THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **FDG Electric Vehicles Limited**, you should at once hand this circular and the enclosed proxy form to the purchaser(s) or transferee(s) or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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 TRANSACTIONS AND NOTICE OF SPECIAL GENERAL MEETING

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

GOLDIN FINANCIAL LIMITED
高銀融資有限公司

Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as defined under the section headed "Definitions" of this circular.

A letter from the Board is set out on pages 7 to 40 of this circular. A letter from the Independent Board Committee containing its recommendation is set out on pages 41 to 42 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendation to the Independent Board Committee and the Independent Shareholders is set out on pages 43 to 86 of this circular.

A notice convening the SGM to be held at Boardroom 6, M/F, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Wednesday, 14 June 2017 at 10:30 a.m. is set out on pages 99 to 104 of this circular. Whether or not a Shareholder is able to attend the meeting, he is requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjourned meeting. Completion and return of the proxy form will not preclude a Shareholder from attending and voting in person at the meeting or any adjournment thereof should he so wish and in such event the relevant proxy form shall be deemed to be revoked.

19 May 2017

CONTENTS

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

"Administrative Services Sharing Agreement"	the agreement dated 17 March 2017 entered into between the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary;
"AH"	amphere hours;
"Announcement"	the announcement of the Company dated 17 March 2017 in relation to, among other things, the New CCTs;
"associate(s)"	has the meaning ascribed to it under the Listing Rules;
"Board"	the board of Directors;
"Bus Parts Procurement Agreement"	the agreement dated 17 March 2017 entered into between Yunnan Five Dragons and the Commercial Vehicle Subsidiary in relation to the procurement of auto parts;
"Commercial Battery Supply Agreement"	the agreement dated 17 March 2017 entered into between Sinopoly Battery and its subsidiaries and the Commercial Vehicle Subsidiary;
"Commercial Vehicle Finance Lease Framework Agreement"	the agreement dated 17 March 2017 entered into between the Lease Finance Company and the Commercial Vehicle Subsidiary in relation to the provision of finance lease services to the Commercial Vehicle Subsidiary;
"Commercial Vehicle Subsidiary"	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, and a 50.17% subsidiary of the Company;
"Company" or "FDG"	FDG Electric Vehicles Limited, a limited liability company incorporated under the laws of Bermuda, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 729);
"connected person(s)"	has the meaning ascribed to it under the Listing Rules;

"Cooperation Framework Agreement"	the agreement dated 17 March 2017 entered into between the Lease Finance Company and the Commercial Vehicle Subsidiary in relation to the indemnity of defaulted leases;
"CV Parts 1 Supply Agreement"	the agreement dated 17 March 2017 entered into between the Guizhou Subsidiary and the Commercial Vehicle Subsidiary in relation to the supply of auto parts;
"CV Parts 2 Supply Agreement"	the agreement dated 17 March 2017 entered into between Yunnan Five Dragons and the Commercial Vehicle Subsidiary in relation to the supply of auto parts;
"Director(s)"	the director(s) of the Company;
"Dr. Chen"	Dr. Chen Yanping, the chief technical officer and an executive director of the Company;
"Existing Commercial Battery Supply Agreement"	the existing commercial battery supply agreement signed on 17 June 2015 which will be superseded by the Commercial Battery Supply Agreement;
"Existing Five Dragons Facility Agreement (II)"	the existing facility agreement entered into between the Commercial Vehicle Subsidiary and Five Dragons Electric Vehicle Limited on 12 December 2014 which will not be renewed when it expires;
"Existing Five Dragons Facility Agreements"	the existing facility agreements entered into between the Commercial Vehicle Subsidiary and Five Dragons Electric Vehicle Limited during the period from 19 May 2015 to 24 October 2016 which will be superseded by the New Five Dragons Facility Agreements;
"FDG Kinetic"	FDG Kinetic Limited, a limited liability company incorporated under the laws of Bermuda, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 378), which is 67.19% owned by the Company;
"February Announcement"	the announcement of the Company dated 26 February 2017 in relation to, among others, the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary;

"Group"	the Company and its subsidiaries;
"Guizhou Subsidiary"	貴州長江汽車有限公司 (Guizhou Changjiang Automobile Co., Ltd.*), a limited liability company incorporated under the laws of the PRC, and a 51% subsidiary of the Company;
"Hangzhou Holding Company"	杭州長江汽車控股有限公司 (Hangzhou Changjiang Automobile Holdings Co., Ltd.*), a limited liability company incorporated under the laws of the PRC, and a wholly-owned subsidiary of the Company;
"HKD" or "HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"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 New CCTs;
"Independent Financial Adviser"	Goldin Financial Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the New CCTs;
"Independent Shareholders"	the Shareholders other than Mr. Cao, Mr. Miao and Dr. Chen and their respective associates;
"Jasmin"	簡式國際汽車設計（北京）有限公司 (Jasmin International Auto R&D (Beijing) Co., Ltd.*), a limited liability company incorporated under the laws of the PRC, and a 80% subsidiary of the Company;
"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, and the joint venture partner for the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary;

"kWh"	kilowatt hour;
"Latest Practicable Date"	16 May 2017, being the latest practicable date for the purpose of ascertaining certain information contained herein prior to the printing of this circular;
"Lease Finance Company"	深圳前海中博融資租賃有限公司, a limited liability company incorporated under the laws of the PRC, and a wholly-owned subsidiary of the Company;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"Management Services Agreement"	the agreement dated 17 March 2017 entered into between, among others, the Hangzhou Holding Company, the Passenger EV Subsidiary and the Commercial Vehicle Subsidiary in relation to the provision of management services;
"Mr. Cao"	Mr. Cao Zhong, the chairman, chief executive officer and an executive director of the Company, and a substantial shareholder of the Company;
"Mr. Che"	Mr. Jaime Che, the vice president and an executive director of the Company;
"Mr. Miao"	Mr. Miao Zhenguo, the deputy chairman and an executive director of the Company;
"New CCTs"	(1) the Commercial Battery Supply Agreement; (2) the Passenger Battery Supply Agreement; (3) the CV Parts 1 Supply Agreement; (4) the CV Parts 2 Supply Agreement; (5) the Bus Parts Procurement Agreement; (6) the Commercial Vehicle Finance Lease Framework Agreement; (7) the Cooperation Framework Agreement; (8) the Passenger EV Finance Lease Framework Agreement; (9) the R&D Services Agreement; (10) the Administrative Services Sharing Agreement; (11) the Management Services Agreement; and (12) the New Five Dragons Facility Agreements;

"New Five Dragons Facility Agreements"	the facility agreements dated 17 March 2017 entered into between the Commercial Vehicle Subsidiary and Five Dragons Electric Vehicle Limited;
"Passenger Battery Supply Agreement"	the agreement dated 17 March 2017 entered into between Sinopoly Battery and its subsidiaries and the Passenger EV Subsidiary;
"Passenger EV Finance Lease Framework Agreement"	the agreement dated 17 March 2017 entered into between the Lease Finance Company and the Passenger EV Subsidiary in relation to the provision of finance lease services to the Passenger EV Subsidiary;
"Passenger EV Subsidiary"	杭州長江乘用車有限公司 (Hangzhou Changjiang Passenger Vehicles Co., Ltd.*), a limited liability company incorporated under the laws of the PRC, and a 67% subsidiary of the Company;
"PBOC"	the People's Bank of China;
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan;
"R&D"	research and development;
"R&D Services Agreement"	the agreement dated 17 March 2017 entered into between Jasmin, the Passenger EV Subsidiary and the Commercial Vehicle Subsidiary in relation to the provision of R&D services by Jasmin;
"RMB"	Renminbi, the lawful currency of the PRC;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"SGM"	the special general meeting of the Company to be held at Boardroom 6, M/F, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Wednesday, 14 June 2017 at 10:30 a.m. or any adjournment thereof for, among others, the purpose of considering the New CCTs;

"Share(s)"	ordinary shares of HK$0.01 each in the share capital of the Company;
"Shareholder(s)"	holder(s) of Shares;
"Sinopoly Battery"	Sinopoly Battery Limited, a limited liability company incorporated in Hong Kong, which is 75% owned by the Company and 25% owned by FDG Kinetic;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Undertaking"	the agreement dated 26 February 2016 entered into between CITIC International Assets Management Limited, Star Mercury Investments Ltd., Mr. Cao, Mr. Miao, Dr. Chen, Mr. Che and CITIC Pacific Limited to regulate their dealings in the Shares;
"Vehicle Subsidiaries"	the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary;
"Yunnan Five Dragons"	雲南五龍汽車有限公司 (Yunnan FDG Automobile Co., Limited*), a limited liability company incorporated under the laws of the PRC, and a 50% subsidiary of the Company; and
"%"	per cent.

* *For identification purpose only*

FDG Electric Vehicles Limited
五 龍 電 動 車（集 團）有 限 公 司

(Incorporated in Bermuda with limited liability)

(Stock Code: 729)

Executive Directors:
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
Mr. Jaime Che *(Vice President)*

Non-executive Director:
Mr. Wong Kwok Yiu

Independent Non-executive Directors:
Mr. Chan Yuk Tong
Mr. Fei Tai Hung
Mr. Tse Kam Fow
Mr. Xu Jingbin

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

Principal Place of Business in Hong Kong:
Rooms 3001–3005, 30th Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

19 May 2017

To the Shareholders, and for information only, the optionholders and holders of convertible bonds

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

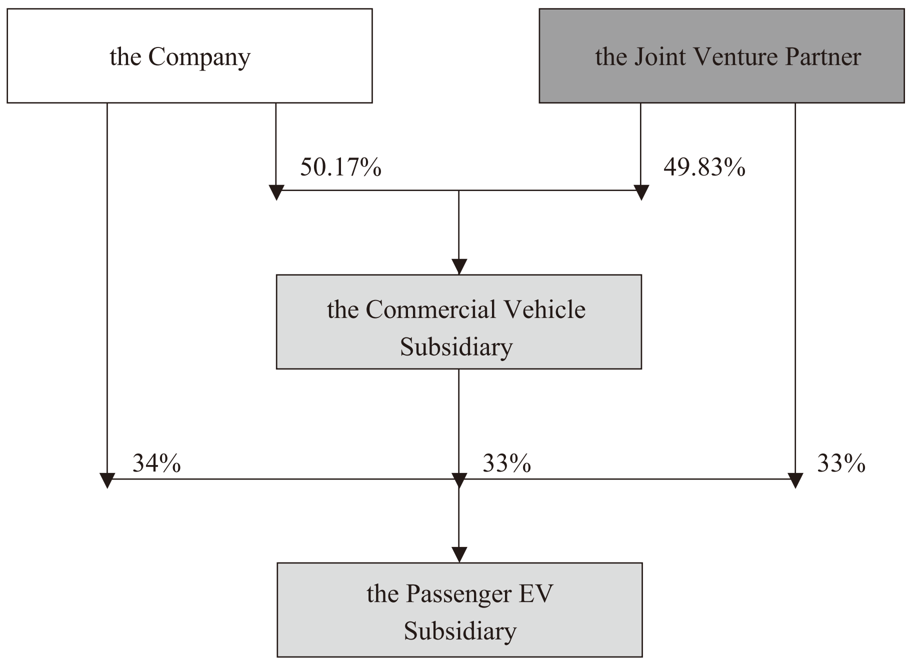
A. INTRODUCTION

Reference is made to the February Announcement and the Announcement.

The Group carries on the business of designing, manufacturing and distribution of electric vehicles, lithium-ion batteries and cathode materials for nickel-cobalt-manganese lithium-ion batteries. The production of electric vehicles is carried on, inter alia, by the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary. Before the completion of the recapitalisation, the two subsidiaries were non-wholly owned, and the joint venture partner was 北京紫荊聚龍科技投資有限公司 (Beijing Bauhinia Julong Technology and

Investment Co. Ltd.*), a company established under the laws of the PRC, which was an independent third party and not a connected person of the Company.

The simplified shareholding structure of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary before the recapitalisation is set out in the diagram below.



Introduction of Connected Persons

On 26 February 2017, the Company was informed by the Joint Venture Partner that it would, with the approval of the relevant PRC authorities, recapitalise itself so that its shareholders would thereafter comprise:

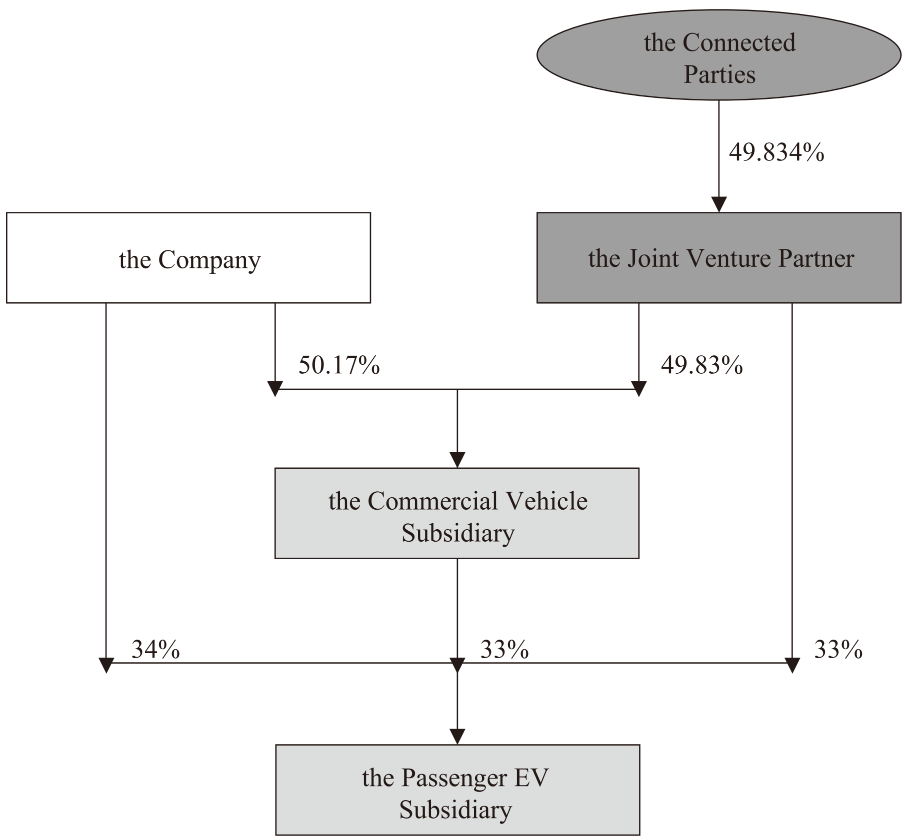
(1) a group of affiliated limited liability partnerships in which Mr. Cao would have an aggregate effective interest of 69.98%, Mr. Miao would have an aggregate effective interest of 20.02% and Dr. Chen would have an effective aggregate interest of 10.00%, such partnerships together holding 49.834% of the Joint Venture Partner; Mr. Cao is a substantial shareholder of the Company, and he, Mr. Miao and Dr. Chen are also executive directors of the Company;

(2) 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*) (the "**Fund**"), holding 50% of the Joint Venture Partner; the Fund was an independent third party and not a connected person of the Company; and

(3) unrelated independent minority shareholders, holding the remainder 0.166% of the Joint Venture Partner.

The Fund would participate in the recapitalisation of the Joint Venture Partner as a representative of the local government for the purpose of supporting the development of new energy enterprises, but would withdraw from the Joint Venture Partner within one year from the completion of the recapitalisation. Mr. Cao, Mr. Miao and Dr. Chen agreed with the Fund that they or companies or partnerships controlled by them would purchase the Fund's 50% stake in the Joint Venture Partner within one year from the completion of the recapitalisation.

After the completion of the recapitalisation of the Joint Venture Partner in March 2017, but before the purchase of the Fund's 50% stake, the simplified shareholding structure of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary is as set out in the diagram below.



As a result of the Joint Venture Partner becoming an associate of Mr. Cao upon completion of the recapitalisation, each of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary has become a connected subsidiary of the Company.

The purpose of this circular is to provide you with, among other things, (i) further details of the New CCTs, (ii) the letter of recommendation from the Independent Board Committee to the Independent Shareholders in relation to the New CCTs; (iii) the letter of advice and recommendation from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the New CCTs; and (iv) the notice of the SGM.

B. THE NEW CCTS

(1) the Commercial Battery Supply Agreement

Date : 17 March 2017

Parties : (1) Sinopoly Battery and its subsidiaries; and
(2) the Commercial Vehicle Subsidiary.

Term : Commencing 1 April 2017 and ending 31 March 2020.

Subject matter : The supply of lithium-ion battery packs by Sinopoly Battery and its subsidiaries to the Commercial Vehicle Subsidiary.

Pricing :

i. The higher of (1) RMB2,400 per kWh which is made with reference to the price in the Existing Commercial Battery Supply Agreement; or (2) the prevailing market price plus 5% margin for the contract period ending 31 March 2018; and

ii. the prevailing market price plus 5% margin for the next following contract period ending 31 March 2020.

The above prevailing market price will be made with reference to at least two independent suppliers on the Group's approved supplier list and the 5% margin is based on management's decision after arm's length negotiation between Sinopoly Battery and the Commercial Vehicle Subsidiary.

The price of the battery packs will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms and on terms no more favourable to the Commercial Vehicle Subsidiary than those provided to independent third parties, if any, and will be specified in individual purchase orders.

Condition precedent : The Commercial Battery Supply 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 Commercial Battery Supply 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	**2019**	**2020**
(RMB)	*(RMB)*	*(RMB)*
1,728,000,000	3,456,000,000	3,456,000,000

The above annual caps were determined with reference to:

i. the estimated demand of electric mid-size bus from the Commercial Vehicle Subsidiary;

ii. the projected growth in the production of electric mid-size bus to be manufactured by the Commercial Vehicle Subsidiary for the relevant period, which are 50%, 100% and 100% of the maximum production capacity of mid-size bus in the Commercial Vehicle Subsidiary for the three years ending 31 March 2018, 2019 and 2020 respectively, with reference to the anticipated increase in market demand for electric mid-size buses given the rapid increase in sale of electric vehicles in the PRC (approximately 63.9% increase in 2016 over 2015 according to the China Association of Automobile Manufacturers) and the estimated ramp-up schedule of production in the Commercial Vehicle Subsidiary which just commenced commercial production in April 2016 to cope with the great market demand;

iii. the estimated purchase of batteries from Sinopoly Battery which represents 60% (which is a target percentage set by management of the Commercial Vehicle Subsidiary for cost and quality control through competitions by different suppliers) of the total battery demand in the electric mid-size bus produced by the Commercial Vehicle Subsidiary;

iv. the estimated production capacity of Sinopoly Battery and its subsidiaries during the relevant period;

v. the estimated price per kWh during the relevant period; and

vi. the historical transaction amounts for the two years ended 31 March 2015 and 2016 and period ended 30 September 2016, which were:

Year ended 31 March 2015 (RMB)	Year ended 31 March 2016 (RMB)	Period ended 30 September 2016 (RMB)
2,165,000	155,846,000	147,858,000

The Directors (excluding Mr. Cao, Mr. Miao and Dr. Chen and including the independent non-executive Directors who have taken into account the opinion and advice of the Independent Financial Adviser) consider that such proposed caps are fair and reasonable.

(2) the Passenger Battery Supply Agreement

Date : 17 March 2017

Parties : (1) Sinopoly Battery and its subsidiaries; and
(2) the Passenger EV Subsidiary.

Term : Commencing 1 April 2017 and ending 31 March 2020.

Subject matter : The supply of lithium-ion battery packs by Sinopoly Battery and its subsidiaries to the Passenger EV Subsidiary.

Pricing : i. The higher of (1) RMB2,400 per kWh which is made with reference to the price in the Existing Commercial Battery Supply Agreement; or (2) the prevailing market price plus 5% margin for the contract period ending 31 March 2018; and

ii. the prevailing market price plus 5% margin for the next following contract period ending 31 March 2020.

The above prevailing market price will be made with reference to at least two independent suppliers on the Group's approved supplier list and the 5% margin is based on management's decision after arm's length negotiation between Sinopoly Battery and the Passenger EV Subsidiary.

The price of the battery packs will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms and on terms no more favourable to the Passenger EV Subsidiary than those provided to independent third parties, if any, and will be specified in individual purchase orders.

Condition precedent : The Passenger Battery Supply 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 Passenger Battery Supply 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 *(RMB)*	**2019** *(RMB)*	**2020** *(RMB)*
460,800,000	2,304,000,000	4,608,000,000

The above annual caps were determined with reference to:

i. the estimated demand of electric passenger vehicles from the Passenger EV Subsidiary;

ii. the projected growth in the production of electric passenger vehicles to be manufactured by the Passenger EV Subsidiary for the relevant period, which are 10%, 50% and 100% of the maximum production capacity of electric passenger vehicles in the Passenger EV Subsidiary for the years ending 31 March 2018, 2019 and 2020 respectively, with reference to the anticipated increase in market demand for electric passenger vehicles and the gradual ramp-up of production in the Passenger EV Subsidiary based on rate of ramp-up of production in Yunnan Five Dragons since commencement of commercial production in 2015;

iii. the estimated purchase of batteries from Sinopoly Battery which represents 60% (which is a target percentage set by management of the Passenger EV Subsidiary for cost and quality control through competitions by different suppliers) of the total battery demand in the electric passenger vehicles produced by the Passenger EV Subsidiary;

iv. the estimated production capacity of Sinopoly Battery and its subsidiaries during the relevant period; and

v. the estimated price per kWh during the relevant period.

