairment loss of intangible assets of approximately US$2,009,000 has been charged to profit or loss in the consolidated statement of comprehensive income.

Material Contingent Liabilities

The Group was not aware of any material contingent liabilities as at 31 December 2009.

Capital Structure

As at 31 December 2009, the Group's gearing ratio calculated on the basis of warrants, convertible notes, bank and other borrowings of approximately US$106,613,000 (as at 31 December 2008: approximately US$61,567,000) and total assets of approximately US$80,190,000 (as at 31 December 2008: approximately US$66,063,000), was approximately 57.1% (as at 31 December 2008: approximately 48.2%).

Subsequent to the price adjustments from HK$0.074 to HK$0.026 on 6 August 2009, registered holders of 1,058,769,221 warrants in November and December exercised their rights to subscribe for 1,058,769,221 ordinary shares in the Company at HK$0.026 per share. As at 31 December 2009, the number of the Company's issued shares was enlarged to 14,013,388,976 shares.

Pledge of Assets

At the end of the reporting period, the Group had pledged certain property, plant and equipment and land use rights with aggregate carrying amounts of approximately US$10,588,000 (2008: approximately US$11,284,000) respectively to various banks and other financial institutions for securing the loans and general credit facilities granted to the Group.

Significant Investments

As at 31 December 2009, there was no significant principal investment of the Group.

Foreign Exchange Exposure

The Group's assets, borrowings and major transactions are primarily denominated in Hong Kong dollars, RMB or US dollars. It mainly settles business expenses in the PRC with RMB and income in RMB and US dollars. The Group does not hedged against foreign exchange risk associated with the US dollars, as the management believes that the HK dollars will remain pegged to the US dollars in the foreseeable future. It either has not used any financial instruments to hedge against bank borrowings in RMB. The management will from time to time manage and monitor closely to ensure measures are taken against any adverse impacts on the exchange risk associated with the appreciating RMB.

Human Resources

The Group highly values its human resources and aims to attract, retain and develop high caliber individual committed to attaining our objectives. As at 31 December 2009, the Group had approximately 2,200 employees in HK and PRC. Employees of the Group are remunerated according to their qualifications, experience, job nature, performance and with reference to market conditions. Apart from discretionary performance bonus, the Group also provides other benefits such as medical insurance. The Company also operates a share option scheme for granting of options to eligible employees and Directors.

Future Plans and Prospects

Looking to 2010, economic and financial market indicators appeared to be supporting the general view that the worst of this economic crisis may be over and recovery is now on the way. In longer term, the Group has open-minded corporate culture, rich experience in business operations team to seize opportunities, facing various challenges, and achieve growth by leaps and bounds. Looking ahead, the Group will proactively foster its corporate development strategies, and create new value for shareholders. When the right time comes, further acquisitions and ongoing effective expansion will deliver excellent growth opportunity for enhancing shareholders' value in the foreseeable future.

Review of the Year ended 31 December 2008 of the Group

Financial and Business Review

The revenue of the Group for the year was approximately US$36.3 million, increased around 51.1% as compared with the year 2007. Such increase was mainly contributed from the food processing and distribution business since the acquisition of Prowealth in October 2008 and this business operation has become our leading source of revenue.

The loss attributable to the equity holders of the Company for the year amounted to US$29.2 million, as compared to a loss of US$7.5 million in 2007. The loss per share for the year amounted to US0.29 cent (2007: loss per share at US0.08 cent). The loss for the year was mainly attributable to an impairment loss recognized in respect of property, plant and equipment and prepaid lease payments of approximately US$10.6 million and an impairment loss in respect of goodwill of approximately US$21.3 million related to the acquisition of the Prowealth. The impairment losses are set out as follows:

(a) During the year, the Directors conducted a review of the Group's property, plant and equipment and prepaid lease payments and determined that a number of those assets were impaired. Impairment losses of US$9,765,000 and US$854,000 respectively were recognised based on the recoverable amounts of property, plant and equipment and prepaid lease payments which were determined on the basis of their value in use. The carrying amounts of the property, plant and equipment and prepaid lease payments were reduced to the respective recoverable amounts.

(b) The Directors have reviewed goodwill on acquisition of Prowealth with indefinite useful lives for impairment loss. Goodwill amounting to US$21,340,000 has been allocated to cash generating units ("CGU") of food processing and distribution segment. The recoverable amount of CGU has been determined based on a value in use calculation which uses cash flow projections based on financial budgets covering a 5-year period, and discount rate of 20%. Cash flows beyond 5-year period are extrapolated using a steady 3% growth rate. This growth rate is based on the industry growth forecasts and does not exceed the long-term growth rate for the relevant industry. In addition, other assumptions have been properly considered in the value in use calculation. To the extent that the carrying amount of any of the units exceed the recoverable amount of the unit, impairment loss has been allocated first to reduce the carrying amount of the goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. As at 31 December 2008, the Group has recognised impairment loss of US$21,340,000 in relation to goodwill arising on the acquisition of Prowealth.

Liquidity and Financial Resources

As at 31 December 2008, the Group's cash and cash equivalents amounted to US$8,882,000 (as at 31 December 2007: US$6,888,000), representing an increase of US$1,994,000 or 29% as compared to the same corresponding period in 2007. During the year, net cash outflow from operating activities was US$460,000. The net cash inflow from financing activities was US$924,000, which was mainly due to proceed from the issue of convertible note during the year.

As at 31 December 2008, the Group's bank and other borrowings amounted to US$22,498,000 (as at 31 December 2007: US$10,844,000). The Group's bank and other borrowings from banks and other financial institutions carry interests at fixed rates ranging from 6.66% to 7.47% per annum (2007: 5.58% to 7.29% per annum). According to the corporate restructuring of the Company and its subsidiaries, the creditors of the Group received three-year loan notes from the Company with an aggregate face value of US$4,400,000 which carry fixed interest at a rate of 7% per annum. The three-year loan notes are repayable in six equal semi-annual installments. The repayment of the remaining outstanding installment of the loan notes amounted to US$455,000 has been extended to March 2010. Other borrowings represent interest-free borrowings of US$305,000 in 2007. Individual operating entities within the Group are responsible for their own cash management, including raising of loans to cover expected cash demands, subject to approval by the Board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its short and long term liquidity requirements. The Group had net current liabilities of US$27,928,000 and net liabilities of US$11,679,000 as at 31 December 2008. The Directors have obtained financial support from the single largest shareholder of the Company to assist the Group to meet its financial obligations as they fall due in the foreseeable future. In addition, provided that the Group can continue to successfully refinance its bank borrowings, the Directors consider that the Group's liquidity risk is significantly reduced.

Finance Costs

The increase in finance costs of approximately HK$2.5 million, from HK$0.9 million in year 2007 to HK$3.4 million in Year 2008, was mainly attributable to the effective interest expenses on convertible notes issued during the year.

Capital Structure

The capital structure of the Group consisted of debt, which included the borrowings, bank balances and cash and equity attributable to equity holders of the Company, comprising issued share capital and reserves. The Directors reviewed the capital structure regularly and considered the cost of capital and the risks associated with each class of capital. The Directors would balance its overall capital structure through the issue of new shares as well as issue of new debt or the repurchase of existing debt.

During the year ended 31 December 2008, the Company issued 3,756,840,000 shares to Wise Virtue as consideration shares for the acquisition of Prowealth. As at 31 December 2008, the number of the Company's issued shares was enlarged to 12,954,619,755 shares.

As at 31 December 2008, the Group's gearing ratio calculated on the basis of warrants, convertible notes, bank and other borrowings of approximately US$61,567,000 (as at 31 December 2007: approximately US$10,844,000) and total assets of approximately US$66,063,000 (as at 31 December 2007: approximately US$31,336,000), was approximately 48.2% (as at 31 December 2007: approximately 25.7%).

Exposure to Fluctuations in Exchange Rates and Any Related Hedges

No significant exchange risk is expected as the Group's cash, borrowings, income and expenses are settled in Hong Kong dollars, RMB or US dollars. The Group's major investment and financing strategies are to invest in domestic projects in the PRC by Hong Kong dollars and RMB borrowings. As RMB appreciation is expected to continue in the foreseeable future and the Group's operating income is substantially denominated in RMB, the Group did not perform any foreign currency hedging activities during the year. Nevertheless, the Group will from time to time review and adjust the Group's investment and financing strategies based on the RMB, US dollars and Hong Kong dollars exchange rate movement.

Pledge of Assets

As at 31 December 2008, the Group had pledged certain property, plant and equipment and land use rights with aggregate carrying amounts of US$11,284,000 (2007: US$5,449,000) to various banks and other financial institutions for securing the loans and general credit facilities granted to the Group.

Significant Investments

As at 31 December 2008, there was no significant principal investment of the Group.

Acquisition of Seafood Trading and Processing Business

On 22 February 2008 and 27 February 2008, Fulbond Investments Limited, a wholly-owned subsidiary of the Company ("Fulbond Investments") entered into the agreement and the supplemental deed with, among others, Sun Boom, being the vendor, pursuant to which Fulbond Investments conditionally agreed to purchase and Sun Boom conditionally agreed to sell the 20% of the entire enlarged issued share capital of Prowealth, a company and its subsidiaries of which were engaged in seafood trading and seafood processing business in the PRC. The total consideration of the acquisition was HK$121,000,000 to be satisfied by way of issue of the secured convertible note with an aggregate principal amount of HK$121,000,000 due on demand. Details of the acquisition are set out in the circular of the Company dated 22 April 2008.

On 28 May 2008, the Company as issuer, Fulbond Investments as purchaser and Sun Boom and Wise Virtue as vendors entered into an agreement for the sale and purchase of the remaining issued shares in Prowealth, which in aggregate with the shares in Prowealth purchased under the aforementioned agreement dated 22 February 2008 constituting the entire issued share capital of Prowealth. The total consideration for the acquisition was HK$484,000,000 to be satisfied by the issue of consideration shares, the Sun Boom Convertible Note and the Wise Virtue Convertible Note. Details of the acquisition are set out in the circular of the Company dated 30 June 2008.

Contingent Liabilities

During the year ended 31 December 2007, Jilin Province Fuchun Timber Co., Ltd. ("Jilin Fuchun") had ceased its operation. Jilin Fuchun had laid off its employees and exposed to a maximum compensation payment of RMB7,307,000 (equivalent to US$1,013,000) based on the management's estimation and the relevant provisions of the PRC employment laws. The Group had recognised such liability of US$1,013,000 by charging the amount as an expense to the consolidated statement of comprehensive income for the year ended 31 December 2007. During the year ended 31 December 2008, the Group had settled all compensation payments to the employees of Jilin Fuchun. The Group had no significant contingent liabilities at 31 December 2008.

Employees and Remuneration policies

As at 31 December 2008, the Group employed 2,100 full time management, administrative and production staff in the PRC and Hong Kong. The Group recruits and promotes individuals based on their performance and development potential in the positions held. Remuneration package is determined with reference to an employee's performance and the prevailing salary levels in the market. In addition, the Group adopts a share option scheme for eligible employees (including Directors) to provide incentives to participants for their contributions and continuing efforts to promote the interests of the Group.

Future Plans and Prospects

In the midst of the financial crisis spread out in 2008, the global economy had not been bottomed out and showed no sign of turning up. In the gloomy winter when recovery was yet to be expected, the wooden products markets were in downturn, both in prices and trade volumes. Whilst maintaining a positive attitude towards the prospect, the Group remained conservative in its development plans and would closely monitor and manage its implementation of the restructuring of management and business operation to keep a progressive pace in the challenging and dynamic environment.

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

(I) Management Discussion and Analysis of the Target Group

Business Review for the period from 25 June 2010 (date of incorporation) to 31 December 2010

Target Company was incorporated in the British Virgin Islands on 25 June 2010 as a company with limited liability and acted as an investment holding company.

The Target Group incorporated in Hong Kong on 21 October 2010 a wholly owned subsidiary, Lithium HK, and acquired the entire equity interest of Lithium Zhuhai from the Original Owners through Lithium HK at a consideration of RMB50,000,000. Lithium Zhuhai was incorporated in the PRC with limited liability and is engaged in the development, production and sales of batteries, power motors and controllers and assembled vehicles with strategic partners through its subsidiaries.

As at 10 December 2010, Lithium Zhuhai obtained a "Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the People's Republic of China" (中華人民共和國台港澳僑投資企業批准證書) issued by Guangdong Provincial Government which approved the conversion of Lithium Zhuhai's corporate nature from a domestic enterprise into a foreign-invested enterprise, and the procedure of enterprise classification change was completed on 21 December 2010.

The principal assets of Lithium Zhuhai are the equity interests in Lithium BJ and its subsidiaries, Lithium Jilin and Lithium Guang. It is principally engaged in research and development of new energy technology and battery, battery equipments, battery management system, electric vehicle power assembly products and electric vehicle electronics.

In the second half of 2010, Lithium Zhuhai and its subsidiaries ("Lithium Zhuhai Group") were at an early preparation stage, during which their focus was mainly on the improvement of battery production lines, the technical development of battery materials, the development of new motor technologies and the technical upgrade in vehicle equipment production lines. In the year, the Lithium Zhuhai Group made large amount of operating investment which caused greater operating expenses. Lithium Zhuhai Group generated no sales income for the year ended 31 December 2010, but it is expected that Lithium Zhuhai Group will generate revenue from sale of batteries, power motors and electric vehicles in 2011.

During the period under review, subsidiaries of the Target Group (except for Lithium Sales) was in the preparation stage and is expected to be engaged in the research and development, production and sales of batteries, power motors and controllers and assembly of electric vehicles in Jilin province, the Pearl River Delta region, Beijing and Tangshan in the future.

In terms of business operation, the Target Group will have several operating segments. Therefore, the revenue, operating results, assets and liabilities as well as the amounts presented in the consolidated comprehensive income statement and consolidated statement of financial position are aggregate data from the financial information of the subsidiaries of the Target Group. In terms of regional breakdown, the Target Group generated no revenue in all related regions during the period, but it is expected that it will generate revenues in Jilin, Tangshan and the Pearl River Delta region in future.

In terms of vehicle assembly, the Target Group has commenced negotiation in connection with various cooperation agreements with a number of vehicle manufacturers in respect of the assembly of electric passenger vehicles. One of the working partners of the Target Group is a domestic passenger vehicles manufacturer which has been enlisted in the "Catalogue of Types of Recommended Vehicles for the Demo Project of Energy Conservation and New Energy Vehicles" ("節能與新能源汽車示範推廣應用工程推薦車型目錄") and becomes one of the qualified enterprises approved by the State to manufacture pure electric vehicles. It has entered into an exclusive agency agreement with Lithium Zhuhai.

In terms of electric vehicle sales, the Target Group has entered into an agreement with the 唐山市曹妃甸工業區管理委員會 (Tangshan Caofeidian Industrial Zone Management Committee) in respect of the purchase of 2,000 pure electric vehicles within three years. Meanwhile, it has also applied for an approval from the Development and Reform Commission of Jilin Province for annual production of 3,000 electric passenger vehicles.

Financial Review

Other income

The Target Group generated other income of only US$702 for the accounting period from 25 June 2010 to 31 December 2010, which was mainly bank interest income. Total losses and comprehensive expenses for 2010 amounted to US$167,830. As at 31 December 2010, losses incurred were mainly attributable to sales expenses of US$14,336, administrative expenses of US$149,268 and finance costs of US$4,928.

Inventories

The Target Group had inventories amounting to US$2,550,382 as at 31 December 2010, which mainly consisted of raw materials, work-in-progress and finished products.

Receivables

As at 31 December 2010, the Target Group had other receivables amounting to US$4,703,729 comprising other receivables of Lithium HK amounting to US$9,636 and other receivables of Lithium Zhuhai Group amounting to US$4,694,093. In particular, this include amounts due from non-controlling shareholder of a subsidiary amounting to US$1,930,021, from former fellow subsidiary of subsidiaries amounting to US$106,471, from former holding company of subsidiaries amounting to US$553,992, from a related party US$448,695, from other companies amounting to US$589,156 and prepayments to suppliers amounting to

US$564,359 and other receivables amounting to US$511,035. Amount due from a director was US$10,041, of which US$48,712 were receivable by the Target Company from its director Yeung Tsoi San, US$38,674 was payable by Lithium HK to its director Yeung Tsoi San and US$10,041 was receivable by the ultimate Target Group from its director Yeung Tsoi San.

Liabilities

As at 31 December 2010, the Target Group had other payables amounting to US$19,761,403. This included trade payables of US$836,152, advance received from a former fellow subsidiary of subsidiaries of US$4,677,724, from former intermediate holding company of subsidiaries of US$4,144,018, from other companies of US$545,271, deposits received from customers of US$1,003,865, consideration payable for acquisition of Lithium Zhuhai Group of US$7,605,037 and other payables and accrued charges of US$949,336. The advances received are unsecured, non-interest bearing and repayable on demand.

Expenses

As at 31 December 2010, the Target Group had total consolidated expenses of US$167,830. Among which, the sales expense of US$14,336 was mainly entertainment expenses, travelling expenses and communication expenses incurred by sales personnel for business expansion; the administrative expenses of US$149,268 was mainly attributable to technical research and development expenses, staff emoluments and meal allowances, administrative and office expenses, vehicle overheads and operation overheads; and the finance costs of US$4,928 was mainly remittance fees charged by bankers.

Liquidity and Capital Resources

As at 31 December 2010, the Target Group had a cash and bank balances of US$1,365,299, and its source of funds was mainly from advances from (i) a former fellow subsidiary of subsidiaries; (ii) former intermediate holding company of subsidiaries; (iii) short-term borrowing from 唐山市曹妃甸工業區管理委員會 (Tangshan Caofeidian Industrial Zone Management Committee); and (iv) share capital.

In 2010, the Target Group used its funds mainly for its subsidiaries' normal operating expenses, including management expenses, sales expenses, finance costs, technical research and development expenses, the capital requirements for production and operations and settlement of amounts due to certain creditors.

Material Investment, Acquisition or Disposal

On 21 October 2010, the Target Group incorporated a wholly owned subsidiary, Lithium HK, a company with limited liability in Hong Kong.

The Target Group acquired the entire interest in Lithium Zhuhai held by the Original Owners through its subsidiary Lithium HK at a consideration of RMB50,000,000 and the procedure of enterprise classification change in Zhuhai Lithium was completed on 21 December 2010. Lithium Zhuhai was incorporated in the PRC with limited liability and its subsidiaries are engaged in the development, production and sales of batteries, power motors and controllers and assembled vehicles.

Human Resources

As at 31 December 2010, the Target Group had a total of 268 employees whose total emoluments amounted to approximately US$67,727. The remuneration packages were based on their working experiences, educational background and responsibilities and have been kept at a competitive level. Remuneration packages include wages and year-end bonus.

Pledge of Assets

On 31 December 2010, 唐山市曹妃甸工業區管理委員會 (Tangshan Caofeidian Industrial Zone Committee of Management Committee) (the lender) provided a short-term loan of US$1,275,943 to Lithium Sales, a subsidiary of the Target Group, at an annual fixed rate of 4.86%. The Target Group has pledged its inventory valued at US$1,450,186 to secure the short-term loan. This short-term loans should be repaid on the lender's demand.

Exposure to Fluctuations in Exchange Rate

During the period under review, the receivables (including other receivables) and the amounts payable to shareholders and other payables and administrative expenses of the major subsidiaries under the Target Group were mainly denominated in Renminbi, so it did not adopt any foreign exchange hedging policy. However, the management has monitored the foreign exchange risk and will take protective approaches in future when necessary.

Capital Structure

The capital structure of the Target Group is comprised of liabilities (including borrowings), cash and bank balance and owners' equity. It had a capital contribution of US$50,000 upon its incorporation. During the period under review, it recorded total losses and expenses of US$167,830. As at 31 December 2010, it had fixed assets of US$12,450,883, current assets of US$8,629,451 (including inventories of US$2,550,382, other receivables of US$4,703,729, amounts due from a director of US$10,041 and bank balance and cash of US$1,365,299), current liabilities of US$21,037,346 and owners' equity of US$42,988.

Patents

The Target Group commands advantages in terms of comprehensive technological strength and the complete solutions for electric vehicles. It is mainly engaged in the development and production of batteries, power motors and controllers and battery management system, assembly of vehicles and the centralized assembly of key components and has a powerful and complete industrial chain for assembly of electric vehicles.

The Target Group currently holds 14 patents and is in the process of application of 9 patents, including 11 power motors patents and 12 battery patents. The battery products of different capacity produced by the Target Group have been subject to various testing on appearance, structure, discharge capacity and safety. For example, testing reports have been produced on lithium iron phosphate battery 100AH and 200AH. As for power motors, the Target Group does not manufacture electrical motors and controllers, and purchases electrical motors and controllers from independent third parties according to its specifications. In order to determine whether the quality of electrical motors and controllers meet the prescribed standards, the Target Group also conducted a number of testing, such as the testing report on permanent magnetic synchronous motor vehicle 80KW system.

Details are shown in the following chart:

Application number (patent number are prefixed by ZL)	Name of patent	Owner of the patent
ZL201030171100.3	Driving Motor for Electric Vehicle(LYCD04)	Zhuhai Lithium New Energy Sources Technology Limited
ZL201030171064.0	Driving Motor for Electric Vehicle(LYCD01)	Zhuhai Lithium New Energy Sources Technology Limited
ZL201030171121.5	Driving Motor for Electric Vehicle(LYCD05)	Zhuhai Lithium New Energy Sources Technology Limited
ZL201020194330.6	Permanent Magnet Brushless Motor for Electric Vehicle	Zhuhai Lithium New Energy Sources Technology Limited
ZL201020194294.3	Rotor for Permanent Magnetic Synchronous Motor	Zhuhai Lithium New Energy Sources Technology Limited

Application number (patent number are prefixed by ZL)	Name of patent	Owner of the patent
ZL201020194316.6	Adjustable Brushless DC Motor	Zhuhai Lithium New Energy Sources Technology Limited
201020194326.X	High-power permanent magnetic synchronous motor	Zhuhai Lithium New Energy Sources Technology Limited
ZL201030171096.0	Driving Motor for Electric Vehicle(LYCD03)	Zhuhai Lithium New Energy Sources Technology Limited
201030171077.8	Driving Motor for Electric Vehicle(LYCD02)	Zhuhai Lithium New Energy Sources Technology Limited
201010175646.5	Rotor for Motor of Electric Vehicle	Zhuhai Lithium New Energy Sources Technology Limited
ZL201020194281.6	Rotor for Motor Electric Vehicle	Zhuhai Lithium New Energy Sources Technology Limited
ZL200930076773.8	Battery pole	Zhuhai Lithium New Energy Sources Technology Limited
ZL200930080017.2	Battery pole(300AH)	Zhuhai Lithium New Energy Sources Technology Limited
ZL200920054747.X	Battery shell	Zhuhai Lithium New Energy Sources Technology Limited
ZL200920061347.1	Explosion-proof device for lithium-ion battery	Zhuhai Lithium New Energy Sources Technology Limited
ZL200920264341.4	Explosion trap for Lithium-ion batteries	Zhuhai Lithium New Energy Sources Technology Limited
200910040229.7	Water-based anode formula and preparation methods for Lithium iron phosphate battery	Zhuhai Lithium New Energy Sources Technology Limited
200910040230.X	Graphite water-base cathode formula and preparation method	Zhuhai Lithium New Energy Sources Technology Limited

Application number (patent number are prefixed by ZL)	Name of patent	Owner of the patent
200910213656.0	Explosion trap for Lithium-ion batteries	Zhuhai Lithium New Energy Sources Technology Limited
ZL200930073879.2	Battery shell	Zhuhai Lithium New Energy Sources Technology Limited
200910038684.3	Battery shell	Zhuhai Lithium New Energy Sources Technology Limited
201010125469.X	Method for connecting the polar ear with the polar column of Lithium-ion batteries	Zhuhai Lithium New Energy Sources Technology Limited
201010125479.3	Method for connecting the polar ear with the polar column of Lithium-ion batteries	Zhuhai Lithium New Energy Sources Technology Limited
Testing Report on Vehicle Electrical System	80KW permanent-magnetic synchronous motor for use in vehicles (TESTING REPORT)	Zhuhai Lithium New Energy Sources Technology Limited
Testing Report (QE11E11K01291)	Lithium Iron Phosphate Battery (LY-IFP200Ah)	Zhuhai Lithium New Energy Sources Technology Limited
Testing Report (QE11E11K01301)	Lithium Iron Phosphate Battery (LY-IFP100Ah)	Zhuhai Lithium New Energy Sources Technology Limited

Future Plan and Prospect

Looking back to 2010, the development trend of automobiles was in line with the course of low-carbon economy, and automobiles have long positioned itself towards the direction of energy conservation, environment friendliness and safety. As major economies around the world vigorously push forward reduction in carbon dioxide emission, new energy vehicles are expected to dominate the development of the world's automobile industry.

The Target Group is one of the domestic enterprises in possession of the three core technologies for producing pure electric buses. Based on its research and development of battery, power motor, power controller and electric vehicles, the Target Group has been engaged in the horizontal development of the electric vehicle market in cooperation with qualified manufacturers to produce new energy vehicles.

In the future, the Target Group will provide better remuneration and benefit packages to attract and retain technology institutions and talents with expertise in battery and power motor and controllers, so as to strengthen the Target Group's research and development team.

As for the battery business, the Target Group plans to set up several additional production lines in the future to achieve an annual production capacity of over 50,000,000 AH, and to reduce its per-unit cost of production through economies of scale. As for power motor and power controller business, the Target Group plans to set up several additional production lines in the future to satisfy its needs of vehicle assembly. As for the vehicle assembly business, the Target Group plans to meet the growing demands in its vehicle assembly business through co-operation with strategic partners in vehicle manufacturing, and to continuously develop a variety of new models for pure electric vehicles, including coaches, buses, electric passenger cars, electric mini-buses and electric commuting buses, etc.

In addition, the Target Group also plans to explore successively new domestic markets including Hong Kong, Guangzhou, Shenzhen, Sanya (Hainan Province), Shenyang, Dalian, Jilin, Chongqing, Chengdu, Shijiazhuang, Baoding, Langfang as well as markets of other cities in the future. It is expected that the Target Group will achieve a decent growth in the sales of pure electric vehicles within five years.

(II) Management Discussion and Analysis of Lithium Zhuhai

Business Review for the Period from 19 August 2008 (date of incorporation) to 31 December 2010

Lithium Zhuhai was incorporated as a limited liability company in the People's Republic of China on 19 August 2008. It has a registered capital of RMB10,220,000 which was increased to RMB50,000,000 on 21 December 2010. As at 10 December 2010, Lithium Zhuhai obtained a "Certificate of Approval for Establishment of Enterprises with Investment of Taiwan, Hong Kong, Macao and Overseas Chinese in the PRC" (中華人民共和國台港澳僑投資企業批准證書) issued by Guangdong Provincial Government which approved the conversion of Lithium Zhuhai's corporate nature from a domestic enterprise into a foreign invested enterprise, and the procedure of enterprise classification change was completed on 21 December 2010. It is principally engaged in research and development of new energy technology and battery, battery equipments, battery management system, electric vehicle power assembly products and electric vehicle electronics.

As at 31 December 2010, Lithium Zhuhai acquired the entire equity interests of Lithium BJ, the 90% equity interests of Lithium Jilin and the 98% equity interests of Lithium Guang. Lithium Zhuhai did not generate any sales revenue as at 31 December 2010. It is expected that the company will be engaged in research and development of new energy technology and battery, battery equipments, battery management system, electric vehicle power assembly products and electric vehicle electronics in 2011.

During the period under review, Lithium Zhuhai and each of its subsidiaries (except Lithium Sales) were in the preparation stage. It is expected that they will be engaged in the research and development, production and sales of batteries, power motors and assembly of electric vehicles with strategic partners in Jilin province, the Pearl River Delta region, Beijing and Tangshan in the future.

In terms of business operation, Lithium Zhuhai had only one operational segment. Therefore, the amounts of its revenue, operating results, assets and liabilities were the same as those stated in the consolidated income statement and the consolidated statement of financial position. Lithium Zhuhai did not generate any revenue by geographical segment. It is expected that the company will generate revenue in the Pearl River Delta region.

Gains and losses

Lithium Zhuhai did not generate any revenue for the period from 19 August 2008 to 31 December 2010 as well as the period up to now. It recorded net loss of US$14,295 in 2008, US$6,605 in 2009 and US$79,688 in 2010. For the period from 19 August 2008 to 31 December 2010, the losses incurred were mainly attributable to employee emoluments, office overhead and bank interest income.

Inventories

Lithium Zhuhai did not have any inventory for the period from 19 August 2008 to 31 December 2009. As at 31 December 2010, it has inventories of US$3,652 which were mainly 20 lithium batteries used for sample exhibition.

Receivables

As at 31 December 2008, Lithium Zhuhai had receivables of US$1,313,710, amounts due from former immediate holding company of US$1,024,800, amounts due from former fellow subsidiaries of US$183,665 and other receivables of US$105,245. As at 31 December 2009, it had receivables of US$1,470,934, amounts due from former immediate holding company of US$1,033,584, amounts due from former fellow subsidiaries of US$238,416 and other receivables of US$198,934. As at 31 December 2010, other receivables amounted to US$22,608.

Liabilities

For the period from 19 August 2008 to 31 December 2009, Lithium Zhuhai did not have any current liabilities. As at 31 December 2010, it had current liabilities of US$4,002,252, other payables of US$3,850,152 and amounts due to subsidiary of US$152,100.

Expenses

Lithium Zhuhai had total expenses of US$14,295, US$6,605 and US$79,688 as at 31 December 2008, 2009 and 2010 respectively. Those expenses were mainly attributable to entertainment expenses, travelling expenses, communication expenses, expenses for technical research and development expenses, staff emoluments and meal allowances, administrative and office expenses, vehicle overheads and operation overheads.

