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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)

DISCLOSEABLE TRANSACTION

The Board announces that the Company is forming a joint venture with Smith in the US to sell Electric Vehicles by leveraging the Group's Electric Vehicle designs and combining it with Smith's technologies and sales network. Accordingly, the Company and Smith entered into the FDG Contribution Agreement and the Smith Contribution Agreement with the joint venture, Orng EV Solutions, Inc., respectively, on 4 May 2015 after trading hours.

Pursuant to the FDG Contribution Agreement, the Company has conditionally agreed to (i) enter into the Licence Agreement pursuant to which the Company will contribute, convey, assign, transfer and deliver the exclusive right to use the FDG EV IP in the Territory (and provide relevant engineering access and support) to the JV in accordance with the terms and conditions therein; (ii) enter into the Battery Supply Agreement no later than 30 June 2015; (iii) enter into the SKD Kit Supply Agreement no later than 30 June 2015 with an expected demand for the SKD Kits of 3,000, 5,000, 10,000 units in the calendar year 2016, 2017 and 2018, respectively; (iv) contribute US\$5,000,000 in cash to the JV; and (v) contribute an additional US\$10,000,000 in cash to the JV upon, inter alia, the execution of the Battery Supply Agreement and the SKD Kit Supply Agreement (collectively, the "**FDG Contributed Assets**"), and the JV has conditionally agreed to issue an aggregate of 22,500,000 JV Shares to the Company (or its nominee) upon the Effective Time.

Pursuant to the Smith Contribution Agreement, Smith has conditionally agreed to contribute, convey, assign, transfer and deliver to the JV (i) an exclusive licence for the use of the Smith Intellectual Property (including all know how and trade secrets) in the Territory; (ii) an exclusive licence for the use of the brand "Smith" and all related goodwill in the Territory; (iii) the executed OEM Supply Agreement no later than 30 June 2015; (iv) the exclusive sales and distribution rights of Electric Vehicles in the Territory; (v) the exclusive rights to form a battery rental business in the Territory; (vi) goodwill including but not limited to Smith's customers; and (vii) executed offer letters from certain employees (collectively, the "**Smith Contributed Assets**"), and the JV has conditionally agreed to issue 20,000,000 JV Shares to Smith upon the Effective Time.

As one of the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules in respect of the FDG Contribution is more than 5% but less than 25%, the FDG Contribution constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the notification and announcement requirements under the Listing Rules.

As completion of the transactions contemplated under the FDG Contribution Agreement may or may not materialize, shareholders of the Company and potential investors are reminded to exercise caution when dealing in the securities of the Company.

THE JOINT VENTURE – ORNG EV SOLUTIONS, INC.

The Company is forming a joint venture with Smith in the US to sell Electric Vehicles by leveraging the Group's Electric Vehicle designs and combining it with Smith's technologies and sales network. Accordingly, the Company and Smith entered into the FDG Contribution Agreement and the Smith Contribution Agreement with the joint venture, Orng EV Solutions, Inc., respectively, on 4 May 2015 after trading hours.

THE FDG CONTRIBUTION AGREEMENT

Date: 4 May 2015

Parties:

- (1) The Company; and
- (2) the JV.

Subject Matter

Pursuant to the FDG Contribution Agreement, the Company has conditionally agreed to:

- (i) enter into the Licence Agreement pursuant to which the Company (or a subsidiary of the Company) will contribute, convey, assign, transfer and deliver the exclusive right to use the FDG EV IP in the Territory (and provide relevant engineering access and support) to the JV in accordance with the terms and conditions therein;
- (ii) enter into (or cause its subsidiary to enter into) the Battery Supply Agreement no later than 30 June 2015;
- (iii) enter into (or cause its subsidiary to enter into) the SKD Kit Supply Agreement no later than 30 June 2015 with an expected demand for the SKD Kits of 3,000, 5,000, 10,000 units in the calendar year 2016, 2017 and 2018 respectively;
- (iv) contribute US\$5,000,000 in cash to the JV; and

- (v) contribute an additional US\$10,000,000 in cash to the JV upon:
 - a) the execution of the Battery Supply Agreement;
 - b) the execution of the SKD Kit Supply Agreement;
 - c) the execution of the OEM Supply Agreement; and
 - d) the distribution of the JV Shares received under the Smith Contribution Agreement by Smith to all its stockholders on a pro rata and fully diluted basis, and
 - e) no breach by the JV or Smith of any of their respective obligations under, inter alia, the FDG Contribution Agreement or the Smith Contribution Agreement.