There was no historical transaction between parties to the agreement.

The Directors (excluding Mr. Cao, Mr. Miao and Dr. Chen and including the independent non-executive Directors who have taken into account the opinion and advice of the Independent Financial Adviser) consider that such proposed caps are fair and reasonable.

(3) the CV Parts 1 Supply Agreement

Date	:	17 March 2017
Parties	:	(1) the Guizhou Subsidiary; and (2) the Commercial Vehicle Subsidiary.
Term	:	Commencing 1 April 2017 and ending 31 March 2020.
Subject matter	:	The supply of auto parts and components (including mid-size bus components) by the Commercial Vehicle Subsidiary to the Guizhou Subsidiary.
Pricing	:	i. The price of the mid-size bus components for each electric mid-size bus will be made with reference to prevailing market prices which are the Group's strategy pricing set based on market conditions and not lower than the cost of the electric mid-size bus components which will be re-calibrated every six months; and ii. for other auto parts and components, the price will be determined in accordance with the cost.

The price determined pursuant to paragraphs (i) and (ii) should be no less favourable than the price offered by the Commercial Vehicle Subsidiary to other independent third parties, if any.

Condition precedent : The CV Parts 1 Supply 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 CV Parts 1 Supply 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 *(RMB)*	**2019** *(RMB)*	**2020** *(RMB)*
358,749,000	717,498,000	1,195,830,000

The above annual caps were determined with reference to:

i. the sum of:

(1) the estimated transaction amounts for the purchase of mid-size bus components with reference to the estimated demand of electric mid-size buses (which will be assembled from the mid-size bus components) from the Guizhou Subsidiary and the estimated retail price of each of these electric mid-size buses; and

(2) the amount in (1) above multiplied by 3%, being the estimated proportion of the price attributable to the auto parts supplied by the Commercial Vehicle Subsidiary; and

ii. the anticipated growth in the demand for electric mid-size buses for the relevant period; and

iii. the estimated sale in the Guizhou Province of 6%, 6% and 10% of the total number of electric mid-size buses to be produced by the Commercial Vehicle Subsidiary for the years ending 31 March 2018, 2019 and 2020 respectively.

There was no historical transaction between parties to the agreement.

The Guizhou Subsidiary is principally engaged in the manufacturing of vehicles. In order for the Group to sell the electric mid-size buses within the Guizhou Province and enjoy the local subsidies from the Guizhou Province, the Commercial Vehicle Subsidiary would need to supply auto parts and components to the Guizhou Subsidiary through the CV Parts 1 Supply Agreement for assembly. Accordingly, the Guizhou Subsidiary will only purchase such auto parts and components from the Commercial Vehicle Subsidiary and not from other external parties.

The Directors (excluding Mr. Cao, Mr. Miao and Dr. Chen and including the independent non-executive Directors who have taken into account the opinion and advice of the Independent Financial Adviser) consider that such proposed caps are fair and reasonable.

(4) the CV Parts 2 Supply Agreement

Date	:	17 March 2017
Parties	:	(1) Yunnan Five Dragons; and (2) the Commercial Vehicle Subsidiary.
Term	:	Commencing 1 April 2017 and ending 31 March 2020.
Subject matter	:	The supply of auto parts and components (including motor bridges and semi knock-down ("**SKD**") components) by the Commercial Vehicle Subsidiary to Yunnan Five Dragons.

Pricing	:	i. The price of the motor bridges will be determined in accordance with prevailing market prices which are the Group's strategy pricing set based on market conditions; ii. the price of the SKD components for each electric mid-size bus will be the higher of (1) 90% of the retail price (including any government subsidies), which will be re-calibrated every six months with reference to prevailing market prices; or (2) the cost of the electric mid-size bus SKD components; and iii. for other auto parts and components, the price will be determined in accordance with cost. The price determined pursuant to paragraphs (i), (ii) and (iii) should be no less favourable than the price offered by the Commercial Vehicle Subsidiary to other independent third parties, if any.
Condition precedent	:	The CV Parts 2 Supply 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 CV Parts 2 Supply 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 *(RMB)*	2019 *(RMB)*	2020 *(RMB)*
299,792,000	599,583,000	899,375,000

The above annual caps were determined with reference to:

i. the sum of:

(1) the estimated transaction amounts for the purchase of motor bridges with reference to the estimated demand of electric buses (which require motor bridges) from Yunnan Five Dragons and the estimated retail price of each of these motor bridges;

(2) the estimated transaction amounts for the purchase of the SKD components with reference to the estimated demand of electric mid-size buses (which will be assembled from the SKD components) from Yunnan Five Dragons and the estimated retail price of each of these electric mid-size buses; and

(3) the amount in (2) above multiplied by 3%, being the estimated proportion of the price attributable to the auto parts supplied by the Commercial Vehicle Subsidiary;

ii. the anticipated growth in the demand for electric buses and electric mid-size buses for the relevant period;

iii. the estimated sale in the Yunnan Province of 1%, 1% and 1.5% of the total number of the SKD components to be produced by the Commercial Vehicle Subsidiary for the years ending 31 March 2018, 2019 and 2020 respectively; and

iv. the historical transaction amounts for the two years ended 31 March 2015 and 2016 and period ended 30 September 2016, which were:

Year ended 31 March 2015 *(RMB)*	Year ended 31 March 2016 *(RMB)*	Period ended 30 September 2016 *(RMB)*
–	4,787,000	18,970,000

Yunnan Five Dragons is principally engaged in the manufacturing of vehicles. In order for the Group to sell the electric buses within Yunnan Province and enjoy the local subsidies from the Yunnan Province, the Commercial Vehicle Subsidiary would need to supply the auto parts and components to Yunnan Five Dragons through the CV Parts 2 Supply Agreement for assembly and for sale within its province. Accordingly, Yunnan Five Dragons will only purchase such auto parts and components from the Commercial Vehicle Subsidiary and not from other external parties.

The Directors (excluding Mr. Cao, Mr. Miao and Dr. Chen and including the independent non-executive Directors who have taken into account the opinion and advice of the Independent Financial Adviser) consider that such proposed caps are fair and reasonable.

(5) the Bus Parts Procurement Agreement

Date	:	17 March 2017
Parties	:	(1) Yunnan Five Dragons; and (2) the Commercial Vehicle Subsidiary.
Term	:	Commencing 1 April 2017 and ending 31 March 2020.
Subject matter	:	The supply of auto parts and components (including SKD components) for electric buses by Yunnan Five Dragons to the Commercial Vehicle Subsidiary.

Pricing : i. The price of the SKD components for each electric bus will be the higher of (1) 90% of the retail price (including any government subsidies), which will be re-calibrated every six months with reference to prevailing market prices which are the Group's strategy pricing set based on market conditions; or (2) the cost of the electric bus SKD components; and

ii. for other auto parts and components, the price will be determined in accordance with the cost.

The price determined pursuant to paragraphs (i) and (ii) should be no more favourable than the price offered by Yunnan Five Dragons to other independent third parties, if any.

Condition precedent : The Bus Parts Procurement 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 Bus Parts Procurement 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	**2019**	**2020**
(RMB)	*(RMB)*	*(RMB)*
834,300,000	1,668,600,000	2,502,900,000

The above annual caps were determined with reference to:

i. the sum of:

(1) the estimated transaction amounts for the purchase of the SKD components with reference to the estimated demand of electric buses (which will be assembled from the SKD components) from Yunnan Five Dragons and the estimated retail price of each of these electric buses; and

(2) the amount in (1) above multiplied by 3%, being the estimated proportion of the price attributable to the SKD components supplied by Yunnan Five Dragons;

ii. the anticipated growth in the demand for electric buses for the relevant period with reference to the anticipated increase market demand for electric buses and the sharp increase in the actual production of Yunnan Five Dragons in the year ended 31 March 2017;

iii. the estimated sale in the Zhejiang Province of 25% of the total number of SKD components to be produced by Yunnan Five Dragons for the years ending 31 March 2018, 2019 and 2020 respectively; and

iv. the historical transaction amounts for the two years ended 31 March 2015 and 2016 and period ended 30 September 2016, which were:

Year ended 31 March 2015 *(RMB)*	**Year ended 31 March 2016** *(RMB)*	**Period ended 30 September 2016** *(RMB)*
–	9,536,000	–

The Commercial Vehicle Subsidiary is principally engaged in the manufacturing of vehicles. In order for the Group to sell the electric buses within Zhejiang Province and enjoy the local subsidies from the Zhejiang Province, Yunnan Five Dragons would supply auto parts and components to the Commercial Vehicle Subsidiary through the Bus Parts Procurement Agreement for assembly and for sale within its province. Accordingly, the Commercial Vehicle Subsidiary will only purchase such auto parts and components from Yunnan Five Dragons and not from other external parties.

The Directors (excluding Mr. Cao, Mr. Miao and Dr. Chen and including the independent non-executive Directors who have taken into account the opinion and advice of the Independent Financial Adviser) consider that such proposed caps are fair and reasonable.

(6) the Commercial Vehicle Finance Lease Framework Agreement

Date	:	17 March 2017
Parties	:	(1) the Lease Finance Company; and (2) the Commercial Vehicle Subsidiary.
Term	:	Commencing 1 April 2017 and ending 31 March 2020.
Subject matter	:	Subject to entering into individual finance lease agreements, the Lease Finance Company shall provide finance lease services by purchasing the assets at a price of not less than 75% and not more than 100% of the value of the assets which is determined in accordance to the historical transactions in the range of 85% to 100% from the Commercial Vehicle Subsidiary and then leasing back such leased assets to the Commercial Vehicle Subsidiary, which shall, in return, pay rent to the Lease Finance Company accordingly. Upon expiry of the terms of such finance lease agreements, the Commercial Vehicle Subsidiary shall be entitled to repurchase the relevant leased asset at RMB100.
Finance lease rental	:	The annual lease interest rate under each finance lease agreement will not be less than 7% which is made with reference to the historical annual lease interest rate and such lease interest rate shall be determined in accordance with prevailing market rates with reference to the rates offered by two similar finance lease companies and the interest rate shall be no more favourable than the rate for comparable finance lease services offered to independent third parties or other members of the Group, if any.
Condition precedent	:	The Commercial Vehicle Finance Lease Framework 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 Commercial Vehicle Finance Lease Framework 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	2019	2020
(RMB)	*(RMB)*	*(RMB)*
972,000,000	972,000,000	972,000,000

The above annual caps were determined with reference to:

i. the assets, which are equipments, of the Commercial Vehicle Subsidiary available for the finance lease;

ii. the expected market annual lease interest rate; and

iii. the existing finance lease agreement between the Lease Finance Company and the Commercial Vehicle Subsidiary, which was:

Date: 26 April 2016

Term: Commencing 8 June 2016 and ending 5 May 2019

Subject matter:

i. The Lease Finance Company agreed to purchase from the Commercial Vehicle Subsidiary at the consideration of RMB200,000,000, certain equipment, production lines and facilities and leased them back to the Commercial Vehicle Subsidiary.

ii. The effective annualised average interest rate is at approximately 8%.

The Company will comply with the requirements under Rule 14A.60 of the Listing Rules to the extent they apply to the existing finance lease agreement with regard to the period up to the date it expires.

The Directors (excluding Mr. Cao, Mr. Miao and Dr. Chen and including the independent non-executive Directors who have taken into account the opinion and advice of the Independent Financial Adviser) consider that such proposed caps are fair and reasonable.

(7) the Cooperation Framework Agreement

Date	:	17 March 2017
Parties	:	(1) the Lease Finance Company; and (2) the Commercial Vehicle Subsidiary.
Term	:	Commencing 1 April 2017 and ending 31 March 2020.
Subject matter	:	Subject to entering into individual finance lease agreements, the Lease Finance Company shall provide finance lease services to purchasers of electric vehicles manufactured by the Commercial Vehicle Subsidiary. The Commercial Vehicle Subsidiary has undertaken that if the lessee defaults in the payment of rent under the relevant finance lease agreements to the Lease Finance Company, the Commercial Vehicle Subsidiary would be held responsible for such payments and the Lease Finance Company may take possession of and sell the vehicles to third parties for recovery of the default payments.
Pricing	:	The Commercial Vehicle Subsidiary will indemnify the Lease Finance Company for any default payment of the purchasers.
Condition precedent	:	The Cooperation Framework 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 Cooperation Framework 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 *(RMB)*	**2019** *(RMB)*	**2020** *(RMB)*
2,100,000,000	2,100,000,000	2,100,000,000

The above annual caps were determined with reference to:

i. the borrowing costs of the Lease Finance Company;

ii. the estimated demand of finance lease services to the purchasers of electric vehicles; and

iii. the estimated default rate.

There was no historical transaction between parties to the agreement.

The Directors (excluding Mr. Cao, Mr. Miao and Dr. Chen and including the independent non-executive Directors who have taken into account the opinion and advice of the Independent Financial Adviser) consider that such proposed caps are fair and reasonable.

(8) the Passenger EV Finance Lease Framework Agreement

Date	:	17 March 2017
Parties	:	(1) the Lease Finance Company; and (2) the Passenger EV Subsidiary.
Term	:	Commencing 1 April 2017 and ending 31 March 2020.
Subject matter	:	Subject to entering into individual finance lease agreements, the Lease Finance Company shall provide finance lease services by purchasing the assets at a price of not less than 75% and not more than 100% of the value of the assets which is determined with reference to the indicative terms of banking facilities obtained from the Passenger EV Subsidiary and then leasing back such leased assets to the Passenger EV Subsidiary, which shall, in return, pay rent to the Lease Finance Company accordingly. Upon expiry of the terms of such finance lease agreements, the Passenger EV Subsidiary shall be entitled to repurchase the relevant leased assets at RMB100.

Finance lease rental	:	The annual lease interest rate under each finance lease agreement will not be less than 7% which is higher than the PBOC long-term lending interest rate of 4.9% and such lease interest rate shall be determined in accordance with prevailing market rates with reference to the rates offered by similar finance lease company and the interest rate shall be no more favourable than the rate for comparable finance lease services offered to independent third parties or other members of the Group, if any.
Condition precedent	:	The Passenger EV Finance Lease Framework 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 Passenger EV Finance Lease Framework 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	**2019**	**2020**
(RMB)	*(RMB)*	*(RMB)*
432,000,000	432,000,000	432,000,000

The above annual caps were determined with reference to:

i. the assets, which are equipments, of the Passenger EV Subsidiary available for the finance lease; and

ii. the expected market annual lease interest rate.

There was no historical transaction between parties to the agreement.

The Directors (excluding Mr. Cao, Mr. Miao and Dr. Chen and including the independent non-executive Directors who have taken into account the opinion and advice of the Independent Financial Adviser) consider that such proposed caps are fair and reasonable.

(9) the R&D Services Agreement

Date	:	17 March 2017
Parties	:	(1) Jasmin; (2) the Commercial Vehicle Subsidiary; and (3) the Passenger EV Subsidiary.
Term	:	Commencing 1 April 2017 and ending 31 March 2020.
Subject matter	:	The provision of R&D services by Jasmin to the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary.
Pricing	:	A retainer fee of RMB50,000,000 annually which should be no more favourable than the price charged by Jasmin to other independent third parties, if any, in respect of provision of R&D services of similar nature. The retainer fee will be borne by the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary on a 50:50 basis.
Condition precedent	:	The R&D Services 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 R&D Services 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	**2019**	**2020**
(RMB)	*(RMB)*	*(RMB)*
50,000,000	50,000,000	50,000,000

The above annual caps were determined with reference to:

i. the historical transaction amounts for the two years ended 31 March 2015 and 2016 and period ended 30 September 2016, which were:

	Year ended 31 March 2015 *(RMB)*	Year ended 31 March 2016 *(RMB)*	Period ended 30 September 2016 *(RMB)*
the Passenger EV Subsidiary	–	–	–
the Commercial Vehicle Subsidiary	75,000,000	45,600,000	19,450,000
Aggregate	75,000,000	45,600,000	19,450,000

ii. the planned R&D projects in the pipeline which include development of electric vehicles for the oversea market; and

iii. the anticipated increase in demand for the electric vehicles which leads to utilization of R&D services.

The Directors (excluding Mr. Cao, Mr. Miao and Dr. Chen and including the independent non-executive Directors who have taken into account the opinion and advice of the Independent Financial Adviser) consider that such proposed caps are fair and reasonable.

(10) the Administrative Services Sharing Agreement

Date : 17 March 2017

Parties : (1) the Passenger EV Subsidiary; and
(2) the Commercial Vehicle Subsidiary.

Term : Commencing 1 April 2017 and ending 31 March 2020.

Subject matter : (1) The provision of (a) administrative services (including catering, heating, utilities services and other services ancillary to the day-to-day administration and operation of the Passenger EV Subsidiary); (b) premises and factory space; and (c) certain parts processing services, by the Commercial Vehicle Subsidiary to the Passenger EV Subsidiary; and

(2) the provision of parts processing services by the Passenger EV Subsidiary to the Commercial Vehicle Subsidiary.

Pricing : i. For the provision of administrative services, the Passenger EV Subsidiary shall pay an amount equal to the pro rata amount of total administrative costs incurred by the Commercial Vehicle Subsidiary based on the number of its employees over the total employees of the Vehicle Subsidiaries;

ii. For the provision of premises and factory space, the Passenger EV Subsidiary and the Commercial Vehicle Subsidiary shall share the actual costs of premises and factory space incurred equally; and

iii. For the provision of parts processing services, the receiving party shall pay the service provider the actual costs incurred by the service provider.

Condition precedent : The Administrative Services Sharing 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 Administrative Services Sharing Agreement (including the annual caps).

Annual caps : The proposed maximum transaction amounts paid by the Passenger EV Subsidiary to the Commercial Vehicle Subsidiary for the three years ending 31 March 2018, 2019 and 2020 are as follows:

2018 *(RMB)*	**2019** *(RMB)*	**2020** *(RMB)*
102,440,000	423,160,000	823,880,000

The above annual caps were determined with reference to:

i. the depreciation expenses of land and buildings;

ii. the historical costs on administrative services;

iii. the expected costs on parts processing services to be provided by the Commercial Vehicle Subsidiary; and

iv. the anticipated growth in the demand for administrative services for the relevant period.

There was no historical transaction between parties to the agreement.

The proposed maximum transaction amounts paid by the Commercial Vehicle Subsidiary to the Passenger EV Subsidiary for the three years ending 31 March 2018, 2019 and 2020 are as follows:

2018 *(RMB)*	**2019** *(RMB)*	**2020** *(RMB)*
400,000,000	800,000,000	800,000,000

The above annual caps were determined with reference to the expected costs on parts processing services to be provided by the Passenger EV Subsidiary.

There was no historical transaction between parties to the agreement.

The Directors (excluding Mr. Cao, Mr. Miao and Dr. Chen and including the independent non-executive Directors who have taken into account the opinion and advice of the Independent Financial Adviser) consider that such proposed caps are fair and reasonable.

(11) the Management Services Agreement

Date	:	17 March 2017
Parties	:	(1) the Hangzhou Holding Company; (2) the Commercial Vehicle Subsidiary; (3) the Passenger EV Subsidiary; (4) Yunnan Five Dragons; and (5) the Guizhou Subsidiary.
Term	:	Commencing 1 April 2017 and ending 31 March 2020.
Subject matter	:	The provision of management services by the Hangzhou Holding Company to each of the other parties according to the Management Services Agreement comprising: i. manufacturing and operational guidance services (including provision of advice on strategic development and operations, safety risk management, contract tendering services, financing, technology and information technology); and ii. administrative services (including the provision of services in relation to human resources, training, salary reviews, accounting and compliance).
Pricing	:	Cost actually incurred for the provision of such services, which shall be shared by all parties based on revenue basis with reference to their respective revenue generated during the relevant period.
Condition precedent	:	The Management Services 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 Management Services 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	**2019**	**2020**
	(RMB)	*(RMB)*	*(RMB)*
the Commercial Vehicle Subsidiary	27,000,000	20,000,000	10,000,000
the Passenger EV Subsidiary	4,700,000	8,400,000	8,200,000

The above annual caps were determined with reference to:

i. the respective portion of estimated revenue of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary to the total aggregate estimated revenue attributable to the Commercial Vehicle Subsidiary, the Passenger EV Subsidiary, Yunnan Five Dragons and the Guizhou Subsidiary; and

ii. the estimated cost to be incurred by the Hangzhou Holding Company during the relevant period.

There was no historical transaction between parties to the agreement.

