

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into between the California Air Resources Board (CARB), with its principal location at 1001 I Street, Sacramento, California 95814; and HDK Plastic Factory LTD (U.S.A.), with its principal location at 2620 Palisades Drive Suite 101, Corona, California 92882; and Evolution Electric Vehicles, Inc., with its principal location at 2620 Palisades Drive, Suite 201, Corona California, 92882. HDK Plastic Factory LTD (U.S.A.) and Evolution Electric Vehicles, Inc. are collectively referred to herein as "HDK." CARB and HDK are collectively referred to as "Parties," or individually, "Party."

LEGAL BACKGROUND

- (1) Purpose. The California Health and Safety Code mandates implementation of emission standards for new motor vehicle and motor vehicle engines to control emissions; allows CARB to certify these vehicles; and prohibits any person from selling, introducing into commerce, importing, delivering, purchasing, renting, leasing, acquiring, or receiving a new motor vehicle or new motor vehicle engine for use, registration, or resale unless it is certified. This includes attempts or assistance. (Health & Saf. Code §§ 43100, 43101, 43151, 43153, 43211, and 43212.)
- (2) Regulation. CARB adopted the "*Motor Vehicle Pollution Control Devices Regulation (Vehicle Standards)*" (Cal. Code Regs., tit. 13, §§ 1900-2048) to reduce emissions of oxides of nitrogen (NOx) and hydrocarbons (HC) from new and used motor vehicles and motor vehicle engines in California. CARB adopted the "*Off-Highway Recreational Vehicles and Engines Regulation (OHRV Regulation)*" (Cal. Code Regs., tit. 13, §§ 2410-2419.4) to reduce emissions of oxides of nitrogen (NOx) and hydrocarbons (HC) from off-road engines.
- (3) Regulatory Provisions. Prior to vehicles or engines being sold, introduced into commerce, imported, delivered, purchased, rented, leased, acquired, or received into California, they must be certified based on reliable test data and procedures and obtain an Executive Order (EO) from CARB. The vehicles and engines must meet the emission standards (either through a direct standard or through a fleet wide phase-in requirement), cannot contain a defeat device, must have an Emission Control Label (ECL) and be equipped with a computer-sensed emission-related component to inform the vehicle operator of a malfunction (On-board Diagnostic System (OBD)), and come with an emission control system warranty. (Cal. Code Regs., tit. 13, §§ 1900-2048.) Entities and individuals that sell, lease, use, or introduce into commerce in California a new off-highway recreational vehicles (OHRV) must sell, lease, use, or introduce into commerce new OHRV that comply with applicable emissions standards and regulatory requirements. Manufacturers of new OHRV that sold, leased, used, or introduced into commerce in California are required to comply with the exhaust

and evaporative emissions requirements, comply with the test procedures for determining certification and compliance with the standards, certify and obtain an Executive Order (EO) for the engines, report information for each production year, affix an Emission Control Label (ECL), and provide for recall and use restrictions. (Vehicle Code §§ 27156, 38391; Cal. Code Regs., tit. 13, §§ 2410-2419.4.)

- (4) Penalty Provisions. Failure to comply with the regulatory requirements is a violation of state law that may result in penalties up to forty-five thousand five hundred sixty-three dollars (\$45,563.00 USD) for each strict liability violation of the Vehicle Standards or OHRV Regulation, respectively, for each noncompliant vehicle or OHRV equipment or engine. (Health & Saf. Code, §§ 43016; 43154, 43211, 43212; Vehicle Code §§ 27156, 38391; Cal. Code Regs., tit. 13, § 1900 et seq., Cal. Code Regs., tit. 13, § 2410 et seq.)

CASE BACKGROUND

- (5) Corporate Entity. At all relevant times, HDK was organized under the laws of California as a Corporation, "doing business as" HDK, and conducted business in the State of California.
- (6) Allegations. CARB alleges that HDK violated the Vehicle Standards by selling, introducing into commerce, importing, delivering, purchasing, renting, leasing, acquiring, or receiving new motor vehicle or motor vehicle engines into California and failing to obtain an EO, resulting in 1,645 violations, as outlined in Notice of Violation NOV #VES-2023-C00546. CARB alleges that if paragraphs 1 through 6 were proven, civil penalties could be imposed against HDK for each and every vehicle involved in the violations.
- (7) Acknowledgment. HDK admits to the facts in paragraphs 1 through 6 but denies any liability resulting from said allegations.
- (8) Consideration. In consideration of the foregoing, and of the promises and facts set forth herein, the Parties desire to settle and resolve all claims, disputes, and obligations relating to the above-listed alleged violations and voluntarily agree to resolve this matter by means of this Settlement Agreement. In order to resolve the violations described herein, HDK has taken, or agrees to take, the actions enumerated below within the Terms and Conditions. Further, CARB accepts this Settlement Agreement in termination and full settlement of this matter.