Liquidity and Capital Resources

Lithium Zhuhai's cash and bank balances amounted to approximately US$167,289, US$3,451 and US$780,991 as at 31 December 2008, 2009 and 2010 respectively. The source of funds was the registered capital of US$7,546,746 contributed by its shareholders and other borrowings.

For the period from 31 December 2008 to 31 December 2010, apart from normal operating expenses, Lithium Zhuhai used its funds mainly for the improvement of battery production lines, the technical development of battery materials, the development of new motor technologies and the technical upgrade in vehicle equipment production lines, repayment of costs and expenses incurred in its investment activities, including certain creditors, during the preparation stage.

Material Investment, Acquisition or Disposal

Lithium Zhuhai was in the preparation stage during the period from 2008 to 2009, and did not have any material investment or capital operation. As at 31 December 2010, Lithium Zhuhai's investments in its subsidiaries amounted to US$5,627,700. It acquired the entire equity interests of Lithium BJ, the 90% equity interests of Lithium Jilin and the 98% equity interests of Lithium Guang. Its investments in fixed assets amounted to US$21,534. Apart from the abovementioned activities, Lithium Zhuhai did not have any further plan for other material investment or capital operation.

Human Resources

As 31 December 2008, Lithium Zhuhai had 3 employees whose total emoluments amounted to US$882. As at 31 December 2009, Lithium Zhuhai had 1 employee whose total emoluments amounted to US$3,650. As at 31 December 2010, Lithium Zhuhai had 11 employees whose total emoluments amounted to US$14,115. Remuneration package was based on working experience, educational background and responsibilities and has been kept at a competitive level. Remuneration package includes wages only.

Pledge on Assets

As at 31 December 2010, Lithium Zhuhai had no pledge on assets.

Contingent Liabilities

Lithium Zhuhai did not have any material contingent liabilities as at 31 December 2008, 31 December 2009 and 31 December 2010.

Exposure to Fluctuations in Exchange Rate

During the period under review, the receivables (including other receivables), the amounts payable to shareholders and other payables and administrative expenses of Lithium Zhuhai were mainly denominated in Renminbi, so it did not adopt any foreign exchange hedging policy. However, the management has monitored its foreign exchange risks and will take protective approaches in future when necessary.

Patents

The Lithium Zhuhai commands advantages in terms of comprehensive technological strength and the complete solutions for electric vehicles. It is mainly engaged in the development and production of batteries, power motors and controllers and battery management system, assembly of vehicles and the centralized assembly of key components and has a powerful and complete industrial chain for assembly of electric vehicles.

The Lithium Zhuhai currently holds 14 patents and is in the process of application of 9 patents, including 11 power motors patents and 12 battery patents. The battery products of different capacity produced by the Lithium Zhuhai have been subject to various testing on appearance, structure, discharge capacity and safety. For example, testing reports have been produced on lithium iron phosphate battery 100AH and 200AH. As for power motors, the Lithium Zhuhai does not manufacture electrical motors and controllers, and purchases electrical motors and controllers from independent third parties according to its specifications. In order to determine whether the quality of electrical motors and controllers meet the prescribed standards, the Lithium Zhuhai also conducted a number of testing, such as the testing report on permanent magnet synchronous motor vehicle 80KW system.

Future Plan and Prospect

Looking back to 2010, the Lithium Zhuhai is one of the domestic enterprises in possession of the three core technologies for producing pure electric buses. Based on its research and development of battery, power motor, power controller and electric vehicles, the Lithium Zhuhai has been engaged in the horizontal development of the electric vehicle market in cooperation with qualified manufacturers to produce new energy vehicles.

In the future, the Lithium Zhuhai will provide better remuneration and benefit packages to attract and retain technology institutions and talents with expertise in battery and power motor, so as to strengthen the Group's research and development team.

As for the battery business, the Lithium Zhuhai plans to set up several additional production lines in the future to achieve an annual production capacity of over 50,000,000 AH, and to reduce its per-unit cost of production through economies of scale. As for power motor and power controller business, the Lithium Zhuhai plans to set up several additional production lines in the future to satisfy its needs of vehicle assembly. As for the vehicle assembly business, the Lithium Zhuhai plans to meet the growing demands in its vehicle assembly business through co-operation with strategic partners in vehicle manufacturing, and to continuously develop a variety of new models for pure electric vehicles, including coaches, buses, electric passenger cars, electric mini-buses and electric commuting buses, etc.

(III) Management Discussion and Analysis of Lithium BJ

Business Review for the Period from 1 January 2008 to 31 December 2010

Lithium BJ was incorporated as a limited liability company in the People's Republic of China on 19 February 2001. It has a registered capital of RMB51,900,000. It is principally engaged in the development of new energy technology, the research and development of battery, battery equipments, battery management system, electric vehicle power assembly products and vehicle electronics, the distribution of batteries, computer system services as well as software development.

As at 31 December 2010, Lithium BJ acquired the entire equity interests of Lithium Sales and Lithium Caofeidian, 99% equity interests of Lithium Power Motor and the entire equity interests of Lithium New EV. Lithium BJ generated sales revenue of US$1,323,077 as at 31 December 2008. However, it did not generate any sales revenue during the period from 31 December 2009 to 31 December 2010. It is expected that the company will have earnings from the sale of electric vehicles in 2011.

During the period under review, except Lithium Sales, Lithium BJ and each of its subsidiaries were in the preparation stage. It is expected that they will be engaged in the research and development of battery, battery equipments, battery management system, electric vehicle power assembly products and vehicle electronics, the distribution of batteries in the future.

Lithium BJ had only one operational segment. Therefore, the amounts of its revenue, operating results, assets and liabilities were the same as those stated in the consolidated income statement and the consolidated statement of financial position. Lithium BJ did not generate any revenue by geographical segment. It is expected that the company will generate revenue in Northern China region.

Financial Review

Gains and Losses

Lithium BJ generated revenues of US$1,323,077 in 2008. However, it did not generate any revenue for the period from 1 January 2009 to 31 December 2010. It recorded net loss of US$141,877 in 2008, US$427,450 in 2009 and US$445,338 in 2010. For the period from 1 January 2008 to 31 December 2010, the losses incurred were mainly attributable to employee emoluments, office overhead, bank interest income and project investments.

Expenses

Lithium BJ had total expenses of US$233,981, US$427,471 and US$682,487 as at 31 December 2008, 2009 and 2010 respectively. Those expenses were mainly attributable to entertainment expenses, travelling expenses, communication expenses, expenses for technical research and development, staff emoluments and meal allowances, administrative and office expenses, vehicle overheads and operation overheads.

Inventories

Lithium BJ had inventories of US$3,367,493 for the period from 1 January 2008 to 31 December 2009. However, it did not have any inventory as at 31 December 2010.

Receivables

Lithium BJ had other receivables of US$2,241,890, US$1,975,030 and US$195,914 as at 31 December 2008, 2009 and 2010. As at 31 December 2010, it had amounts due from subsidiaries of US$3,886,659. The turnover days of its receivables was zero.

Liabilities

Lithium BJ had current liabilities of US$1,591,633, US$2,798,593 and US$5,779,139 as at 31 December 2008, 2009 and 2010. As at 31 December 2010, it had net current liabilities of US$991,429, other payables of US$1,190,990 and amounts due to the immediate holding company of US$4,588,149.

Liquidity and Capital Resources

Lithium BJ's cash and bank balances amounted to approximately US$7,759, US$9,278 and US$3,647 as at 31 December 2008, 2009 and 2010 respectively. The source of funds was the registered capital of US$6,269,520 contributed by its shareholders. It came from the investments of former natural person shareholders in 2008, and the investments from the legal person shareholders, namely independent third party and Lithium Zhuhai in 2009 and 2010.

For the period from 31 December 2008 to 31 December 2010, apart from normal operating expenses, Lithium BJ used its funds mainly for the improvement of production lines of each of its subsidiaries in Tangshan, the technical development of battery materials, the development of new motor technologies and the technical upgrade in vehicle equipment production lines, repayment of amounts due to certain creditors and investment activities during the preparation stage.

Material Investment, Acquisition or Disposal

Lithium BJ did not have any material investment, acquisition or disposal as at 31 December 2008. It made an investment of US$292,800 to acquire the entire equity interests of Lithium Sales on 4 November 2009, US$732,000 to acquire the entire equity interests of Lithium Caofeidian on 23 November 2009 (1% of which was subsequently transferred to an Independent Third Party on 12 January 2011 and that it currently holds 99% equity interests of Lithium Caofeidian). It also made an investment of US$2,342,400 to acquire the entire equity interests of Lithium Power Motor on 28 July 2010 (1% of which was subsequently transferred to an Independent Third Party on 9 November 2010 and that it currently holds 99% equity interests of Lithium Power Motor) and US$1,464,000 to acquire the entire equity interests of Lithium New EV on 31 December 2010. Apart from the abovementioned activities, Lithium BJ did not have any further plan for any other material capital expenditure, investment or capital assets.

Human Resources

As at 31 December 2008, Lithium BJ had 1 employee whose total emoluments amounted to US$638.82. As at 31 December 2009, Lithium BJ had 32 employees whose total emoluments amounted to US$16,930.25. As at 31 December 2010, Lithium BJ had 31 employees whose total emoluments amounted to US$15,468.57. Remuneration package was based on working experience, educational background and responsibilities of the employees and has been kept at a competitive level. Remuneration package includes wages only.

Pledge on Assets

As at 31 December 2010, Lithium BJ had no pledge on assets.

Contingent Liabilities

Lithium BJ did not have any material contingent liabilities for the period from 31 December 2008 to 31 December 2009. As at 31 December 2010, it had total liabilities of US$5,779,139, among which, there were other payables of US$1,190,990 and amounts due to immediate holding company of US$4,588,149.

Exposure to Fluctuations in Exchange Rate

During the period under review, the receivables (including other receivables), the amounts payable to shareholders and other payables and management fees of Lithium BJ were mainly denominated in Renminbi, so it did not adopt any foreign exchange hedging policy. However, the management has monitored its foreign exchange risks and will take protective approaches in future when necessary.

Future Plan and Prospect

In the first half of FY 2011, the company will put more efforts into market expansion of its vehicle assembly business in Beijing, further development and improvement of its sales channels and will vigorously develop the Beijing market. The company will generate no sales revenue in the preparatory period (i.e. from January to May 2011) and operating expenses will remain at previous level, that is to say, expenses for each month will be controlled at a level around HK$350,000 per month. Since June 2011, on condition that the reinvestment funds of HK$10 million are available, the company will increase capital input in marketing and sales activities and its share of contribution to previous operating expenses will be cut. In the second half of the year, it is expected that the vehicle assembly business will achieve a capacity of 100 vehicles per annum, which will generate sales revenue of HK$115 million. Sales and operating expenses will be controlled at a level below HK$95 million, wherefore a gross profit of HK$20 million will be realized. As the sales charge, management expenses and finance costs will be controlled at a level below 4% of total sales cost, a net profit of approximately HK$13 million will be realized in the same year.

For FY 2012, the company will place more efforts into market expansion. Meanwhile, on condition that a further fund contribution of HK$10 million is available, the company will control sales charge, management expense and finance costs and reduce their proportions to the total cost of sales to 3.5%, i.e. below HK$5 million. The company will achieve vehicle assembly capacity of 200 vehicles per annum, which will generate sales revenue of HK$230 million. Therefore, a gross profit of HK$40 million and a net profit of approximately HK$28 million will be realized in the year.

For FY 2013, similarly, more efforts will be needed to make market expansion. Meanwhile, on condition that a further fund contribution of HK$10 million is available, cost of sales will be reduced by HK$10,000 since July 2013. The company will control the sales charge, management expense and finance costs within a proportion of around 2% to the total cost of sales. The company will achieve vehicle assembly capacity of 400 vehicles per annum, which will generate sales revenue of HK$460 million, wherefore a net profit of approximately HK$60 million will be realized in the year.

(IV) Management Discussion and Analysis of Lithium Sales

Business Review for the Period from 4 November 2009 (date of incorporation) to 31 December 2010

Lithium Sales was incorporated as a limited liability company in the People's Republic of China on 4 November 2009. It is principally engaged in the sales and leasing of electric commercial vehicles, the sales of parts of electric commercial vehicles and the repair and maintenance of class II vehicles (including the repair and maintenance of large and medium-sized electric vehicles).

Lithium Sales was in the preparation stage in 2009 and did not generate any sales revenue. It generated sales revenue of US$1,390,513 in 2010, and its business of sale of electric vehicles is expected to be expanded in 2011.

Lithium Sales entered into a Purchase Agreement with 唐山市曹妃甸工業區管理委員會 (Tangshan Caofeidian Industrial Zone Management Committee*) on 25 September 2009 in relation to the purchase of 2,000 Pure Electric Buses.

Lithium Sales was in the preparation stage for the sale of electric vehicles during the period ended 31 December 2009. It generated sales revenue from the trial-sale of 10 electric vehicles for the year ended 31 December 2010.

Lithium Sales had only one operational segment. Therefore, the amounts of its revenue, operating results, assets and liabilities were the same as those stated in the consolidated income statement and the consolidated statement of financial position. Lithium Sales did not generate any revenue by geographical segment. It is expected that the company will generate revenue in Northern China in future.

Financial Review

Revenue

For the period ended 31 December 2009, Lithium Sales did not have any sales revenue. For the year ended 31 December 2010, it recorded sales revenue of US$1,390,513, representing an increase of 100%.

Cost of Sales

As at 31 December 2009, Lithium Sales did not have any cost of sales. As at 31 December 2010, its cost of sales amounted to US$1,137,490, representing an increase of 100%.

Gross Profit

In 2009, Lithium Sales did not record any gross profit. As at 31 December 2010, it recorded a gross profit of US$253,023, representing an increase of 100%.

Other Revenue

As at 31 December 2009 and 31 December 2010, Lithium Sales did not have any other revenue.

Other Gains and Losses

As at 31 December 2009 and 31 December 2010, Lithium Sales did not have any other gains and losses.

Selling and Distribution Costs

As at 31 December 2009, Lithium Sales did not have any selling and distribution costs, however, it recorded distribution costs of US$86,991 as at 31 December 2010.

Administrative Expenses

Lithium Sales recorded administrative expenses of US$35,564 as at 31 December 2009 and US$202,696 as at 31 December 2010.

Taxes

As at 31 December 2009 and 31 December 2010, Lithium Sales did not incur any value-added tax.

Lithium Sales did not generate any revenue for the two accounting periods ended 31 December 2009 and generated US$1,390,513 for the year ended 31 December 2010. It recorded a loss of US$35,564 in 2009 and a net loss of US$94,168 in 2010. Losses of Lithium Sales for the two years were mainly attributable to employee emoluments and office overhead. Lithium Sales was still in the preparation stage in 2009 and recorded relatively less expenditure. However, it increased its investments in 2010, resulting in changes in expenditures as compared with that of 2009.

Inventories

Lithium Sales did not have any inventory as at 31 December 2009, and had US$853,165 worth of inventories as at 31 December 2010.

Receivables

Lithium Sales had other receivables and prepayment of US$1,075,522 as at 31 December 2009 mainly consisted of amount due from former intermediate holding company. It had other receivables of US$2,336,473 mainly due from former immediate holding company as at 31 December 2010.

Liabilities

As at 31 December 2009, Lithium Sales had current liabilities of US$1,129,079 and net current liabilities of US$(50,323) respectively. As at 31 December 2010, it had current liabilities of US$3,098,992. On 29 January 2010, it borrowed an amount of US$1,276,000 from the Finance Bureau of Caofeidian Industrial Area (曹妃甸工業區財政局).

Loss for the Period

Lithium Sales had a loss of US$35,564 for the period ended 31 December 2009 and US$94,168 for the year ended 31 December 2010.

Liquidity and Capital Resources

Lithium Sales had cash balance of US$3,234 as at 31 December 2009 and US$3,515 as at 31 December 2010. Its funds came from the registered capital of US$292,800 which was contributed by Lithium BJ.

For the period ended 31 December 2009 and the year ended 31 December 2010, Lithium Sales used its funds mainly for the trial-sales of vehicles, normal operating expenses and repayment of amounts due to certain creditors.

Material Investment, Acquisition or Disposal

During the period from September to November 2010, Lithium Sales generated a revenue (excluding tax) of US$1,430,000.00 from the sales of 10 electric vehicles. Apart from the above sales, the Target Company acquired fixed assets of US$13,816.2 which were mainly office supplies (other than equipment). Apart from the abovementioned activities, Lithium Sales did not have any further plan for other material investment or capital outlay.

Human Resources

As at 31 December 2009, Lithium Sales had 6 employees with total emoluments of US$1,718. As at 31 December 2010, it had 49 employees with total emoluments of US$16,989.42. Remuneration package was based on working experience, educational background and responsibilities of the employees and has been kept at a competitive level. Remuneration package includes wages only.

Pledge on Assets

As at 31 December 2009, Lithium Sales had no pledge on assets. As at 31 December 2010, Lithium Sales pledged its inventories amounting to US$853,165 to 唐山市曹妃甸工業區管理委員會 (Tangshan Caofeidian Industrial Zone Management Committee) to secure for short-term borrowing.

Contingent Liabilities

As at 31 December 2009 and 31 December 2010, Lithium Sales did not have any material contingent liabilities.

Exposure to Fluctuations in Exchange Rate

During the period under review, the receivables (including other receivables), the amounts payable to shareholders and other payables and management fees of Lithium Sales were mainly denominated in Renminbi, so it did not adopt any foreign exchange hedging policy. However, the management has monitored the foreign exchange risk and will take protective approaches in future when necessary.

Future Plan and Prospects

In the first half of FY 2011, the company will put more efforts into market expansion of its vehicle assembly business in Tangshan, further development and improvement of its sales channels and will vigorously develop the Tangshan and its neighbouring markets. The company will generate no revenue in the preparatory period (i.e. from January to May 2011) and operating expenses will remain at previous level. In the second half of FY 2011, on condition that the investment capital is available, the company will increase capital input in marketing and sales activities and its share of contribution to previous operating expenses will be reduced. In the second half of the year, it is expected that the vehicle assembly business will commence production and generate sales revenue, wherefore a net profit will be realized in the same year.

For FY 2012, the company will place more efforts into market expansion. Meanwhile, on condition that a further fund contribution is available, the company will control sales charge, management expense and finance costs and reduce their proportions to the total cost of sales. The company will expand the capacity in vehicle assembly production and achieve growth in net profit for the year.

For FY 2013, similarly, more efforts will be needed to make market expansion. Meanwhile, on condition that a further fund contribution is available, the company will control the sales charge, management expense and finance costs within a small proportion to the total cost of sales. The company will greatly increase the annual output of vehicle assembly and realize significant growth in net profit for the year.

(V) Management Discussion and Analysis of Lithium Caofeidian

Business Review for the Period from 23 November 2009 (date of incorporation) to 31 December 2010

Lithium Caofeidian was incorporated as a limited liability company in the PRC on 23 November 2009. It is mainly engaged in the manufacture of permanent-magnet motors and controllers, the research, development and sale of electric vehicle control system and parts, technical services and the import and export of goods and technologies.

Lithium Caofeidian is currently in the preparation stage and did not generate any sales revenue. It is expected that the company will start the business of sale of electric motors in 2011.

Lithium Caofeidian was in the preparation stage as at 31 December 2009, and it commenced the business of research and development of permanent-magnet motors as at 31 December 2010.

Lithium Caofeidian had only one operational segment. Therefore, the amounts of its revenue, operating results, assets and liabilities were the same as those stated in the consolidated income statement and the consolidated statement of financial position. Lithium Caofeidian did not generate any revenue by geographical segment. It is expected that the company will generate revenue in Northern China in future.

Financial Review

Lithium Caofeidian did not generate any revenue for the two accounting periods from 23 November 2009 to 31 December 2010 as well as the period up to now. It recorded a net loss of US$12,354 in 2009, and US$15,947 as at 31 December 2010. For the period from 2009 to 31 December 2010, the losses incurred were mainly attributable to employee emoluments, technology research and development expenses, office overhead and project investments.

It was in the preparation stage in 2009 and incurred relatively less expenditures. However, it increased its investments in 2010, resulting in changes in expenditures in 2010 as compared with those of 2009.

Inventories

For the periods ended 31 December 2009 and 31 December 2010, Lithium Caofeidian did not have any inventory.

Liquidity and Capital Resources

The Target Company had cash and bank balances of US$37,562 as at 31 December 2009 and US$13 as at 31 December 2010. Its operations were mainly financed by Lithium BJ.

Lithium Caofeidian had cash and bank balances of US$37,562 as at 31 December 2009 and US$13 as at 31 December 2010. The funds came from the registered capital of US$732,000, which was fully contributed by Lithium BJ.

For the period from 2009 to 31 December 2010, apart from normal operating expenses, Lithium Caofeidian used its funds mainly for the expenses for technology research and development of electric motors, repayment of amounts due to certain creditors and investment activities during the preparation stage.

Receivables

As at 31 December 2009, Lithium Caofeidian had other receivables of US$992,553, consisted of amounts due from the former ultimate holding company of US$644,160 and amounts due from former fellow subsidiaries of US$219,600. Amounts due from fellow subsidiaries was US$161,040. As at 31 December 2010, it had other receivables of US$299,204 and amounts due from fellow subsidiaries of US$291,576. As at 31 December 2009 and 31 December 2010, the turnover days of its receivables was zero.

Liabilities

Lithium Caofeidian had current liabilities of US$506,778 as at 30 December 2009 and US$10,785 as at 31 December 2010.

Expenses

Lithium Caofeidian had a loss of US$12,354 for the period ended 31 December 2009 and a loss of US$15,947 as at 31 December 2010.

Material Investment, Acquisition or Disposal

Lithium Caofeidian was in the preparation stage in 2009 during which it did not acquire any fixed assets. As at 31 December 2010, it acquired fixed assets of US$95,800 which comprised equipment of US$95,549.6 and office equipment of US$250.4. Apart from the abovementioned activities, Lithium Caofeidian did not have any further plan for material investment or capital outlay.

Human Resources

As at 31 December 2009, Lithium Caofeidian did not have any employee and incurred no emolument. As at 31 December 2010, it had one employee whose total emoluments amounted to US$304.2. Remuneration package was based on working experience, educational background and responsibilities of the employees and has been kept at a competitive level. Remuneration package includes wages only.

Pledge on Assets

For the periods ended 31 December 2009 and 31 December 2010, Lithium Caofeidian had no pledge on assets.

Contingent Liabilities

For the periods ended 31 December 2009 and 31 December 2010, the Target Company did not have any material contingent liabilities.

Exposure to Fluctuations in Exchange Rate

During the period under review, the receivables (including other receivables), the amounts payable to shareholders and other payables and management fees of Lithium Caofeidian were mainly denominated in Renminbi, so it did not adopt any foreign exchange hedging policy. However, the management has monitored the foreign exchange risk and will take protective approaches in future when necessary.

Future Plan and Prospects

In the first half of FY 2011, the company will put more efforts into market expansion of electric motor business, further development and improvement of its sales channels and will vigorously develop the market. The company will generate no revenue in the preparatory period (i.e. from January to May 2011) and operating expenses will remain at previous level, that is to say, expenses for each month will be controlled at a level around HK$350,000 per month. In the second half of FY 2011, on condition that the investment funds are available, the company will increase capital input in marketing and sales activities and its share of contribution to previous operating expenses will be cut. In the second half of the year, the electric motor business will achieve the goal of commencing production and a net profit will be realized in the same year.

For FY 2012, the company will place more efforts on market expansion. Meanwhile, on condition that fund contribution is available and sales charge, management expense and finance costs are under control and their ratio to the total cost of sales can be reduced, the company will realize an expansion in electric motor production capacity and achieve an increase in sales revenue for the year.

Similarly, for FY 2013, more efforts will be needed to make market expansion. Meanwhile, on condition that further fund contribution will be available and cost of sales will be cut and sales charge, management expense and finance costs can be reduced to a low percentage ratio of the total cost of sales commencing from the year of 2013. The company will greatly increase the annual output of electric motors and realize significant growth in net profit for the year.

(VI) Management Discussion and Analysis of Lithium Power Motor

Business Review for the period from 19 January 2010 (date of incorporation) to 31 December 2010

Lithium Power Motor was incorporated as a limited liability company in the PRC on 19 January 2010. It is engaged in the research and development of battery equipments and battery management system. It is principally engaged in the preparation of the construction of the lithium battery production project.

Lithium Power Motor is currently in the preparation stage and did not generate any sales revenue. It is expected that the company will start the production and sale of batteries in 2011.

Lithium Power Motor has only one operational segment. Therefore, the amounts of its revenue, operating results, assets and liabilities were the same as those stated in the consolidated income statement and the consolidated statement of financial position. Lithium Power Motor did not record any revenue by geographical segment. It is expected that the company will generate revenue in Northern China in future.

Finance Review

Other income

Lithium Power Motor did not generate any revenue for the accounting period from 19 January 2010 to 31 December 2010, and recorded a net loss amounting to

US$110,985 in 2010. During the period, other revenues amounted to US$56,158. Income from the purchase of funds amounted to US$4,396.96, and subsidies from finance bureau amounted to US$53,235 (RMB350,000). As at 31 December 2010, losses incurred were mainly attributable to staff emoluments, expenses for technology research and development during project transformation, office overhead and project investments.

Inventories

Lithium Power Motor had inventories amounting to US$820,086 as at 31 December 2010. Among which, the amounts of raw materials, work-in-progress and finished products were US$8,643, US$138,355 and US$673,088 respectively and their turnovers were 63 days, 180 days and 180 days respectively.

Other receivables

As at 31 December 2010, Lithium Power Motor had other receivables amounting to US$679,540 which was mainly due to the cash advance to a related party of US$448,695.

Administration Expenses

Lithium Power Motor had total expenses of US$167,143 as at 31 December 2010.

Financial Cost

During the period, Lithium Power Motor did not incurred any financial cost.

Liquidity and Capital Resources

As at 31 December 2010, Lithium Power Motor had cash balance of US$11,979. During the period, the net cash used in operating activities was US$203,338. The net cash used in investing activities was US$5,738,013, which was mainly due to the purchase of property, plant and equipment amounting to US$5,156,732. The cash generated from financing activities was US$5,951,757, which was mainly due to the current accounts of the company. The registered capital was US$2,342,400, of which, US$2,333,616 was contributed by Lithium BJ and US$8,784 by an Independent Third Party.

In 2010, Lithium Power Motor used its funds mainly for normal operating expenses, the capital requirements for research and development, repayment of amounts due to certain creditors and investment activities.

Capital Structure

As at 31 December 2010, Lithium Power Motor had liabilities of US$4,904,976 and net current liabilities of US$3,309,640.

Material Investment, Acquisition or Disposal

As at 31 December 2010, the company acquired total net fixed assets of US$5,357,175, these comprised office assets of US$37,046, and machinery and equipment of US$5,028,561. Apart from the activities mentioned above, Lithium Power Motor did not have any further plan for material investment or capital outlay.

Human Resources

As at 31 December 2010, Lithium Power Motor had a total of 59 employees whose total emoluments amounted to US$20,523.34. The remuneration packages were based on their respective working experience, educational background and responsibilities which have been kept at a competitive level. Remuneration package includes wages only.

Pledge of Assets

As at 31 December 2010, Lithium Power Motor did not have any pledge on assets.

Contingent Liabilities

As at 31 December 2010, Lithium Power Motor did not have any material contingent liabilities.

Exposure to Fluctuations in Exchange Rate

During the period under review, the receivables (including other receivables), the amounts payable to shareholders and other payables and management fees of Lithium Power Motor were mainly denominated in Renminbi, so it did not adopt any foreign exchange hedging policy. However, the management has monitored the foreign exchange risk and will take protective approaches in future when necessary.

Future Plan and Prospects

The company will focus on expansion and improvement of its battery business and market penetration in the first half of FY 2011. The company will generate no revenue in the preparatory period (i.e. from January to May of the year). It will keep its operating costs at previous level. Starting from the second half of the year, on condition that fund contribution is available, more efforts will be put on the company's marketing and sales activities and its share of contribution to previous operating expenses will be cut. The company will commence production and start to generate sales revenue in the second half of the year, and net profit is expected to be realized for the year.

For FY 2012, the company will place more efforts on market expansion. Meanwhile, on condition that fund contribution is available and sales charge, management expense and finance costs are under control and their ratio to the total cost of sales can be reduced, the company will realize an expansion in battery production capacity and achieve an increase in sales revenue for the year.

Similarly, for FY 2013, more efforts will be needed to make market expansion. Meanwhile, on condition that further fund contribution will be available and cost of sales will be cut and sales charge, management expense and finance costs can be reduced to a low percentage ratio of the total cost of sales commencing from the year of 2013. The company will greatly increase the annual output of battery and realize significant growth in net profit for the year.

Taking into account the availability of fund contribution and the expected cash flow in the next three years, the directors of Lithium Power Motor consider that, if the company's sales plan could be implemented, the directors believe that Lithium Power Motor will have adequate working capital to meet its operation requirements and repay its debts.

(VII) Management Discussion and Analysis of Lithium New EV

Business Review for the Period from 2 February 2010 (date of incorporation) to 31 December 2010

Lithium New EV was incorporated as a limited liability company in the PRC on 2 February 2010. It is principally engaged in the preparation of the electric bus manufacturing project.

As at 31 December 2010, Lithium New EV was still in the preparation stage, and was only in the vehicle assembly stage.

Lithium New EV is currently in the preparation stage and did not generate any sales revenue.

In terms of operating segments, Lithium New EV has only one operating segment. Therefore, the amounts of its revenue, operating results, assets and liabilities were the same as those stated in the consolidated income statement and the consolidated statement of financial position. Lithium New EV did not record any revenue by geographical segment.

Financial Review

Lithium New EV was incorporated on 2 February 2010. It did not generate any revenue for the accounting period from 2 February 2010 to 31 December 2010, Lithium New EV recorded total expenses amounting to US$219,183 as at 31 December 2010, and recorded net loss amounting to US$219,183 in 2010. The losses incurred for the year were mainly attributable to employee emoluments, technology research and development expenses, office overhead and project investments.