The Directors (excluding Mr. Cao, Mr. Miao and Dr. Chen and including the independent non-executive Directors who have taken into account the opinion and advice of the Independent Financial Adviser) consider that such proposed caps are fair and reasonable.

(12) the New Five Dragons Facility Agreements

On 17 March 2017, the facility agreements were entered into between the Commercial Vehicle Subsidiary, as borrower, and Five Dragons Electric Vehicle Limited, as lender, for the lending of the aggregate principal amount of HK$295,810,000 with annual interest rate of 15% and maturing on 31 March 2020, which loans are non-revolving and unsecured. The annual interest rate of each of the New Five Dragons Facility Agreements is higher than the PBOC long-term lending interest rate of 4.9%.

The maximum annual loans amount (principal plus interest) during the term of the New Five Dragons Facility Agreements will not exceed HK$429,000,000.

The terms of the New Five Dragons Facility Agreements have been arrived at by the parties after arm's length negotiation, having regard to the then prevailing market conditions and the then interest rate offered by banks.

The New Five Dragons Facility Agreements are conditional upon the passing of an ordinary resolution by the Independent Shareholders at the SGM by way of a poll to approve the New Five Dragons Facility Agreements.

The New Five Dragons Facility Agreements are intended to replace the Existing Five Dragons Facility Agreements with Five Dragons Electric Vehicle Limited, as lender, and the Commercial Vehicle Subsidiary, as borrower, in the aggregate principal amount of HK$295,810,000 which was made during the period from 19 May 2015 to 24 October 2016.

The Existing Five Dragons Facility Agreements will therefore be terminated when the New Five Dragons Facility Agreements become effective. The Company will comply with the requirements under Rule 14A.60 of the Listing Rules to the extent they apply to the Existing Five Dragons Facility Agreements with regard to the period up to the date it is so terminated.

The Existing Five Dragons Facility Agreement (II) was entered into between Five Dragons Electric Vehicle Limited, as lender, and the Commercial Vehicle Subsidiary, as borrower, in the principal amount of HK$696,000,000 on 12 December 2014. The Existing Five Dragons Facility Agreement (II) is not expected to be renewed when it expires. The Company will comply with the requirements under Rule 14A.60 of the Listing Rules to the extent they apply to the Existing Five Dragons Facility Agreement (II) with regard to the period up to the date it expires.

The Directors (excluding Mr. Cao, Mr. Miao and Dr. Chen and including the independent non-executive Directors who have taken into account the opinion and advice of the Independent Financial Adviser) consider that the New Five Dragons Facility Agreements have been entered into on normal commercial terms and are fair and reasonable and in the interests of the Company and Shareholders as a whole.

C. INTERNAL CONTROLS

The New CCTs which are subject to annual caps to be approved at the SGM will be subject to the following internal control measures:

i. For each of (1) the Commercial Battery Supply Agreement; (2) the Passenger Battery Supply Agreement; (3) the Bus Parts Procurement Agreement; (4) the Commercial Vehicle Finance Lease Framework Agreement; (5) the Cooperation Framework Agreement; (6) the Passenger EV Finance Lease Framework Agreement; and (7) the R&D Services Agreement, the purchasing department of the Company 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, which are the suppliers on the Group's approved supplier list, for identical or comparable products or services and prepared fee quotes for review by the internal department of the Company to ensure that the fee quotes will be on terms no more favourable to the Vehicle Subsidiaries than those provided to independent third parties, if any, and will be specified in individual purchase orders. Except for the Bus Parts Procurement Agreement, if the independent third parties could provide more favourable terms to the Group, then the Group will sell the products to the independent third parties.

ii. For each of (1) the CV Parts 1 Supply Agreement; and (2) the CV Parts 2 Supply Agreement, as explained in the paragraphs headed "the CV Parts 1 Supply Agreement" and "the CV Parts 2 Supply Agreement", in order for the Group to benefit from the local government subsidies, members of the Group will only purchase the relevant products from the Vehicles Subsidiaries, however, the purchasing department of the Company will regularly examine the market and pricing trend by collecting the relevant market information, reviewing and comparing the quotations obtained from at least two independent suppliers for identical or comparable products or services and prepare fee quotes for review by the internal department of the Company to ensure that the fee quotes will be on terms no less favourable to the Group than those provided by independent third parties, if any, and will be specified in individual purchase orders.

iii. Under each of the New CCTs, the Commercial Vehicle Subsidiary or the Passenger EV Subsidiary (as the case may be), has also agreed to provide assistance and co-operate with the Group and its auditors for the purposes of compliance with Rules 14A.56 to 14A.58 of the Listing Rules and the guidelines under Practice Note 740 published by the Hong Kong Institute of Certified Public Accountants.

iv. 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 purchase orders or work orders is consistent with the terms and conditions of the relevant agreements, and have been set at arm's length and are not, as the case may be, more or less favourable than for third-parties, if any.

v. 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 New CCTs.

vi. The Company's audit committee will review at least twice a year the New CCTs and recommend any proposals to improve the internal controls.

vii. The Company's independent non-executive Directors will annually review the implementation and enforcement of the requirements and the internal controls imposed on the New CCTs.

D. INFORMATION ON THE PARTIES

i. Sinopoly Battery is a company incorporated in Hong Kong with limited liability. It is principally engaged in manufacturing lithium-ion battery. Sinopoly Battery is 75% owned by the Company and 25% owned by FDG Kinetic.

ii. FDG Kinetic is a company incorporated in Bermuda with limited liability. It is an investment holding company. The principal activities of FDG Kinetic and its subsidiaries are research and development, manufacturing and trading of cathode materials for nickel-cobalt-manganese lithium-ion batteries, and direct investments, including securities trading, loan financing and asset investment. FDG Kinetic is owned as to 67.19% by the Company.

iii. Yunnan Five Dragons is a company incorporated under the laws of the PRC with limited liability. It is principally engaged in the manufacture and distribution of electric vehicles. Yunnan Five Dragons is a 50% subsidiary of the Company.

iv. Jasmin is a company incorporated under the laws of the PRC with limited liability. It is principally engaged in the design of electric vehicles. Jasmin is an 80% subsidiary of the Company.

v. The Guizhou Subsidiary is a company incorporated under the laws of the PRC with limited liability. It is principally engaged in the manufacture and sales of electric vehicles. The Guizhou Subsidiary is 25% owned by the Company and 26% owned by the Commercial Vehicle Subsidiary.

vi. The Lease Finance Company is a company incorporated under the laws of the PRC with limited liability. It is principally engaged in the provision of finance lease services. The Lease Finance Company is wholly-owned by the Company.

vii. The Hangzhou Holding Company is a company incorporated under the laws of the PRC with limited liability. It is principally engaged in the provision of manufacturing and operational guidance services (including provision of advice on financing, technology and information technology). The Hangzhou Holding Company is wholly-owned by the Company.

viii. Five Dragons Electric Vehicle Limited is a company incorporated in Hong Kong with limited liability. It is principally engaged in investment holding. Five Dragons Electric Vehicle Limited is wholly-owned by the Company.

ix. The Passenger EV Subsidiary is a company incorporated under the laws of the PRC with limited liability. It is principally engaged in the production of electric passenger vehicles. The Passenger EV Subsidiary is owned as to 34% by the Company, 33% by the Commercial Vehicle Subsidiary and 33% by the Joint Venture Partner.

x. The Commercial Vehicle Subsidiary is a company incorporated under the laws of the PRC with limited liability. It is principally engaged in the production of electric commercial vehicles. The Commercial Vehicle Subsidiary is owned as to 50.17% by the Company and 49.83% by the Joint Venture Partner.

xi. The Joint Venture Partner is a company incorporated under the laws of the PRC with limited liability, an associate of Mr. Cao and a connected person of the Company. Its shareholding structure is described in the section headed "Introduction of Connected Persons" under "A. INTRODUCTION" in this letter from the Board.

E. REASONS AND BENEFITS

The Group carries on the business of designing, manufacturing and distribution of electric vehicles, lithium-ion batteries and cathode materials for nickel-cobalt-manganese lithium-ion batteries.

The Commercial Vehicle Subsidiary and the Passenger EV Subsidiary, as combined, form a principal production base for the Company's electric vehicle business, which comprises both the production of electric buses and electric commercial vehicles and the production of electric passenger vehicles. They form an integral part of the Group's principal business.

Upon completion of the recapitalisation of the Joint Venture Partner, each of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary has become a connected subsidiary of the Company within the meaning of Rule 14A.16 of the Listing Rules, and a connected person of the Company. Accordingly, the Company entered into the New CCTs to formalise and regulate the existing arrangements between the Vehicle Subsidiaries and other members of the Group.

Historically, the Vehicle Subsidiaries require various services and raw materials to enable them to manufacture the vehicles. They have co-operated and worked closely with other units within the Group including, among others, (i) the battery manufacturing unit by Sinopoly Battery and its subsidiaries through provision of lithium-ion battery; (ii) the research and development centre by Jasmin through provision of R&D services; (iii) the distribution centres in Yunnan through distribution of electric mid-size buses; and (iv) finance leasing unit by Lease Finance Company through provision of finance lease services. The collaborations between units are necessary for (i) the smooth functioning along the value chain, (ii) bringing down costs, and (iii) increasing efficiency within the Group.

Furthermore, the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary are located in the same production base and sharing the same factory, facilities and support team. Thus, costs sharing and management sharing among these two subsidiaries through the Administrative Services Sharing Agreement and the Management Services Agreement will naturally be the most cost-efficient arrangement. Most of the above transactions are the existing businesses of the Group and all of the transactions are normal intra-group businesses.

The Commercial Vehicle Subsidiary entered into the Existing Five Dragons Facility Agreements and the Existing Five Dragons Facility Agreement (II) with Five Dragons Electric Vehicle Limited which have supported the Commercial Vehicle Subsidiary's capital needs. The New Five Dragons Facility Agreements are the renewals of the Existing Five Dragons Facility Agreements for the purpose of continuing to support the principal business of the Company.

The Directors (excluding Mr. Cao, Mr. Miao and Dr. Chen and including the independent non-executive Directors who have taken into account the opinion and advice of the Independent Financial Adviser) consider that the New CCTs, including the proposed annual caps of the New CCTs, have been entered into on normal commercial terms and are fair and reasonable and in the interests of the Company and Shareholders as a whole.

Mr. Cao, Mr. Miao and Dr. Chen have, by reason of their interests in the Joint Venture Partner as described in the section headed "Introduction of Connected Persons" under "A. INTRODUCTION" in this letter from the Board, abstained from voting on the board resolutions to approve the New CCTs and the annual caps of the transactions contemplated thereunder.

F. LISTING RULES IMPLICATIONS

As a result of the Joint Venture Partner becoming an associate of Mr. Cao upon completion of the recapitalisation, each of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary has become a connected subsidiary of the Company within the meaning of Rule 14A.16 of the Listing Rules, and hence a connected person of the Company.

As all the percentage ratios (other than the profits ratio) for the New CCTs exceed 5%, the transactions contemplated under the New CCTs 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.

G. GENERAL

The New CCTs are conditional upon approval by the Independent Shareholders at the SGM.

An independent board committee of the Company comprising all the independent non-executive Directors has been established to advise the Independent Shareholders on the New CCTs.

The Company has appointed Goldin Financial Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the New CCTs.

H. SGM

A notice convening the SGM is set out on pages 99 to 104 of this circular.

The SGM will be convened and held at Boardroom 6, M/F, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Wednesday, 14 June 2017 at 10:30 a.m. to consider and if thought fit, to approve the New CCTs and the relevant annual caps of the transactions contemplated thereunder.

Whether or not a Shareholder is able to attend the meeting, he/she is requested to complete the proxy form in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited, at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment thereof. Completion and return of the proxy form will not preclude a Shareholder from attending and voting in person at the SGM or any adjournment thereof should he/she so wish. In the event that a Shareholder having lodged a proxy form attends the SGM, his/her proxy form will be deemed to be revoked. Pursuant to Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting must be taken by poll. As such, all the resolutions set out in the notice of the SGM will be decided by poll.

Any Shareholder with a material interest in the relevant New CCT(s) and his/her/its associate(s) is (are) required to abstain from voting on the resolutions approving the relevant New CCT(s) and the relevant annual caps of the transactions contemplated thereunder.

As at the Latest Practicable Date,

(i) Mr. Cao is interested in 2,657,859,998 Shares (representing approximately 11.87% of the total issued Shares), including (i) 2,311,059,998 Shares held by Long Hing International Limited which is a company wholly owned by him; (ii) 340,000,000 Shares held by Champion Rise International Limited which is a company wholly owned by him; and (iii) 6,800,000 Shares held by him;

(ii) Mr. Miao is interested in 1,970,551,043 Shares (representing approximately 8.80% of the total issued Shares), including: (i) 1,806,301,043 Shares held by Union Ever Holdings Limited which is a company wholly owned by him; and (ii) 164,250,000 Shares held by Infinity Wealth International Limited which is company wholly owned by him; and

(iii) Dr. Chen is interested in 658,125,000 Shares (representing approximately 2.94% of the total issued Shares) held by Captain Century Limited which is owned as to 60% by Dr. Chen and 40% by his spouse.

Accordingly, 5,286,536,041 Shares, representing approximately 23.60% of the total issued Shares, will be required to abstain from voting on the resolutions approving the New CCTs and the relevant annual caps of the transactions contemplated thereunder.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the Latest Practicable Date, except as disclosed above, there are no other Shareholders who have a material interest in any of the New CCTs. As such, no other Shareholders will be required to abstain from voting on the resolution approving the New CCTs and the relevant annual caps of the transactions contemplated thereunder.

I. RECOMMENDATIONS

The Board (excluding Mr. Cao, Mr. Miao and Dr. Chen and including the Independent Board Committee, after considering the opinion and advice of the Independent Financial Adviser) consider that each of the New CCTs and the relevant annual caps of the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the resolutions approving the New CCTs and the relevant annual caps of the transactions contemplated thereunder.

J. FURTHER INFORMATION

Your attention is drawn to the other sections and the appendix of this circular.

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

FDG Electric Vehicles Limited
五龍電動車(集團)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 729)

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

19 May 2017

We refer to the circular of the Company to the Shareholders dated 19 May 2017 (the "**Circular**"), in which this letter forms part. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board to form the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the New CCTs and the relevant annual caps of the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and the transactions are in the interests of the Company and the Shareholders as a whole and as to the voting action that should be taken.

We wish to draw your attention to the letter from the Board, as set out on pages 7 to 40 of the Circular, and the letter of advice and recommendation from the Independent Financial Adviser, as set out on pages 43 to 86 of the Circular.

Having considered the terms of the New CCTs, the relevant annual caps of the transactions contemplated thereunder and the advice given by the Independent Financial Adviser, we are of the opinion that the New CCTs and the relevant annual caps of the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and the transactions are in the interests of the Company and the Shareholders as a whole and are on normal commercial terms and in the ordinary and usual course of business of the Group.

We therefore recommend the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the New CCTs and the relevant annual caps of the transactions contemplated thereunder.

Yours faithfully,
For and on behalf of the Independent Board Committee
Mr. Chan Yuk Tong
Mr. Fei Tai Hung
Mr. Tse Kam Fow
Mr. Xu Jingbin
Independent Non-executive Directors

The following is the full text of the letter from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the New CCTs which has been prepared for the purpose of inclusion in this circular.

GOLDIN FINANCIAL LIMITED
高銀融資有限公司

Goldin Financial Limited
Suites 2202-2209, 22/F
Two International Finance Centre
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Central
Hong Kong

19 May 2017

To: the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the continuing connected transactions contemplated under the New CCTs, details of which are set out in the Announcement and the letter from the board (the "**Letter from the Board**") in the circular of the Company dated 19 May 2017 (the "**Circular**") to the Shareholders, of which this letter forms part. Unless specified otherwise, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

Details and background of the recapitalisation of the Joint Venture Partner and the group structures before and after completion of the recapitalisation are set out in the Letter from the Board. As a result of the Joint Venture Partner becoming an associate of Mr. Cao upon completion of the recapitalisation, each of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary has become a connected subsidiary of the Company.

As all the percentage ratios (other than the profits ratio) for the New CCTs exceed 5%, the transactions contemplated under the New CCTs 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.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Mr. Chan Yuk Tong, Mr. Fei Tai Hung, Mr. Tse Kam Fow and Mr. Xu Jingbin, being the independent non-executive Directors, has been constituted to advise the Independent Shareholders on the New CCTs.

We, Goldin Financial Limited, have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the New CCTs, and to make a recommendation as to, among others, whether the respective terms under each of the New CCTs, including the proposed annual caps, are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole, and as to voting in respect of the relevant resolutions at the SGM. Our appointment has been approved by the Independent Board Committee.

We are independent pursuant to Rule 13.84 of the Listing Rules to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in relation to the New CCTs. As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. Within two years prior to the Latest Practicable Date, we have acted as an independent financial adviser to (i) the then independent board committee and independent shareholders of the Company in relation to a connected transaction regarding subscription of new shares under specific mandate and application of whitewash waiver, details of which are set out in the circular of the Company dated 29 January 2016; and (ii) the then independent board committee and independent shareholders of FDG Kinetic, a subsidiary of the Company, in relation to a major and connected transaction regarding the acquisition of sale shares, details of which are set out in the circular of FDG Kinetic dated 6 July 2015. Apart from normal professional fees paid to us in connection with the aforesaid appointment, no arrangements exist whereby we have received any fees or benefits from the Company or any other party to the transactions during the two years prior to the Latest Practicable Date, therefore we consider such relationship would not affect our independence.

BASIS OF OUR ADVICE

In formulating our opinion and recommendations, we have reviewed, inter alia, the February Announcement, the Announcement, the New CCTs, the financial statements of the Group for the six months ended 30 September 2016 and for the year ended 31 March 2016, respectively. We have also reviewed certain information provided by the management of the Company relating to the operations, financial conditions and prospects of the Group. We have also (i) considered such other information, analyses and market data which we deemed relevant; and (ii) conducted verbal discussions with the management of the Company regarding the New CCTs, and the businesses and future outlook of the Group. We have assumed that such information and statements, and any representation made to us, are true, accurate and complete in all material respects as at the Latest Practicable Date and we have relied upon them in formulating our opinion.

All Directors collectively and individually accept full responsibility for the purpose of giving information with regard to the Company in the Circular and, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading. We consider that we have been provided with, and we have reviewed, all currently available information and documents which are available under present circumstances to enable us to reach an informed view regarding the New CCTs to justify reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis of our opinion. We have no reasons to suspect that any material information has been withheld by the Directors or management of the Company, or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the business or affairs or future prospects of the Group. Our opinion is necessarily based on financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

This letter is issued for the information for the Independent Board Committee and the Independent Shareholders solely in connection with their considerations of the New CCTs, except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes, without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In forming our recommendations to the Independent Board Committee and the Independent Shareholders in respect of each of the New CCTs, we have taken into account the following principal factors and reasons:

1. Information on the Company, the Commercial Vehicle Subsidiary, the Passenger EV Subsidiary and the respective parties to the New CCTs

The Group carries on the business of designing, manufacturing and distribution of electric vehicles, lithium-ion batteries and cathode materials for nickel-cobalt-manganese lithium-ion batteries. The production of electric vehicles is carried on, inter alia, by the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary.

The Commercial Vehicle Subsidiary is a company incorporated under the laws of the PRC with limited liability. It is principally engaged in the production of electric commercial vehicles. The Commercial Vehicle Subsidiary is owned as to 50.17% by the Company and 49.83% by the Joint Venture Partner. The Passenger EV Subsidiary is a company incorporated under the laws of the PRC with limited liability. It is principally engaged in the production of electric passenger vehicles. The Passenger EV Subsidiary is owned as to 34% by the Company, 33% by the Commercial Vehicle Subsidiary and 33% by the Joint Venture Partner.

The Joint Venture Partner is a company incorporated under the laws of the PRC with limited liability, an associate of Mr. Cao and a connected person of the Company.

Sinopoly Battery is a company incorporated in Hong Kong with limited liability. It is principally engaged in manufacturing lithium-ion battery. Sinopoly Battery is 75% owned by the Company and 25% owned by FDG Kinetic. FDG Kinetic is a company incorporated in Bermuda with limited liability. It is an investment holding company. The principal activities of FDG Kinetic and its subsidiaries are research and development, manufacturing and trading of cathode materials for nickel-cobalt-manganese lithium-ion batteries, and direct investments, including securities trading, loan financing and asset investment. FDG Kinetic is owned as to 67.19% by the Company.

Yunnan Five Dragons is a company incorporated under the laws of the PRC with limited liability. It is principally engaged in the manufacture and distribution of electric vehicles. Yunnan Five Dragons is a 50% subsidiary of the Company.

Jasmin is a company incorporated under the laws of the PRC with limited liability. It is principally engaged in the design of electric vehicles. Jasmin is an 80% subsidiary of the Company.

The Guizhou Subsidiary is a company incorporated under the laws of the PRC with limited liability. It is principally engaged in the manufacture and sales of electric vehicles. The Guizhou Subsidiary is 25% owned by the Company and 26% owned by the Commercial Vehicle Subsidiary.