TERMS AND CONDITIONS

In consideration of CARB not filing a legal action against HDK for the alleged violations referred to above in the Legal Background and Case Background, and HDK's agreement to complete all terms and conditions set forth below, CARB and HDK agree as follows:

- (9) Settlement Amount. HDK shall pay a civil penalty of two hundred seventy-five thousand dollars (\$275,000.00 USD) and agrees to fund a Supplemental Environmental Project (SEP) entitled, Marine Vessel Speed Reduction Incentive Program Phase 3, in the amount of two hundred seventy-five thousand dollars (\$275,000.00 USD), consistent with CARB's SEP Policy, for a total settlement of five hundred and fifty thousand dollars (\$550,000.00 USD). HDK shall make all payments within thirty (30) calendar days from the Notification Date in accordance with the payment schedule in Paragraph 11 (Payment Plan and Schedule).
- (10) Notification Date. The date upon which CARB notifies HDK according to Paragraph 17 (Notices), that the Settlement Agreement is fully executed or when CARB sends the fully executed Settlement Agreement to HDK.
- (11) Payment Plan and Schedule. Pursuant to this Settlement Agreement, HDK shall make payments according to the following table:

Days After the Notification Date	In the Amount of and Payable To:
30 Days	\$275,000 California Air Resources Board
30 Days	\$275,000 Marine Vessel Speed Reduction Incentive Program Phase 3

- (12) Civil Penalty Payment Method. HDK shall pay the civil penalty by check, credit card, wire transfer, or portal, payable to the "California Air Resources Board," using instructions provided separately by CARB in a Payment Transmittal Form. HDK is responsible for all payment processing fees. Payments shall be accompanied by the Payment Transmittal Form to ensure proper application. CARB shall deposit the civil penalty amount into the Air Pollution Control Fund for the purpose of carrying out CARB's duties and functions to ensure the integrity of its air pollution control programs. Should payment instructions change, CARB will provide notice to HDK in accordance with Paragraph 17 (Notices).
- (13) SEP Payment Method(s). HDK shall fund the SEP by wire transfer, credit card, or check, payable to the SEP Recipient/Administrator, Ventura County Air Pollution Control District, using instructions provided separately by CARB in a SEP Payment Transmittal Form. HDK is responsible for all payment processing

fees. Payments shall be accompanied by the SEP Payment Transmittal Form to ensure proper application. Should payment instructions change, CARB will provide notice to HDK in accordance with Paragraph 17 (Notices).

- (14) Prohibition Against Financial Benefit. HDK has agreed that by funding the SEP entitled Marine Vessel Speed Reduction Incentive Program Phase 3, HDK will not receive any direct or indirect financial benefit, and that whenever HDK publicizes or refers to the SEP or the results of the SEP, HDK will state that the SEP is being undertaken as part of the settlement of a CARB enforcement action.
- (15) Assignment of Rights. In the event the SEP Recipient/Administrator does not fully implement or complete the SEP in accordance with the terms of the SEP Agreement, CARB shall be entitled to recover the full amount of the SEP from the SEP Administrator, less any amount expended on the timely and successful completion of any previously agreed upon interim milestone(s). CARB will deposit any such recovery into the Air Pollution Control Fund. Accordingly, HDK assigns any and all rights against the SEP Administrator to CARB.
- (16) Documents. HDK shall promptly email or mail the signed and dated Settlement Agreement to the address or email in Paragraph 17 (Notices).
- (17) Notices. Unless otherwise specified in this Settlement Agreement, whenever notifications, submissions, or communications are required by this Settlement Agreement, they shall be submitted in writing to the address or email below:

As to CARB:

California Air Resources Board
Enforcement Division / Settlement Agreements
Vehicle, Parts, and Consumer Products Branch
P.O. Box 2815
Sacramento, California 95812-2815
Settlement_Agreement@arb.ca.gov

As to HDK:

HDK Plastic Factory, LTD (U.S.A.)
2620 Palisades Drive, Suite 101
Corona, California 92882
nancy.li@evolutionelectricvehicle.com

Any Party may, by written notice to the other Parties, change its designated notice recipient or notice address provided above. Notices submitted pursuant to this section shall be deemed submitted upon emailing or mailing.

