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FDG Electric Vehicles Limited

五龍電動車（集團）有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 729)

CONTINUING CONNECTED TRANSACTION

IN RELATION TO SALE AND PURCHASE FRAMEWORK AGREEMENT

On 17 September 2017, the Purchaser and the Supplier entered into the Agreement.

The Supplier is a connected subsidiary of the Company under Rule 14A.16(1) of the Listing Rules and hence a connected person of the Company under Rule 14A.07(5) of the Listing Rules. As all the applicable percentage ratios for the Agreement exceed 5%, the transactions contemplated under the Agreement are non-exempt continuing connected transactions of the Company and are subject to independent Shareholders' approval, reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

Circular to Shareholders and the SGM

The Agreement is conditional upon approval by the independent Shareholders at the SGM. An independent board committee of the Company comprising the independent non-executive Directors has been constituted to advise the independent Shareholders on the Agreement. The Company has appointed Goldin Financial Limited as the independent financial adviser to advise the Independent Board Committee and the independent Shareholders regarding the Agreement.

A circular containing (i) further details of the Agreement; (ii) the letter from the Independent Board Committee to the independent Shareholders; (iii) the letter from the Independent Financial Adviser to the Independent Board Committee and the independent Shareholders; and (iv) a notice of the SGM and a form of proxy will be despatched to the Shareholders on or before 10 October 2017.

THE AGREEMENT

On 17 September 2017, the Purchaser and the Supplier entered into the Agreement. The principal terms of the Agreement are set out as follows:

Subject matter:

The purchase of electric vehicles, SKD Kits and parts and components by the Purchaser from the Supplier.

Term:

The period commencing on 17 September 2017 and ending on 31 March 2020

Pricing:

(1) Electric vehicles and/or SKD Kits:

The price per electric vehicle and/or per SKD Kit will be determined in accordance with the agreed price per unit which was formulated based on (a) the expected cost of production; (b) the size of the order; (c) the specification of the order; and (d) the exchange rate between US\$ and RMB, provided that the price per unit (i) will be reviewed every 6 months and will be adjusted to ensure that the price per unit will not be 10% higher than or 5% lower than the cost of each unit; and (ii) will not be higher than the price of the same or similar products offered by the Supplier to other independent third parties (if any).

(2) Parts and components:

The price of parts and components will be determined in accordance with the cost plus a profit margin of 18% and such price will not be higher than the price of the same or similar products offered by the Supplier to other independent third parties (if any).

Payment terms:

On the date of the invoice, the Purchaser shall use its reasonable endeavour to provide a letter of credit to the Supplier for at least 50% of the total consideration as deposit, failing of which, the Purchaser shall pay 35% of the total consideration as deposit. The balance of the consideration shall be paid on a date as specified by the Supplier which shall be within 60 days after delivery of the relevant product.

Condition:

The Agreement is conditional upon the passing of an ordinary resolution by the independent Shareholders at the SGM by way of a poll to approve the Agreement (including the annual caps).

Annual caps:

The proposed maximum transaction amounts for the three years ending 31 March 2018, 2019 and 2020 are as follows:

2018 (US\$)	2019 (US\$)	2020 (US\$)
219,936,750	1,047,750,000	1,553,750,000

The above annual caps were determined with reference to:

- (1) the estimated transaction amounts for the purchase of the electric vehicle and SKD Kits with reference to the estimated demand of the electric vehicles and SKD Kits in the US and the estimated retail prices of the electric vehicles and SKD Kits;
- (2) the estimated transaction amounts for the purchase of the parts and components with reference to the estimated demand of parts and components for the electric vehicles sold in the US and the estimated retail prices of parts and components; and
- (3) the anticipated growth in the demand for electric vehicles for the relevant period.

INTERNAL CONTROL

The following internal control measures will be adopted in connection with the Agreement:

- (1) The purchasing department will regularly examine the relevant pricing terms by collecting the relevant market information, reviewing and comparing the quotations obtained from at least two independent suppliers for identical or comparable products to ensure that the fee quotes will be on terms no less favourable to the Purchaser than those offered by independent third parties, if any.
- (2) The Company will implement periodic internal checks to ensure that the procedures of connected transactions are conformed with the internal control system of the Company and that pricing under the purchase orders is consistent with the terms and conditions of the Agreement.
- (3) The Company's external auditors will conduct an annual review of the pricing and the transaction volume vis-à-vis the annual caps under the Agreement.
- (4) The Company's audit committee will review at least twice a year the transactions under the Agreement and recommend any proposals to improve the internal controls.
- (5) The Company's independent non-executive Directors will annually review the implementation and enforcement of the requirements and the internal controls imposed on the Agreement.

INFORMATION OF THE PARTIES

(1) The Group

The Group is an integrated electric vehicle manufacturer. It is principally engaged in (i) research and development, design, manufacture and sale of electric vehicles; (ii) leasing of electric vehicles; (iii) research and development, production and sale of lithium-ion batteries and related products; (iv) research and development, manufacture and sale of cathode materials for lithium-ion batteries; and (v) direct investments.

(2) The Purchaser

The Purchaser is a company incorporated in the US with limited liability. It is principally engaged in the sale and distribution of electric vehicles in the US. The Purchaser is deemed to be a non-wholly owned subsidiary of the Company under the Listing Rules. For accounting purposes, it was and will continue to be accounted for as a joint venture of the Group as the Group does not control the board of directors of the Purchaser in accordance with the joint venture agreement of the Purchaser.