In exchange for the FDG Contributed Assets, the JV will issue an aggregate of 22,500,000 JV Shares to the Company (or its nominee) upon the Effective Time.

Licence Agreement

The Company (or its subsidiary) shall contribute an exclusive licence for the JV to use and exploit the FDG EV IP in the Territory as part of the FDG Contributed Assets under the FDG Contribution Agreement. Accordingly, the Licence Agreement will be entered into between the Company and the JV as appended to and forms part of the FDG Contribution Agreement upon the Effective Time.

Key terms of the Licence Agreement

(a) FDG EV IP

Pursuant to the Licence Agreement, the Company (or its subsidiary) shall unconditionally and irrevocably grant to the JV an exclusive (even as to the Company), royalty-free, fully paid-up, non-sublicensable (except as set forth below), perpetual licence to use and otherwise exploit the FDG EV IP for the purpose of the JV engaging in the business of developing, assembling, marketing, offering, selling and distributing Electric Vehicles in the Territory (the “**Exclusive Licence**”).

The JV may sublicense any of its rights under the Exclusive Licence under certain circumstances to any third party engaged by it (including its suppliers, contractors and consultants) to the extent such third party is exercising such rights solely on behalf of and for the benefit of the JV. In addition, such third party will be required to indemnify the Company for any losses arising for the misuse of the Exclusive Licence.

The Group is, and at all times shall remain, the sole and exclusive owner of all right, title and interest, throughout the world (including all intellectual property and other proprietary rights), in and to the FDG EV IP and any enhancement, modification or improvement thereto that is conceived and reduced to practice by or on behalf of the Group.

The Group shall have the primary right, but not the obligation, to bring and control any proceeding against any unauthorized use or exploitation of the FDG EV IP in the Territory. The Company shall be entitled to retain the entirety of any award arising from any such proceeding.

(b) **JV Improvements**

Pursuant to the Licence Agreement, the JV hereby unconditionally and irrevocably grants to the Group a non-exclusive, royalty-free, fully paid-up, perpetual licence, with the right to grant sublicences through multiple tiers, to use and otherwise exploit any JV Improvements other than for the purpose of the JV engaging in the business of developing, assembling, marketing, offering, selling and distributing Electric Vehicles in the Territory.

The JV is, and at all times shall remain, the sole and exclusive owner of all right, title and interest, throughout the world (including all intellectual property and other proprietary rights), in and to all JV Improvements.

Term

The term of the Licence Agreement and the Exclusive Licence commences on the date of signing the Licence Agreement, and is perpetual and remains in effect until the last of the intellectual property rights in the FDG EV IP expires, is abandoned or is otherwise unprotectable under the Licence Agreement or applicable law.

Consideration

The total consideration for the FDG Contributed Assets is US\$45,000,000 (US\$15,000,000 for the cash injection and US\$30,000,000 for the other intangible assets), the JV will settle such consideration by issuing an aggregate of 22,500,000 JV Shares upon the Effective Time, representing approximately 45.45% of the issued share capital of the JV upon the completion of all the transactions contemplated under the FDG Contribution Agreement and Smith Contribution Agreement, to the Company (or its nominee).

The above consideration was determined on an arm's length basis with reference to the Group's shareholding in the JV, the value of the Smith Contributed Assets, the potential sales of the Group's lithium-ion batteries and SKD Kits of the Electric Vehicle to the JV, and the prospect of the JV in the Territory.