The Lease Finance Company is a company incorporated under the laws of the PRC with limited liability. It is principally engaged in the provision of finance lease services. The Lease Finance Company is wholly-owned by the Company.

The Hangzhou Holding Company is a company incorporated under the laws of the PRC with limited liability. It is principally engaged in the provision of manufacturing and operational guidance services (including provision of advice on financing, technology and information technology). The Hangzhou Holding Company is wholly-owned by the Company.

Five Dragons Electric Vehicle Limited is a company incorporated in Hong Kong with limited liability. It is principally engaged in investment holding. Five Dragons Electric Vehicle Limited is wholly-owned by the Company.

2. Background, reasons and benefits of entering into the New CCTs

The Group operates electric vehicles manufacturing plants in Hangzhou, Yunnan and Guizhou in the PRC while the Group also operates battery manufacturing plants in Tianjin and Jilin in the PRC. As stated in the Letter from the Board, the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary, as combined, form a principal production base for the Group's electric vehicle business, which comprises both the production of electric commercial vehicles and the production of electric passenger vehicles.

Upon completion of the recapitalisation of the Joint Venture Partner, each of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary has become a connected subsidiary of the Company. Accordingly, the Company entered into the New CCTs to formalise and regulate the existing arrangements between the Vehicle Subsidiaries and other members of the Group.

Historically, the Vehicle Subsidiaries require various services and raw materials to enable them to manufacture the vehicles. They have co-operated and worked closely with other units within the Group including, among others, (i) the battery manufacturing unit by Sinopoly Battery and its subsidiaries through provision of lithium-ion battery; (ii) the research and development centre by Jasmin through provision of R&D services; (iii) the distribution centres in Yunnan through distribution of electric mid-size buses; and (iv) finance leasing unit by Lease Finance Company through provision of finance lease services. The collaborations between units are necessary for (a) the smooth functioning along the value chain, (b) bringing down costs, and (c) increasing efficiency within the Group.

In respect of the Commercial Battery Supply Agreement and the Passenger Battery Supply Agreement, Sinopoly Battery and its subsidiaries have agreed to supply lithium-ion battery packs to the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary, respectively, for a term of three years commencing from 1 April 2017. We understand that Sinopoly Battery has established business relationship with the Commercial Vehicle Subsidiary since 2014 for the supply of lithium-ion battery packs to the Commercial Vehicle Subsidiary. It is expected that the increase in transaction volume under the Commercial Battery Supply Agreement and the Passenger Battery Supply Agreement will increase the sales of lithium-ion batteries and contribute to the Group's revenue.

In respect of the R&D Services Agreement, Jasmin has agreed to provide R&D and related services to the Vehicle Subsidiaries in return of an annual fixed retainer fee for three years commencing from 1 April 2017. Throughout the years of relevant experience and practice in automotive product development, as at the Latest Practicable Date, Jasmin is in possession of 158 national patented automotive technology and it is currently applying for 50 other patented items. The provision of R&D services to the Vehicle Subsidiaries on an exclusive basis through the entering into of the R&D Services Agreement and the payment of upfront retainer would enable Jasmin to secure a long term stable source of income while at the same time maintain its labour force.

In respect of the CV Parts 1 Supply Agreement, the CV Parts 2 Supply Agreement and the Bus Parts Procurement Agreement, the Commercial Vehicle Subsidiary has agreed to (i) supply auto parts and components (including mid-size bus components) to the Guizhou Subsidiary; and (ii) supply auto parts (which include motor bridge and semi knock-down ("**SKD**") components)) to Yunnan Five Dragons, while Yunnan Five Dragons has agreed to supply auto parts and components (including SKD components) to the Commercial Vehicle Subsidiary, each for a term of three years commencing from 1 April 2017. We understand from the Company that the motor bridges of the electric vehicles are unique and are only manufactured by the Commercial Vehicle Subsidiary. In order for the Company to enjoy the benefits of the provision of local subsidies from the PRC government to the consumers of electric vehicles, the Commercial Vehicle Subsidiary and Yunnan Five Dragons would supply auto parts to each other for assembly and for sale within their respective provinces in addition to their own sales channel to other clients.

In respect of the Commercial Vehicle Finance Lease Framework Agreement and the Passenger EV Finance Lease Framework Agreement, the Lease Finance Company has agreed to provide finance lease services by purchasing the relevant assets from the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary respectively and lease back such leased assets to the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary respectively in return of rental payments. It is expected that the Lease Finance Company would receive respective interest payment from the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary. Pursuant to the Cooperation Framework Agreement, the Lease Finance Company shall provide finance lease services to purchasers of electric vehicles manufactured by the Commercial Vehicle Subsidiary while the Commercial Vehicle Subsidiary has undertaken that if the lessee defaults in the payment of rent under the relevant finance lease agreements to the Lease Finance Company, the Commercial Vehicle Subsidiary will indemnify the Lease Finance Company for any default payment of the purchasers of the relevant vehicles. The entering into of the Cooperation Framework Agreement would therefore serve as a provision of guarantee by the Commercial Vehicle Subsidiary to protect the Company against any default in rental payments by the end customers of the Commercial Vehicle Subsidiary.

Furthermore, the Vehicle Subsidiaries are located in the same production base and some factory premises, facilities and support team will be shared. Thus, administrative costs sharing and management sharing among the Vehicle Subsidiaries through the entering into of the Administrative Services Sharing Agreement and the Management Services Agreement will naturally be the most cost-efficient arrangement of the Group. Most of the above transactions are the existing businesses of the Group and all of the above transactions are normal intra-group businesses.

The Commercial Vehicle Subsidiary entered into the Existing Five Dragons Facility Agreements and the Existing Five Dragons Facility Agreement (II) with Five Dragons Electric Vehicle Limited which have served to support the Commercial Vehicle Subsidiary's needs for its initial construction cost of the Hangzhou factory. The entering into of the New Five Dragons Facility Agreements is expected to replace the Existing Five Dragons Facility Agreements for the purpose of continuing the financial support to the Commercial Vehicle Subsidiary and hence, to support the principal business of the Company. Taking into account that it may not be commercially desirable for the Commercial Vehicle Subsidiary to obtain financing from banks given the collateral required, due diligence, financial covenants and disclosure of information required by the bank, the entering into of the New Five Dragons Facility Agreements would continue to facilitate the financing to the Commercial Vehicle Subsidiary for its working capital and cash flow requirement. Given that the Commercial Vehicle Subsidiary is a non wholly-owned subsidiary of the Company, the financial performance of the Commercial Vehicle Subsidiary would be reflected in the financial statements of the Group.

In addition, various risk control measures (as further discussed in the below section headed "3. Internal control measures within the Group") will be adopted by the Group to govern the conduct of the New CCTs and safeguard the interests of the Independent Shareholders.

Taking into consideration (i) the background of and reasons for entering into the New CCTs; (ii) the Vehicle Subsidiaries form an integral part of the Group's principal business and most of the transactions as contemplated under the New CCTs have been carried out between the respective parties before each of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary became connected subsidiary of the Company, which are in the ordinary and usual course of business of the Group; (iii) the transactions under the New CCTs are normal intra-group businesses among the Vehicle Subsidiaries and the Group; and (iv) various internal control measures will be put in place to monitor the conduct and ensure compliance under the New CCTs (as further discussed in the below section headed "3. Internal control measures within the Group"), we are of the view that the entering into of each of the New CCTs is in the ordinary and usual course of business of the Group, on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

3. Internal control measures within the Group

As detailed in the Letter from the Board, the New CCTs would be subject to the following internal control measures:

(1) For each of (1) the Commercial Battery Supply Agreement; (2) the Passenger Battery Supply Agreement; (3) the Bus Parts Procurement Agreement; (4) the Commercial Vehicle Finance Lease Framework Agreement; (5) the Cooperation Framework Agreement; (6) the Passenger EV Finance Lease Framework Agreement; and (7) the R&D Services Agreement, the purchasing department of the Company 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, which are the suppliers on the Group's approved supplier list, for identical or comparable products or services and prepared fee quotes for review by the internal department of the Company to ensure that the fee quotes will be on terms no more favourable to the Vehicle Subsidiaries than those provided to independent third parties, if any, and will be specified in individual purchase orders.

Except for the Bus Parts Procurement Agreement, if the independent third parties could provide more favourable terms to the Group, then the Group will sell the products to the independent third parties.

(2) For each of (1) the CV Parts 1 Supply Agreement; and (2) the CV Parts 2 Supply Agreement, in order for the Group to benefit from the local government subsidies, members of the Group will only purchase the relevant products from the Vehicle Subsidiaries, however, the purchasing department of the Company will regularly examine the market and pricing trend by collecting the relevant market information, reviewing and comparing the quotations obtained from at least two independent suppliers for identical or comparable products or services and prepare fee quotes for review by the internal department of the Company to ensure that the fee quotes will be on terms no less favourable to the Group than those provided by independent third parties, if any, and will be specified in individual purchase orders.

(3) Under each of the New CCTs, the Commercial Vehicle Subsidiary or the Passenger EV Subsidiary (as the case may be), has also agreed to provide assistance and co-operate with the Group and its auditors for the purposes of compliance with Rules 14A.56 to 14A.58 of the Listing Rules and the guidelines under Practice Note 740 published by the Hong Kong Institute of Certified Public Accountants.

(4) 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 purchase orders or work orders is consistent with the terms and conditions of the relevant agreements, and have been set at arm's length and are not, as the case may be, more or less favourable than for third-party(ies), if any.

(5) 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 New CCTs.

(6) The Company's audit committee will review at least twice a year the New CCTs and recommend any proposals to improve the internal controls.

(7) The Company's independent non-executive Directors will annually review the implementation and enforcement of the requirements and the internal controls imposed on the New CCTs.

In light of the above internal control measures, in particular, (i) the ongoing monitoring and evaluation on the pricing terms under the relevant agreements with reference to the prevailing market rate to ensure that the prices set are no more favourable to the connected person than those provided to independent third parties and no less favourable to the Company than those provided by independent third parties; and (ii) the annual review by the external auditors of the Company and the independent non-executive Directors, we are of the view that appropriate measures will be in place to ensure compliance with the terms of the New CCTs and assist to safeguard the interest of the Independent Shareholders.

4. Principal terms of the New CCTs and the proposed annual caps

Commercial Battery Supply Agreement and Passenger Battery Supply Agreement

Pricing

Pursuant to the Commercial Battery Supply Agreement and the Passenger Battery Supply Agreement, the price of lithium-ion battery packs will be set at (i) the higher of (1) RMB2,400 per kWh which is made with reference to the price in the Existing Commercial Battery Supply Agreement or (2) the prevailing market price plus 5% margin for the contract period ending 31 March 2018; and (ii) the prevailing market price plus 5% margin for the next following contract periods ending 31 March 2020, while such prevailing market price will be made with reference to at least two independent suppliers on the Group's approved supplier list and the 5% margin is based on management's decision after arm's length negotiation between (i) Sinopoly Battery and the Commercial Vehicle Subsidiary; and (ii) Sinopoly Battery and the Passenger EV Subsidiary, respectively. The price of the battery packs will be negotiated on an arm's length basis and determined in the ordinary course of business on normal commercial terms and on terms no more favourable to the Commercial Vehicle Subsidiary than those provided to independent third parties, if any, and will be specified in individual purchase orders.

In respect of the setting of the unit price of lithium-ion battery packs of RMB2,400 per kWh, it is noted that such price is comparable to the unit price of battery packs under the Existing Commercial Battery Supply Agreement entered into between Sinopoly Battery and the Commercial Vehicle Subsidiary on 17 June 2015, pursuant to which the Commercial Vehicle Subsidiary is committed to purchase, among others, batteries in the amount of 400,000,000 AH for the period from 1 April 2017 to 31 March 2018 at the price of not less than RMB6.3 per AH exclusive of PRC sales tax and other charges.

In assessing the fairness and reasonableness of the terms, including the pricing terms of the Commercial Battery Supply Agreement and the Passenger Battery Supply Agreement, we have selected and reviewed (i) five sets of agreements between the Group as the supplier of batteries and independent third party(ies) (the "**Independent Third Parties Agreements**") entered into within 12 months prior to the date of the Commercial Battery Supply Agreement and the Passenger Battery Supply Agreement, which is a fair and representative sample given that the Independent Third Parties Agreements represent over 40% of the total transaction amount in respect of sales of batteries by the Group to independent third parties during the relevant period; and (ii) the Existing Commercial Battery Supply Agreement. Upon enquiry with the management of the Company, we understand that both the pricing of the battery packs under the Independent Third Parties Agreements and the Existing Commercial Battery Supply Agreement were determined with reference to the prevailing market price and we noted that the actual prices of the battery packs under the Independent Third Parties Agreements are no less favourable than that under the Existing Commercial Battery Supply Agreement.

Payment

Each of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary shall pay the respective deposit equivalent to 30% of the purchase order on the date of placing the purchase order, and fully settle the remaining balance within 30 calendar days upon delivery of the battery packs from Sinopoly Battery. We noted that such payment terms are no more favourable than those under the Independent Third Parties Agreements and are similar to those under the Existing Commercial Battery Supply Agreement.

Considering that (i) the pricing and payment terms under the Commercial Battery Supply Agreement and the Passenger Battery Supply Agreement are no more favourable than those offered to independent third parties and are similar to the existing arrangement between Sinopoly Battery and the Commercial Vehicle Subsidiary; and (ii) various internal control measures will be put in place within the Group to ensure the compliance of the determination of the pricing terms under the Commercial Battery Supply Agreement and the Passenger Battery Supply Agreement (as further discussed in the above section headed "3. Internal control measures within the Group"), we are of the view that the terms including the pricing basis and payment terms of the Commercial Battery Supply Agreement and the Passenger Battery Supply Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Proposed annual caps for the Commercial Battery Supply Agreement

The table below summarises (i) the historical transaction amounts for the two years ended 31 March 2015 and 2016 and period ended 30 September 2016; and (ii) the proposed annual caps under the Commercial Battery Supply Agreement for the three years ending 31 March 2020.

Historical transaction amounts			**Proposed maximum transaction amounts for the three years ending 31 March**		
Year ended 31 March 2015	**Year ended 31 March 2016**	**Period ended 30 September 2016**	**2018**	**2019**	**2020**
(RMB)	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*
2,165,000	155,846,000	147,858,000	1,728,000,000	3,456,000,000	3,456,000,000

As advised by the management of the Company, the proposed annual caps under the Commercial Battery Supply Agreement were determined primarily with reference to (i) the estimated demand of electric mid-size bus from the Commercial Vehicle Subsidiary; (ii) the projected growth in the production of electric mid-size bus to be manufactured by the Commercial Vehicle Subsidiary for the relevant period, which are 50%, 100% and 100% of the maximum production capacity of mid-size bus in the Commercial Vehicle Subsidiary for the three years ending 31 March 2020 respectively, with reference to the anticipated increase in market demand for electric mid-size buses given the rapid increase in sale of electric vehicles in the PRC (approximately 63.9% increase in 2016 over 2015 according to the China Association of Automobile Manufacturers) and the estimated ramp-up schedule of production in the Commercial Vehicle Subsidiary which just commenced commercial production in April 2016 to cope with the great market demand; (iii) the estimated purchase of batteries by the Commercial Vehicle Subsidiary which represents 60% (which is a target percentage set by management of the Commercial Vehicle Subsidiary for cost and quality control through competitions by different suppliers) of the total battery demand in the electric mid-size bus produced by the Commercial Vehicle Subsidiary; (iv) the estimated production capacity of Sinopoly Battery and its subsidiaries during the relevant period; (v) the estimated price per kWh during the relevant period; and (vi) the historical transaction amounts for the two years ended 31 March 2015 and 2016 and period ended 30 September 2016.

The proposed annual cap for the year ending 31 March 2018

The proposed annual cap under the Commercial Battery Supply Agreement for the year ending 31 March 2018 amounts to approximately RMB1,728,000,000, representing an increase of approximately 1,008.79% as compared to the historical maximum transaction amounts for the year ended 31 March 2016. In assessing the reasonableness of the proposed annual cap, we have taken into account the following factors:

(i) Estimated demand of electric vehicles from the Commercial Vehicle Subsidiary and the projected growth in the production of electric vehicles to be manufactured by the Commercial Vehicle Subsidiary

We have enquired into the management of the Company in respect of the current and estimated production capacity of electric mid-size buses of the production base of the Commercial Vehicle Subsidiary in Hangzhou. Since the commencement of the production by Phase 1 plants of the production base of the Commercial Vehicle Subsidiary in April 2016, the utilization rate of production capacity was approximately 10% for the year ended 31 March 2017, and is estimated to reach the production capacity of 50% for the year ending 31 March 2018 based on the understanding and experience of the management of the Company. Such significant increase in the utilization rate of the production capacity and therefore the number of electric mid-size buses produced by the Commercial Vehicle Subsidiary will increase the demand for battery packs from the Commercial Vehicle Subsidiary accordingly.

(ii) Estimated production capacity of Sinopoly Battery and its subsidiaries

Given the increasing demand of battery packs from the Commercial Vehicle Subsidiary for the three years ending 31 March 2020, we have also assessed the production capacity of Sinopoly Battery and its subsidiaries. According to the interim report of the Company for the six months ended 30 September 2016, the expansion of the production base in Tianjin of Sinopoly Battery has commenced, increasing its capacity from 130 million AH to 600 million AH. We noted that the existing production capacity of Sinopoly Battery, which is currently operating at full mode, could meet the estimated number of sales of battery packs to the Commercial Vehicle Subsidiary under the proposed annual cap for the year ending 31 March 2018.

(iii) Estimated price per kWh during the relevant period

We noted that the estimated price per kWh for determination of the proposed annual cap for the year ending 31 March 2018 is based on the price as stipulated under the Existing Commercial Battery Supply Agreement, which we consider is fair and reasonable. As such, we consider the estimated unit price of lithium-ion battery packs for the determination of the annual cap for the year ending 31 March 2018 is fair and reasonable.

Based on the above, we consider the proposed annual cap for the year ending 31 March 2018 is fair and reasonable.

The proposed annual caps for the two years ending 31 March 2020

The proposed annual cap for the year ending 31 March 2019 amounts to approximately RMB3,456,000,000, representing an increase of 100% as compared to that under the annual cap for the year ending 31 March 2018. The proposed annual cap for the year ending 31 March 2020 amounts to approximately RMB3,456,000,000, being the same as the annual cap for the year ending 31 March 2019. In assessing the reasonableness of the proposed annual caps, we have taken into account the following factors:

(i) Projected growth in the production of electric vehicles to be manufactured by the Commercial Vehicle Subsidiary

The Company estimated that the production base of the Commercial Vehicle Subsidiary will operate at full capacity for the two years ending 31 March 2019 and 2020. Given the constant production rate, it is estimated that the purchase orders from the Commercial Vehicle Subsidiary for battery packs will be stable for the two years ending 31 March 2020.

(ii) Estimated production capacity of Sinopoly Battery and its subsidiaries

We understand from the Company that there will be new production bases of Sinopoly Battery to be launched for operation in 2019 which is expected to further increase the total production capacity of Sinopoly Battery and its subsidiaries in order to meet the respective estimated purchase orders from the Commercial Vehicle Subsidiary for battery packs for the two years ending 31 March 2020.

(iii) Estimated price per kWh during the relevant period

We noted that the estimated price per kWh for determination of the proposed annual caps for the two years ending 31 March 2020 are the same as that for the year ending 31 March 2018. We have conducted research on the public domain in respect of the outlook and future trend of the price of battery packs for electric vehicles. Based on a report published in January 2017 by McKinsey & Company, a management consulting firm that conducts analysis across public and private sectors, it is noted that the average price for battery pack per kWh has been experiencing a year-on-year declining trend from 2010 to 2016 given the lower cost of production and it is expected that the price of battery pack will continue to decrease up to 2020. Given the aforesaid, it is uncertain as to whether the price of battery packs will fluctuate for the two years ending 31 March 2020, therefore we consider that it is fair and reasonable for the Company to estimate the unit price of lithium-ion battery packs based on that for the year ending 31 March 2018 for the determination of the annual caps for the two years ending 31 March 2020.

As such, we consider the determination of the annual caps for the two years ending 31 March 2020 are fair and reasonable.

Proposed annual caps for the Passenger Battery Supply Agreement

The Company estimated the proposed annual caps under the Passenger Battery Supply Agreement for the three years ending 31 March 2020 to be RMB460,800,000, RMB2,304,000,000 and RMB4,608,000,000, respectively.