(3) The Supplier

The Supplier is a company established under the laws of the PRC with limited liability. It is principally engaged in the manufacture and distribution of electric vehicles.

The Supplier is owned as to 50.17% by the Company and as to 49.83% by the Joint Venture Partner. The Joint Venture Partner is owned as to:

- i. 49.834% by a group of affiliated limited liability partnerships in which Mr. Cao Zhong has an aggregate effective interest of 69.98%, Mr. Miao Zhenguo has an aggregate effective interest of 20.02% and Dr. Chen Yanping has an aggregate effective interest of 10%. Mr. Cao Zhong is a substantial shareholder of the Company. Each of Mr. Cao Zhong, Mr. Miao Zhenguo and Dr. Chen Yanping is an executive Director and hence a connected person of the Company;
- ii. 50% by 杭州余杭經開股權投資基金合夥企業（有限合夥）(Hangzhou Yuhang Economic-Technological Development Area Share Investment Fund LLP*), which is not a connected person of the Company; and
- iii. 0.166% by unrelated independent minority shareholders.

REASONS FOR AND BENEFITS OF ENTERING INTO THE AGREEMENT

The transactions contemplated under the Agreement will allow the Group to sell its electric vehicles to the Purchaser which would distribute the electric vehicles to end users in the US. The Purchaser also plans to assemble the SKD Kits into electric vehicles in the US and distribute to end users in the US. The supply arrangement under the Agreement will lead to an increase in the sales of the Group's electric vehicles and provide the opportunities to market the Group's electric vehicle designs and products, and enable the Group to build its brand recognition and capture market share in the global electric vehicles market.

The Board (excluding Mr. Cao Zhong, Mr. Miao Zhenguo, Dr. Chen Yanping and the independent non-executive Directors) is of the view that the terms of the Agreement (including the proposed annual caps) are fair and reasonable, and on normal commercial terms, and are in the interests of the Company and the Shareholders as a whole.

Mr. Cao Zhong, Mr. Miao Zhenguo and Dr. Chen Yanping, by reason of their interests in the Joint Venture Partner, have abstained from voting on the relevant resolutions of the Board.

LISTING RULES IMPLICATIONS

The Supplier is a connected subsidiary of the Company under Rule 14A.16(1) of the Listing Rules and hence a connected person of the Company under Rule 14A.07(5) of the Listing Rules. As all the applicable percentage ratios for the Agreement exceed 5%, the transactions contemplated under the Agreement are non-exempt continuing connected transactions of the Company and are subject to independent Shareholders' approval, reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

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DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context otherwise requires:

“Agreement”	the framework agreement dated 17 September 2017 between the Supplier and the Purchaser in relation to the sale and purchase of electric vehicles, SKD Kits and parts and components;
“Board”	the board of Directors;
“Company”	FDG Electric Vehicles Limited, a company incorporated under the laws of Bermuda with limited liability, the issued shares of which are listed on the main board of the Stock Exchange (Stock Code: 729);
“connected person”	has the meaning ascribed to it under the Listing Rules;
“connected subsidiary”	has the meaning ascribed to it under the Listing Rules;

“Director(s)”	director(s) of the Company;
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	an independent committee of the Board, comprising all the independent non-executive Directors to advise the independent Shareholders in relation to the Agreement;
“Independent Financial Adviser”	Goldin Financial Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and the independent financial adviser appointed to advise the Independent Board Committee and the independent Shareholders in relation to the Agreement;
“Joint Venture Partner”	北京紫荊聚龍科技投資有限公司 (Beijing Bauhinia Julong Technology and Investment Co. Ltd.*), a limited liability company incorporated under the laws of the PRC;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan;
“Purchaser”	Chanje Energy, Inc., a company incorporated in the US with limited liability;
“RMB”	Renminbi, the lawful currency of the PRC;
“Shareholder(s)”	shareholder(s) of the Company;
“SKD Kit(s)”	semi knock down kit(s) of vehicles;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“SGM”	the special general meeting of the Company to be convened and held for the purpose of considering the Agreement;
“Supplier”	杭州長江汽車有限公司 (Hangzhou Changjiang Automobile Co., Ltd.*), a limited liability company incorporated under the laws of the PRC;

“US” the United States of America;
“US\$” the US dollar, the lawful currency of the US; and
“%” per cent.

By order of the Board
FDG Electric Vehicles Limited
Jaime Che
Executive Director

Hong Kong, 17 September 2017

As at the date of this announcement, the Board comprises Mr. Cao Zhong (Chairman and Chief Executive Officer), Mr. Miao Zhenguo (Deputy Chairman), Mr. Tong Zhiyuan (Chief Operating Officer), Dr. Chen Yanping (Chief Technical Officer), Mr. Lo Wing Yat and Mr. Jaime Che (Vice President) as executive directors; Mr. Wong Kwok Yiu as non-executive director; and Mr. Chan Yuk Tong, Mr. Fei Tai Hung, Mr. Tse Kam Fow and Mr. Xu Jingbin as independent non-executive directors.

Website: <http://www.fdgev.com>

**for identification purpose only*