Conditions precedent

Closing of the FDG Contribution is conditional upon all of the following conditions precedent having been fulfilled and/or waived (as the case may be):

- a) all necessary approvals and consents required to be obtained by the Company and/or the JV from any government authority or other third party in respect of the FDG Contribution Agreement and/or the transactions contemplated thereunder or in connection with the FDG Contribution being obtained, or where such approval or consent is given subject to conditions, on such conditions as are acceptable to Smith or the JV (as the case may be) acting reasonably;
- b) the conditions precedent set forth in the Smith Contribution Agreement having been satisfied;
- c) the JV having amended its certificate of incorporation; and
- d) the JV having appointed two individuals nominated by the Company to its board of directors, one of whom shall be chairman of the board and have a casting vote to resolve any deadlock.

THE SMITH CONTRIBUTION AGREEMENT

Date: 4 May 2015

Parties:

- (1) Smith; and
- (2) the JV.

Subject Matter

Pursuant to the Smith Contribution Agreement, Smith has conditionally agreed to contribute, convey, assign, transfer and deliver to the JV:

- (i) an exclusive licence for the use of the Smith Intellectual Property (including all know how and trade secrets) in the Territory;
- (ii) an exclusive licence for the use of the brand “Smith” and all related goodwill in the Territory;
- (iii) the executed OEM Supply Agreement no later than 30 June 2015;
- (iv) the exclusive sales and distribution rights of Electric Vehicles in the Territory;
- (v) the exclusive rights to form a battery rental business in the Territory;

- (vi) goodwill including but not limited to Smith's customers; and
- (vii) executed offer letters from certain employees.

In exchange for the Smith Contributed Assets, the JV will issue 20,000,000 JV Shares to Smith upon the Effective Time.

Consideration

The total consideration for the Smith Contributed Assets is US\$40,000,000, the JV will settle such consideration by issuing an aggregate of 20,000,000 JV Shares to Smith upon the Effective Time, which promptly after receipt, Smith will distribute on a pro rata basis to all of its stockholders.

Conditions precedent

Closing of the Smith Contribution is conditional upon all of the following conditions precedent having been fulfilled and/or waived (as the case may be):

- a) all necessary approvals and consents required to be obtained by Smith and/or the JV from any government authority or other third party in respect of the Smith Contribution Agreement and/or the transactions contemplated thereunder or in connection with the Smith Contribution being obtained, or where such approval or consent is given subject to conditions, on such conditions as are acceptable to Smith or the JV (as the case may be) acting reasonably; and
- b) the conditions precedent set forth in the FDG Contribution Agreement having been satisfied.

OTHER KEY TERMS OF THE FDG CONTRIBUTION AGREEMENT AND THE SMITH CONTRIBUTION AGREEMENT

- a) The board of directors of the JV will consist of four directors upon the closing of the FDG Contribution and the Smith Contribution, of which the Company will be entitled to designate two directors and Smith will be entitled to designate the other two directors. The four directors will have to unanimously nominate five independent directors to the board of the JV within the next twelve months following the closing of the FDG Contribution and the Smith Contribution;
- b) Smith will distribute all JV Shares received under the Smith Contribution Agreement to all its stockholders on a pro rata and fully diluted basis; and
- c) The JV intends to raise an additional US\$20,000,000 in cash of which the current Smith's common stockholders will have a first right of refusal to participate on a pro rata basis.

INFORMATION OF THE GROUP, SMITH AND THE JV

The Group is a vertically integrated Electric Vehicle manufacturer which engages in (i) independent research and development, design and production of Electric Vehicles such as buses, coaches, mid-size buses, commercial vehicles, passenger vehicles and other special purpose models; (ii) the research and development, production, distribution and sale of lithium-ion batteries; and (iii) the provision of leasing services for Electric Vehicles. The Group operates Electric Vehicles manufacturing plants in Hangzhou and Kunming in the PRC, and also operates lithium-ion battery manufacturing plants in Jilin and Tianjin of the PRC.

Smith is a manufacturer of zero-emission all-electric medium-duty commercial vehicles. Since 2009, Smith has been producing electric vehicles for global customers including, amongst others, PepsiCo/Frito-Lay, Federal Express, Staples and Coca-Cola. Smith currently produces and sells the Smith Newton, an electric commercial vehicle with a maximum gross vehicle weight of 16,500 lbs, designed to be a superior-performing alternative to traditional diesel trucks and which can be configured for multiple applications. Smith's headquarter and manufacturing facility is in Kansas City, Missouri, the US and its research and development center is in Newcastle, the United Kingdom. The Group currently owns approximately 6.81% of Smith on a fully diluted basis and has a right to nominate a director to the board of directors of Smith. In addition, Smith and a subsidiary of the Company, executed an exclusive battery supply agreement in October 2014. Save as aforesaid, to the best of the Directors' knowledge, Smith and its ultimate beneficial owners are independent of the Company and its connected person.