- (18) Recovery of Costs. If the Attorney General files a civil action to enforce this Settlement Agreement, HDK shall pay all costs of investigating and prosecuting the action, including expert fees, reasonable attorneys' fees, and costs.
- (19) Repeat Violations. HDK agrees to comply with all regulatory requirements and acknowledges that repeat violations could result in increased penalties in the future.
- (20) Entirety. This Settlement Agreement constitutes the entire agreement and understanding between the Parties concerning the Case Background and supersedes and replaces any and all prior negotiations and agreements of any kind, whether written or oral, between the Parties concerning the Case Background hereof. This Settlement Agreement consists of 9 pages and 38 paragraphs.
- (21) Binding Effect. This Settlement Agreement binds HDK, and any principals, officers, receivers, trustees, successors and assignees, subsidiary and parent corporations and CARB and any successor agency that may have responsibility for and jurisdiction over the subject matter of this Settlement Agreement.
- (22) Effective Date. The effective date shall be the date upon which this Settlement Agreement is fully executed.
- (23) Modification and Termination. No agreement to modify, amend, extend, supersede, terminate, or discharge this Settlement Agreement, or any portion thereof, is valid or enforceable unless it is in writing and signed by all Parties to this Settlement Agreement.
- (24) Severability. Each provision of this Settlement Agreement is severable, and in the event that any provision of this Settlement Agreement is held to be illegal, invalid or unenforceable in any jurisdiction, the remainder of this Settlement Agreement remains in full force and effect.
- (25) Choice of Law. This Settlement Agreement shall be interpreted and enforced in accordance with the laws of the State of California, without regard to California's choice-of-law rules.
- (26) Non-Discharge. It is further agreed that the penalties described in this Settlement Agreement are non-dischargeable under United States Code, title 11, section 523(a)(7), which provides an exception from discharge for any debt to the extent such debt is for a fine, penalty, or forfeiture payable to and for the benefit of a governmental unit.

- (27) Rules of Construction. Any rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be applied in interpreting this Settlement Agreement.
- (28) Non-Waiver. The failure to enforce any provision of this Settlement Agreement shall not be construed as a waiver of any such provision, nor prevent such Party thereafter from enforcing such provision or any other provision of this Settlement Agreement. The rights and remedies granted all Parties herein are cumulative and the election of one right or remedy by a Party shall not constitute a waiver of such Party's right to assert all other legal remedies available under this Settlement Agreement or otherwise provided by law.
- (29) Intent to be Bound. The Parties represent that: They have participated fully in the review and drafting of this Settlement Agreement; understand and accept all terms; enter into this Settlement Agreement freely and voluntarily; have had an opportunity to consult with legal counsel; are fully informed of the terms and effect of this Settlement Agreement; have agreed to this Settlement Agreement after independent investigation and agree it was not arrived at through fraud, duress, or undue influence; and knowingly and voluntarily intend to be legally bound by this Settlement Agreement.
- (30) Venue. The Superior Court of California, located in the County of Sacramento, shall hear any dispute between the Parties arising from this Settlement Agreement.
- (31) Counterparts and Electronic Signatures. This Settlement Agreement may be executed in counterparts. Electronic, facsimile or photocopied signatures shall be considered as valid signatures.
- (32) Release. In consideration of full payment of the civil penalty and SEP payment, and all other undertakings above, CARB hereby releases HDK and its principals, officers, receivers, trustees, successors and assignees, subsidiary and parent corporations, from any claims CARB may have based on the circumstances described in Paragraph 6 (Allegations) above.
- (33) Authority. The undersigned represents that he or she has full authority to enter into this Settlement Agreement.

PENALTY BASIS

- (34) Per Unit Penalty. The per unit or per vehicle penalty in this case is a maximum of forty thousand and fifty dollars (\$40,050.00 USD) per action under Health and Safety Code sections 43016, 43154, 43211, and 43212; and Vehicle Code sections 27156 and 38391, for violations of the Vehicle Standards or OHRV Regulation (Cal. Code Regs., tit. 13, §§ 1900 et seq. and Cal. Code Regs., tit. 13,

§§ 2410 et seq.) The penalty of \$550,000.00 over an unspecified number of days of violation is for 1,645 noncompliant vehicles or engines. The per unit penalty in this case is approximately \$334.00 per noncompliant unit.