As advised by the management of the Company, the proposed annual caps under the Passenger Battery Supply Agreement were determined with reference to (i) the estimated demand of electric passenger vehicles from the Passenger EV Subsidiary; (ii) the projected growth in the production of electric passenger vehicles to be manufactured by the Passenger EV Subsidiary for the relevant period, which are 10%, 50% and 100% of the maximum production capacity of electric passenger vehicles in the Passenger EV Subsidiary for the three years ending 31 March 2020 respectively, with reference to the anticipated increase in market demand for electric passenger vehicles and the gradual ramp-up of production in the Passenger EV Subsidiary based on the rate of ramp-up of production in Yunnan Five Dragons since commencement of commercial production in 2015; (iii) the estimated purchase of batteries by the Passenger EV Subsidiary which represents 60% (which is a target percentage set by management of the Passenger EV Subsidiary for cost and quality control through competitions by different suppliers) of the total battery demand in the electric passenger vehicles produced by the Passenger EV Subsidiary; (iv) the estimated production capacity of Sinopoly Battery and its subsidiaries during the relevant period; and (v) the estimated price per kWh during the relevant period.

The proposed annual cap for the three years ending 31 March 2020

The proposed annual cap for the year ending 31 March 2019 amounts to approximately RMB2,304,000,000, representing an increase of 400% from the annual cap for the year ending 31 March 2018. The proposed annual cap for the year ending 31 March 2020 amounts to approximately RMB4,608,000,000, representing an increase of 100% from the annual cap for the year ending 31 March 2019. In assessing the reasonableness of the proposed annual caps, we have taken into account the following factors:

(i) Estimated demand of electric passenger vehicles from the Passenger EV Subsidiary and the projected growth in the production of electric passenger vehicles to be manufactured by the Passenger EV Subsidiary

Upon enquiry with the management of the Company, it is expected that the production of electric passenger vehicles by the Passenger EV Subsidiary is expected to commence in late 2017. The management of the Company expects that the production capacity for the Passenger EV Subsidiary will grow at the rate of 10% in the first year, 50% in the second year and at full capacity in the third year of operation. Based on the production schedule of the Passenger EV Subsidiary, it is expected that the estimated purchase orders from the Passenger EV Subsidiary for battery packs will increase accordingly for the year ending 31 March 2019 and for the year ending 31 March 2020.

We have conducted research on the public domain in respect of the demand of private passenger vehicles in the PRC and noted from the National Bureau of Statistics of China that the number of private passenger vehicles owned by household has been experiencing a generally growing trend from 2011 to 2015, which shows an average annual growth rate of approximately 19.54% during the period. The number of private passenger vehicles owned by household amounts to approximately 127.37 million. With reference to an article issued in February 2017 by the Ministry of Industry and Information Technology, we noticed that the sale of new energy vehicles in the PRC for each month in 2016 exceeds those recorded for each month in 2015. Based on the《促進汽車動力電池產業發展行動方案》(Program to promote the development of electric power automotive industry*) (http://www.miit.gov.cn/n1146295/n1652858/n1652930/n3757018/c5505456/content.html) jointly issued by the Ministry of Industry and Information Technology of the PRC, National Development and Reform Commission, Ministry of Science and Technology of the PRC and the Ministry of Finance of the PRC, it is the intention of the PRC government to accelerate the development of electric automotive industry by advancing the industry capacity, furnishing the level of standard and strengthening relevant policy support to encourage healthy and sustainable development within the industry. It is also expected that by 2020, the total capacity of the power battery industry will be more than 100 billion watts while production and sales will be more than 40 billion watts which is expected to be in line with the international standards. According to the China Association of Automobile Manufacturers (中國汽車工業協會), an organization founded in Beijing in 1987 with the approval of the Ministry of Civil Affairs of the PRC, the sale of pure electric vehicles has increased by approximately 63.9% in 2016 as compared to 2015.

In view of the growing demand of electric passenger vehicles in the PRC, it is expected that the production base of the Passenger EV Subsidiary will commence production and expand according to its plans in order to seize the market share.

(ii) Estimated production capacity of Sinopoly Battery and its subsidiaries

Given the increasing demand of battery packs from the Passenger EV Subsidiary for the three years ending 31 March 2020, we have also assessed the production capacity of Sinopoly Battery and its subsidiaries. Given the current production capacity of Sinopoly Battery and its subsidiaries and the expected respective increase in production capacity for the two years ending 31 March 2020 as stated above, we noted that the production capacity of Sinopoly Battery could meet the estimated number of sales of battery packs to the Passenger EV Subsidiary for the three years ending 31 March 2020, and satisfy the aggregate estimated number of sales of battery packs to the Vehicle Subsidiaries for the three years ending 31 March 2020.

(iii) Estimated price per kWh during the relevant period

We noted that the estimated price per kWh for determination of the proposed annual caps for the year ending 31 March 2018 is based on the price as stipulated under the Commercial Battery Supply Agreement, while the estimated price per kWH for determination of the proposed annual caps for the two years ending 31 March 2020 are the same as that for the year ending 31 March 2018, which we consider is fair and reasonable. As such, we consider the estimated unit price of lithium-ion battery packs for the determination of the annual caps for the three years ending 31 March 2020 is fair and reasonable.

Based on the above, we consider the determination of the annual caps for the three years ending 31 March 2020 are fair and reasonable.

CV Parts 1 Supply Agreement, CV Parts 2 Supply Agreement and Bus Parts Procurement Agreement

Pricing

Pursuant to the CV Parts 1 Supply Agreement, the Commercial Vehicle Subsidiary will supply auto parts and components (including mid-size bus components) to the Guizhou Subsidiary. The price of the mid-size bus components for each electric mid-size bus will be made with reference to prevailing market prices which are the Group's strategy pricing set based on market conditions and not lower than the cost of the electric mid-size bus components which will be re-calibrated every six months, which should be no less favorable than the price offered by the Commercial Vehicle Subsidiary to other independent third parties, if any. The price for the other auto parts will be determined in accordance with the cost which should be no less favourable than the price offered by the Commercial Vehicle Subsidiary to other independent third parties, if any.

Pursuant to the CV Parts 2 Supply Agreement, the Commercial Vehicle Subsidiary will supply auto parts and components (including motor bridges and SKD components) to Yunnan Five Dragons. The price of the SKD components for each electric mid-size bus will be the higher of (i) 90% of the retail price (including any government subsidies), which will be re-calibrated every six months with reference to prevailing market prices which are the Group's strategy pricing set based on market conditions; or (ii) the cost of the electric mid-size bus SKD components, which should be no less favourable than the price offered by the Commercial Vehicle Subsidiary to other independent third parties, if any. The price of the motor bridges will be determined in accordance with prevailing market prices which are the Group's strategy pricing set based on market conditions and should be no less favourable than the price offered by the Commercial Vehicle Subsidiary to other independent third parties, if any. The price for the other auto parts will be determined in accordance with the cost which should be no less favourable than the price offered by the Commercial Vehicle Subsidiary to other independent third parties, if any.

Pursuant to the Bus Parts Procurement Agreement, Yunnan Five Dragons will supply auto parts and components (including SKD components) for electric buses to the Commercial Vehicle Subsidiary. The price of the SKD components for each electric bus will be the higher of (i) 90% of the retail price (including any government subsidies) which will be re-calibrated every six months with reference to prevailing market prices which are the Group's strategy pricing set based on market conditions; or (ii) the cost of the electric bus SKD components, which should be no more favourable than the price offered by Yunnan Five Dragons to other independent third parties, if any. The price for the other auto parts and components will be determined in accordance with the cost which should be no more favourable than the price offered by Yunnan Five Dragons to other independent third parties, if any.

We were given to understand that there were no historical transactions entered by the Guizhou Subsidiary for similar supply of auto parts components with (i) the Commercial Vehicle Subsidiary; and (ii) independent third parties. As the price for the mid-size bus components for each electric mid-size bus under the CV Parts 1 Supply Agreement will be made with reference to prevailing market prices which should be no less favourable than the price offered by the Commercial Vehicle Subsidiary to other independent third parties, we consider the setting of the price of the mid-size bus components is fair and reasonable to the Company. In respect of the counter supply of auto parts between Yunnan Five Dragons and the Commercial Vehicle Subsidiary under the CV Parts 2 Supply Agreement and the Bus Parts Procurement Agreement, we were advised that there were no similar contracts between Yunnan Five Dragons as the purchaser of SKD components (which will be assembled into electric vehicles) with (i) the Commercial Vehicle Subsidiary and (ii) independent third parties. On the other hand, we were advised that there were no historical contracts entered into by Yunnan Five Dragons with independent third parties for the supply of SKD components. We have selected and reviewed one set of agreements entered into between Yunnan Five Dragons as the supplier and the Commercial Vehicle Subsidiary during the period from 1 April 2015 to 31 March 2016, being all similar transactions carried out between Yunnan Five Dragons as the supplier of SKD components (which will be assembled into electric vehicles) during the relevant period which we consider such sample is sufficient to demonstrate the historical pricing of SKD components, and we noticed that the pricing of SKD components were comparable to that under the Bus Parts Procurement Agreement. We further noticed that the pricing of the SKD components by charging 90% of the retail price (including any government subsidies) of the electric mid-size bus/electric bus would provide a gross margin of approximately 11.11% to Yunnan Five Dragons and the Commercial Vehicle Subsidiary. With reference to the latest car dealership research report published in 2015 by the China Automobile Dealers Association (中國汽車流通協會), being the national corporate organisation registered with and formally approved by the Ministry of Civil Affairs of the PRC, the gross margin of car dealers recorded at 4.47% in 2015. As such, we consider that the gross margin of approximately 11.11% arising from the cost of 90% of the retail price of the electric mid-size bus/electric bus is favourable as compared to the gross margin of the overall car dealership market.

We have reviewed one set of agreements entered into between Yunnan Five Dragons as purchaser of motor bridges and independent third party, being all similar transactions carried out between Yunnan Five Dragons and independent third party for the purchase of motor bridges which we consider such sample is sufficient to demonstrate the historical pricing of motor bridges, and we noticed that the pricing of the motor bridges in such contract were with reference to market price. We have also selected and reviewed three sets of historical invoices between Yunnan Five Dragons as the purchaser of motor bridges and the Commercial Vehicle Subsidiary during the period from 1 April 2016 to 30 September 2016 which represent over 90% of the total transaction amount in respect of purchase of motor bridges during the relevant period and we consider such sample size is fair and representative. We understand that the pricing of the motor bridges in such historical invoices were based on the cost of motor bridges plus a mark-up percentage with reference to the market. We were further advised by the Company that the price of the motor bridges will be determined based on such pricing with reference to the market and should be no less favourable to the price offered by the Commercial Vehicle Subsidiary to other independent third parties. As such, we consider the pricing of motor bridges is fair and reasonable. We were advised that there were no historical contracts between Yunnan Five Dragons with independent third parties for the purchase of auto parts. We have selected and reviewed five sets of historical invoices between Yunnan Five Dragons as the purchaser of auto parts and the Commercial Vehicle Subsidiary during the period from 1 April 2016 to 30 September 2016, which represent over 90% of the total transaction amount in respect of purchase of auto parts by Yunnan Five Dragons during the relevant period and we consider such sample size is fair and representative. We were advised that the pricing of auto parts in such historical invoices were determined with reference to the cost. On the other hand, we have selected and reviewed five sets of historical invoices between the Commercial Vehicle Subsidiary as the purchaser of auto parts and Yunnan Five Dragons during the period from 1 April 2015 to 31 March 2016, which represent over 30% of the total transaction amount in respect of purchase of auto parts by the Commercial Vehicle Subsidiary during the relevant period and we consider such sample size is fair and representative. We were given to understand that the pricing of auto parts in such historical invoices were determined with reference to the cost. As the price of the auto parts under the CV Parts 1 Supply Agreement, CV Parts 2 Supply Agreement and Bus Parts Procurement Agreement will be determined in accordance with the cost, we consider the pricing for the auto parts is fair and reasonable.

Payment

The Guizhou Subsidiary, Yunnan Five Dragons and the Commercial Vehicle Subsidiary shall pay the deposit equivalent to 10% of the purchase order within five calendar days upon the placing of purchase order and fully settle the remaining balance within one week upon receipt of the official invoice from the relevant counter party. In assessing the fairness and reasonableness of the payment terms, we have selected and reviewed (1) the historical contract entered into by the Commercial Vehicle Subsidiary as the supplier of motor bridges and auto parts and Yunnan Five Dragons (the "**CV Historical Agreement**") and (2) the vehicle sales contracts entered into within 12 months prior to the date of the

CV Parts 1 Supply Agreement, the CV Parts 2 Supply Agreement and the Bus Parts Procurement Agreement, including (i) four sets of agreements entered into between the Commercial Vehicle Subsidiary as the supplier and independent third parties (the "**CV I3P Agreements**"), which represent over 70% of the total transaction amount of the vehicle sales contracts entered into by the Commercial Vehicle Subsidiary as supplier and independent third parties during the relevant period and we consider such sample size is sufficient; and (ii) five sets of agreements entered into between the Group as the supplier and independent third parties (the "**Bus I3P Agreements**"), which represent over 70% of the total transaction amount of the vehicle sales contracts entered into by the Group as supplier and independent third parties during the relevant period and we consider such sample size is sufficient. We noticed that the payment terms under the CV Historical Agreement, the CV I3P Agreements and the Bus I3P Agreements are similar to those contemplated under the CV Parts 1 Supply Agreement, the CV Parts 2 Supply Agreement and the Bus Parts Procurement Agreement which involve an upfront deposit payment at the time of placing the purchase order and the settlement(s) of remaining balance upon receipt of the official invoice(s) from the relevant counter party. As such, we consider that the payment terms under the CV Parts 1 Supply Agreement and the CV Parts 2 Supply Agreement respectively are no less favourable than those under the CV I3P Agreement, while the payment terms under the Bus Parts Procurement Agreement are no more favourable than those under the Bus I3P Agreements.

Taking into account (i) the gross margin available from the sales of SKD components for electric mid-size bus/electric bus is above the industry average; (ii) the price of the SKD components for each electric mid-size bus/electric bus will be re-calibrated every six months with reference to the market price which should be (a) no less favourable to the price offered by the Commercial Vehicle Subsidiary to other independent third parties; and (b) no more favourable to the price offered by Yunnan Five Dragons to other independent third parties; (iii) the price of motor bridges and other auto parts should be (a) no less favourable to the price offered by the Commercial Vehicle Subsidiary to other independent third parties; and (b) no more favourable to the price offered by Yunnan Five Dragons to other independent third parties; (iv) the payment terms under the CV Parts 1 Supply Agreement, CV Parts 2 Supply Agreement and the Bus Parts Procurement Agreement are on normal commercial terms; and (v) various internal control measures will be put in place within the Group to ensure the compliance of the determination of the pricing terms under the CV Parts 1 Supply Agreement, CV Parts 2 Supply Agreement and the Bus Parts Procurement Agreement (as further discussed in the above section headed "3. Internal control measures within the Group"), we are of the view that the terms of the CV Parts 1 Supply Agreement, CV Parts 2 Supply Agreement and the Bus Parts Procurement Agreement are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Proposed annual caps for the CV Parts 1 Supply Agreement

The Company estimated the proposed annual caps under the CV Parts 1 Supply Agreement for the three years ending 31 March 2020 to be RMB358,749,000, RMB717,498,000 and RMB1,195,830,000, respectively.

As advised by the management of the Company, the proposed annual caps under the CV Parts 1 Supply Agreement were determined with reference to (i) the estimated transaction amounts for the purchase of mid-size bus components with reference to the estimated demand of electric mid-size buses (which will be assembled from the mid-size bus components) from the Guizhou Subsidiary and the estimated retail price of each of these electric mid-size buses; (ii) the expected cost of auto parts supplied by the Commercial Vehicle Subsidiary; (iii) the anticipated demand growth for electric mid-size buses for the relevant period; and (iv) the estimated sale of 6%, 6% and 10% of the total number of electric mid-size buses in the Guizhou Province to be produced by the Commercial Vehicle Subsidiary for the three years ending 31 March 2020 respectively.

<u>The proposed annual caps for the three years ending 31 March 2020</u>

The proposed annual cap for the year ending 31 March 2019 represents an increase of 100% from the proposed annual cap for the year ending 31 March 2018 while the proposed annual cap for the year ending 31 March 2020 represents an increase of approximately 66.67% from the proposed annual cap for the year ending 31 March 2019. In assessing the reasonableness of the proposed annual caps, we have taken into account the following factors:

(i) Estimated transaction amounts for the purchase of mid-size bus components with reference to the estimated demand of electric mid-size bus (which will be assembled from the mid-size bus components) from the Guizhou Subsidiary and the estimated retail price of electric mid-size buses

The projection of estimated demand of commercial vehicles from the Guizhou Subsidiary was primarily based on a cooperation agreement (the "**Cooperation Agreement**") entered into on 8 May 2016 between the Company and Guian New Area Management Committee* (貴安新區管理委員會) ("Guian Committee") of the Guizhou Provincial People's Government of the PRC, pursuant to which the Guian Committee shall promote and procure the purchase by the government and enterprises of not less than 2,665 FDG series pure electric commercial vehicles (of which at least 1,000 are large and mid-size buses) during the six-year period from 2015 to 2020. As at the Latest Practicable Date, the Guizhou Subsidiary has not yet sold any mid-size buses to the government and enterprises. Accordingly, we consider the projected demand of mid-size buses from the Guizhou Subsidiary for the three years ending 31 March 2020 could meet the requirement from the Guian Committee as stipulated under the Cooperation Agreement and is fair and reasonable.

In respect of the estimated price of electric mid-size bus (which will be assembled from the mid-size bus components), we were given to understand that such price was determined with reference to market price of electric mid-size buses offered by independent manufacturers that are comparable to those manufactured by the Commercial Vehicle Subsidiary in terms of size and quality. In view of the niche market of the production and sale of electric mid-size buses in the PRC, the estimated price of electric mid-size buses remain the same under the proposed annual caps for the three years ending 31 March 2020.

(ii) Expected cost of auto parts supplied by the Commercial Vehicle Subsidiary

We noticed that the estimated amount attributable to the auto parts to be supplied by the Commercial Vehicle Subsidiary represents 3% of the total transaction amount of the sale of electric mid-size buses under the annual caps for the three years ending 31 March 2020 respectively. We have conducted research on the public domain and by reference to a report on automobile market in the PRC published in December 2014 by Deloitte, a leading international accounting and consulting firm, we noted that the revenue arising from the sale of auto parts and repairs represents around 4% of total revenue generated from the sale of new vehicles, second hand vehicles, auto parts and repairs, finance and insurance and others. As such, we consider that the estimated market price of auto parts by the provision of 3% of the total transaction amount from the sale of electric mid-size buses is comparable to the market practice and is fair and reasonable.

Based on the above, we consider that the proposed annual caps for the three years ending 31 March 2020 are fair and reasonable.

Proposed annual caps for the CV Parts 2 Supply Agreement

The table below summarises (i) the historical transaction amounts for the two years ended 31 March 2015 and 2016 and period ended 30 September 2016; and (ii) the proposed annual caps under the CV Parts 2 Supply Agreement for the three years ending 31 March 2020.

Historical transaction amounts			**Proposed maximum transaction amounts for the three years ending 31 March**		
Year ended 31 March 2015	**Year ended 31 March 2016**	**Period ended 30 September 2016**	**2018**	**2019**	**2020**
(RMB)	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*	*(RMB)*
–	4,787,000	18,970,000	299,792,000	599,583,000	899,375,000

As advised by the management of the Company, the proposed annual caps under the CV Parts 2 Supply Agreement were determined with reference to (i) the estimated transaction amounts for the purchase of motor bridges with reference to the estimated demand of electric buses (which require motor bridges) from Yunnan Five Dragons and the estimated retail price of each of these motor bridges; (ii) the estimated transaction amounts for the purchase of the SKD components with reference to the estimated demand of electric mid-size bus (which will be assembled from the SKD components) from Yunnan Five Dragons and the estimated retail price of each of these electric mid-size buses; (iii) the expected cost of auto parts supplied by the Commercial Vehicle Subsidiary; (iv) the anticipated demand growth for electric buses and electric mid-size buses for the relevant period; (v) the estimated sale of 1%, 1%, 1.5% of the total number of SKD components in the Yunnan Province to be produced by the Commercial Vehicle Subsidiary for the three years ending 31 March 2020 respectively; and (vi) the historical transaction amounts for the two years ended 31 March 2015 and 2016 and period ended 30 September 2016.