Inventories

As at 31 December 2010, Lithium New EV had inventories amounting to US$261,351 with an inventory turnover of 210 days. Among which, the amounts of raw materials and work-in-progress were US$66,518 and US$194,833 respectively.

Receivables

As at 31 December 2010, Lithium New EV had other receivables amounting to US$741,737.

Liquidity and Capital Resources

As at 31 December 2010, Lithium New EV had cash balance of US$928. During the period, the net cash used in operating activities was US$522,080. The cash used in investing activities was US$1,116,940. The cash generated from financing activities was US$1,640,780, which was mainly due to the current accounts of the company. The registered capital was US$1,464,000, which was fully contributed by Lithium BJ.

In 2010, Lithium New EV used its funds mainly for normal operating expenses, necessary capital requirements for R&D activities and repayment of amounts due to certain creditors.

Capital Structure

Lithium New EV had net current asset amounting to US$1,295,593 as at 31 December 2010.

Material Investment, Acquisition or Disposal

As at 31 December 2010, Lithium New EV acquired fixed assets of US$281,267. These comprised office assets of US$13,755, machinery and equipment of US$237,049 (including plants) and vehicles of US$8,294 (Note: such revised amounts are stated at cost). Apart from the activities mentioned above, Lithium New EV did not have any further plan for material investment or capital outlay.

Human Resources

As at 31 December 2010, Lithium New EV had 40 employees whose total emoluments amounted to US$14,716.74. Remuneration package was based on working experience, educational background and responsibilities and has been kept at a competitive level. Remuneration package includes wages only.

Pledge on Assets

As at 31 December 2010, Lithium New EV had no pledge on assets.

Contingent Liabilities

As at 31 December 2010, Lithium New EV did not have any material contingent liabilities.

Exposure to Fluctuations in Exchange Rate

During the period under review, the receivables (including other receivables), the amounts payable to shareholders and other payables and management fees of Lithium New EV were mainly denominated in Renminbi, so it did not adopt any foreign exchange hedging policy. However, the management has monitored its foreign exchange risks and will take protective approaches in future when necessary.

Future Plans and Prospects

Lithium New EV has been merged with Lithium Sales in April 2011.

(VIII) Management Discussion and Analysis of Lithium Jilin

Business Review for the period from 26 November 2010 (date of incorporation) to 31 December 2010

Lithium Jilin was incorporated in the People's Republic of China on 26 November 2010 with limited liability. It is principally engaged in electric vehicle power assembly products and vehicle electronics, new energy technology and battery, the research and development of battery, battery equipments and battery management system, and computer system service and software development.

During the period ended 31 December 2010, Lithium Jilin was in the preparation stage, as such it was only engaged in the research and development of batteries, battery equipments and battery management system.

Lithium Jilin is currently in the preparation stage which did not generate any sales revenue. It is expected that the Company will start the business of sale of vehicle batteries in 2011.

Financial Review

Lithium Jilin did not generate any sales revenue for the accounting period from 26 November 2010 to 31 December 2010, and recorded net loss amounting to US$22,341 in 2010. As at 31 December 2010, the loss incurred was mainly attributable to staff emoluments, technology research and development expenses and administrative and office overhead.

Administrative expenses

Lithium Jilin recorded administrative expenses from operations amounting to US$22,428 as at 31 December 2010.

Inventories

Lithium Jilin had inventories amounting to US$615,780 as at 31 December 2010. Among which, the amounts of raw materials, work-in-progress and finished products were US$104,610, US$42,020 and US$469,150 respectively. During the period ended 31 December 2010, the turnover day of its inventory was zero.

Receivables

As at 31 December 2010, Lithium Jilin had other receivables amounting to US$411,887. During the year ended 31 December 2010, the turnover day of its receivables was zero.

Liabilities

Lithium Jilin had current liabilities of US$5,164,351 and net current liabilities of US$(3,719,591) as at 31 December 2010.

Liquidity and Capital Sources

As at 31 December 2010, Lithium Jilin had a cash balance of US$417,093. During the period, the net cash used in operating activities was US$600,784 which was mainly due to the increase in inventories of US$615,780. The net cash used in investing activities was US$5,628,833, which was mainly due to the purchase of property, plant and equipment amounting to US$5,218,250. The cash generated from financing activities was US$6,646,710, which was mainly due to the advance from former intermediate holding company, and its source of funds came from the registered capital of US$1,521,000 which was contributed as to US$1,368,900 by Lithium Zhuhai and as to US$152,100 by an Independent Third Party.

In 2010, Lithium Jilin used its funds mainly for normal operating expenses, necessary expenses for research and development and repayment of amounts due to certain creditors.

Material Investment, Acquisition or Disposal

On 6 December 2010, Lithium Jilin entered into a contract with an Independent Third Party in respect of the purchase of fixed assets and the transfer of inventories in an aggregate amount of US$5,811,680.51. Apart from the abovementioned activities, Lithium Jilin did not have any further plan for other material investment, acquisition or capital outlay.

Human Resources

As at 31 December 2010, Lithium Jilin had a total of 111 employees whose total emoluments amounted to US$6,182. The remuneration packages were based on their respective working experience, educational background and responsibilities and have been kept at a competitive level. Remuneration packages include wages and year-end bonus.

Pledge of Assets

As at 31 December 2010, Lithium Jilin had no pledge on assets.

Contingent Liabilities

As at 31 December 2010, Lithium Jilin did not have any material contingent liabilities.

Exposure to Fluctuations in Exchange Rate

During the period under review, the receivables (including other receivables), the amounts payable to shareholders and other payables and management fees of Lithium Jilin were mainly denominated in Renminbi, so it did not adopt any foreign exchange hedging policy. However, the management has monitored the foreign exchange risk and will take protective approaches in future when necessary.

Future plan and prospects

In the first half of FY 2011, the company will vigorously develop the market and will put more efforts into the research and development, sales and further improvement of battery. The company will generate no revenue in the preparatory period (i.e. the first quarter of 2011) and operating expenses will remain at previous level. In the second half of FY 2011, on condition that the investment funds are available, the Company will increase capital input in marketing and sales activities and its share of contribution to previous operating expenses will be cut. In the second half of the year, the battery business will achieve the goal of increase in production capacity and will generate revenue so that a net profit will be realized in the same year.

For FY 2012, the company will place more efforts into market expansion. Meanwhile, on condition that the investment capital is available, the company will control sales charge, management expense and finance costs and reduce their proportions to the total cost of sales. The company will realize an increase in net profit from sales of battery for the year.

For FY 2013, similarly, more efforts will be needed to make market expansion. Meanwhile, on condition that a further fund contribution will be available, the company will control the sales charge, management expense and finance costs within a small proportion to the total cost of sales. The company will increase its sales volume of battery and realize a significant growth in net profit for the year.

Taking into account the availability of fund contribution and estimating future cash flow within 3 years, the directors of Lithium Jilin consider that, if the company's sales plan could be implemented, Lithium Jilin will have adequate working capital to meet its operation requirements and repay its debts.

(IX) Management Discussion and Analysis of Lithium Guang

Business Review for the period from 6 November 2010 (date of incorporation) to 31 December 2010

Lithium Guang was incorporated in the PRC on 6 November 2010 with limited liability. It is principally engaged in, inter alia, electric vehicle power assembly products, vehicle electronics, new energy technology and battery, and the research and development of battery, battery equipments and battery management system.

During the period under review, Lithium Guang did not conduct any business. It is expected that Lithium Guang will be engaged in the sale of electric vehicles in the Pearl River Delta region in future.

In terms of business operation, Lithium Guang has only one operating segment. Therefore, the amounts of its revenue, operating results, assets and liabilities were the same as those stated in the consolidated statement of comprehensive income and the consolidated statement of financial position. Lithium Guang did not record any revenue by geographical segment. It is expected that it will generate revenues in the Pearl River Delta region in future.

Lithium Guang is currently in the preparation stage which did not generate any sales revenue. It is expected that the company will start the business of sale of electric vehicles in 2011.

Financial Review

Lithium Guang did not generate any sales revenue for the accounting period from 6 November 2010 to 31 December 2010.

Expenses

As at 31 December 2010, it had incurred sales expense of US$4,374, which mainly included entertainment expenses, traveling expenses and communication expenses incurred by sales personnel for business expansion; management expenses of US$12,112, which were mainly attributable to staff emoluments and meal allowances, administrative and office expenses, vehicle overheads and operation overheads; and the finance costs of US$72 which were mainly remittance fees charged by banks and interest income from deposits in banks. It recorded net loss amounting to US$16,414 in 2010. As at 31 December 2010, the losses incurred were mainly attributable to staff emoluments, entertainment expenses and administrative and office overhead.

Inventories

Lithium Guang did not have any inventory as at 31 December 2010.

Receivables

As at 31 December 2010, Lithium Guang had other receivables amounting to US$3,042 which was the petty cash borrowed by employees. A borrower shall obtain the official receipt within one week time and had the receipt signed or sealed by the borrower and his/her supervisor, and then the borrower could proceed with the reversal procedure. For borrower who failed to complete the reversal procedure within one week, the lump sum will be deducted on the payday of the month. Its amounts due from immediate holding company amounted to US$152,100, the turnover days of which depended upon its business demand.

Liabilities

As at 31 December 2010, Lithium Guang had other payables arising from net current liabilities amounting to US$3,943. During the year, Lithium Zhuhai paid normal operating expenses of approximately of US$3,943 on behalf of Lithium Guang, which mainly comprised the contribution of housing funds for certain employees and the reimbursement of certain expenses.

Liquidity and Capital Resources

As at 31 December 2010, Lithium Guang had a cash balance of US$136,346. During the period, the net cash used in operating activities was US$15,502. The cash used in investing activities was US$152,352. The cash generated from financing activities was US$304,200, which was mainly due to the change in current accounts of the company. The registered capital of US$304,200 contributed by Lithium Zhuhai.

In 2010, Lithium Guang used its funds mainly for normal operating expenses, including management fees, sales expenses, financial expenses and repayment of amounts due to certain creditors.

Material Investment, Acquisition or Disposal

As at 31 December 2010, Lithium Guang did not have any further plans for other material investment or capital operation.

Human Resources

As at 31 December 2010, Lithium Guang had 11 employees whose total emoluments amounted to US$9,726. Their remuneration packages were based on their respective working experience, educational background and responsibilities and have been kept at a competitive level. Remuneration packages include wages and year-end bonus.

Pledge of Assets

As at 31 December 2010, Lithium Guang did not have any pledge on assets.

Exposure to Fluctuations in Exchange Rate

During the period under review, the receivables (including other receivables), the amounts payable to shareholders and other payables and management fees of Lithium Guang were mainly denominated in Renminbi, so it did not adopt any foreign exchange hedging policy. However, the management has monitored the foreign exchange risk and will take protective approaches in future when necessary.

Capital Structure

The capital structure of Lithium Guang is comprised of liabilities (including borrowings), cash and bank balance and owners' equity. It had a capital contribution of US$304,200 upon its incorporation. As at 31 December 2010, it had receivables classified under current assets of US$155,142, bank balance and cash of US$136,346, current liabilities of US$3,943 and owners' equity of US$287,786.

Contingent Liabilities

Lithium Guang did not have any contingent liabilities as at 31 December 2010.

Future Plan and Prospect

Looking back to 2010, the development trend of automobiles was in line with that of low-carbon economy, and automobiles have long positioned itself primarily towards energy conservation, environment friendliness and safety and thus new energy vehicles are expected to dominate the development of the world's automobile industry. Zhuhai Guang Lithium Electric Vehicles Company Limited has focused on the exploration into the vehicle assembly, expansion and improvements of sales outlets in 2010. In the future, it will put emphasis on developing the electric bus markets in the key second-tier cities and the surrounding areas of Guangdong Province, particularly targeting such markets in Shenzhen and Guangzhou. It strived to gain support and recognition from government agencies and made inroads into the niche market of electric shuttle bus for enterprises and government agencies within the urban areas. The Company will pursue its development strategy proactively with a view to creating additional values for shareholders.

(X) The Prospect of the Electric Vehicle Industry

In March 2009, the Obama Administration unveiled its US$2.4 billion funding boost for the research and development and industrialization of plug-in electric vehicles (among which, US$1.5 billion will be used to support the research and development and industrialization of advanced power batteries). The Administration also set a target for US automobile manufacturers to produce 1,000,000 new energy vehicles by 2015. The European Union and Japan also formulated and promulgated their own policies for the development of new energy/electric vehicles.

In 2010, the latest generation of pure electric vehicles and plug-in hybrid electric vehicles (HEV) manufactured by some of the world's leading automobile manufacturers began to hit the market. Certain large domestic and overseas automobile manufacturers launched their new energy vehicles one after the other. The research and development and utilization of new energy vehicles in a broader scope has become a global trend.

Under such circumstance, in September 2009, new energy/electric vehicles, new energy sources and new materials were specified by the PRC government as the country's new strategic industries which were raised to the viewpoint of national strategy. Fostering and supporting new strategic industries are important steps taken by the PRC government to develop a new economic growth engine and promote the transformation of the economic structure. As one of the new strategic industries, the new energy/electric vehicle industries will be able to receive systematic policy support and promotion from the government, including government subsidies for the research and development, production and purchase of new energy vehicles and giving priority to the construction of electric vehicle-charging facilities and providing car-parking spaces and licencing for electric vehicles.

The Automobile Industry Invigoration Plan (《汽車產業振興規劃》) released in 2009 has clearly set the development goal and strategic plan for China's new energy vehicle industry as follows: realizing an economy of scale in the production and sales of new energy vehicles, forming a production capacity of 500,000 new energy vehicles including pure electric type, plug-in HEV type and conventional HEV type through transforming existing production capacity, such that the sales of new energy vehicles shall account for approximately 5% of the total sales volume of passenger vehicles; and promoting the industrialization of pure electric vehicles, plug-in hybrid electric vehicles and related key spare parts.

According to the Vendor's estimation which is based on the forecast annual growth of 10% on the basis of 5,000,000 passenger vehicles produced and sold in 2008, the demand for passenger vehicles in China will reach 6,600,000 by 2011, of which new energy vehicles and new energy passenger vehicles will account for at least 330,000 and 15,000 respectively. By 2020, the total number of hybrid electric vehicles in use will reach 18,000,000 while pure electric vehicles in use will amount to 4,000,000 in China.

Electric vehicles

Currently, the world's electric passenger vehicle market is about to step into a start-up stage in which electric passenger vehicles are likely to compete with conventional coaches as a result of certain technological breakthrough. Thus, electric passenger vehicles will have promising market prospects.

According to the statistics released by the International Organization of Motor Vehicle Manufacturers, the world's output of commercial vehicles amounted to approximately 14.02 million in 2009. With increasing demand for large and medium-sized passenger vehicles from countries like China, India and Brazil, the Vendor anticipates that future production and sales volume of passenger vehicles will increase steadily at an average annual growth rate of approximately 6%. According to the Vendor's estimation of the proportion of electric passenger vehicles required, developed regions and countries such as the European Union and Japan will account for 10%, while other regions account for 5%, thus the global demand for electric passenger vehicles will exceed 25,000 in 2010 (excluding China).

In addition, the Vendor estimates that the number of electric passenger vehicles required in China in 2011 will be around 7,000, representing approximately 6% to 7% of the total number of large and medium-sized passenger vehicles required by the market. Huge space in the end-user market and strong supportive industry policies have boosted the development of relevant spare parts industry in the domestic new energy vehicle market. Consequently, the power battery sector, as a relevant key technology, will become the focus of investments by domestic enterprises.

The advantages for developing lithium battery vehicles

China has unique advantages for developing lithium batteries. Firstly, it has the advantage of abundant resources. The most critical components for manufacturing lithium battery vehicles are lithium-ion power batteries and permanent magnetic synchronous motors (PMSM). The main raw materials for manufacturing lithium-ion power batteries are lithium, manganese, iron and vanadium which are all abundant in China. While the raw material for making PMSM is rare earth which China has a large reserve. All these resources guarantee the raw materials supply for lithium battery vehicle production.

Secondly, China has technological advantages. China has already completed the industrialization of low-power lithium-ion batteries, and a complete industrial chain with a combination of upstream and downstream industries was formed. With internationally advanced technologies and mature industrialization, China's lithium-ion batteries command one-third of the world supply. Hence, either from the perspective of the characteristics of lithium-ion battery itself or the present development situation in China, the development of lithium-ion power batteries will be in line with the trend of industrialization of new energy vehicles in China. According to the Vendor's estimation, the annual demand for triphylite will exceed 15,000 tonnes. It is estimated that by 2012, the annual output of new energy vehicles in China will reach 1,000,000, and the output value of lithium batteries for new energy vehicles will amount to RMB70 billion.

The Present Situation of the Development of the Electric Passenger Vehicle Industry

The Chinese government has promulgated a series of policies to support the development of new energy vehicles. This shows the government's determination in facilitating the rapid development of new energy vehicles (mainly new energy passenger vehicles in the short term). Benefited from the supportive policies, the new energy passenger vehicle sector is expected to experience a rapid development. On one hand, the considerably high purchase price makes new energy sedans disadvantageous in terms of comprehensive utilization costs and user-friendliness. On the other hand, urban public transportation vehicles have less requirements for battery size and weight, and there are relatively good and stable road conditions and low speed requirements in urban areas. In addition, the locations of battery charging facilities are also concentrated. The Vendor anticipates that the urban public transportation sector represented by buses and taxis can be taken as the breakthrough point of the industrialization of new energy vehicles. In the early stage of development of the industry and in a market yet to be fully marketised, the implementation of favourable policies will help to accelerate the industrialization of the new energy vehicle sector. These are also the reasons why the government has approved the program of "Thousand New Energy Vehicles for Each of the Ten Pilot Cities" ("十城千輛") and the program for promotion and demonstration of energy conservation vehicles and new energy vehicles in China's 13 pilot cities.

Competitive Advantages of the Target Group

The greatest competitive advantages of the Target Group include the following:

1. It is one of the qualified electric vehicle manufacturers passing national tests and inspections and possessing the 3 core technologies, namely lithium battery, power motor and controller equipment.

2. The Target Group has a management team comprising professional and experienced personnel. It has 71 mid- to high-level management personnel, of whom 56 are university degree holders or above, 6 are master degree holders

or overseas returnees. It also has a research and development team comprising professors and experts from Tsinghua University and Beijing Institute of Technology. The Target Group has developed its own brand ("鋰源牌") of high power permanent magnet brushless DC motor and permanent magnetic synchronous motor. The Target Group is also able to provide its customers with self-developed driving motor systems for electric vehicles (power motor and controller equipment).

3. The Target Group has market presence in Jilin, Hebei, Beijing and Guangdong and has potential for further development.

4. A number of domestic passenger vehicle manufacturers who have cooperative relationship with the Target Group have applied for "the Catalogue for Pure Electric Vehicle Production" and have become state-approved and qualified pure electric vehicle manufacturers.

5. Target Group is capable to have a complete automation of key production processes.

Investments in the industry of lithium battery used in vehicles face both risks and opportunities

As the world witnessed the upsurge of new energy and electric vehicles, the lithium battery industry has come to the spotlight with the strong support of policies on "new energy" and "new materials" segments under the 12th Five-Year Plan in China.

1. The battery industry becomes the core investment focus for new energy vehicles

With the support of industrial, fiscal and financial policies, great development potential has been bestowed upon the new energy vehicle industry. The whole industry chain is faced with investment opportunities, with the battery industry being the main beneficiary. As the development of new energy vehicles has become one of the national strategies, higher expectations are placed on new energy vehicles under the energy conservation and emission reduction strategy in China. Favourable policies bring about great development potential for the industry.

2. Focal point of the emerging industry

The new energy vehicle industry will enter into a stage of substantial development and become a strategic emerging industry. According to the commitment of the Chinese government, China will achieve a reduction of 40% to 45% in carbon dioxide emission by 2020 as compared with 2005 on a "per unit of GDP emission" basis. As the automotive industry is one of the primary targets of emission reduction, more stringent emission standards shall be established in this regard, and the adoption of new energy for the automotive industry is inevitable.

3. Core investments opportunities will focus on the battery industry

The new energy vehicle industry offers medium- and long-term investment opportunities, whereby the whole industry chain will be benefited, with the battery industry being the main beneficiary. Meanwhile, investment value will extend to other segments including electrical system, whole vehicle and upstream resources.

Electric vehicles consume huge amount of battery. The Vendor estimates that on average, each electric vehicle will use 50 kg of anode materials, 40 kg of cathode materials and 40 kg of electrolyte. Out of the domestic demand for 8,000 tonnes of electrolyte in 2009, the demand from the automotive industry alone increased by 50%. If China accomplishes its objective of the sales volume of 500,000 new energy vehicles in 2012, the lithium battery industry in China will maintain an annual growth rate of 50% in the next three years. Based on the sales volume of 500,000 new energy vehicles in China in 2010, if 20% of these new energy vehicles use lithium battery, then 100,000 new energy vehicles will consume 5,000 tonnes of anode materials, 4,000 tonnes of cathode materials and 4,000 tonnes of electrolyte. Based on the annual sales volume of lithium battery recorded in 2009 in China, the lithium battery industry in China will maintain an annual growth rate of 50% for in next three years.

At present, lithium battery has a relatively high market penetration rate, and nickel hydrogen battery also has an upbeat development prospect. Lithium battery enjoys high gross profit margin and contributes substantially to the operating results of relevant entities. Specifically, the Vendor estimates that the gross profit margin of anode materials, cathode materials, electrolyte, septum materials and lithium hexafluorophosphate are 30%, 20%, 40%, 70% and 70% respectively.

3. STATEMENT OF INDEBTEDNESS

At the close of business on 31 March 2011, being the latest practicable date for the purpose of this indebtedness statement, the Enlarged Group had outstanding borrowings of approximately US$72.5 million. The borrowings comprised (i) bank loans of the Enlarged Group of approximately US$9.8 million secured by property, plant and equipment and land use rights of the Enlarged Group; (ii) secured other borrowing of the Enlarged Group of approximately US$1.2 million secured by inventories of the Enlarged Group; (iii) unsecured other borrowings of the Enlarged Group of approximately US$4.3 million; (iv) consideration payable for acquisition of subsidiaries of the Enlarged Group of approximately US$6.3 million; (v) unsecured convertible notes issued by the Enlarged Group in aggregate principal amount of approximately US$50.9 million; and (vi) obligation under a finance lease of approximately US$0.02 million.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have at the close of business on 28 February 2011 any issued and outstanding or agreed to be issued, loan capital, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

4. WORKING CAPITAL

The Directors are of the opinion, after taking into account (i) the Enlarged Group's internal resources; (ii) the present available banking and other facilities; (iii) the payment of the consideration in connection with the Acquisition; (iv) the settlement of all outstanding loans, debts, liabilities or other financial facilities outstanding or available to the Target Group prior to the completion of the Acquisition; and (v) the proceed from the completion of the Share Placings and CN Placing, and in the absence of unforeseen circumstances, that the Enlarged Group will have sufficient working capital for a period of 12 months from the date of this circular.

5. FINANCIAL AND BUSINESS PROSPECTS

The Group is principally engaged in the business of manufacturing and sale of wooden products. The performance of this business of the Group has not been promising and thus the Group has been seeking other business development and/or potential investment opportunities. In view of the continuous loss in the timber business, the Company has been evaluating various alternatives with a view to improving its performance. If such performance cannot be improved and/or in order to avoid further losses to be generated from this timber business, the Company may consider to take further necessary actions, including any scale down or otherwise disposal of interests in such timber business should opportunities arise in the future.

The Group has also been engaged in the property development in the PRC since August 2010, following the completion of the Acquisition of Allywing. The Group has formulated a proposal for the development of the piece of land in Xi'an into a luxury residential and commercial area comprising approximately 435,595 square meters for residential use and approximately 90,403 square meters for commercial use. In January 2011 and February 2011, both the PRC central government and Xian municipal government imposed measures with the view to stabilize the property market. This includes limiting the number of flats that may be purchased by one family etc. As a result, there was a significant drop in property sales in Xian city in March 2011. In view of the current market condition and the macro-economic control, it is expected that the Group will delay its first phase of the development to October 2011. The Company intends to engage in the property development notwithstanding Acquisition Completion.

Upon Acquisition Completion, the Enlarged Group will also be engaged in three segments, namely, (i) battery; (ii) power motor and controller equipments; and (iii) co-operation with strategic partners in the manufacturing of automotive vehicles, with a focus on the electric vehicles market, which the Company believes is a fast growing market with great potential demands. Taking into consideration the production facilities and the technology possessed by the Target Group, it is expected that the Target Group will be able to contribute recurring cashflow and favourable returns to the Group.

Reference is made to an announcement of the Company dated 11 May 2011 in relation to a non-legally binding memorandum of understanding entered into between the Group and Management Committee of Economic Development Zone of Binzhou, Shandong Province, the PRC (中國山東省濱州市經濟開發區管理委員會) (the "**Authority**"), a governmental body established by the People's Government of Zouping County on 11 May 2011, pursuant to which, the Group intends to invest a total of RMB800 million to RMB1,000 million in Shandong district to establish a manufacturing base of electric vehicle component parts, comprising lithium-ion batteries, power motors and controllers, research and design centre, inspection centre, assembly unit of electric vehicle etc.. If upon the Acquisition Completion and that a formal agreement has been entered into with the Authority, the Group may consider to utilize the technology possessed by the Target Group on the electric vehicles to be manufactured by such manufacturing base in Binzhou.

* *For identification purpose only*

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 31 March 2011 of the properties held by the Enlarged Group.

Asset Appraisal Limited
資產評值顧問有限公司

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145 Hennessy Road, Wanchai, Hong Kong
香港灣仔軒尼詩道145號
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25 May 2011

The Board of Directors
Fulbond Holdings Limited
Unit 2807 28/F
The Center
No. 99 Queen's Road Central
Central Hong Kong.

Dear Sirs,

Re: Valuation of Properties situated in the People's Republic of China and in Hong Kong

In accordance with the instructions from **Fulbond Holdings Limited** (the "**Company**") to value the property interests (the "**Properties**") held by the Company, **Lithium Energy Group Ltd.** (the "**Target Company**") or their subsidiaries (altogether referred to as the "**Enlarged Group**"), we confirm that we have inspected the Properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the Properties as at **31 March 2011** (the "**valuation date**").

BASIS OF VALUATION

Our valuation of the Properties represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

TITLESHIP

We have been provided with copies of legal documents regarding the Properties. However, we have not verified ownership of the Properties and the existence of any encumbrances that would affect their ownership.

We have also relied upon the legal opinion provided by the PRC legal advisers, namely Fujian Dazhong Law Firm (福建大中律師事務所) and Guantao Law Firm (Hong Kong) (觀韜律師事務所 (香港)) (the "**PRC Legal Opinion**"), to the Company on the relevant laws and regulations in the PRC, on the nature of the owner's land use rights in the property situated in the PRC. Its material content has been summarized in the valuation certificate attached herewith.

VALUATION METHODOLOGY

The property interests in Group I, which are property interests owned by the Enlarged Group for future development, have been valued by the comparison method where comparison based on price information of comparable properties. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

We have attributed no commercial value to the property interests in Group II, which are properties rented by the Enlarged Group, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the fact that the duration and amount of profit rents cannot be ascertained.

ASSUMPTIONS

Our valuation has been made on the assumption that the owner sells the properties in Group I on the market with the benefit of vacant possession but without the benefit of deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to affect the values of the properties.

As the property interests in Group I are held by the owners by means of long term Land Use Rights granted by the Government, we have assumed that the owner has free and uninterrupted rights to use the properties for the whole of the unexpired term of the land use rights.

Other special assumptions for our valuation (if any) would be stated out in the footnotes of the valuation certificate attached herewith.

LIMITING CONDITIONS

No allowance has been made in our report for any charges, mortgages, land idling penalties or amounts owing on the Properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, tenancy and all other relevant matters.

We have not carried out detailed site measurements to verify the correctness of the site and floor areas in respect of the Properties but have assumed that the site and floor areas shown on the documents and official site plans or floor plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the buildings and structures of the Properties. However, no structural survey has been made for them. In the course of our inspection, we did not note any apparent defects. We are not, however, able to report whether the buildings and structures inspected by us are free of rot, infestation or any structural defect. No test was carried out on any of the building services and equipment.

We must point out that we have not carried out site investigations to determine the suitability of the ground conditions or the services for the development sites of the Properties. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

In valuing the Properties, we have complied with all the requirements contained in Chapter 5, Practice Note 12 and Practice Note 16 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors effective from 1st January 2005.

All monetary sums stated in this report are in Renminbi (RMB).

Our summary of valuation and valuation certificate are attached herewith.