- (35) Emissions. The provisions cited in Paragraph 6 (Allegations) above do prohibit emissions above a specified level. Without information on usage and emission rates, it is not practicable to quantify the excess emissions. However, since CARB has alleged that the vehicles did not meet the regulatory requirements, all of the emissions were excess and illegal.
- (36) Aggravating and Mitigating Factors. The penalties in this matter were determined in consideration of all relevant circumstances, including statutory factors as described in CARB's Enforcement Policy. CARB considered whether the violator came into compliance quickly and cooperated with the investigation; the extent of harm to public health, safety and welfare; nature and persistence of the violation, including the magnitude of the excess emissions; compliance history; preventative efforts taken; innovative nature and the magnitude of the effort required to comply, and the accuracy, reproducibility, and repeatability of the available test methods; efforts to attain, or provide for, compliance prior to violation; action taken to mitigate the violation; financial burden to the violator; and voluntary disclosure. The penalties are set at levels sufficient to deter violations, to remove any economic benefit or unfair advantage from noncompliance, to obtain swift compliance, and the potential costs, risks, and uncertainty associated with litigation. Penalties in future cases might be smaller or larger depending on the unique circumstances of the case.
- (37) Confidential Business Information. CARB may have based this penalty in part on confidential business information provided by HDK or confidential settlement communications.
- (38) Effect of Settlement/Reservation of Rights. The following shall apply:
- (a) This Settlement Agreement resolves the civil claims of CARB for the violations alleged in this Settlement Agreement.
 - (b) CARB reserves, and this Settlement Agreement is without prejudice to, all claims, rights, and remedies against HDK with respect to all matters not expressly resolved in this Settlement Agreement. Notwithstanding any other provision of the Settlement Agreement, CARB reserves all claims, rights, and remedies, whether in law or equity, against HDK with respect to:
 - (i) Noncompliance with or enforcement of any provision of this Settlement Agreement.
 - (ii) Facts that were not disclosed by HDK to CARB.

- (iii) Violation of the California Health and Safety Code and its implementing regulations, or other State laws, regulations, or permit condition(s) not expressly resolved in this Settlement Agreement.
 - (iv) Any imminent and substantial endangerment to the public health, welfare, or the environment in California, whether related to the violations addressed in this Settlement Agreement or otherwise.
 - (v) Any criminal liability.
 - (vi) Any claim(s) of any officer or agency of the United States or California, other than CARB.
- (c) In any subsequent administrative or judicial proceeding initiated by CARB for injunctive relief, civil penalties, or other appropriate relief relating to enforcement of the Settlement Agreement, HDK shall not assert, and may not maintain, any defense or claim based upon the principles of waiver, res judicata, collateral estoppel, issue preclusion, claim preclusion, claim-splitting, or other defenses based upon any contention that the claims raised by CARB in the subsequent proceeding were or should have been brought in the instant case.
- (d) This Settlement Agreement does not limit or affect the rights of HDK or of CARB against any third parties not covered by this Settlement Agreement, nor does it limit the rights of third parties not covered by this Settlement Agreement against HDK, except as otherwise provided by law. This Settlement Agreement shall not be construed to create rights in, or grant any cause of action to, any third party not covered by this Settlement Agreement.
- (e) This Settlement Agreement is not a permit, or a modification of any permit, under any federal, State, or local laws or regulations. HDK is responsible for achieving and maintaining compliance with all applicable federal, State, and local laws, regulations, and permits; HDK compliance with this Settlement Agreement shall not be a defense to any action commenced pursuant to any such laws, regulations, or permits. CARB does not, by its execution of this Settlement Agreement, warrant or aver in any manner that HDK's compliance with any aspect of this Settlement Agreement will result in compliance with any provisions of federal, State, or local laws, regulations, or permits.

ACKNOWLEDGED AND ACCEPTED BY:

California Air Resources Board

Signature: /S/

Name: Ellen M. Peter

Title: Chief Counsel

Date: September 20, 2024

HDK Plastic Factory, LTD (U.S.A.)

Signature: /S/

Name: Ganggang Dai

Title: Chief Executive Officer

Date: September 11, 2024

Evolution Electric Vehicles, Inc.

Signature: /S/

Name: Yaowu Tang

Title: Chief Executive Officer

Date: September 11, 2024