<u>The proposed annual cap for the three years ending 31 March 2020</u>

The proposed annual cap for the year ending 31 March 2018 represents an increase of approximately 690.17% to the annualised transaction amount derived from the period ended 30 September 2016. The proposed annual cap for the year ending 31 March 2019 represents an increase of approximately 100% from the proposed annual cap for the year ending 31 March 2018 while the proposed annual cap for the year ending 31 March 2020 represents an increase of approximately 50% from the proposed annual cap for the year ending 31 March 2019. We have reviewed the historical transactions between Yunnan Five Dragons and the Commercial Vehicle Subsidiary by obtaining the corresponding sales record for the year ended 31 March 2016 and the period ended 30 September 2016 and we were advised that the sales of electric buses of Yunnan Five Dragons was thin as a result of the low production capacity of electric buses for the relevant period given the production base in Yunnan has just commenced commercial operation in 2016, resulting in a significantly low transaction amount for the year ended 31 March 2016 as compared to the proposed annual cap for the year ending 31 March 2018. In assessing the reasonableness of the proposed annual cap, we have taken into account the following factors:

(i) Estimated transaction amounts for the purchase of motor bridges and SKD components with reference to the estimated demand of electric bus (which require motor bridges and SKD components) from Yunnan Five Dragons and the estimated retail price of motor bridges and electric mid-size buses (which will be assembled from the SKD components)

In assessing the estimated transaction amounts for the purchase of motor bridges and SKD components, we noted that such amounts are determined based on the estimated quantity of motor bridges and SKD components to be purchased and the estimated retail price of the motor bridges and SKD components. We noted that the estimated quantity of motor bridges and SKD components to be purchased are both in a moderate increasing trend for the three years ending 31 March 2020. We have therefore conducted research on the outlook of electric vehicles industry in Yunnan Province. Based on the Yunnan Province New Energy Vehicle Development Plan (2016 – 2020)* (《雲南省新能源汽車產業發展規劃(2016–2020年)》) issued by the People's Government of Yunnan Province in December 2016, we noted that in 2015, the production of electric vehicles reached 1,270 units while the total sales of electric vehicles amounted to 1,233 units in Yunnan Province. As stated in the development plan, it is targeted that the production of electric vehicles in Yunnan Province, which includes electric passenger vehicles, electric commercial vehicles and electric special purpose vehicles, will amount to 120,000 units in 2018 and will reach 300,000 units in 2020. It is also targeted that the production of electric commercial vehicles in Yunnan Province will reach 30,000 in 2020. In view of the implementation of major research and development projects coupled with the introduction of supportive policies including government subsidies and the compliance to relevant energy-saving standards, it is expected that the demand for electric vehicles in Yunnan Province will generally increase for the next few years.

Taking into account the growing demand of electric vehicles in Yunnan Province and the production capacity of Yunnan Five Dragons, we consider the estimated demand from Yunnan Five Dragons for the purchase of motor bridges and SKD components from the Commercial Vehicle Subsidiary for the three years ending 31 March 2020 are fair and reasonable.

In respect of the retail price of motor bridges, we noted that the price is estimated with reference to the historical transactions carried out between Yunnan Five Dragons as the purchaser and an independent third party as the supplier of motor bridges and related parts. As the sale and purchase of motor bridge is niche in the market, the estimated price remained the same under the proposed annual caps for the three years ending 31 March 2020. We consider the estimated price of motor bridges for the determination of the annual caps for the three years ending 31 March 2020 are fair and reasonable.

As elaborated in the above section headed "Proposed annual caps for the CV Parts 1 Supply Agreement", we consider that the estimated retail price of electric mid-size bus (which will be assembled from the SKD components) is fair and reasonable. We noticed that the estimated price of electric mid-size buses remained the same under the proposed annual caps for the three years ending 31 March 2020 which is also fair and reasonable taking into account the niche market of the production and sale of electric mid-size buses in the PRC.

(ii) Expected cost of other auto parts supplied by the Commercial Vehicle Subsidiary

We noted that the estimated amount attributable to the auto parts to be supplied by the Commercial Vehicle Subsidiary represents 3% of the total transaction amount of the sale of electric mid-size buses under the annual caps for the three years ending 31 March 2020 respectively. As elaborated in the above section headed "Proposed annual caps for the CV Parts 1 Supply Agreement", we consider that such estimated market price of auto parts by the provision of 3% of the total transaction amount from the sale of electric mid-size buses is fair and reasonable.

Taking into account (i) the respective estimated demand of electric bus (which requires motor bridges) and electric mid-size bus (which requires SKD components) from Yunnan Five Dragons with reference to the estimated market trend of electric vehicles in Yunnan Province; (ii) the estimated retail price of motor bridges and electric mid-size bus were determined with reference to market price; and (iii) the expected cost of auto parts supplied by the Commercial Vehicle Subsidiary were determined with reference to market practice, we consider that the proposed annual cap for the three years ending 31 March 2020 are fair and reasonable.

Proposed annual caps for the Bus Parts Procurement Agreement

The table below summaries (i) the historical transaction amounts for the two years ended 31 March 2015 and 2016 and period ended 30 September 2016; and (ii) the proposed annual caps under the Bus Parts Procurement Agreement for the three years ending 31 March 2020.

Historical transaction amounts			**Proposed maximum transaction amounts for the three years ending 31 March**		
Year ended 31 March 2015	**Year ended 31 March 2016**	**Period ended 30 September 2016**	**2018**	**2019**	**2020**
(RMB)	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)
–	9,536,000	–	834,300,000	1,668,600,000	2,502,900,000

As advised by the management of the Company, the proposed annual caps under the Bus Parts Procurement Agreement were determined with reference to (i) the estimated transaction amounts for the purchase of the SKD components with reference to the estimated demand of electric buses (which will be assembled from the SKD components) from the Commercial Vehicle Subsidiary and the estimated retail price of electric buses; (ii) the expected cost of auto parts supplied by Yunnan Five Dragons; (iii) the anticipated demand growth for electric buses for the relevant period, with reference to the anticipated increase market demand for electric buses and the sharp increase in the actual production of Yunnan Five Dragons in the financial year ended 31 March 2017; (iv) the estimated sale of 25% of the total number of SKD components in the Zhejiang Province to be produced by Yunnan Five Dragons for the three years ending 31 March 2020 respectively; and (v) the historical transaction amounts for the two years ended 31 March 2015 and 2016 and period ended 30 September 2016.

<u>The proposed annual cap for the three years ending 31 March 2020</u>

We noted that the proposed annual cap of RMB834,300,000 for the year ending 31 March 2018 represents a significant increase from the historical transaction amount of approximately RMB9,536,000 recorded for the year ended 31 March 2016. The proposed annual cap for the year ending 31 March 2019 represents an increase of 100% from the proposed annual cap for the year ending 31 March 2018 while the proposed annual cap for the year ending 31 March 2020 represents an increase of 50% from the proposed annual cap for the year ending 31 March 2019. We have reviewed the historical transactions between Yunnan Five Dragons and the Commercial Vehicle Subsidiary by obtaining the corresponding sales record for the year ended 31 March 2016 and we were advised that the sales of electric buses of the Commercial Vehicle Subsidiary was thin as a result of the low production capacity of electric buses for the year ended 31 March 2016 given the production base in Hangzhou has just commenced operation in April 2016, resulting in a significantly low transaction amount for the year ended 31 March 2016 as compared to the proposed annual cap for the year ending 31 March 2018. In assessing the reasonableness of the proposed annual caps, we have taken into account the following factors:

(i) Estimated transaction amounts for the purchase of the SKD components with reference to the estimated demand of electric buses (which will be assembled from the SKD components) from the Commercial Vehicle Subsidiary and the estimated retail price of electric buses

In assessing the estimated transaction amounts for the purchase of SKD components, we noted that such amounts are determined based on the estimated quantity of SKD components to be purchased and the estimated retail price of electric buses (which will be assembled from the SKD components). We noted that the estimated quantity of SKD components to be purchased from the Commercial Vehicle Subsidiary is in a moderate increasing trend for the three years ending 31 March 2020. We have therefore conducted researches on the outlook of electric vehicles industry in Hangzhou, where the Commercial Vehicle Subsidiary is based at. We understand that Hangzhou is one of the first batch PRC cities for the promotion of electric vehicles and has established a mature new energy automotive market relative to other cities in the PRC. With reference to the report from the China Association of Automobile Manufacturers in May 2015, as at the date of the report, the total production of electric vehicles in Hangzhou reached 12,587 units. Based on the news article issued in December 2016 by Legal Daily, a PRC state-owned newspaper, as at the date of the article, the total number of electric vehicles in Hangzhou amounted to over 30,000 units, of which newly registered electric vehicles in 2016 reached more than 7,700 units, representing approximately 25.67% of the total number of electric vehicles in Hangzhou. Given the historical growing demand, we consider the demand of electric vehicles in Hangzhou will continue to grow in the next few years. We further noticed that the Commercial Vehicle Subsidiary was appointed as the provider of electric vehicles for hospitality purpose for the Hangzhou G20 Summit organized by the Hangzhou municipal government and the party committee. The Commercial Vehicle Subsidiary provided exclusive services in receiving the delegates and transportation in the core area of the summit through the provision of 210 units of its pure electric vehicles. Given the growing popularity of electric vehicles in Hangzhou in recent years and the established brand name of the Commercial Vehicle Subsidiary in Hangzhou, we consider the estimated demand of electric buses (which will be assembled from the SKD components) from the Commercial Vehicle Subsidiary for the three years ending 31 March 2020 are fair and reasonable.

The management estimated the production capacity for electric buses of Yunnan Five Dragons for the year ending 31 March 2018 to be 20% of the total capacity, 40% for the year ending 31 March 2019 and 60% for the year ending 31 March 2020. As discussed with management of the Company, the Company expected the demand of electric buses from the Commercial Vehicle Subsidiary will be 25% of the respective production capacity of Yunnan Five Dragons for each of the three years ending 31 March 2020. Given estimated schedule of production of Yunnan Five Dragons and the demand of electric vehicles in Hangzhou will be generally strong, we consider the estimated demand from the Commercial Vehicle Subsidiary for the purchase of SKD components from Yunnan Five Dragons for the three years ending 31 March 2020 are fair and reasonable.

In respect of the estimated retail price of electric buses (which will be assembled from the SKD components) manufactured by the Commercial Vehicle Subsidiary, we understand that the price is estimated with reference to the historical transactions carried out between Yunnan Five Dragons as supplier of electric buses and independent third party. As the market of sale and purchase of SKD components is niche, the estimated retail price of electric buses (which will be assembled from the SKD components) remained the same under the proposed annual caps for the three years ending 31 March 2020. As such, we consider the estimated price of electric buses for determination of the annual caps for the three years ending 31 March 2020 are fair and reasonable.

(ii) Expected cost of auto parts supplied by Yunnan Five Dragons

We noted that the estimated amount attributable to the auto parts to be supplied by the Yunnan Five Dragons represents 3% of the total transaction amount of the sale of electric buses for the three years ending 31 March 2020 respectively. As elaborated in the above section headed "Proposed annual caps for the CV Parts 1 Supply Agreement", we consider that such estimated market price of auto parts by the provision of 3% of the total transaction amount from the sale of electric buses is fair and reasonable.

Taking into account the determination of (i) the estimated demand of electric buses from the Commercial Vehicle Subsidiary; (ii) the expected cost of auto parts supplied by Yunnan Five Dragons; and (iii) the estimated retail price of electric bus was determined with reference to the prevailing market price, we consider that the proposed annual caps for the three years ending 31 March 2020 are fair and reasonable.

Commercial Vehicle Finance Lease Framework Agreement and Passenger EV Finance Lease Framework Agreement

Pricing

Pursuant to each of the Commercial Vehicle Finance Lease Framework Agreement and the Passenger EV Finance Lease Framework Agreement, subject to entering into individual finance lease agreements, the Lease Finance Company shall provide finance lease services by purchasing the assets at a price of not less than 75% and not more than 100% of the value of the assets from the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary. The setting of the purchase price under the Commercial Vehicle Finance Lease Framework Agreement was determined with reference to the historical similar transactions in the range of 85% to 100% of the value of the respective assets while the setting of the purchase price under the Passenger EV Finance Lease Framework Agreement was with reference to the indicative terms of the banking facilities granted to the Finance Lease Company for such finance lease. The Finance Lease Company will receive rental payments from each of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary in respect of provision of such finance lease services. The annual lease interest rate under each finance lease agreement will not be less than 7% which is made with reference to the historical annual lease interest rate of the finance lease carried out within the Group and such lease interest rate shall be determined in accordance with prevailing market rate with reference to the rates offered by two similar finance lease companies and the interest rate shall be no more favourable than the rate for comparable finance lease services offered to independent third parties or other members of the Group, if any. The rental payment shall be payable quarterly by each of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary to the Lease Finance Company.

As discussed with management of the Company, we understand that there were no historical finance lease contracts entered into between the Lease Finance Company and independent third party. In respect of the Commercial Vehicle Finance Lease Framework Agreement, we have reviewed four sets of historical agreements between the Finance Lease Company as the provider of finance lease services and subsidiaries of the Company, including the Commercial Vehicle Subsidiary, which represents all historical similar transactions entered into within 12 months prior from the date of the Commercial Vehicle Finance Lease Framework Agreement. We noticed that the purchase prices of the assets for finance lease under such historical agreements were within the range of 85% to 100% of the actual value of the respective assets. In respect of the Passenger EV Finance Lease Framework Agreement, we have reviewed the banking facility granted to the Finance Lease Company for the provision of finance lease services which specified that the relevant bank would provide loan to the Finance Lease Company in the amount in proportion to the value of the respective vehicles, and we noted that such proportion is in line with the setting of purchase price of the assets under the Commercial Vehicle Finance Lease Framework Agreement and the Passenger EV Finance Lease Framework Agreement. Given that the annual lease interest rate, being not less than 7%, under each finance lease agreement to be entered into between the respective parties under the Commercial Vehicle Finance Lease Framework Agreement and the Passenger EV Finance Lease Framework Agreement will be determined with reference to the rate offered by similar finance lease companies and shall be no more favourable than the rate offered by the Lease Finance Company to independent third parties or other members of the Group for comparable finance lease services, we consider that the pricing terms under the Commercial Vehicle Finance Lease Framework Agreement and the Passenger EV Finance Lease Framework Agreement are fair and reasonable.

Proposed annual caps for the Commercial Vehicle Finance Lease Framework Agreement and the Passenger EV Finance Lease Framework Agreement

The Company estimated the proposed annual caps under the Commercial Vehicle Finance Lease Framework Agreement for the three years ending 31 March 2020 to be RMB972,000,000. The Company estimated the proposed annual caps under the Passenger EV Finance Lease Framework Agreement for the three years ending 31 March 2020 to be RMB432,000,000.

As advised by the management of the Company, the respective proposed annual caps under the Commercial Vehicle Finance Lease Framework Agreement and the Passenger EV Finance Lease Framework Agreement were determined with reference to (i) the respective amount of assets, being the equipments of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary available for finance lease; and (ii) the expected market annual lease interest rate.

(i) Amount of assets available for finance lease

We have reviewed the management account of the Commercial Vehicle Subsidiary as at 31 January 2017 provided by the Company and upon our enquiry with management of the Company, we understand that the total assets of the Commercial Vehicle Subsidiary that are available for finance lease amounts to approximately RMB900 million, which were derived with reference to the total assets of the Commercial Vehicle Subsidiary as at 31 December 2016 less (i) the assets that are in nature not available for finance lease; and (ii) the total lease assets provided by the Finance Lease Company under an existing finance lease agreement entered into between the Commercial Vehicle Subsidiary and the Finance Lease Company.

We have reviewed the management accounts of the Passenger EV Subsidiary as at 28 February 2017 and noticed that the assets of the Passenger EV Subsidiary that are available for finance lease amounts to approximately RMB400 million.

As such, we consider the determination of the amount of assets available for finance lease for the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary in the respective amount of RMB900 million and RMB400 million are fair and reasonable.

(ii) Expected market annual lease interest rate

Pursuant to the Commercial Vehicle Finance Lease Framework Agreement and the Passenger EV Finance Lease Framework Agreement, the annual lease interest rate under each finance lease agreement to be entered by the respective parties shall not be less than 7%. In determining the interest amount contributing to the respective annual caps, the Company has taken into account the minimum lease interest rate of 7% plus a buffer of approximately 14.29%. Accordingly, we consider that the estimation of interest amount under the respective proposed annual caps of the Commercial Vehicle Finance Lease Framework Agreement and the Passenger EV Finance Lease Framework Agreement for the relevant period are fair and reasonable.

Cooperation Framework Agreement

Pricing

Subject to entering into individual finance lease agreements, the Lease Finance Company shall provide finance lease services to purchasers of electric vehicles manufactured by the Commercial Vehicle Subsidiary. The Commercial Vehicle Subsidiary has undertaken that if the lessee defaults in the payment of rent under the relevant finance lease agreements to the Lease Finance Company, the Lease Finance Company may take possession of and sell the respective vehicles to third parties for recovery of the default payments.

Given that the Commercial Vehicle Subsidiary would be held responsible for the full payment of rent when the lessee defaults in payment, which serves as a provision of guarantee to protect the interest of the Lease Finance Company against any defaults, we consider the arrangement under the Cooperation Framework Agreement, including the indemnification of any default payment of the vehicle purchasers by the Commercial Vehicle Subsidiary in full, is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Proposed annual caps for the Cooperation Framework Agreement

The Company estimated the proposed annual caps under the Cooperation Framework Agreement for the three years ending 31 March 2020 to be RMB2,100,000,000.

As advised by the management of the Company, the proposed annual caps under the Cooperation Framework Agreement were determined with reference to (i) the borrowing costs of the Lease Finance Company; (ii) the estimated demand of finance lease services to the purchasers of electric vehicles; and (iii) the estimated default rate.

(i) Borrowing costs of the Lease Finance Company and the amount of loan facility available for the Lease Finance Company for the provision of the finance lease services

Upon enquiries with the management of the Company, in determination of the amount of funds available for leasing, the Company has made reference to a loan facility letter issued by an independent PRC bank in December 2016 whereby the PRC bank has agreed to provide a loan facility to the Lease Finance Company for its working capital use for a term of not more than three years with interest rate not less than the RMB benchmark lending rate, currently being 4.75% as promulgated by the PBOC. We also noted that the sum of the amount of the loan facility granted under the loan facility letter and the estimated borrowing cost with reference to the current RMB benchmark lending rate of 4.75% is comparable to the proposed annual caps under the three years ending 31 March 2020.

(ii) Estimated demand of finance lease services to purchasers of electric vehicles

As stated in《關於促進金融租賃行業健康發展的指導意見》(The Guiding Opinions on the Development of Financial Leasing Industry*) issued by the General Office of the State Council of the PRC in September 2015 (*http://www.gov.cn/zhengce/content/2015-09/08/content_10147.htm*), it is targeted that development of the financial leasing industry will be accelerated to promote the transformation and upgrade of the national economy. It is also the intention of the central government to advance and improve the current standard of financial leasing services and increase its support to the industry to enhance the core competitiveness of relevant finance lease companies. With reference to a report officially published by the Ministry of Commerce of the PRC in September 2016, the number of registered finance lease companies as recorded in 2015 amounted to 3,615 companies as compared to 1,570 companies recorded in the previous year, representing a year-on-year increase of approximately 130.25%. Further, we noticed that the overall asset value of finance lease companies in the PRC has enlarged by approximately 47.8% in 2015 against the previous year. The business model by way of sale-leaseback also contributed approximately 83.9% out of the operating business of the finance lease companies. In view of the supportive policies on finance lease industry and the growing number of finance lease companies in the PRC, we consider that the demand of finance lease services for the three years ending 31 March 2020 will be generally strong. Further, with reference to the China Automotive Market Bluebook* (中國汽車市場藍皮書) published in 2017 by PricewaterhouseCoopers, a multinational professional services network, we noticed the portion of finance lease services offered to vehicle purchasers represents around 15% of the overall auto market. As such, we consider the estimated demand for finance lease services of the purchasers of the Commercial Vehicle Subsidiary is generally in line with the overall market.

(iii) Estimated default rate

The Company has estimated the default rate by the purchasers of electric vehicles manufactured by the Commercial Vehicle Subsidiary after taking into account the possibility of full utilisation of the loan facility amount granted to the Finance Lease Company.

Based on the above, we consider the proposed annual caps for the three years ending 31 March 2020, which has taken into account, among others, the amount of loan facility available for the Lease Finance Company and the borrowing costs of the Finance Lease Company over the relevant period and the estimated default rate of the Commercial Vehicle Subsidiary, are fair and reasonable.

R&D Services Agreement

Pursuant to the R&D Services Agreement, Jasmin will charge the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary an annual retainer fee of RMB50,000,000 payable monthly on a 50-50 sharing proportion for the provision of R&D services on automotive development to the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary, which should be no more favourable to the price charged by Jasmin to other independent third parties, if any, in respect of provision of R&D services of similar nature. We were advised by the Company that while Jasmin has entered into previous similar services agreements with (i) the Commercial Vehicle Subsidiary; and (ii) independent third parties, all of them were charged on project basis. We understand that there are no historical contracts charged on a retainer basis that are comparable to the R&D Services Agreement. We understand from management of the Company that the scope of work to be provided to the Vehicle Subsidiaries will be primarily focusing on the enhancement and maintenance of the existing platform of the system adopted by the Vehicle Subsidiaries. In assessing the pricing under the R&D Services Agreement, we noted that the annual retainer fee was determined with reference to (i) the number of projects launched and to be launched by the Vehicle Subsidiaries in 2017; (ii) the estimated labor hours required for the provision of R&D services for each project; and (iii) the hourly labour wages of Jasmin which shall be comparable to the market wages. We consider the annual retainer fee, which has taken into consideration the expected number and nature of R&D projects of Jasmin as well as the cost of labor with reference to the prevailing market, are fair and reasonable.