Yours faithfully,
for and on behalf of
Asset Appraisal Limited
Sandra Lau
MFin MHKIS AAPI RPS(GP)
Director

Sandra Lau is a member of the Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. She is on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Forum and has over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

SUMMARY OF VALUATION

Property	Market value in existing state as at 31 March 2011	Interest Attributable to the Company	Value of property interest attributable to the Company as at 31 March 2011
Group I – Property Interests owned by the Enlarged Group for future development			
1. Two parcels of land situated at the north of Sheung Ji Road Weiyang District Xian City Shaanxi Province the PRC	RMB470,000,000	100%	RMB470,000,000
2. Development Site in Minying Science and Technology Industrial Park Shuidong Town Dianbai County Maoming City Guangdong Province the PRC	RMB4,400,000	100%	RMB4,400,000
Sub-total:	**RMB474,400,000**		**RMB474,400,000**
Group II – Properties rented by the Enlarged Group			
3. Unit 2807 on 28th Floor The Center No. 99 Queen's Road Central Central Hong Kong	No commercial value	100%	No commercial value
4. Land, various buildings and structure of Jilin Fudun Timber Co., Ltd. No.6 Tiedong Alley Bohai Street Dunhua Development Area Dunhua City Jilin Province the PRC	No commercial value	100%	No commercial value

Property	Market value in existing state as at 31 March 2011	Interest Attributable to the Company	Value of property interest attributable to the Company as at 31 March 2011
Group II – Properties rented by the Enlarged Group			
5. Unit 6, Level 24, Yuecai Building No. 188 Jidajingshan Road Zhuhai City Guangdong Province the PRC	No commercial value	100%	No commercial value
6. Office Unit 301 No. 153 Jichang West Road Sanzao Town, Jinwan District Zhuhai City Guangdong Province the PRC	No commercial value	100%	No commercial value
7. Unit 105, Level 6 Block 21 Chaoda Chuangye Yuan (Community) Gaoxin District Changchun City Jilin Province the PRC	No commercial value	100%	No commercial value
8. A warehouse located in Yandan Beiqijia Town Changping District Beijing City the PRC	No commercial value	100%	No commercial value

Property	Market value in existing state as at 31 March 2011	Interest Attributable to the Company	Value of property interest attributable to the Company as at 31 March 2011
Group III – Properties occupied by the Enlarged Group with permission of the owners			
9. Unit 1204, 1B Feng Lin Lv Zhou Kexueyuan Nanli Datun Road Chaoyang District Beijing City the PRC	No commercial value	100%	No commercial value
10. Factory 3# situated at No. 4370 Gaoxin Road Gaoxin District Changchun City Jilin Province the PRC	No commercial value	100%	No commercial value
11. Factory 12#, 13# and 16# situated in Caofeidian Industrial Zone Tangshan City Hebei Province the PRC	No commercial value	100%	No commercial value
12. Factory 17# situated in Caofeidian Industrial Zone Tangshan City Hebei Province the PRC	No commercial value	100%	No commercial value
13. Factory 15# situated in Caofeidian Industrial Zone Tangshan City Hebei Province the PRC	No commercial value	100%	No commercial value
Grand Total:	**RMB474,400,000**		**RMB474,400,000**

VALUATION CERTIFICATE

Group I – Property Interests owned by the Enlarged Group for future development

	Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 31 March 2011 *RMB*
1.	Two parcels of land situated at the north of Sheung Ji Road Weiyang District Xian City Shaanxi Province the PRC Lot Nos. WY6-5-1-1 and WY6-5-1-3 (陝西省西安市未央區尚稷路北之兩幅土地)	The property comprises two parcels of contiguous land which are currently bare and vacant sites. One of the land parcels namely Lot No. WY6-5-1-1 with an area of approximately 19,739.20 square metres is designated for commercial uses. The other land parcels namely Lot No. WY6-5-1-3 with an area of approximately 134,356.70 square metres is designated for residential uses. According to two Stated-owned Land Use Rights Certificates, the land use rights of Lot No. WY6-5-1-1 and WY6-5-1-3 have been granted for terms expiring on 31 January 2048 and 31 January 2078 respectively.	The property is currently vacant.	470,000,000

Notes:

1. As revealed by a State-owned Land Use Rights Certificate (Ref: Xi Wei Gao Yong (2009 Chu) Di No. 12 (西未國用 (2009)出第 012號)) issued by the Municipal Government of Xian City on 15 January 2009, the land use rights in Lot No. WY6-5-1-1 with an area of approximately 19,739.2 square metres are held by Xian Yuan Sheng Enterprise Co. Ltd. (西安遠聲實業有限公司), a wholly-owned subsidiary of the Company, for a term expiring on 31 January 2048 for commercial use.

2. As revealed by another State-owned Land Use Rights Certificate (Ref: Xi Wei Gao Yong (2009 Chu) No. 11 西未國用 (2009)出第 011號) issued by the Municipal Government of Xian City on 15 January 2009, the land use rights in Lot No. WY6-5-1-3 with an area of approximately 134,356.7 square metres are held by Xian Yuan Sheng Enterprise Co. Ltd. for a term expiring on 31 January 2078 for residential use.

3. By virtue of a capital injection agreement dated 28 September 2005, the property was acquired by Xian Yuan Sheng Enterprise Co. Ltd. at a consideration of RMB25.0314 million. As confirmed by the Xian Yuan Sheng Enterprise Co. Ltd., a total sum of approximately RMB190.58 million (including land grant premium, land use modification premium and costs for site improvement works) has expended to the property.

4. As revealed from a Land Use Rights Granting Modification Agreement (Ref. No. 18233-1) and its supplemental agreement (Ref. No. 18233-2) both entered into between the Land Resources Administration Bureau of Xian City and Xian Yuan Sheng Enterprise Co. Ltd. on 1 February 2008, Lot No. WY6-5-1-3 of the property is subject to the following material development conditions:

Site Area	:	134,356.8 square metres
Land Use	:	Residential
Plot Ratio	:	3.23x
Site Coverage	:	15.9%
Greenery Rate	:	38%
Work Start	:	30 December 2008 or before (extendable for not more than 1 year upon 30 day prior application)
Work Completion	:	not later than 31 December 2010 (subject to adjustment based on the approved deferred work start date)
Land Idling Penalty	:	RMB7,523,980 per annum

5. As revealed from a Land Use Rights Granting Modification Agreement (Ref. No. 18233-3) and its supplemental agreement (Ref. No. 18233-4) both entered into between the Land Resources Administration Bureau of Xian City and Xian Yuan Sheng Enterprise Co. Ltd. on 1 February 2008, Lot No. WY6-5-1-1 of the property is subject to the following material development conditions:

Site Area	:	19,739.3 square metres
Land Use	:	Commercial
Plot Ratio	:	4.55x
Site Coverage	:	15.9%
Greenery Rate	:	38%
Work Start	:	30 December 2008 or before (extendable for not more than 1 year upon 30 day prior application)
Work Completion	:	not later than 31 December 2010 (subject to adjustment based on the approved deferred work start date)
Land Idling Penalty	:	RMB1,255,419 per annum

6. The PRC Legal Opinion on the property is summarized as follows:

6.1 One of the two land parcels of the property with an area of 134,356.7 square metres is held by Xian Yuan Sheng Enterprise Co. Ltd. (西安遠聲實業有限公司) for residential use for a term expiring on 31 January 2078. A Land Use Right Certificate (Ref. Xi Wei Gao Yong (2009 Chu) No.11) was issued in the name of the Target Company by the Municipal Government of Xian on 15 January 2009;

6.2 The other land parcel of the property with an area of 19,739.2 square metres is held by Xian Yuan Sheng Enterprise Co. Ltd. (西安遠聲實業有限公司) for commercial use for a term expiring on 31 January 2048. A Land Use Right Certificate (Ref. Xi Wei Gao Yong (2009 Chu) No. 12) was issued in the name of the Target Company by the Municipal Government of Xian on 15 January 2009;

6.3 As confirmed by Xian Yuan Sheng Enterprise Co. Ltd. (西安遠聲實業有限公司), the property is not subject to mortgage or other encumbrances;

6.4 Xian Yuan Sheng Enterprise Co. Ltd. (西安遠聲實業有限公司) has agreed with the Land Resources Administration Bureau to commence construction work of the property on or before 30 December 2008 and to complete the construction works by 31 December 2010. From point of law, the Land Resources Administration Bureau is entitled to charge from Xian Yuan Sheng Enterprise Co. Ltd. land idling penalties, penalties for breach of building covenant and even resume the land use rights of the property. However, the delay in the work commencement and work completion are due to the deferral of planning approval of the Government. Having such regards, in the absence of any violation in the part of Xian Yuan Sheng Enterprise Co. Ltd., it shall continue to be entitled to the land use rights in the property free from any administrative punishment and penalty on breach of contract and shall have no legal impediment to obtain or renew relevant planning permits for the subject development;

6.5 Xian Yuan Sheng Enterprise Co. Ltd. has confirmed that it has not received from the Government any demand note on land idling charge or penalty on delay in work commencement and work completion; and

6.6 Based on the legal opinion as mentioned in note 6.4 above, there is no adverse impact on the value of the property arising from the breach of building covenant as mentioned in note 6.4 above.

VALUATION CERTIFICATE

Group I – Property Interests owned by the Enlarged Group for future development

	Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 31 March 2011 *RMB*
2.	Development Site in Minying Science and Technology Industrial Park Shuidong Town Dianbai County Maoming City Guangdong Province the PRC Lot No. 0606035 (廣東省茂名市 電白縣水東鎮民營科技工業園之發展土地)	The property comprises a parcel of land with an area of 16,593.75 square metres on which a 2-storey industrial building and a 3-storey warehouse building are planned to be built. According to the development scheme provided by the Company, the proposed development will provide a total gross floor area of approximately 40,773.46 square metres upon completion. As confirmed by the Company, the proposed development scheme has not obtained any approval from the government. According to the Land Use Rights Certificate, the land use rights of the subject land parcel have been granted for a term expiring on 13 April 2055.	The property is currently vacant.	4,400,000

Notes:

1. Pursuant to the Land Use Rights Transfer Contract entered on 25 March 2008, the land use rights in the property were acquired by Maoming Jia Xing Foods Co., Ltd. (茂名嘉興食品有限公司), a wholly-owned subsidiary of the Company, at a consideration of RMB4,782,000. As confirmed by the Company, the aforesaid purchase price has been fully settled.

2. A Land Use Rights Certificate (Ref. No. Dian Guo Yong (2008) Di00524 (電國用 (2008)第 00524號)) dated 20 May 2008 in relation to the subject land parcel namely lot no. 0606035 was issued in the name of Maoming Jia Xing Foods Co., Ltd.. As mentioned in the Land Use Rights Certificate, the land use rights of the subject land parcels have been granted for a term expiring on 13 April 2055 for industrial uses.

3. As confirmed by the Company, Maoming Jia Xing Foods Co., Ltd. has not obtained any planning or development scheme approval for the property from the government.

4. The PRC Legal Opinion on the property is summarized as follows:

4.1 Maoming Jia Xing Foods Co., Ltd. legally owns the land use rights of the subject land parcel and it can transfer, lease or mortgage the land use rights subject to proper procedures as enacted in the PRC law; and

4.2 As at the date of the PRC Legal Opinion, the land use rights were not encumbered with mortgage, seizure, administrative and judiciary custody and other mandatory actions.

VALUATION CERTIFICATE

Group II – Properties Rented by the Enlarged Group

	Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 31 March 2011 *RMB*
3.	Unit 2807 on 28th Floor The Center No. 99 Queen's Road Central Central Hong Kong	The property comprises an office unit on 28th Floor within a 73-storey commercial building completed in 1998. The gross floor area of the property is approximately 2,487 square feet. The property is held by the Enlarged Group under leasehold interest for a term of 1 year commencing on 1 April 2010 and expiring on 31 March 2011 at a monthly rent of HK$99,500 (exclusive of rates, ground rent, management charges, air-conditioning charges and other charges) for office use.	The property is currently occupied by the Company as offices.	No Commercial Value

Notes:

1. The registered owner of the property is Land Development Corporation ("LDC").

2. Pursuant to a tenancy agreement dated 15 April 2010, the property is rented from The Center (28) Limited to Fulbond Corporate Management Limited (a wholly-owned subsidiary of the Company) for a term of 1 year commencing on 1 April 2010 and expiring on 31 March 2011 at a monthly rent of HK$99,500 (exclusive of rates, ground rent, management charges, air-conditioning charges and other charges) for office use.

3. As stated in the tenancy above, the LDC as vendor agreed to sell the property to The Center (28) Limited as purchaser through an Agreement for Sale and Purchase ("ASP") dated 27 November 1998. The Center (28) Limited has already paid off the full amount of purchase price of the property in accordance with the ASP. As mentioned in the said tenancy agreement, LDC is holding the property as bare trustee for The Center (28) Limited. LDC was dissolved in 1 May 2001. By virtue of Urban Renewal Authority Ordinance Cap 563 of the Laws of Hong Kong, all immovable properties owned by LDC as on 1 May 2001 are now owned by the Urban Renewal Authority ("URA") and every contract entered into by LDC which was in force immediately before 1 May 2001 has effect as if URA is substituted for LDC.

VALUATION CERTIFICATE

Group II – Properties Rented by the Enlarged Group

	Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 31 March 2011 *RMB*
4.	Land, various buildings and structure of Jilin Fudun Timber Co., Ltd. No.6 Tiedong Alley Bohai Street Dunhua Development Area Dunhua City Jilin Province the PRC (中國吉林省敦化市敦化開發區 渤海街鐵東六號吉林福敦木業有限公司之土地、多幢樓宇及構築物)	The property comprises a parcel of land with an area of about 200,937.6 square metres on which various buildings and structures are erected. They were completed in between 1996 and 1998. The total gross floor area of the aforesaid buildings and structures is approximately 29,974.5 square metres. The subject land parcel is held by the Enlarged Group under leasehold land use rights for unspecified term at a current annual land rental of RMB60,000.	The property is currently occupied by the Enlarged Group for manufacturing of particle board, door skin and high density fibre board.	No Commercial Value

Notes:

1. As stipulated in the Land Use Rights Certificate (Ref. No. Dun Guo Yong (2001) Zhi Di No. 030394 (敦國用 (2001)字第 030394號)) dated 3 February 2001 and endorsed by the Land Administration Bureau of Dunhua City, the leasehold interest in the property is held by Jilin Fudun Timber Co., Ltd. (吉林福敦木業有限公司), a 67%-owned subsidiary of the Company, was granted the leasehold land use right (租賃使用權) of the property by the Land Administration Bureau of Dunhua City for industrial purpose for an unspecified term.

2. As stipulated in 10 sets of Building Ownership Certificates (Ref. Nos. Dun Fang Quan Zhen Cheng Zhi Di 0013886 to 0013894 and 0061832) all dated 16 April 2001, the subject buildings of the property with a total gross floor area of approximately 29,974.51 square metres are held by Jilin Fudun Timber Co., Ltd. (吉林福敦木業有限公司).

3. As the subject land parcel is held by the Enlarged Group under leasehold land use rights for an unspecified term, we have ascribed no commercial value to the Enlarged Group's interests in the subject land. As far as the subject buildings are concerned, they are all attached to the leasehold land and shall be returned to the Government when the land is reverted to the Government upon termination of the leasehold land use rights. Therefore, we have also ascribed no commercial value to the subject buildings in our valuation.

4. The leasehold land use rights in the property and 10 buildings of the property are subject to a mortgage in favour of the Agricultural Bank of China – Dunhua Branch (中國農業銀行敦化支行) and the mortgage registration has been completed.

5. The PRC Legal Opinion on the property is summarized as follows:

5.1 the leasehold land use rights in the subject land parcel namely lot no. 58-05-21 with an area of 200,937.6 square metres of the property are held by Jilin Fudun Timber Co., Ltd. (吉林福敦木業有限公司) for an unspecified term for industrial uses;

5.2 the annual land rentals for the year 2010 and 2011 were overdue as at the date of the PRC legal opinion;

5.3 in the absence of the land leasing agreement, the PRC lawyer cannot ascertain the duration and the rental level of the leasehold land use rights;

5.4 the 10 sets of Building Ownership Certificates issued in the name of Jilin Fudun Timber Co., Ltd. (吉林福敦木業有限公司) as stated in note no. 2 are legal;

5.5 Jilin Fudun Timber Co., Ltd. has the rights to sub-lease and mortgage the leasehold land use rights of the subject land parcel subject to the proper procedures as enacted by the PRC Law;

5.6 Jilin Fudun Timber Co., Ltd. has the rights to transfer, lease out or mortgage the 10 subject buildings of the property subject to the proper procedures as enacted by the PRC Law;

5.7 the leasehold land use rights in the property and 10 buildings of the property are subject to a mortgage in favour of the Agricultural Bank of China – Dunhua Branch (中國農業銀行敦化支行); and

5.8 the leasehold land use rights and the 10 buildings of the property are free from seizure, administrative and judiciary custody and other mandatory actions.

6. We have ascribed no commercial value to the property as the duration and rent of the leasehold land use rights held by Jilin Fudum Timber Co., Ltd. could not be ascertained on the valuation date.

VALUATION CERTIFICATE

Group II – Properties Rented by the Enlarged Group

	Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 31 March 2011 *RMB*
5.	Unit 6, Level 24 Yuecai Building No. 188 Jidajingshan Road Zhuhai City Guangdong Province the PRC (廣東省珠海市吉大景山路 188號粵財大廈 24層 6單元)	The property comprises a commercial unit on Level 24 within a 30-storey office building completed in about 2003. The property has a gross floor area of approximately 97.65 square metres. The property is rented by the Enlarged Group for a term of 1 year commencing from 1 September 2010 and expiring on 31 August 2011 at a monthly rent of RMB5,859 exclusive of management fee and other charges for office use.	The property is currently occupied by the Enlarged Group as an office.	No Commercial Value

Notes:

1. Pursuant to a tenancy agreement dated 26 August 2010, Zhuhai Lithium New Energy Sources Technology Limited (珠海鋰源新能源科技有限公司), a wholly-owned subsidiary of the Enlarged Group, rented the property with an area of approximately 97.65 square metres from Zhuhai Yuecai Company Limited (珠海粵財實業有限公司) for a term of 1 year commencing from 1 September 2010 and expiring on 31 August 2011 at a monthly rent of RMB5,859 exclusive of management fee and other charges for office purpose.

2. As revealed by a Real Estate Title Certificate (商品房地產權權屬証明書) issued by the Register Centre of Zhuhai Real Estate (珠海市房地產登記中心) on 8 September 2005, the property is held by Zhuhai Yuecai Company Limited.

3. The PRC Legal Opinion on the property is summarized as follows:

3.1 Zhuhai Lithium New Energy Sources Technology Limited (珠海鋰源新能源科技有限公司) and Zhuhai Yuecai Company Limited (珠海粵財實業有限公司) signed a tenancy agreement on 26 August 2010 by which Zhuhai Lithium New Energy Sources Technology Limited rented the property with an area of 97.65 square metres from Zhuhai Yuecai Company Limited for a term of 1 year commencing from 1 September 2010 and expiring on 31 August 2011 at a monthly rent of RMB5,859 exclusive of management fee for office purpose;

3.2 As revealed from a Real Estate Title Certificate (商品房地產權權屬証明書) (Ref: Zhu Fang Di Quan Shu Zi Di: 200300042 (珠房地權屬字第:200300042)) issued by Register Centre of Zhuhai Real Estate (珠海市房地產登記中心) on 8 September 2005, the property is held by Zhuhai Yuecai Company Limited;

3.3 Zhuhai Yuecai Company Limited legally owned the land use rights and building ownership rights of the property and has the rights to lease the property to Zhuhai Lithium New Energy Sources Technology Limited;

3.4 The aforesaid tenancy agreement is binding on both contracting parties. Zhuhai Lithium New Energy Sources Technology Limited (珠海鋰源新能源科技有限公司) has the rights to the lawful use of the property during the unexpired term of the tenancy agreement;

3.5 Both contacting parties have performed the obligations under the tenancy agreement, there were no other cause that lead to or may lead to the early termination of the aforesaid tenancy agreement; and

3.6 Although the aforesaid tenancy agreement has not been registered in the relevant authority, non-registration will not affect the validity of the tenancy agreement.

VALUATION CERTIFICATE

Group II – Properties Rented by the Enlarged Group

	Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 31 March 2011 *RMB*
6.	Office Unit 301 No. 153 Jichang West Road Sanzao Town Jinwan District Zhuhai City Guangdong Province the PRC (廣東省珠海市金灣區三灶鎮機場西路153號辦公樓 301室)	The property comprises an unit on Level 3 within a 4-storey office building within an industrial compound which was completed in about 2002. The property has a gross floor area of approximately 102 square metres. The property is rented by the Enlarged Group for a term of 5 year commencing from 1 October 2010 and expiring on 1 October 2015 at a monthly rent of RMB2,800 inclusive of management fee for office use.	The property is currently occupied by the Enlarged Group as industrial ancillary offices.	No Commercial Value

Notes:

1. Pursuant to a tenancy agreement dated 30 September 2010, Zhuhai Guang Lithium Electric Vehicles Company Limited (珠海廣鋰電動汽車有限公司), a wholly-owned subsidiary of the Enlarged Group, rented the property with an area of approximately 102 square metres from Zhuhai Guangtong Bus Company Limited (珠海市廣通客車有限公司) for a term of 5 year commencing from 1 October 2010 and expiring on 1 October 2015 at a monthly rent of RMB2,800 inclusive of management fee for office use.

2. The PRC Legal Opinion on the property is summarized as follows:

2.1 Zhuhai Guang Lithium Electric Vehicles Company Limited (珠海廣鋰電動汽車有限公司) and Zhuhai Guangtong Bus Company Limited (珠海市廣通客車有限公司) signed a tenancy agreement on 30 September 2010. Zhuhai Guang Lithium Electric Vehicles Company Limited (珠海廣鋰電動汽車有限公司) rented the property with an area of 102 square metres from Zhuhai Guangtong Bus Company Limited for a term of 5 year commencing from 1 October 2010 and expiring on 1 October 2015 at a monthly rent of RMB2,800 inclusive of management fee for office use;

2.2 Pursuant to a Building and Land Ownership Certificate (Ref: Yue Fang Di Zheng Zi No. C3950941 (粵房地證字 C3950941號), the property is held by Zhuhai Guangtong Bus Company Limited. Zhuhai Guangtong Bus Company Limited (珠海市廣通客車有限公司) has the rights to lease the property to Zhuhai Guang Lithium Electric Vehicles Company Limited (珠海廣鋰電動汽車有限公司);

2.3 The aforesaid tenancy agreement is binding on both contracting parties. Zhuhai Guang Lithium Electric Vehicles Company Limited has the rights to the lawful use of the property during the unexpired term of the tenancy agreement;

2.4 Both contacting parties have performed the obligations under the tenancy agreement, there were no other cause that lead to or may lead to the early termination of the said tenancy agreement; and

2.5 Although the aforesaid tenancy agreement has not been registered in the relevant authority, non-registration will not affect the validity of the tenancy agreement.

VALUATION CERTIFICATE

Group II – Properties Rented by the Enlarged Group

	Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 31 March 2011 *RMB*
7.	Unit 105, Level 6 Block 21 Chaoda Chuangye Yuan (Community) Gaoxin District Changchun City Jilin Province the PRC (長春市高新區超達創業園(社區)21棟105室六層)	The property comprises a commercial unit on Level 6 within a 6-storey commercial building completed in about 2007. The property has a gross floor area of approximately 150 square metres. The property is rented by the Enlarged Group for a term of 1 year commencing from 15 March 2011 and expiring on 14 March 2012 at an annual rent of RMB50,000 exclusive of water, electricity and other charges for office use.	The property is currently occupied by the Enlarged Group as an office.	No Commercial Value

Notes:

1. Pursuant to a tenancy agreement dated 15 March 2011, Jilin Lithium Electric Vehicles Company Limited (吉林鋰源電動汽車有限公司), a wholly-owned subsidiary of the Enlarged Group, rented the property with an area of approximately 150 square metres from Liu Hui (劉輝) for a term of 1 year commencing from 15 March 2011 and expiring on 14 March 2012 at an annual rent of RMB50,000 exclusive of water, electricity and other charges for office use.

2. The PRC Legal Opinion on the property is summarized as follows:

2.1 Jilin Lithium Electric Vehicles Company Limited (吉林鋰源電動汽車有限公司) and Liu Hui (劉輝) signed a tenancy agreement on 15 March 2011 by which Jilin Lithium Electric Vehicles Company Limited rented the property with an area of 150 square metres from Liu Hui for a term of 1 year commencing from 15 March 2011 and expiring on 14 March 2012 at an annual rent of RMB50,000 exclusive of water, electricity and other charges for office use;

2.2 The aforesaid tenancy agreement is binding on both contracting parties. Jilin Lithium Electric Vehicles Company Limited has the rights to the lawful use of the property during the unexpired term of the tenancy agreement;

2.3 Both contacting parties have performed the obligations under the tenancy agreement, there were no other cause that lead to or may lead to the early termination of the said tenancy agreement; and

2.4 Although the aforesaid tenancy agreement has not been registered in the relevant authority, non-registration will not affect the validity of the tenancy agreement.

VALUATION CERTIFICATE

Group II – Properties Rented by the Enlarged Group

	Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 31 March 2011 *RMB*
8.	A warehouse located in Yandan Beiqijia Town Changping District Beijing City the PRC (北京市昌平區北七家鎮燕丹倉庫)	The property comprises a single-story warehouse building with a gross floor area of approximately 50 square metres. The property has a gross floor area of approximately 50 square metres. The property is rented by the Enlarged Group for a term commencing from 3 June 2010 and expiring on 2 June 2011 at an annual rent of RMB10,800 exclusive of water, electricity and other charges for storage use.	The property is currently occupied by the Enlarged Group for storage use.	No Commercial Value

Notes:

1. Pursuant to a tenancy agreement dated 27 May 2010, Lithium Power Investment (Beijing) Company Limited (鋰源動力投資 (北京)有限公司), a wholly-owned subsidiary of the Enlarged Group, rented the property with an area of approximately 50 square metres from Beijing Siji Yangguang Storage Company Limited (北京四季陽光倉儲有限公司) for a term commencing from 3 June 2010 and expiring on 2 June 2011 at an annual rent of RMB10,800 exclusive of water, electricity and other charges for storage use.

2. The PRC Legal Opinion on the property is summarized as follows:

2.1 Lithium Power Investment (Beijing) Company Limited (鋰源動力投資(北京)有限公司) and Beijing Siji Yangguang Storage Company Limited (北京四季陽光倉儲有限公司) signed a tenancy agreement on 27 May 2010 by which Lithium Power Investment (Beijing) Company Limited rented the property with an area of 50 square metres from Beijing Siji Yangguang Storage Company Limited for a term of 1 year commencing from 3 June 2010 and expiring on 2 June 2011;

2.2 Pursuant to relevant changes in business registration document (工商登記變更文件), Zhongzhu Lithium Technology (Beijing) Limited (中珠鋰源科技(北京)有限公司) used the name of Lithium Power Investment (Beijing) Company Limited (鋰源動力投資(北京)有限公司) from 18 January 2010 to 2 December 2010;

2.3 Pursuant to a confirmation document issued by Beijing Siji Yangguang Storage Company Limited dated 8 April 2011, Beijing Siji Yangguang Storage Company Limited owned the building ownership rights of the property and has the rights to lease the property to Zhongzhu Lithium Technology (Beijing) Limited; and

2.4 Zhongzhu Lithium Technology (Beijing) Limited has the rights to the lawful use of the property during the unexpired term of the tenancy agreement.

VALUATION CERTIFICATE

Group III – Properties occupied by the Enlarged Group with permission of the owners

	Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 31 March 2011 *RMB*
9.	Unit 1204, 1B Feng Lin Lv Zhou Kexueyuan Nanli Datun Road Chaoyang District Beijing City the PRC (北京市朝陽區大屯路科學院南里風林綠洲1乙1204號)	The property comprises an office unit on Level 11 within a 25-storey office building completed in about 2004. The property has a gross floor area of approximately 323 square metres. The Enlarged Group has been granted permission to occupy the property for a period of 4 years expiring on 29 April 2011 at no charge.	The property is currently occupied by the Enlarged Group as offices.	No Commercial Value

Notes:

1. As revealed from the Confirmation on Free Property Provision (無償提供房屋使用證明) dated 30 April 2007, Zhongzhu Lithium Technology (Beijing) Limited (中珠鋰源科技(北京)有限公司), a wholly-owned subsidiary of the Enlarged Group, has been permitted by Yang Jing Jing (楊晶晶, an independent third party to the Enlarged Group) to occupy the property with an area of approximately 323 square metres for a period of 4 years expiring on 29 April 2011 at no charge.

2. The PRC Legal Opinion on the property is summarized as follows:

2.1 Pursuant to a the Confirmation on Free Property Provision (無償提供房屋使用證明) dated 30 April 2007, Zhongzhu Lithium Technology (Beijing) Limited, has been permitted by Yang Jing Jing to occupied the property with an area of approximately 323 square metres for a period of 4 years expiring on 29 April 2011 at no charge;

2.2 Yang Jing Jing legally owned the land use rights and building ownership rights of the property and has the rights to allow Zhongzhu Lithium Technology (Beijing) Limited to occupy the property; and

2.3 Zhongzhu Lithium Technology (Beijing) Limited has the rights to the lawful use of the property during the aforesaid occupation period.

VALUATION CERTIFICATE

Group III – Properties occupied by the Enlarged Group with permission of the owners

	Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 31 March 2011 *RMB*
10.	Factory 3# situated at No. 4370 Gaoxin Road Gaoxin District Changchun City Jilin Province the PRC (吉林省長春市高新區高新路4370號的一棟廠房(3#廠房))	The property comprises a single-storey factory building completed in about 1999. The property has a gross floor area of approximately 15,000 square metres. The Enlarged Group has been granted permission to occupy the property for a period expiring on 14 July 2011 at no charge except water, electricity and other charges.	The property is currently occupied by the Enlarged Group as vehicle production station.	No Commercial Value

Notes:

1. As revealed from the Agreement for Free Usage of Factory (廠房無償使用協議) dated 24 November 2010, Jilin Lithium Electric Vehicles Company Limited (吉林鋰源電動車有限公司), a wholly-owned subsidiary of the Enlarged Group, has been permitted by Changchun Gaoxin Guangdian Development Co., Ltd. (長春高新光電發展有限公司, an independent third party to the Enlarged Group) to occupy the property with a built-over area (廠房佔地面積) of approximately 15,000 square metres for a period expiring on 29 April 2011 at no charge except water, electricity and other charges.

2. As revealed from a certificate issued by the Changchun Gaoxin Property Management Ltd. on 30 March 2011, Jilin Lithium Electric Vehicles Company Limited has been permitted by Changchun Gaoxin Guangdian Development Co., Ltd. to occupy the property with a gross floor area of approximately 15,000 square metres (長春高新光電發展有限公司) for production and business use (生產經營使用).