The JV is a newly formed company incorporated under the laws of the State of Delaware. It is the platform for the joint venture between the Company and Smith. Upon completion of all the transactions contemplated under the FDG Contribution Agreement and the Smith Contribution Agreement, the JV will own the FDG Contributed Assets and the Smith Contributed Assets and have an initial cash balance of US\$35,000,000, and the Group will become the single largest shareholder of the JV (holding approximately 45.45% of the issued share capital of the JV upon the completion of all the transactions contemplated under the FDG Contribution Agreement and Smith Contribution Agreement).

REASONS FOR THE TRANSACTIONS UNDER THE FDG CONTRIBUTION AGREEMENT

Smith is a leading commercial electric vehicle manufacturer in the US with established sales network and after-sales services. Its customers include, amongst others, PepsiCo/Frito-Lay, Federal Express, Staples and Coca-Cola. Over the years, Smith has accumulated extensive experience and data through its interaction with its customers, and developed valuable intellectual property, know-how and trade secret as a result. In particular, its battery management system (Smith Power™), vehicle drive and control system (Smith Drive™) and intra-vehicle network (Smith Link™) are proprietary technologies that have been proven.

Smith has been assembling its products based on an existing chassis of conventional vehicle which makes scaling Smith's business difficult. Since the execution of the exclusive battery supply agreement between the Group and Smith in October 2014, the engineers of Smith and the Group's Electric Vehicle research and development team have engaged in further collaborations and exchanges. The parties have come to a consensus to adopt the Group's ground-up electric vehicle designs, produce the SKD Kits of such electric vehicle designs in the Group's Hangzhou facility, combine it with Smith's current technologies and engage Smith to assemble the Electric Vehicles for the JV to conduct the marketing and sales related work.

The formation of the joint venture, Orng EV Solutions, Inc., will combine the Electric Vehicle designs, battery and the SKD Kits manufacturing capacity of the Group, with the existing sales network, after-sales services and software technologies of Smith. The combined competitive advantages of the parties will result in a more cost-effective, enhanced-safety and better-quality product. Furthermore, it will allow the respective technical teams to work in a closer and more effective manner that will help fostering more synergies in the future.

In addition, this will not only promote the sales of the Group's lithium-ion batteries and SKD Kits but will also accelerate the growth of the Group's brand name and products into the US and international markets. Since the JV's light-assets business model is leveraging the existing assets of the Group and Smith, it will involve less capital commitment from the shareholders of the JV and potentially be in a better position to expand its operation and capture the increasing demand in the Electric Vehicle market.

The Directors (including the independent non-executive Directors) consider that the transactions contemplated under the FDG Contribution Agreement is beneficial to the development of the Group by consolidating the Group's market position in the US and is being carried out in the ordinary and normal course of business of the Company, under normal commercial terms, and is fair and reasonable and in the interests of the Company and its shareholders as a whole.

LISTING RULES IMPLICATION

As one of the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules in respect of the FDG Contribution is more than 5% but less than 25%, the FDG Contribution constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the notification and announcement requirements under the Listing Rules.

As completion of the transactions contemplated under the FDG Contribution Agreement may or may not materialize, shareholders of the Company and potential investors are reminded to exercise caution when dealing in the securities of the Company.