The table below summarises (i) the historical transaction amounts for the two years ended 31 March 2015 and 2016 and period ended 30 September 2016; and (ii) the proposed annual caps under the R&D Services Agreement for the three years ending 31 March 2020.

	Year ended 31 March 2015 *(RMB)*	**Year ended 31 March 2016** *(RMB)*	**Period ended 30 September 2016** *(RMB)*
Passenger EV Subsidiary	–	–	–
Commercial Vehicle Subsidiary	75,000,000	45,600,000	19,450,000

	Year ending 31 March 2018 (RMB)	Year ending 31 March 2019 (RMB)	Year ending 31 March 2020 (RMB)
Proposed annual caps	50,000,000	50,000,000	50,000,000

Proposed annual caps for the R&D Services Agreement

As stated in the above, Jasmin will charge an annual retainer fee in the amount of RMB50,000,000 for the provision of R&D services to the Vehicle Subsidiaries. The Company proposed the annual caps under the R&D Services Agreement for the three years ending 31 March 2020 to be RMB50,000,000 which was determined with reference to (i) the historical similar transaction conducted by Jasmin and the Commercial Vehicle Subsidiary; (ii) the planned R&D projects in the pipeline which include development of electric vehicles for the overseas market; and (iii) the anticipated increase in demand for the electric vehicles which leads to utilization of R&D services. We noted that the historical transaction amounts recorded at RMB75,000,000, RMB45,600,000 and RMB19,450,000 for the two years ended 31 March 2015 and 2016 and period ended 30 September 2016, respectively. As such historical contracts were not charged on a retainer basis that were comparable to the R&D Services Agreement, we consider the historical transactions between Jasmin and the Commercial Vehicle Subsidiary are not relevant in assessing the fairness and reasonableness of the proposed annual caps.

Nevertheless, we have obtained a forecast prepared by management of the Company on the costs expected to be incurred by Jasmin for the provision of R&D services under the R&D Services Agreement for the year ending 31 March 2018, which are based on (i) the estimated number of development projects launched or to be launched in 2017; and (ii) the expected costs of R&D services to be provided to such development projects. We noted that the estimated costs for R&D services for each project is based on the respective number of hours required for each project and the hourly labour wages, which are and will be with reference to the market wages of similar R&D services provision as advised by the Company. As such, we consider the proposed annual caps under the R&D Services Agreement are fair and reasonable.

Administrative Services Sharing Agreement

Pricing

The Passenger EV Subsidiary will pay (i) an amount equal to the pro rata amount of total administrative costs incurred by the Commercial Vehicle Subsidiary (including catering, heating, utilities services and other services ancillary to the day-to-day administration and operation of the Passenger EV

Subsidiary) based on the number of its employees over the total employees of the Vehicle Subsidiaries; (ii) an amount equal to 50% of the actual costs for the provision of premises and factory space by the Commercial Vehicle Subsidiary; and (iii) the actual costs incurred by the Commercial Vehicle Subsidiary for the provision of parts processing services. The Commercial Vehicle Subsidiary will pay the actual costs incurred by the Passenger EV Subsidiary for the provision of parts processing services. Payment shall be made within one month upon receipt of the official invoice issued by the party providing the administrative services thereof.

We understand from management of the Company that the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary have been sharing some parts of premises and factory space for their respective operations since establishment. Accordingly, the costs for the provision of premises and factory spaces including the depreciation expenses thereof will be treated as utility expenses associated with the ongoing operation of the Vehicle Subsidiaries. As such, we consider the sharing of the total costs incurred for the utilisation of premises and factory space between the Vehicle Subsidiaries on a 50-50 sharing proportion is fair and reasonable.

In respect of the pricing of the administrative costs, we have reviewed the breakdown of such costs and noted that such costs were mainly attributable by the catering expenses, the amount of which is therefore portioned to the number of employees. As such, we consider it is fair and reasonable for determining the amount of administrative costs payable by the Passenger EV Subsidiary (including catering, heating, utilities services and other services ancillary to the day-to-day administration and operation of the Passenger EV Subsidiary) based on its number of employees, such that the portion of administrative services utilised and attributable to the Passenger EV Subsidiary would be more accurately reflected in the amount of administrative services payable by the Passenger EV Subsidiary.

For the provision of parts processing services, the receiving party shall pay the service provider the actual costs incurred by the service provider, which shall be determined based on the number of vehicles produced by such receiving party.

Given that (i) the actual costs incurred by each of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary for the provision of administrative services will be reimbursed by the respective counterparty; (ii) the equal sharing of costs for the provision of premises and factory space are fair and reasonable; and (iii) the sharing of costs in respect of catering, heating, utilities services and other services ancillary to the day-to-day administration and operation of the Passenger EV Subsidiary would fairly reflect the portion of administrative services attributable to the Passenger EV Subsidiary, we consider the pricing terms under the Administrative Services Sharing Agreement are fair and reasonable.

Proposed annual caps for the Administrative Services Sharing Agreement

The Company estimated the maximum transaction amounts to be paid by the Passenger EV Subsidiary to the Commercial Vehicle Subsidiary for the three years ending 31 March 2020 to be RMB102,440,000, RMB423,160,000 and RMB823,880,000, respectively, while the maximum transaction amounts to be paid by the Commercial Vehicle Subsidiary to the Passenger EV Subsidiary for the three years ending 31 March 2020 are estimated to be RMB400,000,000, RMB800,000,000 and RMB800,000,000, respectively.

As advised by the management of the Company, the proposed annual caps payable by the Passenger EV Subsidiary were determined with reference to (i) the depreciation expenses of land and buildings; (ii) the historical costs on administrative services; (iii) the expected costs on parts processing services to be provided by the Commercial Vehicle Subsidiary; and (iv) the anticipated growth in the demand for administrative services for the relevant period, while the proposed annual caps payable by the Commercial Vehicle Subsidiary were determined with reference to the expected costs on parts processing services to be provided by the Passenger EV Subsidiary.

Maximum amounts payable by the Passenger EV Subsidiary for the year ending 31 March 2018

In assessing the estimation of the amounts payable by the Passenger EV Subsidiary, we noted that such amounts are contributed by (i) the sharing cost of office premises and factory space; (ii) the sharing cost of administrative services; and (iii) the expected cost on parts processing services.

(i) Sharing cost of office premises and factory space

Pursuant to the Administrative Services Sharing Agreement, the actual costs arising from the provision of premises and factory space will be equally shared between the Vehicle Subsidiaries. We have reviewed the management accounts of the Commercial Vehicle Subsidiary as at 31 January 2017 provided by management of the Company and we noted that the expected depreciation expenses of land and buildings for the three years ending 31 March 2020 was determined with reference to the current depreciation expense of land and buildings, where the value of land and buildings held by the Commercial Vehicle Subsidiary will be fully depreciated over a period of 20 to 40 years.

(ii) Sharing cost of administrative services

Pursuant to the Administrative Services Sharing Agreement, the Passenger EV Subsidiary shall pay an amount equal to the pro rata amount of the total administrative costs incurred by the Commercial Vehicle

Subsidiary based on the number of its employees over the total number of employees of the Vehicle Subsidiaries. In estimating the sharing cost of administrative services for the year ending 31 March 2018, we understand that the Company has made reference to (i) the monthly administrative expense in December 2016 incurred by subsidiaries of the Group including the Vehicle Subsidiaries; (ii) the current total number of employees of the Passenger EV Subsidiary; and (iii) the total number of employees of the Vehicle Subsidiaries.

(iii) Expected costs on parts processing services to be provided by the Commercial Vehicle Subsidiary

We noted that the Company has estimated the expected costs on parts processing services to be provided by the Commercial Vehicle Subsidiary with reference to (i) the cost of parts processing for each passenger vehicle manufactured by the Passenger EV Subsidiary; and (ii) the expected number of passenger vehicles to be manufactured by the Passenger EV Subsidiary for the year ending 31 March 2018 under its production schedule. We have obtained and reviewed the costs breakdown of parts processing of the passenger vehicle manufactured by the Passenger EV Subsidiary and we consider that the determination of the costs on parts processing services for the year ending 31 March 2018 is fair and reasonable.

Based on the above, we consider the proposed maximum amount payable by the Passenger EV Subsidiary of RMB102,440,000 for the year ending 31 March 2018 is fair and reasonable.

Maximum amounts payable by the Passenger EV Subsidiary for the two years ending 31 March 2020

The maximum amounts payable by the Passenger EV Subsidiary for the two years ending 31 March 2020 represent a year-on-year growths of approximately 313.08% and approximately 94.70% from the respective previous year. In assessing the reasonableness of the proposed annual caps, we have taken into account the anticipated growth in the demand for administrative services for the relevant period.

We were advised that in determination of the maximum amounts to be paid by the Passenger EV Subsidiary to the Commercial Vehicle Subsidiary for the two years ending 31 March 2020, the Company has taken into account the expected respective growth in number of staff of the Vehicle Subsidiaries and the Passenger EV Subsidiary which are in line with the expected respective production schedule of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary, for the two years ending 31 March 2020. As the Commercial Vehicle Subsidiary has already commenced production since April 2016, the management expects the number of staff of the Commercial Vehicle Subsidiary to be relatively stable for the three years ending 31 March 2020. As the Passenger EV Subsidiary is expected to commence operation in late 2017 and given its growing production capacity over the relevant period, which is expected to operate at 10% for the year ending 31 March 2018, 50% for the year ending 31 March 2019 and at full capacity for the year ending 31 March 2020, the management expects that the number of staff of the Passenger EV Subsidiary will grow by 150% for the year ending 31 March 2019 and by 130% for the year ending 31 March 2020, which resulted in respective increases in administrative services to be reimbursed by the Passenger EV Subsidiary for the respective years ending 31 March 2019 and 2020. The growing production capacity of the Passenger EV Subsidiary over the relevant period is also expected to result in the respective increases in the expected cost arising from parts processing payable by the Passenger EV Subsidiary for the two years ending 31 March 2020.

As such, we consider the maximum transaction amounts payable by the Passenger EV Subsidiary for the two years ending 31 March 2020 are fair and reasonable.

Maximum amounts payable by the Commercial Vehicle Subsidiary for the year ending 31 March 2018

In assessing the reasonableness of the proposed annual cap, we have taken into account the expected costs on parts processing to be provided by the Passenger EV Subsidiary.

We noted that the Company has estimated the expected costs on parts processing services to be provided by the Passenger EV Subsidiary with reference to (i) the cost of parts processing for each vehicle manufactured by the Commercial Vehicle Subsidiary; and (ii) the expected number of vehicles to be manufactured by the Commercial Vehicle Subsidiary for the year ending 31 March 2018 under its production schedule. We have obtained and reviewed the costs breakdown of parts processing of the mid-size electric bus manufactured by the Commercial Vehicle Subsidiary and we consider the determination of the costs on parts processing services for the year ending 31 March 2018 is fair and reasonable.

Based on the above, we consider the proposed maximum amount payable by the Commercial Vehicle Subsidiary of RMB400,000,000 for the year ending 31 March 2018 is fair and reasonable.

Maximum amounts payable by the Commercial Vehicle Subsidiary for the two years ending 31 March 2020

The maximum amounts payable by the Commercial Vehicle Subsidiary for the two years ending 31 March 2020 represent a year-on-year growths of 100% and 0% from the respective previous year. In assessing the reasonableness of the proposed annual caps, we have taken into account the anticipated growth in the demand for administrative services for the relevant period.

The schedule of production of the Commercial Vehicle Subsidiary is expected to operate at full capacity for the two years ending 31 March 2020, doubling the production of vehicles for the year ending 31 March 2018. As a result, the cost arising from the parts processing services payable by the Commercial Vehicle Subsidiary is expected to increase for the year ending 31 March 2019 and stays at the same level for the year ending 31 March 2020.

As such, we consider the maximum transaction amounts payable by the Commercial Vehicle Subsidiary for the two years ending 31 March 2020 are fair and reasonable.

Management Services Agreement

Pricing

Pursuant to the Management Services Agreement, the management services fee shall be determined based on the actual cost incurred by the Hangzhou Holding Company for the provision of such services and shall be shared based on revenue basis with reference to the respective revenue generated by each of the Commercial Vehicle Subsidiary, the Passenger EV Subsidiary, Yunnan Five Dragons and the Guizhou Subsidiary during the relevant period. The management services fee shall be payable within one month upon receipt of the official invoice, which will be issued monthly by the Hangzhou Holding Company. Upon enquiry with the management of the Company, we were given to understand that, to enhance the economies of scale, the Hangzhou Holding Company has been acting as a centralized service unit to provide management services to the aforesaid four companies. We consider that sharing the management services fee by reference to the revenue contribution of each of the Commercial Vehicle Subsidiary, the Passenger EV Subsidiary, Yunnan Five Dragons and the Guizhou Subsidiary based on the actual cost incurred by the Hangzhou Holding Company would serve to reflect the respective portions of administrative services and manufacturing and operational guidance services incurred by each of the Commercial Vehicle Subsidiary, the Passenger EV Subsidiary, Yunnan Five Dragons and the Guizhou Subsidiary as the amount of revenue would generally indicate the relative level of management services utilised and at the same time effectively cover the actual cost incurred by the Hangzhou Holding Company. Accordingly, we consider the pricing terms under the Management Services Agreement are fair and reasonable.

Proposed annual caps for the Management Services Agreement

The Company estimated the maximum amounts payable by the Commercial Vehicle Subsidiary for the three years ending 31 March 2020 to be RMB27,000,000, RMB20,000,000 and RMB10,000,000, respectively, while the Company estimated the maximum amounts payable by the Passenger EV Subsidiary for the three years ending 31 March 2020 to be RMB4,700,000, RMB8,400,000 and RMB8,200,000, respectively.

As advised by the management of the Company, the respective maximum transaction amounts were determined with reference to (i) the estimated cost to be incurred by the Hangzhou Holding Company during the relevant period; and (ii) the respective portion of estimated revenue of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary to the total aggregate estimated revenue attributable to the Commercial Vehicle Subsidiary, the Passenger EV Subsidiary, Yunnan Five Dragons and the Guizhou Subsidiary.

<u>Proposed annual caps for the year ending 31 March 2018</u>

In assessing the reasonableness of the proposed annual cap, we have taken into account the following factors:

(i) Estimated cost to be incurred by the Hangzhou Holding Company for the year ending 31 March 2018

We have reviewed the management accounts of the Hangzhou Holding Company for the months of November and December 2016 and noticed that, in estimating the cost to be incurred by the Hangzhou Holding Company for the year ending 31 March 2018, the Company has made reference to the average of the historical monthly expenses for the months of November and December 2016, which are considered to reflect the most recent monthly expense of the Hangzhou Holding Company in respect of the provision of management services, which was then annualised to reflect an annual management cost estimated to be incurred by the Hangzhou Holding Company for the year ending 31 March 2018.

(ii) Respective portion of estimated revenue of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary to the total aggregate estimated revenue attributable to the Commercial Vehicle Subsidiary, the Passenger EV Subsidiary, Yunnan Five Dragons and the Guizhou Subsidiary

Pursuant to the Management Services Agreement, the actual cost incurred for the provision of the management services by the Hangzhou Holding Company shall be shared by all parties based on revenue basis with reference to their respective revenue generated during the relevant period. We have obtained the breakdown of revenue expected to be generated by each of the Commercial Vehicle Subsidiary, the Passenger EV Subsidiary, Yunnan Five Dragons and the Guizhou Subsidiary for the year ending 31 March 2018, which were estimated based on the selling price per vehicle produced by each of the Commercial Vehicle Subsidiary, the Passenger EV Subsidiary, Yunnan Five Dragons and the Guizhou Subsidiary and the respective number of vehicles to be manufactured for sale which are in line with the respective estimated production schedule of each of the vehicle production base for the year ending 31 March 2018. We noted that the respective proposed annual caps for the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary are equivalent to their respective shared portions of the estimated cost to be incurred by the Hangzhou Holding Company as determined based on their respective estimated revenue portions to the total aggregate estimated revenue of the Commercial Vehicle Subsidiary, the Passenger EV Subsidiary, Yunnan Five Dragons and the Guizhou Subsidiary.

As such, we consider the respective proposed annual caps for the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary for the year ending 31 March 2018 are fair and reasonable.

Proposed annual caps for the two years ending 31 March 2020

The estimated maximum amounts payable by the Commercial Vehicle Subsidiary for the two years ending 31 March 2020 represent a year-on-year decrease of approximately 25.93% and 50% from the respective previous year, while the estimated maximum amounts payable by the Passenger EV Subsidiary for the two years ending 31 March 2020 represent a year-on-year increase of approximately 78.72% and a year-on-year decrease of approximately 2.38% from the respective previous year. In assessing the reasonableness of the proposed annual caps, we have taken into account the following factors:

(i) Estimated cost to be incurred by the Hangzhou Holding Company for the two years ending 31 March 2020

The Company estimated that the cost to be incurred by the Hangzhou Holding Company to increase by 15% each year for the year ending 31 March 2019 and for the year ending 31 March 2020, which are based on the management's expectation on increased manpower and respective raise in salaries during the relevant period.

(ii) Respective portion of estimated revenue of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary to the total aggregate estimated revenue attributable to the Commercial Vehicle Subsidiary, the Passenger EV Subsidiary, Yunnan Five Dragons and the Guizhou Subsidiary

As advised by management of the Company, the vehicle production base of the Guizhou Subsidiary is expected to commence production in 2018 which will start to generate sales for the year ending 31 March 2019, resulting in the respective increase in its revenue portion to the aggregate total revenue attributable to the Commercial Vehicle Subsidiary, the Passenger EV Subsidiary, Yunnan Five Dragons and the Guizhou Subsidiary. Taking into account the respective production schedules of each of the Commercial Vehicle Subsidiary, the Passenger EV Subsidiary, Yunnan Five Dragons and the Guizhou Subsidiary for the three years ending 31 March 2020, we noted that (i) the revenue portions of the Commercial Vehicle Subsidiary to the aggregate total revenue will decrease over the two years ending 31 March 2020; and (ii) the revenue portion of the Passenger EV Subsidiary will increase for the year ending 31 March 2019 and decrease for the year ending 31 March 2020 as compared to the respective previous year.

As such, we consider the respective amounts payable by each of the Commercial Vehicle Subsidiary and the Passenger EV Subsidiary for the two years ending 31 March 2020 are fair and reasonable.

New Five Dragons Facility Agreements

On 17 March 2017, the facility agreements were entered into between the Commercial Vehicle Subsidiary, as borrower, and Five Dragons Electric Vehicle Limited, as lender, for the lending of the aggregate principal amount of HK$295,810,000 with annual interest rate of 15% and maturing on 31 March 2020, in which loans are non-revolving and unsecured.

The terms of the New Five Dragons Facility Agreements have been arrived at by the parties after arm's length negotiation, having regard to the then prevailing market conditions and the then interest rate offered by banks. We have made reference to the RMB benchmark lending rate set by the PBOC, as last updated on 24 October 2015. We noted that the RMB benchmark lending rate promulgated by the PBOC is 4.75% for loans of terms over one-year and up to five-year. The term of the loan facility of three years under the New Five Dragons Facility Agreements falls within the aforesaid term. As further advised by management of the Company, the interest rate on one-year RMB loans currently offered by PRC banks to the Group which are renewable every year are all below the interest rate to be received by the Company under the New Five Dragons Facility Agreements.

In addition, the Group's cash are deposited with banks and other financial institutions, earning interest at the floating rates at an average of approximately 0.1%. The Group will be earning an annual interest income at 15% under the New Five Dragons Facility Agreements which is (i) significantly higher than the deposit rate of approximately 0.1% currently earned by the Group; (ii) higher than the RMB benchmark lending rate in the PRC; and (iii) higher than the interest rate imposed on the RMB loans of the Company provided by banks, and such interest rate under the New Five Dragons Facility Agreements shall be no more favourable than the interest rate offered to independent third parties, if any. In view of the above, we consider that the annual interest rate of 15% from the provision of loan facility by Five Dragons Electric Vehicle Limited to the Commercial Vehicle Subsidiary under the New Five Dragons Facility Agreements is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

Maximum loan amounts for the New Five Dragons Facility Agreements

According to the New Five Dragons Facility Agreements, the aggregate principal amount available for lending amounts to HK$295,810,000, with annual interest rate of 15% maturing on 31 March 2020. The maximum loan amount which comprises the principal amount plus interest during the term of the New Five Dragons Facility Agreements ending 31 March 2020 shall not exceed HK$429,000,000. We were given to understand that such maximum loan amount was determined with reference to the aggregate principal amount of HK$295,810,000 plus the interest income to be received by Five Dragons Electric Vehicle Limited during the term of the New Five Dragons Facility Agreements.

As such, we consider that the maximum loan amount of HK$429,000,000 is fair and reasonable.