3. The PRC Legal Opinion on the property is summarized as follows:

3.1 Jilin Lithium Electric Vehicles Company Limited (吉林鋰源電動車有限公司) and Changchun Gaoxin Guangdian Development Co., Ltd. (長春高新光電發展有限公司) entered into the Agreement for Free Usage of Factory (廠房無償使用協議) on 24 November 2010. According to the agreement and given the objectives of inviting investments and funds to and promoting the development of new energy industries within the High-tech Zone, Changchun Gaoxin Guangdian Development Co., Ltd. allowed Jilin Lithium Electric Vehicles Company Limited to gratuitously use the property having a built-over area of 15,000 square metres for a term commencing from the date of the agreement and expiring on 14 July 2011;

3.2 As revealed from a Building Ownership Certificate (Ref. No. Fang Quan Zheng Chang Fang Quan Zi Do No. 1030003252 (房權證長房權字第 1030003252號)), the building ownership rights of the property are held by Changchun Gaoxin Guangdian Development Co., Ltd. (長春高新光電發展有限公司); and

3.3 The Agreement for Free Usage of Factory (廠房無償使用協議) does not violate the PRC law and is binding on both contracting parties. Jilin Lithium Electric Vehicles Company Limited has the rights to lawful use of the property during the aforesaid occupation period.

VALUATION CERTIFICATE

Group III – Properties occupied by the Enlarged Group with permission of the owners

	Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 28 February 2011 *RMB*
11.	Factory 12#, 13# and 16# situated in Caofeidian Industrial Zone Tangshan City Hebei Province the PRC (河北省唐山市曹妃甸工業區的12#, 13#及16#廠房)	The property comprises three 1 to 2-storey factory buildings completed in about 2009. The property has a total gross floor area of approximately 20,250 square metres. The Enlarged Group has been granted permission to occupy the property for an unspecified duration.	The property is currently occupied by the Enlarged Group as vehicle production station.	No Commercial Value

Notes:

1. Pursuant to a certificate issued by Tangshan Caofeidian Industrial Zone – Electric Vehicle Project Leading Group (唐山市曹妃甸工業區電動汽車專案建設領導小組辦公室, an independent third party to the Enlarged Group) on 23 March 2011, (Tangshan Lithium Electric Vehicles Sales Company Limited (唐山鋰源電動汽車銷售有限公司), a wholly-owned subsidiary of the Enlarged Group, has been permitted by Tangshan City Caofeidian Industrial Zone Management Committee to occupy the property with a total gross floor area of approximately 20,250 square metres for an unspecified duration for the uses of electric vehicle repair and after-sale service, office and display of electric vehicle products (電動汽車維修、售後服務、日常辦公及電動汽車產品展示).

2. The PRC Legal Opinion on the property is summarized as follows:

2.1 According to the certificate issued by Tangshan City Caofeidian Industrial Zone Management Committee (唐山市曹妃甸工業區管理委員會) on 23 March 2011, the property is owned by Tangshan City Caofeidian Industrial Zone Management Committee.

2.2 The property has a designed useful life of 50 years. With the objectives of inviting investments, raising funds and promoting the development of new energy industries and subject to the designed useful life of the property, Tangshan City Caofeidian Industrial Zone Management Committee offers the property to Tangshan Lithium Electric Vehicles Sales Company Limited for its occupation during establishment and operations. The occupation of the property by Tangshan Lithium Electric Vehicles Sales Company Limited for the specified uses and the carrying out of its existing business activities are adhering to the national and local laws and regulations. The certificate does not mention the cost necessary to be paid for the use of the property.

2.3 with due diligence carried out by the PRC lawyer, Tangshan City Caofeidian Industrial Zone Management Committee has the rights to allow Tangshan Lithium Electric Vehicles Sales Company Limited to use the property.

2.4 as at the date of the PRC legal opinion, Tangshan Lithium Electric Vehicles Sales Company Limited had the lawful rights to use the property.

VALUATION CERTIFICATE

Group III – Properties occupied by the Enlarged Group with permission of the owners

	Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 28 February 2011 *RMB*
12.	Factory 17# situated in Caofeidian Industrial Zone Tangshan City Hebei Province the PRC (河北省唐山市曹妃甸工業區的17#廠房)	The property comprises a 2-storey factory buildings completed in about 2009. The property has a gross floor area of approximately 6,050 square metres. The Enlarged Group has been granted permission to occupy the property for an unspecified duration.	The property is currently occupied by the Enlarged Group as vehicle production station.	No Commercial Value

Notes:

1. Pursuant to a certificate issued by Tangshan Caofeidian Industrial Zone – Electric Vehicle Project Leading Group (唐山市曹妃甸工業區電動汽車專案建設領導小組辦公室, an independent third party to the Enlarged Group) on 23 March 2011, Tangshan Caofeidian Lithium Assembly of Electric Vehicles Company Limited (唐山曹妃甸鋰源電動汽車驅動總成有限公司), a wholly-owned subsidiary of the Enlarged Group, has been permitted by Tangshan City Caofeidian Industrial Zone Management Committee to occupy the property with a total gross floor area of approximately 6,050 square metres for an unspecified duration for production of motors and controllers for electric vehicles (生產電動汽車所用的電動機和控制器).

2. The PRC Legal Opinion on the property is summarized as follows:

2.1 According to the certificate issued by Tangshan City Caofeidian Industrial Zone Management Committee (唐山市曹妃甸工業區管理委員會) on 23 March 2011, the property is owned by Tangshan City Caofeidian Industrial Zone Management Committee.

2.2 The property has a designed useful life of 50 years. With the objectives of inviting investments, raising funds and promoting the development of new energy industries and subject to the designed useful life of the property, Tangshan City Caofeidian Industrial Zone Management Committee offers the property to Tangshan Caofeidian Lithium Assembly of Electric Vehicles Company Limited for its occupation during establishment and operations. The occupation of the property by Tangshan Caofeidian Lithium Assembly of Electric Vehicles Company Limited for the specified uses and the carrying out of its existing business activities are adhering to the national and local laws and regulations. The certificate does not mention the cost necessary to be paid for the use of the property.

2.3 with due diligence carried out by the PRC lawyer, Tangshan City Caofeidian Industrial Zone Management Committee has the rights to allow Tangshan Lithium Electric Vehicles Sales Company Limited to use the property.

2.4 as at the date of the PRC legal opinion, Tangshan Caofeidian Lithium Assembly of Electric Vehicles Company Limited had the lawful rights to use the property.

VALUATION CERTIFICATE

Group III – Properties occupied by the Enlarged Group with permission of the owners

	Property	Description and tenure	Particulars of occupancy	Market Value in Existing State as at 28 February 2011 *RMB*
13.	Factory 15# situated in Caofeidian Industrial Zone Tangshan City Hebei Province the PRC (河北省唐山市曹妃甸工業區的15#廠房)	The property comprises a 2-storey factory buildings completed in about 2009. The property has a gross floor area of approximately 6,050 square metres. The Enlarged Group has been granted permission to occupy the property for an unspecified duration	The property is currently occupied by the Enlarged Group as vehicle production station.	No Commercial Value

Notes:

1. Pursuant to a certificate issued by Tangshan Caofeidian Industrial Zone – Electric Vehicle Project Leading Group (唐山市曹妃甸工業區電動汽車專案建設領導小組辦公室, an independent third party to the Enlarged Group) on 23 March 2011, Tangshan Lithium Power Motor Technology Company Limited (唐山鋰源鋰動力電池科技有限公司), a wholly-owned subsidiary of the Enlarged Group, has been permitted by Tangshan City Caofeidian Industrial Zone Management Committee to occupy the property with a total gross floor area of approximately 6,050 square metres for an unspecified duration for production of lithium-ion battery and staff quarters (磷酸亞鐵鋰動力電池和部份員工宿舍).

2. The PRC Legal Opinion on the property is summarized as follows:

2.1 According to the certificate issued by Tangshan City Caofeidian Industrial Zone Management Committee (唐山市曹妃甸工業區管理委員會) on 23 March 2011, the property is owned by Tangshan City Caofeidian Industrial Zone Management Committee.

2.2 The property has a designed useful life of 50 years. With the objectives of inviting investments, raising funds and promoting the development of new energy industries and subject to the designed useful life of the property, Tangshan City Caofeidian Industrial Zone Management Committee offers the property to Tangshan Lithium Power Motor Technology Company Limited for its occupation during establishment and operations. The occupation of the property by Tangshan Lithium Power Motor Technology Company Limited for the specified uses and the carrying out of its existing business activities are adhering to the national and local laws and regulations. The certificate does not mention the cost necessary to be paid for the use of the property.

2.3 with due diligence carried out by the PRC lawyer, Tangshan City Caofeidian Industrial Zone Management Committee has the rights to allow Tangshan Lithium Electric Vehicles Sales Company Limited to use the property.

2.4 as at the date of the PRC legal opinion, Tangshan Lithium Power Motor Technology Company Limited had the lawful rights to use the property.

(A) BUSINESS VALUATION

The following is the text of a valuation report, prepared for the purpose of incorporation in this circular received from Asset Appraisal Limited, an independent valuer, in connection with its valuation as at 28 February 2011 of Lithium Zhuhai.

Asset Appraisal Limited
資產評值顧問有限公司

Room 802, 8/F, On Hong Commercial Building
145 Hennessy Road, Wanchai, Hong Kong
香港灣仔軒尼詩道145號
安康商業大廈8字樓802室
Tel: (852) 2529 9448 Fax: (852) 3521 9591

25 May 2011

The Board of Directors
Fulbond Holdings Ltd.
Unit 2807, 28/F
The Center
No. 99 Queen's Road Central
Central
Hong Kong

Dear Sirs,

Re: Business Valuation of Zhuhai Lithium New Energy Sources Technology Limited

INTRODUCTION

In accordance with the instructions from **Fulbond Holdings Limited** (the "**Company**"), we have completed a valuation of 100% Enterprise Value of **Zhuhai Lithium New Energy Sources Technology Limited and its subsidiaries** (**珠海鋰源新能源科技有限公司及其附屬公司**, referred to as "**Lithium Zhuhai**") as at **28 February 2011** (the "**Valuation Date**").

The objective of Asset Appraisal Limited (referred to as "**AAL**") is to assess the Fair Value in order to provide the Company with an independent valuation report on the 100% equity interest of Lithium Zhuhai. We must point out that this valuation report does not constitute a technical report and does not express opinions on technologies employed by Lithium Zhuhai, legal title on any technical properties, technical issues and contractual rights involved in the business operations of Lithium Zhuhai or its subsidiaries.

The work program for this valuation involved the following tasks:

- review of information provided by the Company, discussions with representatives of the Company and collection and review of documents provided to AAL;
- conducting site inspection of the major production facilities of Lithium Zhuhai or its subsidiaries in Zhuhai City, Changchun City and Tangshan City, the People's Republic of China (the "**PRC**"); and

- analysis of the provided data and information and preparation of this valuation report.

The opinions expressed in this report have been based on the information supplied to AAL by the Company. Whilst AAL has have been confirmed that the Company has represented to AAL that full disclosure has been made of all material information and that to the best of its knowledge and understanding, such information is complete, accurate and true. AAL has no reason to doubt this representation.

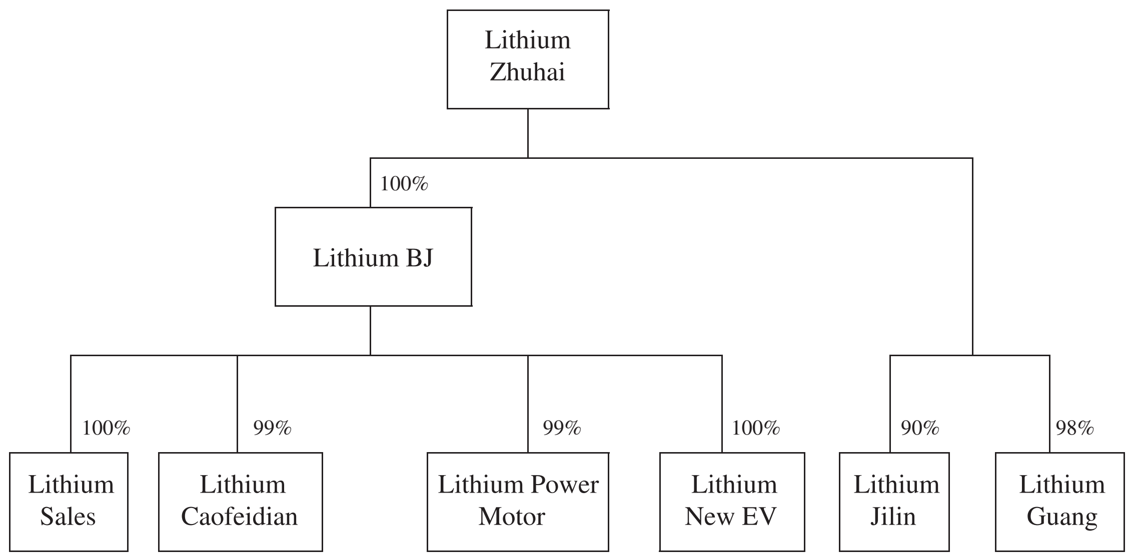
Whilst AAL has exercised all due cares in reviewing the supplied information, the accuracy of the results and conclusions expressed herein are entirely reliant on the accuracy and completeness of the supplied data and information. No responsibility is assumed by AAL for any errors or omissions in the supplied information and AAL does not accept any consequential liability arising from commercial decisions or actions resulting from them.

Our valuation of Lithium Zhuhai has involved projections by the Company's management on the business operations of Lithium Zhuhai. These are inherently forward looking statements which will necessarily differ from the actual performance of Lithium Zhuhai. The variances in such projections may result from the inherent uncertainties in the technological development in the concerned industry, in variations in the execution of business plans, in the ability to meet production schedules due to numerous factors including but not limiting to weather conditions, availability of necessary equipment, supplies and manpower, fluctuating product prices and changes in government policies, regulations and directives.

CORPORATE BACKGROUND

Lithium Zhuhai was established in the PRC on 19 August 2008 with limited liability and is wholly-owned by China Lithium Electric Vehicle Group (Hong Kong) Limited ("**Lithium HK**") which was incorporated in Hong Kong on 21 October 2010 with limited liability.

Lithium Zhuhai and its subsidiaries are principally engaged in the research and manufacturing of lithium-ion battery; production of power motors and controllers and research and manufacturing of vehicle electronics and controller system in the PRC. A business licence (ref no. 440400000111846) was issued in the name of Lithium Zhuhai on 21 December 2010 in which the permitted scope of businesses of Lithium Zhuhai includes, inter alia, new energy technology and battery, battery equipments, battery management system, electric vehicle power assembly products and vehicle electronics research and development. The principal assets of Lithium Zhuhai are 100% equity interest in Zhongzhu Lithium Technology (Beijing) Limited ("**Lithium BJ**", 中珠鋰源科技 (北京)有限公司), 90% equity interest in Jilin Lithium Electric Vehicles Company Limited ("**Lithium Jilin**", 吉林鋰源電動車有限公司) and 98% equity interest in Zhuhai Guang Lithium Electric Vehicles Company Limited ("**Lithium Guang**", 珠海廣鋰電動汽車有限公司).



Lithium Jilin was established in the PRC on 26 November 2010 with limited liability and is owned as to 90% by Lithium Zhuhai and as to 10% by a third party. Its scope of business as stated in the business licence includes, inter alia, electric vehicle power assembly products and vehicle electronics, new energy technology and battery, battery equipments and battery management system research and development and sale of battery. The production base of Lithium Jilin is situated at Factory No. 3, No. 4370 High-tech Road, Changchun High-tech Development Zone, Changchun City, Jilin Province covering a land area of approximately 16,000 square metres. Its production base which is in its trial run stage is currently equipped for lithium-ion battery manufacturing.

Lithium Guang was established in the PRC on 5 November 2010 with limited liability and is owned as to 98% by Lithium Zhuhai and as to 2% by a third party. Its scope of business as stated in the business licence includes, inter alia, electric vehicle power assembly products and vehicle electronics, new energy technology and battery, battery equipments and battery management system research and development. No business operation of Lithium Guang commences yet. It will be engaged in the assembly of electric vehicles after commencement of operations.

Lithium BJ which was incorporated in the PRC on 19 February 2001 with limited liability, is wholly-owned by Lithium Zhuhai. Its scope of business as stated in the business licence includes, inter alia, new energy technology research and development, battery, battery equipments, battery management system and electric vehicle power assembly products and vehicle electronics research and development. The principal assets of Lithium BJ are 100% equity interest in Tangshan Lithium Electric Vehicles Sales Company Limited ("**Lithium Sales**", 唐山鋰源電動汽車銷售有限公司), 99% equity interest in Tangshan Caofeidian Lithium Assembly of Electric Vehicles Company Limited ("**Lithium Caofeidian**", 唐山曹妃甸鋰源電動汽車驅動總成有限公司), 99% equity interest in Tangshan Lithium Power Motor Technology Company Limited ("**Lithium Power Motor**", 唐山鋰源鋰動力電池科技有限公司) and 100% equity interest in Tangshan Lithium New Electric Vehicles Manufacturing Company Limited ("**Lithium New EV**", 唐山鋰源新電動汽車製造有限公司).

Lithium Sales was incorporated in the PRC on 4 November 2009 with limited liability and is wholly-owned by Lithium BJ. Its scope of business as stated in the business licence, includes, inter alia, selling and renting out electric vehicles for business use; selling parts of electric vehicles; vehicles maintenance in Class II (including large and middle size electric vehicle) (二類機動車維修《大中型電動車維修》). It is principally engaged in the sales of pure electric vehicles and commenced sales in September 2010.

Lithium Caofeidian was incorporated in the PRC on 23 November 2009 with limited liability and is owned as to 99% by Lithium BJ and as to 1% by a third party. Its scope of business as stated in the business licence includes, inter alia, power motor and controller production; vehicle electronics and controller system research and development and sale. It is in the trial run stage and is currently engaged in the research and development of power motor and vehicle electronics and controller system.

Lithium Power Motor was incorporated in the PRC on 19 January 2010 with limited liability and is owned as to 99% by Lithium BJ and as to 1% by a third party. Its scope of business as stated in the business licence includes, inter alia, lithium-ion battery research and development and sale. It is principally engaged in research and development of battery and has commenced its trial production of 200AH lithium-ion battery in June 2010.

Lithium New EV was incorporated in the PRC on 2 February 2010 with limited liability and is wholly-owned by Lithium BJ. Its scope of business as stated in the business licence is preparation for electric vehicle production project. The business licence further provides that Lithium New EV cannot commence production during the preparation stage (i.e. until 1 February 2011).

Lithium Caofeidian, Lithium Power Motor and Lithium New EV shares the same production base which is situated at Caofeidian Industrial Area, Tangshan City, Hebei Province and comprises 5 blocks of workshop/staff dormitory buildings with a total gross floor area of 32,350 square metres.

Lithium Zhuhai is currently hold 14 patents and is in the process of application of 9 patents including 11 power motors patents and 12 battery patents.

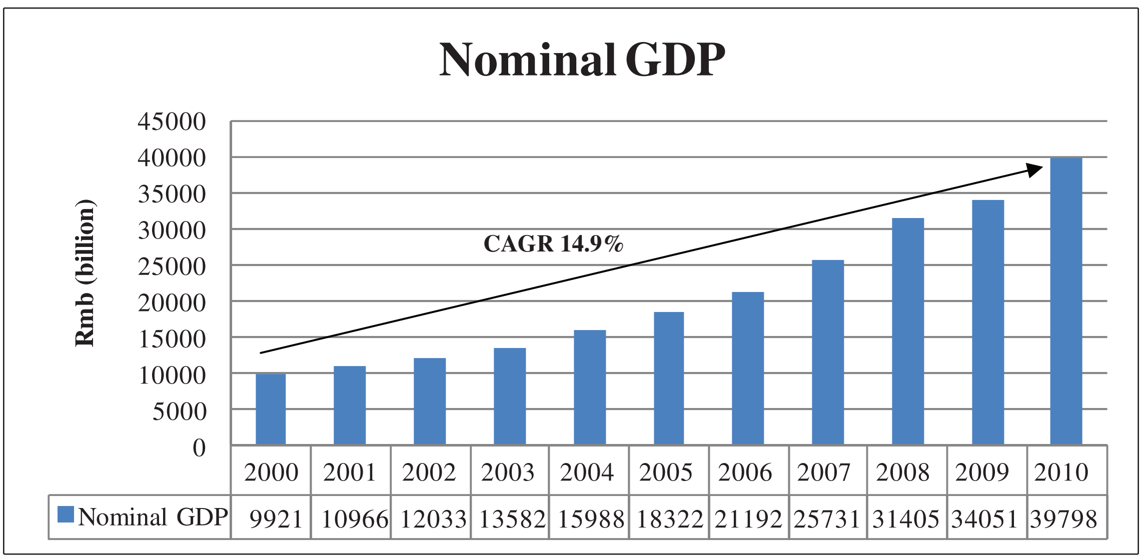
According to the existing operations of Lithium Zhuhai and its subsidiaries, they are operating as a single production unit for the marketing, production and distribution of electric buses. There is no established scheme as to how the profits generated from the sales of electric buses are shared among the subsidiaries. As instructed by the Company, it is intended that Lithium Jilin, a 90% subsidiary of the Target Group, will sell its products to other members of the Target Group at cost in the future. Furthermore, Lithium Caofeidian, Lithium Power Motor and Lithium Guang are 99%, 99% and 98% owned by the Target Group respectively, which the directors of the Company consider that the interests of the minority shareholders of these companies are immaterial. On these bases, the directors of the Company agree with the valuer to assume 100% entitlement by Lithium Zhuhai for Shareholders assessment.

ECONOMIC OUTLOOK AND INDUSTRY ANALYSIS

In conjunction with the preparation of this valuation opinion, we have reviewed and analysed the current economic conditions in the PRC as there is little doubt that the PRC's economic progress has contributed to the growth in demand for technical equipment and heavy steel casting and forging products.

PRC's Economic Outlook

According to the National Bureau of Statistics of the PRC, the Nominal Gross Domestic Product ("GDP") of the PRC in 2010 was RMB39,798 billion, representing a 16.88% growth year-on-year and a CAGR of 14.9% since 2000.



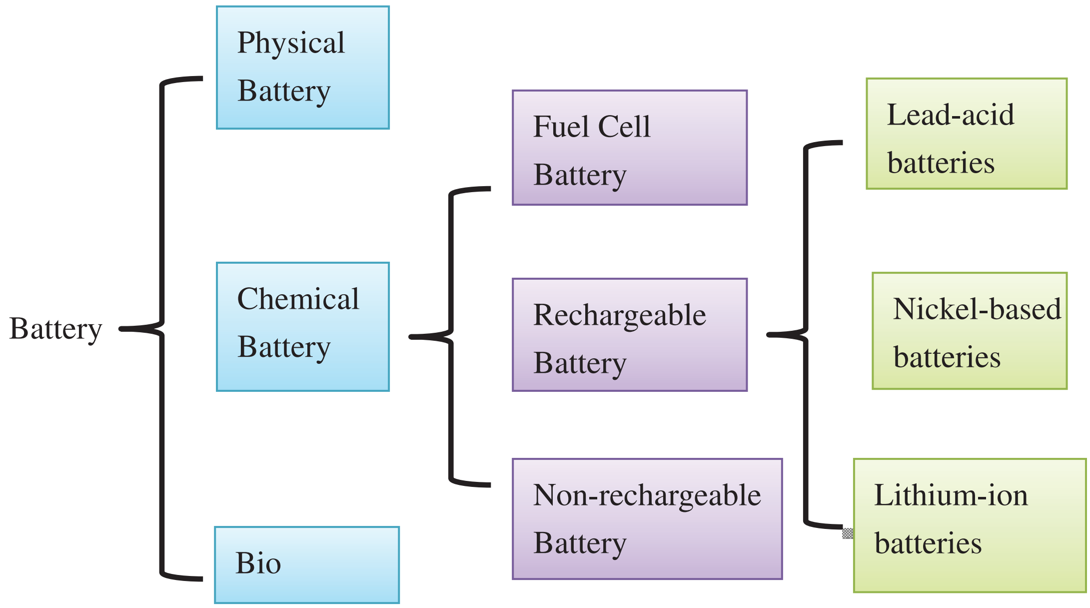
Source: National Bureau of Statistics of PRC

In order to stimulate domestic demand in response to the global financial crisis in 2008, the PRC government announced a RMB4 trillion stimulus package through measures for economic growth in various industries. Boosted by the RMB4 trillion government stimulus plan and the cumulative effects of fiscal and monetary easing, the PRC has shifted its economy driver from exports towards domestic consumption and made the most impressive recovery from the global financial crisis among all major economies.

The Rechargeable Battery Market

Types of Batteries

Batteries can be roughly divided into three classifications: physical battery (like solar battery), bio battery and chemical battery. Among chemical batteries, three mainly sub classifications are fuel cell, non-rechargeable battery and rechargeable battery.



The major types of rechargeable batteries currently available in the market are:

(i) Lead-acid batteries

The lead-acid battery is the oldest type of rechargeable battery. Despite having a very low energy-to-weight ratio and a low energy-to-volume ratio, it is able to supply high surge electricity current, which means that the battery maintains a relatively large power-to-weight ratio. Its cost efficiency makes it a popular storage choice for human beings. Besides, it is generally reliable and relatively simple to manufacture. However, lead brings in some environment problems and health issues. Currently, lead-acid batteries are commonly used in automobiles. What's more, attempts are being made to develop alternatives to lead-acid battery for a wide range of applications including in automotive because of concerns over environmental and health consequences.

(ii) Nickel-based batteries

Nickel-based batteries come in two main forms, namely, nickel cadmium and nickel metal hydride batteries. They can be generally used into battery packs containing two or more cells (sealed nickel-based battery), and in portable electronics and toys (Small nickel-based). Cadmium is a toxic element, and was banned for most uses by the European Union in 2004. Nickel-cadmium batteries have been almost completely superseded by nickel-metal hydride batteries. Compared to lead-acid batteries, the cost of producing nickel-based batteries is higher as nickel and cadmium are costly materials. In addition, nickel-based batteries experience memory effect which means that it will gradually lose its maximum energy capacity if it is repeatedly recharged after being partially discharged.

(iii) Lithium-ion batteries

Lithium-ion batteries have higher energy density and higher price and cost than lead-acid and nickel-based batteries. According to the different application fields, lithium-ion battery also comes into two main classifications: conventional lithium-ion battery and advanced lithium-ion battery. Conventional ones are commonly used in consumer electronics and is one of the most popular types of battery for small portable electronics. It has one of the best power-to-weight ratios, no memory effect and relatively low rate of self-discharge when not in use. While advanced ones are widely used in hybrid electric vehicles, plug-in hybrid electric vehicles and electric vehicles, due to their better performance in certain aspects such as cycle life, production cost, volume and safety.

Types of Battery Markets

The rechargeable battery market can be divided into two target markets:

(i) Primary market

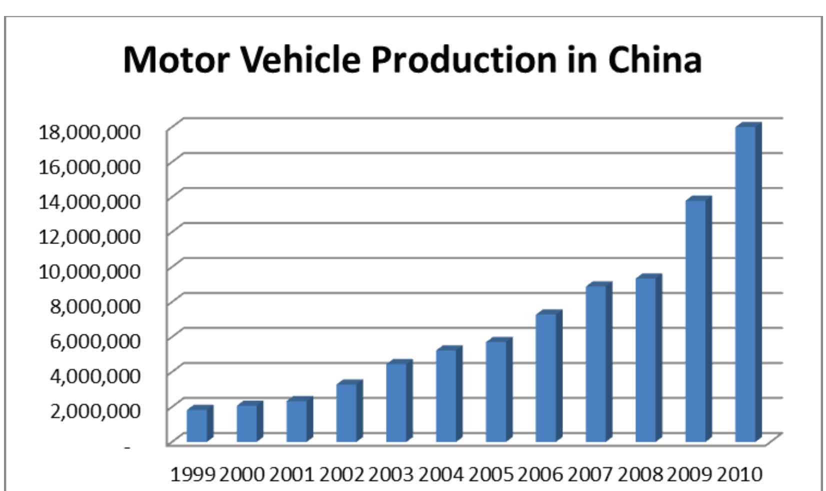
In the primary market, battery products are sold to be used in manufacturers of electric vehicles as part of the components for their new products. Along with rechargeable battery, specialised electric chargers, controllers and motors for use with their electric vehicles are also sold in the market.

(ii) Secondary Market

Because of the limited life of rechargeable battery products, electric vehicles need to extra rechargeable battery to extend their life-span. So in the secondary market, batteries and accessories are sold for replacement of the old products.

An Overview of Electronic Vehicle Industry

Due to the averagely 8% rate of real gross domestic product ("GDP"), these 10 years have witnessed a stable increase in the motor vehicle market in the PRC. Set out below is the number of vehicles produced from 1999 to 2010.



Source: International Organization of Motor Vehicle Manufacturers

As show in the above chart, the number of vehicle produced in the PRC has increased sharply by 7 times in 2009 compared with the number ten years ago. It can be predicted that the production quantity will continuously grow in the following years.

Auto industry is the second largest source of carbon emission in the world and is creating great impacts on such issues as energy consumption and environmental pollution. As projected by the market, total number of vehicles of the PRC is expected to increase from 62.8 million in 2009 to over 200 million in 2020. Being one of the top two polluters in the world, the PRC's record carbon emissions is subsidizing its energy-intensive export industries and negating the nation's environmental conservation effort. Electronic vehicles (EVs) offers a clean and green alternative to petrol and diesel transport and to promote energy conservation and environmental protection.

In the context of low-carbon economy, carbon emission has been adopted as the measure in setting the criterion for vehicle import in automotive market. For example, starting from 2012, the EU will impose punishing duties on vehicles with carbon dioxide emissions more than 130 g/km. Such threshold shall be further decreased to 95 g/km in 2020. This threshold shall be used as the standard to set vehicle carbon tariffs. In 2009, the U.S. House of Representatives passed "The United States Clean Energy Security Act ". In May 2010, based on the national uniform standards on vehicle fuel efficiency and greenhouse gas emissions, the U.S. Government was authorized to levy "carbon tariff" on import from those nations which gain competitive advantages by refusing to reduce carbon emissions. Such vehicle carbon emission standards are expected to become a new form of market access barriers and shall have significant impact on the export of new energy vehicles of the PRC.