DEFINITIONS

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

“Battery Supply Agreement”	an exclusive battery supply agreement to be entered into between a member of the Group and the JV by no later than 30 June 2015, pursuant to which the JV will exclusively source its battery for the Electric Vehicles from the Group and the Group will sell such battery to the JV at a reasonable price;
“Board”	the board of directors of the Company;
“Company”	FDG Electric Vehicles Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 729);
“Conditions Precedent”	the conditions precedent to closing of the FDG Contribution and/or the Smith Contribution as specified in the FDG Contribution Agreement and/or the Smith Contribution Agreement (as the case may be);
“Director(s)”	the director(s) of the Company;
“Effective Time”	the closing of the FDG Contribution and/or the Smith Contribution (as the case may be) as specified in the FDG Contribution Agreement and/or the Smith Contribution Agreement (as the case may be);
“Electric Vehicle(s)”	motor vehicle that is primarily propelled by the power of electricity, in whatever form or size and for whatever purpose, including but not limited to car, bus, school bus, coach, truck, light truck, utility vehicle, motorcycle and bike;
“FDG Contribution”	the contribution of the FDG Contributed Assets by the Company to the JV pursuant to the terms and conditions of the FDG Contribution Agreement and the transactions contemplated thereunder;
“FDG Contribution Agreement”	the contribution agreement dated 4 May 2015 entered into between the Company and the JV in relation to the FDG Contribution;

“FDG EV IP”	the Group’s current design specifications for passenger van, mini bus, panel van and cab/chassis and their respective variations as further set forth in the Licence Agreement;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“JV”	Orng EV Solutions, Inc., a company incorporated under the laws of the State of Delaware;
“JV Improvements”	any enhancement, modification or improvement to the FDG EV IP that is conceived and reduced to practice solely by or on behalf of the JV (other than by the Company), including by any permitted sublicensee;
“JV Shares”	newly issued and fully paid common stock of the JV with a par value of US\$0.0001 per share;
“Licence Agreement”	the intellectual property licence agreement as appended to and forms part of the FDG Contribution Agreement;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“OEM”	original equipment manufacturing;
“OEM Supply Agreement”	an exclusive OEM supply agreement for which Smith will assemble Electric Vehicles exclusively for the JV at a reasonable price and provide aftermarket sales and maintenance services with respect to such Electric Vehicles, such OEM supply agreement will be negotiated in good faith between Smith and the JV, using respective reasonable endeavors and finalized no later than June 30, 2015;
“PRC”	the People’s Republic of China and for the purpose of this announcement, excludes Hong Kong, Taiwan and the Macau Special Administrative Region of the People’s Republic of China;

“Smith”	Smith Electric Vehicles Corp, a company incorporated under the laws of the State of Delaware, the US and is owned as to approximately 6.81% on a fully diluted basis by the Company as at the date of this announcement;
“Smith Contribution”	the contribution of the Smith Contributed Assets by Smith to the JV pursuant to the terms and conditions of the Smith Contribution Agreement;
“Smith Intellectual Property”	all inventions and discoveries (whether or not protectable under patent laws), patents, copyrights, information fixed in any tangible medium of expression, trademarks, trade secrets, know how, ideas, concepts, techniques, including without limitation all new or useful art, combinations, discoveries, formulae, chemical compositions, manufacturing techniques, business methods, technical developments, artwork, software, programming, applets, scripts and designs, and all registrations on or for any of the foregoing that are owned by, created by (whether jointly or independently), retained by or licenced to Smith and/or its affiliates from time to time and in connection with, but not limited to, Electric Vehicle or any of its components;
“Smith Contribution Agreement”	the contribution agreement dated 4 May 2015 entered into between Smith and the JV in relation to the Smith Contribution;
“SKD Kit(s)”	Semi Knock Down kit(s) of a vehicle;
“SKD Kit Supply Agreement”	the exclusive SKD Kit supply agreement to be entered into between a member of the Group and the JV by no later than 30 June 2015, pursuant to which the JV will exclusively source the SKD Kits in connection with the Licence Agreement from the Group and the Group will sell such SKD Kits to the JV at a reasonable price;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Territory”	the US (including 50 states and the District of Columbia, Puerto Rico, Guam and the American Virgin Islands);
“US”	the United States of America;

“US\$” United States dollar, the lawful currency of the US; and

“%” per cent.

For the purpose of this announcement, the exchange rate of US\$1 = HK\$7.80 has been used for currency translation. Such exchange rates are for illustration purposes and do not constitute representations that any amount in US\$ or HK\$ have been, could have been or may be converted at such rates.

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

Hong Kong, 4 May 2015

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

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