5. Annual review

The respective proposed annual caps under the New CCTs will be subject to the annual review by the independent non-executive Directors, details of which must be included in the Company's subsequent published annual reports and accounts. In addition, pursuant to the Listing Rules, the auditors of the Company must provide a letter to the Board confirming, among others, that the New CCTs are conducted in accordance with their terms and that the respective proposed annual caps not being exceeded. Moreover, pursuant to the Listing Rules, the Company shall publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or its auditors will not be able to confirm the terms of such transactions or the relevant annual caps not being exceeded. We are of the view that there are appropriate measures in place to govern the conduct of the New CCTs and safeguard the interests of the Independent Shareholders.

RECOMMENDATIONS

Taking into consideration of the principal factors and reasons set out in this letter, we are of the view that the New CCTs will be conducted in the ordinary and usual course of business of the Company, and the terms (including the proposed annual caps under the New CCTs) of the New CCTs are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the relevant resolutions to be proposed at the SGM to approve the New CCTs (including the proposed annual caps).

Yours faithfully,
For and on behalf of
Goldin Financial Limited
Billy Tang
Director

Note:

Mr. Billy Tang is a licensed person registered with the Securities and Futures Commission and a responsible officer of Goldin Financial Limited to carry out type 6 (advising on corporate finance) regulated activity under the SFO. He has over 10 years of experience in the corporate finance profession.

* *For identification purpose only*

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. INTERESTS OF DIRECTORS

(a) Directors' and chief executives' interests and short positions in shares, underlying shares and debentures

As at the Latest Practicable Date, the interests and short positions of each Director and 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 were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "**Model Code**"), to be notified to the Company and the Stock Exchange were as follows:

Name of Directors	Capacity	Number of ordinary Shares	Number of underlying Shares (unlisted and physically settled equity derivatives) *(Note 6)*	Total number of ordinary Shares and underlying Shares	Approximate percentage of issued ordinary share capital of the Company *(Note 7)*
Mr. Cao	Beneficial owner	6,800,000	10,000,000	16,800,000	0.08%
	Interest of controlled corporations	2,651,059,998	–	2,651,059,998 *(Note 1)*	11.83%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	5,104,572,167	43,000,000	5,147,572,167 *(Notes 1 and 5)*	22.98%

Name of Directors	Capacity	Number of ordinary Shares	Number of underlying Shares (unlisted and physically settled equity derivatives) *(Note 6)*	Total number of ordinary Shares and underlying Shares	Approximate percentage of issued ordinary share capital of the Company *(Note 7)*
Mr. Miao	Beneficial owner	–	15,000,000	15,000,000	0.07%
	Interest of controlled corporations	1,970,551,043	–	1,970,551,043 *(Note 2)*	8.79%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	5,791,881,122	38,000,000	5,829,881,122 *(Notes 2 and 5)*	26.03%
Dr. Chen	Beneficial owner	–	12,000,000	12,000,000	0.05%
	Interest of controlled corporations	658,125,000	–	658,125,000 *(Note 3)*	2.94%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	7,104,307,165	41,000,000	7,145,307,165 *(Notes 3 and 5)*	31.90%
Mr. Lo Wing Yat	Beneficial owner	6,579,000	42,800,000	49,379,000	0.22%

Name of Directors	Capacity	Number of ordinary Shares	Number of underlying Shares (unlisted and physically settled equity derivatives) *(Note 6)*	Total number of ordinary Shares and underlying Shares	Approximate percentage of issued ordinary share capital of the Company *(Note 7)*
Mr. Che	Beneficial owner	1,000,000	16,000,000	17,000,000	0.08%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	7,761,432,165	37,000,000	7,798,432,165 *(Notes 4 and 5)*	34.81%
Mr. Chan Yuk Tong	Beneficial owner	–	12,900,000	12,900,000	0.06%
Mr. Fei Tai Hung	Beneficial owner	–	12,900,000	12,900,000	0.06%
Mr. Tse Kam Fow	Beneficial owner	–	12,900,000	12,900,000	0.06%

Notes:

1. Mr. Cao is interested or deemed to be interested in a total of 7,815,432,165 Shares and underlying Shares including: (i) 2,311,059,998 Shares held by Long Hing International Limited which is wholly owned by Mr. Cao who is a director; (ii) 340,000,000 Shares held by Champion Rise International Limited which is wholly owned by Mr. Cao who is a director; (iii) 6,800,000 Shares and 10,000,000 share options*(Note 6)* held by Mr. Cao; and (iv) 5,104,572,167 Shares and 43,000,000 share options*(Note 6)* held by the other parties to the Undertaking*(Note 5)*.

2. Mr. Miao is interested or deemed to be interested in a total of 7,815,432,165 Shares and underlying Shares including: (i) 1,806,301,043 Shares held by Union Ever Holdings Limited which is wholly owned by Mr. Miao who is a director; (ii) 164,250,000 Shares held by Infinity Wealth International Limited which is wholly owned by Mr. Miao who is a director; (iii) 15,000,000 share options*(Note 6)* held by Mr. Miao; and (iv) 5,791,881,122 Shares and 38,000,000 share options*(Note 6)* held by the other parties to the Undertaking*(Note 5)*.

3. Dr. Chen is interested or deemed to be interested in a total of 7,815,432,165 Shares and underlying Shares including: (i) 658,125,000 Shares held by Captain Century Limited which is owned as to 60% by Dr. Chen and 40% by his spouse, Ms. Zhang Lu; (ii) 12,000,000 share options*(Note 6)* held by Dr. Chen; and (iii) 7,104,307,165 Shares and 41,000,000 share options*(Note 6)* held by the other parties to the Undertaking*(Note 5)*.

4. Mr. Che is interested or deemed to be interested in a total of 7,815,432,165 Shares and underlying Shares including: (i) 1,000,000 Shares and 16,000,000 share options*(Note 6)* held by Mr. Che; and (ii) 7,761,432,165 Shares and 37,000,000 share options*(Note 6)* held by the other parties to the Undertaking *(Note 5)*.

5. Each party to the Undertaking was deemed to have interests in the Shares and/or underlying Shares held by the other parties to the Undertaking under Section 317(1)(a) of the SFO.

6. The interests in the underlying Shares represent interests in options granted to the directors named above to subscribe for Shares.

7. These percentages are calculated on the basis of 22,398,477,108 Shares as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, chief executive of the Company or their respective close associates had any interests or short positions 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) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests of Directors in the assets of the Company

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had, since 31 March 2016, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to any member of the Group.

(c) Interests of Directors in contracts

Save as the Existing Commercial Battery Supply Agreement, the Existing Five Dragons Facility Agreements, the Existing Five Dragons Facility Agreement (II), the existing finance lease agreement between the Lease Finance Company and the Commercial Vehicle Subsidiary dated 26 April 2016 and the agreements from (e) to (p) under the section headed "8. DOCUMENTS AVAILABLE FOR INSPECTION" of this appendix, there is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested in and which is significant to the business of the Group.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, Shareholders (other than a Director or chief executive of the Company) who had an interest or short position in the Shares and underlying Shares which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company under Section 336 of the SFO, or who was, directly or indirectly interested in 5% or more of the issued share capital of the Company:

Name of substantial Shareholders	Capacity	Number of ordinary Shares	Number of underlying Shares (unlisted and physically settled equity derivatives) *(Note 8)*	Total number of ordinary Shares and underlying Shares	Approximate percentage of issued ordinary share capital of the Company *(Note 9)*
CITIC International Assets Management Limited *(Notes 1 and 2)*	Beneficial owner	451,908,000	–	451,908,000	2.02%
	Interest of controlled corporations	1,022,988,124	–	1,022,988,124	4.56%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	6,287,536,041	53,000,000	6,340,536,041	28.31%
CITIC International Financial Holdings Limited *(Notes 1 and 2)*	Interest of controlled corporations	1,474,896,124	–	1,474,896,124	6.58%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	6,287,536,041	53,000,000	6,340,536,041	28.31%

Name of substantial Shareholders	Capacity	Number of ordinary Shares	Number of underlying Shares (unlisted and physically settled equity derivatives) *(Note 8)*	Total number of ordinary Shares and underlying Shares	Approximate percentage of issued ordinary share capital of the Company *(Note 9)*
China CITIC Bank Corporation Limited *(Notes 1 and 2)*	Interest of controlled corporations	1,474,896,124	–	1,474,896,124	6.58%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	6,287,536,041	53,000,000	6,340,536,041	28.31%
Star Mercury Investments Ltd. *(Notes 1 and 3)*	Beneficial owner	1,000,000,000	–	1,000,000,000	4.46%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	6,762,432,165	53,000,000	6,815,432,165	30.43%
Smooth Way Holdings Inc. *(Notes 1 and 3)*	Interest of controlled corporations	1,000,000,000	–	1,000,000,000	4.46%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	6,762,432,165	53,000,000	6,815,432,165	30.43%
CITIC Pacific Limited *(Notes 1 and 3)*	Interest of controlled corporations	1,000,000,000	–	1,000,000,000	4.46%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	6,762,432,165	53,000,000	6,815,432,165	30.43%

Name of substantial Shareholders	Capacity	Number of ordinary Shares	Number of underlying Shares (unlisted and physically settled equity derivatives) *(Note 8)*	Total number of ordinary Shares and underlying Shares	Approximate percentage of issued ordinary share capital of the Company *(Note 9)*
CITIC Limited *(Notes 1 and 4)*	Interest of controlled corporations	2,474,896,124	–	2,474,896,124	11.05%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	5,287,536,041	53,000,000	5,340,536,041	23.84%
CITIC Group Corporation *(Notes 1 and 4)*	Interest of controlled corporations	2,474,896,124	–	2,474,896,124	11.05%
	Interest of other parties to an agreement required to be disclosed under s.317(1)(a) of the SFO	5,287,536,041	53,000,000	5,340,536,041	23.84%
Long Hing International Limited *(Note 5)*	Beneficial owner	2,311,059,998	–	2,311,059,998	10.32%
Union Ever Holdings Limited *(Note 6)*	Beneficial owner	1,806,301,043	–	1,806,301,043	8.06%
IoT United Systems Limited *(Note 7)*	Beneficial owner	1,500,000,000	–	1,500,000,000	6.70%

Name of substantial Shareholders	Capacity	Number of ordinary Shares	Number of underlying Shares (unlisted and physically settled equity derivatives) *(Note 8)*	Total number of ordinary Shares and underlying Shares	Approximate percentage of issued ordinary share capital of the Company *(Note 9)*
昀澤投資控股有限公司 *(Note 7)*	Interest of controlled corporations	1,500,000,000	–	1,500,000,000	6.70%
He Rui *(Note 7)*	Interest of controlled corporations	1,500,000,000	–	1,500,000,000	6.70%

Notes:

1. Each party to the Undertaking was deemed to have interests in the Shares and/or underlying Shares held by the other parties to the Undertaking under Section 317(1)(a) of the SFO. As at the Latest Practicable Date, the parties to the Undertaking are deemed to be interested in a total of 7,815,432,165 Shares and underlying Shares.

2. For the purpose of the SFO, CITIC International Assets Management Limited is interested or deemed to be interested in (i) 1,474,896,124 Shares including 451,908,000 Shares held by it and 1,022,988,124 Shares held by Right Precious Limited; and (ii) 6,340,536,041 Shares and underlying Shares held by other parties to the Undertaking*(Note 1)*.

   Right Precious Limited is a wholly-owned subsidiary of CITIC International Assets Management Limited of which CITIC International Financial Holdings Limited owns 40%. CITIC International Financial Holdings Limited is wholly-owned by China CITIC Bank Corporation Limited.

   Mr. Lo Wing Yat, an executive Director of the Company, is a director and chief executive officer of CITIC International Assets Management Limited and a director and chief executive officer of CITIC International Financial Holdings Limited.

3. For the purpose of the SFO, Star Mercury Investments Ltd. is interested or deemed to be interested in (i) 1,000,000,000 Shares held by it; and (ii) 6,815,432,165 Shares and underlying Shares held by other parties to the Undertaking*(Note 1)*.

   Star Mercury Investments Ltd. is a wholly-owned subsidiary of Smooth Way Holdings Inc. which, in turn, is a wholly-owned subsidiary of CITIC Pacific Limited.

4. For the purpose of the SFO, CITIC Limited is deemed to be interested in (i) 2,474,896,124 Shares including 1,474,896,124 Shares deemed interest of China CITIC Bank Corporation Limited*(Note 2)*, which is over 60% owned by CITIC Limited through its wholly-owned subsidiaries, and 1,000,000,000 Shares deemed interest of CITIC Pacific Limited*(Note 3)*, which is a wholly-owned subsidiary of CITIC Limited; and (ii) 5,340,536,041 Shares and underlying Shares held by other parties to the Undertaking*(Note 1)*.

   CITIC Limited is owned by CITIC Group Corporation as to 58.13% through its wholly-owned subsidiaries, CITIC Polaris Limited and CITIC Glory Limited.

   Mr. Wong Kwok Yiu, a non-executive Director of the Company, joined CITIC Limited in 1997 and is currently an assistant director of the business development department of CITIC Pacific Limited.

5. Long Hing International Limited ("Long Hing") is wholly owned by Mr. Cao. The 2,311,059,998 Shares held by Long Hing are deemed to be owned by Mr. Cao who is also a director of Long Hing.

6. Union Ever Holdings Limited ("Union Ever") is wholly owned by Mr. Miao. The 1,806,301,043 Shares held by Union Ever are deemed to be owned by Mr. Miao who is also a director of Union Ever.

7. On 28 April 2017, the Company entered into a subscription agreement with IoT United Systems Limited to conditionally allot and issue 1,500,000,000 subscription Shares which will be allotted and issued to IoT United Systems Limited under the general mandate granted on 26 August 2016 at the annual general meeting of the Company. Details of the subscription agreement are set out in the Company's announcement dated 28 April 2017.

   IoT United Systems Limited is a wholly-owned subsidiary of 昫澤投資控股有限公司 which is 99.8% owned by He Rui.

8. The interests in the underlying Shares represent interests in options granted under the share option scheme of the Company to the Directors who are also parties to the Undertaking *(Note 1)*.

9. These percentages are calculated on the basis of 22,398,477,108 Shares as at the Latest Practicable Date.

Save as disclosed above, so far as is known to the Directors or chief executive of the Company, as at the Latest Practicable Date, (i) no other person (other than a Director or chief executive of the Company) had, or was taken or deemed to have; and (ii) none of the Directors is a director or employee of a company which has an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into a service contract with any member of the Group which does not expire or which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

5. COMPETING BUSINESS INTERESTS OF DIRECTORS

Chanje Energy, Inc. (formerly known as Nohm Inc.), a joint venture owned by the Company as to 80.00% as at the Latest Practicable Date, is engaged in the business of sales and distribution of electric vehicles in the United States of America, in which Mr. Cao acts as Chairman and Mr. Che is a director, both appointed on 4 May 2015.

Advanced Lithium Electrochemistry (Cayman) Co., Ltd., which is owned as to 21.85% by FDG Kinetic as at the Latest Practicable Date, is engaged in the production, research and development and sales and marketing of cathode materials for lithium ferrous phosphate batteries, in which Mr. Che is a director appointed on 23 November 2016.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective close associates was interested in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group as required to be disclosed pursuant to the Listing Rules.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2016, being the date to which the latest published audited financial statements of the Company were made up.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has been named in this circular or has given opinion or letter contained in this circular:

Name	Qualifications
Goldin Financial Limited	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or reference to its name in the form and context in which they are included.

As at the Latest Practicable Date, the Independent Financial Adviser did not have any shareholding, directly or indirectly, in any member of the Group and did not have the 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, the Independent Financial Adviser did not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Group, or which were proposed to be acquired or disposed of by or leased to any member of the Group since 31 March 2016, being the date of which the latest published audited consolidated financial statements of the Company were made up.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection at the Company's principal place of business in Hong Kong situated at Rooms 3001–3005, 30th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong during normal business hours between 9:00 a.m. to 5:00 p.m. on any business day from the date of this circular up to and including the date of SGM:

(a) the letter from the Board, the text of which is set out in the section headed "Letter from the Board" in this circular;

(b) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;

(c) the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" in this circular;

(d) the written consent of the expert referred to in the section headed "Expert and Consent" of this appendix;

(e) the Commercial Battery Supply Agreement;

(f) the Passenger Battery Supply Agreement;

(g) the CV Parts 1 Supply Agreement;

(h) the CV Parts 2 Supply Agreement;

(i) the Bus Parts Procurement Agreement;

(j) the Commercial Vehicle Finance Lease Framework Agreement;

(k) the Cooperation Framework Agreement;

(l) the Passenger EV Finance Lease Framework Agreement;

(m) the R&D Services Agreement;

(n) the Administrative Services Sharing Agreement;

(o) the Management Services Agreement;

(p) the New Five Dragons Facility Agreements; and

(q) a copy of this circular.

FDG Electric Vehicles Limited
五龍電動車(集團)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 729)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of FDG Electric Vehicles Limited (the "**Company**") will be held at Boardroom 6, M/F, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Wednesday, 14 June 2017 at 10:30 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

Words and expressions that are not expressly defined in this notice shall bear the same meaning as that defined in the circular dated 19 May 2017 published by the Company.

1. "**THAT**:

   a) the Commercial Battery Supply Agreement, a copy of which is tabled at the meeting and marked "A" and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;

   b) the annual caps under the Commercial Battery Supply Agreement as set out in the circular be and are hereby approved and confirmed; and

   c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated hereunder."

2. "**THAT**:

   a) the Passenger Battery Supply Agreement, a copy of which is tabled at the meeting and marked "B" and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;

   b) the annual caps under the Passenger Battery Supply Agreement as set out in the circular be and are hereby approved and confirmed; and

c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated hereunder."

3. "**THAT**:

a) the CV Parts 1 Supply Agreement, a copy of which is tabled at the meeting and marked "C" and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;

b) the annual caps under the CV Parts 1 Supply Agreement as set out in the circular be and are hereby approved and confirmed; and

c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated hereunder."

4. "**THAT**:

a) the CV Parts 2 Supply Agreement, a copy of which is tabled at the meeting and marked "D" and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;

b) the annual caps under the CV Parts 2 Supply Agreement as set out in the circular be and are hereby approved and confirmed; and

c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated hereunder."

5. "**THAT**:

a) the Bus Parts Procurement Agreement, a copy of which is tabled at the meeting and marked "E" and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;

b) the annual caps under the Bus Parts Procurement Agreement as set out in the circular be and are hereby approved and confirmed; and

c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated hereunder."

6. "**THAT**:

a) the Commercial Vehicle Finance Lease Framework Agreement, a copy of which is tabled at the meeting and marked "F" and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;

b) the annual caps under the Commercial Vehicle Finance Lease Framework Agreement as set out in the circular be and are hereby approved and confirmed; and

c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated hereunder."

7. "**THAT**:

a) the Cooperation Framework Agreement, a copy of which is tabled at the meeting and marked "G" and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;

b) the annual caps under the Cooperation Framework Agreement as set out in the circular be and are hereby approved and confirmed; and

c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated hereunder."

8. "**THAT**:

a) the Passenger EV Finance Lease Framework Agreement, a copy of which is tabled at the meeting and marked "H" and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;

b) the annual caps under the Passenger EV Finance Lease Framework Agreement as set out in the circular be and are hereby approved and confirmed; and

c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated hereunder."

9. "**THAT**:

a) the R&D Services Agreement, a copy of which is tabled at the meeting and marked "I" and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;

b) the annual caps under the R&D Services Agreement as set out in the circular be and are hereby approved and confirmed; and

c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated hereunder."

10. "**THAT**:

a) the Administrative Services Sharing Agreement, a copy of which is tabled at the meeting and marked "J" and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;

b) the annual caps under the Administrative Services Sharing Agreement as set out in the circular be and are hereby approved and confirmed; and

c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated hereunder."

11. "**THAT**:

a) the Management Services Agreement, a copy of which is tabled at the meeting and marked "K" and initialed by the chairman of the meeting for identification purpose, be and is hereby approved, confirmed and ratified;

b) the annual caps under the Management Services Agreement as set out in the circular be and are hereby approved and confirmed; and

c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated hereunder."

12. "**THAT**:

a) the New Five Dragons Facility Agreements, copies of which are tabled at the meeting and each marked "L" and initialed by the chairman of the meeting for identification purpose, be and are hereby approved, confirmed and ratified;

b) the annual caps under the New Five Dragons Facility Agreements as set out in the circular be and are hereby approved and confirmed; and

c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to the transactions contemplated hereunder."

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

19 May 2017

Notes:

1. Any Shareholder entitled to attend and vote at a meeting shall be entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A proxy needs not be a Shareholder.

2. To be valid, a proxy form, together with any power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or that authority shall be deposited at the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited at Suites 3301–04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.

3. In order to qualify for attending and voting at the SGM, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Union Registrars Limited at Suites 3301-04, 33/F., Two Chinachem Exchange Square, 338 King's Road, North Point, Hong Kong for registration not later than 4:00 p.m. on Thursday, 8 June 2017.

4. Delivery of the proxy form shall not preclude a Shareholder from attending and voting in person at the meeting or upon the poll concerned and, in such event, the relevant proxy form shall be deemed to be revoked.