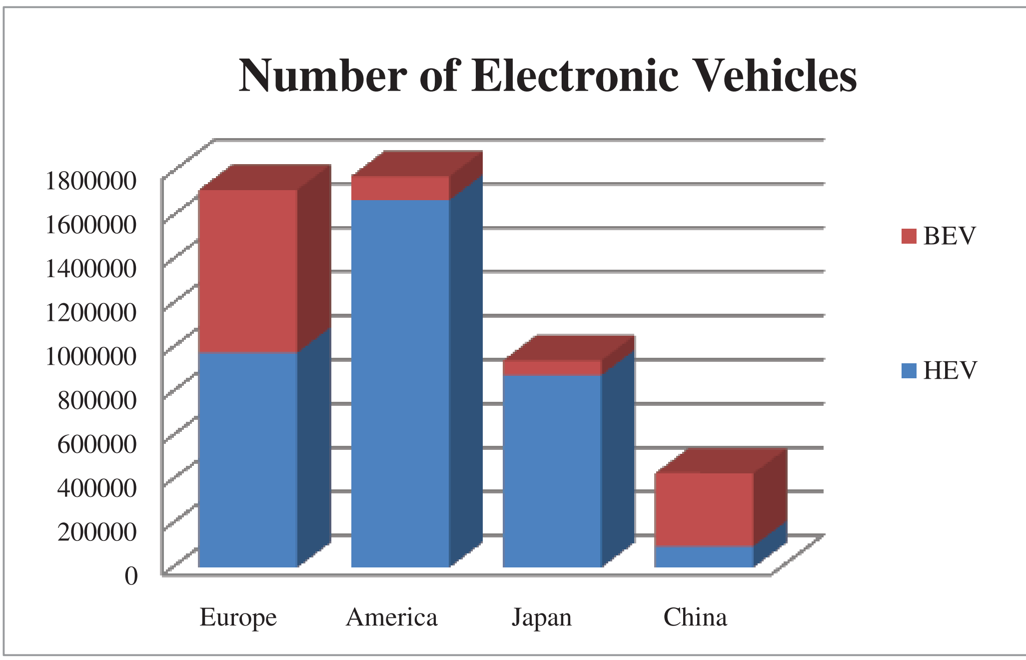
EVs, which are also called as new energy vehicles, come into three forms: Battery Electric Vehicles (BEV), Hybrid Electric Vehicle (HEV), and Fuel Cell Vehicle (FCV). Among those, HEV is powered mainly by both internal-combustion engine and storage battery that make it the development trend of electronic automobile industry. Currently, as nickel-hydrogen technology is relatively mature, lithium-ion batteries used in hybrid electronic vehicle is successfully under commercially mass production. However, due to the zero emission of greenhouse gases, fuel cell vehicle and battery electronic vehicle are considered as the long term goal of the EV industry and will eventually become the mainstream of the electric car market.

Since the first HEV came out in 1970s, Japan and America have invited many other kinds of HEV. In year 1997, Toyota Prius first realized the mass production of HEV in Japanese and western market. After a few years, the total production had reached 600 thousand. HEV battery can be supplied by third-party manufacturers, but electrical control system and power transmission system cannot depend on the third party. At present, only Toyota can produce high-class HEV relying on such advanced technologies as Continuously Variable Transmission (CVT) technology. According to Research in the PRC, up to January 2009, Toyota HEV sales have exceeded 1.7 million sets around the globe, of which more than a half sold in the USA.

Traditionally, the hybrid electronic vehicle can save fuel up to 30% to 50%, and the technology is relatively mature. However, as the effectiveness of nickel-hydrogen battery remains limited potential development, while lithium-ion battery possess advantages in light weight and high capacity, lithium-ion batteries powered electronic vehicle will gradually replace ones that powered by nickel-hydrogen batteries.

Global Market of Electronic Vehicle

According to a prediction by J.D.Power and Association, the total market size of EV will reach at 5,200,000 by 2020, accounting for approximately 7.3% of the total vehicle market, which is almost as same as predicted by Volkswagen AG. Among that, 3,900,000 are HEV and the rest are BEV. Set out below is the estimated proportion of the EV in four main countries in 2020.



Source: J.D.Power and Association

As it is shown in the chart, American market with a total consumption of 1.78 billion will be the large EV market in 2020 followed by the Europe market of 1.71 billion. However, HEV will be the dominating kind of electronic vehicle in American market while HEV and BEV consumption are about 50% half in both segments. The market structure in Japan is almost as same as in America that HEV accounts for 92.88%. In the PRC, the market remains relatively small when compared with Europe and American market, which is about 429,000 in 2020.

PRC Market of Electronic Vehicle

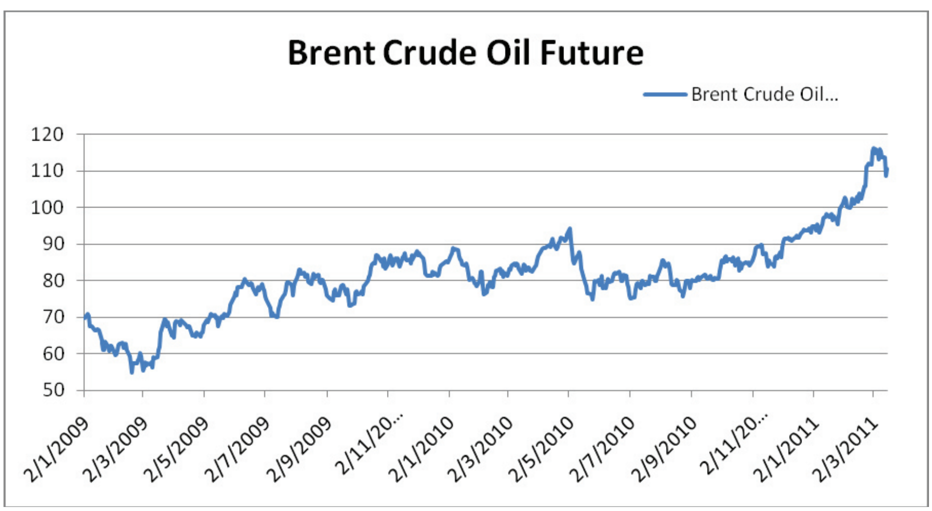
In the PRC, HEV market is backward due to its high price. It can be proved by the statistics of the PRC Association of Auto Manufactures that since Toyota Prius launched into the PRC market in January 2006, just 2,500 sets sold out in two years, which accounts for 0.04% in the total production of passenger cars. Considering the price sensitivity of the PRC users, such sales performance is not surprising. Thus in the short term, EV will not have a large market unless subsidies are provided to purchaser by the Government in encouraging the use of EV.

Actually, EVs in the PRC are mainly cooperatively promoted by manufactures and governments. Shanghai Automotive Industry Corporation (SAIC) scheduled to produce more than 1,000 HEVs for the Shanghai Government during the Shanghai World Expo in 2010. In January 2009, the PRC FAW provided 12 HEVs for the usage in city bus in Dalian City and planned additional 100 ones on future. Jiexun HEV of Changan Automotive Group has got the bid to serve in state department after its outstanding performance during Beijing Olympics Games. There are solid evidences that the PRC Government will continually to adopt EVs in public services. EVs would gradually have their production costs reduced when the effect of economy of scale comes into place after mass production is possible. By that time, the selling prices of EVs may be set at a level which may be acceptable to the market.

Challenges and Opportunities of Electric Vehicle in the PRC

Increasing oil price

Set out below is the Brent oil prices from May 2006 to March 2011.



Source: Bloomberg

As show in the above graph, the oil price has increased by almost two fold since the it reached the bottom at the beginning of 2009. It can be predicted that the price will continue to increase as crude oil becomes exhausted. This makes the traditional vehicles less economic and consequently expands the demand in EVs.

Government policy in supporting EV industry

Since EVs are environmental friendly and consistent with the long term goal for sustainable development, the PRC government determined to support this industry. The development of EV was first introduced by the central Government in the Tenth Five-Year Plan (2001-2005). According to the Eleventh Five-Year Plan (2006-2010), the PRC government is targeting a reduction of energy consumption per unit of GDP by 20% and significant expansion of highly efficient energy sources, including wind, natural gas and other renewable sources of energy while maintaining the same GDP in the Tenth Five-Year Plan. In Guidance on Structural Adjustments (2007 Edition) (《產業結構調整指導目錄 (2007年本)》) issued by National Development and Reform Commission (NDRC), new energy vehicles have been entered into the list of Catalogue of National Encouraged Industries as one of the National Key Projects. Besides, on 31 December 2009, the NDRC issued the Catalogue of Key Promotions for National Energy Conservation Technologies (Second Batch) (國家重點節能技術推廣目錄 (第二批)), pursuant to which the PRC government will invest a total of RMB300 billion in hybrid and electric vehicle technology (汽車混合動力技術及純電動汽車動力總成系統技術). Despite the conservative prediction by J.D.Power and Association, the number of HEVs and EVs in the PRC are estimated to be increased continually.

The central government has already pledged about US$17B to push the EV effort, including about US$2B for R&D. Announced by the Ministry of Finance in June 2010, there is a two year pilot program that each buyer of EV in Shanghai, Hangzhou, Changchun, Shenzhen and Hefei shall receive a subsidy of RMB60,000 and each buyer of certain HEV shall receive RMB50,000. The program aims at keeping the country competitive in the global race to develop an EV industry. The state-owned utilities have been tasked with building out the smart grid and charging infrastructure required for a rapid ramp up in electrics. According to the State Grid Corporation (SGC), which provides about 85% of the country's power, 75 electric charging stations were planned for 27 cities in 2010. The pace will accelerate in 2011 and onwards.

With the enhanced effort from the Government, the demand of electric buses experienced fast growth, with demand surged from 1,000 units in 2007 to 5,000 units in 2010. As revealed from the Automotive Industry Reform and Revamping Planning (汽車產業調整和振興規劃) issued in March 2009, the industry was targeted to boost up the total production capacity of EVs and HEVs to 500,000 units in 3 years.

According to the Outline on 12th Five-Year City Public Transport Planning (城市公共交通"十二五"發展規劃綱要) of the 12th 5-year Plan (2011-2015) of the PRC, during the 5-year period of the 12th Five-Year Plan, demand of public buses is estimated at 480,000 units (including 200,000 newly added buses and 280,000 units for replacement) which will increase the total number of public buses from 400,000 at present to 600,000 in 5 years.

In the 12th 5-year Plan, the central Government plans to cut carbon emissions by 17% by 2015. It will also implement preferential tax policies to encourage energy conservation and emissions reduction. EVs are classified as a strategic industry under the Plan and parts manufacturers will receive tax breaks and subsidies from the Government. The Government has pledged that it will do whatever is necessary to push the country's auto industry into the lead on EV over the next decade.

Many local governments have offered subsidies to bus companies to add or replace their bus fleets with electric buses.

Government promotion in public service

Due to the high market price of EVs, it is difficult for EVs to be promoted in private sectors at the time being. However, because of the high-efficiency and environmental friendly advantage, public service can be a favorable choice for the promotion of EVs. On 4 October 2010, PRC government announced Report of the PRC's Development of Clean Energy Technology in 2010 (中國2010發展中的清潔能源科技報告) in the United Nations Climate Negotiation Meeting. It said that the PRC would implement 20,000 new clean energy of public transportation in 2010. And they would continue to put forward new clean energy vehicles like HEV, BEV and FCV in public services such as public transportation, post service, tax service, sanitation service and so on.

In 2010, total sales of coach (including bus) in the PRC stood at 400,000 units. If all of these are EVs, the annual sales of electric buses will top RMB60 billion. To tap this promising market, various well-known auto brands from around the world launched their upgraded electric buses to attract consumers. As EVs do not use motors, the EV market is the only market segment where the PRC automotive enterprises have opportunities to lead across the world. As mentioned by Chen Qingquan, academician at the Chinese Academy of Engineering and the chairman of the World Electric Vehicle Association, there are currently 75 million vehicles in service in the PRC. Of them, 400,000 are buses with an average service life of 8 years, so the annual new bus demand will reach 50,000 units. According to the new-energy vehicle development plan of Shenzhen, the city plans to put a variety of a total of 34,000 new-energy vehicles into service by 2012, including 4,000 buses that are expected to form the country's largest electric vehicle fleet.

In fact, the battery technology is the key hurdle facing by many bus manufacturers in the development of EV. In producing electric buses, most of them are relying on outsourcing for almost all of the core components including battery. To most of the bus manufacturers, the lithium-ion battery area is a completely new field and it takes time and costs to master this new field before mass production can commence. However, to become market leader in this sector and to tap this promising opportunity, there is no time for bus manufacturers to implement their own battery technology from nothing. Therefore, battery technology (including the ongoing R&D to boost up battery performance, to produce acute weather gear battery and to cut production costs of battery) will become the core competitiveness of electric bus.

BASIS OF VALUATION

The Business Enterprise Value of Lithium Zhuhai has been arrived at on the basis of "Fair Value(in the premise of continued use which, in our appraisal, reflects the future economic benefit to be derived from the ownership of the equity interest of Lithium Zhuhai. Fair Value is defined as the estimated amount at which an asset might be expected to exchange on the Valuation Date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Enterprise Value is referred to the market capitalization plus debt and minority interests less cash and marketable securities.

The definition of fair value adopted in this valuation report is similar and/or interchangeable with definitions of the valuation standards below:

Market Value

According to The Hong Kong Business Valuation Forum – Business Valuation Standards, market value is defined as the estimated amount for which an asset (a property) should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion.

Fair Market Value

The International Valuation Glossary defines fair market value as the amount at which an asset would change hands between a willing buyer and a willing seller, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both parties having reasonable knowledge of relevant facts.

For the purpose of this valuation, the term fair value will be used throughout this valuation report. Our valuation has been prepared in accordance with the HKIS Valuation Standards on Trade related Business Assets and Business Enterprise (First Edition 2004) published by the Hong Kong Institute of Surveyors and the Business Valuation Standards (First Printed 2005) published by the Hong Kong Business Valuation Forum, which are generally accepted valuation standards followed by relevant professional practitioners in Hong Kong. These standards contain detailed guidelines on the basis and valuation approaches in valuing assets used in the operation of a trade or business and business enterprises

VALUATION METHODOLOGY

In arriving at our value, we have considered three generally accepted approaches. There are market approach, asset-based approach and income approach.

The Asset Based Approach

The asset based approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes.

The asset based approach is not appropriate for valuing the Lithium Zhuhai because it disregards the economic benefits of the assets of Lithium Zhuhai.

The Market Approach

The market approach determines the fair value of the assets by reference to the transaction prices, or "valuation multiples" implicit in the transaction prices, of identical or similar assets on the market. A valuation multiple is a multiple determined by dividing the transaction price paid for similar business enterprises by a financial parameter, such as historical or prospective turnover or profit at a given level. Valuation multiples are applied to the corresponding financial parameter of the subject asset in order to value it. Adjustment are required to the transaction prices or valuation multiples to reflect the differentiating characteristics of the business enterprises and the comparable business enterprises for which the transaction prices or valuation multiples are know.

In addition, listed entities engaging in similar line of businesses can also be used to benchmark as the current market capitalization of a listed company can be substituted for the transaction price as it represents what investors in the market are willing to pay for the equity in a particular company at that point of time.

The market approach is not appropriate for valuing Lithium Zhuhai because Lithium Zhuhai is at the growth stage of its business cycle and no suitable financial parameter of the enterprise can be identified for comparison.

The Income Approach

In this method, value depends on the present worth of future economic benefits to be derived. Thus, an indication of value is developed by discounting future debt free cash flows (DFCFs) available for distribution to the owners to their present worth at market-derived rates of return appropriate for the risks and hazards of investing in similar business.

A discount rate is the expected rate of return that an investor would have to give up by investing in the subject asset instead of available alternative investments that are comparable in terms of risk and other investment characteristics. The income approach is the most appropriate method for valuing a growth stage business with rapid growth in the future.

We adopt a discounted cash flow method, which requires a number of assumptions, including revenue and expense forecast, working capital requirement and capital expenditure requirement. We have relied heavily on the management's representation on all the background and financial information, as well as the profit forecast required for the valuation. The projection required assumptions, including revenue, and expenses forecasts, working capital requirements, capital expenditure requirements and Lithium Zhuhai future expansion plan. Our investigation included discussions with the Company and Lithium Zhuhai's management in relation to the nature, operations and prospects of the motor battery business and review of other relevant documents.

The following major assumptions have been made by the directors of the Company in the profit forecast and have been adopted in the cash flow model for the valuation:

- Lithium Zhuhai plans to focus its operations in the following three core segments involving in the production of electric buses:
  - development and manufacturing of lithium-ion battery;
  - development and manufacturing of power motor and controller equipment; and
  - assembly and production of electric buses
- Lithium Zhuhai has currently 2 production lines with an annual output capacity of 20 million Ah of lithium-ion battery. It plans to set up 10 production lines with a total output capacity of 1 billion Ah of lithium-ion battery so as to reduce the cost of production through economies of scale
- designed output capacities of lithium-ion battery and electric bus are set out as follows:

	2011	**2012**	**2013**	**2014**	**2015**
Li-ion battery (1,000 Ah)	15,000	30,000	50,000	70,000	90,000
Electric bus (unit)	300	750	1,200	1,500	2,000

- The produced Li-ion batteries as mentioned above will be consumed for bus production
- Each electric bus (model no. GTQ6107) can carry a maximum of 220 lithium cells (200 Ah each)
- Tanshan Lithium Electric Vehicles Sales Company Limited was in the preparation stage in 2009 and generated sales revenue from the sale of 10 electric vehicles in an amount of US$1,390,513 for the year ended 31 December 2010
- In 2010, Tanshan Lithium Electric Vehicles Sales Company outsourced the 10 electric vehicles production, including the production of batteries, controller and electric vehicles, to contractors which have the licenses to produce
- In the course of our valuation, we have made reference to the cost information in relation to the manufacturing of battery and bus as obtained from the contracted manufacturers engaged by Lithium Sales during its trial run stage
- Based on the cost data obtained from contractors, costs of goods sold for lithium-ion battery include costs of raw materials, direct labour and production costs. The core components of a lithium-ion battery include anodes, cathodes, electrolyte, separator and casing. Based on the historical records of Lithium Zhuhai, the total costs of goods sold for lithium-ion battery is approximately RMB5.33/Ah which are expected to come down when the total output capacity is boosted up in the near future

- Based on the cost data obtained from contractors, total Costs of Goods Sold for an electric bus (model no. GTQ6107) is approximately RMB981,500 including ex-factory selling price of lithium-ion batteries, 120KW main drive motor and controller, gearbox, 2KW motor and controller

- Lithium Zhuhai has tax privilege with tax rate of 15% from 2011 to 2015

- the estimated CAPEX for enhancing its output capacities as mentioned above is RMB344,000,000 which shall be expended in between 2011 and 2013 as follows:

RMB('000)	**2011**	**2012**	**2013**
Li-ion cell New Production Line	50,000	80,000	80,000
Motor New Production Line	6,000	20,000	40,000
Bus New Production Line	8,000	15,000	10,000
Upgrading	13,000	12,000	10,000
Total	77,000	127,000	140,000

- all proposed new production lines can be accommodated within vacant floor spaces of existing workshops being occupied by Lithium Zhuhai and hence no additional workshop space is deemed required for the implementation of the expansion plans.

As confirmed by the management of Lithium Zhuhai, power motor and controller equipment used for the assembling of electric bus can be satisfied by either self production or through OEM by third parties. Lithium Zhuhai plans to set up its own production line to ensure continuous supply of power motor and controller equipment.

Assembly and production of electric buses – Lithium Zhuhai is currently participating in the production of electric buses using parts and components (including battery, power motor and controller equipment which are either self produced or outsourcing) through co-operation with conventional bus producers. Lithium Zhuhai or its subsidiary has its own electric bus production base in Tangshan. It will continue to pursue suitable strategic partners engaging in conventional bus sector and expand its annual output capacity to 10,000 electric buses.

As revealed from industrial analysis section of the valuation report, the PRC Government has laid down various favourable policies to encourage the development and growth of electric vehicle manufacturing and has chosen electric bus as the stage for boosting up the production capability and capacity of this industry. Given a coach (including bus) market with an annual sales of 400,000 sets and a total of 400,000 public buses in service in the PRC, it is expected that the forecast electric bus output of Lithium Zhuhai shall be absorbed by the market.

As confirmed by the Company, Lithium Zhuhai has started its business operations on trial-run basis since 2010.

Based on the historical ex-factory product prices of Lithium Zhuhai, the ex-factory selling price of lithium-ion battery is approximately RMB9/Ah (exclusive of Value Added Tax) and the ex-factory selling price of electric bus (model no. GTQ6107) is RMB1,150,000 per unit (exclusive of Valued Added Tax).

Operating and Management Cost

Operating and Management Cost mainly comprises of fixed cost such as staff salary and welfare expenses, depreciation expenses, rental expenses, office expenses, marketing expenses and insurance expenses, which are estimated by the management of Lithium Zhuhai based on the existing business plan.

Revenue mainly derives from the production of electric buses. The production of lithium-ion battery which is the major component of electric buses requires new technologies to improve the overall performance. We have assumed that Lithium Zhuhai has or shall retain a team of experts and consultants with extensive professional knowledge to support its product developments. Annual expenses for research and development are assumed to be 1.76% on total revenue of Lithium Zhuhai and its subsidiaries.

Working Capital Movement

The working capital is based on the historical records and experiences of the management of Lithium Zhuhai.

Determination of Discount Rate

A discount rate is the expected rate of return that an investor would have to give up by investing in the subject asset instead of available alternative investments that are comparable in terms of risk and other investment characteristics.

When developing a discount rate, the cost of equity of companies engaging in operations similar to the appraised asset would provide a relevant proxy and cost of debt based on data and factors relevant to the economy and industry as at the valuation date. These cost were then weighted in terms of a typical or market participant industry capital structure to arrive at the estimated weighted average cost of capital ("WACC").

The formula of WACC as follows:

WACC = % of Debt * Rd *(1-Tax Rate) + % of Equity * Re

Re = cost of equity
Rd = cost of debt

Development of Cost of Equity

The calculation of Cost of Equity as follows:

Cost of Equity = Risk free rate + Beta * Market Risk Premium + Size Premium
+ Company Specific Risk

Risk free rate, beta and market risk premium are data from Bloomberg. Risk free rate was found by looking at the yield of 10 year PRC Government Bond as at the valuation date. Market Risk Premium was calculated by subtracting the long-term average of the income return on risk-free asset from the long-term average stock market return. The PRC market premium is 11.66%.

Selection of Comparable Companies

Due care was exercised in the selection of comparable companies by using reasonable criteria in deciding whether or not a particular company is relevant to compute beta in our determination of the cost of equity.

We have considered the lines of business, location of operation and other criteria. In valuation of Lithium Zhuhai, we have selected several companies with the following criteria:

1. the comparable companies are devoted to research and development of rechargeable batteries;

2. the comparable companies has commenced manufacturing of the rechargeable batteries;

3. the comparable companies are listed on the stock exchange of Hong Kong, the PRC and the United States.

The following is the list of the comparable companies we have selected:

Name of Company	Market Capitalization as at the Valuation Date ('000,000)	Description
BYD Co. Ltd. 1211 HK Equity	HK$23,634	The company is engaged in the research, development, manufacture and sale of rechargeable batteries, handset components and assembly service, as well as automobiles and related products. It operates in four segments: the rechargeable battery and other products segment comprises the manufacture and sale of lithium-ion batteries and nickel batteries principally for mobile phones, electric tools and other portable electronic instruments; the mobile handset components segment comprises the manufacture and sale of mobile handset components, such as housing, keypad and the provision of assembly services; the automobiles and related products segment comprises the manufacture and sale of automobiles and auto-related moulds and components, and the others segment comprises, principally, non-manufacturing business of the Company.
Coslight Technology International Group Ltd. 1043 HK Equity	HK$1,474	The company operates in the manufacture and sale of sealed lead acid batteries, lithium-ion batteries and nickel batteries.
Fengfan Co. Ltd. 600482 CH Equity	RMB7,491	The company is principally engaged in research, development, manufacture and distribution of storage batteries. It's major products are storage batteries, including low-temperature series, less-maintenance series, SAIL series, electric cars series, ship series, maintenance-free series and set series, such as lead-acid storage batteries, batteries for motorbikes, industrial batteries and lithium ion batteries, among others. It also involves in manufacture and distribution of lead alloy products. It distributes its products primarily in domestic markets.
Eve Energy Co. Ltd. 300014 CH Equity	RMB3,331	The company researches, manufactures and sells lithium battery. The company also provides portable power source solutions.

A123 Systems Inc. AONE US Equity	US$973	The company designs, develops, manufactures and sells rechargeable lithium-ion batteries and battery systems, and provides research and development services to government agencies and commercial customers. In the transportation industry market, it works with global automotive manufacturers and tier 1 suppliers to develop batteries and battery systems for hybrid electric vehicles (HEVs), plug-in hybrid electric vehicles (PHEVs) and electric vehicles, (EVs). It's cylindrical batteries are available for use in automotive and heavy duty vehicles. Its product offerings include batteries in a number of sizes and forms, as well as packaged modules and fully-tested battery systems. The platform for battery and battery system development is it's Nanophosphate material. It's energy solutions group offers a range of packaged systems, as well as sub-module building blocks for battery system development.
ENERI Inc. HEV US Equity	US$604	The company is engaged in the business of designing, developing and manufacturing rechargeable lithium-ion batteries and battery systems for energy storage. Its end markets include transportation, stationary power (energy storage for utilities and renewable energy, such as wind and solar power in addition to battery backup systems for the home), military applications and small cell markets. In the transportation markets, it is developing systems to power the next generation of hybrid electric vehicles (HEVs), plug-in hybrid electric vehicles (PHEVs) and electric vehicles (EVs). This technology is also developed for other transportation markets, including buses and trucks, as well as alternative transportation vehicles. It also conducts research on and develops fuel cells and nano coating processes. It has three operating segments: battery, fuel cell and nanotechnology.
Advanced Battery Technology Inc. ABAT US Equity	US$297	It is engaged in the business of manufacturing and distributing electric vehicles that utilize batteries manufactured by ZQ Power-Tech. Advanced Battery Technologies, Inc. also owns a 49% interest in Beyond E-Tech, Inc., that distributes cellular telephones in the United States.

Lithium Technology Corp. LTHU US Equity	US$399	The company is a manufacturer and provider of rechargeable energy storage solutions for a range of applications. It designs and builds a limited amount of large format, cylindrical lithium-ion (Li-ion) rechargeable cells and engineers and builds lithium-ion (Li-ion) rechargeable batteries with battery management systems for use in transportation, military/national security and stationary power markets. It also manufactures its own large format, cylindrical cells.
Tianneng Power International Ltd. 819 HK Equity	HK$4,130	The company is engaged in producing motive battery products in the PRC. It's motive battery products are sold under its own brand name TIANNENG and are used in the electric bikes, electric motors and electric cars sold and distributed in the PRC. It also manufactures storage battery for energy, mainly for wind and solar power generation system.
Chaowei Power Holding Ltd. 951 HK Equity	HK$2,885	The company is a Hong Kong-based company. It is engaged in the manufacture and sales of motive batteries. It operates in two segments: Lead-acid motive batteries for electric bikes and Lead-acid motive batteries for electric cars and storage batteries. Its lead-acid motive battery includes electrode plates and fiber glass dividing plates. Its activities include research and development, manufacture and sales of motive batteries.

Source: Bloomberg

Terminal Factor

As advised by the company, Lithium Zhuhai will enter its mature stage commanding constant growth after rapid growth in the initial 5 years (from 2011 to 2015). A terminal factor is calculated in accordance with a stream of projected future free cash flows in discounted cash flow analysis. The Perpetuity Growth Model has been employed in computation of the terminal factors. A continuous constant growth rate of 3% per annum has been applied for the model.

Size Premium

Size Premium is typically added to account for the additional risk inherent in small company stocks. Generally, small companies have higher risk than larger companies. Investors will demand for a higher return to compensate for the higher inherent risk.

In this valuation, we have relied on the studies performed by Ibbotson Associates on the size premium return in excess of cost of equity (as deduced by CAPM) of companies in the Micro cap segment of NYSE/AMEX/NASDAQ in the United States (with study results set out in Ibbotson SBBI 2010 Valuation Yearbook: Market Results for Stocks, Bonds, Bills and Inflation 1926-2010). Given the size of market capitalization of Lithium Zhuhai which is lower than the market capitalization of the comparable companies, a "micro cap" size premium return of 3.74% in excess of cost of equity has been adopted in our valuation.

Company Specific Risk

Company specific risk is designed to account for additional risk factors specific to the business which is still in its developing stage of the business cycle.

Specific risk factors include competition, customer concentration, access to capital, experience of management, degree of diversification, environmental, litigation, distribution channels, technology, company outlook, etc. which relate to those unsystematic risk attributable to the specific company.

All the comparable companies are superior to Lithium Zhuhai in term of the above specific risk factors as they are all in more mature stage of development in their business cycles. We have also considered the facts that Lithium Zhuhai has commenced their productions on industrial scale and has secured electric bus supply contracts from certain customers on the market which can serve to narrow the gap of difference between the comparable companies and Lithium Zhuhai. To sum up the analysis, we have applied a company specific risk premium of 2% in the valuation of Lithium Zhuhai.

Beta

The betas were unlevered to remove the effects of financial leverage on the indication of relative risk provided by the beta, and re-levered at the optimal industry capital structure. A capital structure based on debt to equity ratio of 13% to 87% has been adopted in the re-leveraging process.

Their levered betas have been extracted from the database of Bloomberg L.P..

Stock Code	**Name of Company**	**Unlevered Beta***
1211 HK Equity	BYD Co. Ltd.	0.757
1043 HK Equity	Coslight Technology International Group Ltd.	0.384
600482 CH Equity	Fengfan Co. Ltd.	1.048
300014 CH Equity	Eve Energy Co. Ltd.	0.966
AONE US Equity	A123 Systems Inc.	1.386
HEV US Equity	ENER1 Inc.	1.054
ABAT US Equity	Advanced Battery Technology Inc.	1.28
LTHU US Equity	Lithium Technology Corp.	0.751
819 HK Equity	Tianneng Power International Limited	0.875
951 HK Equity	Chaowei Power Holdings Limited	0.93

Note:

* *Estimated levered beta is translated into unlevered beta by the following formula:*
Unlevered beta = levered beta /[1+(1-tax rate) x Debt-to-equity ratio]

Source: Bloomberg

Cost of Equity Conclusion

The calculation of the Cost of Equity as follows:

Risk Free Rate	4.03%
Re-levered Beta	1.0491
Equity Risk Premium	11.666%
Small Company Premium	3.74%
Company Specific Risk	2%
	22.01%

WACC is the calculation of a firm's cost of capital in which each category of capital is proportionately weighted.

The calculation of WACC (the discount rate):

Weight of Debt	13.00%
Cost of Debt[(1)]	6.6%
1-Tax rate	75%
+	
Weight of Equity	87.00%
Cost of Equity	22.01%
WACC	19.79%

(1) Cost of debt represents the PRC 5 year borrowing rate

Before concluding our opinion on fair value for the share equity of Lithium Zhuhai, we have applied to the assessed value a marketability discount. Marketability is defined as the ability to convert the business into cash quickly, with minimum transaction and administrative costs, and with a high degree of certainty as to the amount of net proceeds. There is usually a cost and a time lag associated with locating interested and capable buyers of interests in privately-held companies, because there is no established market of readily-available buyers and sellers. All other factors being equal, an interest in a publicly traded company is worth more because it is readily marketable. Conversely, an interest in a private-held company is worth less because no established market exists. Several empirical studies have been published that attempt to quantify the discount for lack of marketability. These studies include the restricted stock studies and the pre-IPO studies, such as Emory Pre-IPO Discount Studies.

Sensitivity Analysis

Sensitivity analysis is performed to measure the impact on the fair value of the Enterprise Value of Lithium Zhuhai due to variation on the WACC (being the discount rate involved in the DCF valuation model).

The following table illustrates the sensitivity of the fair value of the Enterprise Value of Lithium Zhuhai as at 28 February 2010 when discount rate is varying in the range of 300bps:

Discount Rate	**Fair Value of Enterprise Value** *(RMB million)*
16.79%	1,055
17.79%	949
18.79%	858
19.79%	779
20.79%	709
21.79%	648
22.79%	593

VALUATION ASSUMPTIONS

Our appraisal included on-site inspection of the production bases, discussions with the management of Lithium Zhuhai in relation to the history and nature of the business of Lithium Zhuhai; a study of the unaudited financial statements; a review of the information provided by the management in connection with the strategy of and the plan of action to be taken to implement the business plan. We have assumed that such information, opinions and representation provided to us are true and accurate. Before arrived at our opinion of value, we have considered the following major factors:

i. the nature and the prospect of the concerned business operations;

ii. the financial conditions of Lithium Zhuhai;

iii. the specific economic and competitive elements affecting Lithium Zhuhai, the industry and the market which it operates;

iv. the market-derived investment returns of enterprises engaged in a similar line of business;

v. the business risk of the Lithium Zhuhai; and

vi. the financial statements of Lithium Zhuhai.

In view of the general environment and the particular situation in which Lithium Zhuhai is operating, the following assumptions have been adopted in our appraisal in order to sufficiently support our concluded value of Lithium Zhuhai:

i. there will be no major change in the existing political, legal and economic conditions in which Lithium Zhuhai is being operated;

ii. save for those proposed changes on taxation policies announced by the Tax Bureau, there will be no major change in the current taxation law and tax rates as prevailing and that all applicable laws and regulations on taxation will be complied with by Lithium Zhuhai;

iii. the interest rates and exchange rates will not differ materially from those presently prevailing;

iv. the availability of finance will not be a constraint on the forecast growth of Lithium Zhuhai operations in accordance with the business plans and the projection;

v. Lithium Zhuhai shall have uninterrupted rights to operate its existing business during the unexpired term of its authorized enterprise operating period;

vi. The audited and unaudited financial statements of Lithium Zhuhai as supplied to us have been prepared in a manner truly and accurately reflected the financial position of Lithium Zhuhai as at the respective balance sheet dates;

vii. the production facilities, systems and the technology utilized by Lithium Zhuhai in carrying out its existing businesses do not infringe any relevant regulations and law;

viii. Lithium Zhuhai has obtained all necessary patents, permits and approvals to carry out its business and its ancillary services and shall be entitled to renew those permits and approvals upon their expiry subject to no legal impediment and costs of substantial amount;

ix. Except those stated in the financial statements, Lithium Zhuhai is free and clear of any lien, charge, option, pre-emption rights or other encumbrances or rights whatsoever that would adversely affect its Enterprise Value;

x. Lithium Zhuhai shall secure and retain competent management, key personnel, marketing and technical staff to carry out and support its business operations;

xi. the estimated fair value does not include consideration of any extraordinary financing or income guarantees, special tax considerations or any other atypical benefits which may influence the ordinary Business Enterprise Value of Lithium Zhuhai;

xii. Lithium Zhuhai is entitled to 100% profit generated from its subsidiaries despite the fact that it is not holding 100% equity interest in all its subsidiaries as at the Valuation Date; and

xiii. there will be no material changes in the Company's business strategy and its production structure.

LIMITING CONDITIONS

During the course of our valuation, we have reviewed the financial information, management representations and other pertinent data and the information made available to us. We have no reason to doubt the truth and accuracy of the information provided to us. We were also advised by the Company that no material factors have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

We have not carried out detailed site measurement to verify the correctness of the site and floor areas of the production bases of Lithium Zhuhai but have assumed that the areas shown on the legal documents provided to us are correct. Based on our experience of valuation of similar assets in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions and areas are approximations.

We shall not be required to give testimony or attendance in court or to any government agency by reason of this valuation and with reference to the project described herein unless prior arrangements have been made. No responsibility is assumed for matters legal in nature. No investigation has been made of the title to or any liabilities against the business enterprise and its operating assets valued. In this valuation, it is presumed that, unless otherwise noted, the owners' claim is valid, the property rights are good and marketable, and there are no encumbrances which cannot be cleared through normal processes.

No opinion is intended to be expressed for matters which require legal or other specialised expertise or knowledge, beyond that customarily employed by valuers.

Our conclusions assume continuation of prudent management policies over whatever period of time considered to be necessary in order to maintain the character and integrity of the assets of Lithium Zhuhai and its subsidiaries. We assume that there are no hidden or unexpected conditions associated with the assets of Lithium Zhuhai and its subsidiaries that might adversely affect its fair value. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

We do not investigate any industrial safety and health related regulations in association with this particular operations. It is assumed that all necessary licenses, procedures and measures were implemented in accordance with the government legislation and guidance.

No allowance has been made in our valuation for any off-balance sheet charges, debts or amounts owing on the assets valued nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the assets of Lithium Zhuhai and its subsidiaries are free from any off-balance sheet encumbrances, restrictions and outgoings of an onerous nature which could affect its fair value.

CONCLUSION OF VALUE

Based on the investigation and analysis stated above and on the valuation method employed, in our opinion, the fair value of the Enterprise Value of Lithium Zhuhai as at the **28 February 2011** is **RMB779,000,000 (RENMINBI SEVEN HUNDRED AND SEVENTY NINE MILLION ONLY**)

We hereby certify that we have neither present nor prospective interest in the appraised assets or the value reported.

This conclusion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

Yours faithfully,
For and on behalf of
Asset Appraisal Ltd.

Tse Wai Leung
CFA
Director

Tse Wai Leung is a CFA charterholder. He is on the list of Registered Business Valuer under the Hong Kong Business Forum and has over 10 years' experiences in conducting business and intangible assets valuation for private and public companies in various industries. Specifically, he has participated in the business valuation of a PRC based automobile technology company which has teamed up with a Japanese Company and is engaged in the design and development of electric vehicle, traditional vehicle, power train, product planning, show car construction, phototyping, vehicle testing, parts testing and consulting. This company is planning to be listed in the Stock Exchange of the PRC in 2012.

(B) REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS

The following is the text of a report, prepared for the purpose of inclusion in this circular, received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

ACCOUNTANTS' REPORT ON CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE VALUATION OF 100% ENTERPRISE VALUE OF ZHUHAI LITHIUM NEW ENERGY SOURCES TECHNOLOGY LIMITED AND ITS SUBSIDIARIES

TO THE DIRECTORS OF FULBOND HOLDINGS LIMITED

We have examined the calculations of the discounted future estimated cash flows on which the valuation, prepared by Asset Appraisal Limited dated 25 May 2011, of 100% enterprise value of Zhuhai Lithium New Energy Sources Technology Limited and its subsidiaries (collectively referred to as "Lithium Zhuhai") as at 28 February 2011 (the "Valuation") is based. Zhuhai Lithium New Energy Sources Technology Limited is a wholly owned subsidiary of China Lithium Electric Vehicle (Hong Kong) Group Limited ("Lithium HK") and its income is generated from the production of electric vehicles in the People's Republic of China. The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and will be included in a circular dated 25 May 2011 (the "Circular") to be issued by Fulbond Holdings Limited (the "Company") in connection with the very substantial acquisition relating to the acquisition of the entire issued capital of and the assignment of the Shareholder's loan in Lithium Energy Group Ltd., the immediate holding company of Lithium HK by Fulbond Investments Limited, a wholly-owned subsidiary of the Company.

Directors' responsibility for the discounted future estimated cash flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and set out in Appendix V-B to the Circular (the "Assumptions"). This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Reporting accountants' responsibility

It is our responsibility to form an opinion on the arithmetical accuracy of the calculations of the discounted future estimated cash flows on which the Valuation is based and to report solely to you, as a body, as required by Rule 14.62(2) of the Listing Rules, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Our engagement was conducted in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. This standard requires that we comply with ethical requirements and plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled in accordance with the Assumptions. Our work does not constitute any valuation of Lithium Zhuhai.

Because the Valuation relates to the discounted future estimated cash flows, no accounting policies of the Company have been adopted in its preparation. The Assumptions include hypothetical assumptions about future events and management actions which cannot be confirmed and verified in the same way as past results and these may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Valuation and the variation may be material. Accordingly, we have not reviewed, considered or conducted any work on the reasonableness and the validity of the Assumptions and do not express any opinion whatsoever thereon.

Opinion

Based on the foregoing, in our opinion, the discounted future estimated cash flows, so far as the calculations are concerned, have been properly compiled, in all material respects, in accordance with the Assumptions.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 May 2011

(C) LETTER FROM THE FINANCIAL ADVISER

KINGSTON CORPORATE FINANCE LTD.

25 May 2011

The Directors
Fulbond Holdings Limited

Dear Sirs,

We refer to the valuation dated 25 May 2011 prepared by Asset Appraisal Limited (the "Valuer") in respect of the fair value of the enterprise value of Zhuhai Lithium New Energy Sources Technology Limited and its subsidiaries ("Lithium Zhuhai") as at 28 February 2011 (the "Valuation") set out in Appendix VB of the circular of Fulbond Holdings Limited (the "Company") dated 25 May 2011 (the "Circular").

The Valuation including the bases and assumptions, as set out in the valuation report on pages VB-1 to VB-27 of the Circular, for which the directors of the Company and the Valuer are solely responsible, has been prepared based on the cash flow projection of Lithium Zhuhai made by the directors of the Company (the "Projection"). The Projection has been prepared using a set of assumptions that include hypothetical assumptions about future events and other assumptions that may or may not necessarily be expected to occur. Consequently, readers are cautioned that the Projection may not be appropriate for purposes other than for deriving the Valuation. Even the events anticipated under the hypothetical assumptions occur, actual results are still likely to differ from the Projection since the other anticipated events frequently may or may not occur as expected and the variation may be material.

We have reviewed the bases and assumptions made by the directors of the Company and adopted by the Valuer as set out in the valuation report as set out in Appendix VB to this circular upon which the Valuation has been prepared. We have also considered the letter dated 25 May 2011 addressed to yourselves from Deloitte Touche Tohmatsu ("Deloitte") regarding the bases and assumptions upon which the Valuation has been made. On the basis of the information comprising (i) the Valuation and (ii) the bases and assumptions made by the directors of the Company and adopted by the Valuer after properly reviewed by the directors of the Company and Deloitte, we are of the opinion that the Valuation, for which the directors of the Company and the Valuer are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Kingston Corporate Finance Limited
Keith Lou
Managing Director

FOREIGN INVESTMENT

Industrial Policies for Foreign Investment

When investing in China, foreign investors shall observe "Catalogue for Guidance of Foreign Investment Industries" (外商投資產業指導目錄) (the "Industrial Catalogue") promulgated by Ministry of Commerce and National Development and Reform Commission (NDRC). The Industrial Catalogue specifies the industries and sectors for encouragement of, restriction on, or prohibition from foreign investment. The unlisted industries and sectors belong to categories open for foreign investment. The Industrial Catalogue also prescribes specific industries in which wholly foreign-owned or foreign-controlled enterprises are permitted or not.

The existing effective Industrial Catalogue was promulgated (after revision) on 30 October 2007 and became effective on 1 December 2007. According to the Industrial Catalogue, the following two sectors belong to the encouragement category which do not allow investment in the form of wholly foreign-owned enterprises, unless through Sino-foreign equity joint ventures jointly established by foreign and Chinese investors: (1) the manufacturing and the R&D of Lithium power batteries and its controller system; and (2) the manufacturing and the R&D of integrated motor and its controller system. Lithium Group's PRC subsidiaries (namely Tangshan Lithium Power Motor Technology Company Limited (唐山鋰源鋰動力電池科技有限公司), Tangshan Caofeidian Lithium Assembly of Electric Vehicles Company Limited (唐山曹妃甸鋰源電動汽車驅動總成有限公司), Jilin Lithium Electric Vehicles Company Limited (吉林鋰源電動車有限公司) and Zhuhai Guang Lithium Electric Vehicles Company Limited (珠海廣鋰電動汽車有限公司)), which engage in the manufacturing and the R&D of Lithium power batteries, motors and controller system, are joint ventures established jointly by foreign invested enterprises and Chinese individuals or companies.

Approval/Registration of Investment Projects

According to the "Decision on the Reform of Investment System" (關於投資體制改革的決定) promulgated by the State Council on 16 July 2004, for enterprises' projects not using government funds, an approval and registration system would be followed. For major projects and projects under the restricted category set out in the Catalogue of Investment Projects Subject to Government Approval, an approval system shall be followed to safeguard public interests. Projects not listed in the aforesaid catalogue shall follow the registration system. Unless otherwise specified by the State, a relevant enterprise shall apply to the competent authority of the local government for the registration of its project based on the territoriality principle.

Wholly Foreign-owned Enterprises and Their Investment in the PRC

Lithium Group's PRC subsidiaries are either wholly foreign-owned enterprises or their PRC subsidiaries. The establishment, organization and management of these companies are subject to the regulation of the "Companies Law of the People's Republic of China", (中華人民共和國公司法), the "Wholly Foreign-owned Enterprises Law of the People's Republic of China" (中華人民共和國外資企業法) and the "Implementation Rules on the Wholly Foreign-owned Enterprises Law" (外資企業法實施細則).

To establish a wholly foreign-owned enterprise, an approval from the Ministry of Commerce or relevant local authorities must be obtained. A wholly foreign-owned enterprise shall also complete registration at the State Administration of Industry & Commerce or its authorized local administrations for industry & commerce and obtain a business license. A wholly foreign-owned enterprise's investment in the PRC must satisfy the requirements stated in the "Provisional Regulations on Investment by Foreign-invested Enterprises in China" (關於外商投資企業境內投資的暫行規定) which was promulgated on 25 July 2000 and became effective on 1 September 2000. The Industrial Catalogue shall apply mutatis mutandis to enterprises invested by foreign-invested enterprises. Such invested enterprises need to first obtain the approval from MOFCOM or its local counterpart and then register with SAIC or its local counterpart, or to directly register with the SAIC or its local counterpart, depending upon the nature of their industry or business.

VEHICLE PRODUCTS MANUFACTURING AND RELATED INDUSTRY

Thresholds for Market Access to New-energy Vehicle Manufacturers and Related Products

On 17 June 2009, Ministry of Industry and Information Technology of the PRC promulgated the "Administrative Rules on Access to New-energy Vehicle Manufacturers and Their Products" (《新能源汽車生產企業及產品准入管理規則》) which became effective on 1 July 2009. It applies to enterprises engaging in the manufacturing of new-energy to be used in China and related products. New-energy vehicles refer to vehicles manufactured with new technologies and new structures which are based on new technology theories and integrate advanced technologies related to power control and driving engine, including Hybrid Electric Vehicle (HEV) and pure electric vehicles which use non-conventional fuels as power source (or use conventional fuels but adopt a new type of car-embedded power unit).

According to level of maturity in different technology (including vehicle assembly, system and the key assembly technology), the improvement of the national and industry standards and the industrialization levels, new-energy vehicles can be divided into three different technology periods, namely, the start-up stage, the development stage and the mature stage. In the start-up stage, only small batches of new-energy vehicles are made, the use is only permitted in approved areas, scopes, periods and conditions, and the operation status of all permitted products shall be placed under real-time monitoring. In the development stage, mass production is allowed, and sales and use are only permitted in approved areas, scopes, periods and conditions, with the operation of at least 20% of the sold vehicles being placed under real-time monitoring. In the mature stage, the products are subject to the "Announcement on Vehicle Manufacturing Enterprises and Vehicle Products" (車輛生產企業及產品公告) which also applies to conventional vehicles in respect of sales and use. Specifically, according to the New-energy Vehicle Technology Stages Table (新能源汽車技術階段劃分表) (applicable before 31 December 2010), Lithium Power Motor Pure Electric Passenger Vehicles are in the development stage while the Lithium Power Motor Pure Electric Commercial Vehicles are in the start-up stage.

The thresholds for market access to new-energy vehicle products are as follows: (1) satisfying standards and relevant requirements related to safety, environment-friendly, energy-saving and theft deterrent; (2) qualified through tests conducted by testing organizations designated by Ministry of Industrial and Information Technology; and (3) non-infringement of others' intellectual property rights. In addition to satisfying relevant testing standards for conventional vehicles, new-energy vehicles must meet special testing requirements, including GB/T 18488.1-2006 (Motor and Controller Used in Electric Vehicles: Part 1: Technology Requirements) (電動汽車用電機及其控制器第1部分:技術條件), GB/T 18488.2-2006 (Motor and Controller Used in Electric Vehicles: Part 2: Testing Methods) (電動汽車用電機及其控制器第2部分:試驗方法) and QC/T 743-2006 (Lithium-ion Storage Battery Used in Electric Vehicles) (電動汽車用鋰離子蓄電池).

Distribution of Automobiles and Spare Parts

The Implementing Procedures for "Administration of Automobile Brand Sales " (汽車品牌銷售管理實施辦法) were promulgated on 21 February 2005 by the MOFCOM, NDRC, the State Administration of Industry & Commercial (SAIC) and became effective on 1 April 2005. According to the Procedures, automobile brand dealers can engage in the sales activities of automobile brands only after they are authorized by the automobile suppliers. Automobile suppliers shall submit relevant materials of the applicants for automobile brand dealers to SAIC for registration, With such registration document, and in the case of foreign invested enterprises, together with the approval from MOFCOM or its local counterpart, automobile brand dealers shall complete registration procedure with the SAIC or its local counterpart and obtain the business license. With the business license, they should handle filing procedure with MOFOCM or its local counterpart.

Automobile suppliers shall formulate an automobile brand sales and service network plan in a reasonable manner. The distance between outlets that handle automobile brand sales, supply supporting spare parts and provide after-sale services shall not exceed 150 kilometres. Automobile brand dealers shall display clearly in their premises the quality assurance of their automobiles and the after-sale services and provide relevant services to the consumers according to the arrangements and service requirements prescribed in the authorized business contracts from automobile suppliers. In addition, automobile brand dealers shall establish an information management system of sales, consumers' files which can reflect the information on the existing regional sales, consumers' demands and other related information in an accurate and timely manner.

Lithium Group's vehicle distribution business is subject to the regulations of the Procedures. Furthermore, Lithium Group also engages in the distribution of batteries and motors. The PRC subsidiaries engaging in the distribution of vehicles and batteries shall observe the "Administrative Measures of Foreign Investment in Commercial Sectors", which was promulgated by MOFCOM and became effective on 1 June 2004, and obtain approval from the relevant authority in charge of commerce. Moreover, the establishment of their sales shops must meet the regional requirements of urban development and commerce development and be approved by the local authority in charge of commerce.

Automobile maintenance and repair services

"Regulations on the Administration of Automobile Maintenance and Repair" (《機動車維修管理規定》) was promulgated by the Ministry of Transport on 24 June 2005 and became effective on 1 August 2005. Pursuant to the regulations, an operator of automobile maintenance and repair business shall own necessary car parking space and workshop, facilities and equipments which are up to national standards and comply with relevant requirements, necessary technicians, a complete maintenance and repair management system and necessary environmental protection measures. An operator of automobile maintenance and repair business shall conduct its business in accordance with relevant technical specifications, establish an auto-parts procurement registration system, publish the fixed hourly rates and charges for various maintenance and repair works so as to charge its fees on a reasonable basis, and implement a system of quality guarantee period for all completed maintenance and repair works in accordance with relevant requirements.

"The Regulations of the PRC on Road Transportation" (《中華人民共和國道路運輸條例》) was promulgated by the State Council on 30 April 2004 and became effective on 1 July 2004. Pursuant to the regulations, an operator of automobile maintenance and repair business shall, before commencement of its operations, apply and submit relevant documentation to the local road transportation administration authority for a road transportation business license. It shall then proceed with relevant registration procedures with the local industrial and commercial administrative department with the road transportation business license in accordance with relevant laws. Lithium Group's PRC subsidiary engaged in automobile maintenance and repair business has obtained the road transportation business license.

ENVIRONMENTAL PROTECTION

"The Environmental Protection Law of the PRC" (《中華人民共和國環境保護法》) was promulgated and implemented on 26 December 1989. Pursuant to the law, enterprises causing environmental pollution and other public hazards are required to adopt environmental protection work plan in their operations and to establish accountability systems for environmental protection. These enterprises are also required to adopt effective measures to prevent and control environmental pollution and hazards caused by the discharge of waste gas, waste water, waste solids, dust, foul-smelling gases and radioactive substance, as well as by noise, vibration, and magnetic radiation in the course of production, construction or other activities.

"The Regulations Governing Environmental Protection in Construction Projects" (《建設項目環境保護管理條例》) was promulgated and implemented on 29 November 1998, and "the Environmental Impact Assessment Law of the People's Republic of China" (《中華人民共和國環境影響評價法》) was promulgated on 28 October 2002 and became effective on 1 September 2003. Pursuant to these laws and regulations, the PRC government has implemented a system to assess the environmental impact from construction projects, and classifies such assessments for management according to the extent of the environmental impact of construction projects. The entities responsible for construction shall prepare the environmental impact reports, environmental impact forms or complete the environmental impact registration forms according to the extent of potential impact on the environment, and then submit the same to environmental protection administrative departments with the authority of examination and approval. If such environmental impact assessment documents are not examined by the relevant examination and approval departments specified under the law or if such documents are not approved after examination, the construction of such projects shall not be approved by the relevant examination and approval departments, and the entities responsible for construction shall not commence the construction.

Pursuant to the provisions of "the Environmental Protection Law of the PRC" (《中華人民共和國環境保護法》) and "the Regulations Governing Environmental Protection in Construction Projects" (《建設項目環境保護管理條例》), installations for the prevention and control of pollution at a construction project must be designed, built and put into use together with the principal part of the project at the same time. The entity responsible for construction shall, upon completion of a construction project, apply for the inspection and acceptance of the completed environmental protection facilities required for the construction project. The application shall be filed with the relevant environmental protection administrative department that is responsible for the examination and approval of the environmental impact assessment document for the relevant construction project. Inspection and acceptance for the completion of construction of environmental protection facilities and inspection and acceptance for the completion of construction of the principal project shall be conducted simultaneously. The said construction project may be used or commence formal production only after the environmental protection facilities required for this project has passed the inspection and acceptance procedures.

The operation of any enterprise shall comply with the relevant PRC laws and regulations for preventing and controlling pollution, including "the Water Pollution Prevention Law of the PRC" (《中華人民共和國水污染防治法》), "the Atmospheric Pollution Prevention Law of the PRC" (《中華人民共和國大氣污染防治法》), "the Environmental Noise Pollution Prevention Law of the PRC" (《中華人民共和國環境噪聲污染防治法》), "the Solid Waste Environmental Pollution Prevention Law of the PRC" (《中華人民共和國固體廢物污染環境防治法》) and "the Rules on the Administration and Registration of Discharge of Pollutants" (《排放污染物申報登記管理規定》), and etc. Pursuant to these laws and regulations, in respect of all newly constructed, expanded or reconstructed projects which directly or indirectly discharge pollutants to the environment, make industrial and construction noises or produce solid wastes, the relevant entities shall report the information concerning their pollutants-discharging facilities, pollutants-treatment facilities and the type, quantity and concentration of the pollutants discharged from their facilities to the relevant environmental protection administrative departments. Technology-related information on the prevention and control of pollution shall be provided as required, while discharge permits with specified limits on the type and quantity of pollutants discharged shall be applied and pollutant discharge fees shall be paid pursuant to the requirements.

OCCUPATIONAL HEALTH

"Law of the People's Republic of China on the Prevention and Treatment of Occupational Diseases" (《中華人民共和國職業病防治法》) was effective from 1 May 2002. The law stipulates that an employer whose workplace is exposed to potential hazards of occupational diseases shall comply with to a series of occupational health requirements, including (1) the intensity or concentration of the occupational-disease-inductive substances should comply with the national standard of occupational health; (2) appropriate occupational disease prevention facilities should be in place; (3) the allocation of production activities should be reasonable and in compliance with the principle of separation of hazardous and non-hazardous operations; and (4) facilities including equipments, tools and instruments should meet the protection requirements in respect of employees' physical and mental health.

An employer shall deploy effective occupational disease preventive facilities and provide employees with occupational disease prevention articles for individual use. An employer shall conduct regular test and assessment on the occupational-disease-inductive factors in the workplace according to the regulations of the public health authority under the State Council. Test and assessment results shall be kept in the employer's occupational health archive for regular submission to local public-health authority and for release to the employees. According to the regulations of the public health authority under the State Council, an employer shall, at its own cost, proceed with the pre-employment, on-job and pre-departure physical examination for employees engaging in occupational disease-inductive operation and faithfully inform the employees of the examination result.

For any new construction, extension and reconstruction projects, technical modification projects and technology introduction projects which may give rise to occupational diseases, the entities which are responsible for such projects shall, during the period of the feasibility study, submit relevant occupational disease pre-assessment reports to the competent department of public health for review. The cost of the occupational disease prevention facilities for a construction project shall be included in the engineering budget of the construction project, and such facilities should be designed, engineered and put into operation and use concurrently with the principal project. The entity which takes charge of the construction of the project shall carry out assessment of the occupational disease prevention measures before the final inspection and acceptance of the construction project. No construction project shall be put into operation and use without having its occupational disease preventive facilities accepted by the competent department of public health upon the inspection and acceptance of the construction project.

PRODUCTION SAFETY

"Production Safety Law of the People's Republic of China" (《中華人民共和國安全生產法》) was effective from 1 November 2002. The law stipulates that the major persons-in-charge of the production and business operation entities shall have the following duties and responsibilities regarding the production safety of their own entity: (1) establishing and perfecting the accountability system relating to production safety; (2) organizing the formulation of rules of safe production and operational rules of the entity; and (3) organizing the formulation and execution of plans for emergency rescue and relief of production safety accidents of the entity. The major persons-in-charge and the personnel for the administration of production safety of the production and business operation entities shall have the knowledge and management capability that match the production and business operation activities of the entities concerned.

Production and business operation entities shall provide education and training programs to employees regarding production safety so as to ensure that employees have the necessary knowledge of production safety, knowledge of relevant rules and regulations for safe production and rules for safe operation, and master the skills for safe operation for their own positions. No employee who has not passed the education and training programs regarding production safety may start to work at his position. Production and business operation entities shall provide labor protection articles that meet the national standards or industry standards to their employees, supervise and educate them to wear or use these articles according to the prescribed rules. The persons in charge of the production safety of production and business operation entities shall conduct regular inspections over the production safety of the entities concerned by taking the peculiarities of business operations of the entities into consideration. Safety problems identified in the inspections shall be dealt with immediately; if they are not able to deal with the problems, they shall report to the relevant persons-in-charge of the entities in a timely manner. Records shall be kept for the inspections and the handling of the problems.

The production and business operation entities shall install eye-catching safety warning signs at the production workshop or business operation sites in which have substantial dangerous elements are found to exist or affix these safety signs on relevant facilities or equipment. Special equipment that concerns the safety of human lives or which is considered as dangerous, and the container of hazardous substances or the means of transportation used by any production and business operation entity shall be manufactured by a specialized production enterprise, and only after it has passed the inspections and tests of professional institutions for which a certificate for safe use or a safety mark has been obtained could it be put into use. For the production, operation, transportation, storage and use of any hazardous substance or the disposal or abandoning of any hazardous substance by any production and business operation entity, the entity shall comply with the provisions of relevant laws and regulations as well as the national standards or industry standards, establish a specialized system for safety administration, adopt reliable safety measures, and accept the supervision and administration lawfully carried out by relevant administrative departments.

INTELLECTUAL PROPERTY RIGHT

Patent

The "Patent Law of the People's Republic of China" (《中華人民共和國專利法》) was promulgated by the Standing Committee of the National People's Congress on 12 March 1984 and became effective on 1 April 1985. It was subsequently amended on 4 September 1992, 25 August 2000 and 27 December 2008. Pursuant to this law, patent rights include inventions, utility models and designs. The Patent Administrative Department of the State Council, after examining the patent application in accordance with law, will grant the patent right, issue relevant patent certificate, and register the patent and make announcement at the same time. The patent right becomes effective on the date of the announcement. The duration of a patent is 20 years for inventions and 10 years for utility models and designs, in each case to be calculated from the date of application. Patent right is protected by law, for any exploitation of the patent without the authorization of the patentee, the rightful owner may file a suit with the People's Court, or make a request to the patent administrative authority for decision, and the rightful owner is entitled to claim for compensation, to take actions to stop any infringement by the infringers and procure other remedy conferred by law.

Trademark

The "Trademark Law of the People's Republic of China" (《中華人民共和國商標法》) was promulgated by the Standing Committee of the National People's Congress on 23 August 1982 and became effective on 1 March 1983. It was subsequently amended on 22 February 1993 and 27 October 2001. Pursuant to this law, a trademark registrant is entitled to the exclusive right to use the registered trademark, which the registrant may, by concluding a trademark licensing contract, authorize another person to use this registered trademark. Any trademark licensing contract shall be filed with the trademark bureau. Any of the following acts shall be deemed as an infringement of the exclusive right to use a registered trademark: (1) using a trademark which is identical with or similar to the registered trademark on the same kind of commodities or similar commodities without a licence from the registrant of that trademark; (2) manufacturing or selling without authorization the marks of a registered trademark of others; and (3) causing other damage to the exclusive right to use a registered trademark of another person. In the event of any above mentioned acts which infringe to the exclusive right to use a registered trademark, the infringed may make a request to the administrative department of industry and commerce for decision, the infringer would be ordered to stop the infringement acts immediately and give the infringed party compensation by the administrative department of industry and commerce, if the infringement act is serious, a fine would be imposed at the same time. Also, the infringed party may file a suit with the People's Court directly in accordance with law to claim for compensation or other remedy conferred by law.

TAXATION MATTERS

Enterprise income tax

The "Enterprise Income Tax Law of the People's Republic of China" (《中華人民共和國企業所得稅法》) (the "Enterprise Income Tax Law") was promulgated on 16 March 2007 and implemented on 1 January 2008. The "Enterprise Income Tax Rules" (《企業所得稅法實施條例》) was also implemented on 1 January 2008. Under the requirements of the "Enterprise Income Tax Law", both foreign invested enterprises and domestic enterprises are subject to an enterprise income tax at a uniform tax rate of 25%.

In addition to resident-enterprises, non-resident enterprises are also subject to income tax for the income derived from the PRC. If a non-resident enterprise does not have any establishment or premises of business in the PRC, or has such establishment or premises of business but its income is not effectively connected with the establishment or premises, such non-resident enterprise is subject to an enterprise income tax for the income derived from the PRC, and the tax rate under such circumstance is 10%. In respect of the revenue from equity investment such as dividends and bonuses between resident enterprises as well as the revenue from equity investment such as dividends and bonuses of the nonresident enterprise with establishment and premises of business within the PRC that are effectively connected to those establishment and premises, they belong to non-taxable income.

Pursuant to the "Arrangement between Mainland China and Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion" (《內地和香港特別行政區關於對所得避免雙重徵稅和防止偷漏稅的安排》) signed on 21 August 2006 (applicable to the income earned in taxation years beginning on or after 1 January 2007 in the PRC and the income earned in taxation years beginning on or after 1 April 2007 in the Hong Kong SAR), the dividends payable to a company incorporated in Hong Kong by its PRC subsidiary are subject to a withholding income tax at 5% if the Hong Kong company holds 25% or above interest in that PRC subsidiary when the dividends are paid; otherwise at 10% if the Hong Kong company holds less than 25% interest of that PRC subsidiary.

LABOUR AND SOCIAL SECURITY

The "Labour Contract Law of the PRC" (《中華人民共和國勞動合同法》) which took effect on 1 January 2008 provides that employers shall enter into an employment contract in writing with their employees. The law also expressly stipulates the legal liabilities in case of breach of relevant provisions .An employer shall pay the employee a double-salary for the relevant months if it has not entered into any employment contract in writing with the employee from one month to one year after the actual employment date. The employer is deemed to have entered into an employment contract without fixed term with the employee if it has not entered into any employment contract in writing with the employee for more than one year after the actual employment date. Employers are prohibited from compelling employees or in a disguised manner compel employees to work overtime. An employer shall pay over-time compensation to its employee(s) in accordance with the relevant provisions of the PRC government if it requires the latter to work overtime. In addition, labour compensation shall not be lower than the minimum local wage standard. Employers shall pay the labour compensation in full to its employees on a timely basis.

Pursuant to the "Labour Law of the PRC" (《中華人民共和國勞動法》) which took effect on 1 January 1995, an enterprise shall establish and perfect its system of work place safety and sanitation, strictly abide by the rules and standards set down by the state on work place safety and sanitation and provide training to all employees on work place safety and sanitation matters. Work place safety and sanitation facilities shall be up to the standards required by the state . Enterprises and organizations shall provide a work place with safety and sanitation conditions in line with the state stipulations and relevant rules in respect of labour protection.

Social insurance is the core component of the social security system. Social insurance includes five components, namely, pension insurance, unemployment insurance, medical insurance, occupational injury insurance and maternity insurance (relevant rules may vary with different local requirements). An employer is obliged to pay its portion of social security contribution to the relevant social security institutions, and withhold and pay the employee's portion of social security contribution to the relevant social security institutions. If an employer fails to pay its portion of social insurance contribution or withhold an employee's portion of the contribution, it may be ordered to make the relevant contribution and pay fines by the relevant employment and social security departments or tax bureau.

Pursuant to the "Regulations on Management of Housing Provident Fund" (《住房公積金管理條例》) (Revised in 2002) and relevant laws and regulations, an employer shall pay the housing provident fund for any employee with whom it has established employment relationship and signed employment contract. The employer shall register for payment of housing provident fund at the administration centre of the housing provident fund, and complete the procedures for opening housing provident fund accounts for its employees at the commissioned banks. The employer shall pay the housing provident fund in full on a timely basis, and in case of any breach of the relevant provisions, the administration centre of the housing provident fund will order payment within a deadline.

FOREIGN EXCHANGE CONTROL

Pursuant to the "Foreign Currency Administration Rules of the PRC" (《中華人民共和國外匯管理條例》) promulgated by the State Council on 19 January 1996 and amended on 14 January 1997 and 1 August 2008, Renminbi is freely convertible only to the extent of current account items, including the distribution of dividends, interests and royalties payments, trade and service-related foreign exchange transactions that conform with certain procedural requirements. Capital account items, such as direct equity investment and loans, require the prior approval from the State Administration of Foreign Exchange or its local counterpart for the conversion of Renminbi into a foreign currency, and remittance of the foreign currency outside the PRC.

COMPLIANCE OF REGULATORY REQUIREMENTS

As set out in the sub-section headed "Due diligence review on the Target Group", the Target Group has yet to obtain certain approvals, certificates and assessments with relevant PRC regulatory authorities. Save as aforesaid, the Vendor confirmed that the Target Group did not have any major non-compliance of regulatory requirements as at the Latest Practicable Date, which are yet to be rectified.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. SHARE CAPITAL

The authorised and issued and fully paid up share capital of the Company as at the Latest Practicable Date were as follows:

Authorised:		*US$*
100,000,000,000	Shares	100,000,000.00
Issued and fully paid:		
45,642,927,432	Shares	45,642,927.43

The authorised and issued and fully paid up share capital of the Company following the completion of the Capital Reorganisation and upon issue of the (i) Placing Shares; (ii) Consideration Shares; (iii) conversion shares upon full conversion of the Convertible Notes; and (iv) conversion shares upon full conversion of the Previous Convertible Notes will be as follows:

Authorised:		*US$*
100,000,000,000	Shares	100,000,000.00
Issued and fully paid:		
4,564,292,743.2	Shares	4,564,292.74
8,823,000,000	Placing Shares	8,823,000.00
2,523,809,521	Consideration Shares	2,523,809.52
2,941,176,470	conversion Shares to be allotted and issued upon full conversion of the Convertible Notes	2,941,176.47
3,960,000,000	conversion Shares to be allotted and issued upon full conversion of the Previous Convertible Notes	3,960,000.00
22,812,278,734.2		22,812,278.73

3. DISCLOSURE OF INTERESTS

Interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) which are required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Nature of interests	Number of Shares (Long position)	Number of underlying Shares in respect of the Share Options granted under the Share Option Scheme	Percentage of shareholding (approximate)
Mr. Zhang Xi	Beneficial interests	1,592,826,000	91,617,000	3.69%
Ms. Catherine Chen	Beneficial interests	–	91,617,000	0.20%

All the interests disclosed above represent long position in the Shares or underlying Shares.

Note: The Share Options were granted to Mr. Zhang Xi and Ms. Catherine Chen to subscribe for Shares pursuant to the Share Option Scheme. The Share Options were exercisable at HK$0.041 per Share and will expire on 13 July 2011.

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) which are required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there is no existing or proposed service contract between any of the Directors or proposed director and any member of the Enlarged Group other than service contracts that are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

5. INTERESTS IN CONTRACT OR ARRANGEMENT

None of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Enlarged Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Enlarged Group.

6. INTERESTS IN ASSETS

As at the Latest Practicable Date, none of the Directors or proposed director had any direct or indirect interest in any assets which have been, since 31 December 2010, the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

7. DIRECTORS' INTEREST IN COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors or any of their respective associates had any business or interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

8. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

9. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the members of the Enlarged Group within two years immediately preceding the Latest Practicable Date and which are, or may be, material to the Enlarged Group:

(a) the Acquisition Agreement;

(b) the Share Placing Agreements;

(c) the CN Placing Agreement;

(d) the Loan Agreement;

(e) the construction project management agreement dated 29 November 2010 between Allywing Investments Limited and Harvest Day Limited, pursuant to which Harvest Day Limited agreed to provide management and consultancy services in the Property Project to Allywing Investments Limited at a management fee of HK$50,000,000;

(f) the share transfer agreement dated 29 October 2010 entered into between Lithium HK and the Original Owners in relation to the entire registered capital of Lithium Zhuhai at a total consideration of RMB50 million;

(g) a conditional agreement dated 1 June 2010 entered into between Good Base Investments Limited, a wholly-owned subsidiary of the Company, as purchaser and Mr. Zhang Xi as the vendor in respect of the Acquisition of Allywing at a consideration of RMB284,848,920;

(h) a capital increase agreement dated 28 May 2010 entered into between Allywing Investments Limited and 成都宏邦投資有限公司 (Chengdu Hongbang Investments Limited) in relation to the increase of the registered capital of 西安遠聲實業有限公司 (Xi'an Yuansheng Enterprises Limited) ("**Xi'an Yuansheng**") from RMB20 million to RMB50 million;

(i) a guarantee dated 7 December 2009 entered into between Hansen Village Branch of Xi'an New City District Rural Credit Cooperative Association as lender and Xi'an Yuansheng as the guarantor of Xi'an Wing Hang Industry Co., Ltd. for the repayment of a loan in the principal amount of RMB2.8 million;

(j) a sale and purchase deed dated 4 December 2009 entered into between the Purchaser as the vendor, the Company, Sincerity Shine Holdings Limited as purchaser and Li Geng as the guarantor of the purchaser in respect of the sale and purchase of the entire issued share capital of Prowealth Holdings Group Limited at the consideration of HK$165,000,000;

(k) a loan agreement dated 14 September 2009 entered into among Xincheng Branch of Xi'an City Commercial Bank as lender, Xi'an Kingtone Information Technology Co., Ltd. ("**Xi'an Kingtone**") as borrower and Xi'an Yuansheng as the guarantor of the borrower for a loan in the principal amount of RMB23.5 million, pursuant to which Xi'an Yuansheng has created a land charge to secure the loans in the principal amount of RMB51 million and RMB23.5 million owing by 西安欣融科技實業 (集團)有限公司 (Xi'an Xinrong Technology Industry (Group) Co., Ltd.) and Xi'an Kingtone respectively (the "**Land Charge**") in favour of Xincheng Branch of Xi'an City Commercial Bank as security for the repayment of loan;

(l) a guarantee dated 14 September 2009 entered into between Xincheng Branch of Xi'an City Commercial Bank as lender and Xi'an Yuansheng as the guarantor of Xi'an Kingtone for the repayment of a loan in the principal amount of RMB23.5 million;

(m) a charge dated 14 September 2009 entered into between Xi'an Yuansheng as chargor and Xincheng Branch of Xi'an City Commercial Bank as chargee in relation to a loan in the principal amount of RMB23.5 million borrowed by Xi'an Kingtone, pursuant to which Xi'an Yuansheng has created the Land Charge in favour of Xincheng Branch of Xi'an City Commercial Bank as security for the repayment of loan;

(n) the placing agreement dated 6 August 2009 between the Company and Kingston (as supplemented and amended by side letters made between the same parties on 24 September 2009 and 2 June 2010) in relation to the placing of convertible redeemable notes to be issued by the Company in the maximum aggregate principal amount of HK$800,000,000 on a best effort basis;

10. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2010, being the date to which the latest audited consolidated financial statements of the Group were made up.

11. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the professional advisers ("Experts") who have given opinions or advice contained in this circular:

Names	**Qualifications**
Deloitte Touche Tohmatsu	Certified Public Accountants
Asset Appraisal Limited	Independent professional valuer
Kingston Corporate Finance Limited	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Guantao Law Firm (Hong Kong)	PRC legal advisers
Fujian Dazhong Law Firm	PRC legal advisers

The letters and reports from the Experts are given as of the date of this circular for incorporation in this circular.

12. CONSENTS

Each of the Experts has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its reports and/or letters, as the case may be, and references to its names in the form and context in which it appears.

As at the Latest Practicable Date, none of the Experts had any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, none of the Experts had any direct or indirect interest in any assets which have been, since 31 December 2010, the date which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Enlarged Group, or were proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

13. CORPORATE INFORMATION

(a) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The head office and principal place of business of the Company in Hong Kong is located at Unit 2807, 28th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong.

(b) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(c) The company secretary of the Company is Mr. Tang Kam Shing, Roland, who is a certified public accountant and a certified tax adviser in Hong Kong.

(d) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

14. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at Unit 2807, 28th Floor, The Center, 99 Queen's Road Central, Central, Hong Kong during normal business hours from the date of this circular up to and including the date of the SGM:

(a) the Memorandum of Association and bye-laws of the Company;

(b) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;

(c) the consent letters from the Experts referred to in the paragraph headed "Consents" in this Appendix;

(d) the accountants' reports on the Target Group, Lithium Zhuhai, Lithium BJ, Lithium Sales, Lithium Caofeidian, Lithium Power Motor, Lithium New EV, Lithium Jilin and Lithium Guang prepared by Deloitte Touche Tohmatsu, the text of which are set out in Appendices II-A to II-I to this circular;

(e) the accountants' report on the unaudited pro forma financial information of the Enlarged Group prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix III to this circular;

(f) the property valuation report of the Enlarged Group prepared by Asset Appraisal Limited, the text of which is set out in Appendix V-A to this circular;

(g) the business valuation report of the Target Group prepared by Asset Appraisal Limited, the text of which is set out in Appendix V-B to this circular;

(h) the accountants' report on calculation of discounted future estimated cash flows in connection with the valuation of 100% enterprise value of Zhuhai Lithium New Energy Sources Technology and its subsidiaries prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix V-B to this circular;

(i) the letter from Kingston Corporate Finance Limited, in respect of their opinion on the business valuation report of the Target Group prepared by Asset Appraisal Limited as set out in Appendix V-B to this circular, the text of which is set out in Appendix V-B to this circular;

(j) the annual reports of the Company for the two years ended 31 December 2009 and 2010; and

(k) this circular.

福 邦 控 股

Fulbond Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 1041)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting ("**SGM**") of Fulbond Holdings Limited (the "**Company**") will be held at Plaza 1 and 2, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 21 June 2011 at 11:00 a.m. or any adjournment(s) thereof, for the purpose of considering and, if thought fit, passing with or without modification, the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT**:

(a) the acquisition agreement dated 13 January 2011 (as supplemented and amended by a supplemental agreement made between the same parties on 23 May 2011) ("**Agreement**", a copy of which has been produced to the meeting marked "A1" and signed by the chairman of the meeting for the purpose of identification) entered into between Hefu Limited as vendor ("**Vendor**"), Mr. Yeung Tsoi San, Mr. Lau Yung and Mr. Fei Phillip collectively as Vendor's guarantors and Fulbond Investments Limited, a wholly-owned subsidiary of the Company, as purchaser ("Purchaser") in relation to the sale and purchase of (i) 50,000 shares of US$1.00 each in the share capital of Lithium Energy Group Ltd. and (ii) the shareholder's loan due and owing to the Vendor by Lithium Energy Group Ltd. as at the date of completion of the Agreement upon and subject to the terms and conditions as set out therein and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) conditional upon the listing committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, up to an aggregate of 2,523,809,521 shares (following the completion of the Capital Reorganisation (as defined in resolution numbered 5 as set out in the notice convening this meeting))(the "**Consideration Share(s)**") of US$0.001 each in the share capital of the Company credited as fully paid at an issue price of HK$0.21 per Consideration Share, the allotment and issue of Consideration Shares ("**Consideration Shares Specific Mandate**") to the Vendor being part of the consideration under the Agreement be and is hereby approved and the Consideration Shares Specific Mandate is in addition to, and shall not prejudice nor revoke the existing general mandate granted to the directors of the Company by the shareholders of the Company in the annual general meeting of the Company held on 8 June 2010 or such other general or specific mandate(s) that may have been granted to the directors of the Company prior to the passing of this resolution;

(c) the loan agreement dated 23 May, 2011 ("**Loan Agreement**", a copy of which has been produced to the meeting marked "A2" and signed by the chairman of the meeting for the purpose of identification) entered into between (i) Lau Yung, a 97% shareholder of the Vendor and (ii) the Purchaser whereby, subject to the terms and conditions therein, the Purchaser agreed to grant a loan facility of up to HK$25,000,000 to Lau Yung which loan agreement is secured by (a) a share mortgage ("**Share Mortgage**", a copy of which has been produced to the meeting marked "A3" and signed by the chairman of the meeting for the purpose of identification) to be entered into by Lau Yung and Fei Phillip, being all the shareholders of the Vendor, as chargor and the Vendor to charge the entire issued share capital in, and shareholders' loan due and owing by, the Vendor in favour of the Purchaser to secure the obligations of Lau Yung under the Loan Agreement and (b) the deeds of guarantee ("**Guarantees**", a copy of which has been produced to the meeting marked "A4" and signed by the chairman of the meeting for the purpose of identification) to be entered into by each of Yeung Tsoi San and Fei Phillip in favour of the Purchaser to secure the obligations of Lau Yung under the Loan Agreement, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(d) any one director of the Company be and is hereby authorised for and on behalf of the Company to execute all such documents, instruments, agreements and deeds and do all such acts, matters and things as he/she may in his/her absolute discretion consider necessary, desirable or expedient for the purposes of or in relation to implementing, completing and giving effect to the Agreement, the Loan Agreement, the Share Mortgage and the Guarantees and the transactions contemplated thereunder including but not limited to the issue of the Consideration Shares and to agree to such variations of the terms of the Agreement as he/she may in his/her absolute discretion consider necessary or desirable."

2. "**THAT**

(a) the placing agreement (the "**Kingston Placing Agreement**") dated 13 January 2011 entered into between the Company as issuer and Kingston Securities Limited as placing agent (as supplemented and amended by side letters made between the Company and the placing agent on 1 February 2011 and 23 May 2011) in relation to the placing on a best effort basis of a maximum of 2,941,000,000 new shares (the "**Kingston Placing Share(s)**") of US$0.001 each in the share capital of the Company at a placing price of HK$0.17 per Kingston Placing Share, a copy of which has been produced to the meeting marked "B" and signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) conditional upon the listing committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Kingston Placing Shares, the allotment and issue of the Kingston Placing Shares to the relevant placees pursuant to the Kingston Placing Agreement (the "**Kingston Placing Specific Mandate**") be and is hereby approved and the Kingston Placing Specific Mandate is in addition to, and shall not prejudice nor revoke the existing general mandate granted to the directors of the Company by the shareholders of the Company in the annual general meeting of the Company held on 8 June 2010 or such other general or specific mandate(s) that may have been granted to the directors of the Company prior to the passing of this resolution;

(c) any one director of the Company be and is hereby authorised to do all such things and acts as he/she may in his/her discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of the Kingston Placing Agreement and the Kingston Placing Specific Mandate and the transactions contemplated thereunder; and

(d) in the event that completion of the Kingston Placing Agreement has not taken place before 30 September 2011 (the "**Kingston Placing Expiry Date**"), the authorization and approval granted under this resolution shall be revoked and shall expire on the Kingston Placing Expiry Date provided that nothing shall affect the Kingston Placing Agreement, the Kingston Placing Specific Mandate and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Kingston Placing Shares) in the event that any partial completion of the Kingston Placing Agreement has taken place before the Kingston Placing Expiry Date, and the authorization and approval granted under this resolution in respect thereof shall remain valid and shall be in full force and effect in all respects accordingly."

3. "**THAT**

(a) the placing agreement (the "**GDS Placing Agreement**") dated 13 January 2011 entered into between the Company as issuer and Guangdong Securities Limited as placing agent (as supplemented and amended by side letters made between the Company and the placing agent on 1 February 2011 and 23 May 2011) in relation to the placing on a best effort basis of a maximum of 5,882,000,000 new shares (the "**GDS Placing Share(s)**") of US$0.001 each in the share capital of the Company at a placing price of HK$0.17 per GDS Placing Share, a copy of which has been produced to the meeting marked "C" and signed by the chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

(b) conditional upon the listing committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the GDS Placing Shares, the allotment and issue of the GDS Placing Shares to the relevant placees pursuant to the GDS Placing Agreement (the "**GDS Placing Specific Mandate**") be and is hereby approved and the GDS Placing Specific Mandate is in addition to, and shall not prejudice nor revoke the existing general mandate granted to the directors of the Company by the shareholders of the Company in the annual general meeting of the Company held on 8 June 2010 or such other general or specific mandate(s) that may have been granted to the directors of the Company prior to the passing of this resolution;

(c) any one director of the Company be and is hereby authorised to do all such things and acts as he/she may in his/her discretion consider necessary, expedient or desirable for the purpose of or in connection with the implementation of the GDS Placing Agreement and the GDS Placing Specific Mandate and the transactions contemplated thereunder; and

(d) in the event that completion of the GDS Placing Agreement has not taken place before 30 September 2011 (the "**GDS Placing Expiry Date**"), the authorization and approval granted under this resolution shall be revoked and shall expire on the GDS Placing Expiry Date provided that nothing shall affect the GDS Placing Agreement, the GDS Placing Specific Mandate and the transactions contemplated thereunder (including but not limited to the allotment and issue of the GDS Placing Shares) in the event that any partial completion of the GDS Placing Agreement has taken place before the GDS Placing Expiry Date, and the authorization and approval granted under this resolution in respect thereof shall remain valid and shall be in full force and effect in all respects accordingly."

4. "**THAT**

(a) the creation and issue by the Company of non-interest bearing convertible redeemable notes (the "**Convertible Notes**") in the maximum aggregate principal sum of HK$500,000,000 due on the date falling upon the expiry of five years from the date on which the Convertible Notes is first issued, convertible into new shares in the capital of the Company on and subject to the terms and conditions ("**CN Conditions**") contained in the placing agreement dated 13 January 2011 (as supplemented and amended by side letters made between the Company and the placing agent on 1 February 2011 and 23 May 2011) ("**CN Placing Agreement**") (a copy of which has been produced to this meeting marked "D" and signed by the chairman of the meeting for the purpose of identification) between the Company and the placing agent, Kingston Securities Limited (as may be amended from time to time) in respect of, inter alia, the placing of the Convertible Notes be and is hereby generally and unconditionally approved in all respects;

(b) the CN Placing Agreement and all the transactions contemplated thereunder and all other matters of and incidental thereto or in connection therewith be and are hereby generally and unconditionally approved, ratified and confirmed in all respects and the directors of the Company be and are hereby generally and specifically authorized to issue the Convertible Notes on and subject to the terms of the CN Placing Agreement (as may be amended from time to time) and the CN Conditions;

(c) the directors of the Company be and are hereby generally and specifically authorized to issue the Convertible Notes approved to be issued under paragraph (a) of this resolution up to the maximum aggregate principal sum of HK$500,000,000 and to allot and issue such number of new shares ("**CN Placing Specific Mandate**") as may be required to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes on and subject to the terms and conditions of the CN Placing Agreement (as may be amended from time to time) and the CN Conditions. The CN Placing Specific Mandate is in addition to, and shall not prejudice nor revoke the existing general mandate granted to the directors of the Company by the shareholders of the Company in the annual general meeting of the Company held on 8 June 2010 or such other general or specific mandate(s) that may have been granted to the directors of the Company prior to the passing of this resolution;

(d) any one director of the Company be and is hereby authorized to sign, seal, execute, perfect, deliver all such documents and to do all such things and acts as he may in his discretion consider necessary, expedient or desirable to effect (i) the transactions contemplated under the CN Placing Agreement (as may be amended from time to time) and the issue of the Convertible Notes and/or (ii) the amendment, variation or modification of the CN Placing Agreement (as may be amended from time to time) (including any amendment, variation or modification of the CN Conditions) upon such terms and conditions as the board of directors of the Company may think fit; and

(e) in the event that completion of the issue of the Convertible Notes has not taken place in full before 30 September 2011 (the "**CN Placing Expiry Date**"), the authorization and approval granted under this resolution shall be revoked and shall expire by the end of the CN Placing Expiry Date provided that nothing shall affect the CN Placing Agreement, the CN Placing Specific Mandate and the transactions contemplated thereunder that has taken place on or before the CN Placing Expiry Date (including but not limited to the issue of the Convertible Notes under partial completion) and the transactions contemplated to take place after the CN Placing Expiry Date as a result thereof (including but not limited to the allotment and issue of the new shares as may be required to be allotted and issued upon exercise of the conversion rights attaching to the Convertible Notes in issue on the CN Placing Expiry Date), and the authorization and approval granted under this resolution in respect thereof shall remain valid and shall be in full force and effect in all respects accordingly."

SPECIAL RESOLUTIONS

5. "**THAT** subject to the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the Reorganised Shares (as defined below) and the compliance with the relevant procedures and requirements under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies Act 1981 of Bermuda (the "**Companies Act**") to effect the Capital Reorganisation (as defined below), with effect from the business day (not being a Saturday) immediately following the date on which this resolution is passed:

   (a) every 10 existing shares of US$0.001 each in the issued share capital of the Company be consolidated into one share of par value US$0.01 (the "**Consolidated Share**") (the "**Share Consolidation**");

   (b) subject to and forthwith upon the Share Consolidation becoming effective, the par value of each issued Consolidated Share be reduced from US$0.01 to US$0.001 (the "**Reorganised Shares**") by cancellation of US$0.009 of the paid-up capital of each issued Consolidated Share (the "**Capital Reduction**");

   (c) subject to and forthwith upon the Share Consolidation and the Capital Reduction becoming effective, the entire amount standing to the credit of the share premium account of the Company as at the date of the Capital Reorganisation (as defined below) becomes effective be reduced and cancelled (the "**Share Premium Reduction**");

   (d) the credit arising from the Capital Reduction and the Share Premium Reduction in the books of the Company be credited to the contributed surplus account of the Company and be used to eliminate the accumulated losses of the Company as of the effective date of the Capital Reduction and the Share Premium Reduction, and the remaining balance (if any) be applied by the directors of the Company (the "**Directors**") in accordance with the bye-laws of the Company from time to time and the Companies Act; and

   (e) the Directors be and are hereby authorised to take all necessary actions, to do all things and acts and sign all documents which they consider necessary, desirable, or expedient to implement and effect the Share Consolidation, the Capital Reduction, and the Share Premium Reduction (collectively, the "**Capital Reorganisation**")."

By Order of the Board
Fulbond Holdings Limited
Zhang Xi
Chairman

Hong Kong, 25 May 2011

Head Office and principal place of business in Hong Kong:
Unit 2807, 28/F
The Center
99 Queen's Road Central
Central
Hong Kong

Registered office:
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Notes:

1. A member of the Company entitled to attend and vote at the SGM convened by the notice of SGM is entitled to appoint one proxy, or if he is holder of more than one Share, more proxies to attend and, on a poll, vote instead of him at the SGM. A proxy need not be a member of the Company.

2. To be valid, a form of proxy together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power of attorney or authority must be lodged with the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof.

3. In the case of joint holders of any Share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders are present at the meeting personally or by proxy, then one of the said persons so present whose name stands first on the register in respect of such Share shall alone be entitled to vote in respect thereof.

4. Completion and return of this accompanying form of proxy will not preclude you from attending and voting at the SGM in person should you so wish and in such event, the proxy shall be deemed to be revoked.

As at the date of this notice, the board of directors of the Company comprises six executive directors, namely Mr. Zhang Xi, Ms. Catherine Chen, Mr. Chiu Kong, Mr. Yeung Kwok Yu, Mr. Kwan Kam Hung, Jimmy, Mr. Wah Wang Kei, Jackie and Mr. Chen Guanglin; and four independent non-executive directors, namely Mr. Hong Po Kui, Martin, Mr. Yu Pan, Ms. Ma Yin Fan and Mr. Leung Hoi Ying.